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JOINT COMMITTEE ON THE PUBLIC SCHOOLS
New Jersey Legislature

JCPS Monitoring Program 4

BUDGET CAPS

First Periodic Report

BUDGET CAP ADMINISTRATION FOR 1976-77

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INTRODUCTION

Each Monitoring Program conducted by the Joint Committee on the Public Schools involves preparation of three kinds of reports:

- (1) A Methods Report - which poses certain questions, and describes how they will be answered;
- (2) A Baseline Report - which answers those questions, so far as possible, for a baseline time period prior to implementation of the Public School Education Act of 1975;
- (3) Periodic Reports - which answer those questions for a stated time period during the implementation of the Public School Education Act. Periodic Reports will attempt to demonstrate the effect of the Act over a period of time.

This document is the first Periodic Report for Monitoring Program #4 - Budget Caps. It is not a complete Periodic Report, in that it does not attempt to answer all of the questions posed in this Monitoring Program. Many of those questions deal with the financial impact of the caps and must await data on the final determination of 1976-77 school budgets. This first Periodic Report, instead, concentrates on these questions:

- (a) To what extent have school districts requested relaxation of the budget caps:
 - on the basis of increased enrollments?
 - on the basis of being unable to meet the goals, objectives and standards established pursuant to this act?
- (b) What is the nature of the evidence submitted by districts making either of these requests?
- (c) Have the budget caps been administered uniformly throughout the state?
- (d) Have any unanticipated problems been encountered in the administration of the budget caps?

The report was prepared by Jonathan Stein and Ernest C. Reock, Jr., of the Joint Committee staff.

BACKGROUND¹

Section 25 of the Public School Education Act of 1975 (Chapter 212) places statutory limits on expenditure increases in local school budgets. An unprecedented move for New Jersey, the statutory budget "caps", as they are called, extend a new State control over local decision-making. The caps themselves are calculated by formula in an attempt to limit expenditures across the state in an objective manner. There are, in addition, two clauses in Section 25 stating guidelines under which the Commissioner of Education may exercise discretion to waive the budget cap for an individual school district and allow expenditures above the cap. These clauses were meant to bring flexibility to the statutory limits.

The budget caps were designed to fulfill a variety of purposes. One purpose is to force local money, raised by the property tax, out of the school finance system as new aid funds raised at the State level are made available. A ceiling is provided to keep educational costs from absorbing aid increases. With a ceiling on spending increases and a new flow of State money, it is hoped that local money will be forced back into the taxpayers' hands (the effect of State aid on local tax levies will be reported in Monitoring Program 2). Thus, one goal of budget caps is to insure property tax relief. Along the same lines, the caps are intended to prevent large and inefficient expenditure increases in school districts where the flow of new State aid is increased suddenly. (The effect of State aid on educational expenditures will be reported in Monitoring Program 3.)

¹ This section (pages 2-7) is repeated with little change from the Baseline Report on Budget Caps (September 21, 1976).

A third purpose of the budget caps in Section 25 is to limit state liability. The caps limit expenditure increases in the net current expense budget,¹ a figure which reflects the cost of current expenses covered by the local tax levy and current expense equalization aid. Equalization aid (including minimum aid) is by far the largest component of State aid to education, totaling over \$622 million for fiscal 1977, or approximately 1/5 of the State budget. Equalization aid is calculated for each school district as a percentage of a district's NCEB, depending upon the wealth of the district and, up to the State Support Limit, the aid figure rises as the NCEB rises. Since local school boards, municipalities, and their voters decide how much to spend, growth of the State's obligation from year to year would not be under the control of the Legislature unless some limitations were placed on local budgets. To prevent open-ended State aid obligations, the budget caps impose a maximum limit on annual spending increases.² For 1976-77, the permissible margin of increase is \$200 million, or 9.6% of the previous year's total NCEB's.

The budget cap formula includes an equalizing aspect to allow low-spending districts to increase their expenditures more rapidly than other districts. In time, the equalizing factor should bring closer together the different expenditure levels amongst districts.

The Formulas

The \$200 million increase for 1976-77 was determined by calculating

¹ Hereafter, the Net Current Expense Budget will be referred to on occasion as the NCEB.

² A second statutory provision which limits State financial liability is the State Support Limit, which cuts off State equalization aid when expenditures per pupil rise above the 65th percentile of all district per pupil expenditures. While this cut-off is effective for State liability caused by the budgetary fluctuations of individual districts, it becomes less effective when districts are considered collectively, since the 65th percentile level will "float" with the general level of school budgets.

the amount of increase each district would be allowed, and then adding the results for all districts. This was done, and will be done each year, with two similar statutory formulas, one applying to districts which have been spending at a level below the state average NCEB per pupil, and the other applying to districts which have been spending at or above the state average NCEB per pupil. Each formula may be broken into three parts which might be called:

- (1) the basic growth rate,
- (2) the base NCEB, and
- (3) the equalization factor.

The formulas are shown below, with the three parts labeled:

	<u>Basic Growth Rate</u>		<u>Base NCEB</u>		<u>Equalization Factor</u>
For districts : spending <u>below</u> : the average :	$\frac{3}{4}$	x	Latest Annual Percentage Change in Statewide Equalized Valuation	x	Prior Year's State Average <u>NCEB per Pupil</u> x Prior Year's District NCEB per Pupil
For districts : spending <u>at or</u> : <u>above</u> the : average :	$\frac{3}{4}$	x	Latest Annual Percentage Change in Statewide Equalized Valuation	x	Prior Year's State Average <u>NCEB per Pupil</u> x Prior Year's District NCEB per Pupil

In each case, the formula gives the amount by which the NCEB could be increased for each pupil enrolled. Multiplying the result of the formula by the prior year's enrollment gives the total dollar amount by which the district's NCEB could be increased.

Common to both formulas is the use of the annual change in state-wide Equalized Valuation to calculate the basic growth rate allowed in a district budget. Annual percentage change in the Equalized Valuation

of property across New Jersey is fairly stable, approximating a 10% increase with fluctuations reflecting the inflation rate. The comparative stability of Equalized Valuation, and its use to figure aid levels, make it a desirable basis for calculating permissible budget increases. The 3/4 multiplier applied to the Equalized Valuation in each case reflects the fiscal austerity of the time when the law was written.

Also the same in both formulas is the equalizing factor which is a fraction in which the state average NCEB per pupil (\$1,434 in 1975-76) is divided by the school district's NCEB per pupil. The use of the fraction as a multiplier is intended to help equalize school expenditures per pupil over a period of years by permitting a faster rate of growth for low-spending districts.

Where the two formulas differ is in the base NCEB. For districts spending below the average level, the base NCEB is the State average NCEB per pupil. For districts spending at or above the average, the base NCEB is the district's own NCEB per pupil from the prior year. For these higher-spending districts, the use of the district's own budget figure provides more room for spending increases than otherwise would be the case if both formulas used the State average as the base NCEB.

The two formulas are very similar, and treat districts objectively according to expenditure level. However, there is one further difference between the formulas for high-spending and low-spending districts. For districts spending below the average, there is a proviso that puts a floor under the annual percentage change in Equalized Valuation used in the basic growth rate portion of the formula. This is done by specifying that the figure used in each year for annual percentage change in Equalized

Valuation may not be less than the average of the annual changes for a given year and the two previous years. For some reason, the three-year floor under the change in Equalized Valuation is denied to districts spending at or above the state average. This is, perhaps, an accidental distinction. At least, it was treated as such by the Department of Education, which administered the budget caps using the three-year floor for all districts in 1976-77. The Department has indicated that it plans to administer the bill literally for 1977-78 budgeting.

Exception Clauses

Budget caps are assigned to individual districts on the basis of an objective formula, which is weighted by the districts' spending level. To insure flexibility in budget limitations, two clauses were added to Section 25 setting guidelines under which the caps might be waived for individual districts. One guideline, or reason, to make an exception and waive the cap for a district is on the basis of increased enrollment. The caps are calculated to arrive at a per pupil figure for maximum growth. This is multiplied by the previous year's enrollment to find the permissible spending increase for the budget year. Thus, the cap formula, in itself, takes no account of year-to-year enrollment increases when determining the allowable margin for expenditure growth. The Commissioner, therefore, may grant an exception to the budget caps for increased enrollment that "may be reasonably anticipated in the district".

The other guideline under which the caps may be waived lacks clear definition. It is a catch-all clause allowing the Commissioner to grant exception to the caps "having judged that a reallocation of resources or any other action taken within the permissible level of spending would be

insufficient to meet the goals, objectives and standards established pursuant to this act". Thus, if a district faces particularly difficult cost increases that, given the ceiling on spending, force money away from educationally productive services, the cap might be waived.

ADMINISTRATION OF THE CAPS FOR 1976-77

Policy in government is affected by, and often made at the operational level. Legislation, where the basic requirements of programs are laid out, is turned over to the executive. There, top-level personnel set administrative policy and send down this policy along lines of command to the operational level. Here, general legislative requirements and administrative policies and priorities are translated into day-to-day, detailed administrative exercises, such as reviewing requests and granting exceptions to budget caps. Hidden in the nooks and crannies of this detail, policy is truly made. Professional interpretations, the use of estimates, adjustments for ongoing processes and budgetary bargaining, and ongoing personal relationships all may bear on how the budget caps are actually placed in operation.

The budget caps put a ceiling on growth, but it is not an impermeable one. Section 25 of Chapter 212 empowers the Commissioner of Education to grant an exception to any district's cap for either of two reasons set down in the law. One reason is an increased enrollment that "may be reasonably anticipated in a district". Not quite so clearly defined is the second reason, a catch-all clause that allows extraordinary costs to be passed through the cap. Unless they are passed through, these costs presumably would take resources away from productive educational functions and deter a district from meeting "the goals, objectives and standards established pursuant to this act".

Under these two guidelines, 165 school districts were granted budget cap exceptions for 1976-77, one out of every four districts in the state receiving an exception to its cap. The amount of spending above the caps permitted by the exceptions was over \$23 million, or more than

one-tenth of the allowable growth under the caps. As budgets and State aid stand currently, this total of exceptions could cost the State, in its 1978 budget, over five million dollars in additional equalization aid, since the higher the 1976-77 local budgets, the higher the State aid obligation in the following year. On their face, such figures, in a year of fiscal restraint, seem to indicate extravagant use of the exception clauses. However, taken only on their face, the figures may be misleading.

In order to evaluate the administration of Section 25, the JCPS staff made several field trips to counties in south, central, and northern New Jersey. Numerous phone calls were placed to other county superintendents, as well as to the Department of Education, to ascertain the detail, methods, and procedure that were used in administering the budget caps.

After an extensive monitoring effort, a complicated picture emerged. On the whole, Department personnel were extremely cooperative and open with the JCPS staff. Many instances, referred to later, came up which, superficially, appeared at first to point to individual cases of maladministration in the execution of statutory and departmental policy. However, as these instances were checked out and double-checked, most turned out to be legitimate complications in a very involved, almost-labyrinthine budgetary process. To understand the administration and use of the exception clause, and their effect on the budgetary process, one must begin at least in November, 1975.

THE 1976-77 BUDGETARY CONTEXT

In the middle of a fiscal and constitutional crisis, the prospects for 1976-77 State aid to New Jersey schools was in considerable doubt during the Fall of 1975. While the Public School Education Act of 1975 had been signed into law in September, its constitutionality was under attack in the State Supreme Court, and the source of funds for its implementation was uncertain. State aid in 1975-76 had fallen short of the amount originally expected by local school districts, sobering the mood of the 1976-77 budgetary process, already begun in most places.

On November 24, 1975, a memorandum was sent from the Commissioner of Education's office to all local districts outlining four different plans under which aid might be granted. In January, the Supreme Court upheld the validity of the new Act, but only if fully funded. Then the Governor, in his February 2 budget message, not only did not provide for full funding, but asked for a 25% local contribution to the Teacher's Pension and Annuity Fund (TPAF), a burden traditionally shouldered entirely by the State. Some local officials regarded the Governor's action as a time-honored promise reneged upon. Others saw it as further evidence that the State was not going to give full aid entitlements in 1976-77. Still others saw this as only a passing phase, with the final decision to be that the Legislature eventually would fund State aid fully and would pay the TPAF costs. Of the almost \$54 million asked by the Governor as local contributions to the TPAF, only \$37 million was actually budgeted by local school boards, just one example of the confusion in the 1976-77 budgetary process.

The normal orderliness of local decision-making was pierced by a trident of uncertainty: which aid formula? how much funding under the

formula? and who pays the TPAF? In the midst of this confusion, the Department of Education was decentralizing functions to the county level. Personnel were being transferred and a number of officials at the county level were performing in "acting" capacities. The budget caps, and exceptions to them, were administered during the month of March, 1976 (over three months after the statutory date) in many cases by personnel who were new to the county offices and who, certainly, were new to this task. Confusion and doubt were the markings of the 1976-77 school district budgetary process.

FROM STATUTORY PROVISIONS TO ADMINISTRATIVE POLICY

Budget caps put State limitations around local decision-making in order to accomplish the goals of controlling educational expenditures and equalizing school spending across the state. In two memos, dated December 19, 1975 and February 4, 1976,¹ the Commissioner turned statutory provisions into top-level policy for granting exceptions to the caps. First, he decided that the caps would be administered on the county level, by superintendents operating with instructions from Trenton. The budget caps were a new exercise. With State aid uncertain on both fiscal and constitutional grounds, it was obvious that review of the local budgets would not be done until well after the statutory submission date of December 1. By late November, it also was obvious that there would never be enough time to have all local officials come to Trenton to discuss their requests to have caps waived (a large number was expected). Also, since the county superintendent already had been delegated authority to review each school board's budget, he or she was the logical official to handle limitations on that budget.

County superintendents were provided by the Department with computer readouts for each individual district, which included the percentage of dollar increases a district would be able to add to its 1975-76 net current expense budget under the statutory formulas. Worksheets were sent to each local district to turn this maximum NCEB figure into a cap for the more familiar Current Expense budget, under which a school board would have to plan expenditures. If, for any reason, the figure the board came up with was over the maximum, the county superintendent had instructions as to the appropriate evidence

¹ Reproduced in the Appendix to this report.

the district should submit to justify waiving the caps to allow some or all of the increased spending requested.

In the memo of December 19, the Commissioner outlined, as a basis for exceptions to the budget caps:

1. Increases in enrollment,
2. The inability of the district to meet "T & E" requirements, and
3. Other reasons, such as "Appropriated Balances", "State Average Problems", "Tuition Increase", "New Building Openings", and "Other".

One curious aspect of the memos is that the "other" reasons quoted above were not justified under the heading of "Inability to meet T & E requirements", but were listed separately as a third, independent ground for granting of an exception. In a supplemental memo on February 4, local contributions to the TPAF were added as a valid reason for a budget cap exception.

Of the reasons cited by the Commissioner in his two memos, only enrollment increases have specific statutory authorization in Section 25; all others resulted from an administrative interpretation of the statutory language that an exception could be granted upon judgment that "a reallocation of resources or any other action taken within the permissible level of spending would be insufficient to meet the goals, objectives and standards established pursuant to this act..."

RESULTS OF BUDGET CAP ADMINISTRATION

Under Departmental policy, as the county superintendents interpreted it, \$23 million worth of exceptions originally were granted in 1976-77. To put this figure in perspective, the 1975-76 total statewide NCEB was \$2.09 billion. Use of the statutory budget cap formulas would have permitted an increase of \$200.1 million, or 9.6% of the total 1975-76 NCEB's. The \$23 million in exceptions would have increased this figure from 9.6% to 10.7%.¹ Thus, the exceptions allow a growth on the margin of 1.1% in expenditures across the State.

The average district exception granted was 5.3% of that district's 1975-76 net current expense budget. This was atop an allowable statutory increase of from 6 to 12% in most cases. The reasons for exceptions granted, when considered statewide, fall into seven specified categories, with additional exceptions granted to 16 districts for diverse reasons. These are listed under "Other".

<u>REASON</u>	<u>NUMBER OF EXCEPTIONS GRANTED</u>	<u>AMOUNT</u>	<u>PERCENTAGE OF TOTAL</u>
Local TPAF Contribution	135	\$ 9,800,542	42.4%
Appropriated balances	36	\$ 3,080,780	13.3%
Salary increases	9	\$ 3,068,238	13.3%
Enrollment increase	25	\$ 2,518,357	10.9%
Tuition increases	36	\$ 1,734,513	7.5%
New school operational costs	8	\$ 1,479,911	6.4%
New equipment and facilities	4	\$ 460,431	2.0%
Other	16	\$ <u>950,420</u>	4.1%
TOTAL		\$23,093,192	

¹ Assuming, of course, that the entire 9.6% statutory increase allowable by the cap formulas were used; in fact, it was not all used. A second Periodic Report on Budget Caps will provide an analysis of the impact of the caps in dollar terms.

These figures disagree slightly with earlier data compiled by the Department which were based upon county summaries of exceptions. The JCPS staff figures were calculated district-by-district with verification by contact with county superintendents and later Departmental information.

Teachers Pension and Annuity Fund

By far the largest amount of exceptions were granted to relieve the local school districts from the necessity to reallocate resources away from educational needs to provide money for the proposed new local costs of TPAF. Of the exceptions, \$9.8 million, or 42.4%, went toward relief of a portion of the \$37 million budgeted by local school districts for TPAF contributions. The balance of the \$37 million was absorbed by districts through budget increases within their caps.

Appropriated Balances

A budget is a plan by which a district intends to use its resources in a school year. When a district spends less than the budgeted amount, excess tax money (or other revenue) becomes a surplus balance that a district holds under State laws. The following year, and for years afterward, a district can budget and appropriate any sum from the free balance. The money can pay for budgeted expenditures (reducing that year's local tax levy) or for emergency expenditures (boiler breakdowns, etc.). Free balances are also used as contingency funds at the end of the school year when unbudgeted or under-budgeted costs remain to be paid.

In 1975-76, partially because of the State aid shortfall, local districts appropriated a larger-than-usual amount of free balances -- \$58,000,000. In 161 districts, appropriated balances were larger than 6% of the NCEB -- more than twice the state average. Under statutory

definition, the net current expense budget does not include appropriated balances, and thus budget caps are calculated without taking into account the appropriated balances budgeted to reduce the local tax levy. Yet, the \$58 million was budgeted and spent in the same manner as money raised by tax levy and State equalization aid. If a district had used most of its free balance in 1975-76, and if it did not have comparable amounts of free balance funds available to do the same thing in 1976-77, the budget caps could work to curtail the educational expenditures of the district. A simplified example is shown below for a hypothetical district. Following the arrows, in 1975-76 the Free Balance Appropriated (\$200,000) is subtracted from the Total Current Expense Budget (\$1,400,000) to find the NCEB (\$1,200,000). If the budget caps permit a 10% rise in the NCEB, in 1976-77 it will be \$1,320,000. However, if no Free Balance is available in that year to supplement the NCEB, the Total Current Expense Budget also will be only \$1,320,000. This is \$80,000 less than was budgeted in 1975-76.

	<u>1975-76</u>	Permissible <u>NCEB Increase of 10%</u>	<u>1976-77</u>
Total Current Expense Budget	\$ 1,400,000		\$ 1,320,000
Free Balance Appropriated	- 200,000		<u>None Available</u>
Net Current Expense Budget	1,200,000	+ 120,000	1,320,000

The Commissioner gave somewhat complicated instructions to county superintendents to waive the caps where abnormally high use of free balance in 1975-76 had resulted in low NCEB's and little in the way of surplus to alleviate the problem in 1976-77.¹ Of exceptions granted, \$3.1 million or 13.3%, were for reason of appropriated balance.

¹ See below, pages 22-23.

Salary Increases

Exceptions totaling \$3.1 million were provided to allow payment of previously-negotiated agreements with public employee organizations. Many agreements with Board employees are on a two-year basis and, thus, constituted prior contractual obligations. Previously-contracted salary agreements accounted for 13.3% of the exceptions granted.

Enrollment Increases

Over \$2.5 million, 10.9% of the total exceptions, was granted to 25 districts to increase their budgets above the statutory cap because of increased enrollments that could be "reasonably anticipated".

Tuition Increases and Adjustments

Tuition charged to one district sending pupils to another district has increased across the state, reflecting the rise in "actual cost per pupil", the standard that Section 6:20-3 of the New Jersey Administrative Code determines. The Administrative Code also allows for adjustment of previous years' tuition charges. Increases in tuition charges and adjustment of past charges were allowed as exceptions under the catch-all clause. Statewide, \$1.7 million for increased tuition was passed through the caps to prevent a reallocation of resources away from educational goals. This accounts for 7.5% of the exceptions granted.

New School Operational Costs

Several districts across the state opened the doors of a new school in September, 1976 and faced large operational and staffing bills not encountered previously. Districts were permitted to pass \$1.5 million of the new costs through their budget caps, accounting for 6.4% of the amount of exceptions sanctioned.

New Equipment and Facilities

Several districts added new facilities, or replaced old ones, or

bought new equipment that added large costs to the 1976-77 budget not faced in the previous year. Of the total exceptions, \$460,000, or 2.0% was granted for these new costs.

Other

Sixteen districts received exceptions for reasons other than those stated and explained above. Five of them were granted exceptions for the cost of complying with new mandates received from the State level. A new State Board regulation forced one district to buy new buses costing more than \$52,000. Another district had to begin a new lunch program, with its attendant costs for staff and facilities. Some districts received exceptions to their caps for, among other things, increased office expenses, a new reading program, and a part-time psychologist. Additional expenditures totaling \$950,000, or 4.1% of the total, were allowed.

Exceptions Without TPAF Contributions

Exceptions to the budget caps were granted in March, 1976. The Legislature subsequently provided State money to pay for the entire employer's share of the TPAF contribution, thereby taking the burden off the local school districts, most of whom had budgeted their 25% share of the contribution. Since the TPAF contribution was a new cost for local districts this year, and a large and significant one, many exceptions were granted for TPAF -- over \$9 million. This \$9 million did not cover the full amount of the TPAF contribution budgeted by the districts who received exceptions for their contribution; most of the cost was absorbed within the caps. For purposes of comparison, however, the JCPS staff subtracted the full amount of TPAF contribution budgeted by the 165 districts since a reduction of that amount in the budget

would release funds to meet other costs, sometimes eliminating the need for exceptions for other purposes. If a district had budgeted an amount for TPAF which was equal to or larger than its total of budget cap exceptions received, it thus was brought within the caps.¹

When the full amount budgeted for TPAF² by the 165 school districts caps is subtracted from the total of all exceptions granted, only \$14,115,301 is left. It should be noted that even this figure probably is high. The original budget cap exceptions are granted in response to requests made by school districts while the budget is being prepared. Subsequently, the budget may be reduced at a number of points -- by the board before advertisement, by the board following the public hearing, by the municipal governing body if the budget is rejected by the voters or by the board of school estimate. Any reduction may bring the budget down to a point where a cap exception, although granted, is no longer required. Solid data on this aspect must await final determination of 1976-77 school budgets.

As of September, 1976, then, \$14.1 million of growth above statutory levels had been allowed for school expenditures across the State by the exceptions clauses as administered. Statewide, if TPAF is eliminated, the remaining exceptions granted amount to 0.7% of the prior year's total NCEB's or, if added to the increase permissible under the statutory budget caps, would raise that growth rate from 9.6% to 10.3%. With the TPAF contribution budgeted by each district removed from the amount granted for exception to the caps (for whatever reason), 97 districts

¹ The amount of TPAF budgeted comes from the final budget as adopted by the local school board. Exceptions were granted for earlier versions of the school budget.

² Again, this amount is larger than the amount granted for TPAF exceptions. Some districts absorbed part of the contribution costs without asking for exceptions. In a few cases, budget cap exceptions were granted for TPAF without a budget appropriation for this purpose; see below, pages 25-26.

still had amounts remaining above the ceiling. Thus, 97 districts (one out of six) were allowed to spend above the statutory budget cap. For these districts, exceptions without the TPAF contribution increased the percentage change of a district's net current expenses an average of 6.4% over the 1975-76 NCEB. This was on top of the usual 6 to 12% increase for a district allowed under the caps.

To whom were these 97 post-TPAF exceptions granted? Slightly more than half of the districts, 53, had 1975-76 net current expense budgets above the State average. These are the districts whose expenditures would be limited the most by the caps. It is of note, however, that districts with above-average spending (277) received exceptions in nearly the same proportion as all districts across the State. A similar comparison of the percentage of districts receiving exceptions and having an equalized valuation per pupil above the Guaranteed Valuation (\$86,000 per pupil) yields the same results: no favoritism appears to have been shown across the State on the basis of wealth or spending level.

FROM POLICY TO OPERATIONS

State Directives

In his December 19 memo, the Commissioner detailed a long list of necessary evidence to be presented to justify cap exceptions for increased enrollment, increases "due to an inability to meet T & E requirements", and cap requests due to other reasons. The caps gained judicial acceptance on January 30 with Supreme Court clearance. On February 4, a supplemental memo was issued by the Commissioner giving more exact reasons for exceptions: increased tuition payments, increased enrollments, effect of appropriated balances, and effect of local contributions to the TPAF. There was one other reason, where an exception might be granted to high-spending 9-12, 7-12, or vocational school districts to relieve special hardships where the growth limit, calculated using the statewide average for all districts, allowed in some cases only 2% growth (this was used only once). Any other reason for exception to the caps would have to be cleared with Trenton.

In this first year of administration of the caps, the Commissioner never explained his interpretation of what increased costs would keep a district from meeting "T & E requirements". Was it any escalation in cost without a concomitant increase in service? Was it for only those cost increases larger than the maximum allowable growth allowance? Or was it for something in between? The JCPS staff could find no documented explanation of what the Commissioner thought the exception clauses meant. Exceptions could be granted for certain specific items, but were not limited to these items alone. Instead, county superintendents were asked to call Trenton for advice on granting further exceptions.

The Role of the County Superintendent

The Commissioner turned the responsibility over to the county superintendents after a late start, in a confused situation, and at a time when the role of the county superintendent was not clearly defined. County superintendents have both regulatory and service functions. In describing their responsibilities, they often characterize their job as a "hot-seat", as a "job requiring finesse", as an "ombudsman" position, and they mention their "political clearance" with local decision-makers. Local clearance implies not only the necessity to serve local needs, but also a certain degree of independence from the Department of Education that comes with a separate base of support. County superintendents form personal relationships in the communities they serve. Thus, they have to take account of and anticipate both State and local decision-makers. There appears to be a larger element of bargaining and negotiation between county and local levels than between State and local levels.

The county superintendents are in charge of 5- to 15-person units located in each of 21 counties across the State. Flexibility is inherent in any such setup, but the same cannot be said of accountability. Almost inevitably, there will be differences in format and style of administration -- and, possibly, of substance.

A good example here is the use of appropriated balances as the basis for exceptions to the budget caps. In his February 4 memo, the Commissioner set policy for waiving the cap for surplus balances based on the amount appropriated in 1975-76. If a district expected to have a balance remaining for use in 1976-77 equal to or more than the amount of surplus appropriated in 1975-76, no exception was to be granted. Thus, if a district had appropriated (the Commissioner's example here) \$300,000 of

free balance in the 1975-76 school year, and the district anticipated having at least \$300,000 of free balance left at the end of that year, the district could receive no budget cap exception for appropriated balances in 1976-77. But, if the district expected to have less than the 1975-76 appropriation remaining as surplus balance (say \$250,000), then the district could get an exception to the caps. The amount of the exception would be based on the difference between the anticipated remaining balance and amount of free balance appropriated in the previous year. Thus, a district that appropriated \$300,000 in 1975-76, and expected a \$250,000 balance remaining after that year, might receive a \$50,000 exception to its budget cap.

A possible interpretation, here, is that appropriated free balances are not to be controlled by the cap, but tax levy is controlled indirectly. If only \$250,000 of surplus balance were available for use in 1976-77, \$50,000 in new taxes would have to be raised to arrive at the prior year's budgeted total. The definition of NCEB, a surrogate budgetary figure which does not include appropriated balances, was not meant to limit unfairly the growth in districts which in the past had appropriated large surplus balances. It, therefore, follows that there may be need of an exception under the catch-all clause. The exact rationale, in this case as others, was not documented to the county superintendents.

This particular case was interpreted to meet local needs. One county superintendent may have been unfamiliar with the definition of "net current expense budget", and apparently included the appropriated surplus balances within the budget cap. This had the effect of establishing a tighter limit on expenditures than would otherwise have been the case. Since the school districts in the county were generally low spenders,

however, and had relatively large budget increases permitted under the cap formulas, the superintendent's policy provoked little outcry. Only one district received an exception in this county on the basis of surplus balance appropriated. The county superintendent indicated that he regarded the budget caps as a "management tool", intended to hold down school spending.

In another county, the superintendent reported that he told his school districts to budget all of their available free balance before asking for exception to the budget caps. He used his discretion, however, to allow one district, whose plant was old and in frequent disrepair, to keep a small balance for emergencies.

In a third county, where the school districts generally spend at a higher level, there was concern about the restrictive impact of the budget caps. Since decisions had to be made on exceptions in March, three months before the end of the school year, the end-of-year balance had to be estimated. This county superintendent said that he adopted a liberal approach, by assuming that the amount of free balance already budgeted by the school districts for 1976-77 represented the full amount which would be available to them at the end of the year. Actually, the superintendent agreed that there could be a large disparity between the amounts of surplus balance which the boards had appropriated for 1976-77 and the true amount which would be on hand on June 30, 1976. Exceptions for surplus balance appropriated were more readily obtained in this county; in fact, over one-third of those granted statewide originated here. After a generous exception to the caps, and with surplus funds probably left unbudgeted, the somewhat restrictive caps placed by the formulas on high-spending districts in such counties would cramp local districts less.

The details of operations were used to interpret Legislative requirements and top-level policy to meet local needs differently in these three counties. In this case, the State framework -- the budget caps -- was bent to meet school district concerns. In applying the budget caps, county superintendents exercised some independence. Local considerations appear to have injected a bargaining element into a decentralized administrative exercise. In the first year of any exercise, where there are no precedents, personal interpretations are to be expected unless comprehensive and precise instructions are issued and there is plenty of time to clarify them. But instructions from the top were not comprehensive and precise; they did not anticipate all variations that would be encountered. Moreover, no rationale was enunciated to guide county superintendents in dealing with the myraid unexpected variations of increased costs. The constitutional confusion over Ch. 212 held up normal budget reviews until there was little time to assure uniformity and accountability. Thus, there formed a vacuum into which the county superintendents were forced to step. The Commissioner's discretion, granted by the Legislature and enlarged by the loose wording of the catch-all clause of Section 25, was replaced by the county superintendent's discretion, delegated by the Commissioner, and enlarged by the nature of the situation.

The review of the budget caps, thus, was open to experimentation and mistake. It was handled along with many other new "T & E" matters, all of which were extra work for the county superintendents this year. In the February 4 memo, the county superintendents were instructed that, "Districts may be granted a CAP increase up to the amount of the State-mandated TPAF contribution". The Department of Education sent figures to county superintendents giving estimates of individual districts'

TPAF contribution and administrative costs, both a basis for exception. However, not all the districts budgeted for TPAF contributions, expecting the State to pay the full amount (as the Legislature eventually did). Some county superintendents failed to make the connection between a request by a district for exception for a TPAF contribution and ensuring that the district actually budgeted this contribution. Thus, a small number of districts received an exception to the budget caps based on TPAF contributions which they never budgeted.¹ The amount of the exception was included in their budgets for other purposes.

Personal interpretations of Section 25 resulted in some further questionable exceptions. The budget of one particularly small district was allowed to grow 30% in one year (in 1975-76, the district was already spending \$300 per pupil above the state average). Exceptions were granted mainly for increased enrollment and tuition charges, but the district also received exceptions to pay for a part-time psychologist, utility rate increases, and art and music teachers, without whom, the county superintendent said, programs would fail. A strong and eloquent local official had convinced him that a reallocation of resources was impossible -- the school district is small with a large overhead -- and that the psychologist and art and music teachers were required, in the words of the catch-all clause "to meet the goals, objectives and standards pursuant" to the T & E act. In his justification to the Department, the county superintendent reported that the two teachers were "required by T & E". An extremely conscientious administrator, he felt that the caps leveled down high-spending districts, rather than

¹ The number of such situations was originally thought to be much larger, but further inquiry revealed that most apparent discrepancies of this sort were due to the fluid nature of the budget process, which resulted in some TPAF cap exceptions which were never used.

equalized expenditures, citing his own county full of high-spending districts with restrictive caps. The county superintendent interpreted the catch-all clause as a pass-through for any increased costs beyond the district's control, such as tuition and utility rate increases. He went further, though, granting exceptions to improve and maintain programs by waiving the caps.

Documentation of Requests

For a healthy administrative process, accountability must go hand-in-hand with flexibility. The Commissioner, in November, sent to superintendents a two-page list of justifications to be reviewed in granting exceptions. Enrollments, projected enrollments, the rationale for projections, the impact on tax levy (with and without the cap request) and 17 other forms of documentation were required by the Commissioner to put the burden of proof on a district requesting permission to spend above its cap. A "copy of approved goals, objectives and needs assessment" was the first evidence of need the Commissioner requested, yet no county the JCPS staff visited had received reports of goals and objectives for "T & E" from their school districts at the time of the budget cap review. The closest was a county with T & E pilot districts, which had a self-improvement program, where districts assess their own needs and how to attain them. In the words of one county official, the burden of proof "just boiled down to a letter" from a qualified official explaining the need for exceptions. In one district of that county, a \$35,000 exception was granted for "other expenses" under "instruction". This reflected a doubling in the line item between 1975-76 and 1976-77. A \$21,000 increase was allowed for an additional staff employee whose position was explained to the county office in the board president's letter only as "essential". One local official explained that his

district, to receive an exception, merely had to state the amount of an increased or new cost in the 1976-77 budget over the 1975-76 line items to receive an exception. An official of the county office verified this as ordinary procedure in his review of the caps. If increased costs in any line item were allowed to pass through the caps, as in this county, what did the budget caps do?

Another county superintendent granted an \$11,473 expenditure increase beyond the cap for reason of enrollment increases. However, the district's enrollment actually was anticipated to decrease. Instead, after further investigation, it was found that the district needed the money for tuition increases instead. However, no letter was ever written to request the increase, and the matter was handled over the phone, at the county level, since the district was a small district and the superintendent had known the local official requesting the increase for twelve years. There was no documentation on the true reason for the cap exception.

Another noticeable use of the "personal touch" was in granting budget cap exceptions for anticipated enrollment increases. Out of 25 exceptions for enrollment increases, a few were granted with questionable cost apportionments per pupil. For example, one district was allowed to increase its NCEB \$234,083 for an anticipated increase in enrollment of 102. This is \$2,295 per pupil, while the district had an NCEB per pupil of only \$1,149 in the previous year. Another district received an \$1,800 per pupil allowance, having spent \$1,432 per pupil in the previous year. A third district was granted a \$5,200 per pupil exception request for each of three pupils. The county official who handled the caps was not sure whether the students were enrolled in special education; the local Board's letter did not say. With the

process dependent upon informal reporting procedures, telephone contacts, and personal relationships between county and local officials, supporting documentation varied -- as did the substance of exceptions policy. Many of the increased enrollments were found by the JCPS staff: some counties had not reported the estimated pupil increase to the Department, some had not even asked for the estimated increase in explanatory letters from local officials. In the future reports on the budget caps, pupil estimates used in exceptions for increased enrollments will be checked against official September enrollment figures to determine the accuracy of the present system for estimating enrollment increases.

Feedback and Exceptions

Most of the county superintendents the JCPS staff interviewed said that the administration of the caps was an easy exercise despite the confusion and late timing. It was conducted through a series of informal meetings and telephone calls to explain to the districts "the new rules of the game". This is reflected by the fact that over 97% of the amount requested for additional spending above the caps was granted. In one county visited, generally with low-spending districts (and, therefore, generous budget caps), it was reported that no local official clearly objected to the cap. According to the county superintendent, there was no one to take the liberal role in budget negotiations between local and county officials. In another county, with high-spending districts, there was a general feeling that the caps had the effect of leveling down to equalize expenditures. In the future, this administrator said, new and innovative programs would probably have to be curtailed (or could not be started) because of the restrictive caps. In another affluent and high-spending county, the superintendent reported the local reaction as a "so be it" attitude for the present. In the same county,

some districts reportedly took a tougher stand in collective bargaining with the employee organizations. Because of the caps, there were some reductions in force; other activities were cut to pay for the salary increases within the caps.

Several reasons can be seen for the mildness of these reactions. First, all superintendents interviewed had told their districts to budget conservatively in 1976-77, due to the uncertainty in State aid. Thus, any large growth of expenditures might have to come solely from new local tax money rather than from increased State aid under the new plan for 1976-77. Second, the decentralization and informality of this first-year operation helped mold State supervision to the shape of local concerns. Perhaps this is not a good precedent, but flexibility must have helped to let a good amount of steam out of the system -- a "safety valve" effect. Third, one county superintendent mentioned the importance of the "personal touch", knowing whom to trust to budget correctly. Lastly, one superintendent was of the opinion that problems with the cap had not been ferreted out yet. In a few years, problems would finally be perceived and the Department would hear about them.

Conclusions

The preceding pages have enumerated several instances of what appear to be shortcomings in the administration of the budget caps for 1976-77. They should be taken in context, and not blown out of proportion. Given the circumstances -- a new law containing a concept never before implemented in New Jersey, a very confused budgetary situation, and administration of the law in many cases by persons new to their job or "just passing through" in an acting capacity -- the apparent deficiencies seem relatively minor and their fiscal impact of limited importance.

Nevertheless, they should not be ignored, for they point toward a

problem which seems inherent in the situation. The uniform application of laws and their administration on a decentralized basis are two concepts which almost inevitably will be in conflict. Decentralization seeks to spread the workload, to provide for decision-making at the level where information is most complete, and to speed the response of government. It should not, however, be the occasion for different applications of the law in different parts of the state.

An effort should be made to recognize the conflict and to alleviate it so far as possible. It would seem that two steps by the Commissioner of Education might lead in this direction. One is the preparation of more detailed instructions for county superintendents and other departmental personnel, drawing upon the experience with the 1976-77 budgets, and indicating the basis for a decision in all of the typical cases which can be anticipated. No set of instructions, however, can anticipate every case. More important than these instructions is the preparation by the Commissioner of a clear and comprehensive policy statement providing an interpretation of the statutory language on budget caps and a rationale for exceptions on which the county superintendents can base their decisions. What, for example, was the rationale in 1976-77 for authorizing budget cap exceptions for:

- TPAF appropriations
- Appropriated surplus
- Salary increases
- Tuition increases
- New school operational costs
- New equipment and facilities

Granted that these subjects caused problems for local districts, but none of them is mentioned specifically in the law and, yet, there exists no policy statement or rationale explaining how or why:

"...a reallocation of resources or any other action taken within the permissible level of spending would be insufficient to meet the goals, objectives and standards established pursuant to this act." (Chapter 212, Section 25)

The existence of such a policy statement for clearly anticipated problem areas could provide a rational basis for future decisions on unanticipated requests.

Another aspect of budget cap administration is the position of the county superintendent. Beset by directives from Trenton and requests from local districts, the county superintendents may well feel that their "...lot is not a happy one". The Commissioner, the State Board, and the Legislature should take steps wherever possible to see that the county superintendent is truly in a position to say "No" to a request for a budget cap exception when "No" is the appropriate answer.

The end-result of budget cap administration in 1976-77 -- probably no more than \$14.1 million in exceptions to 97 districts (when all TPAF contributions are removed) -- was of small impact statewide -- an increase of not more than 0.7% in total net current expense budgets. But the substantive differences in administration of the caps point to a more basic cause for concern. Actually, despite all of the confusion and newness, administration of the caps for 1976-77 proceeded within a favorable set of circumstances, since school budgets were prepared with rather low expectations. The real test will come now that the law has been declared constitutional and the State-level funding has been provided. Future pressure on the budget caps undoubtedly will be far greater than in 1976-77, and this will be accentuated by the fact that trends in equalized valuation indicate that the caps, themselves, will be more stringent in the future.¹

¹ See below, pages 33-34.

PROBLEM AREAS

This report has addressed itself mainly to the administration of the budget caps for 1976-77. A number of problem areas have been identified in that process which might lend themselves to legislative or administrative action. Several have been mentioned earlier in the report.

Use of the Three-Year Average Equalized Valuation

Districts spending at a level below the statewide average per pupil may increase their spending according to a statutory formula which uses as a base either the latest annual percentage increase in statewide equalized valuation or the average of the latest three annual percentage increases, whichever is larger.

Districts spending above the statewide average per pupil are not given the privilege of using the stabilizing factor of the three-year average, but must use the latest annual percentage increase. In a period of declining annual growth in equalized valuation, this increases the stringency of the budget caps on higher-spending districts. The effect will be particularly felt in 1977-78, since the Department, in error, did apply the three-year average in 1976-77. There is some belief that the three-year average provision was intended to apply to all districts, and was left out for the higher-spenders by accident. If this is so, legislative action might be considered.

The Table of Equalized Valuations promulgated by the director of the Division of Taxation on October 1, 1976 shows that the statewide growth of such valuations is continuing to slow down. As a result, budget caps for 1977-78 will be tighter in all cases than in 1976-77, but particularly so for the higher-spending districts:

<u>Year</u>	<u>Equalized Valuation</u>	<u>Annual % Increase</u>	<u>3/4 of Annual % Increase</u>	<u>Most Recent 3-Year Average % Increase</u>	<u>3/4 of Most Recent 3-Year Average % Increase</u>
1970	55,396,485,323				
1971	61,465,251,107	+ 10.9551%	+ 8.2163%		
1972	68,955,320,816	+ 12.1859	+ 9.1394		
1973	77,735,288,527	+ 12.7328	+ 9.5496	+ 11.9579%	+ 8.9684%
1974	87,949,697,088	+ 13.1400	+ 9.8550	+ 12.6862	+ 9.5147
1975	96,103,084,575	+ 9.2705	+ 6.9529	+ 11.7144	+ 8.7858
1976	102,153,754,152	+ 6.2960	+ 4.7220	+ 9.5688	+ 7.1766

Basic Percentages Used for 1976-77 Budgets:

For districts spending Below the State Average in 1975-76:

3/4 of Most Recent 3-Year Average % Increase + 8.7858%

For districts spending Above the State Average in 1975-76:

3/4 of Most Recent 3-Year Average % Increase + 8.7858%

(This was an error; according to the law, the basic percentage should have been:)

3/4 of the Annual % Increase + 6.9529%

Basic Percentages To Be Used in 1976 for 1977-78 Budgets:

For districts spending Below the State Average in 1976-77:

3/4 of Most Recent 3-Year Average % Increase + 7.1766%

For districts spending Above the State Average in 1976-77:

3/4 of the Annual % Increase + 4.7220%

Appropriated Balances

This report has already explored at some length the use of appropriated surplus balance as a basis for granting budget cap exceptions for 1976-77. Technically, the problem occurs because the statutory definition of net current expense budget excludes appropriated surplus. One solution might be to change that definition to include appropriated surplus. This opens a host of other problems, however, which can be explored in a separate report if desired. The problem came to attention because of the greater-

than-normal use of surplus in the 1975-76 budgets; yet only 36 budget cap exceptions were granted on these grounds. The expectation, therefore, is that the problem will gradually recede in importance, and that where it does occur it can be handled administratively as in the past year. One further note, however. If Senate Bill 1503 is enacted in a form which creates large amounts of surplus funds in the school district, which can be used to expand a total current expense budget significantly, while not increasing the net current expense budget to which the budget caps apply, the problem may be recreated for future years on a massive scale.

"Catch-Up" Aspects of Budget Cap Formula

One aspect of the two budget cap formulas which has been criticized by some observers is the theoretical end-result that school districts which are spending above the statewide average per pupil will never be able to catch up in their spending with other such districts which are now at a level above them, if every district raises its budget to the maximum amount each year. The formula for high-spending districts results in permitting an annual increase of the same dollar amount per pupil for all districts above the statewide average, regardless of how far they are above the average expenditure level.

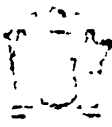
If the application of the budget caps, in fact, does show this result, the problem may be serious and change should be considered. However, it is suggested that action on this matter be deferred until final data on actual 1976-77, and possibly 1977-78, budgets is available.

Impact of Special Cost Schools

The two budget cap formulas apply to all schools, regardless of the grade pattern operated. This may cause some hardship for certain kinds of schools -- regional high schools and county vocational-technical

schools -- which generally spend at higher levels. A statutory adjustment could be made by setting separate budget caps for school districts with different grade patterns, just as the 65th percentile State support limit is calculated separately for different kinds of school districts (A.1658, reported with amendments by the Assembly Education Committee on August 2, 1976, attempts to introduce such a change). It should be recognized that, while this approach loosens the budget caps on high-spending regional and vo-tech schools, it tightens the caps on K-6 and K-8 school districts.

APPENDIX



STATE OF NEW JERSEY
DEPARTMENT OF EDUCATION
225 WEST STATE STREET
TRENTON, N. J.

OFFICE OF THE COMMISSIONER

December 19, 1975

M E M O R A N D U M

TO: County Superintendents
RE: 1976-77 School Budget CAP Review Procedure

If the New Jersey Supreme Court vacates its current order in Robinson v. Cahill and should the Court also permit the CAP provision of Section 25, Chapter 212, Laws of 1975, to go into immediate effect, some districts may request a review of the CAP as contained in my memorandum to each of the districts dated November 24, 1975. I have concluded that for the current year, this review will be conducted for me by my representative in each county. I am therefore notifying you of the CAP review procedure to be used should the Supreme Court conclude that the CAP provision is to be effective immediately.

CAP Review Procedure for 1976-77

You are hereby directed to inform any district requesting review of its CAP increase to furnish you with the following applicable documentation:

1. CAP Increase Request Due to Enrollment Increases
 - a. Enrollment - 9/30/74
 - b. Enrollment - 9/30/75
 - c. Projected Enrollment - 9/30/76
Rationale behind the projected figures
 - d. Impact on local tax levy with:
 - (a) Existing CAP
 - (b) Increased CAP Request
2. CAP Increase Request Due to an Inability to Meet T & E Requirements
 - a. Copy of approved goals, objectives and needs assessment.
 - b. Report of the Secretary to the Board for the month immediately preceding the month

the CAP appeal is filed.

- (a) Statement setting forth any obligations, existing or expected, against the free appropriation balance shown in the report.
- c. Estimated cost of maintenance or improvement projects delayed due to lack of funding.
- d. Copy of proposed budget including:
 - (a) Amounts included for inflation.
 - (b) Amounts included for wage settlements.
 - (c) Amounts included for educational improvements (T & E).
- e. Enrollment, budget year.
- f. Enrollment, current year.
- g. Programs which would be severely curtailed or eliminated if budget CAP remains.
- h. Statement of superintendent of schools setting forth specific effects on district if CAP increase is denied.
- i. Statement from the Board of Education setting forth specific reasons for increases requested.

3. CAP Increase Request Due to Other Reasons


Submit documentation to support requested increase.

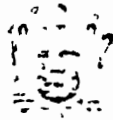
Examples:

- (a) Appropriated Balances
- (b) State Average Problems
- (c) Tuition Increase
- (d) New Building Openings
- (e) Other

Upon receipt of a request to review the CAP, your office should review the documentation presented and hold whatever meetings are necessary to make a specific determination on that request on my behalf. Any district requesting such a review, should be notified immediately of that determination.

I must reemphasize that these procedures for CAP review are to be used only if the Supreme Court determines that the CAP provision of Chapter 212 is to become effective immediately.


 Fred G. Burke
 Commissioner



STATE OF NEW JERSEY
DEPARTMENT OF EDUCATION
225 WEST STATE STREET
TRENTON, N. J.

February 4, 1976

M E M O R A N D U M

TO: County Superintendents

RE: 1976-77 School Budget CAP Review Procedure

This is intended to supplement the memorandum on the same subject sent to you on December 19, 1975, in light of the fact that on January 30, 1976 the New Jersey Supreme Court held Chapter 212 of the Laws of 1975 to be in full force and effect. Now that Section 25 of that Law (the CAP provision) is in effect, some districts may request review of their CAP. My earlier memorandum indicates the general procedures you should follow in handling such requests for review. The districts should be urged to submit such requests to you promptly.

In applying these procedures to determine whether a particular district's CAP should be increased, you should take into account the following factors:

1. Increases in sending district tuition payments.

Sending districts which have been notified of a tuition increase from a receiving district which is within its CAP may be permitted an increase beyond the CAP to the extent of the increased tuition amount.

2. Increases in enrollment.

In determining whether an increased enrollment justifies an increase above the district's CAP, you should take into consideration:

1. Free balances available for appropriation.
2. The expected grade distribution of increased enrollment.
3. Class sizes.
4. Possible economies of scale.
5. Staffing patterns.

3. Any unusual impact of CAP provision on 9-12, 7-12 or county vocational district (see comments on List I).
4. Effect of appropriated balances.

Districts which have appropriated balances may be permitted to increase their CAP if their anticipated balance for 1975-76 is less than the amount previously appropriated (not to exceed the amount previously appropriated.)

Example - Amount appropriated from balance for the 1975-76 school year	300,000
Anticipated Free Balance June 30, 1976	<u>250,000</u>
Amount of cap increase permitted	50,000

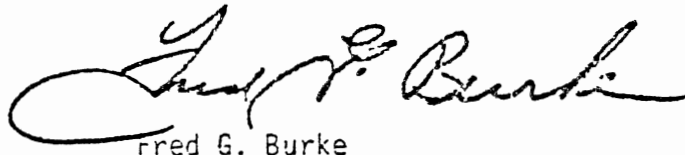
5. Effect of 25% TPAF contribution.

Districts may be granted a CAP increase up to the amount of the State-mandated TPAF contribution.

The Division of Administration and Finance will be glad to consult with you on questions concerning any of these five factors. If any factors other than these five should appear in the course of a CAP review, you should definitely consult with the Division before completing your review. Requests for increases above a district's CAP which exceed the instructional cost per pupil must be approved by the Division. It is not necessary to recalculate CAPS using new State aid figures. Due to the current uncertainty surrounding such aid, the original CAP calculation procedure and the CAPS developed from them will suffice for purposes of CAP review.

The computer lists previously given to you will assist you in the CAP review process; neither of these lists is for distribution. List I contains reasonable average CAP levels for 9-12, 7-12, and county vocational districts, taking into account the particular financial problems which may be encountered by those types of districts under the CAP requirement. This list is for your general guidance only; it is not a revised CAP calculation. List II contains official CAP calculations distributed on November 24, 1975, revised to reflect subsequent adjustments in local district enrollment and budget data.

As soon as you have completed a district's CAP review, you should send a copy of your report to the district and the Division of Administration and Finance.



Fred G. Burke
Commissioner