



## This response was prepared for Vermont House Committee on Ways and Means

### Your Question:

You asked about how states adjust their K-12 funding formulas for regional cost of living differences across the state.

### Our Response:

States allocate funding to school districts based on the estimated cost of delivering a high-quality education for students. Many states adjust that amount based on cost factors that cause spending variation. States have adjustments based on student population density to compensate for higher transportation costs in sparsely populated districts, based on the size of the districts to compensate for higher administrative costs in smaller districts, and based on a regional cost of living measure to account for higher labor costs in certain areas of the state.

States with a regional cost of living measure may use a variety of approaches. The measure may be based on differences in consumption costs for a bundled basket of goods. For example, Colorado uses the [Consumer Expenditure Survey](#) developed by the Bureau of Labor Statistics. Alternatively, the state may use differences in salaries for employees of a particular educational background. The National Center for Education Statistics has developed a [Comparable Wage Index for Teachers](#) in order to make district-level comparisons across geographic areas using this method. Although, the index has not been updated since 2022. Maine uses the variation of teacher salaries in the state across the labor market areas after adjusting for differences in experience and education level. Finally, states may contract a study to develop their own regional index.

Education Commission of the States has summarized examples of states that adjust for regional cost of living using these different approaches.

### **State Examples**

- **Alaska's [Foundation Funding Formula](#)** calculates a district cost factor specific to every school district in the state that is multiplied by the school district's average daily enrollment. The district cost factor ranges from 1.00 to 2.116. The department of education and early development is required to monitor the cost factor and propose updates every other year ([Alaska Stat. Ann. § 14.17.460](#)). The cost factor is described in the department's 2024 [Public School Funding Overview](#)

(pg. 4). The state has not adjusted the district cost factor since 2012. The cost factors were determined using a methodology from a [2005 study](#) completed by the Institute for Social and Economic Research at the University of Alaska Anchorage. The cost factor is based on differences in district costs for administrators, instructors, classified employees, travel, energy, and goods purchased by school districts.

- **Colorado** allocates state funds to school districts using a student-based foundation model. The primary formula, called [Total Program Funding](#), includes a cost of living factor that is multiplied by the base dollar amount allocated for each student. To determine the cost of living factor, the legislature is required to conduct a new cost of living analysis every two years. The [2023 report](#) completed by Corona Insights determined the factor by comparing a basket of goods from the Bureau of Labor Statistics' [Consumer Expenditure Survey](#) that includes costs for housing, transportation, food, and healthcare, among other items.

In 2024, the state enacted [HB 24-1448](#) that transitions the state to a new funding formula. Under the new formula, the cost of living factor is multiplied by the entire base per pupil amount. Previously, the state multiplied the cost of living factor with the portion of the base amount associated with personnel costs. Last year, Colorado has revised the implementation of the new formula ([HB 25-1320](#)) to a seven-year phase-in.

- **Maine** allocates funds to school districts using the [Essential Programs and Services](#) funding formula. The formula includes a regional cost adjustment for the operating allocation for each school district based on regional differences in teacher salaries for different labor market areas in the state ([Me. Rev. Stat. Ann. tit. 20-A, § 15682](#)). The regional adjustment is calculated for each of Maine's 35 labor market areas by comparing average teacher salaries in each labor market area to the state average after adjusting for differences in teaching experience and education levels. The methodology is described in the [Report of the Commission to Study the Adequacy and Equity](#) of the formula (pg. 164).
- **New York** factors in a regional cost index to their student-based foundation model called [Foundation Aid](#). The Foundation Aid formula uses a regional cost index that is multiplied with the base per pupil amount allocated to school districts. The index is calculated from the median salary of wages from 61 professional, non-education professions that require similar credentials to those of positions in education. The index is calculated for nine labor market regions as listed in the [2025-26 State Aid Handbook](#) (pg.10). The index has not been updated by the state since 2006. A [2024 report](#) by the Rockefeller Institute on the Foundation Aid program discusses the index (pg. 189). The report notes that the index was created to adjust for the relative ability of the district to attract qualified teaching candidates.

- **Virginia** allocates additional funds to school districts located in and around the Washington-Baltimore-Arlington combined metropolitan statistical area due to the higher cost of living in these areas of the state. This supplemental allotment is called the Cost of Competing Adjustment and is determined in the [state budget](#) (see Section 5 Basic Aid Payments). The eight school districts within the statistical area receive a full adjustment and nine neighboring districts receive a partial payment equal to one quarter of the full payment.

A [2024 review](#) of Virginia's formula by the legislature summarizes the calculation methodology (pg. 73) for the Cost of Competing Adjustment. The adjustment provides a 9.83% increase to the salary assumptions for instructional staff and a 24.61% increase to salary assumptions for support staff in the state's funding formula, called the [Standards of Quality](#). Although, the report notes that the adjustment has not been fully funded since 2010. The report recommends the state adopt a new calculation based on a newly developed Virginia cost of labor index (pg. 101).