# 2029 Biennium Outlook

## Section E Summary

Legislative Fiscal Division Staff

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## INTRODUCTION

The purpose of the 2029 Biennium Outlook is to provide legislators with a preliminary analysis of the major budget considerations for the upcoming 2029 biennium budget. The report focuses on the significant potential state general fund expenditures through FY 2031. Although these potential expenditures exist across all sections of the budget, this report will highlight notable budget considerations as it relates to Section E. A statewide report will be provided to the Legislative Finance Committee and will include all sections of the budget, revenue projections, and a preliminary view of structural balance.

## METHODOLOGY

This section will provide a brief description of the methodology used for the preliminary analysis. For more detailed information, please see the methodology appendix.

### Categories for Budget Changes

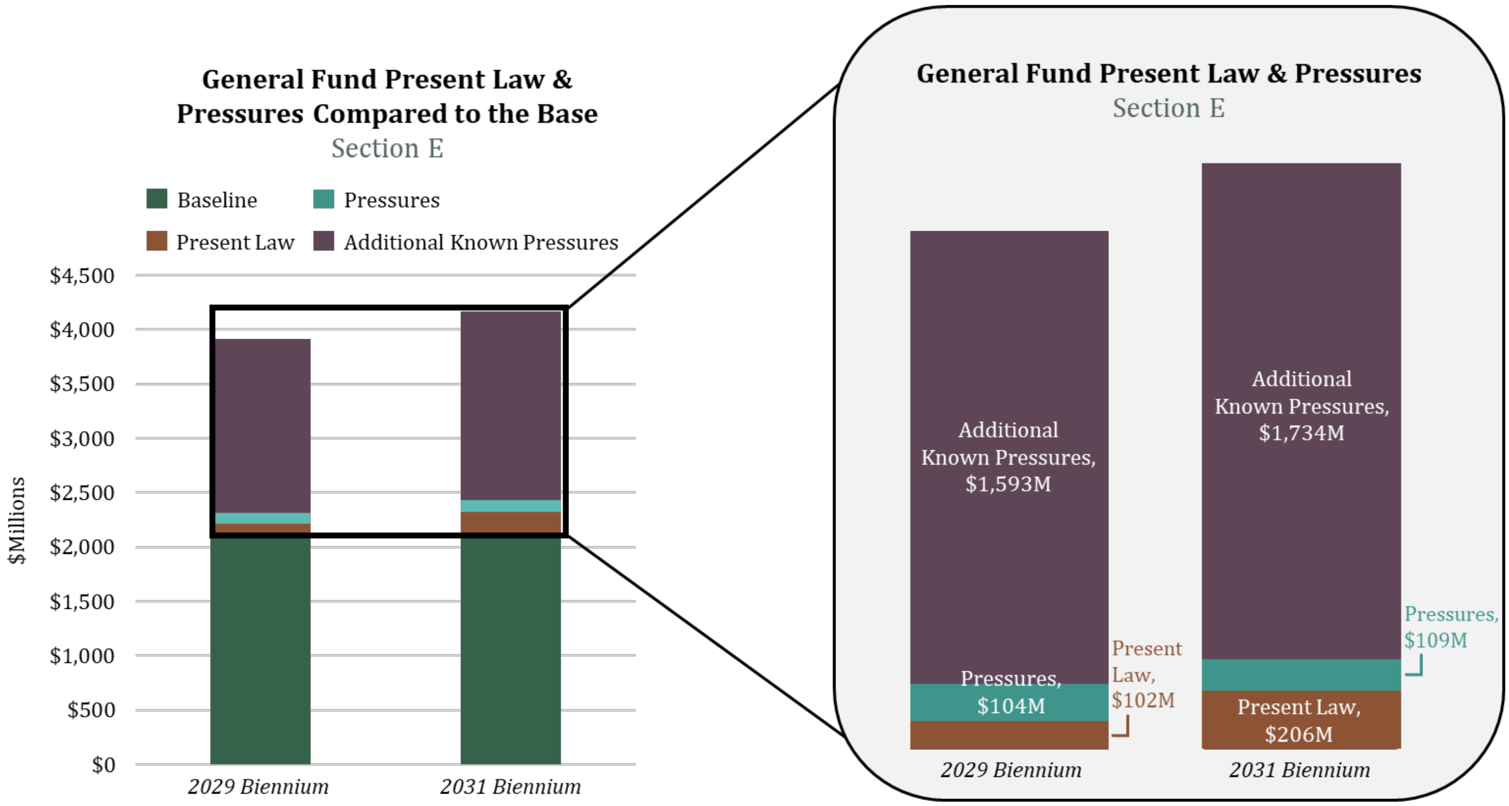
The 2029 biennium outlook includes several categories for estimated budget changes, which include:

- Present law – includes adjustments for the level of funding needed to maintain operations and services at the level authorized by the previous legislature
- Pressures from items traditionally funded by the legislature (pressure) – are those factors that are not within the statutory definition of present law and are not included in the present law estimate, but that the legislature is likely to be under pressure to fund. While they are not included in the present law estimate, they are within the current level of service provided by the state or areas of funding discussed by legislative commissions and/or committees
- Additional known pressures – generally include a higher-end estimate of a pressure or present law adjustment or a new phase of a program that the legislature may experience pressure to fund
- Risks – include potential changes to the budget that the Montana Legislature has less control over

### Statewide Estimates

Certain estimated adjustments were applied with the same methodology on a statewide basis. The most significant areas included personal services and operating costs. These will not be discussed in detail in this report but are included in the 2029 Biennium Outlook report to the Legislative Finance Committee and explained in more detail in the methodology appendix.

# SECTION E OUTLOOK




# PRESENT LAW

## K-12 BASE Aid

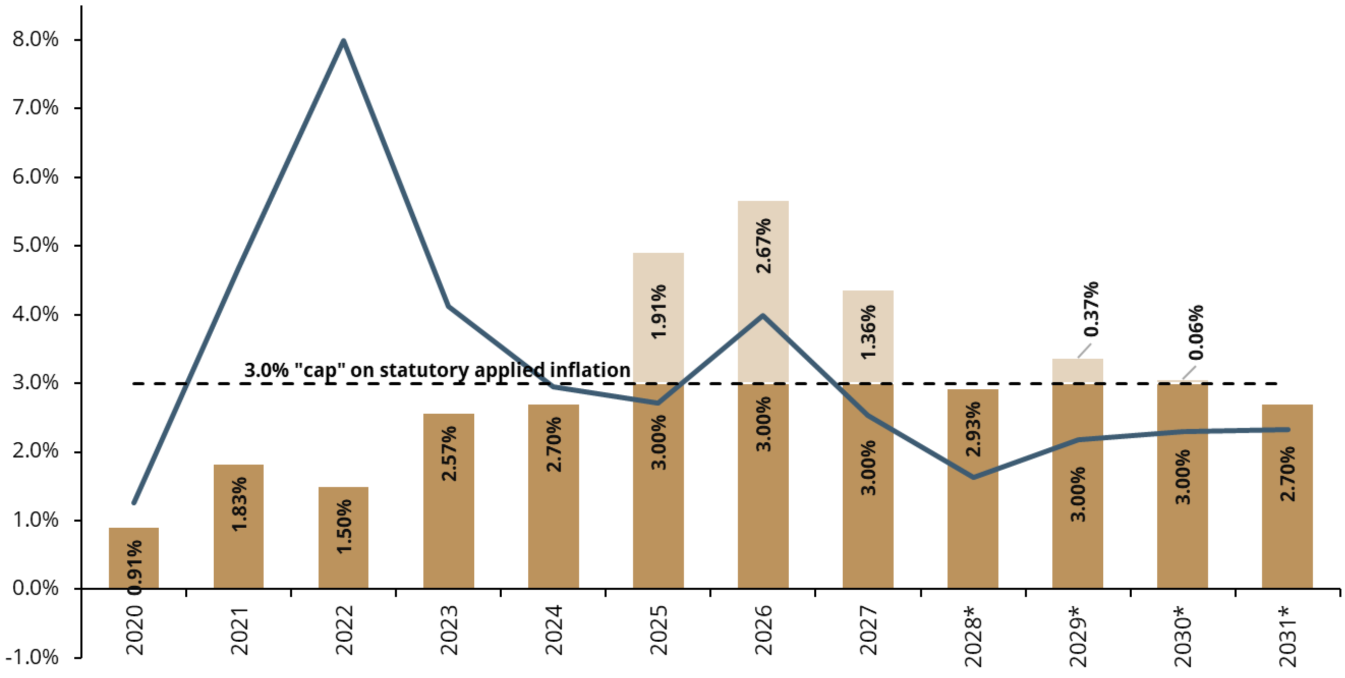
The present law adjustments for the Office of Public Instruction (OPI) represent an increase of $172.9 million, of which $50.1 million is general fund and $122.9 million is state special revenue. The largest present law increase in school funding occurs in the Base Amount for School Equity (BASE) Aid payment from the state to school districts. Statute requires that certain components of school funding include a present law adjustment for BASE aid inflation in the state superintendent's budget request (20-9-326, MCA). The present law calculation for BASE Aid shown here includes inflation, projected enrollment changes, the school equalization and property tax reduction (SEPTR) account equalization trigger mechanisms, and a property tax-related fund switch.

### *Inflation*

The state-funded share of inflationary increases for K-12 education funding are statutorily required to be calculated by the superintendent of public instruction as the three-year average of the August CPI, capped at 3.0%. The legislature has the ability to adjust these inflationary rates in the budgeting process, but has generally opted to adopt the inflationary rates as calculated in statute and presented by the superintendent. Anticipated inflationary increases in the 2029 biennium are 2.93% in FY 2028 and 3.0% in FY 2029, based on the S&P Global forecast from May 2026. HB 15 (2025 session) provided inflationary increases of 3.0% in FY 2026 and 3.0% in FY 2027 for school funding.

The following graphic illustrates the present law statutorily applied inflation and current and forecast of consumer price index (CPI). Present law statutory applied inflation for K-12 funding lagged behind the growth in the consumer price index from FY 2020 - FY 2022 and would again lag behind the projected growth in CPI for FY 2026. The chart shows (light brown bars) the percentage increase of where present law statutory applied inflation would be if the formula was not capped at 3.0%.

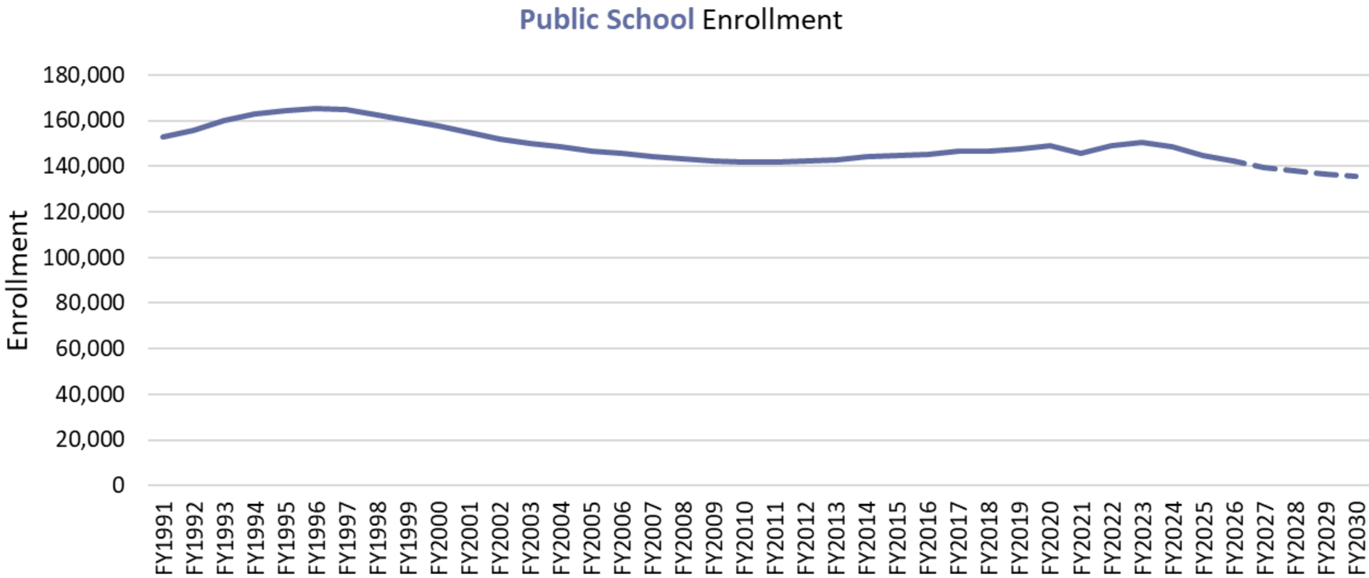
**Present Law Statutory Applied Inflation** (Basic Entitlements, Per ANB, and State Funded Components) as compared to **Growth in the Consumer Price Index (CPI)**




*IHS CPI Forecast as of May 2026

### *Enrollment*

The school-age population (5–18-year-olds) in Montana for 2026 is slightly higher than it was pre-pandemic. However, due in part to increased utilization of home schooling, public school enrollment is slightly lower than it was pre-pandemic. Regional Economic Models Incorporated (REMI) population estimates indicate that the school-age population in Montana peaked in 2023 and projects that the school-age population in Montana will decrease modestly over the next decade. Under present law assumptions for school-age population and home school numbers, public school enrollments are also anticipated to decline over the next two biennia.




## BASE Aid Fund Switches

There are three sources of funding for K-12 BASE aid: the guarantee account, which receives earnings off the Common School Permanent Trust and revenue generated on the state common school trust lands; the SEPTR account, which receives revenue from the 95 statewide equalization property tax mills and associated non-levy revenue; and the state general fund. Adjustments due to increased revenue in the guarantee account and SEPTR account for the 2029 biennium are projected to result in an increase in state special revenue of $120.7 million and a decrease in state general fund of $76.9 million.

### *GTB and SETPR Trigger Mechanisms*

Guaranteed tax base (GTB) aid equalizes school districts' revenue-generating capacity by providing a state GTB aid subsidy per mill for districts with less property tax wealth to bring their revenue-generating capacity to a guaranteed amount. There are multiple forms of GTB aid distributed by the state to school districts. For the school district general fund GTB, allocations are dependent on the total statewide taxable value, individual school district taxable values, and a statutorily-determined GTB ratio. Due to recent changes to the property tax system in Montana, it is difficult to estimate GTB changes until certified taxable values are available from the Department of Revenue in August 2026. However, a preliminary estimate of the statewide GTB allocation is included in the present law estimate for BASE aid.

Additionally, increases in 95 mill revenue year-over-year into the SEPTR account will trigger a reduction in local property taxes through equalization mechanisms. The reduction mechanism uses half of the increase in 95 mill revenue under 5.0% growth plus all increase above 5.0% growth. It first offsets county retirement GTB and then funds a newly created overflow GTB mechanism that increases school district BASE budgets without impacting local taxpayers. Projections for the 95 mill revenue indicate that the retirement GTB mechanism will be capped out and the new mechanism will be funded for the first time during the 2029 biennium.

## Montana University System Appropriation

Educational activities and programs provided by colleges and universities that are part of the Montana University System (MUS) are mostly funded by tuition and state appropriations. These funds are known as “unrestricted” funds for the university system. The share of state and tuition funding for these expenses has been split fairly consistently for the past few biennia. Most recently in FY 2026, the state share amounted to 43.4% of the unrestricted budget, while tuition made up most of the rest.

### *Inflation*

To keep up with inflation and the rising costs of academic programs, the Office of the Commissioner of Higher Education will typically increase their budget each year and ask the legislature to increase appropriation authority accordingly. Using inflationary rates and wage data from the S&P Global forecast, the estimated present law fixed cost and present law adjustments for the state share of MUS unit appropriations is projected to require additional general fund appropriations totaling $5.7 million in FY 2028 and $7.4 million in FY 2029 on the low end. Additional pressures to fund wage increases may also result in additional funding pressures.

# PRESSURES FROM ITEMS TRADITIONALLY FUNDED BY THE LEGISLATURE

## The Decennial Study

For the Office of Public Instruction, other pressures from items traditionally funded by the legislature include wage inflation growth and a lower-limit estimate of possible BASE aid funding increases that could result from the School Funding Interim Commission’s decennial study of school funding. Wage inflation growth was calculated on the BASE Aid portion of the budget to bring the total inflation to a level consistent with projections of wage pressures in other areas of this report.

The School Funding Interim Commission is currently conducting the decennial study of the school funding formula, with a final report available in August 2026. Ongoing discussions by the commission have focused on several key areas: school facilities; alternative methods of calculating inflationary adjustments; student population characteristics including economic disadvantaged students, English language learners, Native American students, and special education students; the special education disproportionate cost payment; simplification of the existing funding formula; and an adequacy study of Montana's current funding formula conducted by Augenblick, Palaich and Associates (APA Consulting). While the commission's final report is not complete, potential recommendations from the commission could result in funding changes to address the topics of interest above, with an estimated funding pressure of $94.0 million over the 2029 biennium. This increase represents an increase of approximately 4.1% per year over the FY 2027 BASE aid appropriation, which is above the three year average of CPI used to calculate the superintendent's budget request (2.93% and 3.37% per year, respectively; then capped at 3.0%) but below projected wage growth (5.33% and 4.75% per year, respectively).

## Additional Known Pressures

### The Decennial Study

In April 2026, the Coalition of Advocates for Montana's Public Schools (CAMPS) presented a funding formula proposal to the School Funding Interim Commission that would rework the current school funding formula to decrease the per-ANB (enrollment-based) entitlement and increase the basic entitlement (fixed cost amount), the quality educator and qualified staff payment, the at-risk payment, special education, the American Indian achievement gap payment, and Indian Education for All. This proposal represents $1,468.0 million in additional known pressures to the budget for the 2029 biennium. The commission has also requested information from APA on funding formula options for a weighted student formula to be presented at the July commission meeting. While the potential pressures from a weighted student formula proposal are unknown at this time, these potential pressures would be an alternative to the CAMPS proposal, not an additional level of funding.

### MUS Group Insurance Plan

Actuarial analysis of the MUS group benefits health insurance plan projects that expenditures will outpace revenues, which could cause an issue with required reserves within the self-funded health insurance plan. In these projections, the deficit will continue to increase and the balance of the fund supporting the health insurance plan will fall below the recommended reserves set by the actuary. As a result, increased revenues from either the state or insurance plan participants may be needed to ensure the plan can adequately cover rising expenditures.

Since the group benefits plan is partially funded through transfers to the university system, the Legislative Fiscal Division produced an analysis that included a low-trend scenario in present law and a high-trend scenario in additional known pressures. The present law adjustment for the state share of expenses was calculated using a 7.3% growth rate, the average growth of actual expenditures over the past 10 years. Using the 7.3% growth, balancing the fund would require a general fund expenditure increase of $15.9 million in the 2029 Biennium and $22.1 million in the 2031 Biennium. State special revenue expenditure would also increase by $2.5 million in the 2029 Biennium and $3.5 million in the 2031 Biennium.

The high-trend scenario adds 1.7% of growth to the present law adjustment for a total of 9.0%, matching the high-trend scenario the 2026 Outlook uses for non-university system state employees. Utilizing this growth rate, general fund expenditures would increase by the present law amount, plus an additional $2.7 million in the 2029 Biennium and $4.8 million in the 2031 Biennium. State special revenue expenditures would increase by an additional $429,000 in the 2029 Biennium and $752,000 in the 2031 Biennium.