

**Office of Legislative Services
Background Report
Regional School Districts: Apportionment of Costs
in the Constituent Municipalities**

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OLS Background Report On Regional School Districts: Apportionment of Costs among the Constituent Municipalities

INTRODUCTION

A regional school district is a school district that provides educational services to two or more municipalities.¹ Regional school districts are organized either as “all purpose regional districts,” which provide a grades K-12 structure, or “limited purpose regional districts,” which operate only specific parts of a full system, for example a grades K-6 structure or a grades 9-12 structure. In a regional school district each constituent municipality is, of course, responsible for the support of the district. This background report will discuss the methods of apportioning costs among the constituent municipalities in a regional school district and the procedure whereby the cost apportionment method may be modified.

METHODS OF APPORTIONING COSTS

Since the enactment of the original regional school district law in 1931, the permissible methods of cost apportionment for current expenses in regional school districts have changed quite a few times. These changes represent a longstanding public policy struggle as to the funding approach considered most “fair.” The original regional school district law in 1931 provided for apportionment of costs on the basis of tax ratables in each constituent municipality. In 1953, the law was amended to provide that in the formation of all future regional districts a choice could be made as to whether to apportion costs upon the basis of tax ratables in each constituent municipality or on the basis of the number of students enrolled in the regional district from each constituent municipality. Since 1953, the law has been amended several times: in 1955 to permit a switch to an enrollment basis for cost apportionment, with no comparable option to switch from an enrollment basis to a ratable basis; in 1975 to require that all regional districts apportion costs only on the basis of each constituent municipality’s equalized valuation.² N.J.S.A.18A:13-23 was again substantially changed in 1993 to provide the current three options: apportionment of costs upon the basis of equalized valuation; upon the proportional number of pupils enrolled from each municipality on the 15th day of October in the prior school year; or upon a combination of these two methods.³

¹ The legislation governing regional school districts is compiled at N.J.S.A.18A:13-1 et seq.

² Equalized valuation is the measurement of the value of taxable property in a community. Property values are said to be equalized because assessed values are adjusted for differences in assessment practices. For example, if the average assessment in one municipality equals the average market value of property, while in a second the average assessment is only half of market value, assessments in the second municipality would be multiplied by two to make them comparable to those in the first municipality.

³ Currently all regional school districts apportion costs on the basis of equalized valuation, except the two most recently regionalized districts, Great Meadows Regional in Warren County and Somerset Hills Regional in Somerset County. Great Meadows uses a formula based only on enrollment and Somerset Hills uses an apportionment formula based 95% on student enrollment and 5% on equalized valuation.

Constituent municipalities of regional districts have been known to complain about the “fairness” of the cost apportionment method used in their own particular regional district. In a regional district using an equalized valuation cost apportionment method, a high property wealth constituent municipality may view the amount it pays for each of its pupils as “unfair” compared to the amount paid by other less wealthy constituent municipalities in the regional district for each of their pupils. Stated another way, this high wealth municipality may complain that on a per pupil basis the property owners of that municipality are paying a disproportionate share of the regional burden, thereby subsidizing the education of students from other municipalities comprising the regional district.

Table 1 may help to demonstrate this situation. Three constituent municipalities of a regional school district are shown – Municipality A is of moderate property wealth (\$400,000 equalized valuation per pupil); Municipality B is of high property wealth (\$600,000 equalized valuation per pupil); and Municipality C is of low property wealth (\$300,000 equalized valuation per pupil). In order to determine each municipality’s financial responsibility to the regional school district under the equalized valuation methodology, first the amount of equalized valuation of all the constituent municipalities is added to obtain the regional equalized valuation (\$450,000,000). Next, the regional district tax levy (\$9,000,000) is divided among the constituent municipalities in proportion to the municipality’s share of the regional equalized valuation. In Municipality B, for example, its total equalized valuation of \$180,000,000 represents 40% of the total regional equalized valuation. Therefore, Municipality B is obligated to pay 40% of the regional district tax levy, which amounts to \$3,600,000 or \$12,000 for each pupil from Municipality B attending the regional district.

Municipality B would fair differently if the costs of the regional district were apportioned based on the number of pupils from the municipality attending the regional district. Under this apportionment method the number of pupils from all the municipalities are added, and then the regional district tax levy is divided among the constituent municipalities in proportion to the municipality’s share of the total pupil enrollment in the regional district. Municipality B, since it has 30% of the pupils in the regional district, would pay 30% of the regional district tax levy, which amounts to \$2,700,000 or \$9,000 for each pupil from Municipality B attending the regional district. Under this method each constituent municipality pays the same amount per pupil to support the regional school district, regardless of the wealth of the municipality.

As shown in Table 1, Municipality B would pay \$3,000 more for each of its pupils under the equalized valuation method than it would under the per pupil method. However, the idea of using equalized valuation as a basis for cost apportionment is to spread the cost of funding the regional school district among the constituent municipalities in proportion to the municipality’s “ability to pay” – with “ability to pay” being determined by the value of a municipality’s property. In fact, some New Jersey courts have noted that the method of financing the costs of a regional district using the equalized valuation method is substantially the same as financing the

costs of a single municipality school district – in both, the school tax obligation depends on the value of each taxpayer’s real property. (See Borough of Sea Bright v. State Department of Education, 242 N.J.Super. 225 (App.Div. 1990)⁴

The other side of the “fairness” argument is that those constituent municipalities with the higher pupil populations that, in fact, use the services of the regional district to a greater extent should pay more of the costs of the regional district. This idea of paying in relation to the amount of services used is utilized in sending-receiving relationships between school districts. Under a sending-receiving relationship a “sending” school district pays tuition to a “receiving” school district for students who are residents of the sending community. When a district is receiving students, it may set a tuition rate which is determined as the actual cost per pupil based on a formula approved by the State Board of Education. Significantly, the property of the “sending” district is not exposed to local taxation for the support of the “receiving” district. For this reason, the sending-receiving relationship model may be appealing to a high property wealth district – it pays essentially only what it costs to educate the number of children it sends to the “receiving” district.⁵

MODIFICATION OF THE APPORTIONMENT METHOD

The New Jersey statutes provide a method for altering the apportionment method used in a regional district.⁶ The law permits a referendum on modification of the apportionment method only upon the occurrence of one of the following events:

- Ten years have elapsed since the last school election in which the apportionment of costs was approved by the voters;
- A school year in which the equalized valuation of any constituent municipality has increased or decreased by a certain critical amount;
- A school year in which the pupil population of any constituent municipality has increased or decreased by a certain critical amount;
- A school year in which the regional district is enlarged by the admission of one or more districts;

⁴ It also should be noted that although certain constituent municipalities in regional school districts using the equalized valuation method may complain about high per pupil costs, the complaining municipality actually may have a low tax rate compared to other constituent municipalities in the regional district.

⁵ The sending-receiving relationship, while offering financial protection for high property wealth municipalities sending pupils to a “receiving” district, has the disadvantage of limiting the “sending” district’s participation in decision making at the “receiving” district.

⁶ The provision which sets forth the requirements for a modification of the apportionment method is found at N.J.S.A.18A:13-23.3

- During any school year if the regional district was formed prior to March 8, 1993, and has never revised its cost apportionment basis.

A referendum on a change in the apportionment method must be approved “by the voters of each municipality.”⁷ Because of this voting requirement, a change in the method of cost apportionment is quite difficult to accomplish. Such a change will always create “winners” and “losers” among the constituent municipalities, and those municipalities slated to “lose” will not vote in favor of a change that will result in increases in their tax levy. The constituent municipalities which benefit from the current apportionment method are granted effective veto power over any possible change.

Until recently the only way to alter the apportionment method in a regional district was pursuant to the process outlined above. Recently, however, the Commissioner of Education has been called upon by the New Jersey Supreme Court to modify the apportionment method in the Passaic County Manchester Regional High School District, a limited purpose regional district (181 N.J. 161 (2004)). In this case North Haledon, a constituent member of the regional district, had tried unsuccessfully to change the apportionment method in the regional district from the equalized valuation method to the per pupil method. Next, North Haledon attempted to withdraw from the regional district and a referendum on this question had been approved by the voters in the district. The Supreme Court, however, blocked the withdrawal, holding that such a withdrawal would violate the constitutional imperative to prevent segregation in the State’s public schools. Under these set of circumstances whereby the municipality was forced to remain in the district, the Supreme Court mandated that the commissioner develop, in consultation with the constituent municipalities, an equitable cost apportionment method for the regional district that would provide some relief to the taxpayers of North Haledon. The commissioner has developed the new cost apportionment method for the regional district, and, as of this date, that new method is under appeal by the parties.

Given the difficulty of effectuating a change in the apportionment method pursuant to N.J.S.A.18A:13-23, constituent municipalities in regional districts that object to the cost apportionment method utilized in their district may look to the North Haledon case for possible relief. It is important to note, however, that it is unclear whether the holding in that case is fact-specific or more broadly applicable.

For further information, contact:
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⁷ N.J.S.A.18A:13-23.

Table 1:

A: Regional School District with Three Constituent Municipalities

Municipality A – Moderate Property Wealth

Total number of pupils: 600
Total equalized valuation (equal val.): \$240,000,000
Equal. val. per pupil: $(\$240,000,000/600) = \$400,000$

Municipality B – High Property Wealth

Total number of pupils: 300
Total equal. val.: \$180,000,000
Equal. val. per pupil: $(\$180,000,000/300) = \$600,000$

Municipality C – Low Property Wealth

Total number of pupils: 100
Total equal. val.: \$30,000,000
Equal. val. per pupil: $(\$30,000,000/100) = \$300,000$

B: Apportionment of Costs on an Equalized Valuation Basis:

Tax Levy Necessary to Support the Regional District Budget: \$9,000,000

Equalized Valuation to Support Regional District:

From Municipality A:	\$240,000,000 (53.3%)
From Municipality B:	\$180,000,000 (40%)
From Municipality C:	<u>\$ 30,000,000 (6.7%)</u>

Total equal. val. to support regional district: \$450,000,000 (100%)

Municipality A:

Regional costs apportioned to municipality: $53.3\% \times \$9,000,000 = \$4,797,000$
Cost per pupil: $\$4,797,000/600 = \mathbf{\$7,995 \text{ per pupil}}$

Municipality B:

Regional costs apportioned to municipality: $40\% \times \$9,000,000 = \$3,600,000$
Cost per pupil: $\$3,600,000/300 = \mathbf{\$12,000 \text{ per pupil}}$

Municipality C:

Regional costs apportioned to municipality: $6.7\% \times \$9,000,000 = \$603,000$
Cost per pupil: $\$603,000/100 = \mathbf{\$6,030 \text{ per pupil}}$

C: Apportionment of Costs on a Per Pupil Basis:

Tax Levy Necessary to Support the Regional District Budget: \$9,000,000

Pupils from Municipality A: 600 pupils (60%)

Pupils from Municipality B: 300 pupils (30%)

Pupils from Municipality C: 100 pupils (10%)

Total number of pupils in regional district: 1,000 pupils (100%)

Municipality A:

Regional costs apportioned to municipality: 60% x \$9,000,000 = \$5,400,000

Cost per pupil: \$5,400,000/600 = **\$9,000 per pupil**

Municipality B:

Regional costs apportioned to municipality: 30% x \$9,000,000 = \$2,700,000

Cost per pupil: \$2,700,000/300 = **\$9,000 per pupil**

Municipality C:

Regional costs apportioned to municipality: 10% x \$9,000,000 = \$900,000

Cost per pupil: \$900,000/100 = **\$9,000 per pupil**

Data are for illustrative purposes only. This does not represent an actual regional district.
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