SCHOOL + STATE FINANCE PROJECT

Adjusting the ECS Formula for Inflation

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In Connecticut, the Education Cost Sharing (ECS) formula distributes approximately $2.2 billion in state education funding annually to local and regional public school districts. The ECS formula consists of a foundation, student need-based weights, and a Base Aid Ratio that determines each community's ability to financially support its public schools. The formula's foundation amount is set at $11,525 per student and is intended to reflect the cost to educate a student who does not have any additional learning needs.[1]

However, the foundation amount is not adjusted to reflect the annual increase in expenses such as the rising costs of personnel pursuant to collective bargaining contracts, energy costs, or inflation. This is an issue impacting districts across the state and nation, and has recently generated media attention due to the high rates of inflation the country has experienced over the past few years.

Even with the influx of federal COVID-relief aid, the rising cost to provide educational services has put a strain on school district budgets. This strain will be further exasperated when federal relief dollars expire in September 2024 and school districts face a significant fiscal cliff that will impact their ability to meet the continued needs of their students.

What is inflation?

Inflation is when the prices for goods and services rises, leading to a decline in purchasing power over time. When the costs of goods and services rise, school districts have to spend more to provide the same educational services.

As a result, districts may need to eliminate teachers and staff, reduce programming and services, or make cuts elsewhere in order to balance their budgets. Additionally, when state funding formulas do not account and adjust for economic changes such as inflation, districts have to rely more on local funding revenue to support their operations and services.

Across the state, districts are already starting to feel the effects of rising costs. One of Connecticut's largest school districts, Hartford Public Schools, is facing a significant deficit for the coming school year, due to inflation and the loss of COVID relief funds.[2] Cheshire Public Schools is seeking a 6.05 percent budget increase to mitigate the effects of inflation, enrollment changes, and the end of COVID relief funds,[3] while Milford Public Schools' superintendent cites "rising costs" as the main driver for budget increases.[4]

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[1] This foundation amount is also used in other grant programs, such as the State Charter School grant.
[2] Massaro, M. (2024, January 16). Hartford Public Schools faces major budget deficit. *NBC Connecticut*. Retrieved from https://www.nbcconnecticut.com/news/local/hartford-public-schools-faces-major-budget-deficit/3195000/.
[3] Savino, M. (2024, January 12). Cheshire Superintendent requests $5 million budget increase to handle inflation, enrollment costs. *CT Insider*. Retrieved from https://www.ctinsider.com/recordjournal/article/cheshire-education-budget-increase-18604921.php.
[4] Sambides, N. (2024, January 10). Milford superintendent seeks 4.7 percent school budget increase: 'Not immune to rising costs". *The Milford* Mirror. Retrieved from https://www.milfordmirror.com/news/education/article/milford-superintendent-school-budget-2024-2025-18597085.php.

What can be done?

In order to mitigate the annual increasing costs of providing educational services, Connecticut can include an inflation-based adjustment[5] to the foundation amount used in the ECS formula and other foundation-based formulas, such as the State Charter School grant. This adjustment would alleviate districts' reliance on local sources to cover rising costs and would ensure all districts have the resources they need to properly operate their schools and provide their students with a high-quality education. Currently, at least eight states adjust their funding formulas annually to account for inflation or cost of living.[6]

How would this fix impact the State and school districts?

For example, if the State began implementing a foundation adjustment to the ECS formula starting in fiscal year 2025, districts would immediately start receiving additional dollars to educate their students. Using the projected growth rate (3.96%) of the State's spending cap as a basis for the inflation-based adjustment, the ECS formula's foundation amount would increase by $456 per student in FY 2025. Table 1 below estimates the ECS formula's foundation amount from FY 2025 to FY 2032 if an inflation-based adjustment was implemented.

Table 1: Projected Adjusted Foundation Amounts Based on Spending Cap Framework[7]

Foundation	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032
Percent Growth Per Year	3.96%	4.23%	4.13%	3.82%	3.50%	3.50%	3.50%	3.50%
Foundation Equivalent	$11,981	$12,488	$13,004	$13,501	$13,973	$14,462	$14,968	$15,492

When aggregated across all students, the foundation adjustment provides millions of additional dollars to communities and school districts across the state to alleviate increases in the costs of goods and services necessary to educate students. Implementing the foundation adjustment described above would provide an additional estimated $46.1 million to Connecticut public schools in FY 2025. Based on the ECS formula's current phase-in schedule, an inflation-based foundation adjustment would provide an additional estimated $795.2 million in FY 2032 to school districts throughout the state.

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[5] This adjustment could be structured on the allowable growth to General Fund spending in the calculation of Connecticut's spending cap. The state spending cap limits growth in spending to the level of spending in the previous year plus a percent increase based on the greater of: 5-year compound growth in personal income (calendar year basis), or 12-month increase in Core Consumer Price Index for Urban Consumers (CPI-U). This method is currently in use to adjust spending for inflation in Connecticut, is clearly defined in existing state statute, and is simple to calculate and understand.

[6] Griffith, M. (2005). *Inflation Adjustments In State Education Funding Formulas.* Denver, CO: Education Commission of the States, State Notes, Finance/Funding Formulas. Retrieved from https://www.ecs.org/clearinghouse/57/55/5755.pdf.

[7] The percent growth for FY 2029 to FY 2032 are placeholders and have not been estimated by the Office of Policy and Management.
State of Connecticut, Office of Policy and Management. (2023). *Fiscal Accountability Report, Fiscal Years 2024 – 2028.* Hartford, CT: Author. Retrieved from https://portal.ct.gov/-/media/OPM/Budget/FiscalAccountability/OPM-2023-Fiscal-Accountability-Report-Final.pdf.

Table 2 below details the projected financial impact a foundation adjustment would have on the State's budget from FY 2025 to FY 2032.

Table 2: State Impact of ECS Formula with Foundation Adjustment

Year	Current ECS Formula	ECS Formula with Foundation Adjustment	Change ($)
FY 2025	$2,362,199,902	$2,362,199,902	**$46,103,916**
FY 2026	$2,454,421,643	$2,631,774,339	**$177,352,695**
FY 2027	$2,447,495,478	$2,724,576,974	**$277,081,496**
FY 2028	$2,440,570,974	$2,816,785,986	**$376,215,012**
FY 2029	$2,433,646,470	$2,906,470,870	**$472,824,400**
FY 2030	$2,426,722,659	$3,001,672,165	**$574,949,506**
FY 2031	$2,419,797,809	$3,102,241,856	**$682,444,047**
FY 2032	$2,412,872,959	$3,208,079,502	**$795,206,543**

Considerations

Although implementing an inflation-based foundation adjustment would ensure all public school districts have the resources to educate their students regardless of economic changes, estimates suggest this change to the ECS formula would require an additional $3.4 billion investment from the State.

Additionally, it would be difficult to predict future changes to the ECS formula's foundation, as inflation can be uncertain and can vary significantly from year to year. Including this adjustment, therefore, will impact the State's ability to project future ECS appropriations and may lead to unexpected increases in state spending due to unexpected rates of inflation.