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# SCHOOL BUDGET CAPS IN NEW JERSEY 1976—1980

Four Years of Experience  
With Expenditure Limitations

A Report Prepared for the  
JOINT COMMITTEE ON THE PUBLIC SCHOOLS  
New Jersey Legislature

by the

BUREAU OF GOVERNMENT RESEARCH



May, 1980

New Brunswick, New Jersey

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Implementation of the Budget Caps

- (1) The budget cap waiver process has served to some extent as a stabilizing device to permit a steady, though modest, annual increase in school budgets. (pp. 11-18)

Performance of the Budget Caps

- (2) With a few possible exceptions, actual annual increases in current expense budgets seem relatively modest. Although cap waivers have compensated for tighter caps, the budget caps appear to have been successful in preventing annual increases in budget which would be so large as to invite inefficiency in operation. (pp. 19-29)
- (3) The budget caps have played the role intended in limiting State fiscal liability. (pp. 30-34)
- (4) The budget caps, together with other features of Chapter 212, have been effective in providing a steadily-increasing measure of relief from school property taxes. (pp. 34-40)
- (5) (a) The budget caps have not been effective in raising the relative spending level of low net-current-expense-budget school districts; and  
(b) the modest relative equalization of per-pupil total budgeted expenditures among districts, which has been observed, is probably due to programs outside of the budget caps, such as State aid for special education, compensatory education, and bilingual education, which have resulted in increased school budgets per pupil in the lowest-spending districts. (pp. 40-45)
- (6) Budget cap waivers, as administered by the Commissioner of Education, strengthen the equalizing aspects of the budget cap formulas. (pp. 49-53)
- (7) Because of varying rates of enrollment decline, the budget caps have become a major obstacle to equalization of per-pupil expenditures. (pp. 53-57)
- (8) In 1979-80, the failure of low-budget districts to utilize their caps fully is only a minor cause for their failure to increase their relative expenditure level. (p. 61)
- (9) The main reason for the failure of the budget caps to raise the relative spending level of low budget school districts is the varying degree of enrollment decline among school districts at different expenditure levels. (p. 64)

The Impact of Budget Caps on School Program

- (10) An increasing share of the school budget is being taken by administration, transportation, plant operation, maintenance, fixed charges, net tuition, and special projects. (pp. 74-75)

- (11) Debt service and instruction are becoming smaller percentages of the school budget, although instructional costs per pupil have increased steadily on the constant-dollar basis. The budget caps have stimulated a sharp increase in budgeted capital outlay. (pp. 75-77)
- (12) On a statewide basis, the budget caps appear to have reduced the rate by which the fiscal resources for school program are growing, but they have not resulted in an overall reduction in those resources. (p. 81)
- (13) In the last three years of the study period, the budget caps, in particular, appear to have had a negative effect on the fiscal resources for instructional program in about one-sixth of the school districts of the state each year. (pp. 81-86)
- (14) In about 9% of the school districts, the budget caps appear to have had the long-term effect (1975-76 to 1979-80) of reducing the fiscal resources for school program. (pp. 81-86)
- (15) A larger proportion of high-spending districts have had to cut back on instructional expenditures than low-spending districts. (pp. 87-89)
- (16) Budget cap impact is not confined to high-spending school districts, but is felt on the instructional program resources of districts at all spending levels. (pp. 87-89)
- (17) The budget caps appear to have had a wider impact on the instructional program resources in small school districts having fewer than 500 pupils than in larger districts. (p. 89)
- (18) The budget caps have had an above-average impact on instructional program expenditures in regional high school districts, in elementary districts not in regionals and, probably, in county vocational school districts. (pp. 91-93)
- (19) Unanticipated enrollment increase appears to have been a "contributing factor" in about half of the districts where the budget caps caused a decrease in the fiscal resources allocated for instructional programs; it was "of major significance" in about one-sixth of those school districts. (pp. 93-96)
- (20) If some of the "technical impacts" of the budget cap formula could be corrected, the apparent impact on school program resources would be reduced substantially, particularly in the low-budget school districts. (pp. 93-99)

#### Problems and Recommendations

- (21) It is recommended:
  - (a) that the budget cap formulas be modified to include squaring the equalization factor portion of the formula, and

- (b) that the  $3/4$  multiplier of equalized valuation growth percentages in the budget cap formulas be eliminated. (pp. 100-111)
- (22) It is recommended that the State aid formula be shifted to a current year basis, using the budget cap formula to determine the maximum budget in which the State would share. (p. 110)
- (23) It is recommended that Senate Bill 208 be enacted to provide for separate budget cap calculations for 9-12 and 7-12 regional school districts, county vocational school districts, and all other school districts. (p. 112)
- (24) It is recommended that Senate Bill 788 be enacted, redefining the base budget for the budget cap formulas to include surplus and miscellaneous funds. (pp. 112-113)

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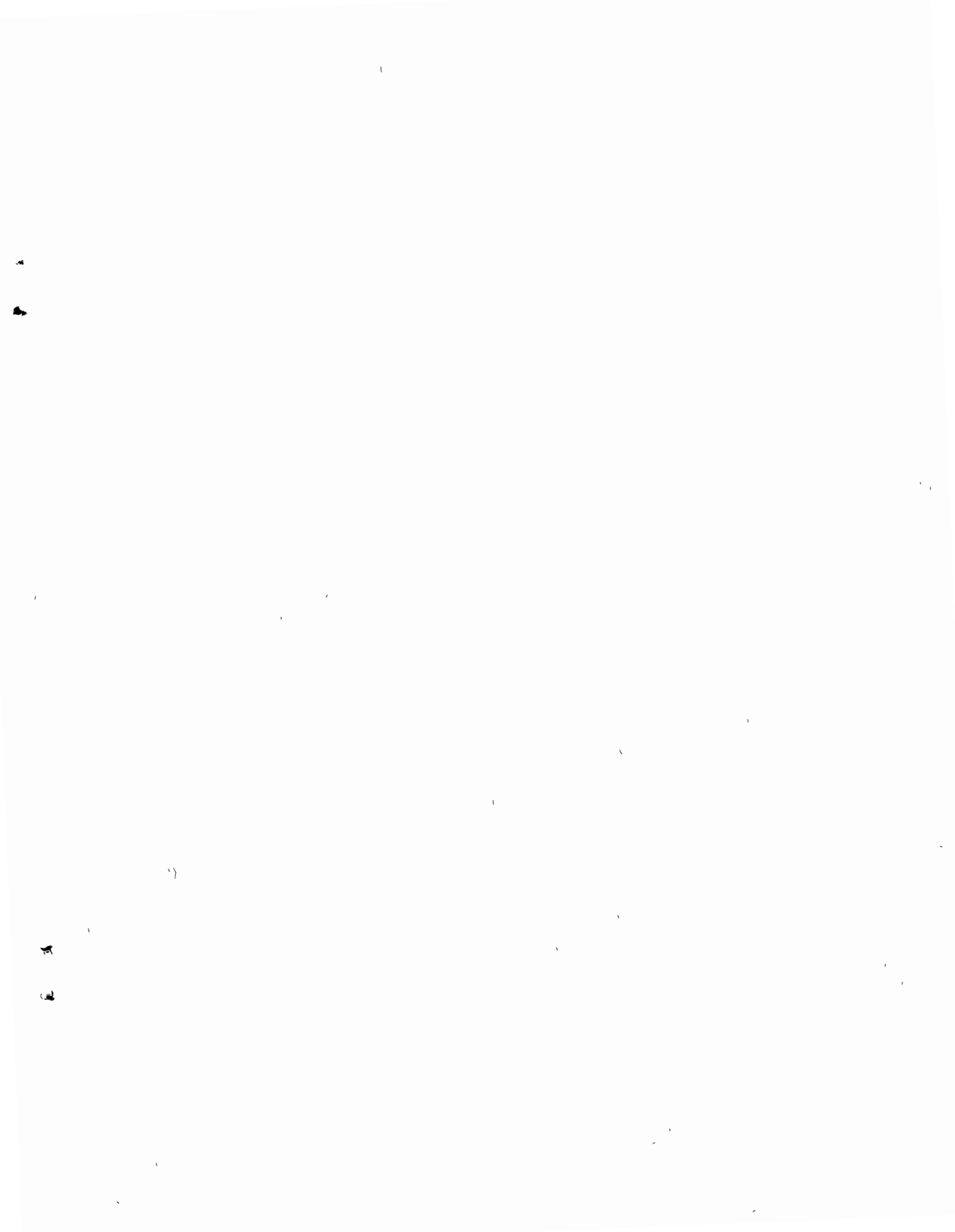
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## I - INTRODUCTION

The Joint Committee on the Public Schools has a responsibility for monitoring the implementation of the Public School Education Act of 1975 (Chapter 212, Laws of 1975), and for recommending changes in the law or its administration.<sup>1</sup> This report is a continuation of the monitoring efforts of the Joint Committee in the area of school budget caps which have resulted in four earlier reports:

- (1) A Methods Report on Budget Caps, which posed certain research questions and suggested methods by which they might be answered; the report was completed in August, 1976.
- (2) A Baseline Report on Budget Caps, which examined the factors which the budget caps were intended to control as they stood prior to implementation of the caps; the report was completed in September, 1976.
- (3) a First Periodic Report on budget caps, Budget Cap Administration for 1976-77, which examined the initial implementation of the budget caps for the school year 1976-77; the report was completed in October, 1976; and
- (4) a Second Periodic Report on budget caps, The Fiscal Impact of Budget Caps in 1976-77, which analyzed the impact of the caps on school budgets in the first year of use; the report was completed in August, 1977.

No comprehensive studies of New Jersey's school budget caps have been prepared for the Joint Committee on the Public Schools since the first year of their implementation in 1976-77. This report basically covers the first four school years of cap experience, from 1976-77 through 1979-80, although

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<sup>1</sup>The Act hereafter will be referred to as "Chapter 212" for the sake of brevity.

in some cases complete data are not yet available. Comparable data for 1975-76 and for 1980-81 are provided where available and pertinent.

## II - BACKGROUND

Section 25 of 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 State control over local decision-making. The caps themselves are calculated by formula in an attempt to limit expenditures 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 serve four major purposes:

- (1) to prevent large and inefficient budget increases, particularly in school districts where the flow of new State aid was increased suddenly;
- (2) to limit State liability for future financial aid;
- (3) to assure that a substantial portion of new State aid funds was passed along to taxpayers as property tax relief;
- (4) to encourage and permit the low-budget school districts of the state to move toward more nearly equal expenditures on each pupil.

### The Budget Cap Formulas

Section 25 of Chapter 212, as amended, contains two statutory formulas, one applying to districts which have been spending at a level below the state average per pupil, and the other applying to districts which have been spending at or above the state average per pupil. Each formula may be broken into three parts which might be called:

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

The formulas are shown in Table 1 with the three parts labeled. In each case, the formula gives the amount by which the net current expense budget (NCEB) can be increased in dollars.<sup>1</sup> This can be translated into a percentage increase by dividing it by the district's NCEB for the prior year.

#### The Basic Growth Rate

Common to both formulas is the use of the growth rate in statewide equalized valuation, a measure of the true value of taxable property, to calculate the basic growth rate allowed in a district budget. Three-fourths of either the annual percentage change in equalized valuation or the average of the last three years' annual percentage changes, whichever is larger, is to be used. Since equalized valuation is used in the law as a means of estimating community fiscal resources for calculating State equalization support, it was adopted also as the basis for calculating permissible budget increases. The 3/4 multiplier applied to the growth of statewide equalized valuation in each formula reflects legislative concern caused by the high growth rate of equalized valuation at the time when the law was written.

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<sup>1</sup>The Net Current Expense Budget of the district is the district's total current expense budget, minus funds received for State categorical aid programs for pupils with special handicaps, most costs of transportation, and all other special sources of revenue, such as Federal aid, tuition revenues anticipated, free balance reappropriated, and other miscellaneous revenues. It is essentially the portion of the budget which is financed by State equalization aid and local property taxes.

Table 1. New Jersey School Budget Cap Formulas, According to Section 25, Chapter 212, Laws of 1975, as amended.

	<u>Basic Growth Rate</u>	<u>Equalization Factor</u>	<u>Base Budget</u>
	The larger of:		
For districts spending in the prior year <u>below</u> the state average NCEB* per pupil:	3/4 x	The latest annual percentage change in statewide equalized valuation or the average of the last three years' annual percentage changes	The prior year's state average NCEB* per pupil <hr style="width: 50%; margin: 0 auto;"/> The prior year's district NCEB* per resident pupil
			The prior year's <u>state</u> average NCEB* per pupil, x times the prior year's resident enrollment of the district
-----			
	The larger of:		
For districts spending in the prior year <u>above</u> the state average NCEB* per pupil:	3/4 x	The latest annual percentage change in statewide equalized valuation or the average of the last three years' annual percentage changes	The prior year's state average NCEB* per pupil <hr style="width: 50%; margin: 0 auto;"/> The prior year's district NCEB* per pupil
			The prior year's <u>district</u> NCEB* per pupil, times x the prior year's resident enrollment of the district

\*NCEB is the Net Current Expense Budget; see footnote, p. 4 for a description.

The Equalization Factor

Also the same in both formulas is the equalization factor, which is a fraction in which the state average NCEB per pupil 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 budget growth for low-spending districts.

The Base Budget

Where the two formulas differ is in the base budget. For districts spending below the average level, the base budget is the state average NCEB per pupil, times the district's prior-year enrollment. For districts spending at or above the average, the base NCEB is the district's own NCEB per pupil, times the district's prior-year enrollment. For these higher-spending districts, the use of the district's own budget figures does two things: (1) it provides more room for spending increases than otherwise would be the case if the formula used the State average as the base budget, and (2) it results in the permissible increase in budgeted dollars per pupil being the same for all districts spending above the state average level.

Waiver Provisions

Budget caps are calculated for individual districts on the basis of the formulas, which are weighted in favor of those at the lower end of the spending scale. 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 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 statutory definition. It allows 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".

In 1979, the State Board of Education asserted its right to hear appeals from decisions by the Commissioner of Education on requests for budget cap waivers, thus making the granting of cap waivers a two-tier process.

III - IMPLEMENTATION OF THE BUDGET CAPS

School budget caps were first implemented in New Jersey during the Fall and Winter of 1975-76 in connection with the preparation of local budgets for the 1976-77 school year.

The Basic Growth Rate

The basic growth rate used in the budget cap formulas is the higher of:

3/4 of the latest annual percentage change in statewide equalized valuation,

or

3/4 of the average of the last three years' annual percentage changes in statewide equalized valuation.

Equalized Valuation

Equalized valuation is calculated every year for State school aid purposes by the New Jersey Division of Taxation, and is reported on October 1 in a Table of Equalized Valuations. The equalized valuation of a taxing district (municipality) is the sum of three elements:

- (1) the estimated true value of real property. This figure is developed by dividing the assessed value of all real property by the average ratio of assessed to true value, which is found through a comparison of the sales prices and assessments of all properties which have been sold in transactions that are considered to be valid indicators of market value.
- (2) the assessed value of Class II railroad property.
- (3) the assessed value of all personal property.

Calculation of equalized valuation relies heavily on the assumption that the properties sold are representative of all properties in the taxing district in terms of the relationship between assessments and true value.

The process of calculating equalized valuation builds in a stabilizing

factor in that the sales data for the most recent 12-month period (July 1 - June 30) are averaged with data used in the prior year's Table of Equalized Valuations. Thus, the sales data for any single 12-month period continue to have an impact in future years, but with a steadily declining weight.

Local taxing districts have the right to appeal the table if they believe that it is inaccurate and, if upheld, they may force a change in their equalized valuation. However, because the appeal process may take many months, the budget cap formula is based on the Table as it is issued on October 1, regardless of subsequent appeals. In recent years, appeals have had almost no effect on the statewide totals, although they may be of importance in individual communities.

#### Growth of Equalized Valuation

When the budget caps were first implemented, statewide equalized valuation was near the end of a period of very rapid annual growth. The growth rate dropped sharply during the mid-1970's and then began to revive toward the end of the decade (See Table 2). The basic growth rate calculated for the budget cap formula (marked by an asterisk in Table 2), thus, was relatively liberal at first, became steadily more restrictive, and then reversed direction:

<u>School Year</u>	<u>Basic Growth Rate</u>
1976-77	8.7858%
1977-78	7.1766
1978-79	5.3585
1979-80	5.7962
1980-81	9.2290

Part of the growth in equalized valuation during the last three years

Table 2. Change in Statewide Equalized Valuation, 1972 to 1979, and Basic Growth Rate for School Budget Caps, 1976-77 to 1980-81

<u>Year</u>	<u>Statewide Equalized Valuation</u>	<u>Most Recent Annual % Increase</u>	<u>3/4 of Most Recent Annual % Increase</u>	<u>Most Recent 3-Year Average % Increase</u>	<u>3/4 of Most Recent 3-Year Average % Increase</u>
1972	\$ 68,955,320,816				
1973	77,735,288,527	+ 12.7328	+ 9.5496		
1974	87,949,697,088	+ 13.1400	+ 9.8550		
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*
1977	108,147,542,906	+ 5.8674	+ 4.4006	+ 7.1446	+ 5.3585*
1978	116,505,558,501	+ 7.7283	+ 5.7962*	+ 6.6306	+ 4.9730
1979	130,841,944,057	+ 12.3053	+ 9.2290*	+ 8.6337	+ 6.4753

\*Basic Growth Rate for budget caps shown by asterisk.

is due to a substantial increase in property values in Atlantic County as a result of casino developments there. The statewide impact of the casinos can be overestimated, however. The most recent four years of experience is shown in Table 3. Although the percentage growth of property valuations in Atlantic County has been spectacular, the county still constitutes only about 3% of total statewide equalized valuations, making its impact on the statewide total growth relatively minor.

#### The Budget Cap Waiver Process

The combination of budget increases permitted by the statutory formula and the administration of the budget cap waiver process has been different in every year. Statewide figures showing the financial impact of these combinations are shown in Table 4.

#### 1976-77

The first implementation of the budget caps took place during the winter of 1975-76, as school budgets for 1976-77 were being prepared. The basic growth rate for the first year -- 8.7858% -- was relatively liberal, reflecting substantial increases in property values during the early 1970's. Application of the budget cap formulas to all of the state's six hundred school districts yielded a total permissible increase in net current expense budgets of slightly over \$200 million, or 9.5744%. This figure exceeds the basic growth rate because, in general, the larger school districts were spending at a lower level per pupil and, thus, received more liberal budget caps, while the more restrictive budget caps in most cases applied to smaller school districts.

Although the budget cap for 1976-77 appeared relatively high, other factors suggested a cautious budgeting approach. At this time, Chapter

Table 3. Impact of Growth in Atlantic County Equalized Valuation on Statewide Growth Rate, 1976 to 1979

<u>Year</u>	<u>Statewide Percentage Growth of Equalized Valuation</u>			<u>Impact of Atlantic County on Basic Growth Rate for School Budget Caps</u>
	<u>With Atlantic County</u>	<u>Without Atlantic County</u>	<u>Impact of Atlantic County</u>	
1976	+ 6.2960%	+ 6.2610%	+ .0350%	+ .0087
1977	+ 5.8674	+ 5.8037	+ .0637	+ .0247
1978	+ 7.7283	+ 7.5712	+ .1571	+ .1178
1979	+ 12.3053	+ 11.6772	+ .6281	+ .4711

Table 4. State Total Net Current Expense Budgets and Increases Under Budget Caps, 1975-76 to 1980-81

School Year	State Total of Net Current Expense Budgets	Basic Growth Rate in Formulas	Permissible Increase Under Budget Cap Formulas	Budget Cap Waivers Granted		Maximum Permissible Increase Including Budget Cap Waivers	Actual Increase in Net Current Expense Budgets	Actual Increase as a Percentage:	
				by Commissioner	by State Board			of Formula Amount	of Maximum Permissible
1975-76	\$2,089,805,917*	8.7858%	\$200,086,935 (9.5744%)	\$14,115,301 (0.6754%)	--	\$214,202,236 (10.2499%)	\$ 67,175,417 (3.2144%)	33.6%	31.4%
1976-77	2,156,981,334	7.1766%	168,644,716 (7.8186%)	10,047,466 (0.4658%)	--	178,692,182 (8.2844%)	138,575,000 (6.4245%)	82.2	77.5
1977-78	2,295,556,334	5.3585%	134,940,274 (5.8783%)	42,005,379 (1.8299%)	--	176,945,653 (7.7082%)	164,371,041 (7.1604%)	121.8	92.9
1978-79	2,459,927,375	5.7962%	156,263,487 (6.3524%)	15,488,041 (0.6296%)	\$2,023,619 (0.0823%)	173,775,147 (7.0642%)	136,220,155 (5.5376%)	87.2	78.4
1979-80	2,596,147,530	9.2290%	263,408,682 (10.1461%)	23,206,929 (0.8939%)	769,432 (0.0296%)	287,385,043 (11.0697%)			
1980-81									

Source: All data from Department of Education printouts of budget caps and summaries of cap waivers granted.

\*The Department of Education used a questionable method of calculating the 1975-76 NCEB for all school districts; if calculated according to statutory definitions, the total figure would have been about \$34,000,000 less than shown above. See The Fiscal Impact of Budget Caps in 1976-77, Joint Committee on the Public School, New Jersey Legislature, August 12, 1977, pp. 10-16. Since the 1976-77 budget caps were calculated using the Department's 1975-76 NCEB figures, they have been used in this table despite questions about their validity.

212 had been enacted and was about to be sustained by the New Jersey Supreme Court, but no source of funding had been authorized, leaving local school boards in doubt as to the amount of State financial aid they could reasonably anticipate. Moreover, in the midst of the local budget process the Governor recommended a State budget which would not only keep State aid for schools at previous levels, but would require local school districts to pay 25% of the employer contributions to the Teachers' Pension and Annuity Fund (TPAF), a cost which for many years had been paid by the State government. While receiving conflicting advice from various sources, most school boards adopted very conservative budgets for 1976-77. In addition, 1976 was a bad year for budget referenda, with over half of the local budgets being rejected by the voters with further reductions required.

Although the local budgets in most cases anticipated only small increases in normal expenditures, the addition of the TPAF requirement to the local budget led a substantial number of school districts to apply to the Commissioner of Education for budget cap waivers. This was an entirely new task for the Department of Education. Pressed by other responsibilities, the Commissioner responded by delegating most of the responsibility for budget cap waiver administration to the 21 county superintendents of schools. Somewhat vague guidelines were provided, with the result that administration of the budget caps in this first year varied considerably from county to county, depending on the attitude of the county superintendent.<sup>1</sup> Over \$23 million in waivers were granted initially.

Eventually, after the local budgets had been adopted, the Legislature provided sufficient funds through enactment of the state's first income tax, so that Chapter 212 was fully funded and the proposed 25% local TPAF

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<sup>1</sup>Budget Cap Waiver Administration for 1976-77, pp. 21-30.

contribution was wiped out. This latter development eliminated the need for about \$9 million of cap waivers which had been authorized, thus reducing the total granted to the \$14,115,301 figure shown in Table 4.

Legislation enacted halfway through the 1976-77 school year permitted local school boards to reopen their budget process. However, with so much time elapsed, few major changes were made, and the conservative spending plans adopted earlier generally were continued. Although the permissible increase under the budget cap formulas, plus the remaining non-TPAF cap waivers, allowed an increase of \$214 million in NCEB, in fact, only \$67 million, or 31.4% of this total, was utilized.

#### 1977-78

The basic growth rate for the second year, 1977-78, dropped to 7.1766%, as the slower increase in property values felt in the mid-1970's began to have more of an effect. Inserted in the budget cap formulas, this basic growth rate generated a total permissible increase in NCEB's of about \$169 million, or 7.8186% (See Table 4). Tightening of the budget cap resulted in a substantial number of requests for cap waivers. However, criticism of the Department of Education for slack administration of the cap waiver process in the previous year brought about a much more stringent application of them for 1977-78, characterized by the Commissioner's statement that "the cap...will be a hard cap -- unless it can be overwhelmingly demonstrated that a district will not be able to comply with the T&E law".<sup>1</sup> Of the \$23 million in requests submitted by local districts, only \$10 million were approved, boosting the maximum permissible increase in NCEB's

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<sup>1</sup>Administration of the Budget Cap Review: 1977-78 School District Budgets, Division of Administration and Finance, New Jersey Department of Education, April, 1977, p. 3.

to \$179 million. Most of this potential growth was actually used, however, making the overall increase in NCEB's more than double the growth of 1976-77.

1978-79

In 1978-79, the basic growth rate continued to decline, reaching the lowest point yet observed, 5.3585%, which translated to a permissible NCEB increase of only \$135 million (See Table 4). In many of the higher-spending districts, the budget caps dropped to 3% or 4%, touching off a large number of requests for cap waivers. Now, the administrative pendulum swung back, changing the strict enforcement approach of 1977-78 into a much more liberal attitude for 1978-79. Of \$54 million in cap waiver requests, about three-quarters were approved, totaling more than \$42 million. When added to the NCEB increases authorized under the cap formulas, the maximum permissible growth came close to matching the prior year. And, in 1978-79, far more of the permissible growth -- 92.9% -- was used. Ironically, the total increase in NCEB's in 1978-79 represented the largest annual growth since the enactment of Chapter 212 -- in the year when the basic growth rate was at its lowest!

1979-80

The downward trend of the basic growth rate finally reversed in 1979-80, rising modestly to 5.7962% as New Jersey began to recover from a period of slow property value increase. Again, however, the administrative pendulum had reversed, with the Commissioner of Education indicating that requests for budget cap waivers from districts spending above the State support limit (the 65th percentile) would not be considered. This change in attitude may well have been motivated by the appearance of various research studies indicating that the gap in spending level between high-

and low-spending districts had changed very little.<sup>1</sup> As pointed out in these reports, the restrictive impact of the budget caps on high-spending districts frequently was negated by their relatively rapid decline in enrollment. Even though increases in the dollar amount of the budgets could be limited, when divided by a substantially smaller number of pupils, a limited budget still grew on a per-pupil basis. Of \$28 million in cap waiver requests, only \$15.5 million was approved by the Commissioner for 1979-80.

However, a new factor was introduced. The State Board of Education declared its intention to hear appeals from negative determinations of cap waiver requests by the Commissioner. Ultimately, of the \$7 million in appeals heard by the State Board, \$2 million were granted, bringing the total of cap waivers for 1979-80 to about \$17.5 million, still far less than in the previous year. Of the maximum permissible increase in NCEB's, about three-quarters or \$136 million actually materialized, the second lowest figure since Chapter 212 was first implemented.

#### 1980-81

Property value trends changed drastically with the 1979 Table of Equalized Valuations. Substantial growth over the year resulted in a basic growth rate for budget cap purposes of 9.2290%, the highest yet observed, and a potential total increase in NCEB of more than 10%.

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<sup>1</sup>See Margaret E. Goertz, Where Did the 400 Million Dollars Go? The Impact of the New Jersey Public School Education Act of 1975, Educational Policy Research Institute, Educational Testing Service, Princeton, New Jersey, March, 1978, and The Impact of State School Aid on Property Taxes in 1977, Bureau of Government Research, Rutgers University, New Brunswick, New Jersey, August 15, 1978.

Although the Commissioner again indicated that districts spending over the 65th percentile would encounter a stringent review of their requests for waivers, a total of \$23 million in waivers was granted, representing the second largest annual expansion of the caps through waivers since their implementation. One factor influencing decisions on the caps undoubtedly was the very high rate of inflation during late 1979 and early 1980, which stirred fears of inadequate school budgets in 1980-81 under the statutory caps. A more liberal administration of waivers by the Commissioner for 1980-81 permitted more conservative State Board action, with less than a million dollars of budget cap capacity being approved.

#### Summary

One intriguing aspect of the data shown in Table 4 is that, aside from the first and last years, which may be unusual, the maximum permissible increase in net current expense budgets has remained rather stable, regardless of fluctuations in the basic growth rate inserted in the budget cap formulas. It would appear that the budget cap waiver process has served to some extent as a stabilizing device to permit a steady, though modest, annual increase in school budgets. This pattern will change in 1980-81, with a larger basic growth rate due to increases in property value and slightly more cap waivers. The apparent liberality of that budget cap will be tempered, however, by a more rapid rate of inflation, which is not reflected in Table 4.

IV - PERFORMANCE OF THE BUDGET CAPS

The four major purposes of the school budget caps have been identified as:

- (1) prevention of large and inefficient budget increases;
- (2) limitation of State liability for future financial aid;
- (3) assurance that a substantial portion of new State aid funds is passed along to taxpayers as property tax relief; and
- (4) encouragement for the low-budget school districts of the state to move toward more nearly equal expenditures on each pupil.

Prevention of Large and Inefficient Budget Increases

One of the most obvious purposes of budget caps is to prevent large and potentially inefficient budget increases. A difficulty arises in establishing the means for measuring increases in budgets. If measured by the percentage increase in the budget, some very large budget increases in small districts may really represent only a relatively few dollars. If measured by the absolute dollar increase in the budget, some very large budget increases in large districts may represent only a modest growth rate. The difficulties are compounded by the lack of any standard of what constitutes a budget increase which is so large that it is potentially inefficient. In this report, as in an earlier report,<sup>1</sup> we suggest that both the percentage budget increase and the dollar increase should be observed. Furthermore, we suggest a method for identifying those school districts where the highest combination of these two measures exists.

Percentage Increases in Budgets

Large and potentially inefficient budget increases could be prevented

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<sup>1</sup>The Fiscal Impact of Budget Caps in 1976-77.

by imposing a flat, or fixed-rate, budget cap on all districts, as is done with counties and municipalities. This, however, would never permit low-spending districts to catch up with those already spending at higher levels. A variation would be a stepped series of flat rates on districts spending at different levels, and this was the approach used in the original version of the legislation now known as Chapter 212:

20% for districts spending in the previous year below the twentieth percentile;

12% for districts spending in the previous year between the twentieth and the fortieth percentiles;

10% for districts spending in the previous year between the fortieth and the sixty-fifth percentiles;

8% for districts spending in the previous year above the sixty-fifth percentile.<sup>1</sup>

This approach was abandoned as the legislation progressed, because of "boundary line" problems: a district near the bottom of one range might be permitted a larger budget increase than a district near the top of the next-higher range. The stepped, flat-rate approach was replaced with the present statutory budget cap formulas, which provide for a smooth progression of decrease in budget cap as the prior year's spending level increases. The use of these formulas, however, has the theoretical potential for permitting large budget increases. If a district budgeted very little in the prior year, its percentage increase could be very large. In practical terms, the permitted increases have been moderate. Table 5 shows the distribution of school districts according to the actual percentage increases in total current expense

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<sup>1</sup>Senate Bill 1256 and Assembly Bill 1863, introduced June 13, 1974.

Table 5. Distribution of Annual Percentage Increases in School District Current Expense Budgets, 1975-76 to 1979-80

Annual Percentage Increase in Current Expense Budget	1975-76 to 1976-77		1976-77 to 1977-78		1977-78 to 1978-79		1978-79 to 1979-80	
	Number of Districts	Cumulative Percentage	Number of Districts	Cumulative Percentage	Number of Districts	Cumulative Percentage	Number of Districts	Cumulative Percentage
Over 24.99%	14	( 2.4%)	7	( 1.2%)	3	( 0.5%)	9	( 1.5%)
20.00 to 24.99%	13	( 4.6%)	7	( 2.4%)	9	( 2.0%)	3	( 2.0%)
15.00 to 19.99%	28	( 9.3%)	25	( 6.6%)	13	( 4.2%)	19	( 5.2%)
10.00 to 14.99%	122	( 30.0%)	136	( 29.7%)	79	( 17.7%)	57	( 14.7%)
5.00 to 9.99%	215	( 66.4%)	316	( 83.2%)	309	( 70.1%)	297	( 64.3%)
0.00 to 4.99%	151	( 92.0%)	79	( 96.6%)	162	( 97.6%)	183	( 94.8%)
Decrease	47	(100.0%)	20	(100.0%)	14	(100.0%)	31	(100.0%)
Total	590		590		589		599	

Notes: 1. Federal aid deducted.

2. The following districts are omitted for the reasons indicated:

No pupils -- Pine Valley and Pahaquarry in all four years.  
Teterboro in the third and fourth years.  
Tavistock in the first three years.

New Regionals formed --

Bridgeton, Deerfield, Fairfield, Greenwich, Hopewell, Shiloh, Stow Creek, Upper Deerfield and Cumberland Regional in the first two years.  
Bass River, Eagleswood, Little Egg Harbor, Tuckerton in the third year.  
Pinelands Regional in the first three years.

De-Regionalizations --

Egg Harbor Township, Mt. Olive, Lacey, and West Morris Regional in the third year.  
Greater Egg Harbor Regional in the third and fourth years.

budget<sup>1</sup> in each of the first four years under the budget caps.

In the first year (1976-77), local school budgets were prepared at a time when funding of Chapter 212 was uncertain. Most budgets were on the conservative side, with only modest increases proposed. Even though school boards later were permitted to reopen the budget process, the changes made generally were small. In that year, only 30.0% of the budgets grew by 10% or more.

Although the uncertainty on State aid was removed in subsequent years, the budget caps became progressively tighter,<sup>2</sup> with the result that even fewer large percentage increases were noted for those years. The proportion of districts adopting budget increases of more than 10% fell to 29.7% in the second year, to 17.7% in the third year, and to 14.7% in the fourth year.

Table 6 lists those districts having actual budget increases of more than 20%. Three specific observations appear to be in order, based on this table. First, the dollar impact of the largest percentage increases in current expense budget appear modest in most cases, since the largest percentages generally occur in the smallest districts. The only obvious exceptions are Camden City, Passaic Vocational, and Hoboken in 1976-77, Burlington and Middlesex Vocational in 1977-78, and Hudson Vocational

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<sup>1</sup>In The Fiscal Impact of Budget Caps in 1976-77, budget increases were measured by the Net Current Expense Budget (NCEB), that portion of the total budget to which the cap is applied. The potential for inefficiency caused by a large increase in expenditures can be better measured by using the total Current Expense Budget. One modification has been necessary: federal aid has been deducted because it was largely omitted from local budgets in 1975-76 and 1976-77, was partially included in 1977-78, and was largely included in 1978-79 and 1979-80.

<sup>2</sup>Although the basic growth rate in 1978-79 was lower than in 1979-80, the smaller amount of waivers granted in the latter year made the 1979-80 budget caps more restrictive.

Table 6. School Districts Having Annual Percentage Increase in Current Expense Budget Exceeding 20%

1975-76 to 1976-77		1976-77 to 1977-78		1977-78 to 1978-79		1978-79 to 1979-80	
Percent Increase	Dollar Increase	Percent Increase	Dollar Increase	Percent Increase	Dollar Increase	Percent Increase	Dollar Increase
		67.08%	Burlington Voc.* \$1,699,016			100.00%	Tavistock* \$ 2,500
		51.99	Corbin City 482,086			52.65	Cape May Voc.* 548,680
45.30%	Manchester* \$ 876,334	44.51	Middlesex Voc.* 2,849,331			43.67	Cape May Point* 19,785
43.07	Pittsgrove* 778,391					42.04	Hudson Voc.* 1,146,361
						41.34	Tabernacle* 437,714
						41.28	Logan* 343,509
35.58	Millstone Bor.* 74,547	35.89	West Wildwood* 26,814	33.69%	Barnegat Twp.* \$ 757,469	35.95	Shamong* 341,236
35.26	Passaic Voc. 1,258,135	35.65	Milltown* 549,993			34.27	Longport 313,538
33.01	Roosevelt* 108,917	31.72	Shamong 186,949				
31.73	Downe 216,257						
31.62	South Belmar* 136,905						
30.92	Chesilhurst* 79,132						
29.47	Lakehurst 231,162	29.42	Cumberland Reg.* 775,533	29.35	Allamuchy* 206,056	29.76	Guttenberg 315,537
27.80	West Wildwood* 16,255	28.73	Bay Head* 123,688	28.69	Upper Twp.* 568,756		
27.54	Avalon* 143,569						
26.69	Tabernacle 152,236						
26.54	Eastampton 161,601						
25.27	Commercial* 394,961						
24.73	Pemberton Bor. 76,013	23.04	Secaucus 840,391	24.58	Allenhurst* 36,695	23.95	West Wildwood* 26,166
24.69	Morris Voc. 218,898	22.38	Barnegat Twp.* 411,129	22.70	Port Republic* 44,008	23.86	Waterford* 245,304
24.23	Somerset Voc.* 624,211	21.90	Mantoloking* 27,363	22.28	Shamong* 172,952	21.48	New Hanover* 99,552
23.44	Spotswood* 586,173	21.69	Manchester* 609,702	21.88	Peapack-Gladstone* 151,105		
23.15	Brooklawn* 124,931	21.64	Tabernacle 156,354				
22.57	New Hanover 76,560	21.02	South Amboy* 377,582	21.79	Oldmans* 164,355		
22.23	Waterford 149,667	20.24	Hampton Twp. 134,698	20.91	Mullica* 230,917		
22.21	Hardyston* 275,151			20.78	Warren Voc.* 243,246		
21.71	Camden City 6,271,070			20.47	Tabernacle 179,892		
21.63	Marlboro* 933,681			20.39	Lindenwold 316,104		
20.88	Island Heights* 48,238						
20.31	Lawnside* 184,137						
20.26	Hoboken* 1,962,682						

Notes: 1. Federal aid deducted.  
 2. For districts omitted, see footnote to Table 5.  
 3. Asterisk (\*) indicates districts where actual NCEB exceeded allowable NCEB by budget cap formula.

in 1979-80. Second, as the budget caps became tighter over the first four years, the number of districts having large percentage increases in current expense budget became progressively smaller: from 27 districts with a total increase of \$16,159,814 in the first year; to 15 districts with an increase of \$9,250,629 in the second year; to 12 districts with an increase of \$4,071,555 in the third year; to 12 districts with an increase of \$3,839,802 in the fourth year. Third, most districts which have made a large percentage increase in their annual current expense budget have done this by exceeding the limits set by the statutory formulas. Presumably, this has occurred through the waiver process. In the first year, 17 of the 27 districts having more than a 20% increase exceeded their formula budget cap; in 1977-78, it was 10 of 15 districts; and in both 1978-79 and 1979-80 it was 10 of 12.

#### Absolute Increases in Budgets

Table 7 shows the school districts having increases in current expense budgets of more than \$1,000,000. While a million dollars of budget increase in one year sounds large, in most cases it amounts to a relatively modest percentage increase, since these districts generally are among the largest in the state. A second observation from Table 7 is that the number of districts having an annual budget increase exceeding one million dollars has remained fairly constant -- ranging from 31 in 1979-80 to 38 in 1977-78. While the tightened budget caps over this period might have been expected to reduce this number, the impact of inflation, among other things, appears to counterbalance such a trend. One of the other factors tending to maintain a relatively constant number of districts above the \$1,000,000-increase level has been budget cap waivers. In 1976-77, only 5 of the 33 school districts in Table 7

Table 7. School Districts Having Annual Current Expense Budget Increase Exceeding \$1,000,000

1975-76 to 1976-77		1976-77 to 1977-78		1977-78 to 1978-79		1978-79 to 1979-80					
Dollar Increase	Percent Increase	Dollar Increase	Percent Increase	Dollar Increase	Percent Increase	Dollar Increase	Percent Increase				
\$6,271,070	Camden City	21.71%	\$7,152,090	Newark	6.26%	\$8,872,128	Newark*	7.31%			
				7,079,291	Paterson*	18.51					
			5,382,316	Paterson	16.38		\$5,673,978	Jersey City	8.57%		
			5,273,709	Jersey City	9.33		5,594,853	Newark	4.30		
						4,414,626	Jersey City	7.15			
3,054,183	Elizabeth	13.13	3,933,008	Toms River*	15.96	3,418,949	Elizabeth*	11.67	4,040,261	Toms River*	13.23
						3,321,462	Trenton*	10.76			
2,637,583	Hamilton	13.87	2,968,883	Elizabeth*	11.28	3,195,941	East Orange*	14.11			
	(Mercer)		2,952,615	Trenton*	10.57	2,670,809	Camden City	7.48	2,412,726	Elizabeth	7.38
2,464,233	Willingboro*	12.29	2,884,632	Woodbridge	9.58	2,167,692	Passaic	16.22	2,355,416	Paterson	5.20
2,421,310	Trenton	9.49	2,849,331	Middlesex	44.51		City*				
2,161,663	East Orange	12.06		Voc.*							
			2,591,552	Cherry Hill	8.66						
			2,502,495	East Orange*	12.42						
			2,346,978	Hamilton	10.84						
				(Mercer)							
			2,090,270	Old Bridge	9.54						
1,981,342	Middletown	11.60				1,973,471	Plainfield*	12.40			
1,962,682	Hoboken*	20.26				1,950,662	Toms River*	6.83	1,952,100	Woodbridge*	5.60
						1,940,705	Vineland*	10.92	1,947,134	Cherry Hill*	5.71
1,846,600	Wayne	11.53				1,862,163	Hamilton	7.76	1,827,228	Hamilton*	7.07
							(Mercer)*			(Mercer)	
						1,856,286	Woodbridge*	5.62			
						1,834,922	Edison*	6.60			
						1,829,746	Brick*	11.01			
1,752,898	Vineland	12.02				1,765,292	Hoboken*	14.19			
						1,744,903	Lakewood*	17.75			
1,652,675	Toms River	7.19	1,699,016	Burlington	67.08	1,648,886	Middletown*	7.98	1,639,991	Middletown	7.35
				Voc.*		1,601,790	Cherry Hill	4.93			
			1,683,937	Freehold	11.95						
				Reg.*							
			1,642,809	Clifton	11.39						
			1,636,329	Wayne	9.16						
			1,620,626	Edison	6.19						

Table 7. (Continued)

1975-76 to 1976-77		1976-77 to 1977-78		1977-78 to 1978-79		1978-79 to 1979-80	
Dollar Increase	Percent Increase	Dollar Increase	Percent Increase	Dollar Increase	Percent Increase	Dollar Increase	Percent Increase
		\$1,597,507	East Bruns- wick 9.82%	\$1,514,303	Franklin (Somerset)* 13.12%	\$1,558,025	Brick 8.44%
		1,595,834	Middletown 8.37	1,513,707	Freehold Reg.* 9.60	1,515,943	Old Bridge 6.00
		1,571,782	Passaic City 13.33				
		1,533,914	Bridgewater- Raritan* 8.47				
		1,512,438	So. Orange- Maplewood 11.78				
\$1,491,330	Plainfield 10.91%	1,499,277	Brick 9.91	1,451,972	Irvington* 10.97		
1,444,912	Brick 10.53	1,498,012	Pemberton Twp. 19.19	1,434,054	Willingboro* 6.09		
1,416,837	Old Bridge 6.91	1,483,777	Par-Troy Hills 7.95	1,430,476	Jackson* 13.35	1,427,328	Willingboro 5.72
1,413,767	Lenape Reg.* 18.42	1,438,922	Vineland 8.81				
1,329,136	Lower Camden Reg. 18.83	1,322,466	Hackensack 10.30	1,330,299	Montclair* 8.85	1,387,367	Bayonne* 8.84
1,309,400	Atlantic City 13.72	1,307,671	Willingboro 5.88			1,387,030	Union* (Union) 9.50
1,280,676	Paterson 4.05	1,299,562	Neptune Twp. 12.45	1,274,795	Old Bridge* 5.31	1,350,727	Vineland 6.85
1,258,135	Passaic Voc. 35.26	1,266,353	Piscataway 8.35	1,239,305	Perth Amboy 11.21	1,281,387	Lakewood* 11.07
1,227,442	North Bergen 11.82	1,225,498	Teaneck 8.07	1,229,078	Atlantic City 10.39	1,278,552	Scotch Plains- Fanwood* 9.98
1,214,225	Orange* 16.49			1,218,910	Wayne* 6.25	1,277,548	Trenton 3.74
						1,257,473	Edison 4.24
						1,256,451	Lenape Reg.* 11.65
						1,230,623	Atlantic City* 9.42
						1,224,171	Union City* 7.41
						1,212,992	Washington* (Glouc.) 12.28
1,196,645	Edison 4.79	1,197,498	Bloomfield 10.02	1,191,834	East Bruns- wick* 6.67	1,146,361	Hudson Voc.* 42.04
1,181,045	New Bruns- wick 12.53	1,142,390	Union (Union) 9.21			1,140,290	East Bruns- wick 5.98
1,137,549	Hazlet 14.62	1,137,457	Union City 7.69			1,138,958	West New York* 10.70
1,127,438	Irvington 10.15	1,120,854	Bayonne* 8.28				
1,115,876	West Orange 8.77						
1,105,075	East Windsor 14.26						

Table 7. (Continued)

1975-76 to 1976-77		1976-77 to 1977-78		1977-78 to 1978-79		1978-79 to 1979-80					
Dollar Increase	Percent Increase	Dollar Increase	Percent Increase	Dollar Increase	Percent Increase	Dollar Increase	Percent Increase				
\$1,094,237	Cherry Hill	3.80%	\$1,065,929	Nutley	13.25%	\$1,064,317	Gloucester	12.36%	\$1,086,147	East	10.47%
1,089,071	Par-Troy Hills	6.20	1,050,090	Scotch Plains-Fanwood*	8.54	1,051,750	Union (Union)*	7.76	1,069,816	Freehold Reg.*	6.19
1,057,842	Perth Amboy	11.41	1,034,702	Union County Reg. #1	8.32	1,037,479	Bayonne	7.08	1,068,551	Wayne	5.16
1,053,756	Matawan Reg.	11.83				1,030,356	Bridgeton*	12.73	1,060,285	Franklin* (Somerset)	8.12
1,028,370	Pemberton Twp.	15.17							1,009,825	Westfield	7.22
1,016,900	Union City*	7.28									

- Notes: 1. Federal aid deducted.  
 2. For districts omitted, see footnote to Table 5.  
 3. Asterisk (\*) indicates districts where actual NCEB exceeded allowable NCEB by budget cap formula.

exceeded their formula budget caps, presumably on waivers. In 1977-78, the number was 10 out of 38 districts, in 1978-79, 28 out of the 34, and in 1979-80 17 out of 31 districts with an over-\$1,000,000 current budget increase did so with net current expense budgets which exceeded their permissible NCEB, as calculated by the budget cap formulas. Clearly, the waiver process has been used to compensate for tighter caps as the years have gone by.

#### A Budget Increase Index

Neither the percentage increase in the budget nor the absolute dollar increase gives the full picture of the potential for inefficiency due to sudden large increases in the budget. An index number has been developed for this purpose. This has been done by multiplying the dollar increase in the current expense budget by the percentage increase in that budget. The result, in itself, has no specific budgetary meaning, except as an index number which combines the two measures and identifies those school districts which should take particular care that their budget increases are used efficiently. Table 8 shows the districts having the largest index numbers. While no standard has been proposed to say that above a certain index number the increase is too great, a ranking of the districts by index number may serve to spotlight those districts which made increases in their budgets which combine both large dollar amounts and large percentage increases. The fact that a districts appears on this list should not be taken as an indication that inefficiency exists in that district, but merely that the district stands out as having, to a greater degree than other school districts, a combination of characteristics which the budget caps were intended to limit.

The school districts having an index of budget increase of more than 200,000 are shown in Table 8.<sup>1</sup> In general, large percentage increases have been combined with small dollar increases, and substantial dollar increases have been matched with small percentage growth, so that few school districts show up in Table 8 with large budget increase index numbers. Camden City in 1976-77, the Middlesex and Burlington Vocational School Districts, Paterson, and Toms River in 1977-78, and Paterson and Newark in 1978-79, are the districts which appear most vulnerable to potential inefficiencies caused by large budget increases. In some of these cases, the change in budget was the result of the opening of a new school, with substantially increased enrollment in the district.

Some of the patterns observed previously are reflected here. The number of school districts having budget increase index numbers over 200,000 has gradually declined -- from 16 the first year, to 15 in 1977-78, 12 in 1978-79, and only 5 in 1979-80. Conversely, as the budget caps have become tighter, the role of cap waivers has grown. In 1976-77, only 6 of the 16 high-increase districts exceeded their formula caps; in 1977-78, the number was 7 of 15 districts; in 1978-79, 11 of the 12 districts, and in 1979-80, 3 out of 5 districts with an index number over 200,000 exceeded their budget caps, as calculated by the statutory formulas.

With a few possible exceptions, actual annual increases in current expense budgets seem relatively modest. Although cap waivers have compensated for tighter caps, the budget caps appear to have been successful in preventing annual increases in budget which would be so large as to invite inefficiency in operation.

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<sup>1</sup>A cutoff point of 200,000 was used because it coincides with the cutoffs used in Tables 6 and 7: 20% of \$1,000,000.

Table 8. School Districts Having Annual Current Expense Budget Increase Exceeding an Index of 200,000

1976-77		1977-78		1978-79		1979-80	
<u>Index</u> <u>Number</u>		<u>Index</u> <u>Number</u>		<u>Index</u> <u>Number</u>		<u>Index</u> <u>Number</u>	
1,361,449	Camden City			1,310,377	Paterson*		
		1,268,237	Middlesex Voc.*				
		1,139,700	Burlington Voc.*				
		881,623	Paterson				
		627,708	Toms River*	648,553	Newark*		
443,618	Passaic Voc.	492,037	Jersey City	450,947	East Orange*	534,527	Toms River*
401,014	Elizabeth	447,721	Newark			486,260	Jersey City
						481,930	Hudson Voc.*
397,639	Hoboken*	334,890	Elizabeth*	398,991	Elizabeth*		
396,979	Manchester*	312,091	Trenton*	357,389	Trenton*		
365,833	Hamilton (Mercer)	310,810	East Orange*	351,600	Passaic City*		
302,854	Willingboro*			315,646	Jersey City		
				309,720	Lakewood*		
						288,880	Cape May Voc.*
260,697	East Orange	287,469	Pemberton Twp.	250,495	Hoboken*		
260,416	Lenape Regional*	276,348	Woodbridge	244,710	Plainfield*	240,579	Newark
250,276	Lower Camden Reg.	254,412	Hamilton (Mercer)	211,925	Vineland*		
229,836	Middletown	224,428	Cherry Hill	201,455	Brick*		
229,787	Trenton	209,519	Passaic City				
212,913	Wayne	201,230	Freehold Reg.*				
210,698	Vineland						
201,955	Marlboro*						
200,226	Orange*						

- Notes: 1. Federal aid deducted.  
 2. For districts omitted, see footnote to Table 5.  
 3. Index number is calculated by multiplying annual dollar increase by annual percentage increase.

Limitation of State Fiscal Liability

A major purpose of the school budget caps is to control the growth of the State's liability for future State aid funding. Chapter 212 provides for a system of State support in which costs are shared between the State and the local communities, with budgetary decisions being made by the local boards of education. The share of the current expense budget provided by the State government varies in inverse proportion to the wealth of the community, as measured by the equalized valuation of property per pupil. The budget caps, thus, are a means of keeping local school districts from increasing their budgets unreasonably in the knowledge that the State will pay a portion which, in some cases, runs to more than 70%. It is primarily for this reason that the budget caps have been applied to the same element of the total budget -- the net current expense budget -- which is used as the basis for calculating the State's dollar input to the school district's current expense budget.

Growth of the NCEB has a secondary impact on State fiscal liability, because categorical aid for children with specified handicaps is calculated by multiplying the additional cost factor for the handicap by the number of children in that category, and by the prior year's state average NCEB per pupil. Unlimited growth of the state average NCEB, without adjustment of cost factors, could lead to unlimited growth of the State liability for categorical aid.

In the Fall of 1975, following enactment of Chapter 212, but prior to passage of the funding legislation, a Senate Commission on Financing State School Aid was established to explore the various alternatives available for meeting the costs of the new law. The cost projections made by that Commission in its final report provide the best guide to the

expectations of the Legislature at the time with regard to the probable future fiscal liability of the State for aid to public education.<sup>1</sup> The effectiveness of the budget caps in limiting that liability can be measured by comparing actual subsequent appropriations and expenditures against the projections made by the Commission.

Table 9 shows the projections made by the Senate Commission in 1975, the appropriations made by the Legislature for the first four years under Chapter 212, and the actual expenditures in each aid category for the first three years. In the area primarily affected by the budget caps -- current expense equalization aid -- State appropriations and expenditures have gradually fallen further and further behind the 1975 projections. The effectiveness of the budget caps in limiting growth in this area seems apparent. For the latest year in the table, 1979-80, the relationship is partially obscured by statutory changes which cut back somewhat the State's commitment to current expense equalization aid. However, even if this had not taken place, it appears that the budget caps would have kept this financial obligation substantially below the level anticipated when Chapter 212 was enacted.

In categorical aid, which is affected indirectly by the budget caps, the picture is different. Here, appropriations and actual expenditures have exceeded the projections made in 1975. This is largely due to aid for compensatory education, the calculation of which was not defined clearly by Chapter 212. The gap here has begun to narrow, however, with the growth of firmer administrative determination of compensatory education funding procedures. Taking the two cap-related State aid categories

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<sup>1</sup>Report of the Senate Commission on Financing State School Aid, Legislature of the State of New Jersey, November 10, 1975.

Table 9. State Aid for New Jersey Public Schools: As Projected, As Appropriated, and As Actually Expended; 1975-76 to 1979-80

		1975-76	1976-77	1977-78	1978-79	1979-80
Current Expense Equalization Aid	Projected		624,000,000	714,000,000	778,000,000	848,000,000
	Appropriated		627,837,991	677,750,000	732,824,597	789,381,081
	Expended	430,759,800	628,717,187	679,955,217	732,645,910	
	Difference		+ 4,717,187	-34,044,783	-45,354,090	-58,618,919
Debt Service and Capital Equalization Aid	Projected		48,000,000	55,000,000	60,000,000	65,000,000
	Appropriated		48,304,123	53,300,000	54,587,933	60,001,342
	Expended	22,324,213	46,126,743	53,373,102	54,286,345	
	Difference		- 1,873,257	- 1,626,898	- 5,713,655	- 4,998,658
Transportation Aid	Projected		78,000,000	85,000,000	93,000,000	101,000,000
	Appropriated		77,914,193	86,615,877	89,851,257	94,420,779
	Expended	44,850,788	69,395,962	80,401,071	90,572,022	
	Difference		- 8,604,038	- 4,598,929	- 2,427,978	- 6,579,221
Categorical Aid	Projected		115,000,000	125,000,000	136,000,000	148,000,000
	Appropriated		115,616,494	141,100,000	168,001,315	175,925,789
	Expended	62,604,818	112,505,587	140,504,874	168,204,811	
	Difference		- 2,494,413	+15,504,874	+32,204,811	+27,925,789
Special Costs	Projected		1,000,000	2,000,000	2,000,000	2,000,000
	Appropriated		1,480,000	2,210,000	1,600,000	700,000
	Expended	200,000	1,149,245	2,210,000	1,590,532	
	Difference		+ 149,245	+ 210,000	- 409,468	- 1,300,000
Sub-Total: Chapter 212	Projected		(866,000,000)	(981,000,000)	(1,069,000,000)	(1,164,000,000)
	Appropriated		(871,152,801)	(960,975,877)	(1,046,865,102)	(1,120,428,991)
	Expended	(560,739,619)	(857,894,724)	(956,444,264)	(1,047,299,620)	
	Difference		(- 8,105,276)	(-24,555,736)	(-21,700,380)	(-43,571,009)
Teachers Pension and Annuity Fund	Projected		221,000,000	240,000,000	263,000,000	285,000,000
	Appropriated		217,157,007	250,358,574	279,028,115	311,396,852
	Expended	196,358,709	208,867,170	242,704,663	268,818,366	
	Difference		-12,132,830	+ 2,704,663	+ 5,818,366	+26,396,852
Other Grants-in-Aid	Projected		44,000,000	49,000,000	55,000,000	62,000,000
	Appropriated		41,118,450	45,351,510	54,174,412	58,287,449
	Expended	39,332,248	39,924,301	46,492,515	51,943,158	
	Difference		- 4,075,699	- 2,507,485	- 3,056,842	- 3,712,551
Total	Projected		1,131,000,000	1,270,000,000	1,387,000,000	1,511,000,000
	Appropriated		1,129,428,258	1,256,685,961	1,380,067,629	1,490,113,292
	Expended	796,430,576	1,106,686,195	1,245,641,442	1,368,061,144	
	Difference		-24,313,805	-24,358,558	-18,938,856	-20,886,708

- Notes:
1. Projected figures are from report of Senate Commission on Financing State School Aid, November 10, 1975.
  2. Appropriations figures are from annual budget message of Governor for subsequent year.
  3. Expenditure figures are from annual budget message of Governor for second subsequent year.
  4. Difference figure is difference between projected figure and expended figure or between projected figure and appropriations if expenditures are not available.

together -- current expense equalization aid and categorical aid -- the State's fiscal liability has remained well below the level projected in 1975.

Several other aid categories have lagged behind the Senate Commission's projections. Debt service and capital outlay equalization aid, transportation aid (accentuated by a cut in the statutory formula for 1979-80), special costs for research and emergencies, and miscellaneous other grants-in-aid all are costing the State less than was anticipated.

The one other area which has exceeded expectations is the State's contribution to the Teachers' Pension and Annuity Fund. However, it should be noted that there appears to be a pattern here in which actual expenditures generally fall significantly below appropriations. If this continues in 1979-80, the difference between projected costs and actual expenditures may be less than appears in Table 9.

Even with rapid growth of the TPAF and unexpected costs for categorical aid, the overall cost to the State Treasury of aid for public education remains below the projections of four years ago. The apparent gap -- about \$21 million -- approximates the impact of statutory changes made for the 1979-80 fiscal year. If these modifications had not been enacted, appropriations for 1979-80 would have been almost exactly as projected by the Senate Commission. Clearly, the budget caps have played the role intended in limiting State fiscal liability.

#### Property Tax Relief

A third purpose for the school budget caps is to insure that some of the additional State aid funds made available under Chapter 212 are passed on by the school district to the local property taxpayers in order to reduce the property tax burden. This was a particularly applicable

purpose in the first year under a new and expanded State aid law, but also has applicability in subsequent years.

Separate and more detailed reports have been prepared, dealing with the impact of the additional aid under Chapter 212 on local property taxes.<sup>1</sup> Data from these reports, updated where possible, can be used to test the effectiveness of the school budget caps, in combination with other factors, in providing property tax relief.

#### Property Tax Levies

The total amount of property taxes levied for local school purposes rose at close to 15% per year during the late 1960's and early 1970's (See Table 10). Two factors preceding the enactment of Chapter 212 combined to reverse this trend. In 1971-72, public school enrollment in New Jersey reached its all-time peak and then began a steady decline. Simultaneously, the Bateman Act revised the basis of State aid to local school districts and increased the State's participation in financing elementary and secondary education. Because of limited funds, implementation of the Bateman Act was phased in over a four-year period, having its major impact in the tax years from 1972 through 1975. Following full implementation of the Bateman Act, there ensued a period of uncertainty and limited change in school budgets, State aid, and tax levies, as the Legislature debated the steps necessary to comply with the Court decisions in *Robinson v. Cahill*, which had declared the Bateman Act unconstitutional.

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<sup>1</sup> See The Impact of State Aid on Property Taxes in 1976, accepted by the Joint Committee on the Public Schools on March 20, 1978; The Impact of State School Aid on Property Taxes in 1977, Bureau of Government Research, Rutgers University, August 15, 1978; and School Budgets and Property Taxes in 1978, Bureau of Government Research, Rutgers University, April 2, 1979.

Table 10. Statewide Total School Property Tax Levy and Annual Percentage Change, 1967 to 1979

<u>Tax Year</u>	<u>School Tax Levy</u>	<u>Percentage Change</u>	
1967	\$ 742,918,942	+ 13.0%	
1968	839,145,343	+ 12.3	
1969	956,672,342	+ 16.2	
1970	1,111,248,145	+ 15.9	
1971	1,288,150,619	+ 9.0	Phase-in of Bateman Act
1972	1,404,171,925	+ 8.2	
1973	1,518,783,129	+ 4.7	
1974	1,589,947,109	+ 6.5	
1975	1,692,772,040	- 0.2	
1976	1,688,584,428	+ 1.4	Chapter 212
1977	1,711,454,034	+ 5.3	
1978	1,802,673,030	+ 5.9	
1979	1,908,786,461		

Notes: 1. Source is County Abstracts of Ratables. Includes Local Taxes to be Raised for District School Purposes as Required by District School Budget; Regional, Consolidated and Joint School Budgets; and as Required by the Local Municipal Budget. For 1976 and 1977, the amount of unappropriated State school aid refunded directly to taxpayers has been deducted from the taxes levied according to the Abstracts.

2. Tax levies for county vocational school districts not included.

Finally, Chapter 212 was enacted and funded, with its first impact for tax purposes being felt in 1976 with a net decline of 0.2% in the school tax levy and in 1977 with an increase of only 1.4%. Since then, under more normal circumstances, the school property tax levy has increased 5.3% in 1978 and 5.9% in 1979.

#### Equalized Property Tax Rates

Tax levy figures can be converted to equalized tax rates by dividing them by a measure of the true value of the property taxes. In reports for the Joint Committee, this has been done by dividing the tax levy by the modified equalized valuation of taxable property.<sup>1</sup> Table 11 shows the average state equalized school property tax rate over the 1967-1979 period. Where the tax rate had been rising steadily during the late 1960's, it peaked in 1971, and began a decline which has continued steadily now for eight years, the last four coming under the provisions of Chapter 212.

Not only has the state average equalized school property tax rate continued its decline under Chapter 212, but tax rates in most communities have mirrored this decline, as shown in Table 12. The number of communities having school tax rates of \$2.00 or more has declined from 210 in 1975 to 127 in 1976, 72 in 1977, 47 in 1978, and only 23 in 1979.<sup>2</sup>

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<sup>1</sup>The equalized valuation is a measure of the true value of taxable property in a taxing district, or municipality. It is calculated each year by the Division of Taxation by adding the estimated true value of taxable real property, the assessed value of all locally-taxable personal property, and the assessed value of Class II railroad property. For the purpose of calculating equalized property tax rates, the Class II railroad property has been eliminated from the Division's figures for the years after 1966, since such property is no longer taxable locally.

<sup>2</sup>School tax rates described here are the equalized tax rates for all local school purposes (local, regional and consolidated, and levies for school purposes in the municipal budget) calculated for each taxing district, with the municipality constituting the taxing district. Property taxes for county vocational schools are not included.

Table 11. Statewide Average Equalized School Property Tax Rate and Annual Change, 1967 to 1979

<u>Tax Year</u>	<u>State Average Equalized School Tax Rate</u>	<u>Change</u>	
1967	\$ 1.64		
		+ .16	
1968	1.80		
		+ .13	
1969	1.93		
		+ .08	
1970	2.01		
		+ .09	
1971	2.10		
		- .06	} Phase-in of Bateman Act
1972	2.04	- .08	
1973	1.96	- .15	
1974	1.81	- .05	
1975	1.76	- .10	
1976	1.66		} Chapter 212
		- .08	
1977	1.58	- .03	
1978	1.55	- .09	
1979	1.46		

Note: Equalized school tax rate calculated by dividing the tax levy by the equalized valuation less Class II railroad property.

Table 12. Changes in Equalized School Property Tax Rates in 1976, 1977, 1978 and 1979; by Taxing District<sup>1</sup>

	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>
Increase	123	188	197	121
Decrease	444	374	365	442
No Change	<u>      </u>	<u>   5</u>	<u>   5</u>	<u>   4</u>
Total	567	567	567	567

<sup>1</sup> School tax rates described here are the equalized tax rates for all local school purposes (local, regional and consolidated, and levies for school purposes in the municipal budget) calculated for each taxing district, with the municipality constituting the taxing district. Property taxes for county vocational schools are not included.

The budget caps, together with other features of Chapter 212, have been effective in providing a steadily-increasing measure of relief from school property taxes.

Equalization of Expenditures per Pupil

A fourth purpose of the budget caps may be stated as an attempt to encourage and permit the low-budget school districts of the state to move in the direction of more nearly equal expenditures for each pupil, in order to achieve equal educational opportunity. To a considerable degree, the New Jersey Supreme Court found the prior system of funding the public schools to be deficient on the grounds that expenditures varied greatly. In the majority opinion in *Robinson v. Cahill*, the court said:

"The trial court found the constitutional demand had not been met and did so on the basis of discrepancies in dollar input per pupil. We agree. We deal with the problem in those terms because dollar input is plainly relevant....The constitutional mandate could not be said to be satisfied unless we were to suppose the unlikely proposition that the lowest level of dollar performance happens to coincide with the constitutional mandate and that all efforts beyond the lowest level are attributable to local decisions to do more than the State was obliged to do."

However, the court also said in the same opinion:

"...nor do we say that if the State assumes the cost of providing the constitutionally mandated education, it may not authorize local government to go further and to tax to that further end, provided that such authorization does not become a device for diluting the State's mandated responsibility."

Taken together, these two statements would seem to require a system which encourages low-spending school districts to use the fiscal resources made available to them under the law by increasing their budgets. High-spending school districts would have to be limited, so that the others could catch up, but there is no indication that they would have to reduce their spending levels. Thus, an earlier staff report to the Joint

Committee suggested setting as goals:

- (a) that by 1982-83, all districts should be budgeting at least 85% of the State average net current expense budget per pupil; and
- (b) that not more than 20% of the school pupils should be in school districts spending above 115% of the State average net current expense budget per pupil.<sup>1</sup>

While the report was accepted by the Joint Committee, no formal action was taken to adopt these goals.

In enacting the financial aspects of Chapter 212, the Legislature introduced some inconsistencies which influence the way in which the impact of the budget caps may be evaluated. The Joint Education Committee, in preparing the original draft legislation, considered the question of weighting the State support formula for cost differentials at different grade levels, an approach that had been a feature of the earlier Bateman Act formula. Aware of thinking in some portions of the educational community that expenditures in elementary grades should be at least as high as those in secondary classes, but unwilling to mandate such an approach, the J.E.C. recommended:

...that all pupils be counted and weighted equally on a grade level basis for State aid purposes,<sup>2</sup>

The J.E.C. reasoned that this approach would permit local boards of education to determine the most desirable allocation of funds within each district, and equal weighting by grades was incorporated in the original legislative bills.

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<sup>1</sup>The Fiscal Impact of Budget Caps in 1976-77, pp. 80-82.

<sup>2</sup>Report of the Joint Education Committee to the New Jersey Legislature, June 13, 1974, p. 30.

This approach, however, did not take into account the existing differences in spending by grade levels, which were particularly evident in comparisons of the expenditures per pupil in regional high school districts and in their constituent K-6 and K-8 districts. Moreover, the fragmentation of school district organization into separate elementary districts and secondary districts introduced a rigidity which conflicted with the theory of the J.E.C. that local boards of education could make the final decisions on use of funds by grade level. No regional high school board of education could shift its funds to elementary grades, no matter how much it wished to do so. Nevertheless, significant differences in spending level did exist and were recognized. The result was that the legislative bills were modified as they proceeded to enactment. The cut-off on State funding per pupil, originally set at the 65th percentile spending level of all school districts, was modified so that a separate 65th percentile was calculated for K-6, K-8, 7-12, 9-12, and all other (K-12) districts. Similarly, when a minimum aid provision was added by amendment, it was structured separately for each of the different grade pattern types of districts.

On the other hand, while the budget caps were revised to provide separate formulas for high- and low-spending districts, the approach otherwise remained uniform. Both budget cap formulas use the state average NCEB per pupil, calculated for all districts in the state. No provision is made for spending-level differences based on the grade pattern financed. Thus, an inconsistency arises. State funds are distributed on a basis which recognizes higher costs in regional high school districts, while the budgets of the regional high school districts are limited by caps which do not recognize those higher costs.

The problem, then, is whether equalization of expenditures should be analyzed for all school districts as a single group or for groups of districts separately by grade level. The choice has been made to use a single standard for all school districts, since this remains the way in which the budget caps are calculated.

#### Total School Budget

An earlier report to the Joint Committee found that there was a continuing movement of low-budget districts toward the State average spending level when total school budgets were analyzed in relative terms on a community-by-community basis. Other studies have found similar results when total current expense budgets per pupil were analyzed among school districts on a relative basis.<sup>1</sup> In both cases, the data include expenditures for special education, compensatory education, and bilingual programs.

#### Net Current Expense Budget

However, the performance of the budget caps in bringing about equalization of expenditures probably should not be judged by total budgets, but by the equalization which has taken place in the net current expense budget per pupil, since this is the budget item which is limited by the budget caps. Here, the results are not encouraging. As shown in Table 13,

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<sup>1</sup>School Budgets and Property Taxes in 1978, pp. 22-23. The term "community" is used here because the data for this analysis were tabulated so that a composite average budget figure per pupil was produced for all pupils residing in each community, regardless of whether they attended local elementary schools, regional secondary schools, or a K-12 system. See also Margaret E. Goertz, Money and Education; How Far Have We Come?; Financing New Jersey Education in 1979, Education Policy Research Institute, Educational Testing Service, Princeton, New Jersey, March, 1979, Table 1, p. 12, and Lawrence Rubin, An Evaluation of the New Jersey Public School Education Act of 1975, unpublished doctoral dissertation, Rutgers University Graduate School of Education, October, 1978, p. 208. None of these studies found any reduction of disparities in expenditure per pupil when budgets were analyzed in terms of absolute dollar differences over a period of time.

Table 13. Distribution of School Districts by Level of Net Current Expense Budget per Resident Pupil, 1975-76 to 1979-80

Net Current Expense Budget Per Resident Pupil	Percentage of School Districts				
	1975-76	1976-77	1977-78	1978-79	1979-80
More than 115% of State Average	21.0%	22.7%	22.0%	22.5%	24.2%
85% to 115% of State Average	54.0	56.5	56.9	57.0	53.7
Less than 85% of State Average	25.0	20.8	21.1	20.6	22.1
<hr/>					
Total Number of School Districts	572	573	573	574	574

Note: Omitted are 20 county vocational districts, four districts which receive large amounts of Federal impacted area aid under P.L. 874, the "special education" districts of Corbin City and Longport, and three districts each year which have no resident pupils. Increase in total is caused by activation of Cumberland Regional and Pinelands Regional.

the proportion of school districts having net current expense budgets per pupil less than 85% of the State average declined sharply in 1976-77, but there has been no improvement since then. The proportion of districts budgeting at high NCEB-per pupil levels (over 115% of the state average) has increased over the past five years, despite the limits presumably imposed on them by the budget caps.

Moreover, if public school pupils are tabulated, rather than school districts, there is even less cause for satisfaction. As shown in Table 14, following a slight initial increase in 1976-77, the percentage of public school pupils receiving the benefits of dollar inputs within 15% of the state average has declined steadily, while the proportion of pupils at the high and low ends of the scale has increased substantially.

When the divergent trends of equalization for total school budget and net current expense budget are compared, they lead to the following conclusions:

- (a) the budget caps have not been effective in raising the relative spending level of low-net-current-expense-budget school districts; and
- (b) the modest relative equalization of per-pupil total budgeted expenditures among districts, which has been observed, is probably due to programs outside of the budget caps, such as State aid for special education, compensatory education, and bilingual education, which have resulted in increased total school budgets per pupil in the lowest-spending districts.

Reasons for Failure of the Budget Caps  
to Raise the Relative Spending Level of Low-Budget Districts

If the budget caps are to be continued, it is desirable to examine why they have failed to produce some equalization of per-pupil net current

Table 14. Distribution of Public School Pupils by Level of Net Current Expense Budget per Resident Pupil, 1975-76 to 1979-80

Net Current Expense Budget Per Resident Pupil	Percentage of Resident Pupils				
	1975-76	1976-77	1977-78	1978-79	1979-80
More than 115% of State Average	16.7%	19.6%	18.3%	18.3%	21.2%
85% to 115% of State Average	64.7	65.2	63.6	61.9	58.6
Less than 85% of State Average	18.5	15.2	18.1	19.8	20.2
Total Number of Pupils	1,420,856	1,390,360	1,347,060.5	1,307,762.5	1,262,771

Note: See Table 13 for school districts omitted.

expense budgets, particularly at the lower end of the scale. Four aspects of the budget caps which could offset the equalizing effect of the caps on NCEB have been examined:

- (1) the budget cap formulas;
- (2) budget cap waivers;
- (3) the impact of enrollment decline; and
- (4) a failure to utilize fully the budget increases permitted by the caps.<sup>1</sup>

In order to illustrate the impact of each aspect in 1979-80, the state's school districts have been divided into seven groups based on their 1978-79 NCEB per pupil. Data for each group have been averaged and treated as though they represent a single school district.

#### The Budget Cap Formulas

As originally suggested to the Legislature, there would have been only a single budget cap formula -- the formula now applied to school districts having a net current expense budget per pupil below the State average. Because of a fear that this would have imposed too severe a limit on the higher-spending school districts, a second formula was devised for those districts. The two budget cap formulas do provide some pressure for equalization of per pupil expenditure levels on a relative basis, with the high-budget districts in Group A having an average budget cap of only 4.23%, compared with an average cap of 12.10% for the low-budget districts in Group G (See Table 15A). In absolute dollar terms, there is opportunity for equalization among the lower-budget districts. As shown in Table 15B, the districts in Group G could raise their budgets by \$153.16 per pupil,

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<sup>1</sup>A fifth factor, the appropriation of surplus funds, sometimes is identified as a factor offsetting the budget caps. However, since surplus is outside the NCEB, its use cannot be a reason why the NCEB per pupil has not been equalized.

Table 15A. Permissible Percentage Increases in 1979-80 Net Current Expense Budgets According to Statutory Budget Cap Formulas; School Districts Grouped by Budget Level

<u>Expenditure Group and Relation to State Average NCEB Per Pupil</u>	<u>Number of Districts</u>	<u>1978-79 Average NCEB/Pupil</u>	<u>Increase Permitted by Budget Cap Formulas</u>
A - Over 125% of Average	70	\$2,503.94	+ 4.23%
B - 115% to 125% of Average	59	2,190.48	+ 4.84
C - 105% to 115% of Average	98	2,004.58	+ 5.29
D - 95% to 105% of Average	118	1,829.34	+ 5.79
E - 85% to 95% of Average	111	1,646.74	+ 7.15
F - 75% to 85% of Average	82	1,465.73	+ 9.02
G - Below 75% of Average	36	1,266.22	+12.10

Table 15B. Permissible Dollar Increases Per Pupil in 1979-80 Net Current Expense Budgets According to Statutory Budget Cap Formulas; School Districts Grouped by Budget Level

<u>Expenditure Group and Relation to State Average NCEB Per Pupil</u>	<u>Number of Districts</u>	<u>1978-79 Average NCEB/Pupil</u>	<u>Increase Permitted by Budget Cap Formulas</u>
A - Over 125% of Average	70	\$2,503.94	\$+106.01
B - 115% to 125% of Average	59	2,190.48	+106.01
C - 105% to 115% of Average	98	2,004.58	+106.01
D - 95% to 105% of Average	118	1,829.34	+106.01
E - 85% to 95% of Average	111	1,646.74	+117.73
F - 75% to 85% of Average	82	1,465.73	+132.26
G - Below 75% of Average	36	1,266.22	+153.16

Note: See Table 13 for school districts omitted.

compared with only \$106.01 for Groups A, B, C, and D. However, in terms of absolute dollar increases per pupil, there is no way in which school districts spending somewhat above the State average can overtake their even higher-spending neighbors, because the formula which applies to them provides for an equal per-pupil increase for all such districts. This is the so-called "catch-up" problem, which has been identified in earlier reports.<sup>1</sup> The impact of the budget cap formulas is illustrated graphically in Charts A-1 and A-2 for the school year 1979-80.

#### Budget Cap Waivers

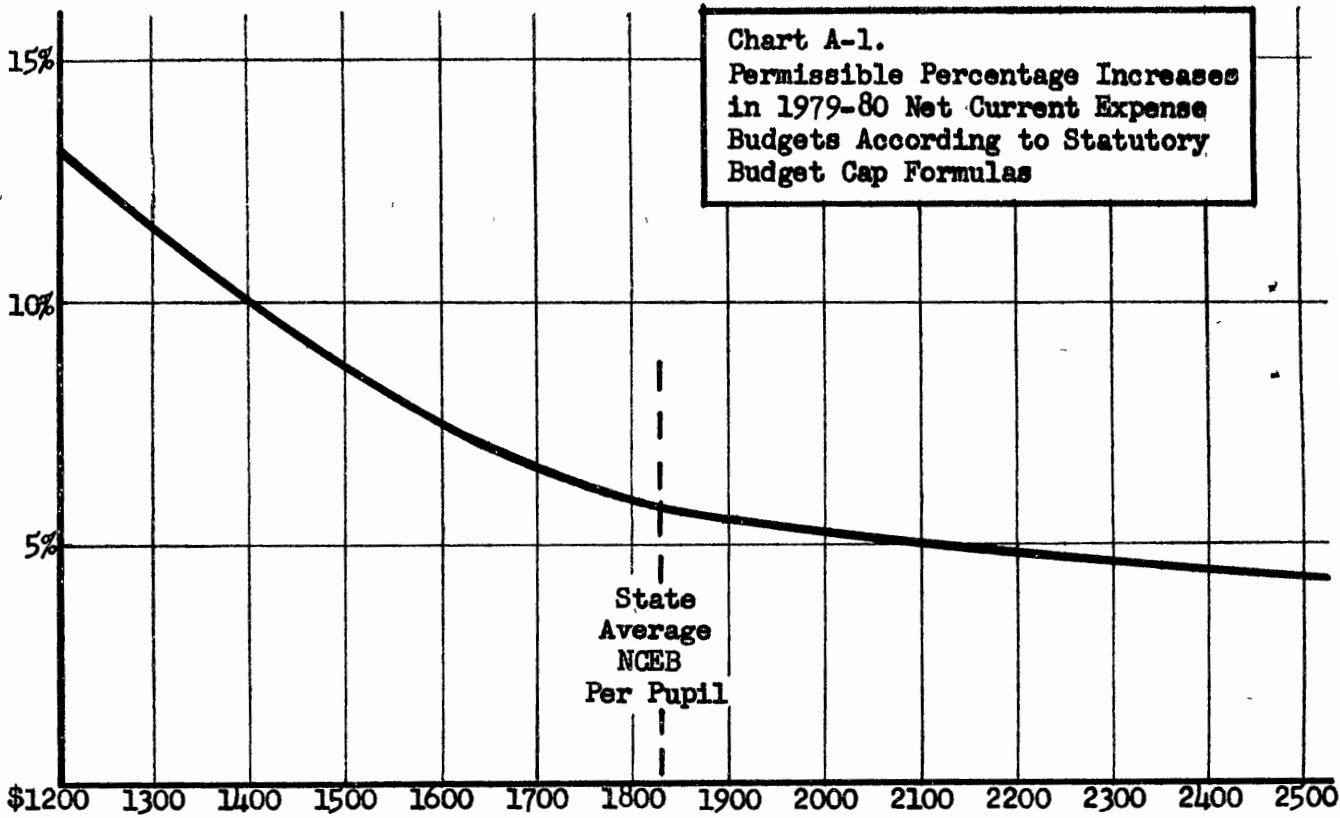
There has always been concern that the granting of a disproportionate number of budget cap waivers to high-spending school districts could destroy the equalizing impact of the budget cap formulas. Table 16 shows the percentage of school districts receiving a cap waiver of some sort in each group when the school districts are arranged by budget level. Table 17 shows the dollar value of the waivers as a percentage of the prior-year net current expense budgets for the same groups of school districts. As shown in Table 16, with the exception of 1978-79 and 1979-80, the budget cap waivers have been spread fairly evenly among districts at all spending levels. Table 17 shows, however, that the waivers granted to high-budget districts have almost always been smaller in magnitude than those permitted to low-budget places. In recent years the balance has been heavily in favor of the low-budget school districts.

In 1979-80, the pattern of waivers to low-budget districts would have been even clearer if the waiver process had stopped with the Commissioner of Education, since waivers approved subsequently on appeal to the State Board

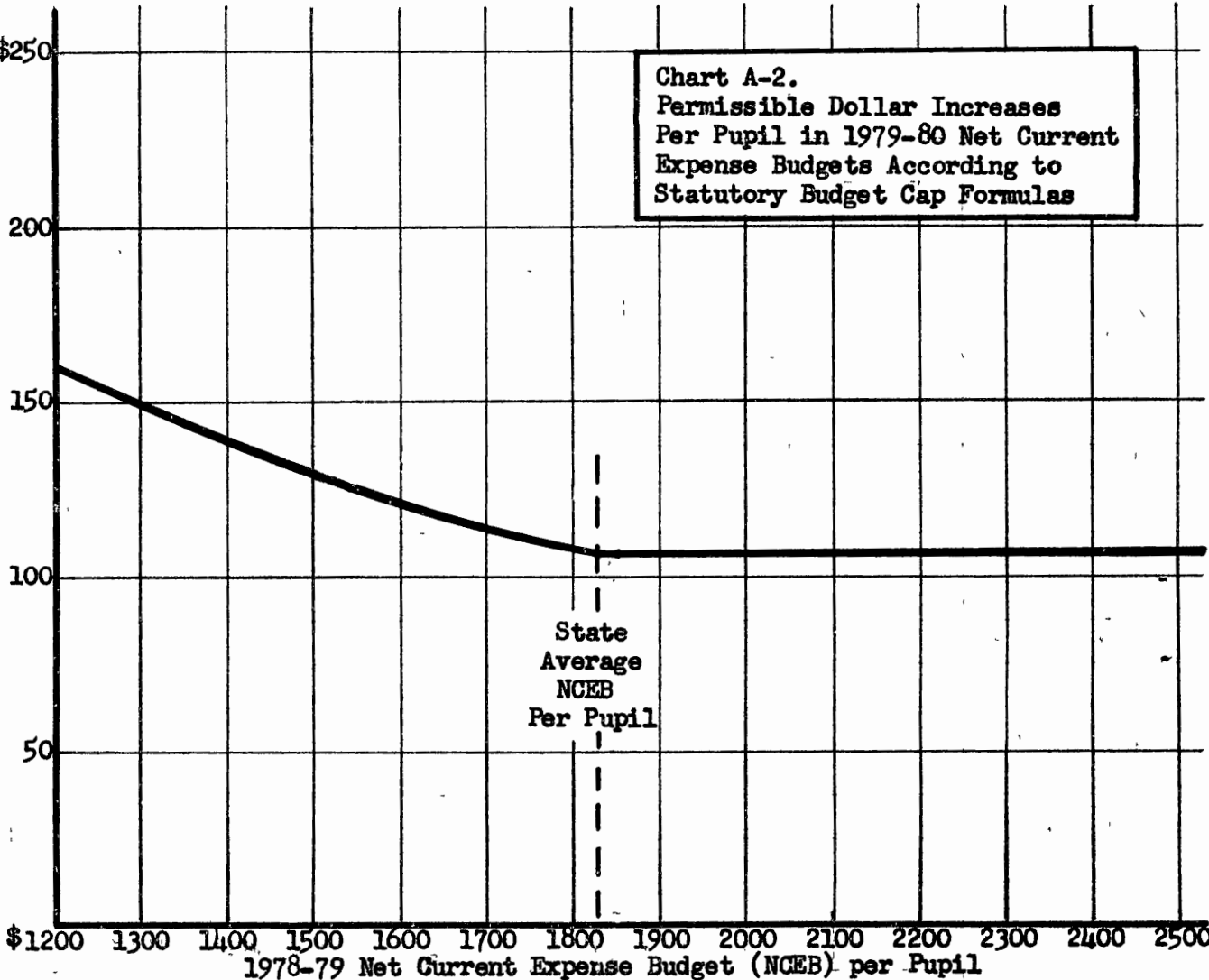
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<sup>1</sup>Budget Cap Administration for 1976-77, p. 35.

Permissible  
Percentage  
Increase



Permissible  
Dollar  
Increase  
Per Pupil



1978-79 Net Current Expense Budget (NCEB) per Pupil

Table 16. Distribution of Budget Cap Waivers by Budget Level of School District, 1976-77 to 1980-81

Expenditure Group and Relation to State Average Net Current Expense Budget Per Pupil in Prior Year	Percentage of School Districts in Each Group Receiving Budget Cap Waiver				
	<u>1976-77</u>	<u>1977-78</u>	<u>1978-79</u>	<u>1979-80</u>	<u>1980-81</u>
Over 115% of State Average	17.5%	7.7%	21.4%	15.5%	17.3%
85% to 115% of State Average	18.8	8.0	26.1	19.6	13.3
Below 85% of State Average	9.8	5.9	37.2	23.7	14.2

Note: See Table 13 for school districts omitted.

Table 17. Budget Cap Waivers as Percentage of Prior Year Net Current Expense Budgets When School Districts are Grouped by Prior Year Budget Level, 1976-77 to 1980-81

Expenditure Group and Relation to State Average Net Current Expense Budget Per Pupil in Prior Year	Budget Cap Waivers as Percentage of Prior Year Net Current Expense Budgets				
	<u>1976-77</u>	<u>1977-78</u>	<u>1978-79</u>	<u>1979-80</u>	<u>1980-81</u>
Over 115% of State Average	0.53%	0.21%	0.61%	0.19%	0.40%
85% to 115% of State Average	0.70	0.34	1.99	0.54	1.00
Below 85% of State Average	0.79	0.22	2.18	1.47	1.43

Note: See Table 13 for school districts omitted.

of Education were oriented largely toward the high-budget school districts (See Table 18).

Tables 19A and 19B show the impact on average permissible budget increases for the seven budget level groups of school districts when the 1979-80 waivers are added to the increases permitted by the budget cap formulas. Both in percentage terms and in absolute dollar-per-pupil terms the waivers strengthen the equalizing effect of the budget cap formulas.

It seems clear, then, that budget cap waivers, as administered by the Commissioner of Education, strengthen the equalizing aspects of the budget cap formulas. The net impact in 1979-80 of the cap formulas, as modified by the increases authorized by approved waivers, is shown graphically in Charts B-1 and B-2.

#### Enrollment Decline

An earlier report to the Joint Committee on the Public Schools dealt in a limited way with the impact of enrollment decline on budget caps, showing that, despite the design of the caps, which placed more restrictive limits on higher-spending districts, 37 high-wealth communities were able to increase their already high expenditure level in 1977-78 by \$78 more per pupil than the state average; of this amount, \$43 was due to their more rapid decline in enrollment.<sup>1</sup> Another report indicated that low-wealth, low-spending districts, in general, had a less rapid decline of enrollment than average in 1978-79.<sup>2</sup> Other researchers have drawn similar conclusions.<sup>3</sup>

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<sup>1</sup>The Impact of State School Aid on Property Taxes in 1977, pp. 42-47.

<sup>2</sup>School Budgets and Property Taxes in 1978, pp. 99-102.

<sup>3</sup>Goertz, Financing New Jersey Education in 1979, pp. 29-41.

Table 18. 1979-80 Budget Cap Waivers Approved by Commissioner of Education and by State Board of Education as Percentage of Prior Year Net Current Expense Budgets, When School Districts are Grouped by Budget Level

Expenditure Group and Relation to State Average Net Current Expense Budget Per Pupil in <u>Prior Year</u>	<u>1979-80 Budget Cap Waivers as Percentage of Prior Year Net Current Expense Budgets</u>		
	<u>Approved by Commissioner</u>	<u>Approved by State Board</u>	<u>Total</u>
Over 115% of State Average	.05%	.14%	.19%
85% to 115% of State Average	.47	.07	.54
Below 85% of State Average	1.43	.04	1.47

Note: See Table 13 for school districts omitted.

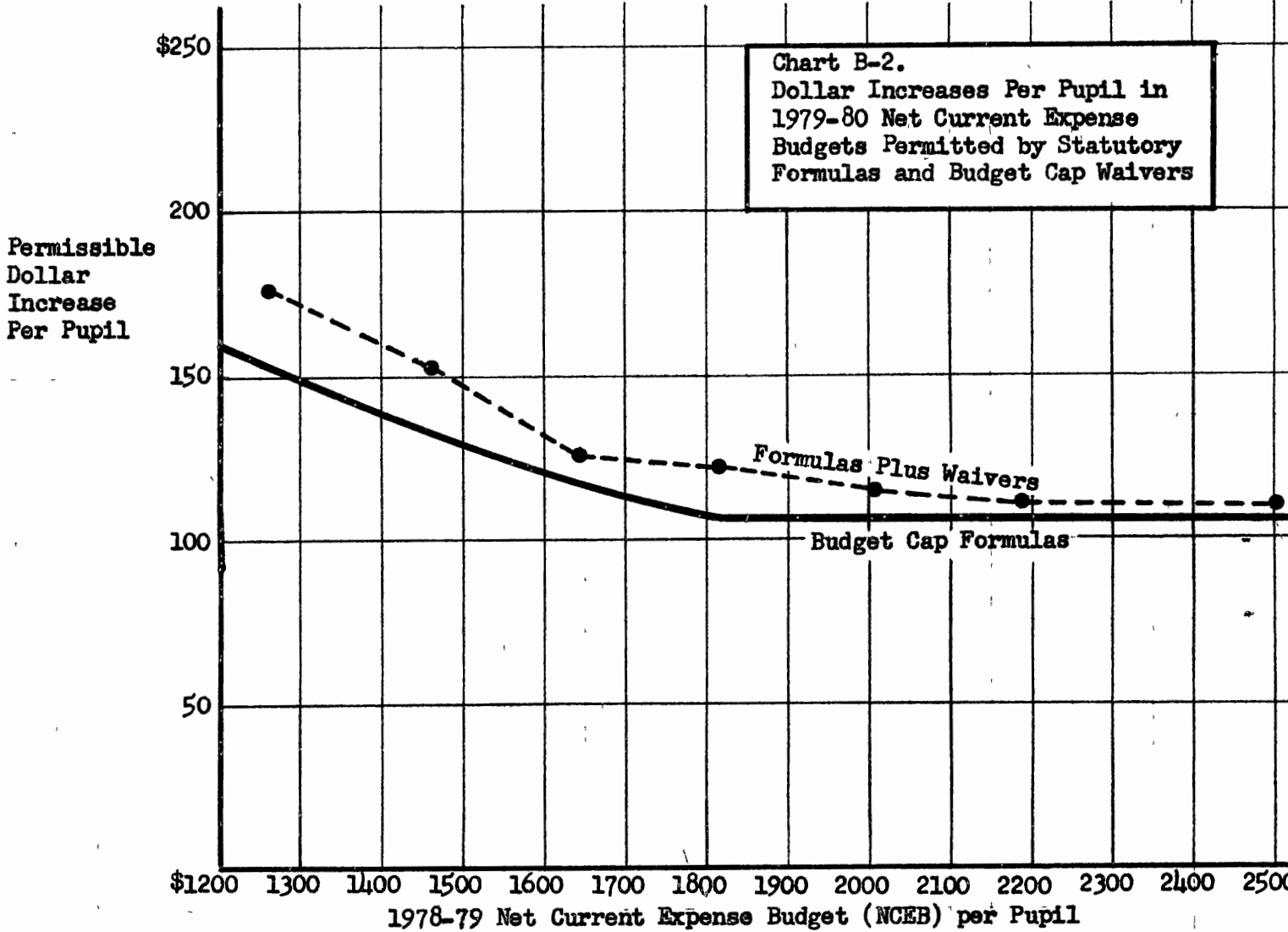
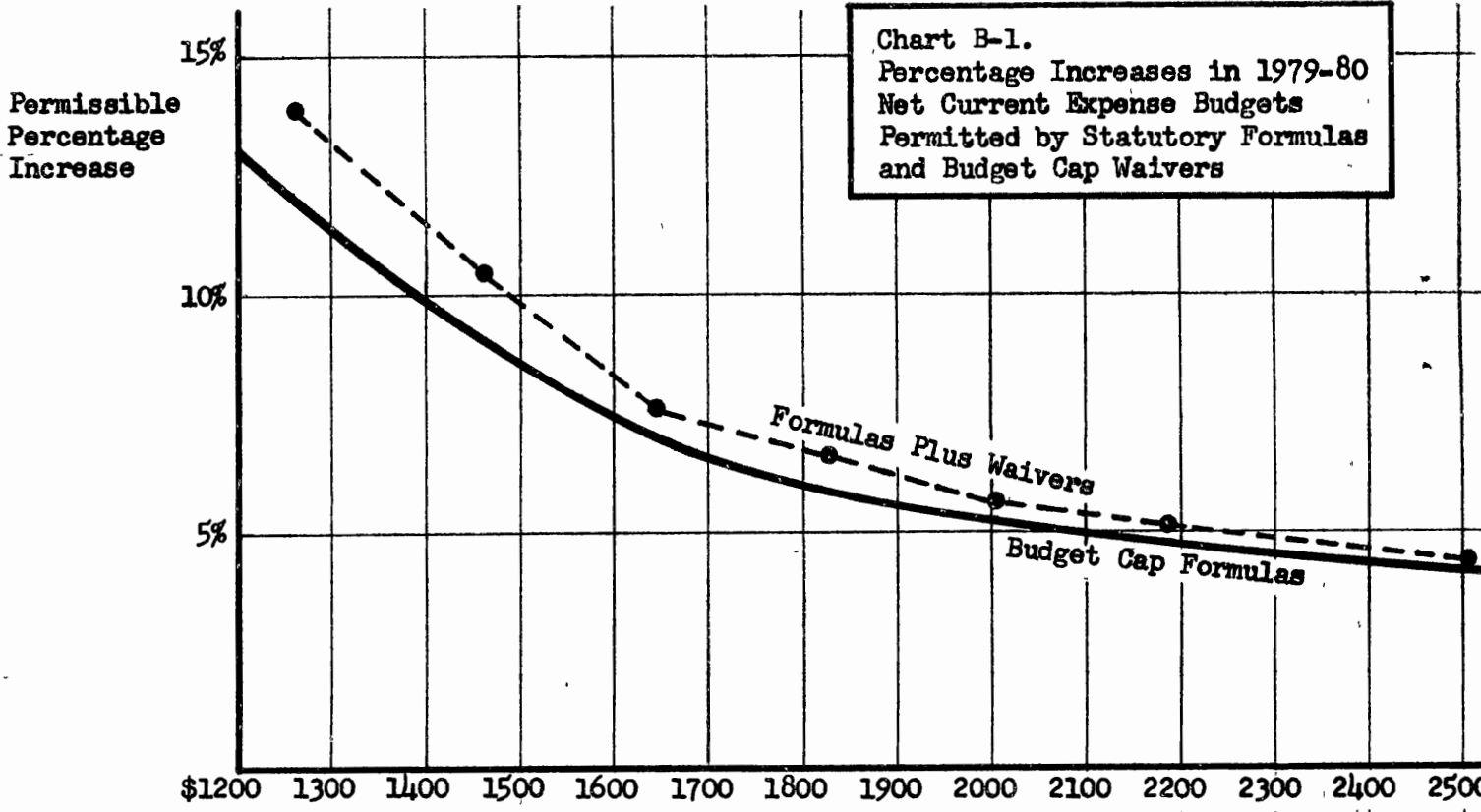
Table 19A. Percentage Increases in 1979-80 Net Current Expense Budgets Permitted by Statutory Formulas and Budget Cap Waivers; School Districts Grouped by Budget Level

<u>Expenditure Group and Relation to State Average NCEB Per Pupil</u>	<u>Number of Districts</u>	<u>1978-79 Average NCEB/Pupil</u>	<u>Increase Permitted by Budget Cap Formulas</u>	<u>Addition Due to Waivers</u>	<u>Sub-Total</u>
A - Over 125% of Average	70	\$2,503.94	+ 4.23%	+0.20%	4.43%
B - 115% to 125% of Average	59	2,190.48	+ 4.84	+0.19	5.03
C - 105% to 115% of Average	98	2,004.58	+ 5.29	+0.40	5.69
D - 95% to 105% of Average	118	1,829.34	+ 5.79	+0.85	6.64
E - 85% to 95% of Average	111	1,646.74	+ 7.15	+0.45	7.60
F - 75% to 85% of Average	82	1,465.73	+ 9.02	+1.39	10.41
G - Below 75% of Average	36	1,266.22	+12.10	+1.82	13.92

Table 19B. Dollar Increases Per Pupil in 1979-80 Net Current Expense Budgets Permitted by Statutory Formulas and Budget Cap Waivers; School Districts Grouped by Budget Level

<u>Expenditure Group and Relation to State Average NCEB Per Pupil</u>	<u>Number of Districts</u>	<u>1978-79 Average NCEB/Pupil</u>	<u>Increase Permitted by Budget Cap Formulas</u>	<u>Addition Due to Waivers</u>	<u>Sub-Total</u>
A - Over 125% of Average	70	\$2,503.94	\$+106.01	\$+ 5.02	\$111.03
B - 115% to 125% of Average	59	2,190.48	+106.01	+ 4.16	110.17
C - 105% to 115% of Average	98	2,004.58	+106.01	+ 8.00	114.01
D - 95% to 105% of Average	118	1,829.34	+106.01	+15.51	121.52
E - 85% to 95% of Average	111	1,646.74	+117.73	+ 7.46	125.19
F - 75% to 85% of Average	82	1,465.73	+132.26	+20.41	152.67
G - Below 75% of Average	36	1,266.22	+153.16	+23.02	176.18

Note: See Table 13 for school districts omitted.



A new analysis of enrollment decline and spending levels in 1979-80 has been prepared for this report with school districts classified into seven groups according to their NCEB-per-pupil level. The average change in resident enrollment from September, 1978 to September, 1979 is shown in Table 20 for each budget-level group. Almost without exception, the greater the NCEB level, the greater the average enrollment decline. The highest-NCEB places in Group A had a 4.32% decline in enrollment; the lowest-NCEB places had a 0.24% increase in enrollment.

Any enrollment decline results in an expanded budget cap, since the limited amount of dollar increase permitted in the budget may be spread over a smaller number of pupils. With the enrollment decline being far greater among the high-spending school districts, it may be expected that the expansion of their budget caps will be greater. The actual impact, in terms of budget cap percentages, is shown in Table 21A, while the impact in terms of permissible per-pupil increases is shown in Table 21B. The changes in budget caps because of enrollment change are shown graphically by Charts C-1 and C-2.

In percentage terms, the caps now have become almost a flat-percentage cap, ranging only from 13.64% for the lowest-budget group to 9.15% for those budgeting more than 125% of the State average per pupil. In absolute dollar terms, the changes are even more striking. The lowest-budget school districts -- spending at less than 75% of the state average -- could increase their budgets by only \$172.73 per pupil in 1979-80, while those in the highest category -- already spending over 125% of the average -- could increase by \$229.10 per pupil. Because of varying rates of enrollment decline, the budget caps have become a major obstacle to equalization of per-pupil expenditures.

Table 20. Average Enrollment Change in New Jersey School Districts, 1978 to 1979; School Districts Grouped by 1978-79 Net Current Expense Budgets per Pupil

<u>Expenditure Group and Relation to State Average Net Current Expense Budget per Pupil in 1978-79</u>	<u>Number of Districts</u>	<u>Average Enrollment Change, September, 1978 to September, 1979</u>
A - Over 125% of Average	70	- 4.32%
B - 115% to 125% of Average	59	- 4.88
C - 105% to 115% of Average	98	- 4.35
D - 95% to 105% of Average	118	- 3.71
E - 85% to 95% of Average	111	- 3.61
F - 75% to 85% of Average	82	- 1.33
G - Below 75% of Average	36	+ 0.24
	<hr/>	<hr/>
Total	574	- 3.44%

Note: See Table 13 for school districts omitted.

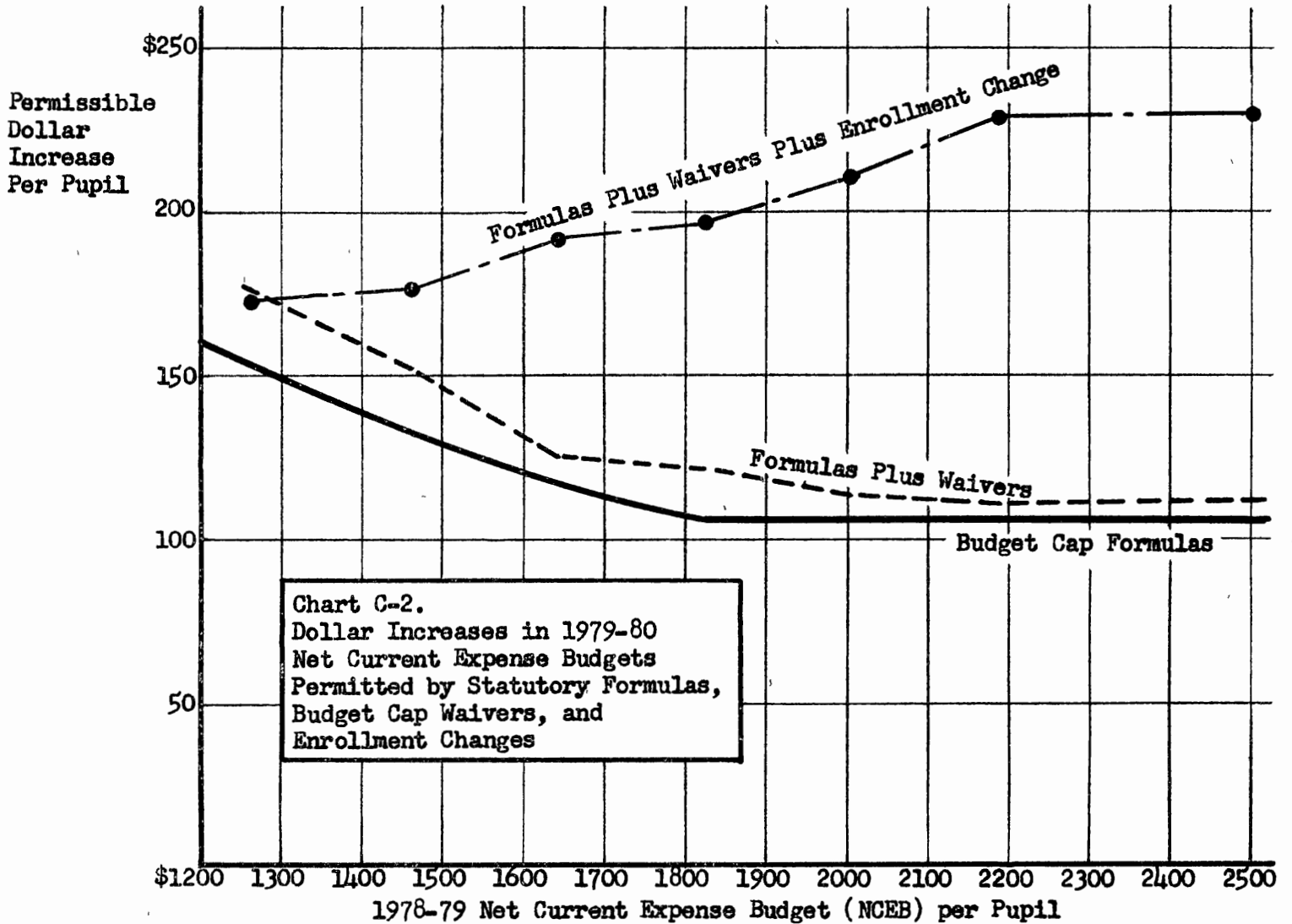
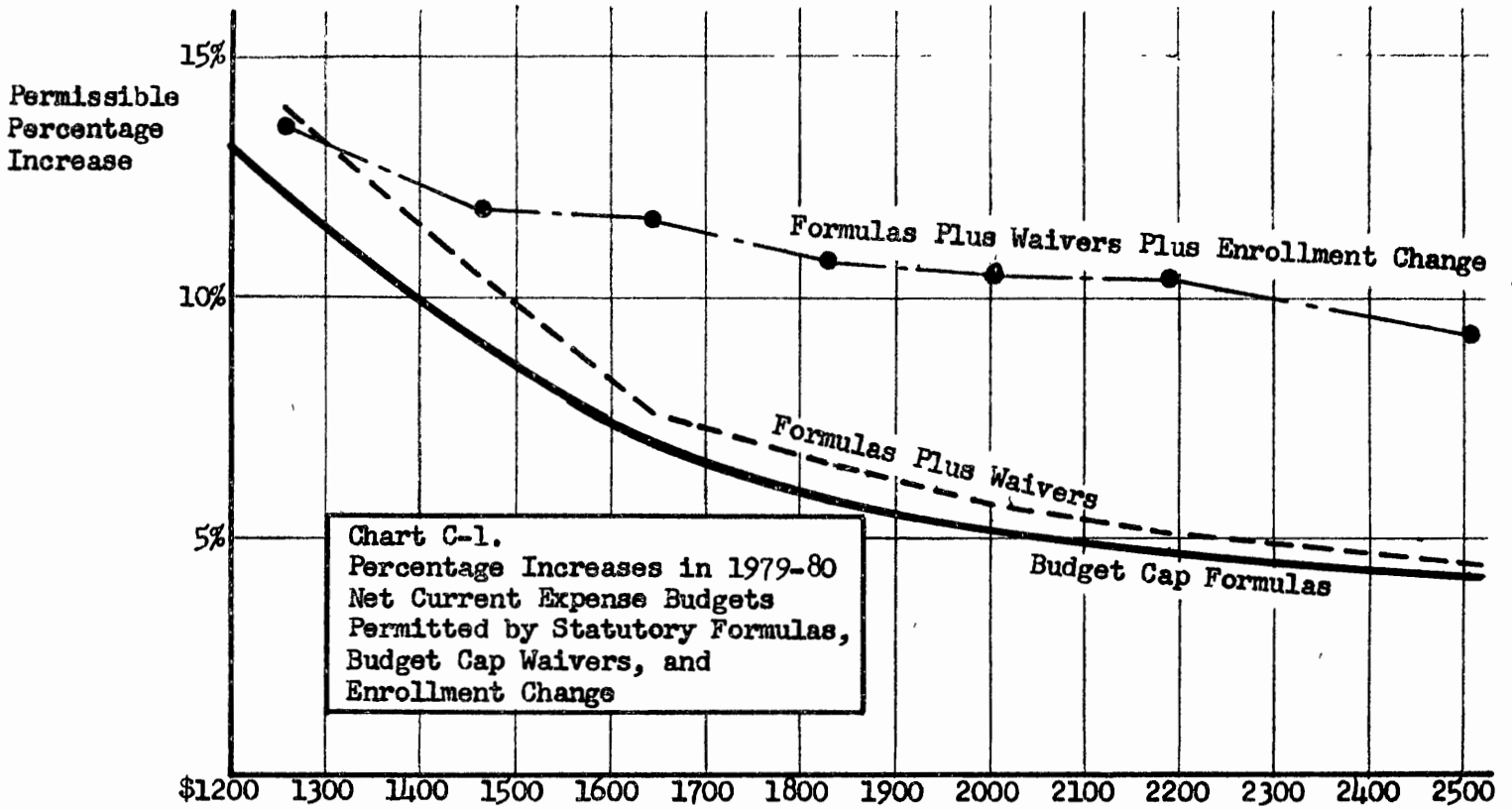
Table 21A. Percentage Increases in 1979-80 Net Current Expense Budgets Permitted by Statutory Formulas, Budget Cap Waivers, and Enrollment Change; School Districts Grouped by Budget Level

<u>Expenditure Group and Relation to State Average NCEB Per Pupil</u>	<u>Number of Districts</u>	<u>1978-79 Average NCEB/Pupil</u>	<u>Increase Permitted by Budget Cap Formulas</u>	<u>Addition Due to Waivers</u>	<u>Addition Due to Enrollment Change</u>	<u>Total Permissible Increase</u>
A - Over 125% of Average	70	\$2,503.94	+ 4.23%	+0.20%	+4.72%	+ 9.15%
B - 115% to 125% of Average	59	2,190.48	+ 4.84	+0.19	+5.39	+10.42
C - 105% to 115% of Average	98	2,004.58	+ 5.29	+0.40	+4.81	+10.49
D - 95% to 105% of Average	118	1,829.34	+ 5.79	+0.85	+4.11	+10.75
E - 85% to 95% of Average	111	1,646.74	+ 7.15	+0.45	+4.03	+11.63
F - 75% to 85% of Average	82	1,465.73	+ 9.02	+1.39	+1.49	+11.90
G - Below 75% of Average	36	1,266.22	+12.10	+1.82	-0.27	+13.64

Table 21B. Dollar Increases Per Pupil in 1979-80 Net Current Expense Budgets Permitted by Statutory Formulas, Budget Cap Waivers, and Enrollment Change; School Districts Grouped by Budget Level

<u>Expenditure Group and Relation to State Average NCEB Per Pupil</u>	<u>Number of Districts</u>	<u>1978-79 Average NCEB/Pupil</u>	<u>Increase Permitted by Budget Cap Formulas</u>	<u>Addition Due to Waivers</u>	<u>Addition Due to Enrollment Change</u>	<u>Total Permissible Increase</u>
A - Over 125% of Average	70	\$2,503.94	\$+106.01	\$+ 5.02	\$+118.07	\$+229.10
B - 115% to 125% of Average	59	2,190.48	+106.01	+ 4.16	+118.03	+228.20
C - 105% to 115% of Average	98	2,004.58	+106.01	+ 8.00	+ 96.35	+210.36
D - 95% to 105% of Average	118	1,829.34	+106.01	+15.51	+ 75.17	+196.69
E - 85% to 95% of Average	111	1,646.74	+117.73	+ 7.46	+ 66.36	+191.55
F - 75% to 95% of Average	82	1,465.73	+132.26	+20.41	+ 21.87	+174.54
G - Below 75% of Average	36	1,266.22	+153.16	+23.02	- 3.45	+172.73

Note: See Table 13 for school districts omitted.



Failure to Utilize Budget Caps Fully

A fourth reason why school budget caps may not be effective in raising the relative spending level of low-budget districts would occur if the districts with large percentage caps according to the formulas failed to budget to the full extent of the permissible limit. To some extent, this does appear to be happening, although the variation is relatively small. Table 22A brings together on a percentage basis the budget cap data for 1979-80 already discussed and shown in charts and other tables -- the formula cap, the additions due to cap waivers, and the additions due to enrollment decline -- and compares this maximum permissible increase in NCEB with the actual increase which took place for the year. So far as group averages are concerned, the performance of the school districts is remarkably uniform, with Groups A through E varying only between 87% and 94% in their use of their maximum permissible budget cap increases. Only in the two lowest-budget groups of districts is there a minor deviation, with the use of the caps falling to 68% in Group F and 79% in Group G. Table 22B shows the same data in dollar-per-pupil terms.

So far as individual school districts are concerned, about half in 1979-80 budgeted less than 95% of the increase permitted by the statutory budget cap formula, about one-third budgeted from 95% to 105% of the formula amount, and about one-fifth exceeded the formula budget cap through the use of waivers. The breakdown by budget level is shown in Table 23.

While a possible explanation in earlier years, in 1979-80 the failure of low-budget districts to utilize their caps fully is only a minor cause for their failure to increase their relative expenditure level.

Table 22A. Permissible and Actual Percentage Increases in 1979-80  
Net Current Expense Budgets; School Districts Grouped by  
Budget Level

Expenditure Group and Relation to State Average NCEB Per Pupil	Number of Districts	1978-79 Average NCEB/Pupil	Increase Permitted by Budget Cap Formulas	Addition Due to Waivers	Addition Due to Enrollment Change	Total Permis- sible Increase	Actual Change in Average NCEB/Pupil	Actual as a Percentage of Permissible
A - Over 125% of Average	70	\$2,503.94	+ 4.23%	+0.20%	+4.72%	+ 9.15%	+ 8.31%	91%
B - 115% to 125% of Average	59	2,190.48	+ 4.84	+0.19	+5.39	+10.42	+ 9.31	89
C - 105% to 115% of Average	98	2,004.58	+ 5.29	+0.40	+4.81	+10.49	+ 9.87	94
D - 95% to 105% of Average	118	1,829.34	+ 5.79	+0.85	+4.11	+10.75	+ 9.32	87
E - 85% to 95% of Average	111	1,646.74	+ 7.15	+0.45	+4.03	+11.63	+10.11	87
F - 75% to 85% of Average	82	1,465.73	+ 9.02	+1.39	+1.49	+11.90	+ 8.14	68
G - Below 75% of Average	36	1,266.22	+12.10	+1.82	-0.27	+13.64	+10.75	79

Table 22B. Permissible and Actual Dollar Increases Per Pupil in 1979-80  
Net Current Expense Budgets; School Districts Grouped by  
Budget Level

Expenditure Group and Relation to State Average NCEB Per Pupil	Number of Districts	1978-79 Average NCEB/Pupil	Increase Permitted by Budget Cap Formulas	Addition Due to Waivers	Addition Due to Enrollment Change	Total Permis- sible Increase	Actual Change in Average NCEB/Pupil	Actual as a Percentage of Permissible
A - Over 125% of Average	70	\$2,503.94	+\$106.01	\$+ 5.02	+\$118.07	+\$229.10	+\$208.20	91%
B - 115% to 125% of Average	59	2,190.48	+106.01	+ 4.16	+118.03	+228.20	+203.95	89
C - 105% to 115% of Average	98	2,004.58	+106.01	+ 8.00	+ 96.35	+210.36	+197.91	94
D - 95% to 105% of Average	118	1,829.34	+106.01	+15.51	+ 75.17	+196.69	+170.46	87
E - 85% to 95% of Average	111	1,646.74	+117.73	+ 7.46	+ 66.36	+191.55	+166.47	87
F - 75% to 85% of Average	82	1,465.73	+132.20	+20.41	+ 21.87	+174.48	+119.29	68
G - Below 75% of Average	36	1,266.22	+153.16	+23.02	- 3.45	+172.73	+136.10	79

Note: See Table 13 for school districts omitted.

Table 23. Use of Budget Cap Capacity by New Jersey School Districts  
in 1979-80; School Districts Grouped by Budget Level

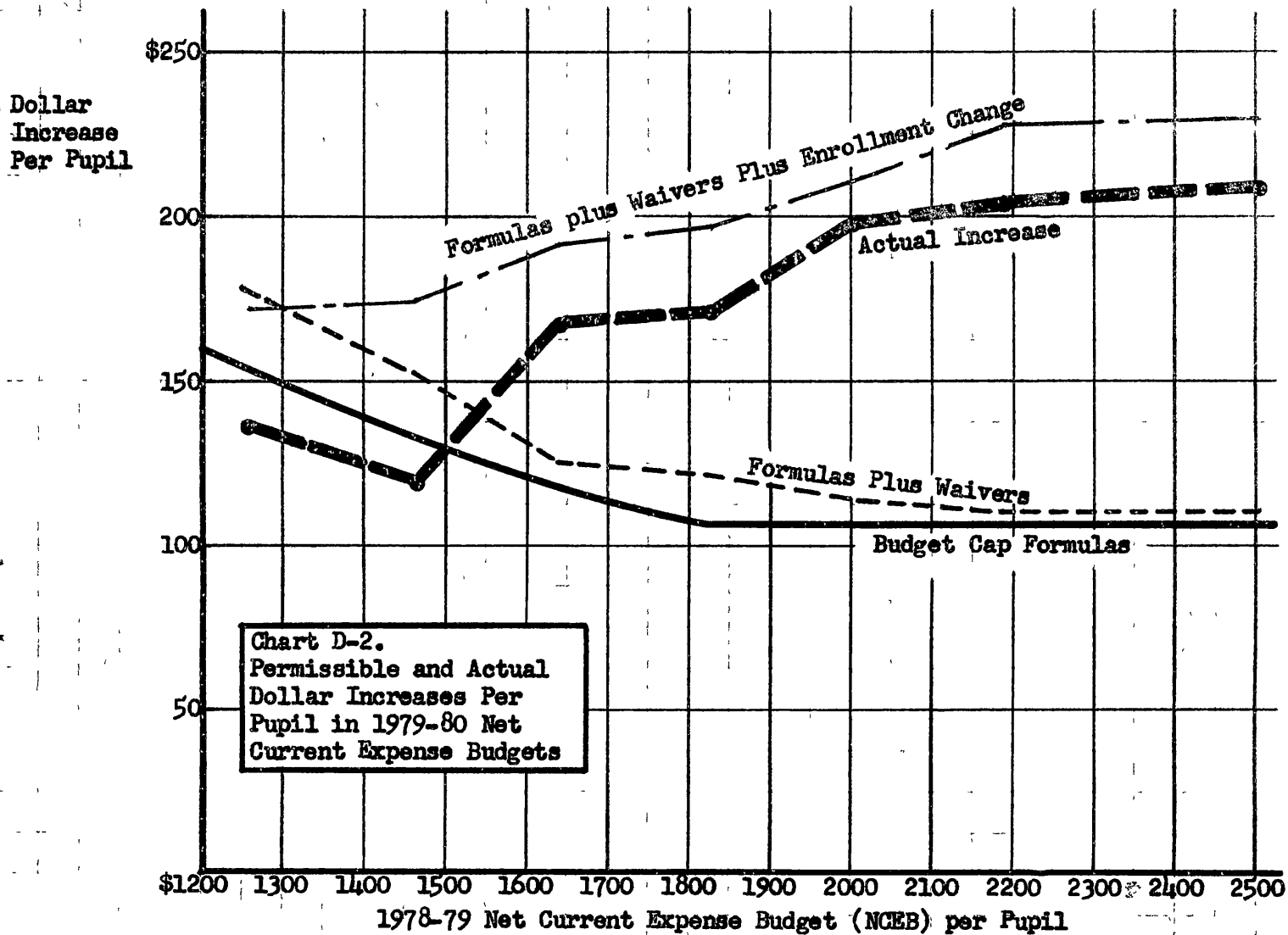
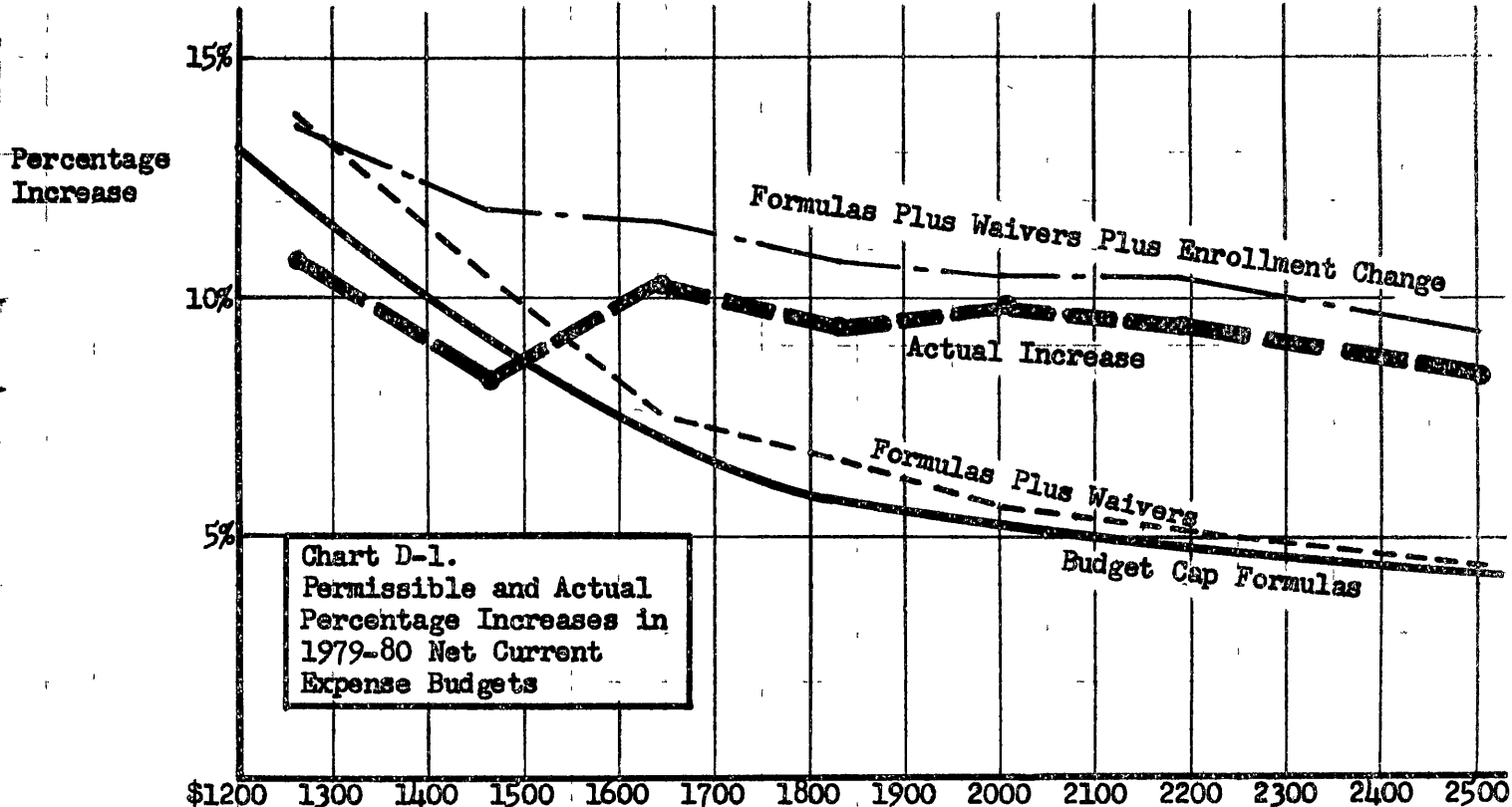
Expenditure Group and Relation to State Average Net Current Expense Budget Per Pupil in Prior Year	Number of Districts	Percentage of School Districts Budgeting:		
		Less Than 95% of Amount Permissible by Formula	95% to 105% of of Amount Permissible by Formula	More Than 105% of Amount Permissible by Formula
A - Over 125% of Average	70	46%	33%	21%
B - 115% to 125% of Average	59	47	32	20
C - 105% to 115% of Average	98	42	33	26
D - 95% to 105% of Average	118	51	32	17
E - 85% to 95% of Average	111	51	32	17
F - 75% to 85% of Average	82	51	24	24
G - Below 75% of Average	36	56	25	19
Total	574	49%	31%	21%

The impact of the various factors explaining the failure of the budget caps to produce more equalization of per-pupil net current expense budgets has been presented for 1979-80 in Tables 22A and 22B. These data are now also summarized in Charts D-1 and D-2. Average net current expense budgets per pupil increased by just about the same percentage in all budget-level groups, ranging only between 8.31% for the highest-budget places to 10.75% for the lowest-spending group. In dollar-per-pupil terms, the gap between low and high-budget places widened considerably, with the average per-pupil increase ranging from \$119 in Group F and \$136 in Group G to \$204 in Group B and \$208 in Group A. Clearly, the main reason for the failure of the budget caps to raise the relative spending level of low budget school districts is the varying degree of enrollment decline among school districts at different expenditure levels. Unless some action is taken to correct this aspect of the budget cap formula, more equal expenditures per pupil for these districts will be impossible to achieve in New Jersey.

#### Summary

The budget caps have been very successful in achieving three of the purposes for which they were created. They have prevented large and, presumably, inefficient annual increases in school budgets. They have provided substantial protection of the State treasury against the unanticipated liabilities possible within a cost-sharing State aid system. They have contributed to the achievement of a considerable measure of property tax relief in New Jersey.

In terms of their fourth purpose -- to permit low-budget communities to use an expanded State aid program to catch up in spending level with those places which had higher spending status because of greater amounts



of property tax resources -- the budget caps have failed to achieve very much. When measured in relative terms, using total budget figures, there has been some slow equalization. When measured in terms of the absolute dollar difference between high- and low-spenders, there has been a loss of ground. The major reason has been the differing rates of enrollment decline: high-budget places have lost enrollment rapidly; low-budget places have lost slowly or have gained enrollment. Budget cap waivers and under-utilization of budget cap capacity in recent years have played only small roles. If the budget caps are to perform this function for which they were established, some adjustment must be made to account for enrollment change.

V - THE IMPACT OF BUDGET CAPS ON SCHOOL PROGRAM

Although school budget caps appear to have achieved some of the purposes for which they were developed and to have failed in other areas, there is the possibility that they may have had unintended consequences in their impact on the educational programs of the public schools. This chapter will attempt to evaluate that impact.

Statewide Expenditure Trends

Before examining the impact of the budget caps on school program, it may be useful to identify longer-term trends in New Jersey public school finance, since there always is a danger of attributing to some recent innovation effects which really are reflective of factors operating over a longer period of time.

Data Considerations

Final audited expenditure and enrollment data for each school district have been published for twenty-five years by the Commissioner of Education in the so-called "blue book", using a standard chart of accounts.<sup>1</sup> Unfortunately, the latest "blue book" to be published is for 1976-77. In order to carry the expenditure analysis beyond this year, the Department of Education has made available worksheets for 1977-78 providing data comparable to published data for earlier years. Expenditure and enrollment information taken from the worksheets, while still subject to correction as errors are found, is considered almost as accurate as the published data for earlier years. In all tables,

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<sup>1</sup>Financial Statistics of School Districts, Annual Report of the Commissioner of Education, Department of Education, State of New Jersey, Trenton, New Jersey.

however, such data have been labeled as "preliminary".

### Inflation Factor

Budget or expenditure information gathered over a period of years can be misleading if the effect of inflation is not taken into account. For this reason, all finance data in this chapter have been reduced to a constant-dollar value. At least 65% of all school district expenses are for salaries, with the salaries of teachers making up over 42% of all expenditures. For this reason, the average teacher salary in New Jersey appears to be a convenient and relevant gauge of changing school costs. All current expenditure data, therefore, have been converted to constant 1975 dollar values through use of an index based on the average teacher salary in the state. For most years, this index is very close to the Consumers Price Index (See Table 24).

### Total Expenditures

Table 25 shows the state total of constant-dollar expenditures per pupil, by major expenditure category, from 1970-71 through 1977-78. Table 26 converts the data in Table 25 to a percentage of total school district expenditures, in order to show changing patterns over time. Tables in Appendix A of this report provide a more detailed breakdown of some of the major budget categories shown in Tables 25 and 26.

In general during the 1970's, school budgets per pupil rose faster than the inflation index, with the result that expenditures per pupil increased in constant dollars. However, general economic conditions and other special factors caused variations of the growth rate. In 1975-76, an impasse in State budgeting, which produced a "freeze" of State aid to schools, brought a reduction of the average constant-dollar expenditure

Table 24. Comparison of Trend of Average New Jersey Teachers' Salary With Trend of Consumer Price Index, 1970-71 to 1979-80

Average New Jersey Teachers' Salary			Consumer Price Index	
<u>Year</u>	<u>Average Salary</u>	<u>Index to 1975-76</u>	<u>Year</u>	<u>Index to 1975</u>
1970-71	\$ 10,050	.740	1970	.715
1971-72	10,725	.789	1971	.756
1972-73	11,300	.832	1972	.779
1973-74	11,920	.877	1973	.827
1974-75	12,618	.929	1974	.925
1975-76	13,588	1.000	1975	1.000
1976-77	14,537	1.070	1976	1.054
1977-78	15,370	1.131	1977	1.119
1978-79	16,070	1.183	1978	1.185
1979-80	17,200 est.	1.266	1979	1.297

Notes:

1. Average New Jersey teachers' salary supplied by Research Department of New Jersey Education Association.
2. Consumer Price Index is the July average for the New York-Northeastern New Jersey and the Philadelphia areas, converted to a 1975 base.

Table 25. State Total Expenditures Per Pupil by Local School Districts, by Major Expenditure Category,  
in 1975-76 Dollars; 1970-71 to 1977-78

	<u>1970-71</u>	<u>1971-72</u>	<u>1972-73</u>	<u>1973-74</u>	<u>1974-75</u>	<u>1975-76</u>	<u>1976-77</u>	<u>Preliminary 1977-78</u>
Administration	\$ 46.98	\$ 48.64	\$ 51.05	\$ 54.50	\$ 59.17	\$ 59.90	\$ 62.07	\$ 66.54
Instruction	905.42	938.31	971.55	1,010.19	1,048.06	1,050.41	1,056.83	1,081.11
Attendance	3.85	4.15	3.50	2.98	3.41	3.73	3.76	3.87
Health Services	20.21	20.91	22.23	21.96	23.25	23.18	23.63	24.44
Transportation	47.00	48.37	50.81	55.97	62.18	63.04	65.64	71.08
Plant Operation	109.14	113.95	118.86	132.17	149.80	148.48	153.83	160.50
Maintenance	40.98	43.78	49.49	60.27	67.20	59.58	64.53	65.63
Fixed Charges	58.14	64.91	69.56	75.14	78.42	85.85	100.17	114.42
Net Tuition	4.14	5.76	7.88	9.32	11.49	13.48	15.03	16.22
Food Service	7.74	8.18	10.16	11.68	12.67	11.61	9.75	11.04
Student Activities	13.46	14.32	15.92	16.77	19.04	19.74	18.37	21.35
Community Service	3.31	3.75	3.77	1.78	3.91	4.82	4.46	6.32
Special Projects	4.32	2.89	7.73	5.33	7.33	6.09	19.79	39.88
Federal Programs	54.07	62.91	58.11	61.26	68.04	64.35	64.73	68.34
Special Schools	10.31	10.35	11.16	13.61	14.20	12.92	11.85	13.61
<b>Sub-Total: Curr. Exp.</b>	<b>1,329.06</b>	<b>1,391.20</b>	<b>1,451.78</b>	<b>1,532.92</b>	<b>1,628.17</b>	<b>1,627.19</b>	<b>1,674.43</b>	<b>1,764.35</b>
Budgeted Capital Outlay	20.75	21.15	20.63	13.60	11.21	9.05	8.01	16.15
Debt Service	122.44	120.48	123.88	126.34	124.54	124.54	121.24	125.47
Add. Bldg. Aid	--	1.02	1.90	3.63	4.03	4.40	4.38	9.81
<b>TOTAL</b>	<b>1,472.25</b>	<b>1,533.87</b>	<b>1,598.19</b>	<b>1,676.49</b>	<b>1,766.62</b>	<b>1,765.16</b>	<b>1,808.05</b>	<b>1,915.81</b>

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Table 25.

Notes:

1. Data for 1970-71 through 1976-77 are audited expenditure figures as published in the Annual Reports of the Commissioner of Education, Financial Statistics of School Districts.
2. Data for 1977-78 are audited expenditure figures from worksheets in the Department of Education.
3. Net Tuition is the total paid minus the total tuition received by school districts, and represents the net payments made outside the New Jersey public school system.
4. Debt Service includes payments made by school districts and by municipal governments on behalf of school districts.
5. Omitted are Improvement Authorizations.
6. All data are expressed in 1975-76 dollars through use of an index based on the average teachers' salary in New Jersey.
7. Individual figures may not add to totals because of rounding.
8. See Appendix Table A-1 for further detail.

Table 26. State Total Expenditures by Local School Districts, by Major Expenditure Category, as Percentage of Total Expenditure, 1970-71 to 1977-78

	<u>1970-71</u>	<u>1971-72</u>	<u>1972-73</u>	<u>1973-74</u>	<u>1974-75</u>	<u>1975-76</u>	<u>1976-77</u>	<u>Preliminary 1977-78</u>
Administration	3.19%	3.17%	3.19%	3.25%	3.35%	3.39%	3.43%	3.47%
Instruction	61.50	61.17	60.79	60.26	59.33	59.51	58.45	56.43
Attendance	.26	.27	.22	.18	.19	.21	.21	.20
Health Services	1.37	1.36	1.39	1.31	1.32	1.31	1.31	1.28
Transportation	3.19	3.15	3.18	3.34	3.52	3.57	3.63	3.71
Plant Operation	7.41	7.43	7.44	7.88	8.48	8.41	8.51	8.38
Maintenance	2.78	2.85	3.10	3.59	3.80	3.38	3.57	3.43
Fixed Charges	3.95	4.23	4.35	4.48	4.44	4.86	5.54	5.97
Net Tuition	.28	.38	.49	.56	.65	.76	.83	.85
Food Service	.53	.53	.64	.70	.72	.66	.54	.58
Student Activities	.91	.93	1.00	1.00	1.08	1.12	1.02	1.11
Community Service	.22	.24	.24	.11	.22	.27	.25	.33
Special Projects	.29	.19	.48	.32	.41	.34	1.09	2.08
<del>Federal Programs</del>	<del>3.67</del>	<del>4.10</del>	<del>3.64</del>	<del>3.65</del>	<del>3.85</del>	<del>3.65</del>	<del>3.58</del>	<del>3.57</del>
Special Schools	.70	.67	.70	.81	.80	.73	.66	.71
<b>Sub-Total: Curr. Exp.</b>	<b>90.27</b>	<b>90.70</b>	<b>90.84</b>	<b>91.44</b>	<b>92.16</b>	<b>92.18</b>	<b>92.61</b>	<b>92.09</b>
Budgeted Capital Outlay	1.41	1.38	1.29	.81	.63	.51	.44	.84
Debt Service	8.32	7.85	7.75	7.53	6.98	7.05	6.71	6.55
Add. Bldg. Aid	--	.07	.12	.22	.23	.25	.24	.51

Table 26.

Notes:

1. Percentages for 1970-71 through 1976-77 based on audited expenditure figures as published in the Annual Reports of the Commissioner of Education, Financial Statistics of School Districts.
2. Percentages for 1977-78 based on audited expenditure figures from worksheets in the Department of Education.
3. Net Tuition is the total paid minus the total tuition received by school districts, and represents the net payments made outside the New Jersey public school system.
4. Debt Service includes payments made by school districts and by municipal governments on behalf of school districts.
5. Omitted are Improvement Authorizations.
6. Individual figures may not add to totals because of rounding.
7. See Appendix Table A-2 for further detail.

level. Budget caps were first implemented in 1976-77, and became more restrictive in 1977-78. A further element, which may have influenced the observable trends, was the peaking of state total public school enrollments in 1971-72, with an accelerating enrollment drop after that year.

#### Increasing Expenditure Categories

Several of the smaller expenditure categories shown in Tables 25 and 26 have grown both in their share of the school budget and in actual constant-dollar value. School district administration shows a slow, steady increase from 3.19% of expenditures in 1970-71 to 3.47% in 1977-78. Transportation, which had been relatively stable in the early 1970's, jumped from 3.18% of the total in 1973-74 to 3.71% by 1977-78, and recent price increases in motor fuels undoubtedly will bring a further rise in the latter part of the decade. Plant operation costs grew during the early 1970's as a proportion of school expenditures, but then leveled off as a percentage of this total. Maintenance costs followed a similar pattern. Fixed charges is a budget category which has grown rapidly during the 1970's, with increased costs for insurance and judgments being a major factor. Net tuition -- the difference between tuition paid by the public schools and tuition received -- while still small, has more than tripled its share of the school budget since 1970-71, reflecting a substantial effort to provide special educational programs for handicapped pupils in private or other public facilities beyond the local school system. Finally, special projects, a relatively minor category during the early part of the decade, has grown to major significance under Chapter 212, since State compensatory education and bilingual programs are accounted

for under this heading. In summary, an increasing share of the school budget is being taken by administration, transportation, plant operation, maintenance, fixed charges, net tuition, and special projects.

Declining Expenditure Categories

If some budget categories have taken a larger share of the total, others must have contracted. Instruction expenditures, the largest single budget area, became a smaller and smaller portion of the total during the 1970's, declining from 61.50% at the beginning of the period to 56.43% in 1977-78, and probably even lower in later years. Included here are:

Salaries of Principals

Salaries of Supervisors of Instruction

Salaries of Teachers

Salaries of Other Instructional Staff (including school librarians, guidance personnel, child study team, audio-visual personnel, and radio and television instructional personnel)

Salaries of Secretarial and Clerical Assistants (when providing services for instructional personnel)

Other Salaries for Instruction

Textbooks

School Libraries and Audio-Visual Materials

Teaching Supplies

Other Expenses for Instruction (including miscellaneous supplies for instruction, travel expenses for instruction, and other expenses directly connected with instruction)

Despite the decline as a share of the total, expenditures for instruction rose in constant dollars in every year, reflecting an effort by school boards and school administrators to protect instructional programs during lean years.

The other major area of declining expenditure was debt service. As the bonds issued during the 1950's are paid off, and as declining enrollments continue to reduce the demand for new construction, debt service (including municipal budget obligations) probably will continue to become a smaller percentage of total school expenditures. This trend may halt, however, if a major effort is made to replace outdated school facilities in the older urban areas.

Budgeted capital outlay appears to be a special case. During the early 1970's, school districts reduced expenditures sharply in this category, mainly because the State provided no equalization aid to cover a share of capital expenditures. Some costs could be justified either as capital items or as maintenance expenditures, and there was an incentive to shift them out of capital and into maintenance, thus including them in the net operating budget, of which a share was paid by the State under the Bateman-Tanzman equalization program. A change in accounting procedure in 1973-74, which placed new school bus purchases under transportation, rather than under budgeted capital outlay, also contributed to a decline in the capital category. With the implementation of Chapter 212, however, the trend has reversed sharply. Budgeted capital outlay now is subject to State equalization support. Moreover, budgeted capital outlay is outside the budget caps. The result has been to reverse the incentives, and to encourage the inclusion of borderline expenditure items in budgeted capital outlay, rather than under maintenance. The impact is shown in Table 25, where budgeted capital outlay grew substantially in 1977-78. In summary, debt service and instruction are becoming smaller percentages of the school budget, although instructional costs per pupil have increased steadily on a constant-dollar basis. The budget caps have

stimulated a sharp increase in budgeted capital outlay.

#### Stable Expenditure Categories

While varying from year to year in different patterns, a number of the smaller expenditure categories show no marked trend toward an increasing or decreasing share of the school budget. Attendance services, never a very large part of total expenditures, declined modestly in the early 1970's, and then began to recover some ground. Health services spending leveled off at about 1.3% of total expenditures in the latter half of the period. The food services share of the budget rose in mid-decade, probably due to the school lunch program, but then declined somewhat as that program was reduced in scope. Except for 1976-77, expenditures for student activities gradually have taken a larger share of the school dollar, possibly influenced by Title IX requirements for more equal athletic opportunities for both boys and girls. Community service activities, a small item, changed little during the decade. Federal program spending fluctuated from year to year between 3.6% and 4.1% of the total, with no clear pattern. Special schools -- adult education, evening vocational schools, summer schools, etc. -- may have suffered as funds were diverted during the tight budget year of 1975-76 and the first budget cap year of 1976-77, but recovered some ground in 1977-78. Additional building aid expenditures rose in the early 1970's, leveled off at about one-quarter of one percent of total expenditures, and then jumped in 1977-78.

#### Measuring the Impact of Budget Caps on School Program

Budget caps have no direct impact on the quality of school program. As a fiscal restraint, the budget caps have a direct effect only on the quantity of fiscal resources made available for school program. The

quality of that program depends not only on the quantity of resources made available, but also on what use is made of those resources by local school districts. An attempt to measure the impact of budget caps by evaluating the quality of the school program would introduce an extraneous element involving the decisions made by local school boards, school administrators, and school staff. Quality of program, moreover, frequently is a subjective matter, with little consensus on criteria. Evaluation of the quality of program in even a single school district is a complex task; to attempt it for 600 school districts is well beyond the scope of this report.

In this chapter, an attempt is made to estimate the impact of the budget caps by looking at the changes which have occurred in the fiscal resources made available for school program since the budget caps were first imposed in 1976-77. More specifically, the fiscal resources available for school program have been measured in terms of the expenditures per pupil for instruction in constant dollars.<sup>1</sup> If the per-pupil instructional expenditures in constant-value dollars rise from one year to the next, it is assumed that fiscal resources for school program have improved. Conversely, a lower level of per-pupil instructional expenditures in constant dollars indicates a deterioration of fiscal resources available for school program. Whether these resources have been used for more or fewer course offerings, larger or smaller pupil-teacher ratios, or additional or fewer textbooks, are local decisions which may flow from the budget cap impact on resources, but which cannot be evaluated here as a direct impact of the caps.

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<sup>1</sup>See above, p. 75 for a definition of instructional expenditure items.

Expenditure Data

Data on actual expenditures for instruction in each school district are available from the "blue books" for 1975-76 and 1976-77 and in the Department of Education worksheets for 1977-78. For 1978-79 and 1979-80, no such comparable data are available at this time. Instead, the New Jersey School Boards Association has supplied average budget figures for instruction which were gathered from individual school budgets on file in the Department of Education. Since these data are budgeted figures, rather than actual audited expenditures, they have been labeled as "tentative" in all tables in this report.

A complication is introduced for 1978-79 and 1979-80, in that a small, but growing number of school districts have changed from a traditional line-item budget format, and filed only a program budget with the Department. Thus, these districts were omitted from the data provided by the New Jersey School Boards Association. In order to fill this gap, the program budgets on file at the Department have been examined, and the following appropriation categories selected as approximately equivalent to the instruction section of the line item budgets:

Regular Instructional Programs (minus State compensatory education programs and bilingual programs)

Special Instructional Programs

Instructional Support (including curriculum supervision and development, instructional staff training, library, and media)

Guidance Services

Child Study Teams

Supplemental Instruction

School Administration (as distinguished from district-wide administration)

### Enrollments

Information on enrollments has similar strengths and weaknesses. Through 1976-77, the published "blue books" show the average yearlong enrollment in the schools of each school district, including both resident and non-resident pupils. A presumably comparable figure was gathered from the Department worksheets for 1977-78, but is subject to correction before publication. Average district enrollment data for 1978-79 and 1979-80 were not available. Instead, the enrollment as of the end of September has been used, based on evidence that, statewide, this figure usually deviates from the yearlong figure by just about the same amount that the budgeted instructional appropriations differ from the actual final expenditures.

### Inflation Factor

Expenditure data have been reduced to constant dollar terms through the use of an index based on the average teacher salary in New Jersey, as already described.<sup>1</sup> This index is even more appropriate in dealing with instructional costs than in its application to the entire budget, since 75% of the costs of instruction are for teacher salaries, and 94% of all instruction costs are for salaries of some sort.

### Summary

In summary, the fiscal indicator used to measure the impact of budget caps on fiscal resources for school program is the per pupil expenditure for instruction, expressed in constant-dollar terms, using the average New Jersey teachers' salary to reduce current dollars to a constant value.

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<sup>1</sup>See above, p. 68.

Data for 1975-76 and 1976-77 are final, published figures, which are regarded as reasonably accurate. Data for 1977-78 are unpublished figures, which are probably almost as accurate as the earlier data, but are listed throughout the chapter as "Preliminary". Data for 1978-79 and 1979-80 represent a patchwork of information, which is probably considerably less accurate than earlier data, and is described throughout the chapter as "Tentative".

#### Statewide Impact of Budget Caps on Fiscal Resources for School Program

During the early 1970's, instructional expenditures per pupil in constant dollars rose at about three to four percent per year (See Table 27). With the State aid "freeze" of 1975-76, this growth almost stopped, with instructional expenditures increasing only 0.2% that year in constant-dollar terms. The first year under Chapter 212 -- 1976-77 -- saw only a modest resumption of growth, as many districts failed to utilize their budget cap capacity.<sup>1</sup> Thereafter, instructional expenditures per pupil have increased each year, though at a somewhat lesser overall rate than before the budget caps were imposed. On a statewide basis, the budget caps appear to have reduced the rate by which the fiscal resources for school program are growing, but they have not resulted in an overall reduction in those resources.

#### Impact of the Budget Caps on Individual School Districts

The conclusion that there has not been a general statewide decline in fiscal resources available for school program under the budget caps does not preclude the possibility that this may have happened in individual

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<sup>1</sup>See above, pp. 11-15.

Table 27. State Average Per-Pupil Expenditures for Instruction in Constant 1975-76 Dollars; 1970-71 to 1979-80

<u>Year</u>	<u>Instruction Expenditures Per Pupil in 1975-76 Dollars</u>	<u>Percentage Change from Prior Year</u>	
1970-71	\$ 905.42		
1971-72	938.31	+ 3.6%	
1972-73	971.55	+ 3.5	
1973-74	1,010.19	+ 4.0	
1974-75	1,048.06	+ 3.7	
1975-76	1,050.41	+ 0.2	
<hr style="border-top: 1px dashed black;"/>			
1976-77	1,056.83	+ 0.6	} Period of Chapter 212 Budget Caps
1977-78 Preliminary	1,081.11	+ 2.3	
1978-79 Tentative	1,129.24	+ 4.5	
1979-80 Tentative	1,157.65	+ 2.5	

districts. To test this possibility, the constant-dollar instruction expenditure per pupil in each district has been compared for each of the first four years under the budget caps with the prior year data.<sup>1</sup> The results are shown at the top of Table 28. In the first year of budget caps -- 1976-77 -- almost 40% of the school districts in the state reduced their fiscal input to instructional programs when this is measured in constant dollars on a per-pupil basis. In subsequent years, the proportion dropped to about one-fourth.

The year-to-year changes do not tell the story fully, however. While a school district may be forced to a lower expenditure per pupil in one year, it may recover in the next year. In fact, this is what seems to have happened in many cases. Although roughly one-quarter of the districts have reduced their per-pupil instructional expenditures in each year, this result over the entire four-year span is less widespread. Of all school districts, about 10% have had a long-term (1975-76 to 1979-80) decline in constant-dollar expenditures per pupil for instruction.

Although Table 28 shows a substantial minority of the school districts with a lower expenditure level for instruction in each year, this does not necessarily indicate that the change was due to the budget caps, since the same result could be caused by a board of education which failed to use

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<sup>1</sup>Omitted for all four years are the non-operating districts of Rockleigh, Teterboro, Hi-Nella, Pine Valley, Tavistock, Cape May Point, West Wildwood, Allenhurst, Interlaken, South Belmar, Victory Gardens, Mantoloking, Far Hills, Millstone Borough, Rocky Hill, Hardwick, and Pahaquarry; and the two special education districts of Corbin City and Longport. In 1979-80, three more districts -- Audubon Park, Helmetta, and Sea Bright -- became non-operating and are omitted. Cumberland Regional entered its second operational year in 1978-79, and was added.

Table 28. Changes in Individual School District Per-Pupil Expenditures for Instruction in Constant Dollars; 1976-77 through 1979-80

	Change from Prior Year				Change Over 4-Year Period
	Final 1976-77	Preliminary 1977-78	Tentative 1978-79	Tentative 1979-80	
Districts Having <u>LOWER</u> Per-Pupil Expenditures for Instruction in Constant Dollars than in Prior Year:					
	232 (39.9%)	130 (22.3%)	105 (18.0%)	157 (27.1%)	57 (9.8%)
Because of UNDER-UTILIZATION of Budget Cap Capacity	179 (30.8%)	37 (6.4%)	17 (2.9%)	56 (9.7%)	6 (1.0%)
Because of BUDGET CAP Limitations	53 (9.1%)	93 (16.0%)	88 (15.1%)	101 (17.4%)	51 (8.8%)
Total Number of Districts	582	582	583	580	579

Notes: For districts omitted, see footnote 1, page 83.

4-year tabulation based only on districts in annual tabulations for all four years.

its budget cap fully, or by an electorate or board of school estimate which refused to approve a budget fully utilizing the caps. In order to test this possibility, each declining-expenditure district's net current expense budget (NCEB) was compared with the permissible NCEB under the budget cap to establish whether the budget cap was fully utilized. If it was not used fully, the amount by which the actual NCEB could have been increased under the cap was added to the instructional budget and divided by the enrollment to obtain a new, hypothetical per-pupil instruction budget which could be compared with the prior year's figure. For example, if the budget cap permitted an NCEB of \$2,000,000, but the district adopted an NCEB of only \$1,500,000, including instructional appropriations of \$1,200,000, the additional \$500,000 of unused budget cap capacity was added to the \$1,200,000 actual instructional appropriation to obtain a total permissible instructional expenditure under the caps of \$1,700,000. This was then compared on a per-pupil basis with the prior year's instructional budget. The results are shown on the second and third lines of Table 28.

In the first year under the budget caps -- 1976-77 -- school budgets were adopted initially before there was assurance that the new State aid programs under Chapter 212 would be funded for the year. Many school districts, therefore, adopted very conservative budgets, which fell short of the limits imposed by the budget caps. Even though legislation eventually permitted a reopening of the budget process, many districts made no change or only marginal changes in their budgets. Moreover, more than half of the school budgets submitted to referendum were defeated in 1976. One of the unique aspects of the New Jersey school budget cap is that the proposed budget must fit within the statutory budget caps

before it is submitted to the voters or to the board of school estimate in those few places where there is no referendum. Any reduction caused by negative voter or board of school estimate action then results in under-utilization of budget cap capacity. As seen in Table 28, of the 232 school districts suffering a reduced per-pupil instruction budget in constant dollars in 1976-77, 179 were placed in this position by under-utilization of the budget caps. The impact of the budget caps on fiscal resources for school program in this year was relatively small -- apparently hitting only about 9% of those in the state.

Preliminary data for 1977-78 and tentative data for 1978-79 and 1979-80 in Table 28 show a much different picture. While under-utilization of the caps has dropped, the role of the budget caps has become more important, remaining remarkably consistent at about 15% to 17% each year. In the last three years of the study period, the budget caps, in particular, appear to have had a negative effect on the fiscal resources for instructional program in about one-sixth of the school districts of the state each year.

Again, the long-term impact is considerably less extensive, since school districts whose program is impacted in one year may recover subsequently. In about 9% of the school districts, the budget caps appear to have had the long-term effect (1975-76 to 1979-80) of reducing the fiscal resources for school program.

#### Type of School District Impacted by Budget Caps

In order to determine whether the budget caps have had different impacts on different kinds of school district, the 51 districts which have had a long term (4-year) decrease in constant-dollar per-pupil expenditures for instruction due to the caps have been examined in three ways:

in relation to the level of expenditure per pupil in the prior year;

in relation to enrollment size; and

in relation to grade pattern of schools operated.

#### Budget Cap Impact in Relation to Expenditure Level

The budget cap formulas clearly are designed to provide for tighter caps in districts which spend at higher levels per pupil and looser caps for low-spending districts. The purpose was to allow the low-spending districts to catch up to their higher-spending neighbors.

Earlier portions of this report have shown that this design appears to have been overwhelmed by the effects of declining enrollment which, in general, are occurring more rapidly in the higher-spending districts.<sup>1</sup> Table 29, however, indicates that a larger proportion of high-spending districts have had to cut back on their instructional expenditures than low-spending districts. Part of this result is due to the inclusion of high expenditure county vocational districts in Table 29, but not in the earlier analyses.<sup>2</sup> Eliminating the county vocational districts reduces the impact reported in Table 29 on the high-budget districts, but does not change the pattern substantially. Thus, the results may appear contradictory. They are not really so. As shown in Table 22A earlier, enrollment decline has not quite balanced the equalizing effect of the budget caps when the caps are reported on a percentage basis. Actual increases in NCEB per pupil averaged 10.75% in 1979-80 for the lowest-spending districts,

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<sup>1</sup>See above, p. 44.

<sup>2</sup>Numerous other differences exist between the data in Table 29 and earlier analyses, such as the portion of the budget analyzed and the year of analysis.

Table 29. Impact of School Budget Caps in Relation to Expenditure Level of School District

1975-76 Level of Expenditure Per Pupil for Instruction	Number of School Districts in Group	School Districts Having Lower Per Pupil Expenditures for Instruction in Constant Dollars After 4 Years Because of Budget Cap Limitations	
		<u>Number</u>	<u>Percentage</u>
More than 125% of State Average	69	16	23.2%
115% to 125% of Average	48	7	14.6
105% to 115% of Average	75	4	5.3
95% to 105% of Average	114	9	7.9
85% to 95% of Average	111	9	8.1
75% to 85% of Average	85	5	5.9
Less than 75% of Average	<u>77</u>	<u>1</u>	<u>1.3</u>
Total	579	51	8.8%

Note: For districts omitted, see footnote 1, p. 83. Included are only the districts reported in annual tabulations throughout the period.

but only 8.31% for the highest-budget places. Therefore, the result is that the distribution of school districts by per-pupil spending level is moving very slowly toward a more equal relative pattern, while growing steadily less equal in the absolute dollar gap between high and low spenders.

However, although the cap formulas in this sense have operated in a minor way as intended, it is important to note that budget cap impact is not confined to high-spending school districts, but is felt on the instructional program resources of districts at all spending levels.

#### Budget Cap Impact in Relation to Enrollment Size

An earlier report for the Joint Committee speculated that the budget caps might have a more severe impact on smaller school districts, since the limited size of their budgets might make it more difficult to shift funds to adjust for the cap restrictions.<sup>1</sup> This now appears to be the case, as shown in Table 30. However, the largest school districts also appear to have suffered an above-average budget cap impact. This may reflect a situation where existing remedial programs were carried as part of "instruction" in the 1975-76 budgets, but are now funded by State compensatory education aid, and are accounted for separately as "special projects". To the extent that this is true, the analysis presents an inflated measurement of budget cap impact for these districts. In summary, the budget caps appear to have had a wider impact on the instructional program resources in small school districts having fewer than 500 pupils than in larger districts.

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<sup>1</sup>The Fiscal Impact of Budget Caps in 1976-77, pp. 21-22.

Table 30. Impact of School Budget Caps in Relation to Size of Enrollment

1977-78 District Enrollment Size	Number of School Districts in Group	School Districts Having Lower Per Pupil Expenditures for Instruction in Constant Dollars After 4 Years Because of Budget Cap Limitations	
		Number	Percentage
Below 500	148	22	14.9%
500 to 999	110	8	7.3
1,000 to 1,999	120	6	5.0
2,000 to 2,999	73	3	4.1
3,000 to 3,999	43	4	9.3
4,000 to 4,999	37	2	5.4
Over 5,999	<u>48</u>	<u>6</u>	<u>12.5</u>
Total	579	51	8.8%

Note: See qualification of large district percentage in text, p. 89.

For districts omitted, see footnote 1, p. 83. Included are only the districts reported in annual tabulations throughout the period.

Budget Cap Impact in Relation to Grade Pattern

In contrast to the portion of Chapter 212 dealing with the State support limit,<sup>1</sup> where varying expenditure levels by grade are recognized and compensated, the budget cap formulas treat all school districts alike, regardless of grade pattern. The possible problem for high-expenditure grade patterns, such as are found in regional high school districts and county vocational schools, has been identified both in this and other reports.<sup>2</sup> Table 31 shows that this problem does exist. Generally, a larger proportion of county vocational schools suffered an apparent decline in fiscal resources for instruction than in any other type of school district. This observation must be qualified, however, by an acknowledgment that the methods of reporting enrollment in the county vocational schools vary, both from county to county and from year to year. Thus, instructional expenditures calculated for these schools on a per-pupil basis may be open to some question.

Similar doubts do not apply to the regional high school districts, which also appear to have had a relatively heavy impact from the budget caps. Most elementary school districts and the K-12 districts, especially, have felt much less impact on their instructional program resources.

Special note should be taken of the elementary school districts which are not members of regional high school districts, but which pay tuition to send their secondary school pupils elsewhere. Many of these districts seem to have had their instructional program resources

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<sup>1</sup>See Section 3, definition of "State support limit".

<sup>2</sup>Budget Cap Administration for 1976-77, pp. 35-36, The Fiscal Impact of Budget Caps in 1976-77, pp. 18-19, 79-80, and above, pp. 40-42.

Table 31. Impact of School Budget Caps in Relation to Grade Pattern

<u>Grade Pattern Group</u>	<u>Number of School Districts in Group</u>	<u>School Districts Having Lower Per Pupil Expenditures for Instruction in Constant Dollars After 4 Years Because of Budget Cap Limitations</u>	
		<u>Number</u>	<u>Percentage</u>
Elementary Districts in Regional High School District	179	10	5.6%
Elementary Districts Which Pay High School Tuition	117	14	12.0
K-12 Districts	205	13	6.3
Regional High School Districts	48	9	18.8
County Vocational Districts	<u>20</u>	<u>5</u>	<u>25.0</u>
Total	569	51	9.0%

Note: For districts omitted, see footnote 1, p. 83. Included are only the districts reported in annual tabulations throughout the period.

Only districts maintaining a consistent grade pattern throughout the 4-year period are included. This eliminates the seven elementary districts which regionalized into Cumberland Regional and Egg Harbor, Mt. Olive, and Lacey Townships, all of which de-regionalized.

impacted by the budget caps, probably because their tuition costs are mandated, leaving local operating budgets as the only place where expenditures can be cut when the budget caps limit overall expenditures. The result may be an unexpected argument in favor of regionalization.

In general, the budget caps have had an above-average impact on instructional program expenditures in regional high school districts, in elementary districts not in regionals and, probably, in county vocational school districts.

#### Type of Budget Cap Impact

The "normal" reason for the budget caps to have a negative impact on instructional program resources is the relationship between the rate of budget growth permitted and the rate of inflation. If all other things are held constant, the quantity of resources available will decline if the inflation rate exceeds the rate of budget growth allowed. Two independent factors modify this generalization:

- (1) if essential non-instructional costs grow more rapidly than the rate of growth allowed, they will cut into the funds available for instruction; the converse, of course, is true also.
- (2) if enrollment decreases, the growth potential for instructional purposes will be enhanced, since the caps are calculated on the basis of the prior year's enrollment; again, of course, the converse is true, but cap waivers for increased enrollment are specifically authorized by the law.

The budget cap formulas are fairly complex. Because of their complexity, at the same time that they are functioning "normally" in some districts, the caps may have an impact on other school districts which

was not necessarily intended. Where this has been identified, it has been designated in this report as a "technical" budget cap impact, rather than a "normal" impact. A "technical" cap impact can be just as severe and damaging as a "normal" impact, but the distinction is made because the cause and the possible remedies might be of a different nature.

Two broad areas of "technical" budget cap impact have been identified, and their extent is shown in Table 32 for the 101 school districts where the budget caps caused a decline in fiscal resources for school program in 1979-80. The first of these concerns unanticipated enrollment increases. Chapter 212 based the budget cap calculation on the prior year's enrollment. Since enrollments statewide are declining, this provides a "cushion" for most school districts. However, not all enrollments are declining. Chapter 212 anticipated this possibility by authorizing the Commissioner of Education to approve a request for a larger budget increase if the district could demonstrate that "...an increased enrollment may reasonably be anticipated in the district". However, the existence of this waiver provision in the law is no guarantee that it will be used. If the local board of education does not anticipate the enrollment increase and ask for the waiver -- or if the Commissioner or State Board of Education do not grant the waiver -- or if the voters or board of school estimate turn down the budget based on the waiver -- or if the municipal governing body cuts a defeated budget substantially and the school board does not appeal -- or if the Commissioner or State Board do not restore the budget cuts -- the waiver provision can become meaningless. In fact, something in this sequence of events appears to have happened in a surprisingly large number of instances. As shown in Table 32, unanticipated enrollment increase appears to have been a "contributing factor" in about half

Table 32. Type of Budget Cap Impact on School Program Resources in 1979-80

Number of Districts Having Lower Per-Pupil Expenditures for Instruction in Constant Dollars Attributable to Budget Cap Limitations	Tentative <u>1979-80</u>	
<p>Technical Budget Cap Impact:</p> <p>Unanticipated Enrollment Increase*</p> <p>Decline in Anticipated Revenues:</p> <p>    Surplus Balance Appropriated*</p> <p>    Tuition Revenue*</p> <p>    Miscellaneous Revenue*</p> <p>    State Special Education Aid*</p> <p>    State Local Vocational Aid*</p>	<p><u>Of Major Significance</u></p> <p>17 (16.8%)</p> <p>22 (21.8%)</p> <p>4 (4.0%)</p> <p>1 (1.0%)</p> <p>10 (9.9%)</p> <p>0</p>	<p><u>Contributing Factor</u></p> <p>50 (49.5%)</p> <p>45 (44.6%)</p> <p>15 (14.9%)</p> <p>16 (15.8%)</p> <p>43 (42.6%)</p> <p>0</p>
Normal Cap Impact	47 (46.5%)	

\*Sum may be greater than number of districts because of multiple impacts in some districts.

of the districts where the budget caps caused a decrease in the fiscal resources allocated for instructional programs; it was "of major significance" in about one-sixth of these school districts. The test for significance due to enrollment increases has been to divide the maximum permissible instructional expenditures for the year under the budget caps by the prior year's enrollment, to see if the cap would have permitted maintenance of the previous level of per-pupil expenditures for instruction if the enrollment had not increased.

The second kind of "technical" budget cap impact comes from the fact that the budget cap is applied to the net current expense budget (NCEB) of the district. The NCEB is the total current expense budget minus a number of items, most of which represent special sources of school district revenue other than local property taxes or State equalization support. Included as deductions are surplus balance appropriated, tuition revenue anticipated, miscellaneous revenue, Federal aid, State categorical aid (special education, compensatory education, bilingual, local vocational), and other State aid (a wide variety of programs authorized by law). Also deducted is most of the local transportation budget of the school district. All of these items are subtracted from the current expense budget in one year to obtain the NCEB; the NCEB then may be increased in the next year by the appropriate amount calculated under the budget cap formula, and the same items (not necessarily the same dollar amounts) previously subtracted are then added to the NCEB to obtain the maximum total current expense budget permitted in the second year. If any one of these revenue sources declines from one year to the next, the effect will be to reduce the total amount of money which the district can appropriate for current expenses. This is illustrated in a district which uses up all of its surplus in one

year, and has none left for the second year:

	<u>Actual Budget in Year One</u>		<u>Maximum Permissible Budget in Year Two</u>
Current Expense Budget	\$ 1,400,000		\$ 1,320,000
Surplus Appropriated	- <u>200,000</u>		<u>None</u>
Net Current Expense Budget	\$ 1,200,000	↓	\$ 1,320,000
		+ 120,000 Permissible NCEB Increase of 10%	↑

Due to established accounting procedures, not all of the revenue items deducted from the total current expense budget to obtain the NCEB can be used for instructional programs. Therefore, Table 32 shows only those items which would contribute to the resources available for instruction -- surplus balance appropriated, tuition revenue, miscellaneous revenue, State special education aid, and State local vocational aid. As shown in Table 32, a reduction in surplus balance appropriated was the most common decline in anticipated revenue in 1979-80, occurring as a contributing factor in almost half the districts and being of major significance in one-fifth. Decreases in State special education aid also were important in a number of places, followed by declines in tuition revenue and miscellaneous revenue. The test for significance here has been to calculate what the maximum instructional budget in the second year could have been if the revenue item in question had been sustained at a constant level from year to year.

When the "technical" budget cap impacts are eliminated, the number of "normal" cap impacts becomes considerably smaller, amounting to slightly less than half of the impacted districts in 1979-80. As shown in Table 33, the low expenditure school districts which are impacted by the budget caps appear to feel the effects primarily of "technical" impacts, while high

Table 33. Type of Budget Cap Impact on School Program Resources  
in Relation to Prior Year Level of Per-Pupil Expenditures  
for Instruction, 1979-80

1978-79 Level of Expenditure Per Pupil for <u>Instruction</u>	Number of School Districts Having Lower 1979-80 Per Pupil Expenditures for Instruction in Constant Dollars Attributable to Budget Cap Limitations	<u>Type of Budget Cap Impact</u>	
		<u>Technical</u>	<u>Normal</u>
More than 125% of State Average	26	10 (38.5%)	16 (61.5%)
115% to 125% of Average	10	4 (40.0%)	6 (60.0%)
105% to 115% of Average	16	9 (56.3%)	7 (47.8%)
95% to 105% of Average	15	5 (33.3%)	10 (66.7%)
85% to 95% of Average	17	12 (70.6%)	5 (29.4%)
75% to 85% of Average	15	12 (80.0%)	3 (20.0%)
Less than 75% of Average	<u>2</u>	<u>2</u> (100.0%)	<u>0</u> (0%)
Total	101	54	47

expenditure places more often show a "normal" budget cap impact. If some of the "technical impacts" of the budget cap formula could be corrected, the apparent impact on school program resources would be reduced substantially, particularly in low-budget school districts.

#### Summary

While the school budget caps do not appear to have had a negative impact on school program statewide, a substantial minority of districts do appear to have had difficulties. Roughly one-quarter of all school districts in the state have reduced the financial resources devoted to instructional program in each of the last three years for which data are available. In most cases, this has been forced by the budget caps, in contrast to 1976-77 when underutilization of the caps was a major factor. About 9% of the state's school districts have had a long-term (4-year) reduction in school program resources due to budget caps. The "normal" impact of the budget caps, placing a tighter limit on the higher-budget districts, appears to be the exception, rather than the rule. So-called "technical" budget cap impacts -- failure to anticipate increased enrollment, reductions in available surplus and other forms of revenue outside the caps -- are more common causes of instructional resource reduction. Particularly hard hit are the small school districts and those, such as county vocational schools and regional high schools, whose grade pattern normally results in higher expenditures per pupil.

VI - PROBLEMS AND RECOMMENDATIONS

The preceding chapters have documented the successes of the school budget caps, but they have also identified some failures and some unanticipated problems. Chief among the problems are these:

1. A much higher rate of enrollment decline among high-budget districts has transformed the budget caps into a device which prevents the low-budget places from attaining more equal expenditure levels.
2. The budget caps have resulted in reductions of the financial resources available for school instructional program in a significant minority of school districts.

Neither of these problems, nor the potential solutions, are completely separable. Efforts to deal with them by simple changes in the budget cap law will probably be ineffective, and may cause other unintended problems. If budget caps are to be retained at all, a comprehensive revision will be required.

Enrollment Decline

If enrollment decline were distributed evenly across the school districts of the state, it would not pose a severe budget cap problem. True, the statutory cap percentage would be expanded, but it would be expanded equally for all school districts. Unfortunately, the enrollment decline, while widespread, is more heavily concentrated in the high-budget school districts. Low-budget districts, particularly in areas of South Jersey, are still gaining enrollment. This has been found to cut two ways: first, rapid enrollment decline in high-budget districts results in a substantial annual increase in budget per pupil in spite of fairly

tight statutory budget caps; second, growing low-budget districts have not been successful in anticipating their growth sufficiently in budgetary terms, with the result that the resources they allocate for instructional purposes often have suffered an absolute decline.

Both of these problems could be addressed by recognizing the facts of enrollment change. If the budget caps were applied using the enrollment in the budget year, rather than the pre-budget year, a portion of the inequity would be avoided. There are practical difficulties, however. One problem is that the budget year enrollment is not known at the time the budget caps must be calculated. This is not insurmountable, since enrollment changes in most districts follow a relatively stable pattern from year to year, and projections of budget year enrollment could be made. There will always be some inaccuracies in such projections, however, especially for small school districts.

A more serious objection to using projected budget year enrollments is that this would go only a short way toward restoring the budget caps to their original purpose. As shown in Table 34, the use of projected budget year enrollment in the formula would increase slightly the budget caps for low-expenditure districts which are gaining enrollment (Group G), and would tighten the caps slightly for other districts which are losing enrollment. But the differences are very small, and the impact of the budget caps would remain heavily in favor of the high-budget communities. The reason for this is that a district which loses enrollment thereby increases its NCEB per pupil even if it has a zero budget cap; that is, if it is not permitted to increase the dollar amount of its budget at all. A zero budget cap, or even one close to it, seems out of the question, so long as there is evidence that school program resources are being reduced

Table 34. Impact of Using Projected Budget Year Enrollment in Budget Cap Formula, 1979-80

Expenditure Group and Relation to 1978-79 State Average NCEB Per Pupil	Enrollment Change 1978-79 to 1979-80	1978-79 NCEB Per Pupil	Maximum Permissible Dollar Increase Per 1979-80 Pupil		Maximum Permissible Percent Increase Per 1979-80 Pupil	
			Using 1978-79 Enrollment in Formula	Using 1979-80 Enrollment in Formula	Using 1978-79 Enrollment in Formula	Using 1979-80 Enrollment in Formula
A - Over 125% of Average	-4.32%	\$2,503.94	\$223.77	\$218.99	8.94%	8.75%
B - 115% to 125% of Average	-4.88	2,190.48	223.73	218.30	10.21	9.97
C - 105% to 115% of Average	-4.35	2,004.58	202.09	197.26	10.08	9.84
D - 95% to 105% of Average	-3.71	1,829.34	180.64	176.55	9.87	9.65
E - 85% to 95% of Average	-3.61	1,646.74	183.79	179.38	11.16	10.89
F - 75% to 85% of Average	-1.33	1,465.73	153.82	152.03	10.49	10.37
G - Below 75% of Average	+0.24	1,266.22	149.77	150.13	11.83	11.86

Note: Impact of budget cap waivers omitted.

in districts at all spending levels. The answer has to be a budget cap formula which is much more heavily "skewed" in the direction of the low-budget districts, so that their caps will be liberalized.

This can be done by an adjustment in the budget cap formula. The "equalization factor" in the formula consists of the fraction resulting from dividing the state average NCEB per pupil by the district's NCEB per pupil.<sup>1</sup> A simple fraction of this sort was considered sufficient when varying rates of enrollment decline were not recognized as a significant factor.<sup>2</sup> It is no longer sufficient. The "skewing" of the formula can be increased to compensate for variable rates of enrollment decline by squaring the equalization factor. The result will be a tightening of the budget caps for high-budget districts and a liberalizing of the caps for low-budget places. This change would have a secondary benefit. As already described,<sup>3</sup> the present budget cap formulas result in a situation where the permissible dollar-per-pupil increase in school budgets is exactly the same for every school district spending above the state average NCEB per pupil. Thus, in the absence of a special dispensation in the form of a large enrollment decline or a budget cap waiver, no district, once it moves above the state average budget level, can ever catch up with other districts which achieved a higher spending level at some earlier time, before budget caps were imposed. Squaring the equalization factor would change this result and restore the possibility for districts at all spending levels to "catch up" with those spending at higher

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<sup>1</sup>See above, pp. 5-6.

<sup>2</sup>While different rates of enrollment decline existed at the time Chapter 212 was enacted, this variation was so much less than at present that the phenomenon was not noted. Between 1975 and 1976, the highest-budget districts declined in enrollment by 2.48%, while the lowest-budget districts declined by 0.88%, for a range of only 1.60%, compared with the range of 4.56% observed between 1978 and 1979.

<sup>3</sup>See above, p. 49.

levels. For both of these reasons, it is suggested, therefore, that the equalization factor in the budget cap formula be squared.

An objection will immediately be raised that this will place a heavy additional burden on above-average-budget school districts which are already having difficulty maintaining the level of their school program within the present budget caps. This is true, and many of these districts undoubtedly have been able to maintain their educational programs without too much damage only because enrollment decline has given them an effective budget cap which substantially exceeds the nominal cap percentage calculated under the statutory formula. If a more drastic "skewing" of the cap formula as an adjustment for enrollment decline is the only change in the budget cap formula, it almost certainly will force real program reductions in many school districts. Therefore, as a change which tightens the caps in many districts, it should be combined with another change to liberalize the caps. This should be done by eliminating the  $\frac{3}{4}$  multiplier in the basic growth rate portion of the budget cap formula. The budget cap formula originally was suggested to include as the basic growth rate the full percentage growth of equalized valuation statewide, and the legislative bill which eventually became Chapter 212 was introduced with the full growth percentage in the budget cap section. The  $\frac{3}{4}$  multiplier was inserted as an amendment during the legislative process. While this may have made sense at that time, when the most recent annual growth of equalized valuation was running at over 13%, it has made less sense in subsequent years, when that annual growth has dropped at times to less than 6%. By combining a return to the full growth percentage with the squaring of the equalization factor, the budget caps will be liberalized for those low-budget places which have failed to move toward expenditure equity, and they will be held relatively constant for high-budget communities.

The combined recommendation, then, is as follows: it is recommended

- (a) that the budget cap formulas be modified to include squaring the equalization factor portion of the formula, and
- (b) that the 3/4 multiplier of equalized valuation growth percentages in the budget cap formulas be eliminated.

The proposed budget cap formulas are shown in Table 35, and may be compared with the present formulas in Table 1. Note that these two proposals are not logically separable:

if the equalization factor is squared without removing the 3/4 multiplier, there will be heavy additional pressure to cut back on the resources for instructional programs in higher-budget districts, some of which have already had to take this course of action.

if the 3/4 multiplier is removed without squaring the equalization factor, there will be a general liberalization of the budget caps, but they will continue to prevent low-budget districts from moving toward expenditure equity.

The combined results of these two recommendations are shown for groups of school districts in 1979-80, classified by their prior-year budget level, in Tables 36 and 37 and Charts E-1 and E-2. The impact of enrollment decline would be largely overcome, with the budget caps restored to approximately their original pattern, which was intended to permit low-budget districts to move in the direction of more equal expenditures per pupil. In overall dollar terms, the 1979-80 impact would have been to raise the statewide maximum permissible net current expense budget increase by about \$60 million, or about 2% of the total NCEB. On the other hand, budget cap waivers, which in 1979-80 amounted to 0.7% of the total, would have been largely eliminated, since the budgetary increases authorized by the new caps would have made them

Table 35. Proposed New Jersey School Budget Cap Formulas

	<u>Basic Growth Rate</u>		<u>Equalization Factor</u>		<u>Base Budget</u>
<p>For districts spending in the prior year <u>below</u> the state average NCEB* per pupil:</p>	<p>The larger of:                      The latest annual percentage change in statewide equalized valuation                      or                      the average of the last three years' annual percentage changes</p>	x	$\left( \frac{\text{The prior year's state average NCEB* per pupil}}{\text{The prior year's district NCEB* per resident pupil}} \right)^2$	x	<p>The prior year's <u>state</u> average NCEB* per pupil, times the prior year's resident enrollment of the district</p>
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<p>For districts spending in the prior year <u>above</u> the state average NCEB* per pupil:</p>	<p>The larger of:                      The latest annual percentage change in statewide equalized valuation                      or                      the average of the last three years' annual percentage changes</p>	x	$\left( \frac{\text{The prior year's state average NCEB* per pupil}}{\text{The prior year's district NCEB* per pupil}} \right)^2$	x	<p>The prior year's <u>district</u> NCEB* per pupil, times the prior year's resident enrollment of the district</p>

\*NCEB is the Net Current Expense Budget.

Table 36. 1979-80 Impact of Present and Proposed Budget Cap Formulas on Permissible Percentage Increase in Net Current Expense Budgets

Expenditure Group and Relation to State Average NCEB Per Pupil	Present Law				Proposed Law		
	Increase Permitted by Budget Cap Formulas	Addition Due to Waivers	Addition Due to Enrollment Change	Total Permissible Increase	Increase Permitted by Budget Cap Formulas	Addition Due to Enrollment Change	Total Permissible Increase
A - Over 125% of Average	4.23%	0.20%	4.72%	9.15%	4.12%	4.70%	8.82%
B - 115% to 125% of Average	4.84	0.19	5.39	10.42	5.39	5.40	10.79
C - 105% to 115% of Average	5.29	0.40	4.81	10.49	6.43	4.85	11.28
D - 95% to 105% of Average	5.79	0.85	4.11	10.75	7.73	4.15	11.88
E - 85% to 95% of Average	7.15	0.45	4.03	11.63	10.59	4.14	14.73
F - 75% to 85% of Average	9.02	1.39	1.49	11.90	15.01	1.55	16.56
G - Below 75% of Average	12.10	1.82	-0.27	13.64	23.30	-0.30	23.00

Table 37. 1979-80 Impact of Present and Proposed Budget Cap Formulas on Permissible Dollar Increase Per Pupil in Net Current Expense Budgets

Expenditure Group and Relation to State Average NCEB Per Pupil	Present Law				Proposed Law		
	Increase Permitted by Budget Cap Formulas	Addition Due to Waivers	Addition Due to Enrollment Change	Total Permissible Increase	Increase Permitted by Budget Cap Formulas	Addition Due to Enrollment Change	Total Permissible Increase
A - Over 125% of Average	\$106.01	\$ 5.02	\$118.07	\$229.10	\$103.24	\$117.64	\$220.88
B - 115% to 125% of Average	106.01	4.16	118.03	228.20	118.05	118.34	236.39
C - 105% to 115% of Average	106.01	8.00	96.35	210.36	128.94	97.12	226.06
D - 95% to 105% of Average	106.01	15.51	75.17	196.69	141.35	75.99	217.34
E - 85% to 95% of Average	117.73	7.46	66.36	191.55	174.32	68.18	242.50
F - 75% to 85% of Average	132.26	20.41	21.87	174.54	220.02	22.74	242.76
G - Below 75% of Average	153.16	23.02	-3.45	172.73	295.02	-3.73	291.29

**Chart E-1.**  
**1979-80 Impact of Present and Proposed Budget Cap Formulas on Total Permissible Percentage Increases in Net Current Expense Budgets\***

Total  
Permissible  
Percentage  
Increase

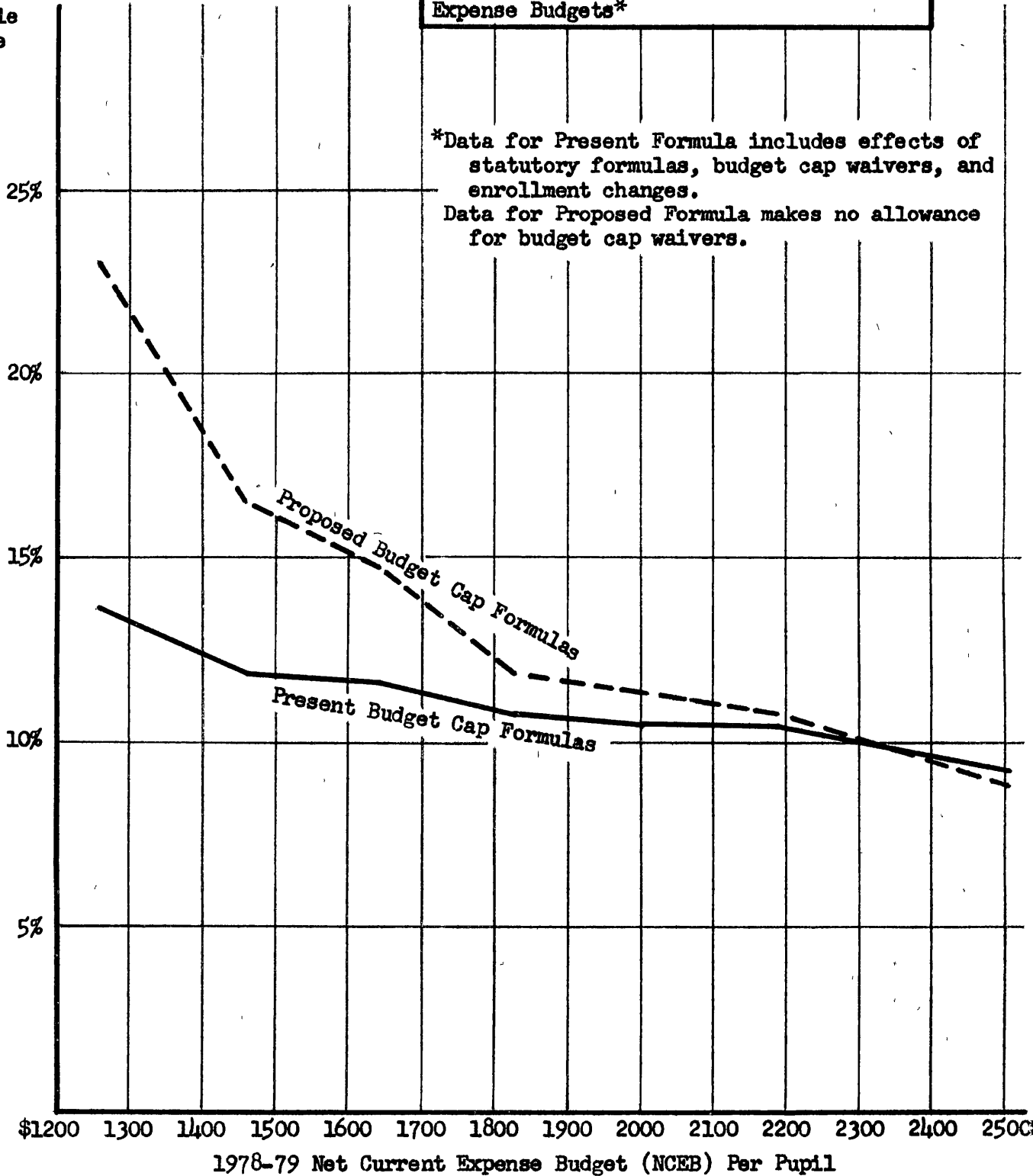
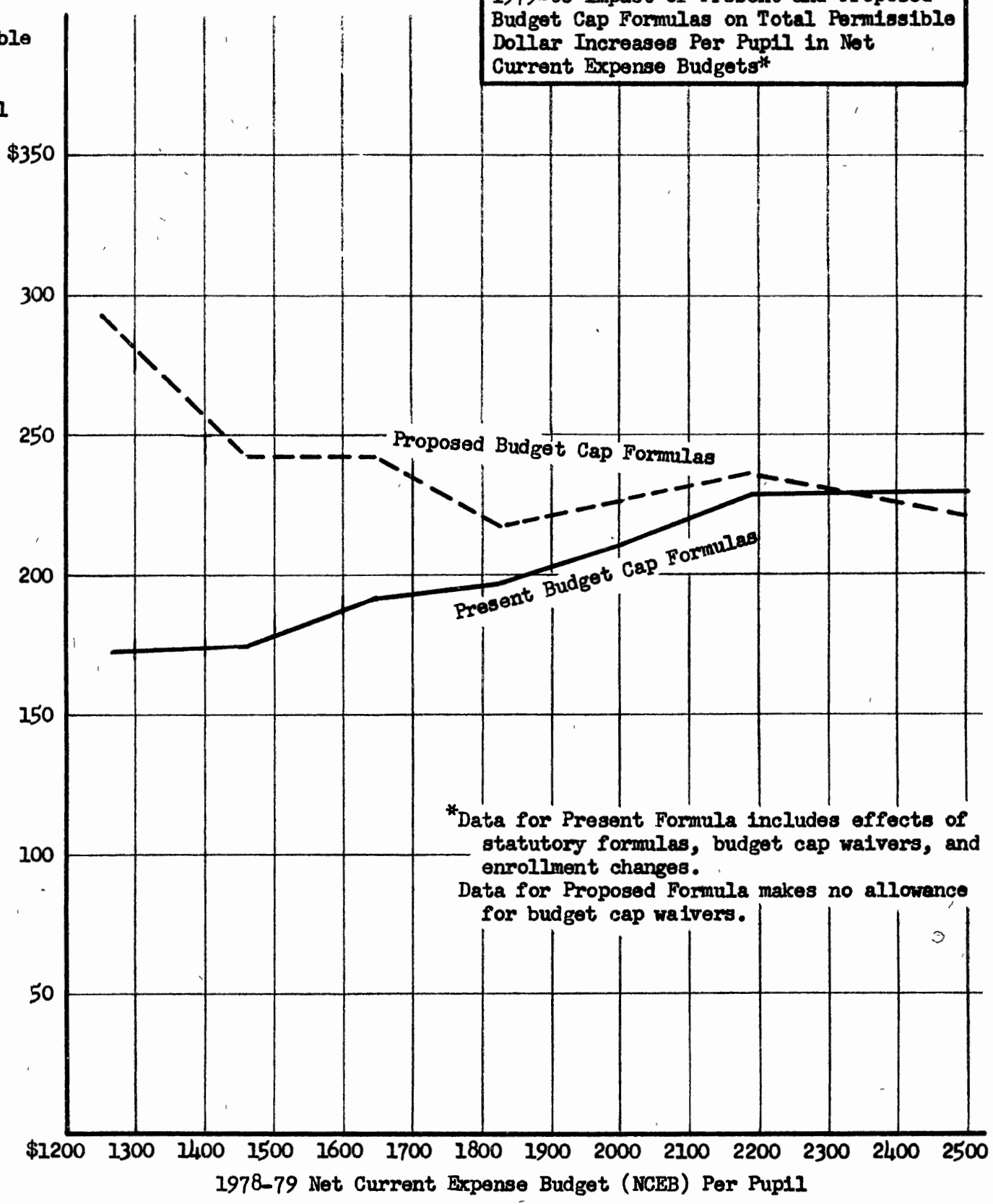


Chart E-2.  
1979-80 Impact of Present and Proposed  
Budget Cap Formulas on Total Permissible  
Dollar Increases Per Pupil in Net  
Current Expense Budgets\*

Total  
Permissible  
Dollar  
Increase  
Per Pupil



\*Data for Present Formula includes effects of statutory formulas, budget cap waivers, and enrollment changes.  
Data for Proposed Formula makes no allowance for budget cap waivers.

unnecessary for most low-budget districts.

#### Underutilization of Budget Cap Capacity

Underutilization of budget cap capacity was found to be a minor cause in 1979-80 for the lack of progress in bringing low-budget districts to a more nearly equal per-pupil expenditure level. However, if the recommendations just made are implemented, underutilization undoubtedly will become more important, since many of the low-budget districts whose budget caps would be liberalized are very poor districts which may hesitate to make full use of their caps so long as they must assume a substantial share of the burden. As pointed out in an earlier report to the Joint Committee,<sup>1</sup> the State aid equalization formula for current expenses imposes an inequitable burden on poor school districts because it provides for State sharing only in the prior year's budget. Thus, any district which attempts to raise its budget level must do so in any given year entirely from its own property tax base. A property-rich district may do this with relatively small impact; a property-poor district must burden itself far more severely to make the same sort of change. If budget cap revisions are to achieve their purposes, therefore, it is highly desirable that the current expense equalization formula also be revised, and we repeat the recommendation already made to the Joint Committee:

It is recommended that the State aid formula be shifted to a current year basis, using the budget cap formula to determine the maximum budget in which the State would share.

#### Other Problems and Recommendations

Two other budget cap problems can be addressed by bills which have

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<sup>1</sup>School Budgets and Property Taxes in 1978, pp. 92-98.

already been introduced and reported out of a standing committee of the Legislature.

#### Special Cost Schools

As long as three years ago, reports to the Joint Committee recommended that separate budget cap calculations be authorized for school districts operating programs which normally result in higher-than-average costs.<sup>1</sup> The findings at that time have been substantiated by this study -- that the single budget cap calculation for all school districts, regardless of grade pattern, places an unusual burden on regional high school and county vocational school districts. Legislation for this purpose has never been enacted, but a bill to make the change was released by the Senate Education Committee on January 24, 1980.

It is recommended that Senate Bill 208 be enacted to provide for separate budget cap calculations for 9-12 and 7-12 regional school districts, county vocational school districts, and all other school districts.

#### The Base Budget

In Chapter V it was shown that many school districts have been forced into a reduction of the financial resources devoted to school instructional programs by so-called "technical" aspects of the budget cap formulas. Chief among these is the exclusion of surplus funds from the net current expense budget, to which the budget caps apply. The problem could be overcome by creating a new definition of the portion of the budget subject to caps, to include both surplus and miscellaneous funds. A bill to accomplish this was released by the Senate Education

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<sup>1</sup>The Fiscal Impact of Budget Caps in 1976-77, pp. 79-80.

Committee on February 21, 1980. It is recommended that Senate Bill 788 be enacted, redefining the base budget for the budget cap formulas to include surplus and miscellaneous funds.

VII - CONCLUSION

The conclusion of this report must emphasize one point: school budget caps in New Jersey are in trouble. They have achieved some of their original purposes -- to prevent large and inefficient annual expenditure increases, to limit State liability for future financial aid, and to assure that there would be some property tax relief. They have failed notably in their fourth purpose -- to help move the low-budget school districts of the state in the direction of more equal per-pupil expenditure levels.

But more than this. The budget caps not only have failed to achieve this fourth goal. Because of varying rates of enrollment decline, the budget cap formulas have now become a positive obstacle to those low-budget school districts which might wish to bring their expenditures more nearly in line with expenditures in other places. With this development, the constitutional viability of the budget caps comes immediately into question.

Furthermore, there is evidence that the budget caps have led to a reduction in the financial resources available for school instructional program in a significant minority of districts.

The budget caps can be salvaged, and one program of revisions is recommended in this report. But the conclusion seems clear -- unless changes of some kind are made, the school budget caps appear highly vulnerable to challenge at any time.

APPENDIX A

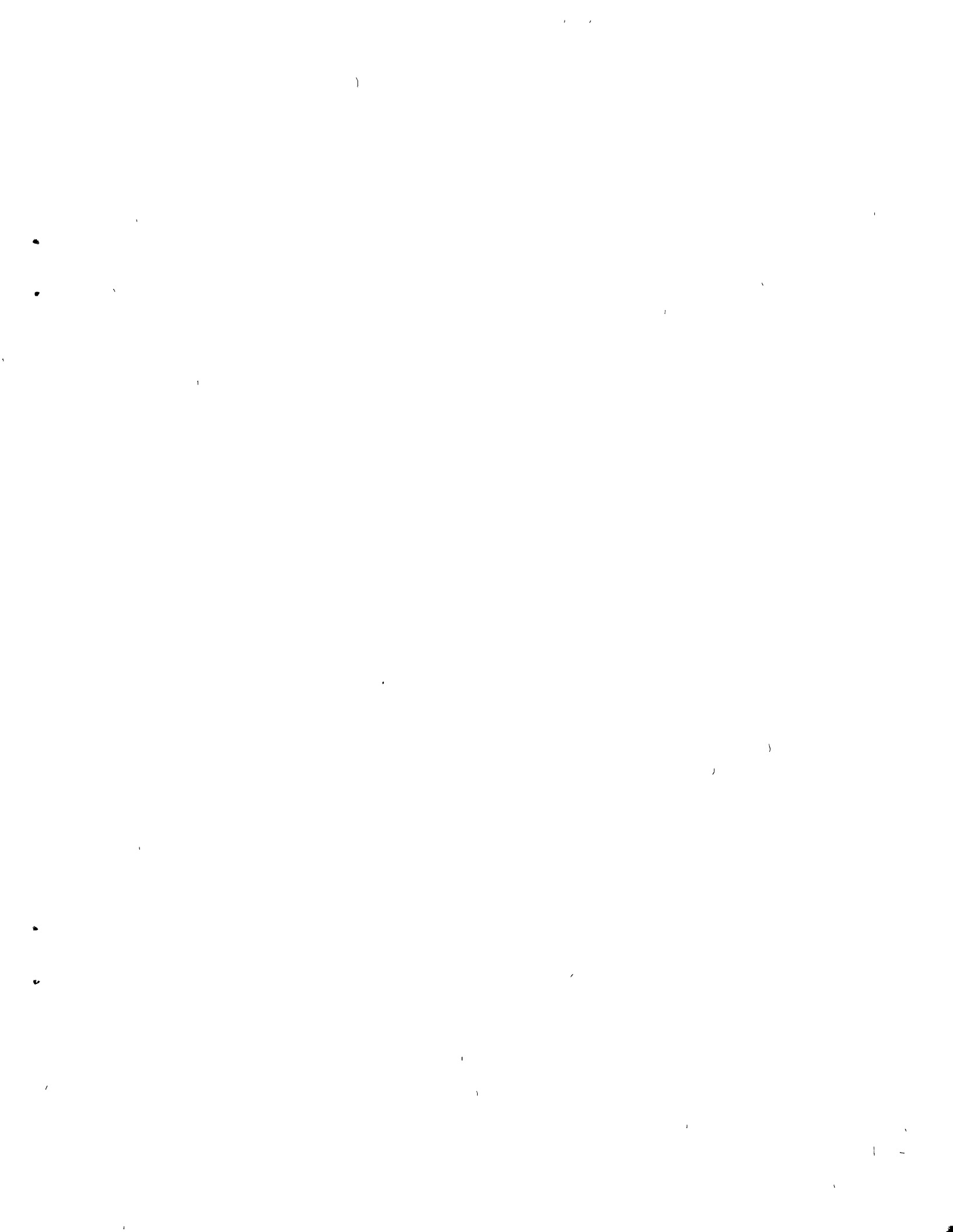


Table A-1. State Total Per Pupil Expenditures by Local School Districts, by Line Item, in 1975-76 Dollars;  
1970-71 to 1977-78

	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	Prelim. 1977-78
<b>Administration:</b>								
Salaries	\$ 36.39	\$ 37.45	\$ 39.07	\$ 41.18	\$ 43.96	\$ 44.71	\$ 45.53	\$ 48.84
Contracted Services	4.46	4.56	4.91	5.51	6.15	6.27	6.63	7.81
Other	6.13	6.64	7.08	7.81	9.06	8.92	9.90	9.88
<b>Sub-Total</b>	<b>46.98</b>	<b>48.64</b>	<b>51.05</b>	<b>54.50</b>	<b>59.17</b>	<b>59.90</b>	<b>62.07</b>	<b>66.54</b>
<b>Instruction:</b>								
Salaries-Principals	43.64	45.08	50.31	52.34	54.74	55.59	56.42	60.21
Salaries-Supervisor of Instruction	14.59	15.73	13.75	16.19	17.50	18.16	17.00	19.26
Salaries-Teachers	714.06	729.51	750.47	770.15	789.35	788.46	794.18	807.56
Salaries-Other Instructional Staff	47.19	57.87	59.93	67.69	73.23	75.84	78.15	81.63
Salaries-Secretarial and Clerical	26.83	27.34	29.97	31.62	33.12	33.66	33.35	33.18
Salaries-Other Instructional Pers.	5.83	7.49	9.75	10.80	13.01	12.88	11.78	12.40
Textbooks	11.64	11.54	11.40	11.53	12.10	11.89	11.58	12.40
Library and Audio-Visual	9.63	9.98	10.23	10.78	11.09	10.29	10.03	9.54
Teaching Supplies	22.56	23.41	24.55	26.96	30.49	30.80	30.70	31.46
Other Instructional Expenses	9.45	10.38	11.20	12.14	13.44	12.83	13.64	13.47
<b>Sub-Total</b>	<b>905.42</b>	<b>938.31</b>	<b>971.55</b>	<b>1,010.19</b>	<b>1,048.06</b>	<b>1,050.41</b>	<b>1,056.83</b>	<b>1,081.11</b>
<b>Attendance:</b>								
Salaries	3.70	4.00	3.33	2.85	3.28	3.55	3.58	3.68
Other	.16	.15	.18	.13	.13	.17	.18	.19
<b>Sub-Total</b>	<b>3.85</b>	<b>4.15</b>	<b>3.50</b>	<b>2.98</b>	<b>3.41</b>	<b>3.73</b>	<b>3.76</b>	<b>3.87</b>
<b>Health Services:</b>								
Salaries	18.89	19.46	20.89	20.64	21.67	21.80	22.00	22.80
Other	1.32	1.45	1.34	1.32	1.58	1.38	1.63	1.64
<b>Sub-Total</b>	<b>20.21</b>	<b>20.91</b>	<b>22.23</b>	<b>21.96</b>	<b>23.25</b>	<b>23.18</b>	<b>23.63</b>	<b>24.44</b>
<b>Transportation:</b>								
Salaries	11.72	12.71	13.88	14.55	16.28	16.75	17.39	19.76
Contracted Services	30.01	28.72	30.63	31.87	35.16	35.73	36.73	37.56
Replacement-Vehicles	1.47	2.91	1.89	3.01	2.75	2.77	3.03	3.40
Purchase-Vehicles	--	--	.04	1.09	1.57	.92	.96	.99
Insurance-Public Transportation	.63	.72	.72	.85	.70	.72	.87	1.78
Curricular Activities	--	--	.11	.49	.70	.69	.78	1.05
Other-Operation and Maintenance	3.18	3.31	3.54	4.10	5.02	5.47	5.89	6.53
<b>Sub-Total</b>	<b>47.00</b>	<b>48.37</b>	<b>50.81</b>	<b>55.97</b>	<b>62.18</b>	<b>63.04</b>	<b>65.64</b>	<b>71.08</b>
<b>Plant Operation:</b>								
Salaries	68.63	71.23	74.29	77.46	80.99	79.93	81.27	84.59
Contracted Services	1.38	1.64	1.62	1.78	2.25	2.09	2.06	2.63
Heat	13.18	13.36	12.70	19.80	25.85	23.40	25.15	25.00
Utilities	19.58	21.18	23.40	25.84	32.22	34.02	36.87	39.23
Supplies	5.37	5.45	5.66	6.01	7.17	7.59	7.18	7.59
Other Expenses	1.00	1.09	1.19	1.29	1.32	1.44	1.30	1.46
<b>Sub-Total</b>	<b>109.14</b>	<b>113.95</b>	<b>118.86</b>	<b>132.17</b>	<b>149.80</b>	<b>148.48</b>	<b>153.83</b>	<b>160.50</b>

Table A-1. (Continued)

	<u>1970-71</u>	<u>1971-72</u>	<u>1972-73</u>	<u>1973-74</u>	<u>1974-75</u>	<u>1975-76</u>	<u>1976-77</u>	<u>Prelim. 1977-78</u>
<b>Maintenance:</b>								
Salaries	\$ 12.68	\$ 13.22	\$ 14.25	\$ 15.29	\$ 17.16	\$ 17.09	\$ 17.80	\$ 18.53
Contracted Services	15.91	17.91	19.98	21.46	23.07	19.39	23.23	23.63
Equipment-Replacement	6.69	6.78	7.36	10.74	10.51	8.44	9.36	9.70
Equipment-New	--	--	.52	5.67	8.45	7.34	6.02	5.72
Other Maintenance Expenses	5.71	5.88	7.37	7.10	8.00	7.32	8.12	8.05
<b>Sub-Total</b>	<b>40.98</b>	<b>43.78</b>	<b>49.49</b>	<b>60.27</b>	<b>67.20</b>	<b>59.58</b>	<b>64.53</b>	<b>65.63</b>
<b>Fixed Charges:</b>								
Employee Retirement	19.95	20.59	23.31	26.51	28.19	29.08	33.64	39.53
Insurance and Judgments	33.49	39.88	41.96	44.40	46.59	53.67	63.64	71.34
Rental, Land and Buildings	4.10	4.00	3.82	3.46	3.12	2.66	2.39	2.60
Interest, Current Loans	.05	.05	.01	.07	.02	.03	.13	.13
Other	.55	.39	.45	.70	.51	.42	.38	.82
<b>Sub-Total</b>	<b>58.14</b>	<b>64.91</b>	<b>69.56</b>	<b>75.14</b>	<b>78.42</b>	<b>85.85</b>	<b>100.17</b>	<b>114.42</b>
<b>Net Tuition:</b>	<b>4.14</b>	<b>5.76</b>	<b>7.88</b>	<b>9.32</b>	<b>11.49</b>	<b>13.48</b>	<b>15.03</b>	<b>16.22</b>
<b>Food Service:</b>								
Salaries	3.34	3.59	4.07	4.64	4.82	4.59	3.97	4.95
Other	4.40	4.59	6.09	7.03	7.84	7.02	5.79	6.08
<b>Sub-Total</b>	<b>7.74</b>	<b>8.18</b>	<b>10.16</b>	<b>11.68</b>	<b>12.67</b>	<b>11.61</b>	<b>9.75</b>	<b>11.04</b>
<b>Student Body Activities:</b>								
Salaries	5.87	6.52	7.31	7.60	8.65	9.42	8.71	10.65
Other Expenses	7.58	7.80	8.61	9.17	10.39	10.31	9.66	10.70
<b>Sub-Total</b>	<b>13.46</b>	<b>14.32</b>	<b>15.92</b>	<b>16.77</b>	<b>19.04</b>	<b>19.74</b>	<b>18.37</b>	<b>21.35</b>
<b>Community Service:</b>								
Salaries	2.90	3.15	3.28	1.46	1.98	2.24	2.21	4.72
Other Expenses	.40	.60	.48	.33	1.93	2.58	2.25	1.60
<b>Sub-Total</b>	<b>3.31</b>	<b>3.75</b>	<b>3.77</b>	<b>1.78</b>	<b>3.91</b>	<b>4.82</b>	<b>4.46</b>	<b>6.32</b>
<b>Special Projects:</b>								
Salaries	1.13	.75	2.67	1.32	1.12	1.80	6.51	16.49
Other	3.20	2.14	5.06	4.01	6.20	4.28	13.28	23.39
<b>Sub-Total</b>	<b>4.32</b>	<b>2.89</b>	<b>7.73</b>	<b>5.33</b>	<b>7.33</b>	<b>6.09</b>	<b>19.79</b>	<b>39.88</b>
<b>Federal Programs:</b>								
E.S.E.A.	38.59	43.36	42.45	42.46	47.85	45.00	44.86	44.60
Manpower Development	3.20	2.97	2.51	2.51	1.23	.75	.87	--
Other	12.28	16.58	13.15	16.28	18.96	18.59	19.00	23.73
<b>Sub-Total</b>	<b>54.07</b>	<b>62.91</b>	<b>58.11</b>	<b>61.26</b>	<b>68.04</b>	<b>64.35</b>	<b>64.73</b>	<b>68.34</b>

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Table A-1. (Continued)

	<u>1970-71</u>	<u>1971-72</u>	<u>1972-73</u>	<u>1973-74</u>	<u>1974-75</u>	<u>1975-76</u>	<u>1976-77</u>	<u>Prelim.</u> <u>1977-78</u>
<b>Special Schools:</b>								
Accredited Evening	\$ .73	\$ .71	\$ .57	\$ .75	\$ .73	\$ .53	\$ .54	\$ .83
Adult Education	2.98	3.28	3.78	3.96	4.45	4.01	4.32	4.67
Regular Evening	.17	.10	.06	.19	.10	.25	.22	.99
Summer School	3.52	3.07	3.24	3.90	3.63	2.57	1.68	2.10
Evening Vocational	2.62	2.97	3.26	4.30	4.90	5.23	4.81	3.89
Foreign-Born Evening	.28	.23	.25	.50	.38	.32	.27	1.13
<b>Sub-Total</b>	<b>10.31</b>	<b>10.35</b>	<b>11.16</b>	<b>13.61</b>	<b>14.20</b>	<b>12.92</b>	<b>11.85</b>	<b>13.61</b>
<b>SUB-TOTAL: CURRENT EXPENSES</b>	<b>1,329.06</b>	<b>1,391.20</b>	<b>1,451.78</b>	<b>1,532.92</b>	<b>1,628.17</b>	<b>1,627.17</b>	<b>1,674.43</b>	<b>1,764.35</b>
<b>Budgeted Capital Outlay:</b>								
Sites	2.50	2.58	2.66	2.93	3.26	1.81	1.88	3.46
Buildings	4.65	4.08	5.23	6.68	5.76	5.59	4.86	10.16
Equipment	13.60	14.49	12.74	3.99	2.18	1.66	1.26	2.53
<b>Sub-Total</b>	<b>20.75</b>	<b>21.15</b>	<b>20.63</b>	<b>13.60</b>	<b>11.21</b>	<b>9.05</b>	<b>8.01</b>	<b>16.15</b>
<b>Debt Service in School Budget:</b>								
Principal	54.01	53.61	55.52	57.56	56.35	55.93	55.41	54.75
Interest	41.66	41.36	41.32	40.93	40.64	41.53	39.71	36.81
<b>Sub-Total</b>	<b>95.67</b>	<b>94.97</b>	<b>96.84</b>	<b>98.49</b>	<b>96.99</b>	<b>97.46</b>	<b>95.12</b>	<b>91.57</b>
<b>Debt Service in Municipal Budget:</b>								
Principal	15.31	15.09	15.74	16.30	16.05	15.72	15.48	19.35
Interest	11.46	10.42	11.30	11.55	10.17	11.36	10.64	14.55
<b>Sub-Total</b>	<b>26.77</b>	<b>25.51</b>	<b>27.04</b>	<b>27.85</b>	<b>26.22</b>	<b>27.08</b>	<b>26.12</b>	<b>33.90</b>
<b>Sinking Funds:</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>.05</b>
<b>Additional Building Aid:</b>	<b>--</b>	<b>1.02</b>	<b>1.90</b>	<b>3.63</b>	<b>4.03</b>	<b>4.40</b>	<b>4.38</b>	<b>9.81</b>
<b>SUB-TOTAL: CAPITAL &amp; DEBT SERVICE</b>	<b>143.19</b>	<b>142.66</b>	<b>146.41</b>	<b>143.57</b>	<b>138.45</b>	<b>137.99</b>	<b>133.62</b>	<b>151.47</b>
<b>TOTAL EXPENDITURES</b>	<b>1,472.25</b>	<b>1,533.87</b>	<b>1,598.19</b>	<b>1,676.49</b>	<b>1,766.62</b>	<b>1,765.16</b>	<b>1,808.05</b>	<b>1,915.81</b>

Table A-1.

Notes:

1. Data for 1970-71 through 1976-77 are audited expenditure figures as published in the Annual Reports of the Commissioner of Education, Financial Statistics of School Districts.
2. Data for 1977-78 are audited expenditure figures from worksheets in the Department of Education.
3. Net Tuition is the total paid minus the total tuition received by school districts, and represents the net payments made outside the New Jersey public school system.
4. Debt Service includes payments made by school districts and by municipal governments on behalf of school districts.
5. Omitted are Improvement Authorizations.
6. All data are expressed in 1975-76 dollars through use of an index based on the average teachers' salary in New Jersey.
7. Individual figures may not add to totals because of rounding.

Table A-2. State Total Expenditures by Local School Districts, by Line Item, as Percentage of Total Expenditure; 1970-71 to 1977-78

	<u>1970-71</u>	<u>1971-72</u>	<u>1972-73</u>	<u>1973-74</u>	<u>1974-75</u>	<u>1975-76</u>	<u>1976-77</u>	<u>Prelim. 1977-78</u>
<b>Administration:</b>								
Salaries	2.47%	2.44%	2.44%	2.46%	2.49%	2.53%	2.52%	2.55%
Contracted Services	.30	.30	.31	.33	.35	.36	.37	.41
Other	.42	.43	.44	.47	.51	.51	.55	.52
<b>Sub-Total</b>	<b>3.19</b>	<b>3.17</b>	<b>3.19</b>	<b>3.25</b>	<b>3.35</b>	<b>3.39</b>	<b>3.43</b>	<b>3.47</b>
<b>Instruction:</b>								
Salaries-Principals	2.96	2.94	3.15	3.12	3.10	3.15	3.12	3.14
Salaries-Supervisor of Instruction	.99	1.03	.86	.97	.99	1.03	.94	1.01
Salaries-Teachers	48.50	47.56	46.96	45.94	44.68	44.67	43.92	42.15
Salaries-Other Instructional Staff	3.21	3.77	3.75	4.04	4.15	4.30	4.32	4.26
Salaries-Secretarial and Clerical	1.82	1.78	1.87	1.89	1.88	1.91	1.84	1.73
Salaries-Other Instructional Pers.	.40	.49	.61	.64	.74	.73	.65	.65
Textbooks	.79	.75	.71	.69	.68	.67	.64	.65
Library and Audio-Visual	.65	.65	.64	.64	.63	.58	.55	.50
Teaching Supplies	1.53	1.53	1.54	1.61	1.73	1.74	1.70	1.64
Other Instructional Expenses	.64	.68	.70	.72	.76	.73	.75	.70
<b>Sub-Total</b>	<b>61.50</b>	<b>61.17</b>	<b>60.79</b>	<b>60.26</b>	<b>59.33</b>	<b>59.51</b>	<b>58.45</b>	<b>56.43</b>
<b>Attendance:</b>								
Salaries	.25	.26	.21	.17	.19	.20	.20	.19
Other	.01	.01	.01	.01	.01	.01	.01	.01
<b>Sub-Total</b>	<b>.26</b>	<b>.27</b>	<b>.22</b>	<b>.18</b>	<b>.19</b>	<b>.21</b>	<b>.21</b>	<b>.20</b>
<b>Health Services:</b>								
Salaries	1.28	1.27	1.31	1.23	1.23	1.24	1.22	1.19
Other	.09	.09	.08	.08	.09	.08	.09	.09
<b>Sub-Total</b>	<b>1.37</b>	<b>1.36</b>	<b>1.39</b>	<b>1.31</b>	<b>1.32</b>	<b>1.31</b>	<b>1.31</b>	<b>1.28</b>
<b>Transportation:</b>								
Salaries	.80	.83	.87	.87	.92	.95	.96	1.03
Contracted Services	2.04	1.87	1.92	1.90	1.99	2.02	2.03	1.96
Replacement-Vehicles	.10	.19	.12	.18	.16	.16	.17	.18
Purchase-Vehicles	--	--	--	.07	.09	.05	.05	.05
Insurance-Public Transportation	.04	.05	.04	.05	.04	.04	.05	.09
Curricular Activities	--	--	.01	.03	.04	.04	.04	.05
Other-Operation and Maintenance	.22	.22	.22	.24	.28	.31	.33	.34
<b>Sub-Total</b>	<b>3.19</b>	<b>3.15</b>	<b>3.18</b>	<b>3.34</b>	<b>3.52</b>	<b>3.57</b>	<b>3.63</b>	<b>3.71</b>
<b>Plant Operation:</b>								
Salaries	4.66	4.64	4.65	4.62	4.58	4.53	4.49	4.42
Contracted Services	.09	.11	.10	.11	.13	.12	.11	.14
Heat	.90	.87	.79	1.18	1.46	1.33	1.39	1.30
Utilities	1.32	1.38	1.46	1.54	1.82	1.93	2.04	2.05
Supplies	.36	.36	.35	.36	.41	.43	.40	.40
Other Expenses	.07	.07	.07	.08	.08	.08	.07	.08
<b>Sub-Total</b>	<b>7.41</b>	<b>7.43</b>	<b>7.44</b>	<b>7.88</b>	<b>8.48</b>	<b>8.41</b>	<b>8.51</b>	<b>8.38</b>

Table A-2. (Continued)

	<u>1970-71</u>	<u>1971-72</u>	<u>1972-73</u>	<u>1973-74</u>	<u>1974-75</u>	<u>1975-76</u>	<u>1976-77</u>	<u>Prelim. 1977-78</u>
Maintenance:								
Salaries	.86%	.86%	.89%	.91%	.97%	.97%	.98%	.97%
Contracted Services	1.08	1.17	1.25	1.28	1.31	1.10	1.28	1.23
Equipment-Replacement	.45	.44	.46	.64	.59	.48	.52	.51
Equipment-New	--	--	.03	.34	.48	.42	.33	.30
Other Maintenance Expenses	.39	.38	.46	.42	.45	.41	.45	.42
Sub-Total	2.78	2.85	3.10	3.59	3.80	3.38	3.57	3.43
Fixed Charges:								
Employee Retirement	1.36	1.34	1.46	1.58	1.60	1.65	1.86	2.06
Insurance and Judgments	2.27	2.60	2.63	2.65	2.64	3.04	3.52	3.72
Rental, Land and Buildings	.28	.26	.24	.21	.18	.15	.13	.14
Interest, Current Loans	--	--	--	--	--	--	.01	.01
Other	.04	.03	.03	.04	.03	.02	.02	.04
Sub-Total	3.95	4.23	4.35	4.48	4.44	4.86	5.54	5.97
Net Tuition:	.28	.38	.49	.56	.65	.76	.83	.85
Food Service:								
Salaries	.23	.23	.25	.28	.27	.26	.22	.26
Other	.30	.30	.38	.42	.44	.40	.32	.32
Sub-Total	.53	.53	.64	.70	.72	.66	.54	.58
Student Body Activities:								
Salaries	.40	.42	.46	.45	.50	.53	.48	.56
Other Expenses	.52	.51	.54	.55	.59	.58	.53	.56
Sub-Total	.91	.93	1.00	1.00	1.08	1.12	1.02	1.11
Community Service:								
Salaries	.20	.21	.21	.09	.11	.13	.12	.24
Other Expenses	.03	.04	.03	.02	.11	.15	.12	.08
Sub-Total	.22	.24	.24	.11	.22	.27	.25	.33
Special Projects:								
Salaries	.08	.05	.17	.08	.06	.10	.36	.86
Other	.22	.14	.32	.24	.35	.24	.73	1.22
Sub-Total	.29	.19	.48	.32	.41	.35	1.09	2.08
Federal Programs:								
E.S.E.A.	2.62	2.83	2.66	2.53	2.71	2.55	2.48	2.32
Manpower Development	.22	.19	.16	.15	.07	.04	.05	--
Other	.83	1.08	.82	.97	1.07	1.05	1.05	1.24
Sub-Total	3.67	4.10	3.64	3.65	3.85	3.65	3.58	3.57

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Table A-2. (Continued)

	<u>1970-71</u>	<u>1971-72</u>	<u>1972-73</u>	<u>1973-74</u>	<u>1974-75</u>	<u>1975-76</u>	<u>1976-77</u>	<u>Prelim.</u> <u>1977-78</u>
Special Schools:								
Accredited Evening	.05%	.05%	.04%	.04%	.04%	.03%	.03%	.04%
Adult Education	.20	.21	.24	.24	.25	.23	.24	.24
Regular Evening	.01	.01	--	.01	.01	.01	.01	.05
Summer School	.24	.20	.20	.23	.21	.15	.09	.11
Evening Vocational	.18	.19	.20	.26	.28	.30	.27	.20
Foreign-Born Evening	.02	.01	.02	.03	.02	.02	.02	.06
Sub-Total	.70	.67	.70	.81	.80	.73	.66	.71
<b>SUB-TOTAL: CURRENT EXPENSES</b>	<b>90.27</b>	<b>90.70</b>	<b>90.84</b>	<b>91.44</b>	<b>92.16</b>	<b>92.18</b>	<b>92.61</b>	<b>92.09</b>
Budgeted Capital Outlay:								
Sites	.17	.17	.17	.18	.18	.10	.10	.18
Buildings	.32	.27	.33	.40	.33	.32	.27	.53
Equipment	.92	.94	.80	.24	.12	.09	.07	.13
Sub-Total	1.41	1.38	1.29	.81	.63	.51	.44	.84
Debt Service in School Budget:								
Principal	3.67	3.50	3.47	3.43	3.19	3.17	3.06	2.86
Interest	2.83	2.70	2.59	2.44	2.30	2.35	2.20	1.92
Sub-Total	6.50	6.19	6.06	5.87	5.49	5.52	5.26	4.78
Debt Service in Municipal Budget:								
Principal	1.04	.98	.98	.97	.91	.89	.86	1.01
Interest	.78	.68	.71	.69	.58	.64	.59	.76
Sub-Total	1.82	1.66	1.69	1.66	1.48	1.53	1.44	1.77
Sinking Funds:	--	--	--	--	--	--	--	--
Additional Building Aid:	--	.07	.12	.22	.23	.25	.24	.51
<b>SUB-TOTAL: CAPITAL &amp; DEBT SERVICE</b>	<b>9.73</b>	<b>9.30</b>	<b>9.16</b>	<b>8.56</b>	<b>7.84</b>	<b>7.82</b>	<b>7.39</b>	<b>7.91</b>
<b>TOTAL EXPENDITURES</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

Table A-2.

Notes:

1. Percentages for 1970-71 through 1976-77 based on audited expenditure figures as published in the Annual Reports of the Commissioner of Education, Financial Statistics of School Districts.
2. Percentages for 1977-78 based on audited expenditure figures from worksheets in the Department of Education.
3. Net Tuition is the total paid minus the total tuition received by school districts, and represents the net payments made outside the New Jersey public school system.
4. Debt Service includes payments made by school districts and by municipal governments on behalf of school districts.
5. Omitted are Improvement Authorizations.
6. Individual figures may not add to totals because of rounding.

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