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How a New School Funding System Should Work:

A New Jersey School Boards Association White Paper

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In anticipation of a new school finance system, the New Jersey School Boards Association last fall began a comprehensive review of its policies and beliefs concerning education funding. Upon completion of the review, in May 2007, the delegates to the Association reaffirmed NJSBA’s long-standing beliefs on school funding.

New Jersey’s school finance system must enable all public school students—regardless of community wealth—to meet the state’s Core Curriculum Content Standards.

State funds—provided through aid to education and school property tax relief—should equal at least 50% of the total cost of education statewide.

The state must promote efficiency in school district operations by encouraging strategies, such as shared services.

Shift school revenue away from the property tax

To be successful, a new school funding formula must shift a portion of school revenue away from the local property tax and over to state revenue sources, resulting in the state funding at least 50 percent of the cost of public education.

After almost four decades of school funding litigation, four school funding formulas and a special session of the Legislature to address tax reform, New Jersey still over-relies on the local property tax to fund public education. This situation is at the root of the state’s continued failure to provide adequate and equitable education funding for all students in all communities.

The National Education Association’s *Ranking of the States* illustrates the problem: New Jersey places 4th highest among the 50 states in the percentage of school costs funded by local property taxes.

2005-06	Local Taxes	State Aid	Federal Funds
New Jersey	60.0%	36.8%	3.3%
Nationwide Average	43.2%	47.7%	9.1%
Source: Rankings of the States 2005 and Estimates of School Statistics 2006, National Education Association			

The property tax is regressive; it has no relationship to income. The tax burden, therefore, falls heavily on people of moderate and fixed incomes. By overburdening homeowners and other residents, the overuse of property taxes also erodes the community support that is essential for school programs and services.

A predictable, sustainable formula

Since 2001-2002, the Legislature has largely frozen aid to local school districts, regardless of changes in enrollment, cost or need. To maintain their programs, many school districts have had to push more of their costs over to the property tax.

By 2005-2006, under-funding of state aid had reached an *annual* level of \$846 million, according to a January 2007 report published by the Institute on Education Law and Policy at Rutgers-Newark. Middle-income districts bore \$508 million of the shortfall and poor non-Abbott districts \$170 million, according to the report. But wealthy communities, as well as the Abbott districts, also incurred shortfalls in aid.

Property Tax Impact of Flat Funding, 2005-2006

District Type	Shortfall in State Aid	Potential Property Tax Savings if Aid Were Fully Funded
Middle-Income	– \$508 million	– 8.9%
Poor Non-Abbott	– \$170 million	– 20.2%
I&J	– \$112 million	– 3.5%
Abbott	– \$54 million	– 5.7%
Other Districts	– \$2 million	
TOTAL	– \$846 million	

Source: Rutgers, The State University, Institute on Education Law and Policy

A required level of spending tied directly to the Core Curriculum Content Standards.

New Jersey’s school aid system must be based on a required level of spending per pupil for general education (a “foundation” level) that is tied directly to the Core Curriculum Content Standards. The standards represent the state’s definition of a thorough and efficient education; the foundation level of spending should encompass the totality of programs and services that our students need to achieve the standards.

Moreover, the state’s process for determining a foundation should attach *realistic* cost estimates to these programs and services.

Fiscal equity for children in Abbott and non-Abbott districts

NJSBA supports the principles that underlie the *Abbott v. Burke* decisions:

- Equal educational opportunity for all New Jersey children, regardless of the community where they live, and adequate levels of state support to ensure fiscal equity.
- Safe and adequate school facilities in which to learn.
- Early childhood education to ensure future academic success.

However, state efforts to meet the Supreme Court’s requirements under the *Abbott* decision have failed to resolve the fiscal difficulties facing many non-Abbott districts. Many non-Abbott districts continue to tax themselves to an extraordinary degree to maintain programming. Many are unable to expand curriculum as necessary to ensure compliance with the state’s Core Curriculum Content Standards and the federal No Child Left Behind act.

NJSBA believes that a state school funding system should ensure financial equality for all school districts, without abandoning the court’s dictate in *Abbott*.

Larger state role in special education funding

A new school funding system should provide state aid for the full excess costs of special education services, which are required by state and federal law. These “extraordinary costs” include out-of-district placement, related transportation and housing costs, as well as equipment needed to educate a child in the least restrictive environment within his home district.

The New Jersey School Boards Association is currently engaged in a year-long study of special education costs and practices. The research project will result in recommendations to improve the effectiveness and efficiency of special education programming, including state and federal funding, processes used to determine placement, and exemplary educational practices.

Expanded state support for shared-services and regionalization studies

New Jersey has yet to realize the full cost-saving potential of shared services in areas such as transportation, special education, administration, maintenance and recreation.

To promote efficiency and educational quality, a new school funding system should be accompanied by a state grant program that encourages school districts and local governments to develop shared-service arrangements. The program should also fund regionalization feasibility studies. Such studies are an essential first step for communities to identify the benefits and the drawbacks of school district mergers.

As part of its 2005-2008 Long Range Plan, NJSBA has engaged in a study of shared services among school districts, municipalities and counties. The study, conducted by the Institute on Education Law and Policy at Rutgers, the State University, will identify best practices, potential new areas of shared services and statutory/regulatory obstacles to shared services.

Fulfill the state's promise of adequate, safe facilities in all communities

A new school finance system must address, or be accompanied by, funding to ensure adequate facilities in all school districts.

Due to decisions at the state level, the school construction fund created in 2000 has been depleted. Yet, the need for safe, adequate schools has not gone away.

Under the state Supreme Court's *Abbott v. Burke* decision, the state must fully fund school construction and renovation in 31 poor school districts. Today, however, there is a backlog of several hundred projects in these communities, with no new funding in sight.

Continuing to delay construction breaks a promise made to schoolchildren by the courts and the Legislature. It also comes at a bad time: the need for safe schools and classroom space is growing, and delays will only add to inflation of construction costs.

NJSBA is a member of Building Our Children's Future, a coalition of education and business organizations that advocates replenishment of funding for Abbott school construction and the renewal of a state grant or aid program to help non-Abbott communities reduce the level of borrowing they need for new schools, additions and renovations.

APPENDIX

POSITIONS AND POLICIES ON EDUCATION

State Funds

FILE CODE

3220

State School Finance System

- A. **The NJSBA believes** that New Jersey's system of financing public schools should enable all local school districts to provide an equal educational opportunity for all children in New Jersey to receive a thorough and efficient education.
- B. **The NJSBA believes** that New Jersey's school finance system should:
1. Define the elements of and the resources necessary to provide a thorough and efficient education;
 2. Provide funds to support and guarantee a thorough and efficient level of education to all public school children;
 3. Provide that all constituents of the state—individuals, businesses and communities—be required to pay a fair share, but that no one would be required to pay more than a fair share;
 4. Retain the principle that local school boards have the primary responsibility, with the assistance of the state, for ensuring that each child in the district obtains a thorough and efficient education, and permit a limited degree of local spending to fund a locally defined thorough and efficient education, with the state paying a share on an equalized basis;
 5. Recognize the diversity, unique circumstances and community composition of each local school district;
 6. Provide for equalized aid for capital expenditures and debt service, with special aid for low-wealth districts with critical facilities needs;
 7. Provide state aid based on predictable statutory formulas;
 8. Provide current-year funding of all state aid;
 9. Provide state aid for the full excess cost of all mandated special education programs and services;
 10. Provide state funding for the full cost of all other state mandates;
 11. Include a system of evaluation to ensure accountability;
 12. Promote efficiency in the use of tax dollars; and recognize that the average of expenditures by school districts that have demonstrated an ability to provide a thorough and efficient education based on agreed-upon outcomes is an appropriate benchmark for the funds needed by every district to provide a thorough and efficient education;
 13. Be modified, as needed, through a comprehensive approach with input from the education community and other constituencies.
 14. Provide children in *Abbott* and non-*Abbott* districts with fiscal equity. *[Authority: DA 12/81-CR (Urban Education), DA 6/84-3, DA 6/85-CR (Proficiency Test), DA 12/91-CR (QEA), DA 6/93-2, BD 11/74 (Deleted as 3221.06 - DA 6/93-SR), DA 12/76-15 (Deleted as 8211.3 - DA 6/93-SR), DA 6/95-6, DA 11/95-CR School Finance, DA 5/96-CR (School Finance), DA 12/82-15, DA 11/96-CR (School Finance), DA 5/97-CR (School Finance), DA 11/01-SR, DA 11/06-CR (Ad Hoc School Funding Reform Committee), DA 11/06-SR]*
- C. **The NJSBA believes that** the School Finance Committee should review on an ongoing basis the equity of distribution for construction state aid in view of socio-economic factors, wealth, geographic characteristics, equalized school tax rate and other financial conditions. *[Authority: DA 5/00-6, DA 11/00- CR (School Finance), DA 5/01-CR (School Finance), DA 11/01-SR, DA 11/06-SR]*

State Revenue Raising System

- A. **The NJSBA believes** that the state revenue raising system should embody the following characteristics:
1. Guarantee sufficient revenues to consistently meet the state's constitutional and statutory funding obligations to school districts;
 2. Be balanced with respect to the ability to expand and contract in response to economic conditions (elasticity) and the capacity to produce a stable flow of revenue (stability);
 3. Be balanced with respect to sources of revenue (individuals, businesses, property, sales, etc.);
 4. Be progressive in nature to ensure that the heaviest burden would not fall on those least able to pay;
 5. Reduce the proportion of total revenue raised through the local property tax;
 6. Permit local levels of government to continue to raise a portion of the revenues necessary to support their needs, and
 7. Be flexible to permit any other revenue measures that would permit the state to meet its obligations to local school districts. *[Authority: DA 9/82-1, DA 5/96-CR (School Finance), DA 11/96-CR (School Finance), DA 5/97-CR (School Finance)]*
- B. **The NJSBA believes** that the state should pay at least 50 percent of the statewide total cost of providing a thorough and efficient education for all public elementary and secondary students. *[Authority: DA 12/91-CR QEA, DA 5/96-CR (School Finance)]*
- C. **The NJSBA believes** that for the State to fund a thorough and efficient education at the 50 percent level, requires the state to rebalance the state's current funding sources: the state income tax and the local property tax. The source of funding for reducing the property tax should be the income tax, the most progressive tax available. Methods that may be used to implement this shift include the following proposed funding alternatives:
1. A Homestead Property Tax Credit for property taxpayers for the amount of school taxes paid, up to the amount of the T & E box. Taxes paid for spending over the box will remain a local responsibility. The replacement funds will be provided by an income tax surcharge, calculated in advance, utilizing school budget information and the local property tax rate.
 2. A property tax circuit breaker for low income people, coupled with a maximum equalized tax rate for schools. This system would require that the lost funds be replaced through an increase or a surcharge on the income tax.
 3. Any other alternative funding mechanism that meets the criteria defined in the policies supported by the New Jersey School Boards Association. *[Authority: DA 11/98-CR (School Finance)]*
- D. **The NJSBA believes in** a grass-roots support effort for the proposed funding alternatives to reduce overreliance on property taxes and to demonstrate to the Governor and the Legislature that the voters and property taxpayers will support funding for schools if it is provided in an equitable fashion. A report on the progress of this effort shall be made at each Delegate Assembly. *[Authority: DA 11/98-CR (School Finance), DA 11/01-SR, DA 11/06-SR)]*

State Aid to School Districts

- A. **The NJSBA believes** that the equitable distribution of education aid should embody a methodology that ensures that all school districts have an opportunity to benefit from governmental financial assistance. Eligibility and distribution of aid should be based upon observable characteristics. Among these characteristics are:
1. Aid should be available to all school districts and cannot include arbitrary or capricious limitations designed to exclude otherwise eligible districts.
 2. Eligibility should be determined on a current basis.
 3. Eligibility should be based upon verifiable data.
 4. Eligibility should be based upon ability to pay, i.e., a means test. (Non-categorical aid)
 5. Eligibility should have income limitations. (Non-categorical aid)
 6. Aid should be based upon current student enrollment, if enrollment data is necessary.
 7. Aid should be paid directly to the eligible individuals, if individual relief is desired.
 8. Aid formula should be consistently applied across all similar categories of aid. *[Authority: DA 5/00-5]*

- B. **The NJSBA believes** that income should not be used in determining a municipality's ability to pay for school costs since school districts lack the ability to tax income locally. The aggregate-income of the residents of a municipality is not an appropriate measure of each individual property taxpayer's ability to pay for school costs in that municipality. The phase-out of aggregate-income in the formula should be gradual to avoid abrupt shifts in aid. *[Authority: DA 11/99-CR (School Finance)]*
- C. **The NJSBA believes** that as long as aggregate-income is used as a measure of local ability to pay for school costs, school districts and municipalities should have the benefit of a formal appeal process to challenge the assignment of income, similar to the formal appeal process available to challenge property values assigned to a municipality. *[Authority: DA 11/99-CR (School Finance)]*
- D. **The NJSBA believes** that when a new governor takes office, school districts should receive at least as much state aid as they received in the prior fiscal year and that upward aid adjustments should be made to compensate districts for increased costs in areas including, but not limited to, student enrollment, special education, transportation, insurance, health care and utilities. *[Authority: DA 5/96-CR (School Finance), BD 3/02]*
- E. **The NJSBA believes** that a new category of state aid should be created to assist local school districts who are affected by the children of persons in property tax-exempt housing which generate students. *[Authority: DA 11/98-3]*
- F. **The NJSBA believes** that there should be no limitation on the growth of state aid from one school year to the next school year. *[Authority: DA 5/72-5, DA 5/73-CR Growing Districts; DA 6/93-SR]*
- G. **The NJSBA believes** that in determining the wealth of school districts for state aid, consideration should be given to including all revenue sources received by the municipality such as impact aid and aid-in-lieu payments. *[Authority DA 12/83-5]*
- H. **The NJSBA believes** that local school districts educating the children who reside in state tax-exempt properties should not be adversely impacted in bearing the local cost of education for those students. NJSBA supports seeking aid from the state to fully fund the education of such students. *[Authority: DA 11/01-SR, DA 11/05-2, DA 11/06-SR]*

Fiscal Notes on Proposed Legislation

The NJSBA believes that every piece of proposed legislation affecting school districts should contain a note stating the financial impact on school districts, if any. *[Authority: DA 5/67-8, DA 12/77-16, DA 11/96-CR (School Finance), DA 5/97-CR (School Finance), DA 11/01-SR, DA 11/06-SR]*

Constitutional Convention

- A. **The NJSBA believes** that convening a constitutional convention to address property tax relief and/or reform abdicates the legislature's constitutionally enumerated obligation to impose taxes. *[Authority: DA 5/05-4]*
- B. **The NJSBA believes** that the legislature is the appropriate body to decide how to implement tax reform and that a special session of the legislature is the correct and most efficient alternative to address property tax reform. *[Authority: DA 5/05-4, DA 11/01-SR, DA 11/06-SR]*

Cross References:	3000	Concepts and roles in business and noninstructional operations
	3100	Budget planning, preparation and adoption
	3210	Local funds
	3230	Federal funds
	3350	Tuition expense
	5119	Transfers
	6141.1	Experimental/innovative programs
	6142.2	English as a second language; bilingual/bicultural
	6147	Standards of proficiency
	6171.3	Economically disadvantaged and Title 1
	6171.4	Special education
	6174	Summer school
	6200	Adult/community education
	9112	Elections/appointment

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