



# New Jersey School Boards Association

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## **Funding and Managing Education**

The New Jersey School Boards Association believes that our state can attain adequate funding for public education and school property tax reform through a strategy that includes—

- A shift in school revenue sources
- Improvements to the state's school finance system
- Increased state and federal support for required special education programming
- Advocating the establishment of a regional cost-of-living differential in the distribution of federal funds
- Cost efficiency in local school districts—including shared services, the ability to negotiate cost-control over employee benefits, strengthening the school board's position in negotiations, and retaining the ability to sub-contract non-instructional services.

## **Property Tax Reform**

- The New Jersey School Boards Association advocates revenue-neutral property tax reform. Specifically, the Association proposes a statewide decrease in local school property taxes that is matched, dollar for dollar, by a shift to the state income tax. The NJSBA proposal represents a tax shift, *not a tax increase*.
- Because of its magnitude, the property tax issue warrants immediate action. Therefore, NJSBA advocates the convening of a Special Legislative Session on tax reform. Unlike a Constitutional Convention, which may not propose a solution until 2008, a Special Session could go to work in a matter of weeks.

Reducing high property taxes—and determining how and when to do it—is one of the most pressing issues facing New Jersey.

Opinion polls, including an NJSBA-sponsored Eagleton Institute survey, indicate that New Jersey residents recognize the primary cause of high property taxes—namely, an imbalance in school revenue sources. Surveys also indicate that voters will support an increase in the state income tax if it results in a proportionate decrease in property taxes.

The National Education Association’s *Ranking of the States* illustrates the problem: New Jersey places 4<sup>th</sup> highest among the 50 states in the percentage of school costs funded by local property taxes—58.9%—in 2004-05. That same year, New Jersey state government paid only 38.3% of school district operating costs.

2004-05	<u>Local Taxes</u>	<u>State Aid</u>	<u>Federal Funds</u>
<b>New Jersey</b>	<b>58.9%</b>	<b>38.3%</b>	<b>2.8%</b>
Nationwide Average	42.7%	48.6%	8.8%

The property tax is regressive; it has no relationship to income. The tax burden, therefore, falls heavily on people of moderate and fixed incomes. Many of them are senior citizens.

By overburdening homeowners and other residents, the overuse of property taxes also erodes the community support that is essential for school programs and services.

**Tax Shift** A New Jersey School Boards Association study of school revenues recommended balancing of the state’s current, major funding sources. The NJSBA proposal consists of—

- A statewide decrease in local property taxes
- Matched, dollar for dollar, by a shift to the state income tax, and
- Supported by a permanent, stable funding source.

The proposal represents a tax shift, *not a tax increase*. In fact, NJSBA would support a change in the income tax *only* if it is matched by a reduction in school property taxes. This tax shift would evenly balance the property taxes and income taxes going toward schools statewide.

**Balance Income + Property Taxes** NJSBA’s study examined other states’ school revenue systems. It concluded that New Jersey’s main sources of school funding—the local property tax and the state income tax—are sound.

- The state income tax is progressive: it is linked to ability to pay and is assessed on a graduated scale. It was created in 1976 with the express purpose of funding public education.
- The local property tax also has a role to play in education funding. It is a stable and predictable revenue source. In addition, it provides for a degree of local discretion, an important factor in building community involvement in the school system.

At the heart of the issue is the *overuse* of the property tax—not the property tax itself, according to the NJSBA study. Tax reform, therefore, should focus on shifting a portion of school revenue away from the local property tax and over to the state income tax. Methods to achieve the shift could include direct subsidy to municipalities to reduce property tax bills; a "circuit breaker" that would limit property tax liability for people on fixed incomes; a statewide equalized school property tax rate; or an income tax credit based on property taxes paid.

**Special Legislative Session** Up to now, however, public debate has focused less on a specific tax reform plan and more on the type of forum used to develop a tax reform strategy. The state Legislature has two methods under consideration: a *Constitutional Convention* and a *Special Legislative Session*.

The immediacy of the issue makes the Special Session the wisest alternative. A Constitutional Convention may not issue recommendations until 2008. A Special Session could meet within weeks.

The Special Session concept has strong support in the Legislature. Seventy-three lawmakers are co-sponsoring the Special Session bills (SCR-20 and ACR-99). That number represents a majority—over 60%—of the membership in both houses.

Moreover, there is no lack of tax reform proposals for the Special Session to consider. Legislators, other state officials and organizations have announced proposals. Many of them are “revenue neutral” and would balance school revenue sources, without increasing taxes or school expenditures.

### **New Jersey’s School Finance System**

Key members of the state Legislature indicate that the state’s school finance formula—the Comprehensive Educational Improvement and Funding Act of 1996 (CEIFA)—is no longer viable. In fact, the state has not funded the CEIFA formula as intended since 2001-02. As necessary school expenses have grown, flat state funding has resulted in property tax increases to fill the gap.

- New Jersey’s school finance system must enable all public school students—regardless of their community’s wealth—to meet the state’s Core Curriculum Content Standards.
- State funds—provided through aid to education and school property tax relief programs—should equal at least 50% of the total cost of education statewide.

NJSBA believes that the following principles should guide school funding:

- State funds—provided through aid to education and school property tax relief—should equal at least 50% of the total cost of elementary and secondary education statewide.
- State aid to education should be predictable and not subject to annual manipulation.
- The system should establish a foundation level, or required level, of spending per pupil for general education that is tied directly to New Jersey’s Core Curriculum Content Standards. The foundation amount, therefore, should encompass the totality of programs and services that our students need to achieve the standards. Further, the state should attach *realistic* cost estimates to these programs and services.
- The amount of local property taxes (or “fair share”) applied toward the foundation level should reflect the community’s ability to pay and be based on its property valuation—that is, the strength of its ratable base—and not on per capita income. (Income is not taxable at the local level and, therefore, is not a good indicator of the school district’s overall ability to pay for education.)
- The balance of the foundation amount, after deduction of the community’s fair-share contribution, should be provided through state aid.
- The formula should allow for adjustments to a district’s state aid in response to sharp increases in student population.
- Communities should be able to spend above the foundation level through locally raised revenue.

- State-required “categorical” programs—such as special education, bilingual education and transportation —should be considered “excess cost factors” outside of the foundation level of spending.
- The formula should provide aid, on a per pupil basis, for state-required categorical programs.
- The 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.