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CEIFA ABILITY-TO-PAY SUBCOMMITTEE
DRAFT REPORT - September 1999

FINDINGS:

The CEIFA Ability-to-Pay Subcommittee asked the Department of Education to produce a report comparing the equalized property tax paid in New Jersey public school districts, for their base T&E budget, to the median income in each of the communities served by those school districts. The report was requested in order to determine if the current CEIFA formula was successful in its method for including an income factor along with equalized property values for the measurement of a district's relative wealth. That relative wealth consequently determined the amount of Core Curriculum Standards Aid each district received.

The results were startling in that the ranking of Equalized Tax Rates to Median Income is off by more than 100 ranking places for more than 95% of the school districts in New Jersey. In other words, the current CEIFA formula does not adequately measure a district's ability-to-pay and compensate districts fairly through the application of state aid.

The committee believes that because districts tax property for their local fair share, then the district's equalized property valuation must be the more significant factor in assessing a district's ability to pay.

RECOMMENDATIONS:

1. There remains a widespread taxpayer skepticism on the accuracy of income data that is generated by the Department of Treasury. Too many changes have occurred with little or no explanation from year-to-year. The subcommittee understands that there are a number of state or federal privacy laws governing the release of income tax data, and that to obtain wholesale release of information or even who filed in a given district would prove extremely difficult. For that reason, we support a requirement that an annual independent audit of the methodology used by the Department of Treasury and a sampling of the data used for assignment to districts be performed. We believe this process is necessary in order to have the process more publicly accepted. . . .
2. We would support the reduction of the significance of the income factor in the CEIFA formula, over time to lessen the impact upon certain districts that, for now, benefit from its current importance. We find the districts that benefit do not come from any specific geographical area or income group. Those that benefit do so through the relationship on a percentage basis of their income to property when compared together to the state average. Some districts with poor property values and lower than average income have done well by the current formula, while others with the same general characteristics have not. Some districts with average to above average property values and average to above average income have received more than what could be deemed a fair share of state aid, while others in this category receive virtually no Core Curriculum Standards Aid (CCSA). The wealthiest districts would suffer no harm from this change since they receive no CCSA anyway. The Subcommittee would support the change over five years, going from a 50-50 split now, to a 55-45 split for the 2000-2001 fiscal year, a 60-40 split in 2001-2002, followed by 65-35, 70-30 and 75-25 for the fiscal year 2004-2005. We recognize that accurate income can still be considered a viable measure of local wealth, because it can be argued that those with higher incomes can afford to pay higher property taxes while those with lower incomes can only afford to pay lower property taxes. Consequently districts with higher aggregate income factors

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may require less state aid, whereas districts with lower aggregate income factors may require more state aid.

3. We also believe the methodology used in calculating income should be changed. We believe the inclusion of the wealthiest individuals in the community skews the picture of income in a district. Consequently, we recommend the support of S1816/A3263, which would eliminate the top 5% of taxpayer incomes from the measurement of district income wealth.
4. We further believe that even with our proposals enacted, there will still be districts forced to tax at rates far higher than the state average for their basic T&E budget. Therefore, we recommend that the district's local fair share be reduced whenever its basic T&E budget would generate an equalized property tax rate above the state average equalized rate. This reduction of local share should be done on a tiered system providing the most additional aid for the district's most severely impacted. The additionally generated CCSA, as a result of this recommendation, should not be limited by the current CEIFA CCSA growth factors. Much of the generated CCSA will come from a consequent reduction in stabilization aid.
5. We believe that there is another place in the school aid formula for income. We support a circuit-breaker for taxpayers on fixed incomes whose property values have over time far outpaced their income level. We believe this circuit-breaker could take the form of a deflator of property values for districts with a high-concentration of senior citizens and higher than average property values.
6. We understand that these methods may cause a re-distribution of state aid from some districts to other districts. However, we also understand the impact significant losses of state aid can have even in relatively wealthier school districts. School districts need stability of revenue for sound fiscal planning. Therefore, we would support some kind of save-harmless or stabilization aid to be provided for districts experiencing significant losses from our recommended changes. We defer to the stabilization aid subcommittee regarding the form this aid should take. However, we would encourage the stabilization committee to support some form of stabilization that would be measured not only on a one year change, but on a two or three year change as well, to provide a safety net for those districts who have already faced a significant loss and cannot sustain further continued loss or even a hold-harmless provision at the reduced level. All forms of state aid should be considered in these calculations, including non-CEIFA revenues used for a district's general fund budget.
7. While we support the continued use of the Equalized Property Valuation as the best measure of a district's taxable property value, we would encourage a study be undertaken to assess the impact of local taxation decisions, such as property tax incentives for industry passed by certain municipalities, on the district's ability to pay.
8. We also have some concern about the impact of the formula on regional school districts and their constituent districts in how property and income wealth is apportioned between the districts. We support the commencement of a study on how the split in wealth has affected their budgets as an ability-to-pay issue.
9. We believe these are only interim recommendations. We would be willing to reconvene as a committee to review implementation of these recommendations and to study the issue further.



CONCEPTS:

We are concerned about growing number of districts that no longer qualify for the broadest form of state aid, Core Curriculum Standards Aid, which in the past was called Equalization Aid or Foundation Aid under different formulae. The ability to pay could be best addressed with a greater infusion of state-generated revenue, which would both lower the overall school portion (the most significant share) of the local property tax and would also lessen the disparity in rates and resources for local districts.

As addressed above, income is not taxable at the local level. It is taxed at the state level and forms the basis for the major component of state school aid. Yet income is used in the CEIFA formula as a modifier of the local share which is a contributing factor in disparate property tax levels. Should the state wish to have income used as a local factor, perhaps it could be accomplished in other ways such as a surcharge on the state income tax payable back to the district to replace property taxes, or to allow school property taxes paid to be a direct deduction off the amount of state income tax paid by each resident taxpayer.

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1. The first part of the document discusses the importance of maintaining accurate records of all transactions. It emphasizes that proper record-keeping is essential for the integrity of the financial system and for the ability to detect and prevent fraud. The document also notes that accurate records are necessary for the preparation of financial statements and for the calculation of taxes.

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The first part of the document discusses the importance of maintaining accurate records of all transactions. This includes not only sales and purchases but also the flow of goods and services between different departments and locations. By keeping detailed records, management can identify trends, control costs, and ensure that all activities are properly accounted for.

In addition, the document emphasizes the need for regular audits and reconciliations. These processes help to detect any discrepancies or errors in the accounting system, ensuring that the financial statements are reliable and accurate. It also highlights the role of internal controls in preventing fraud and protecting the organization's assets.

The second part of the document focuses on the implementation of a robust financial reporting system. This involves the selection of appropriate accounting software and the establishment of clear policies and procedures for data entry and reporting. Management should ensure that all staff involved in the accounting process are properly trained and understand their responsibilities.

Furthermore, the document stresses the importance of transparency and communication. Regularly scheduled meetings and reports should be held to discuss the financial performance of the organization and any areas that require attention. This helps to build trust and ensures that all stakeholders are kept informed of the company's financial health.

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