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before

SENATE EDUCATION COMMITTEE

SENATE BILL 2405

(Provides for the use of current year expenditures in the  
determination of equalization aid for school districts)

May 26, 1988  
Room 334  
State House Annex  
Trenton, New Jersey

MEMBERS OF COMMITTEE PRESENT:

Senator Matthew Feldman, Chairman  
Senator Daniel J. Dalton, Vice Chairman  
Senator Wayne Dumont, Jr.  
Senator John H. Ewing

ALSO PRESENT:

Deena R. Schorr  
Office of Legislative Services  
Aide, Senate Education Committee

\* \* \* \* \*

Meeting Recorded and Transcribed by  
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MATTHEW FELDMAN  
Chairman  
DANIEL J. DALTON  
Vice-Chairman  
RAYMOND LESNIAK  
WAYNE DUMONT, JR.  
JOHN H. EWING

**New Jersey State Legislature**  
**SENATE EDUCATION COMMITTEE**  
STATE HOUSE ANNEX, CN-068  
TRENTON, NEW JERSEY 08625  
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**MEMORANDUM**

May 18, 1988

**TO: MEMBERS OF THE SENATE EDUCATION COMMITTEE**  
**FROM: SENATOR MATTHEW FELDMAN, CHAIRMAN**  
**SUBJECT: COMMITTEE MEETING - May 26, 1988**

The Senate Education Committee will meet on Thursday, May 26 in Room 334, State House Annex, beginning at 2:00 P.M.

At the committee meeting the committee will take public testimony on:

<b>S-2405</b>	<b>Provides for the use of current year expenditures in</b>
<b>(Lipman)</b>	<b>the determination of equalization aid for school</b>
	<b>districts.</b>

In addition to the above bill, the hearing will also address the general issue of current year funding of State aid for education.

Anyone wishing to testify should contact Deena R. Schorr, aide to the committee at (609) 984-6843 and should submit copies of their testimony to the committee on the day of the hearing.



STATE OF NEW JERSEY

INTRODUCED APRIL 18, 1988

By Senators LIPMAN, FELDMAN, LESNIAK, GRAVES,  
AMBROSIO, COWAN, O'CONNOR, JACKMAN, RICE,  
CODEY, BUBBA, RAND, McMANIMON, COSTA,  
VAN WAGNER, PALLONE, BASSANO, LYNCH,  
EWING, ZIMMER, DUMONT and STOCKMAN

1    **AN ACT** concerning current expense equalization support for  
2       school districts and amending and supplementing P.L. 1975, c.  
3       212.

5       **BE IT ENACTED** by the Senate and General Assembly of the  
6       State of New Jersey:

7       1. Section 3 of P.L. 1975, c. 212 (C. 18A:7A-3) is amended to  
8       read as follows:

9       3. For the purposes of this act, unless the context clearly  
10      requires a different meaning:

11      "Adjusted net current expense budget" means the balance after  
12      deducting (1) State support for categorical programs pursuant to  
13      section 20 of P.L. 1975, c. 212 (C. 18A:7A-20), (2) the difference  
14      between the transportation amount in the current expense budget  
15      and 10% of the estimated approved transportation amount, and  
16      (3) all other revenue in the current expense budget except the  
17      amount to be raised by local taxation, equalization State support,  
18      and State support for approved transportation, appropriation from  
19      free balances, and miscellaneous revenue.

20      "Adjusted net current expenses per pupil" means the quotient  
21      resulting from dividing the adjusted net current budget by the  
22      resident enrollment.

23      "Adjusted State average net current expense budget per pupil"  
24      means the quotient resulting from dividing the total adjusted net  
25      current expense budgets of all districts in the State by the total  
26      resident enrollment in the State.

27      "Administrative order" means a written directive ordering  
28      specific corrective action by a district which has shown  
29      insufficient educational progress within a reasonable period of  
30      time in meeting goals and standards.

31      "Approved special class pupil" means a pupil enrolled in any  
32      class for atypical pupils pursuant to chapter 46 of Title 18A of  
33      the New Jersey Statutes.

EXPLANATION—Matter enclosed in bold-faced brackets [thus] in the  
above bill is not enacted and is intended to be omitted in the law.

Matter underlined thus is new matter.

1 "Approved special education services pupil" means a pupil  
 3 receiving specific services pursuant to chapter 46 of Title 18A of  
 the New Jersey Statutes but excluding pupils attending county  
 special services school districts.

5 "Bilingual education pupil" means a pupil enrolled in a program  
 of bilingual education approved by the State board.

7 "Budgeted capital outlay" means those capital outlay  
 expenditures that are included in the annual school budget.

9 "Categorical programs" means those programs and services  
 11 recognized in this act as requiring per pupil expenditures over and  
 above those applicable to regular programs, as provided in section  
 20 of this act.

13 "Current expense" means all expenses of the school district, as  
 enumerated in N.J.S. 18A:22-8, other than those required for  
 15 interest and debt redemption charges and any budgeted capital  
 project.

17 "Debt service" means and includes payments of principal and  
 interest upon school bonds and other obligations issued to finance  
 19 the acquisition of school sites and the acquisition, construction or  
 reconstruction of school buildings, including furnishings,  
 21 equipment and the costs of issuance of such obligations and shall  
 include payments of principal and interest upon bonds heretofore  
 23 issued to fund or refund such obligations, and upon municipal  
 bonds and other obligations which the commissioner approves as  
 25 having been issued for such purposes. Debt service pursuant to  
 the provisions of P.L. 1971, c. 10 (C. 18A:58-33.6 et seq.) and  
 27 P.L. 1968, c. 177 (C. 18A:58-33.2 et seq.) is excluded.

"District equalized valuation per pupil" means the quotient  
 29 resulting from dividing the total equalized valuations in the  
 school district by the resident enrollment of the district; provided  
 31 that in the determination of the equalized valuation per pupil of a  
 county vocational school the total equalized valuations in the  
 33 county shall be divided by the total resident enrollment in all  
 school districts of the county to obtain the county vocational  
 35 school equalized valuation per pupil.

"Equalized valuations" means the equalized valuation of the  
 37 taxing district for taxing districts as certified by the Director of  
 the Division of Taxation on October 1 of the prebudget year.

39 With respect to regional districts and their constituent  
 districts, however, the equalized valuations as described above

1 shall be allocated among the regional and constituent districts in  
proportion to the number of pupils in each of them.

3 "Evening school pupils" means the equated full-time resident  
enrollment of pupils enrolled in an accredited evening high  
5 school, an evening vocational high school, and in other evening  
schools except schools offering programs for self-improvement  
7 and social enrichment.

"Goals" means a written statement of educational aspirations  
9 for learner achievement and the educational process stated in  
general terms.

11 "Guaranteed valuation per pupil" means the product, rounded  
to the nearest dollar, of 1.344 times the State average valuation  
13 per pupil for the year in which the calculation of aid is made.

"Joint Committee on the Public Schools" means the committee  
15 created pursuant to P.L. 1975, c. 16 (C. 52:9R-1 et seq.).

"Local vocational pupils" means the full-time equivalent of  
17 pupils enrolled in approved categorical vocational programs in  
school districts designated as local area vocational school  
19 districts.

"Maximum net current expense budget" means the net current  
21 expense budget for the prebudget year plus an amount equal to  
the product of the maximum increase permitted pursuant to  
23 section 25 of P.L. 1975, c. 212 (C. 18A:7A-25) multiplied by 0.33  
for the 1989-1990 school year, by 0.67 for the 1990-1991 school  
25 year and by 1.0 thereafter.

"Minimum aid guaranteed valuation per pupil" means the  
27 product, rounded to the nearest whole dollar, of 11.5 times the  
State average equalized valuation per pupil for the year in which  
29 the calculation of aid is made.

"Needs assessment" means a written analysis of the current  
31 status of an educational system in terms of achieving its goals.

"Net current expense budget" means the balance after  
33 deducting (1) State support for categorical programs pursuant to  
section 20 of this act, (2) the difference between the  
35 transportation amount in the current expense budget and 10% of  
the estimated approved transportation amount, and (3) all other  
37 revenue in the current expense budget except the amount to be  
raised by local taxation, equalization State support, the State  
39 support for approved transportation.

1 "Net current expense per pupil" means the quotient resulting  
from dividing the net current expense budget by the resident  
3 enrollment.

"Net debt service and budgeted capital outlay" means the  
5 balance after deducting all revenues from the school debt service  
and budgeted capital outlay budgets of the school district and the  
7 school debt service amount included in the municipal budget,  
except the amount to be raised by local taxation and State  
9 support.

"Objective" means a written statement of the intended  
11 outcome of a specific educational process.

"Prebudget year" means the school year preceding the year in  
13 which the school budget will be implemented.

"Resident enrollment" means the number of pupils who are  
15 resident of the district and are enrolled in day or approved  
evening schools on the last school day of September of the  
17 prebudget year and are attending: (1) the public schools of the  
district; (2) another school district or a State college  
19 demonstration school to which the district of residence pays  
tuition; or (3) a State facility; provided that a district shall count  
21 pupils regularly attending both the schools of the district and of a  
county vocational school in the same county on an equated  
23 full-time basis.

Handicapped children between three and five years of age and  
25 receiving programs and services pursuant to N.J.S. 18A:46-6 shall  
be included in the resident enrollment of the district on an  
27 equated full-time basis.

"Standards" means the process and stated levels of proficiency  
29 used in determining the extent to which goals and objectives are  
being met.

31 "State average net current expense budget per pupil" means  
the quotient resulting from dividing the total net current expense  
33 budgets of all districts in the State by the total resident  
enrollment in the State.

35 "State average valuation per pupil" means the quotient  
resulting from dividing the total equalized valuations in the State  
37 as certified by the Director of the Division of Taxation on  
October 1 by the total resident enrollment in the State. In the  
39 event that the equalized table certified by the Director of the  
Division of Taxation shall be revised by the tax court on or before



1 January 30 of the next succeeding year, such revised valuation  
shall be used in any recomputation of aid for an individual district  
3 filing such appeal but will have no effect upon the State average  
valuation per pupil.

5 "State compensatory education pupil" means a pupil who is  
enrolled in preventive and remedial programs offered during the  
7 normal school day, or in programs offered beyond the normal  
school day or during summer vacation, which are integrated and  
9 coordinated with programs operated during the regular school day  
and year. Said programs shall be approved by the State board,  
11 supplemental to the regular programs and designed to assist  
pupils who have academic, social, economic or environmental  
13 needs that prevent them from succeeding in regular school  
programs.

15 "State facility" means a State residential facility for the  
retarded; a day training center which is operated by or under  
17 contract with the State and in which all the children have been  
placed by the State, including a private school approved by the  
19 Department of Education which is operated under contract with  
the Bureau of Special Residential Services in the Division of  
21 Developmental Disabilities in the Department of Human Services;  
a State residential youth center; a State training school or  
23 correctional facility; a State child treatment center or  
psychiatric hospital.

25 "State support limit" means the sixty-fifth percentile net  
current expense budget per pupil for the prebudget year when all  
27 district figures are ranked from low to high. The State support  
limit shall be calculated and applied separately for (a) limited  
29 purpose regional districts offering grades 9 through 12, (b)  
limited purpose regional districts offering grades 7 through 12,  
31 provided, however, that the figure used for such districts shall be  
not less than 90% of the sixty-fifth percentile for limited purpose  
33 regional districts offering grades 9 through 12, (c) constituent  
districts of limited purpose regional districts offering grades 9  
35 through 12, (d) constituent districts of limited purpose regional  
districts offering grades 7 through 12, provided, however, that  
37 the figure used for such districts shall be not less than 90% of the  
sixty-fifth percentile for constituent districts of limited purpose  
39 regional districts offering grades 9 through 12, and (e) all other  
districts.

41 (cf: P.L. 1986, c. 10, s. 1)

2. Section 18 of P.L. 1975, c. 212 (C. 18A:7A-18) is amended to read as follows:

18. Equalization support for current expenses of all school districts shall be paid in accordance with the calculations contained in subsection a. or b. whichever results in a greater amount of aid:

a. Divide the district equalized valuation per pupil by the guaranteed valuation per pupil and subtract the quotient from 1.0000 to obtain the district's State support ratio.

Multiply the district's State support ratio by the smaller of (1) the net current expense budget for the [prebudget] budget year or the maximum net current expense budget, whichever is less, or (2) the product of the resident enrollment and the State support limit.

b. Divide the district's equalized valuation per pupil by the minimum aid guaranteed valuation per pupil, subtract the quotient from 1.000 and multiply the remainder by 10% to obtain the district's minimum aid State support ratio.

Multiply the district's minimum aid State support ratio by the product of the resident enrollment and the State support limit.

An all purpose regional school district formed after January 1, 1987 shall be entitled to 110% of the amount of equalization aid calculated pursuant to subsections a. and b. of this section for a period of five years following the year of regionalization of the school district, subject to the provisions of section 4 of P.L. 1987, c. 266 (C. 18A:7A-27.1).

(cf: P.L. 1987, c. 266, s. 2)

3. Section 24 of P.L. 1975, c. 212 (C. 18A:7A-24) is amended to read as follows:

24. State support for county vocational school districts shall be paid in accordance with the following calculations:

a. Equalization support for current expenses of county vocational school districts shall be paid in accordance with the calculations in paragraphs (1) or (2) whichever results in the greater amount of aid:

(1) Divide the county equalized valuations per pupil by the guaranteed valuation per pupil and subtract the quotient from 1.0000 to obtain the county vocational school's State support ratio.

Multiply the State support ratio by the smaller of (1) the net

1 current expense budget for the [prebudget] budget year or the  
 3 maximum net current expense budget, whichever is less, or (2)  
 the product of the resident enrollment multiplied by 175% of the  
 Statewide sixty-fifth percentile net current expense budget per  
 5 pupil for the prebudget year when all district figures are ranked  
 from low to high.

7 (2) Divide the county equalized valuations per pupil by the  
 minimum aid guaranteed valuation per pupil, subtract that  
 9 quotient from 1.0000 and multiply the remainder by 10% to  
 obtain the county vocational school's minimum aid State support  
 11 ratio. Multiply the county vocational school's minimum aid State  
 support ratio by the product of the resident enrollment multiplied  
 13 by 175% of the statewide sixty-fifth percentile net current  
 expense budget per pupil for the prebudget year when all district  
 15 figures are ranked from low to high.

b. Debt service and budgeted capital outlay support for county  
 17 vocational schools shall be calculated in accordance with section  
 19 of this act.

(cf: P.L. 1978, c. 158, s. 6)

4. Section 27 of P.L. 1975, c. 212 (C. 18A:7A-27) is amended  
 21 to read as follows:

27. On or before November 1 of each year, the commissioner  
 23 shall determine the amount necessary to be appropriated by the  
 State to carry out the provisions of this act for the succeeding  
 25 school year and shall determine for local budget purposes the  
 amounts payable to each of the counties and districts under this  
 27 act for such succeeding year.

For the purposes of this section the commissioner shall assume  
 29 that each district shall adopt a net current expense budget equal  
to the maximum net current expense budget.

(cf: P.L. 1975, c. 212, s. 27)

5. (New section) After a school district's budget is adopted,  
 33 the commissioner, when appropriate, shall adjust the amounts  
 payable to the district pursuant to section 18 or section 24 of  
 35 P.L. 1975, c. 212 (C. 18A:7A-18, C. 18A:7A-24) to reflect the  
 adoption of a net current expense budget which differs from the  
 37 maximum net current expense budget.

6. This act shall take effect on July 1, 1988, except that  
 39 sections 2, 3 and 4 shall not apply to the current expense  
 equalization support for the 1988-1989 year.

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## STATEMENT

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This bill provides for a three year phase-in of current year funding of equalization aid for public schools. Beginning with the 1991-1992 school year, the equalization aid entitlements of local school districts and county vocational school districts will be based on their current year expenditures. At present, the equalization aid formula uses a district's net current expense budget from the previous year. Under this bill, the transition from a prebudget year to a current year funding base will be accomplished in three equal steps beginning in the 1989-1990 school year.

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The use of the current year net current expense budget in the calculation of equalization aid entitlements will affect the entitlements of all school districts except: a. those in which the equalized value of the taxable property in the district divided by the student enrollment exceeds the Statement average by a significant margin, or b. those in which the net current expense budget (NCEB) per pupil exceeds the 65th percentile NCEB per pupil throughout the State.

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## EDUCATION

## Education - Finance and State Aid

25

27

Provides for the use of current year expenditures in the determination of equalization aid for school districts.

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\* \* \* \* \*





SENATOR MATTHEW FELDMAN (Chairman): I want to take a moment to welcome you here this afternoon, and to make a brief comment on the question which is before us, current year funding for public education.

I want to commend Senator Lipman for bringing this to us at this time, because this is one of the most important issues this Committee has been called upon to consider; perhaps the most important since the passage of the Public School Education Act of 1975. In some ways this is an extension of the '75 debate. Since then, as now, we are really considering equity and equalization of effort in the provision of State aid for education.

In essence the issue is a simple one. Under our current State aid formula, a local school district must bear the entire first year cost of any new program, whether initiated by the district or required by the State. Poor districts with few fiscal resources, cannot undertake new and innovative projects, and in consequence fall further and further behind in the provision of educational services.

In recent years this has been recognized as a problem. And a number of statutes have specified current year funding for certain programs; for example, the minimum teacher salary law provided for current year State funding, and this mechanism was used to provide the potential for additional funds to districts in level three monitoring.

The entire question was studied very carefully by the select commission, and as you know that commission has recommended current year funding for State current expense aid and capital expense aid. As a member of that commission, I certainly endorsed those recommendations, and commend once again Senator Lipman for taking the initiative for introducing this bill.

I should also note that Senator Russo has just introduced a companion measure providing current year funding for capital expenditures.

I hope through this hearing, through the transcripts, to generate further discussion on the entire issue of current year funding so that we can come together on the specifics of this legislation and move forward to achieve a critical reform in the education aid formula.

I asked Senator Dalton if he wishes to comment. He said it's not necessary; he concurs with my comments. Senator Dumont, do you wish to have a comment or share some of your thoughts with us? I would welcome them at this time.

SENATOR DUMONT: Well, I certainly concur with what you had to say. I don't think we're doing enough for State aid to the school districts. The percentage has to go up, and this is one way that the percentage can go up and be absolutely valid and right in what we're doing, because leaving it a year or two years behind is ridiculous.

SENATOR FELDMAN: Thank you, Senator Dumont, and you Senator Dalton.

SENATOR DUMONT: I commend Senator Lipman for doing this too.

SENATOR FELDMAN: Now I call upon Senator Lipman to talk to us about your bill and why we should look upon it with favor.

SENATOR WYNONA M. LIPMAN: All right, Mr. Chairman. I want to say at the outset that it is a pleasure to appear here today to be able to speak about such an important bill. I want to thank you and commend you for your support and attention to this very critical educational concern.

We as a people have no greater responsibility than to ensure that our children -- all of our children -- receive an education which will allow each of them to function at their full potential intellectually, economically, socially, and politically.

More than a dozen years ago, the Supreme Court of this State determined that the mechanism we were using to fund

education was not attaining this objective. The court held that we were not fulfilling our responsibility to establish and to provide a thorough and efficient system of public education in our State. With some prodding, we responded to the court's conclusion and in 1975 we enacted the current school aid funding formula and the State income tax which supplied the needed funds.

Central to the funding formula was the belief that the quality of the education received by a public school student in the State of New Jersey should not be a function of the wealth of the community in which the child lived. The formula provided that a district's entitlement to State aid would be directly related to the district's wealth, with the State paying as much as 90% of the operating costs in the poorest districts.

If the funding formula adopted in the T & E law of 1975 is so good, then why are we here to discuss this bill today and why is the administrative law judge currently weighing evidence in Abbott v. Burke case? Part of the reason is that too often districts have not received their full aid entitlements from the State. But the more significant reason is that under the current law, districts receive 50% or 70% or even 90% of the current expense budget from the previous year, not from the current year.

This distinction may appear minor and technical until you try to improve a school system located in a less wealthy community. If you need to increase spending by \$20 million to provide a good education to the children, you will have to raise the full amount of that increase on the backs of local taxpayers. If you are the poorest of the poor, and your State support ratio is 90%, and you increase spending by \$20 million, then you will receive an additional \$18 million in aid in the following year. But if you are the poorest of the poor, you would not be able to raise the initial \$20 million, so that you

will never be able to qualify for the additional State aid, and you will never be able to give your children the education they deserve.

The point of this bill is very simple. It says, if you need to spend \$20 million more to provide a good education, and you are so poor that you are at the 90% support level, then you must raise \$2 million through local taxes and the State will repay the remainder necessary to fulfill our constitutional requirement of a thorough and efficient education.

This bill will then complete the work which was begun in 1975 with the enactment of the T & E law. It will make it possible for all children in our State to get a thorough and efficient education. It is the right thing to do.

SENATOR FELDMAN: Thank you, Senator. I know that you are chairing your own committee meeting this afternoon. Do any of the Committee members wish to ask a question of Senator Lipman?

SENATOR LIPMAN: I think these Committee members are well versed in this formula of prior year funding and current year funding. I think they must know the recommendations from the SLERP Commission also, which are very much along these line.

If I could, I ask your indulgence. Mr. Bob Noonan here has some requests about amendments. You're going to speak about additional legislation and the cap. That's Senator Russo's-- Is that all right?

SENATOR FELDMAN: Yes, certainly. Let me call upon, not Mr. Robert Noonan, but Dr. Robert Noonan.

SENATOR LIPMAN: Dr. Robert Noonan. Excuse me.

SENATOR FELDMAN: If this were any other committee I wouldn't care, but his doctorate is in education.

R O B E R T N O O N A N: Dr. Lipman has become Dr. Dr. Lipman. Montclair State has given her an honorary doctorate just last week.

SENATOR FELDMAN: She had to have an armed escort, which I didn't like, to get to the rostrum. Bob?

MR. NOONAN: I think maybe what's appropriate now is to speak to the one area of amendment that Senator Lipman and I discussed, is that based on the recommendations of the SLERP Commission that she would like to have -- at the point this bill is moved -- an amendment that would address the issue of the cap. This amendment would reflect, I guess it's the depressant formula that the SLERP Commission recommends, that would keep the wild fluctuations of the cap -- which this year I think was in excess of 14% -- within a lesser range by having the cap vary from a base of 6% based on a formula that would allow only a percentage of the increase beyond 6% that's produced by increases in assessed valuation. Which, for instance this year would create a cap somewhere in excess of 9% rather than the 14% that is currently in effect. This would restrict the amount of increase in expenditures a given district would have based upon the current year formula, and to some extent restrict the overall cost of the operation in the given year -- the cost of the financing in a given year. I think that's basically the amendment.

I think it should be pointed out the other difference in this bill and the SLERP Commission's report, is this bill calls for a phase-in of the current year funding on a one third, two thirds, full implementation basis over a three-year period, which of course would reduce its impact in the first year, which would be the '89-'90 school year, is the intent.

SENATOR FELDMAN: Thank you, Robert. Of course, we're all awaiting the full report of the SLERP Commission. When we draft or amend the legislation -- or draft the legislation as proposed by Senator Lipman -- we'll be waiting for that final report.

I have no questions at all. Any questions? (no response) No? Thank you, Senator Lipman.

SENATOR LIPMAN: Yes, thanks. No questions? Very good. Thanks very much.

SENATOR FELDMAN: You're welcome. Now we have the heavy hitters with us, people whom we respect, who are very knowledgeable. The first one will be Vince Calabrese, Assistant Commissioner of Finance, of our State Department of Education, accompanied by Jeanne Oswald.

J E A N N E M. O S W A L D: Thank you. The Department of Education would also like to thank Senator Lipman before she leaves, and this Committee, for bringing this very important issue to the floor for discussion.

The Department supports the concept of current year funding to ease the burden on local school districts. However, the reality of an \$80 million under-funding of next year's formula and the additional \$100 million plus that this bill would require, makes the move to a current year funding formula somewhat impractical. So, while we do support the concept, the fiscal impracticality can't be ignored.

With that in mind, Vince Calabrese is with me today. He's going to address Senator Lipman's bill in particular, and answer any technical questions you may have.

SENATOR FELDMAN: Thank you. Vincent?

A S S T. C O M M. V I N C E N T C A L A B R E S E: Thank you. As Jeanne indicated, the Department does support the concept of current year funding for a lot of reasons. The first has already been said but it's worth repeating: It would help the poor districts when budget increases are necessary. Local tax levies could be reduced in the poorest districts, while permitting an increase in spending. It would improve the equity feature of the formula, lessen the impact of State mandated expenditures or programs, and would really give the Commissioner another fiscal alternative when forcing that district to increase its budget to meet monitoring standards.

However, when we move from concept to implementation, all sorts of issues arise that have to be seriously debated and/or discussed.

I'm going to base my remarks on the bill as it exists, not with any proposed amendments, since I guess we'll discuss them later.

Basing the budget on a capping system, no matter what the capping system is, would automatically generate more dollars than the district might budget under the cap law. It's important to understand that just for a moment. When you're basing budgets on caps-- A cap is a theoretical increase that a school district may increase its budget under State law. It has nothing to do with what a district really thinks it needs; since some districts want waivers, they want to go beyond that, and other districts won't come anywhere near that amount. That's especially important when you look at our present capping system, in that we give K-6 districts and K-8 districts a cap that is based on a K-12 system. They don't need the cap they have right now, so they tend not to budget to it. So when you base a funding system -- State funding system -- on a theoretical cap increase, those districts would get more dollars than they might budget.

You might say, "Well that's fine, but in the following year we would then make an adjustment." That's true, except you would then calculate the new amount for the following year, leaving in that budget dollars that are not necessarily going to be spent. In fact, as I indicated here, it's an interest free advance of aid, which would never be fully recovered, since each year you would estimate the new amount after you make the adjustment.

There should also be a limiter somewhere in the bill, as we get more serious with this type of legislation, for districts such as North Hanover -- New Hanover or North Hanover? New Hanover probably; one of them -- that district

has a 237% permitted cap increase this year, which is ludicrous. They couldn't possibly go from a million dollar budget for State aid purposes to a \$3.5 million for State aid purposes. You say why does that happen? Because they're a Federally funded district. Those funds come off their costs, which shows they have a very low per pupil expenditure for cap purposes, which would give them a permitted increase that's greater. So in those cases at least we should take a look at those anomalies, and we should do something to say that in such cases they can't exceed a certain limit.

The concept of paying aid on a cap system would transfer the erratic savings and permitted caps to State aid, which is much more serious. If you tell a district they can increase their budget by 50%, they only want to increase it by 10%, that could be serious enough in that the budget cap is so much higher than where they intend to go. But when you pay the State aid on that 50% increase and they do not intend to go anywhere near that, it becomes more serious because State money is going out before the need is there. Now, when caps are too high, districts simply don't budget the caps. If aid were paid on the higher amount, the State would be, as I said before, contributing against expenses that might not ever occur.

Another thing. When the cap is too high the State will supply too much, but what happens when the cap is too low? Under the current system it could very well be that they would not get current funding because they would have to have a waiver. The waiver process time lines are much longer than the Governor's recommendation time lines, so that the waiver might be granted, no money in the budget. Then you'd have to have a supplemental bill in the Legislature to fund those people that had a waiver, or wait until the following year, which by then we're really not getting full funding. I've come to the conclusion that others have come to. The cap law would have to be modified if we go this route, so as to prevent the current swings.



There are other small technical problems in the bill that we can probably iron out as time goes on. Using the current expense budget wouldn't work since those budgets would not be prepared in time for us to get an estimate into the Governor. If we had the actual current expense budget for the budget year in November that would be great, since we have to give the Governor the recommendation in December. So that having that as part of the bill would probably be impractical in that we would not be able to get those budgets in, and we'd end up paying based on the maximum calculation in the law.

Costs-- I think we have to address them. On a net basis, using 1987-'88 as a year, it would have cost 56 million at the one third level, or 157 million at the 100%. Now that's netting it out, without anticipating how much more would have to be put in to permit the districts to be aided at cap. So that would be the actual net cost. We would never see that under this bill because we would always be anticipating the additional amount necessary for when we go to cap the following year. Under this bill, the '88-'89 costs, based on 18.6% cap -- which we currently have -- will be 138 million at the one third level, and 345.5 million at 100%. Last January by the way, to show how volatile our figures can be, we estimated costs at about 107 million before we assessed the impact of the higher cap. If the cap were reduced to 10%, the costs would drop to about \$76 million at the one-third level, and 210.8 at 100%. Assuming the same inflationary pace of school budgets in '88, '89, '90 -- as in '88-'89 -- the difference between the two -- the costs would escalate to about to 154 million at the one-third level, and 357 million at 100% in '89-'90.

None of our estimates includes the long-range impact of current year funding. For example, districts tend to budget at higher levels, irrespective of need, since they will be receiving State money up-front. How serious would that be? Would it happen? I'm not sure, but we should at least talk about it.

In poorer districts will cost proposals be viewed with less concern since the State would be picking up 70, 80, or more percent? One of our problems in transportation is the concept that we're paying 90% of the transportation aid. It's not true. We're paying 90% two years back, and we you take that money and look at the budget in the year in which they get the money, it's 65 or 70%. But because the concept is out there, there's less tendency on the part of some boards to limit the route since the concept is, "We're paying the full amount."

Can the State's economy support the increased funding, since our revenue measures tend to be more stable than district costs, which are not dependent on State revenue projections? What would be the impact of reduced funding, since the revenue shortfall could be exacerbated by school cost increases at a rate greater than inflation?

At the current time we give them a figure in November, and in February they really get the figure. At that time they adjust their budgets. Under a current year funding concept the numbers of dollars they would be notified of in November would be pretty high. They would tend to -- looking at their tax rates, the numbers of dollars they expect to get -- tend to throw things in the budget that may or may not be supportable if we come along and say we're going to pay 97% of it, 95% of the costs or what have you. The adjustments could still be made, but it would be frustrating to say the least.

Unless the State revenue system is also modified to assure the formula's funding -- I want to be clear on that -- the current year funding could end up a frustrating farce.

SENATOR FELDMAN: Let me ask you first a general question. Have poor urban districts normally budgeted up to their cap limit?

ASSISTANT COMMISSIONER CALABRESE: Absolutely not.

SENATOR FELDMAN: All right. If not, then has this resulted in the widening gap between the rich and poor districts?

ASSISTANT COMMISSIONER CALABRESE: If you look at the NCEB, it has resulted in a widening gap. The total dollars available to some of our poorer districts are not as wide as the NCEB gap would tend to make us believe.

SENATOR FELDMAN: Is there a way, Vince, of limiting the increase without a cap, in your opinion?

ASSISTANT COMMISSIONER CALABRESE: I don't think so. Limiting the increase of budgets?

SENATOR FELDMAN: Yeah.

ASSISTANT COMMISSIONER CALABRESE: The greatest limiter would be less State aid, but I think that as long as this kind of system is in, those districts that can afford to spend will not be limited by anything else than a cap, although our last couple of years there's been no effective cap.

SENATOR FELDMAN: I think SLERP recommended a cap of 6%.

ASSISTANT COMMISSIONER CALABRESE: Well it would be a cap that would have a more narrow range. It would vary district by district.

SENATOR FELDMAN: Thank you. There naturally will be some technical amendments to the Lipman bill. Any members of the Committee have any questions? (no response)

Let me ask another question. What adjustments in the budget approval process will be necessary to adjust the current year funding?

ASSISTANT COMMISSIONER CALABRESE: I think the budget calendar has to be looked at at some point in time so that we can give districts a figure, especially if we go to this kind of funding. Give the districts a figure that is the figure to develop their budgets on, and don't build expectations they can't realize. So that we would have to move the election,

which would mean that we would then impinge on the ability of local districts to send out their tax bills July 1. We would get involved with the primaries and other municipal elections. I think that whole election calendar at the present time is a tight one, but I think we have to look at that in the future and move that whole process forward.

SENATOR DALTON: To what?

ASSISTANT COMMISSIONER CALABRESE: Well, I was part of a State House group -- they called us -- to look at the calendar and see what we could do about it. We left in frustration. We met at least ten times and finally decided that there were so many laws that were impacted, and so many objections would come from tax assessors and what have you, that the task was more than we could accomplish in a few weeks.

But you could move-- Well, we get into real speculation now. If, for example, we ended up with a theoretical budget that could be adjusted for tax purposes later, just as we're going to adjust State aid, in theory you could probably move the budget all the way into May or June, and then make the adjustment on taxes next year. But the first year could be hell. Those districts would have to make a major adjustment upward or downward -- I'm sorry, the second year it could be hell -- a major adjustment upward or downward, and we could end up with a problem. Theoretically anything is possible, but I think if we're going to continue to make the final decision in February, we should recognize that and set the budget calendar on that date, no matter what the impact is on our primaries and what have you. That's the final figure, that's the time that the date should be set.

SENATOR FELDMAN: You mentioned, I think, false expectations. This is what we have today. You say if we go with the Lipman proposal, we still will have false expectations?

ASSISTANT COMMISSIONER CALABRESE: If we notify them in November that they're going to get full funding based on a cap -- and let's take my worst example. We tell North Hanover or New Hanover -- I wish I could remember which one it was -- we tell them, "You're going to get a budget based on \$3 million." And the Governor has his funding problems and decides he's only going to fund 80% of that because the revenues of the State won't support it, and then in February we tell them it's going to be based on \$2 million, they have built a budget based on the higher State aid figures. Now they have to go back and modify their budget, and that's where we get all the fuss right now.

Personally, if I were in the school district I would not have that problem. I could take a look at the revenues that I could expect and I'd build my budget around the expected amount and not the amount that the former generated, but that doesn't always happen.

SENATOR FELDMAN: Let me just ask Senator Lipman-- You have the privilege, naturally, of asking a question.

SENATOR LIPMAN: (from audience) Mr. Calabrese, I'd like to ask--

SENATOR FELDMAN: Senator, why don't you use a mike. You can sit right here, Wynona. (Senator Lipman takes a seat with Committee)

SENATOR LIPMAN: Mr. Calabrese, I'd just like to ask if a three-year phase-in is beneficial to the calendar; all the difficulties that you have mentioned, that I'm sure you can straighten out?

ASSISTANT COMMISSIONER CALABRESE: Yes. A three-year phase-in benefits the State's ability to raise money. It does not modify the notification dates and the amount that's finally funded. By going three years you have two extra years to raise the final amount. So it kind of smooths it out. But you know I want to emphasize again, looking at the State aid formula,

absent looking at the State's economy and the ability of the economy to generate revenues to support it, is foolish. You're going to have to look at both almost at the same time, because you pass formulas-- Someone said, "It's a great idea, current year funding, especially if we fund it." (laughter) I think we have to look at both.

SENATOR LIPMAN: I see. But it is do-able?

ASSISTANT COMMISSIONER CALABRESE: We see no technical problems in implementing the bill.

SENATOR FELDMAN: Thank you. If there are no questions--

SENATOR DUMONT: Mr. Chairman?

SENATOR FELDMAN: Yes, Wayne?

SENATOR DUMONT: Do you agree with the Office of Legislative Services that the surplus on hand as of June 30 -- which is only a little more than a month away -- will be about \$1.2 billion?

ASSISTANT COMMISSIONER CALABRESE: I've been around for so long that for those kinds of questions, to give you an answer I'd have to look at their figures. I haven't seen them. I don't know whether that surplus is legitimate or not. I just have not seen the figures, nor can I comment on them. I've seen figures whereby that 1.1 million has been taken everyone's-- They tell me, at face value, it's down to 300 million. But I'm not sure what the validity of any of the figures are. I haven't seen them. I've seen the final, but not the way they're calculated.

SENATOR DUMONT: Yeah but how do we justify events that the State aid only amounts to about 43% of the total cost of the public schools, which means that the bulk of the problem is resting on the back of the property owner when, in fact, we ought to get up to 50%, and the only way you could start doing that is when we've got money? We certainly have it.

ASSISTANT COMMISSIONER CALABRESE: Well the Legislature made that decision back in '75 when it decided to fund at 40.

SENATOR DUMONT: Yeah but I don't agree with the decision. I don't have to agree with it now. I mean, it's true we voted for that legislation. I voted for it in 1975, but that doesn't make it good.

ASSISTANT COMMISSIONER CALABRESE: Well the original proposal was 50%. It was downgraded to 40%. We're at 43. So we're at least progressing.

SENATOR DUMONT: We're not progressing fast enough. I'm not advocating we get in the position of Hawaii, which provides 100%, or anything like that, because that takes away local initiative. But I do think we ought to get it up to half of what it costs. And I don't know when you start it if you don't start it when you have money.

ASSISTANT COMMISSIONER CALABRESE: As you move up in percentage, you have to remember that the poorest districts will not realize that much more money. The bulk of that increase will probably go to the middle or the lower districts, because if they're already getting-- Winfield Town has been getting 90% aid. Going to 50% funding might move them to 93, but it would move a 20% district maybe -- and this is a guess now -- 26%, 27%, or 28% aid. So that is fully funded if you're aiming at 50% statewide. If you're aiming at that poorest group, they're already pretty close to the 100, so they don't get as much increase as the middle or lower.

SENATOR DUMONT: The problem is we're not getting full funding. We haven't had it under this administration. We didn't have it under the previous administration. So both parties were guilty of not providing full funding.

SENATOR FELDMAN: Only on the year of election.

SENATOR DUMONT: Exactly.

SENATOR FELDMAN: Yes, only on the year of election.

SENATOR DUMONT: The years when they're running for reelection.

ASSISTANT COMMISSIONER CALABRESE: Actually there's a misnomer there too. There's been at least six or seven years when the formula was fully funded, but transportation, special ed, and others were not. So that if you look at just the formula -- that portion of the budget that theoretically is supposed to equalize taxes -- it hasn't been as bad as when you look at the total. In many years, the decreased funding was because of those programs that are not part of Chapter 212, or are additional requests. Our record hasn't been exceptional, but it hasn't been as bad as it looks when we say only one year.

SENATOR DUMONT: The bulk of the complaints I get is that they get figures from the Department of Education as to how much they're going to get, then when the real figures come out they don't get that much.

ASSISTANT COMMISSIONER CALABRESE: I hear the same complaints.

SENATOR DUMONT: In other words, the estimate as to how much they're going to get exceed what they finally do get.

ASSISTANT COMMISSIONER CALABRESE: That's a problem with the funding system and not the formula system.

SENATOR DUMONT: Regardless of what it is, it's a tough job trying to explain to a local board of education why they're not getting what they're supposed to get.

ASSISTANT COMMISSIONER CALABRESE: You should see my mail.

SENATOR FELDMAN: They never learn from experience. They're hoping next year will be a better year, or this year will be a better year.

ASSISTANT COMMISSIONER CALABRESE: Yeah, a 3% cut in the funding formula does not necessarily mean it's a 3% cut in the local district's total budget. For example, if that represents, take a place like Mahwah or somewhere in Bergen



County, where that 3% cut reflects a 20% cut in aid. It's less than 2% of the total budget, because there's other things in that budget besides State aid.

SENATOR DUMONT: Well we know that the Governor's recommendations for the next fiscal year, which begins less than five weeks from now, is \$80 million short of full funding. In the current fiscal year -- we still have a little more than a month to go -- it's \$90 million short. I think it makes the Legislature and the administration both look bad, when you have a law that you can't follow. Either we ought to follow it, or we ought to get a law we can follow.

SENATOR FELDMAN: Like Jack Ewing says, you're either pregnant or you're not pregnant. (laughter)

SENATOR EWING: No, excuse me. I say "Put up or shut up." (laughter)

ASSISTANT COMMISSIONER CALABRESE: These young guys, I'll tell you.

SENATOR FELDMAN: He's so feisty. That's right. Thank you very much, Vince.

ASSISTANT COMMISSIONER CALABRESE: My pleasure.

SENATOR FELDMAN: Right, thank you. Thank you Jeanne.

Our next witness will be Robert Woodford, of the New Jersey Business and Industry Association. Have you heard Senator Lipman's opening statement?

R O B E R T W O O D F O R D: I'm sorry. I had an earlier meeting and I did not. I'll try not to repeat a lot of ground.

SENATOR FELDMAN: No, no, that's fine. I just thought it was very eloquent and to the point.

MR. WOODFORD: I'm happy, on behalf of the New Jersey Business and Industry Association to endorse this legislation. Some of you may recall in the context of discussions of the State intervention law we also called for the move to current year funding. The reason is fairly fundamental. At the risk of repeating what Senator Lipman has said already, it is

certainly fair to say that despite the changes in program or management that may be needed in any district that's failing in this State, without the resources, and without the availability of resources, certainly those districts with the worst problems cannot be expected to respond adequately.

We endorse current year funding because it deals with that serious problem of districts who do not have the ratables base per pupil necessary to respond in an effective manner to their problems. And the districts that have the least property tax base are generally those that face the greatest educational problems.

From a very narrow standpoint, the business community is interested because this is the labor force of New Jersey in the future; the people that we will acquire and train, whose productivity, whose skills and language, mathematics, science, working habits -- which can be acquired in the schools -- will be the key to effective and profitable business operation in this State, at a time of immense global competition. There is heightened competition with educational systems and economies around the world, that are frankly setting and meeting a higher standard of educational proficiency.

Many studies, including the upcoming publication of the SLERP study, will point to the central role of a funding formula which looks to the current year as a key to providing the necessary resources for districts to respond to their problems. Again I say their problems are not all related to resources, and we recognize that management, involvement of community, that tie in with community services to the schools, modernization of facilities, the effective management by principals, superintendents, and boards of education, are all part of the picture.

And all of the answers to this puzzle of how to produce out of our urban areas in particular, students that are on a par with the best in suburban areas, are maybe not known.

But we do know at this stage that without the dollars, without the resources available, there is no answer.

I thank Senator Lipman for this initiative. We are very much in support of it. We would support it on a one-year funding basis, but we certainly support it as well on a phase-in, which provides the State additional time to meet the dollar needs. Thank you.

SENATOR FELDMAN: The New Jersey Business and Industry Association gave us our leader -- the SLERP Commission -- you know Bruce Coe. My question is-- Let me narrow in on what is most important. I know that he spoke for himself, and he really demonstrated great leadership, but now we've got to bite the bullet. Would the New Jersey Business and Industry Association support, for want of a better word, instead of saying tax increases I would say revenue enhancers, necessary to fund a current year formula?

MR. WOODFORD: I don't mean to hedge. I will say I believe the answer is yes. We have a committee system which is now discussing the recommendations of the report. But certainly in terms of current year funding our committees have already established the position of support for funding for this program. If that means revenue enhancement -- although I'm not sure at this stage with the current State budget that it does -- we ought to meet the commitments to education that are a constitutional commitment of this State, and which moreover I think tries to address the more serious social problems that we have in this State or in this nation, which is the preparation of young people for productive and civil lives.

SENATOR FELDMAN: Thank you.

SENATOR DALTON: Through you, Mr. Chairman?

SENATOR FELDMAN: Yes, Dan?

SENATOR DALTON: What specific revenue enhancements would you consider?

MR. WOODFORD: I can only speak, I think, personally on that at this stage, that I certainly accept the recommendations of the SLERP Commission. I cannot say more until we've gone through our policy process, because we make policy through our member committees and through our board, and I certainly would not attempt to preempt those who provide me with a livelihood.

SENATOR DALTON: That was an excellent answer.  
(laughter)

SENATOR FELDMAN: You could run for office on that answer. Senator Dumont?

SENATOR DUMONT: Will you, for example, support graduating the tax rate in the higher brackets above the present three-and-a-half percent, for everything under \$50,000, under the adjusted gross income tax?

MR. WOODFORD: Well, that's part of the SLERP recommendation which I intend to be a co-signer on. I am also a Commission member.

SENATOR FELDMAN: Bob is a Commissioner.

SENATOR DUMONT: Some of those recommendations I would support, but I don't support the one that would expand the sales tax on the necessities of life.

MR. WOODFORD: Like cigarettes and alcohol over the counter? Those are the character of the sales tax items.

SENATOR DUMONT: No, I'm not talking about that. I'm talking about paper products, and household soaps and detergents, proprietary medicines and so forth. Things we already exempted.

MR. WOODFORD: Like any commission, I think its recommendations are a starting point for discussion.

SENATOR DUMONT: Well there will certainly be a discussion. There's no doubt about that. (laughter)

SENATOR FELDMAN: To the Commission's credit, no sales tax on clothing. That is very important.

SENATOR DUMONT: That's right. But there also should not be on food, medical care, or housing.

SENATOR EWING: Well maybe it should just be on expensive clothing, like the suits you buy but not the suits I buy. (laughter) Next question.

SENATOR FELDMAN: They would take the jacket; the suit itself, which is \$500, and the jacket will be like \$249, and the slacks will be extra. But I know you're talking about riding britches and horseshoes and polo clothing. Thank you, Bob.

SENATOR EWING: Mr. Chairman?

SENATOR FELDMAN: Yes?

SENATOR EWING: I have a question of the sponsor, because I was not here.

SENATOR LIPMAN: Yes?

SENATOR EWING: I believe-- Am I right in saying that this bill does not cover any of the minimum aid districts? They would get no relief whatsoever?

SENATOR LIPMAN: This bill covers all school districts.

SENATOR EWING: All school districts?

SENATOR LIPMAN: Yes, but there's a proper cap and a proper formula, which we presently have in prior year funding, which would control the spending. Naturally urban districts, lower resource communities, rural districts, would see some gain in this because they can't increase their budgets to be paid the following year. They're afraid to do so in tax poor districts, such as the one I represent. And so they never reach the proper level of funding behind each school child. So despite the Commissioner's demands that we improve the school districts, without the proper funding, we can't do it.

SENATOR EWING: Yes, but then every district in the State, regardless of what category they're in--

SENATOR LIPMAN: For all school districts. Naturally, what I'm really saying is that it would mean more to some school districts than to others.

SENATOR EWING: Well more insofar as they get more money, but they would still all be paid at the same time?

SENATOR LIPMAN: Yes.

SENATOR EWING: All right. That's it.

SENATOR LIPMAN: This is everybody.

SENATOR EWING: Thank you.

SENATOR FELDMAN: Thank you, Jack. The next witness, Dr. Ernest Reock, internationally known personality on computers and formulas. Ernie, the mike is yours.

D R. E R N E S T C. R E O C K, J R.: Thank you, Senator, members of the Committee. I think I should apologize in advance for repeating a number of the points that have already been made. The material that is being handed out is an outline of my remarks plus two attachments, that I'll refer to as I go through.

Just a few words on the background on the need for current year funding. Why is it a problem? This has already been described to some extent.

The sort of formula that we use in New Jersey now for current expense equalization aid is what is called a Guaranteed Tax Base formula -- or a GTB formula. This sort of formula emphasizes local budgetary decision making, but it guarantees a specified level of property tax resources to every school district, except the minimum aid districts which are beyond the scope of the equalization formula.

The result of this sort of formula -- and I think it's important to keep this in mind as you judge what has been happening and what might happen under this bill-- The result of a Guaranteed Tax Base formula should be that for a given level of expenditure per pupil, every district that spends at that level should have the same equalized property tax rate. If a district wants to spend more per pupil, then they should have a higher property tax rate. If they spend less, they should have a lower property tax rate.

The problem now is that study after study have shown that this is not the case in New Jersey. The general situation is that the poorer districts -- the ones with lower property tax bases -- generally have lower spending levels per pupil and higher tax rates. So the system does not work the way it should in theory. The major reason for that -- and this is within the scope of just the equalization districts -- is that under the GTB formula, State aid is calculated as a percentage of the school budget, but it's a percentage of the prior year budget. This has been mentioned several times.

Now, this doesn't cause any problem if the school budgets remain the same from year to year. However, if the budget is increased, then the entire increase has to be paid by the school district from its own local property tax base. And the poorer the district is, the more severe is the impact on the district. That's why we have this imbalance with poor districts having high tax rates and low spending levels, and wealthier districts having low taxes rates and higher spending levels.

This is described in Attachment A, which I pulled out of a report that we did for the Legislature back in 1980. I'm not going to go through that in any great detail. I'll just point out that there's a description of the problem there. There is a table which shows hypothetical examples of how this actually operates. Then there's a discussion of some things that might be considered problems with the solution.

The problem has really been recognized for years. This Attachment A -- that I pulled from the 1980 report -- was not the first time that the problem was identified or solutions were suggested. S-2405 follows basically the outlines of the recommendations which are proposed there in Attachment A. So this idea goes back quite a number of years. Basically it would calculate State aid as a percentage of the maximum budget permissible under the school budget caps for the current year.

I still consider it to be a very reasonable and a very desirable approach to the problem. And as also has been mentioned before, the SLERP Commission is making a similar recommendation. We hope we'll have the full report on that, soon.

There are some things that I've put in my outline as "problems." That may be an overstatement of the word. Maybe "complications" is a fairer description of what I'll mention. Most of these were recognized back a number of years ago when they're described in Attachment A. There's one that comes up which is of more recent vintage.

First of all the question of funding: Where does the money come from? There is nothing in these attachments which says where you will get the money. I think the main thing is to recognize that obviously there will be a substantial cost to going to current year funding. When we did Attachment A back in 1979 and '80, the estimated cost was 48.3 million. The SLERP Commission estimates are 181 million for 1986-'87, and I think they obviously will be higher now.

I think S-2405 takes a reasonable approach by suggesting a three-year phase-in. If you go through Attachment A, you'll find that there is a different kind of phase-in which was suggested as a possibility then, and might be considered, if you would prefer, instead of the three-year phase-in; that is phasing-in the current year funding for the poorest districts first, because those are the ones that are the most heavily impacted by the prior year funding that we now have in effect.

A second complication -- let me call it that -- is where districts do not budget up to their cap. I was a little puzzled by Vince Calabrese's presentation there. It seemed that he was assuming that districts would be told by the State that they were going to get a certain number of dollars regardless of what they did with their budget, and then you



would have to come back a year later and try to recapture those dollars. I don't see that that really is necessary at all. It seems to me that it can be made perfectly clear to the districts that they will get a certain number of dollars if they budget to their cap, and that if they budget less, they will get proportionately less. That should not be a very difficult calculation for them to make. I think we may have to make some changes in the budget calendar, but I'm not sure that they are as difficult to make as he seemed to feel when he made his presentation.

There will be some complications, I think, involved when you get into budgets that are defeated at the polls and go to the municipal governing body and are reduced there, and then go on appeal to the Commissioner. That will be a stickier situation, but it will deal with a minority of the districts usually, and I don't think it's a terribly serious problem.

The third point is on budget cap waivers. I think we should understand right from the beginning that the cost of a budget cap waiver will have to be funded from local tax resources; that this bill will not change that. By definition really waivers are beyond the maximum net current expense budget on which aid would be paid. On the other hand, there have not been all that many budget cap waivers in recent years. So again I don't see it as a tremendous problem.

Fourthly, I think we have to recognize that it is possible that a district might receive less under S-2405 than if the bill had not been enacted -- if a district is in a situation where their budget is actually declining. In other words, their current year budget is less than their prior year budget by a substantial amount. It is conceivable that they would get less funding under the current year funding approach, if their budget is going down. Again, we don't have many districts like that.

Finally, the fifth point that I'll make, and this I think is a serious problem -- and it's already been mentioned -- and that is the budget caps. The budget caps that we now have in effect are based on the annual growth in statewide property values. And as we all know, there has been huge growth in property values in recent years, with the result that the school budget caps for the last two years have been very liberal. The basic cap rate last year -- or for the 1987-'88 year -- was 14.5%; for '88-'89 it's 18.6%. It's almost no cap at all. This in itself will make the cost of current year funding extremely high if those budget caps are left in place, and if property values continue to grow at anywhere near that pace.

The SLERP proposals combine the proposal of the current year funding with a revision of the budget cap. Those revisions are intended to stabilize the caps to a considerable degree, and also to reduce the excessively high cap of recent years to what might be considered reasonable levels.

If you'll turn to Attachment B, we've got a couple of charts there where we've tried to show what has been happening with budget caps. I've got a blowup of them here, a little bit larger than those in Attachment B.

The first page shows the budget caps as the present law reads. They have varied substantially over the years, as you can see, from a low of 5.4% in 1978-'79, to a high -- except for the last two years -- of 10.6% in 1981-'82. But in the last two years, as I mentioned, they've really shot up to 14.5% and then 18.6%.

The second page shows the SLERP proposed budget caps under the SLERP proposals. It takes the heavy line as the same as on the first chart. That's the existing cap. The dotted line shows what those caps would have been in the last 10 years under the SLERP proposals. You notice that it does not just lower the budget cap. It brings it closer to a medium level.

Instead of coming down to a minimum of 5.4% back in '78-'79, it would have only come down to 5.9%. Instead of going up to a maximum of 10.6 in 1981-'82, it would only have gone up to 9.1. For the last few years the figures, instead of being 14.5% for the past year it would be 9.6, and instead of being 18.6 for the coming year it would only be 9.9, still a fairly substantial budget cap.

So that is the proposal really of the SLERP Commission. I think it's appropriate and highly desirable. And I think some changes in the caps -- and I would recommend this change -- should be made concurrently with the move to current year funding.

In conclusion then, let me say that I strongly support the concept of S-2405, and I would support its actual language if the budget caps are changed. Thank you.

SENATOR FELDMAN: Thank you, Ernie, for a very thorough presentation. Wynona, have you any questions for Dr. Reock?

SENATOR LIPMAN: Yes. I wanted to question your questions about Mr. Calabrese's presentation. When he said that, I think it's the State who would recapture some dollars if there were a cap?

DR. REOCK: Yes. I think what the--

SENATOR LIPMAN: The State would recapture dollars that had to be figured into the next year's budget.

DR. REOCK: The way I understood what he said was that the State would have to recapture those dollars later in the year. In other words, I got the impression that he was saying, "We'll pay all the dollars, and then we'll ask the district to pay it back." Maybe it will have to work that way, but it doesn't seem to me that it would have to. It seems to me that the process would be that the Department of Education would calculate the maximum amount that the State would have to appropriate for the current year funding if everybody went to

full caps, and that then that amount would be cut back during the appropriations process as we became aware of what the school districts were actually budgeting. So it might look early in the appropriations process as though the bill was pretty high, but that bill would be cut back before the State budget was actually adopted.

SENATOR LIPMAN: Right. Thank you. Just one more question. You said if the current year funding for a school district would be less than the prior year, then that district might see some dire consequences from this bill. Would that mean that there's a decrease in the number of children in that district? How could a district's funding be less?

DR. REOCK: Well, that is what has happened in a handful of districts in recent years. Their enrollment has gone down so much that they've actually cut their budget. Now, you don't find more than just a few districts where the decline has been that severe, but you do find a few of them around the State like that. It's conceivable that they would receive less under current year funding than they would if they were getting funding based on their prior year budget. Of course, if they got it on the prior year budget that really would sort of be a windfall, because they won't have the kids to support.

SENATOR FELDMAN: Jeanne, I believe you wanted to ask a question?

MS. OSWALD: (from audience) I was just going to say that what Mr. Calabrese was trying to say is that prior--

SENATOR FELDMAN: Come up here because--

MS. OSWALD: (complies) Excuse me. Unless we have the budget figures early, as he said, as early as November, if we could get the actual budgets from districts -- of course we don't get them now until late January or early February, there would be no way for us to tell them their entitlements. We can assume the maximum entitlements -- going to max as we just suggested -- but then somewhere along the line a district has

a point where they know how much they're getting from us so they can figure out how much they're going to set their tax rate at. He was suggesting that you would have to do it in the following year adjustment, unless you could get the budgets earlier, and we could find out what the amount would be.

DR. REOCK: I disagree entirely. I don't think it's necessary at all to do that. I think you don't have to have the final school district budget in order to calculate the entitlement. You calculate the potential entitlement based on the budget caps, and then you modify that downward, depending on what the school district does. And the district doesn't have to know an absolute dollar figure. All they have to know is what the dollar figure would be if they budgeted to their cap. If they don't budget to their cap the dollar figure would be reduced proportionately. All you have to tell them is the percentage it would be reduced.

SENATOR EWING: Then how much money would we know?

DR. REOCK: Pardon?

SENATOR EWING: What about the money in the budget?

DR. REOCK: The school budget or the State budget?

SENATOR EWING: The State budget. You're saying we don't have to know exactly--

DR. REOCK: You don't adopt the budget until June.

SENATOR EWING: But what if we tried to change it? Do you think there's anything to looking at the change of dates?

DR. REOCK: There may have to be some adjustment of dates. I don't think there has to be a drastic one though, because I think the-- The school budgets go through a review process now in the early spring. By the end of that period you know pretty well what their budget is going to be. And the adjustment in the State appropriation could be made then during the State appropriation process. At worst, the situation I see is that possibly the State might appropriate more money than was actually needed that year, and the money would revert in the next budget.

SENATOR FELDMAN: If we were to amend the budget right after the school board election in April, would that give enough time?

DR. REOCK: I would think so. There may be problems I don't see, but it seems to me it would.

SENATOR FELDMAN: We have to address ourselves to another subject. Not another subject, but another part of this discussion. Would the current year funding be enough by itself to close the gap between the rich and the poor districts?

DR. REOCK: No, it would not.

SENATOR FELDMAN: Right now there is this great disparity.

DR. REOCK: Current year funding would only help the districts within the equalization pattern. Your minimum aid districts still have resources far beyond any of the equalization districts, that's the wealthier districts.

SENATOR FELDMAN: What recommendations do you suggest that would close the gap between the rich and poor districts, the disparity?

DR. REOCK: To really close the gap, or if you're really trying to make no gap at all, you would have to keep the very wealthy districts from spending. You would have to put some sort of a much tighter control on their expenditures, and you'd have to appropriate a substantially increased amount of money for the poorer districts. If current year funding--

SENATOR FELDMAN: Does that mean intervention in the wealthy districts, to watch them?

DR. REOCK: I think it would have to, yes, if you really wanted to eliminate the gap. But current year funding is the biggest single step I think you can take to make the system more equitable. It hasn't the biggest bang for the buck.

SENATOR FELDMAN: That's the giant step.

DR. REOCK: That's right.

SENATOR FELDMAN: Thank you, Ernie. Jack? (no response) Wayne? (no response) Wynona?

SENATOR EWING: I have one question. What about the transportation aid? You do that all?

DR. REOCK: That's really not part of this package.

SENATOR EWING: No, but your ideas on that? Or leave that where it is?

DR. REOCK: On transportation aid? I really haven't thought about it in recent years.

SENATOR DUMONT: This bill isn't designed to bring transportation aid on the current year basis?

DR. REOCK: No, this does not affect transportation.

SENATOR DUMONT: It is also two years behind at this point?

DR. REOCK: Yes, that's my understanding.

SENATOR FELDMAN: How about current year funding for capital--

DR. REOCK: That makes sense along the same lines as this, and I understand a bill had been introduced to do just that, with a revised formula in that case.

SENATOR FELDMAN: I'm on that bill. Thank you very much, Ernie, for your help on the Commission and for your help this afternoon.

DR. REOCK: Thank you.

SENATOR FELDMAN: Let me recognize Senator Rice, not to make any comments -- unless he so desires -- but I appreciate the fact that he's here listening to the witnesses on this most important bill.

The next witness will be Wayne Dibofsky, representing the NJEA.

W A Y N E S. D I B O F S K Y: Thank you, Mr. Chairman, members of the Committee. My name is Wayne Dibofsky, Associate Director of Government Relations for the New Jersey Education Association. It is my pleasure to come before this Committee to testify on a critical issue facing our State; that of providing equitable distribution of funds to provide for a

thorough and efficient education for all the students of our great State.

The New Jersey Education Association strongly supports S-2405 by Senator Lipman, and commends her for moving this recommendation from the SLERP Commission into enabling legislation.

The New Jersey Education Association, through our State President Dennis Giordano, was a major player, we believe, in the recommendations that you have before us. Through the fine efforts of the Chairman, Matthew Feldman, we were able to create an educational subcommittee within the four major task forces of the SLERP Commission, where the genesis of this legislation was put together.

The educational system of New Jersey comprises the single largest proportion of State and local budgets. Since the adoption of the Public School Education Act in 1975, we have seen the disparity in educational achievement through New Jersey's school districts literally become in effect the tale of the two school systems. While many school districts in our State provide what we would believe to be an excellent education system, unfortunately many of them -- specifically our urban centers -- can not and do not. The school districts where pupils do least well in measures of performance are those very districts with the least resources and low current expenditure levels. These districts are faced with added concerns of attracting and securing the best teachers, maintaining their physical facilities, and delivering sound education services. To that end, we appreciate Senator Russo's capital outlay current expense budget proposal as well.

Education expenditures per pupil in New Jersey vary significantly with the school districts. And these are statistical data that was excerpted by Ernie Reock through the SLERP Commission report. In 1986-'87, we went from a high of \$12,719 per pupil expenditure, to as little as \$2269 per



pupil. The statewide average for that year is \$5230. One tenth of all school districts spend less than three-quarters of the State average per pupil, while the SLERP Commission report found that one-fifth of all districts spend more than 125% of the State average. There is no question that some school districts in New Jersey provide an education as fine as can be secured anywhere. There are still others that because of low local tax rates cannot compete with the services offered by the more affluent school districts. The NJEA believes that we can no longer let our children get shortchanged in education, simply because of the geographical base in which they live.

Of 19 school districts cited by the Department of Education as having been uncertified for more than two years on a certification listing of June 3, 1987, 16 were found to be below budget levels for the '86-'87 year. On a more national basis, available research indicates that educational resources are clearly linked to school effectiveness. These resources which require expenditures include, but are not limited to:

- high teacher student ratios,
  - additional reading personnel,
  - clean, comfortable and safe environments,
  - sufficient materials and facilities,
  - regular and ongoing staff development,
  - special funding for special needs programs,
  - more experienced staff with higher credentials and higher salaries,
  - higher participation in extracurricular activities,
- and
- fewer non teaching staffs for teaching jobs.

It is clear that the relationship between resources for instruction and effective schools is clearly understood by the citizens of the State of New Jersey who can afford it and who generously support their schools, year in and year out. But the converse to that, members of this Committee, is that

our low resource districts have some of the poorest facilities, and in many cases there is a backlog of needs which have gone unattended for many years.

The legislation promulgated before you today by Senator Lipman would go a long way in equalizing the disparity between the wealthy and the low resource districts of the State.

S-2402 would change the current system of funding current expense equalization aid, from a percentage of the prior year's budget to one based on the current year's projections. This would save districts from having to use property taxes to pay for the increase in their budgets, then waiting a year for State aid to pay for the boost. It would also preserve the local budget decision making process.

During the last decade, the State of New Jersey has had a renaissance in its economic prosperity. But that prosperity has not reached all school districts equally, and it has not met the mandates of the Supreme Court case dealing with thorough and efficient education in our State.

While many experts can disagree on the effects of spending on educational performance, the NJEA is convinced that we will not see educational improvements unless we raise the spending levels and the service of levels within school districts that are performing poorly. We commend S-2402 and its sponsor for providing the stability needed in all school districts in this State to make them accountable, and specifically it allows our low resource urban school districts the opportunity to rebuild.

As the Carnegie Foundation's Ernest Boyer recognized, "Saving urban schools must become a national crusade." Our children there deserve no less.

We support not only this bill, members of the Committee, but the amendments placed forth by Bob Noonan for the dampener, the three-year phase-in. And as Ernie Reock indicated, though it doesn't take care of all the problems educationally, it is one giant step forward. Thank you.

SENATOR FELDMAN: Thank you, Wayne. You gave us the figure of 12,719 as high, and as little as 2269. Now is 2269-- Was that Camden?

MR. DIBOFSKY: Yes. Yes, it was.

SENATOR FELDMAN: And what was the high?

MR. DIBOFSKY: I would have to check, Senator, through the SLERP Commission subcommittee report. I don't have that available.

SENATOR FELDMAN: Okay. I was just curious.

MR. DIBOFSKY: It was in Bergen County. I don't know which community.

SENATOR FELDMAN: That's what I assume, but I'd like to know which?

MR. DIBOFSKY: I do not know which one, but I will check for you.

SENATOR FELDMAN: Jack?

SENATOR EWING: How much State aid are they getting per pupil down in Camden?

MR. DIBOFSKY: It's substantial, Senator, and I don't know-- It's 75% to 78%.

SENATOR FELDMAN: It's over 70.

SENATOR EWING: Not percentage, but in dollars. Isn't it more than 2200?

MR. DIBOFSKY: I would have to check, Senator, for the exact figure.

SENATOR EWING: And they're only spending \$2200 a pupil in Camden?

MR. DIBOFSKY: According to the statistical data that was put forth by the SLERP Commission, yes, that was one of the quintile groups that was put forth, Senator.

MR. NOONAN: Camden gets 91%.

SENATOR FELDMAN: Camden gets 91%, Bob says.

MR. NOONAN: But that doesn't reflect the dollars. That reflects their--

SENATOR EWING: I realize that, so what do you think it reflects in dollars?

SENATOR FELDMAN: Your question is the \$2200?

SENATOR EWING: Yes. What does Newark get, Wynona, from the State per pupil?

SENATOR LIPMAN: Per pupil?

SENATOR EWING: Yeah, per pupil?

SENATOR LIPMAN: Gee, that's a hard one. Last time I heard it was around 15.

SENATOR EWING: Hundred dollars per pupil?

SENATOR LIPMAN: Yes.

MR. NOONAN: Their State support ratio is 84%.

SENATOR EWING: Eighty-four. And it's only \$1500?

SENATOR LIPMAN: Right.

SENATOR EWING: I thought it was a higher amount than that, frankly. Anybody from the Department here? Do you have any figures.

MS. OSWALD: (from audience) These are State support ratios, but not by pupil. If it's 84%, and the Senator is suggesting \$1500, then that would be 84% of the total per pupil expenditure.

SENATOR EWING: No. I'm wondering about the dollars per pupil. To hell with the percentage. The percentages don't teach you anything. The dollars help pay.

SENATOR FELDMAN: Can you get the information for the Committee?

MR. DIBOFSKY: Yes, certainly I will. I'll supply it to the Committee.

SENATOR FELDMAN: Ernie, you want to comment, please?

DR. REOCK: (from audience) Only that if you take that out of the legislative-- (inaudible) All State aid has a percentage of the total budget, and it also has the expenditure per pupil. So you just have to multiply one by the other to get that to you.

SENATOR FELDMAN: But I agree with Senator Ewing that the percentage is deceiving. It's what they put up-front in dollars. Thank you, Wayne.

MR. DIBOFSKY: Thank you.

SENATOR FELDMAN: We've heard from the NJEA, and now we go to the Association of School Business Officials, Tom D'Ambola.

T H O M A S   A .   D ' A M B O L A: Thank you, Mr. Chairman, members of the Committee. My name is Tom D'Ambola. I'm with the New Jersey Association of School Business Officials.

Our Association has taken a position over the years in full support of current year funding. We believe it's a good idea. We do have some concerns about this piece of legislation.

First of all, we don't feel that this bill would provide any more equity among the school districts. The only way you're going to get equity in school districts is by recalculation of the State aid formula, and by providing full funding for education.

We have concerns about this bill, like I said. The one concern that we do have is: Currently we formulate our budgets as early as October. We get State aid figures in December. The State aid figures we initially get are not the figures that we finally wind up with, as we all know. So we have to formulate our budget based on fictitious figures, and around February sometime we get secondary figures -- after the Governor's message -- and then we have closer to the realistic figures knowing what the Appropriations Committees will respectfully do. They will then present this budget, formulate it, and present it to the public, and the public will vote upon it. The county superintendents will get the budgets in January. They will review the budgets and send it back to the districts, saying whether or not they ratified the budgets and approve of what the districts are doing.

Under this new bill, what you would do is provide for the districts to use a formula based on caps, as we all know. It doesn't provide for any time period after the county superintendents look at the budgets, to cut the budgets for unnecessary funds.

Mr. Calabrese presented the fact that in the following year you could request from the districts to reimburse the State the funds that were in excess of what they actually needed to formulate a budget. We feel that these are items that should be addressed. There are pros and cons about it that it can be done or it can't be done. We feel that prior to implementing this bill -- or to passing this bill -- we feel that these matters should be addressed. I think it will only take a month or so to address that, and we can resolve the problem.

I don't know if it was mentioned about the number of districts that won't be receiving any more State aid because of current year funding. And I think that really is something that should be taken into consideration.

Once again I'd like to say that we do support current year funding, as we do support full funding, but I think that this bill -- and I'd like to commend Senator Lipman for taking this initiative -- but I think that we have to do a little more work on it to make it a better process.

The dates have been mentioned. Right now it's horrendous trying to get the date structure established. We would like to work on a new structure of dates; maybe move the school election back two weeks; maybe move the submission date to the Commissioner back three weeks, as we have legislation now for that. Look at these different possible avenues, and then couple it along with current year funding. I think we can do a justice to the school districts by waiting and trying to iron these matters out.

SENATOR FELDMAN: Can you submit to this Committee a series of recommendations that you feel could strengthen the bill?

MR. D'AMBOLA: At this time?

SENATOR FELDMAN: Yes.

MR. D'AMBOLA: Well first of all to look at the date structure and find out when--

SENATOR FELDMAN: Or I mean, you've mentioned a few, but whether or not Dr. Schorr can get something in writing--

MR. D'AMBOLA: Oh, sure. I would love to. Absolutely.

SENATOR FELDMAN: --for us to consider when we receive the SLERP Commission and make additional amendments.

MR. D'AMBOLA: Absolutely.

SENATOR FELDMAN: Senator Lipman is aware of the fact that this is not the perfect bill. That's the reason for the hearing today. We're going to strengthen the bill.

MR. D'AMBOLA: That's all I was trying to say. There's just minor technicalities we'd like to see.

SENATOR FELDMAN: We want some recommendations on these technicalities that we feel can enhance the legislation, and save some time when the push comes to shove.

MR. D'AMBOLA: Right, Senator. It would be my pleasure.

SENATOR FELDMAN: Okay.

SENATOR EWING: A question.

SENATOR FELDMAN: Yes, Jack?

SENATOR EWING: Bob, can you address this question? It doesn't cover all districts. You said it did cover.

MR. NOONAN: It doesn't increase the aid for districts, because the minimum aid is a base. If I'm not mistaken, it's not driven by the net current expense budget, but it's a guaranteed minimum. That guaranteed minimum would continue, but because it's not driven by-- It's driven by, I think student population, among other things, as one of the figures.

MR. D'AMBOLA: But it was said before that this is going to help send funds out to school districts and help them with their programs. That's not really a true statement. The true statement is, if you want to send more money to the school districts, you have to go up to full funding, increase aid to the local districts, and maybe recalculate the formulas. But to say current year funding is actually going to accomplish that, no. That's a fallacy.

MR. NOONAN: It doesn't affect the monies received by--

SENATOR LIPMAN: Actually, full funding would help urban districts almost as much.

MR. D'AMBOLA: Absolutely, Senator. Absolutely. We agree with full funding. We'll support you 100% on that.

SENATOR FELDMAN: Thank you.

MR. D'AMBOLA: Thank you, Senator.

SENATOR FELDMAN: Let's call right now President Joseph Zemaitis, of the School Boards Association.

J O S E P H    A.    Z E M A I T I S: Good afternoon, Mr. Chairman and members of the Committee. With me of course you know is Jeanne Reock, Senior Associate Director of our Governmental Relations Department, to assist in responding to some questions that I hope and trust that you will have.

SENATOR FELDMAN: Will she respond to her husband's questioning?

MR. ZEMAITIS: She always does in any event.

SENATOR FELDMAN: Okay, Joseph.

MR. ZEMAITIS: Thank you for the opportunity to address the issue of current year funding of State school aid. I am Joseph Zemaitis, President of the New Jersey School Boards Association, representing 611 school boards in this State.

I am particularly pleased to come before you on this issue because I have been actively involved with the State and Local Expenditure and Revenue Policy Commission, commonly known as SLERP -- which I've heard a lot of discussion so far about



today -- as an alternate member. As you know, current year funding is one of the Commission's major recommendations in regard to State aid for schools.

The NJSBA strongly supports current year funding of State aid to education. It is the single most significant reform that could be made in the system, and the most cost-effective. The major effect would be to enable low wealth districts to raise their spending level and to make educational improvements without an exorbitant rise in local property taxes.

Why is this important? Why should the State encourage more spending on education in certain districts? Because of what those dollars can provide. They can buy more and better teachers and counselors, updated text books and instructional materials, special programs for students with special problems, better facilities, and many other advantages.

In 1973, New Jersey's Supreme Court recognized the relation between dollars spent and the quality of educational opportunity when it declared New Jersey's system of financing schools unconstitutional, and ordered the schools closed until the Legislature enacted a new funding system. At that time, the Supreme Court decried the tremendous disparities among districts in their per pupil expenditures. The court noted that local property tax resources were a prime determinant of a district's spending level. Poor districts spent far less than wealthy districts, and yet had higher tax rates. Concluding that New Jersey relied much too heavily on local property taxes to support education, the court virtually ordered a higher level of State support. As a result, State aid has risen from 28% of the total cost of elementary and secondary education before the court decision, to about 43%.

Yet, the disparities in spending between poor and wealthy districts are today as great or greater than they were in 1973. Why? Basically because of a flaw in the school aid law, the T & E statute, that continued the practice of State aid based on the prior year's budget.

Therefore, a district must finance any increase in its budget out of local property taxes and wait a year for the State to reimburse it for the State's share of the additional expenditure. For instance, if a district has a State support level of 75%, and raises its budget by \$1 million, the \$1 million would come from local property taxes. Only in the following year would the \$750,000 -- the 75% -- come from the State.

It is this flaw, this reimbursement mode of State funding that has kept low wealth districts from moving forward. This is true because low wealth districts cannot afford to finance improvements out of local property taxes. They depend on the State to pay a substantial share; and not a year later, but right now. Low spending districts are the low wealth districts, with few exceptions, and they are also the very districts that already carry the highest property tax rates in the State. To quote SLERP's Education Subcommittee report:

"In 1986-'87, school districts in the lowest resource quintile -- the poorest 20% -- had an average total budget of \$4823 per pupil, with an average tax rate of \$1.47. In comparison, the highest wealth school districts budgeted \$6037 per pupil, with an average equalized tax rate of only 86 cents."

S-2405 represents a significant step forward in redressed New Jersey's failure to provide equality of educational opportunity to all students. The bill would provide a three-year phase-in of current year funding for current expenses for equalization aid districts. Of course we would prefer to go the whole way and make the full change to current year funding in the next State aid cycle. Our poorer school districts cry out for the funding that will help them catch up to their wealthier cousins. It is hard to wait when the needs are so pressing.

However, S-2405 moves the system in the right direction and NJSBA fully supports the bill. By committing the Legislature to current year funding, the bill will enable low spending, low wealth districts to begin improving the quality of their educational offerings without bankrupting their taxpayers.

The time has truly come for the move to current year funding. The SLERP Commission's recommendation is only the latest in a series of recommendations for current year funding, which began back in 1979 with reports from Rutgers University and the Educational Testing Service. And then, in its March 1980 report to the Legislature evaluating Chapter 212, Public Law 1975, the T & E law, the State Board of Education recommended current year funding as an important and needed reform to the law.

Now, almost 10 years after the flaw in the current statute was uncovered, the problem remains. With this hearing today, the process of change has begun, and I sincerely hope that the Committee will move forward with a current year funding bill.

I would be remiss if I did not add that NJSBA would also like to see current year funding for capital outlay and debt service, for categorical aid programs, and for transportation. The reasons are the same. When new expenditures are needed, low wealth districts cannot make them on their own, even for a year. They need the State aid right there with them, paying the State's share when the bills come in, not a year later.

Thank you very much for listening so patiently. I would be happy to respond to any questions you may have.

SENATOR FELDMAN: Thank you for the strong support, vocal support.

SENATOR LIPMAN: Yes, thank you.

SENATOR FELDMAN: Very important. I have no questions, unless Senator Lipman -- who is an ex officio member of the Committee today -- Senator Dumont, Senator Ewing, any--

SENATOR DUMONT: I have a question, Mr. Chairman?

SENATOR FELDMAN: Yes, Wayne?

SENATOR DUMONT: This 611 school districts the right number? Because we hear it sometimes 614, and sometimes less than 611. Is this the right number?

MR. ZEMAITIS: We believe as of today it is the right number, yes. (laughter)

SENATOR FELDMAN: Wayne represents 100 of them, would you say?

MR. DUMONT: No, but over 50 at least.

SENATOR FELDMAN: I have no questions. Jack or Wayne? (no response) I think you made your presentation. Very supportive. Jeanne, do you want to add anything to this? (negative response) No. Okay. Thank you.

MR. ZEMAITIS: Thank you very much.

SENATOR FELDMAN: You're welcome. Marie Curtis of the League of Women Voters?

SENATOR LIPMAN: Mr. Chairman, she had an emergency.

SENATOR FELDMAN: Okay. Did she leave a statement with us?

SENATOR LIPMAN: No. She's going to mail the statement.

SENATOR FELDMAN: All right, good. Peggy Sturmfels of the PTA, New Jersey PTA. Yes, Peggy?

P E G G Y S T U R M F E L S: Hello. First I apologize. I am a substitute this afternoon for Mia Anderson, who has been our legislative chairperson who has been working on looking at all of the bills. So I am just sort of like sub hitting for her. She is taking a final exam today.

SENATOR FELDMAN: For what?

MS. STURMFELS: Law school.

SENATOR FELDMAN: Oh really? She's applying?

MS. STURMFELS: No. She's doing it.

SENATOR FELDMAN: She's in law school. That's great. I didn't know that.

MS. STURMFELS: I want to thank you for the opportunity to be able to come here and support this bill today.

As you know, our organization 100 years ago began as an advocacy organization for children, and that we only support those things which are good for children. About in the 1920s our organization took the position that in order for us to survive as a democracy, that that had to come through the most democratic thing of all, which was public schools; and that it was our responsibility as citizens of the United States to make sure and to ensure that with our children, that public schools were funded properly.

It is my personal opinion that for us not to fully fund education in the State of New Jersey is really a violation of the public trust that the children have of us as citizens of this State, because they have no vote, so they are at our mercy.

This particular current year funding bill would help to alleviate a lot of the problems. However, if we could fully fund and then have the current year funding, I think that would be the largest step we could do to creating the best possible system that we could have.

Special education has been a real problem with the year later reimbursements. As you may know, the caps have been removed from any of the tuition, so that for out of district placements, these costs have gone through the roof. We are now looking at maybe ways that are not in the best interest of the children, in order to give them what they need in special education. Under the current funding program, gifted children only receive about \$1.98 in this State for their particular areas of programs.

Boards of education at this time cannot really do anything other than play catch up year after year. What we do is we try and get the figures. As everyone has said, we get the figures in November, and then we go in January or February with our budgets to our county superintendents. But what happens is that we can get the final figures oftentimes when we're already out to budget with the public, and now we have to cut again.

One of the things that we would like to suggest though is that you amend this bill to include transportation. I have to tell you that most of you think of any urban district as one that has factories and is city schools. I live in an urban district. It's 102 square miles wide, and our transportation budget this year is about \$2 million.

SENATOR FELDMAN: Where is that?

MS. STURMFELS: In Jackson, in Ocean County. We will receive about \$1.2 million of that when the reimbursement comes down two years later. Mr. Calabrese suggested that perhaps school districts would not route their buses, and it appeared to me that he thought that we probably excessively route our school buses. Let me tell you, in 104 square miles, in a rural district, there is no way to go with the two mile limit. We have children who have to go through acres of farmland to cross major highways, and without sidewalks and lighting and all the proper things. Safety is the most important thing. We do not cut for safety. So we bear that cost ourselves.

Also, in many of the southern districts you're seeing a boom in the citizen area. Well their property taxes are causing a-- It's a great burden on them, especially in a district such as mine or others in Ocean County, where the only game in town is the property tax owner. We have no industry. So everything is either State, Federal aid, or the property tax. The burden is becoming really unbelievable.

So we ask that you support this. Perhaps think of other ways of including some of the things that the School Boards Association has suggested to you, such as the debt service and also transportation. We thank you for the opportunity to support it.

SENATOR FELDMAN: Thank you, Peggy. Jack, Wayne?

SENATOR DUMONT: I agree, transportation is very important, that it be brought up-to-date, because we have the same problem you do. The children are spread out, and we have to transport most of them.

MS. STURMFELS: If we can't get them there, Senator, we're going to have a hard time educating them, and that's been a problem.

SENATOR FELDMAN: Most likely there will be a package of bills, and we'll have to get a fiscal note on transportation. Do you know what the State costs are, Jeanne?

MS. OSWALD: (from audience) No, I'm sorry, I don't.

SENATOR FELDMAN: But I know there will be a package of bills. This will be the flagship, Senator Lipman's bill, and there will be other bills in this one package. So we thank you very much.

MS. STURMFELS: Thank you.

SENATOR FELDMAN: Margaret Murphy of the New Jersey Association of School Administrators?

M A R G A R E T C. M U R P H Y: Thank you, Mr. Chairman, members of the Committee, Senator Lipman. My name is Margaret C. Murphy, and I represent the New Jersey Association of School Administrators, which endorses S-2405.

This Association has long held the position that the present system of determining and allocating State equalization aid is dysfunctional. For most districts, but especially those in urban areas that experience large shifts in enrollment, for them, the present system with its two-year lag time makes the preparation and planning of budgets unmanageable. The method

proposed in S-2405 is superior to the present system in that the State aid figures used in building a school district's budget will more closely match the realities of student enrollment projections that the district administrators and the school boards are dealing with throughout the budgetary process.

Your efforts in attempting to solve this long-standing problem are appreciated by the members of this Association because the method proposed in the bill should result in better budget planning, and ultimately better educational programs for public school students throughout the State.

I won't go into the other matters that the other persons who spoke earlier discussed, but for those reasons as well, we support this bill.

SENATOR FELDMAN: Well, it's heartening and encouraging to get so many members of professional groups supporting Senator Lipman's bill. I have no specific questions. I believe they have all been asked. But the fact that the New Jersey Association of School Administrators are behind Senator Lipman's bill is very very encouraging, not only to her, but to the educational community.

Any questions, Jack, Wayne? (no response) Senator Lipman?

SENATOR LIPMAN: Would you also like to add transportation and debt service?

MS. MURPHY: I'm sure our members would support that, Senator Lipman.

SENATOR FELDMAN: Not in this bill.

MS. MURPHY: No.

SENATOR LIPMAN: Not in this bill. I realize we can't go very far without-- (inaudible)

SENATOR FELDMAN: This is the first step. Well, I think this has been a very fruitful hearing. Oh, Ray, I'm sorry. You're not on--

RAY PETERSON: (from audience) I'm sorry. I didn't put a slip in.



SENATOR FELDMAN: Yes, okay. Come up, Ray.

MR. PETERSON: Thank you, Mr. Chairman. On behalf of the AFT, I want to point out that we do have a consensus in the educational community about the importance and significance of this bill. I would like to commend Senator Lipman for taking the lead on this, and the 21 Senators who signed on as co-sponsors. Twenty-one is a significant number in this house.

I'd also like to commend the enlightened approach of the business community on this through Bruce Coe and the BIA, because they see things that some business people don't see in this bill. That's good.

I have already started to help build a consensus through my contacts in the labor community, and I will make efforts as a member of the Executive Board of New Jersey Citizen Action -- the largest consumer group in the State -- to help build a statewide consensus for this.

I commend you for having an early hearing on this, too.

SENATOR FELDMAN: Thank you. I believe you gave your name for the reporters, Ray, did you not? You can do it through the mike, and you give yours.

MR. PETERSON: Ray Peterson, representing the American Federation of Teachers.

MARTIN R. OLECH, ESQ.: Thank you, Senator. I'm Martin Olech, representing the Principals and Supervisors. I'll be even briefer than Ray.

We also support S-2405, and appreciate Senator Lipman and all of you sitting on the Committee today for having co-sponsored the bill. But we do agree with what Senator Dumont mentioned about the funding being important. That's really the key also.

SENATOR FELDMAN: Thank you, Marty. This will conclude the hearings, unless someone else wishes to comment?  
(no response)

Again, the transcripts will be very valuable for us when the bill comes into the Committee for its release to the floor. I want to thank you generally, and particularly Ernie Reock, who is so important to the SLERP Commission. We're just digging into the recesses of his mind, and all of his past experiences coming up with invaluable information, and very helpful on the formulas. So thank you very very much.

SENATOR EWING: Mr. Chairman?

SENATOR FELDMAN: Yes?

SENATOR EWING: I'd just like to add one thing on it, though. One of the major stumbling blocks we're going to have is the financing of it, as has been pointed out; getting it into the budget, and how we can do that with what we see coming up on the horizon as far as the State budget goes. I mean, I'm certainly all for it, otherwise I wouldn't have co-sponsored it, because I think it's a good idea. But we are going to have to look at it very carefully as to the dollars that go into it, whether it has to be done in three years or longer, or just what. Unless we cut out--

SENATOR FELDMAN: There's an old Republican adage, "There's no free lunch."

SENATOR EWING: That's right. Unless we cut out some other programs and get the 100 and some million that's going to be necessary.

SENATOR DUMONT: Well, it can be done if we try hard enough.

SENATOR EWING: Oh yeah. And we'll cut out programs like the Pequoit (phonetic spelling) Fish Hatchery.

SENATOR LIPMAN: We would begin next year, Senator.

SENATOR DUMONT: You know what would happen to you if you cut that out. (laughter) No more votes for your bill.

SENATOR FELDMAN: Jack, or you will need are two or three bouts, and then you'll make all that money and you'll give it to us.

SENATOR EWING: Okay. That might be an idea.

SENATOR FELDMAN: Okay. This will conclude our session for today. Thank you for attending.

**(MEETING CONCLUDED)**



## **APPENDIX**



1. The Need for Current Year Funding

- (a) New Jersey currently uses a GTB (Guaranteed Tax Base) formula for Current Expense Equalization Aid.

This emphasizes local budgetary decision-making, but guarantees a specified level of property tax resources to every school district (except minimum aid districts).

The result should be that for a given level of expenditure per pupil, the equalized property tax rate should be the same.

- (b) Study after study have shown that this is not the case.

In general, low tax base school districts have lower spending levels per pupil and higher tax rates.

- (c) The reason is that, under the GTB formula, State aid is calculated as a percentage of the prior-year school budget.

- (d) This causes no problem if school budgets remain the same from year to year.

- (e) However, if a budget is increased, the entire increase must be paid by the district by levying property taxes.

- (f) The impact is more severe, the poorer the school district.

(Attachment A)

2. The problem has been recognized for years (Attachment A is from a 1980 report -- and this was not the first identification of the problem.

3. S.2405 follows the recommendation outlined in Attachment A -- it would calculate State aid as a percentage of the maximum budget permissible under the school budget caps for the current year.

In general, it is a reasonable and very desirable approach to the problem.

4. The State and Local Expenditure and Revenue Policy Commission (S.L.E.R.P.) is making a similar recommendation.

5. There are some problems which should be recognized:

Most of these are addressed in Attachment A.

- (a) Funding - A switch to current year funding will cost a substantial amount-

Attachment A has an estimate of \$48.3 million for 1979-80.

S.L.E.R.P. estimates \$181 million for 1986-87. Will be higher now.

S.2405 takes a reasonable approach by suggesting a 3-year phase-in.

Another approach to phase-in is suggested in Attachment A, where first priority would be given to the lowest-wealth districts that are most heavily impacted by prior-year funding.

- (b) Budgeting Below Cap - Adjustments will be necessary if a district does not budget up to its cap.

This means that the appropriation requested will probably be less than is actually needed.

Adjustments will probably be relatively easy to administer, although they will be more complicated where a budget cut is appealed.

Not considered a serious problem.

- (c) Budget Cap Waivers - The cost of budget cap waivers will have to be funded from local tax resources since, by definition, they are above the budget cap (or maximum NCEB).

Budget cap waivers have not been very extensive in recent years.

- (d) Declining Budget - It is possible for a school district to receive less under S.2405 than if the bill were not enacted, if its budget is declining.

On the other hand, such a district in a sense receives a "windfall" under present law by receiving a percentage of last year's larger budget.

- (e) Budget Caps - This is a serious problem.

Budget caps for schools are based on the annual growth in statewide property values.

Property values have had huge growth in recent years, with the result that school budget caps are very liberal. Basic cap rate was 14.5% for 1987-88 and is 18.6% for 1988-89.

This will cause the cost of current year funding based on the cap rates to be very high.



S.L.E.R.P. has proposed revisions in the budget caps.

These revisions stabilize the caps to a considerable degree, and reduce the excessively high caps of recent years to reasonable levels.

Revised basic cap rate for 1987-88 would be 9.6% instead of 14.5%; for 1988-89, it would be 9.9% instead of 18.6%.

(Attachment B)

This change appears appropriate and highly desirable, and should be done concurrently with current year funding.

6. Conclusion -

I strongly support the concept of S.2405 and its actual language if the budget caps are modified.

(A)

Excerpted from: NEW JERSEY SCHOOL BUDGETS AND PROPERTY TAXES IN 1979,  
Rutgers University Bureau of Government Research,  
September, 1980, pp. 92-98.

#### Use of Prior Year Budget

It is obvious from Chart 9 that the extent of equalization aid does not explain all of the fiscal inequity. Some disadvantage remains, especially for the lowest-wealth places. A second major cause of fiscal inequity is the fact that State equalization aid is based on a share of the prior year's local budget, both for current expenses and for capital and debt service purposes. If a school district adopted a budget which was exactly the same as in the prior year, it would suffer no penalty under this approach. However, any increase in the budget -- and in a period of inflation most budgets rise by some amount every year, despite enrollment declines -- must be financed entirely by the local tax ratables of the district. A poor district must impose a higher tax rate to raise the same number of dollars of increase as a wealthier district. This situation is illustrated in Table 17. Here, three districts of varying wealth start with the same tax rate and the same expenditure level. Equalized valuations and per-pupil budgets are assumed to rise by 10% annually in each of the districts. However, after the first year, the Low Wealth District must regularly impose a higher school tax rate than the Average or High Wealth communities, in order to keep pace with them in budgeted expenditures.

One reason for using the prior year's budget as the basis for State equalization aid was the sequence of events in the budget process. State budget requests must be prepared in the Fall of the pre-budget year, for review by the Division of Budget and Accounting and inclusion in the

Table 17. Impact of Budget Increase on State Aid and Equalized School Tax Rates in Communities of Varying Wealth.

	Low Wealth Community	Average Community	High Wealth Community
<b>Year 1 (Guaranteed Valuation = \$135,000)</b>			
Equalized Valuation	\$ 40,000,000	\$100,000,000	\$120,000,000
Enrollment	1,000	1,000	1,000
EV per Pupil	\$ 40,000	\$ 100,000	\$ 120,000
NCEB per Pupil	\$ 1,500	\$ 1,500	\$ 1,500
NCEB	1,500,000	1,500,000	1,500,000
Minus State Equal.Aid	-1,055,550	- 388,950	- 166,650
Balance from Taxation	\$ 444,450	\$ 1,111,050	\$ 1,333,350
Tax Rate:	$\frac{444,450}{40,000,000} = 1.11$	$\frac{1,111,050}{100,000,000} = 1.11$	$\frac{1,333,350}{120,000,000} = 1.11$
State Share for Next Year:	$1.0000 - \frac{40,000}{135,000} = .7037$	$1.0000 - \frac{100,000}{135,000} = .2593$	$1.0000 - \frac{120,000}{135,000} = .1111$
State Equal.Aid for Next Year:	\$1,500,000 x .7037 \$1,055,550	\$1,500,000 x .2593 \$ 388,950	\$1,500,000 x .1111 \$ 166,650
<b>Year 2 (Guaranteed Valuation = \$148,500)</b>			
Equalized Valuation	\$ 44,000,000	\$110,000,000	\$132,000,000
Enrollment	1,000	1,000	1,000
EV per Pupil	\$ 44,000	\$ 110,000	\$ 132,000
NCEB per Pupil	\$ 1,650	\$ 1,650	\$ 1,650
NCEB	1,650,000	1,650,000	1,650,000
Minus State Equal.Aid	-1,055,550	- 388,950	- 166,650
Balance from Taxation	\$ 594,450	\$ 1,261,050	\$ 1,483,350
Tax Rate:	$\frac{594,450}{44,000,000} = 1.35$	$\frac{1,261,050}{110,000,000} = 1.15$	$\frac{1,483,350}{132,000,000} = 1.12$
State Share for Next Year:	$1.0000 - \frac{44,000}{148,500} = .7037$	$1.0000 - \frac{110,000}{148,500} = .2593$	$1.0000 - \frac{132,000}{148,500} = .1111$
State Equal.Aid for Next Year:	\$1,650,000 x .7037 \$1,161,105	\$1,650,000 x .2593 \$ 427,845	\$1,650,000 x .1111 \$ 183,315
<b>Year 3 (Guaranteed Valuation = \$163,350)</b>			
Equalized Valuation	\$ 48,400,000	\$121,000,000	\$145,200,000
Enrollment	1,000	1,000	1,000
EV per Pupil	\$ 48,400	\$ 121,000	\$ 145,200
NCEB per Pupil	\$ 1,815	\$ 1,815	\$ 1,815
NCEB	1,815,000	1,815,000	1,815,000
Minus State Equal.Aid	-1,161,105	- 427,845	- 183,315
Balance from Taxation	\$ 653,895	\$ 1,387,155	\$ 1,631,685
Tax Rate:	$\frac{653,895}{48,400,000} = 1.35$	$\frac{1,387,155}{121,000,000} = 1.15$	$\frac{1,631,685}{145,200,000} = 1.12$

Governor's proposed budget for the ensuing year. But local school budgets in the past have not been prepared until November and, under revisions of the budget calendar, they may be deferred until early January with final approval several months later. Thus, if State aid were based on current year local school budgets, the recommended State appropriation would have to be based on a guess as to what funds would be needed. Using the prior year's local budget makes the estimate of funds needed much more accurate.

A second reason for use of the prior year's local budget is to serve as a brake on increasing local school expenditures. There has always been some fear that a poor community which, according to the equalization aid formula, might be entitled to a 60% or 70% State share, would adopt a "runaway" budget, requiring the State to contribute two or three dollars for every local dollar budgeted for the current year. If each community must finance the increase in its budget entirely from its own resources, the expectation is that they will approach the task in a serious manner. The catch, of course, is that this device does not apply evenly to all communities. It is very serious in very poor places, and has less and less impact as the communities become wealthier. Thus, the task of the poor community, which traditionally has budgeted at a lower level, of bringing its expenditure level nearer the state average becomes extraordinarily difficult.

Both of these reasons for using the prior year's local budget in the equalization formula may be addressed by making use of the budget cap formula. If State equalization aid were to be paid as a share of the current year's permissible budget under the budget caps, most of the inequities caused by the prior-year approach now in the law would be

eliminated. Since the budget cap can be calculated in December of the pre-budget year, maximum equalization aid could be estimated rather accurately at that time for State budget purposes. Moreover, use of the budget cap figures clearly prevents any "runaway" budgeting by local school districts.

The suggested approach is not free from difficulties, however. First, it would cost the State money. If applied for the 1979-80 school year to all school districts in the state, the maximum cost would have been \$48,300,000 of additional State aid. Due to more liberal budget caps in use for 1980-81, the total for that year would be a maximum of \$79,000,000. This amount would be entirely for increased current expense equalization aid; aid for capital outlay and debt service would not be affected by the change. In calculating the cost, the state support limit has been left at the 65th percentile of the prior year's net current expense budgets, in order to concentrate the additional State aid in those districts which are both relatively poor and which have been budgeting at relatively low levels. None of the new funds would go to any district which has budgeted in the prior year above the 65th percentile.

Clearly, \$79,000,000 is a substantial amount of money. If a potential increase of this magnitude is not feasible, it would be possible to phase in the change, providing first for those districts which are most disadvantaged by the prior-year approach of Chapter 212 -- the poorest districts. Table 18 shows a number of possible different funding levels for 1980-81, ranging from an application to only the poorest districts, having less than 30% of the state average equalized valuation per pupil, up to a full implementation of the change. The reason for a difference between the total number of school districts below a certain wealth line and the

Table 18. Alternative Funding Levels for Conversion of State Current Expense Equalization Aid Formula from Prior Year Actual Budget Basis to Current Year Permissible Budget Basis; 1980-81 State Aid Data

<u>Conversion Applies to All School Districts With Equalized Valuation per Pupil Below:</u>	<u>Number of School Districts</u>		<u>Maximum Potential 1980-81 Cost</u>
	<u>Total in Group</u>	<u>Receiving Increased Aid</u>	
30% of state average (\$30,098)	7	6	\$ 15,000,000
40% of state average (\$40,132)	20	19	34,500,000
50% of state average (\$50,165)	34	32	38,600,000
70% of state average (\$70,230)	109	104	55,900,000
85% of state average (\$85,279)	184	168	66,000,000
100% of state average (\$100,329)	265	237	75,200,000
115% of state average (\$115,378)	342	291	78,200,000
130% of state average (\$130,427)	396	304	79,000,000
the Guaranteed Valuation (\$134,842)	417	304	79,000,000
All districts in state	603	304	79,000,000

number actually due to receive additional aid is caused mainly by the fact that a few of even the very poor districts do budget above the 65th percentile and, thus, would not be eligible for additional aid under the revised formula.

A second problem which must be faced is the possibility that a district may attempt to gain additional State funds under this approach, and use them to produce an abnormally low tax rate by not budgeting up to the cap figure on which the aid is based. Provision would have to be made for reducing State aid to such a district in the same proportion by which the budget actually adopted falls short of the permissible budget under the caps. This probably could be accomplished during the existing budget review process, although reductions by municipal governing bodies following defeats at the polls or by boards of school estimate might require new procedures. Inevitably, some communities would not make full use of their budget caps and the potential additional State aid available under this proposal. Thus, all cost figures presented here are maximum estimates and, in reality, the cost to the State would almost certainly be somewhat lower.

A third, and related, problem is that the use of the maximum permissible current year budget as the basis for State aid would leave funding of the costs of a budget cap waiver entirely on the local tax base. This is a deficiency which may have to be accepted. To allow budget cap waivers to increase the amount of State aid may introduce a degree of uncertainty in the State budget process which is not acceptable.

Finally, it is possible for a school district to receive less equalization aid under the current year proposal than under the present law. This would occur if the district's net current expense budget were reduced

from year to year. Although such a situation is relatively rare, it is becoming more common as enrollments decline; in 1978-79, only 27 districts had a lower NCEB than in 1977-78, while in 1979-80, 51 school districts reduced their NCEB. Even if this trend continues to grow, however, it does not constitute a strong argument for retaining prior year funding, since, under the present law, the districts involved would be receiving aid for expenditures no longer being made.

Despite these problems, a change to base the State aid formula on the maximum permissible budget under the cap formula appears desirable. If this is not done, low wealth communities will always be required to tax themselves more heavily than other places in order to maintain even an average growth of expenditures in an inflationary era.

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.



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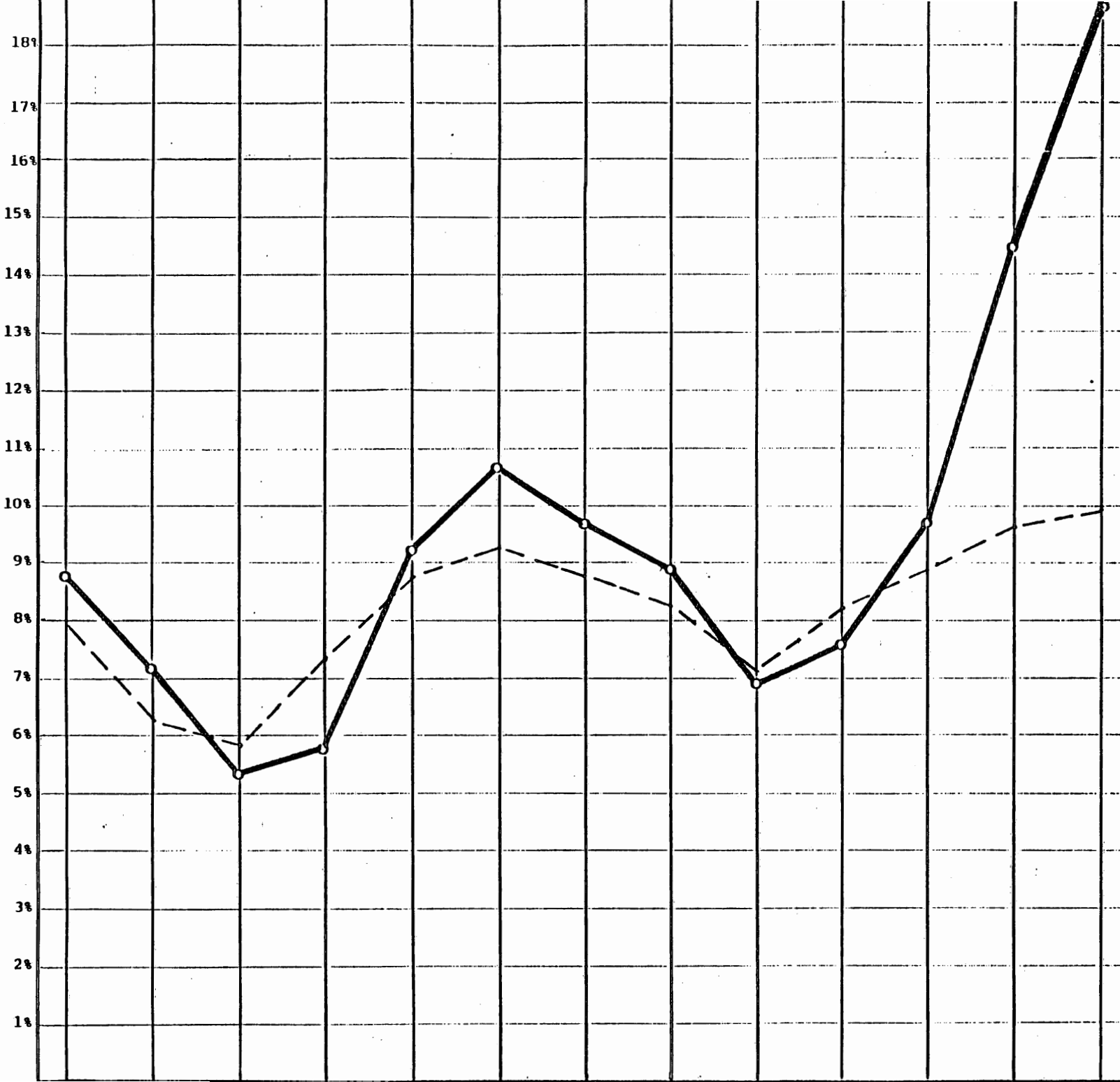
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TREND OF  
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AND  
REVISION  
SUGGESTED BY  
S.L.E.R.P.

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# Appendix 3

## Proposed Budget Cap Formula:

$$\text{Permissible Increase in Budget} = \text{Base Budget} \times \text{Basic Cap Rate} \times \text{Equalization Factor} \times \text{Enrollment}$$

Where:

The larger of:

$$\text{Base Budget} = \begin{matrix} \text{Prior Year} \\ \text{School District} \\ \text{Adj. NCEB/Pupil} \end{matrix} \text{ or } \begin{matrix} \text{Prior Year} \\ \text{State Average} \\ \text{Adj. NCEB/Pupil} \end{matrix}$$

$$\text{*Basic Cap Rate} = 6\% + \left( \begin{matrix} \text{Deviation} \\ \text{of the} \\ \text{Annual} \\ \text{Percentage} \\ \text{Growth} \\ \text{in State} \\ \text{Equalized} \\ \text{Valuation} \\ \text{per Pupil} \\ \text{from } 6\% \end{matrix} \right) \left( \frac{5}{\text{Deviation} + 5} \right)$$

$$\text{Equalization Factor} = \frac{\text{Prior Year State Average Adj. NCEB/Pupil}}{\text{Prior Year School District Adj. NCEB/Pupil}}$$

$$\text{Enrollment} = \text{Prior Year School District Resident Enrollment}$$

\* New Formula:





Testimony presented by Wayne Dibofsky, Associate Director of Government Relations, for the New Jersey Education Association before the Senate Education Committee on May 26, 1988.

Good afternoon. My name is Wayne Dibofsky, Associate Director of Government Relations for the New Jersey Education Association. It is my pleasure to come before you this afternoon to testify on a critical issue facing our state, that of providing the equitable distribution of funds to provide a "Thorough and Efficient" education for all the students of our great State.

The NJEA strongly supports S-2405 by Senator Lipman, legislation which would provide the use of current year expenditures in the determination of equalization aid for all school districts. The genesis of this bill is in a recently completed study of the State and Local Expenditure and Revenue Policy (SLERP) Commission. After meeting for two and one-half years this commission endorsed the concept that state equalization and debt service aid to schools should be placed on a current year financial need basis rather than on what each school had spent in its prior year.

The educational system in New Jersey comprises the single largest proportion of state and local budgets. Since the adoption of the Public School Education Act in 1975, the disparity in educational achievement throughout New Jersey's school districts has in effect become the "tale of two school systems." While many school districts provide an excellent education, others, including many of those in urban areas do not. The school districts where pupils do least well on measures of performance are those with few resources and low current expenditure levels. These districts are then faced with the added concern of

attracting and securing the best teachers, maintaining their physical facilities and delivering sound educational services.

Educational expenditures per pupil in New Jersey vary significantly among school districts within the State, ranging in 1986/87 from a high of \$12,719 to as little as \$2,269. The statewide average is \$5,230. One-tenth of all school districts spend less than three-quarters of the state average per pupil, while one-fifth of the districts spend more than 125 percent of the State average. There is no question, that some school districts in New Jersey provide an education as fine as can be secured anywhere. There are still others that because of low local tax rates cannot compete with the services offered by more affluent school districts. The NJEA believes that we can no longer let any of our children get shortchanged in education, simply because of where they live. Of 19 school districts cited by the Department of Education as having been uncertified for more than two years on June 3, 1987, 16 had below average budget levels in the 1986/87 year. On a more national basis, available research indicates that educational resources are clearly linked to school effectiveness. These resources which require expenditures include but are not limited to:

- \* high teacher student ratios,
- \* additional reading personnel,
- \* clean, comfortable and safe environments,
- \* sufficient materials and facilities,
- \* regular and ongoing staff development,
- \* special funding for special needs,
- \* more experienced staff with higher credentials and higher salaries,
- \* higher participation in extra-curricular activities, and
- \* fewer non-teaching staffs for teaching staff.

It is clear that the relationship between resources for instruction and effective schools is clearly understood by those citizens of New Jersey who can afford it and who generously

support their schools. Conversely, low resource school districts have some of the poorest facilities and in many cases there is a backlog of needs which have gone unattended for many years.

The legislation you have before you would go a long way in equalizing the disparity between wealthy and low resource districts in the State of New Jersey.

S-2402 would change the current system of funding current expense equalization aid, from a percentage of the prior year's budget to one based on the current year's projections. This would save districts from having to use property taxes to pay for an increase in the budgets, then waiting a year for state aid to pay for the boost. It would also preserve local budget decision making.

During the last decade New Jersey has had a renaissance in its economic prosperity. But, that prosperity has not reached all school districts equally, and it has not met the mandates of the New Jersey Supreme Court decision calling for a "Thorough and Efficient" school system.

While many experts disagree on the effects of spending on educational performance, the NJEA is convinced that we will not see educational improvements unless we raise the spending and service levels in school districts that are performing poorly. S-2402 provides the stability needed in all school districts in the State of New Jersey to make them accountable and specifically, it allows our low resource urban school districts to rebuild. As the Carnegie Foundation's, Ernest Boyer, recognized, "Saving urban schools must become a national crusade." Our children deserve no less.

Thank you.

STATE AND LOCAL EXPENDITURE AND  
REVENUE POLICY COMMISSION

Report of the Education Subcommittee

As Approved in Joint Meeting  
of Task Forces 1 and 4  
August 11, 1987



## REPORT OF THE EDUCATION SUBCOMMITTEE

The New Jersey school system as a whole cannot be said to be truly effective. Actually, the state has two school systems. While many of New Jersey's school districts provide a high quality education, others, especially in the urban areas, do not. Although many factors may contribute to the difference in school effectiveness, variation in current expenditures is an important part of the problem. The New Jersey Supreme Court stated in

Robinson v. Cahill:

"The trial court found the constitutional demand had not been met and did so on the basis of discrepancies in dollar impact per pupil. We agree. We deal with the problem in these terms because dollar impact is plainly relevant and because we have been shown no other viable criterion for measuring compliance with the constitutional mandate."

The Education Subcommittee is aware of differences of opinion in the literature regarding the impact of spending level variation on educational performance. The expenditure of additional funds will not guarantee more effective schools and better educational performance. But the Subcommittee is convinced that improvement cannot take place in the absence of adequate financial resources. Despite some exceptions, the school districts where pupils do least well on measures of student performance, and the districts where drop-out rates are the highest, are school districts which have low resources and low current expenditure levels. Of 19 school districts cited by the Department of Education as having been uncertified for more than two years on June 3, 1987, 16 had below-average budget levels in 1986-87. Clearly, on the basis of the Department's evaluation criteria, money does make a difference.

On a more general, national basis, available research indicates that education resources are clearly linked to school effectiveness. These re-

sources, which require expenditures, include high teacher-student ratios, additional reading personnel, clean, comfortable and safe environments, sufficient materials and facilities, regular and on-going staff development, special funding for special needs, more experienced staff with higher credentials and higher salaries, higher participation in extra-curricular programs and fewer non-teaching tasks for teaching staff. Making principals effective educational leaders includes giving them a reasonable number of staff to supervise, adequate clerical support, and assistance with discipline, attendance, facilities management, and other administrative responsibilities.

The relationship between resources for instruction and effective schools is clearly understood by citizens of New Jersey who can afford it and who generously support the schools. To meet education performance goals, education resources must be available to districts needing them, even though spending more money for education does not automatically result in improved schools.

Another factor contributing to the variation in school effectiveness is the wide differences in the quantity and quality of physical facilities. Again, the low-resource school districts have some of the poorest facilities, in many cases with a backlog of needs which has gone unattended for many years.

In recent years, New Jersey has been a leader among state governments in the development and adoption of education policy reforms. This is evidenced by the implementation of school-management reforms and by the enactment of legislation to increase teachers' salaries (particularly for starting teachers), raise the standards for classroom teachers, and provide incentives for able young college graduates to enter the teaching profession, especially in urban areas. Our report makes recommendations that would build on this

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record of commitment in an area of state governmental responsibility that is vital to the balanced and sound economic growth of the State and the quality and stability of life for its citizens.

The Education Subcommittee in this report makes ten proposals to provide the resources necessary for an effective school system in New Jersey. Low-resource school districts are targeted particularly, both in terms of financial assistance and in terms of school programs. The result is an equalization of resources to the extent that the lowest-resource districts would be able to budget more nearly at the state average level, with a substantially reduced property tax rate (See Table 1).

Table 1. Present and Proposed School Finance System; Average Expenditures and Tax Rates, 1986-1987

	Present School Finance System 1986-87	Proposed School Finance System 1986-87
State Average:		
Expenditure per Pupil	\$5,230	\$5,523
Tax Rate	1.13	1.12
Low-Resource Districts: <sup>1</sup>		
Expenditure per Pupil	\$4,823	\$5,425
Tax Rate	1.47	1.24

<sup>1</sup>Low resource districts used here are the districts having the lowest level of taxable property and enrolling one-fifth of the state's public school pupils.

The cost of this program is \$372.2 million to the State in 1986-87, with a \$43.7 million reduction in local property taxes. A summary of the proposals and the costs is included at the end of this report.

### Components of the Present State Aid System

The State aid system has six major components, as shown in Table 2.

Current expense equalization aid, which constitutes the basic State support for the regular school program, is the largest component, amounting in 1986-87 to 49.3% of the total. Second in magnitude is the State's contribution to pension funds for school employees, including the Teachers' Pension and Annuity Fund, social security, and other programs. Third in size is the group of programs providing categorical aid -- special programs for children with special educational needs. Of lesser importance financially are debt service and capital outlay equalization aid, transportation aid, and a collection of miscellaneous special-purpose grant-in-aid programs.

Over-all, State aid covers about 44% of all elementary and secondary education expenditures in New Jersey, a figure somewhat below the national average of 50%. When the Public School Education Act of 1975 was first implemented, State aid covered only 38% of all education expenditures. The percentage has increased slowly since then because of legislative authorization of new aid programs and the relatively rapid growth of fully-State-funded pension obligations. Another reason why State aid has grown as percentage of expenditures is that the equalization formulas provide more funds to compensate for a widening gap between wealthy and poor communities in New Jersey.

Since the pension contribution component is a direct appropriation by the State to the pension funds, and does not flow through the school district budgets, direct State aid constitutes only about 38% of the statewide total of all local school budgets. The percentage of the budget covered by State aid varies from district to district, depending upon the wealth of the community and the particular mix of State aid programs found in each school district.

	1986-87 Adjusted <u>Appropriations</u>	
1) Current Expense Equalization Aid.....\$	1,430,814,000	(49.3%)
2) Debt Service and Capital Equalization Aid.....	82,698,000	( 2.8%)
3) Categorical Aid:		
Special Education.....	266,434,000	
Compensatory Education.....	110,176,000	
Bilingual.....	- 26,948,000	
Local Vocational.....	<u>7,966,000</u>	
(Sub-Total): Categorical).....	(411,524,000)	(14.2%)
4) Transportation Aid.....	155,191,000	( 5.3%)
5) Miscellaneous Grants-in-Aid.....	<u>202,338,000</u>	( 7.0%)
(Sub-Total: Direct Aid to School Districts).....	2,282,565,000	.....About 38% of Budgets
6) Pension Contributions.....	<u>621,540,000</u>	(21.4%)
Total.....	2,904,105,000	.....About 44% of All Expenditures

## Principles

The Education Subcommittee proposes a broad plan for addressing the variation in resources which leads to lower school effectiveness in the poorer communities of the state. In preparing its recommendations, the Subcommittee has been guided by several principles:

- (1) Local budgetary decision-making should be preserved as far as possible.
- (2) So far as possible, expenditure variations should be reduced by raising expenditures in the low-spending school districts, rather than by imposing tighter spending limitations on the high-spending districts.
- (3) No school district should lose State aid in any given year because of changes in the statutory formulas. This does not preclude reductions in aid in future years if, under the statutory formula, a district no longer qualifies for its previous level of aid because of changes in enrollment or in its relative wealth.
- (4) Minimum aid should remain a part of the State aid system. Minimum aid is a minor part of total State aid (4% in 1986-87); this is a small price to pay for ensuring that almost every community participates in the State aid system.
- (5) There should not be any dedication of revenue sources for State school aid. Dedication of revenue sources tends to constrain expenditures to the revenue produced from those sources. Elementary and secondary education, by State constitutional provision, is a State responsibility, and the full resources of the State government must remain available to meet that responsibility.

The Education Subcommittee has worked within these guidelines to make specific proposals in five major areas of State aid:

- (a) Current Expense Equalization Aid

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- (b) Compensatory Education Aid
- (c) Capital Facilities
- (d) Minimum Teachers' Salaries
- (e) Kindergarten and Pre-Kindergarten Education

#### Current Expense Equalization Aid

The purpose of Current Expense Equalization Aid (CEEA) is to equalize the financial resources of the school districts at a specified level (the guaranteed valuation per pupil) in order that they may provide adequately for their regular operations. Aid is calculated as a percentage of the local school budget, with the percentage varying inversely with the wealth of the district.<sup>1</sup> This is known as a Guaranteed Tax Base (GTB) formula. A major characteristic of a GTB equalization formula is that it emphasizes local budgetary decision-making, rather than requiring some State officer or agency to designate the budget per pupil which each community must appropriate. A GTB formula, implemented appropriately, assures equity for property taxpayers. For example, if the state-guaranteed tax base is \$200,000 per pupil, a district with \$100,000 per pupil of taxable property would receive 50% of its budget in State aid. A district with \$150,000 of taxable property per pupil would receive State aid to cover 25% of its budget. If both districts budgeted the same amount of expenditures per pupil, their property tax rates would be the same. Either district might decide to increase its budget level, but to do so it would have to raise its tax rate. There would always be a direct relationship between the budget level and the tax rate required.

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<sup>1</sup>See Appendix 1 for formula.

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While acknowledging that there are deficiencies in the implementation of the New Jersey GTB formula, the Education Subcommittee believes that this approach should be retained and improved, because it conforms to the local control tradition of the state, because it helps provide taxpayer equity, and because its retention provides the least disturbance of existing patterns.

School districts above the guaranteed valuation receive no CEEA from the basic equalization formula but, in most cases, qualify for a smaller amount of minimum aid.<sup>1</sup> CEEA as a whole made up about 49% of the total State aid package in 1986-87.

#### Problems

- A. Local determination of budgets permits wide variations in spending levels per pupil. In 1986-87, net current expense budgets<sup>2</sup> per pupil ranged from \$2,269 to \$12,719. About one-tenth of the school districts, with about 12% of the pupils, were spending less than three-quarters of the state average per pupil. At the other end of the scale, about one-fifth of the districts, also with 12% of the total enrollment, were spending more than 125% of the state average amount per pupil.
- B. Property taxes are the major source of funding for county and municipal governments as well as school districts. Where the need for county and municipal services is high, school expenditures often are cut back to avoid excessive total tax rates. Competition for the tax base is frequently called "municipal overburden." In the poorest quintile of school districts

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<sup>1</sup>See Appendix 2 for formula.

<sup>2</sup>The net current expense budget (NCEB) is the full current expense budget of a school district, minus all anticipated revenue except CEEA and local property taxes. Generally, the NCEB amounts to about 80% of the full current expense budget. It is the best available measure of the current expenditures on pupils without special problems.



(those enrolling one-fifth of the total pupils) net current expense budgets in 1986-87 were only 84% of the statewide average.

C. Prior-year funding places an exceptional burden on low-resource communities. Since CEEA is paid as a percentage of the prior-year budget, any increase in budget from one year to the next must be paid entirely by the local property tax within the school district. The tax rate necessary to do this is progressively higher if the tax base of the school district is smaller. For example, three school districts of identical size and budget, but with differing tax bases, may be compared. If each raises its budget by \$1,000 per pupil, the wealthy district, with \$500,000 of ratables per pupil, would have to increase its tax rate by \$.20 per hundred dollars of valuation. A moderate wealth district, with \$200,000 of ratables per pupil, would have to raise its tax rate by \$.50. And a poor district, with only \$50,000 of ratables per pupil, would have to levy an additional tax rate of \$2.00 per hundred. While it is true that the poor district would gain State aid to make up for this in the next year, the same process would be taking place in that year for any increase implemented in that year's budget. As a result, low-resource communities have low expenditures and high tax rates. In 1986-87, school districts in the lowest resource quintile had an average total budget of \$4,823 with an average tax rate of \$1.47. In comparison, the highest wealth school districts budgeted \$6,037 per pupil, with an average equalized tax rate of only \$.86 (See Appendix 7).

#### Proposals

- (1) The Subcommittee proposes that Current Expense Equalization Aid be paid as a percentage of the current year budget.

The major obstacle to this proposal in the past has been that local school district budgets have not been finalized at the time the Governor and

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Legislature must act on appropriations for State aid. However, calculations of the maximum possible cost to the State can be made, based on the maximum permissible budgets under the budget caps.

The present budget caps limit the amount by which a school district may increase its NCEB from year to year. They are based on the annual growth in the statewide total of equalized valuation -- a measure of the true value of taxable property. The caps have fluctuated from a low of 5.4% in 1978-79 to a high of 14.5% in 1987-88. As the rapid increase in property values has driven the budget caps to very high levels in recent years, the caps have lost much of their effect as limits on expenditure increase. With budget caps at a very high level, competition for the tax base is more likely to be the dominant limiting influence on expenditures, especially where taxable resources are low.

- (2) The Subcommittee proposes that the budget cap formula be changed to provide for 6% annual growth, plus or minus an inflation factor based on a portion of the annual growth in state equalized valuation.

The inflation factor suggested would include a "dampener" which would have the effect of diluting the full impact of inflation as it deviates from the 6% level.<sup>1</sup> Use of the proposed formula would have reduced the fluctuation in the budget caps to a low of 5.9% in 1978-79 and a high of 9.6% for 1987-88.

While Proposal (1) will provide significant amounts of additional State aid for low-resource school districts, it will not guarantee that they raise their spending level to provide more effective educational services. All or most of the new aid may go for property tax reduction. In some districts, an increase in expenditures may not be necessary, since performance is satisfactory. In other cases, however, performance is deficient, and increased expenditures should be required.

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<sup>1</sup>See Appendix 3 for proposed budget cap formula.

- (3) The Subcommittee proposes that school districts which fail to meet specified standards of educational performance be required to budget at least at the average per-pupil level for all other districts which do meet those standards.

This proposal will require that budget caps be waived for some deficient districts. The impact, in many cases, will be to require these districts to levy additional local property taxes. There also will be an additional cost to the State, since State aid will be paid as a percentage of the higher mandated budget, rather than the lower budget which might have been adopted. The measure of educational performance to be used should include three minimum educational performance standards:

- (a) student performance on standardized tests,
- (b) the breadth or comprehensiveness of the program offered in the schools, and
- (c) the effective maintenance of school facilities.

Since this proposal can result in relatively large increases in some school budgets within a short period of time (See Appendix 4), it will be essential that the school districts in question operate within the limits of a detailed spending plan approved by the Commissioner of Education.

Finally, steps must be taken to reduce the impact of municipal overburden.

- (4) The Subcommittee proposes that new and additional sources of revenue be made available to counties and municipalities.

The pressures caused by municipal overburden can be reduced most effectively by providing other sources of revenue for county and municipal governments.

#### Cost and Tax Impact

Cost estimates, based on the combination of Proposals (1), (2), and (3),

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assume that all districts receiving additional State aid will spend up to their budget caps, that districts not gaining additional State funds will continue to spend as they did in 1986-87, that the measure of educational performance is certification of the school district under the present State monitoring process, and that the proposed formulas will be fully funded. The costs developed, thus, are maximum figures since, in practice, some districts probably will not budget up to their caps.

The 1986-87 cost to the State is \$217.9 million above the amount actually appropriated to fund the present formulas. Of this increase, \$186.2 million is due to current year funding and \$31.7 million results from the minimum budget proposal (See Appendix 9). Most of this additional aid goes to school districts in the lowest wealth quintile. Current year funding brings a substantial reduction in property taxes, but a mandated minimum budget level will require some additional local taxes in low-spending school districts, as well as additional State aid. The net property tax reduction is \$90.7 million (See Appendix 11).

The table in Appendix 4 shows the impact on the 45 school districts which, as of February, 1987, had not been certified. For demonstration purposes only, these have been assumed to be the districts which would have a mandated minimum budget level.

#### Other Options Considered

The subcommittee has considered and rejected various other options:

- (a) If nothing is done, the variations in spending levels probably will increase, as will the disparities between spending levels and tax rates.
- (b) If the guaranteed valuation (the level of tax base guaranteed by the State) were increased, most of the benefits would go to moderate wealth places, rather than to the most needy.

- (c) If a foundation-type formula<sup>1</sup> were substituted for the present formula, local decision-making regarding spending levels might be seriously curtailed.
- (d) A power-equalizing formula<sup>2</sup> would operate in a similar manner to a GTB formula, except that minimum aid might be eliminated, and wealthy school districts might have to pay property taxes to the state instead of receiving assistance.
- (e) If full State funding of all school expenditures were enacted, the cost to the State would be extremely high, and local decision-making would be eliminated.
- (f) Current year funding alone, without a mandated budget for non-performing school districts, would provide tax relief, but no assurance of educational progress.

#### Compensatory Education Aid

Compensatory Education Aid is provided to enable school districts to implement preventive and remedial programs for pupils who have academic, social, economic or environmental needs that prevent them from succeeding in regular school programs. It is calculated by multiplying the number of such pupils by the prior year state average NCEB per pupil and by an "additional cost factor", which has been determined by the State as reflecting the additional amount necessary to provide this kind of program. In 1986-87, the compensatory education aid appropriation was \$110.2 million, and there was an

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<sup>1</sup>In a foundation formula, districts are required to budget at least some fixed amount per pupil, and State aid is this amount, minus a local share which is proportional to the district's property tax ratables.

<sup>2</sup>A power-equalizing formula is similar to a GTB formula, but if a district has more taxable property per pupil than the guaranteed tax base, the district may be required to pay to the State, rather than receiving State aid.

additional \$48.6 million appropriated separately for HSPT<sup>1</sup> compensatory education aid.

### Problem

A major problem arising in recent years has involved the counting of pupils. Pupils have been tested for basic educational progress in two areas -- verbal skills and mathematical skills. If found deficient in either or both, they have been counted only once for purposes of calculating State aid. Many persons have argued that if a pupil is found deficient in both areas, he or she should be counted twice, since two remedial programs are required. A task force within the Department of Education has responded with a proposal that this be done, but that the additional cost factor, which is now .18, should be reduced to .1113, on the ground that a double deficiency will not require a full double program. The departmental task force also proposed removing an administratively-established "cap" on the number of pupils who might qualify for compensatory education aid. While the full pupil count rises under this proposal, the cost factor is reduced by the same proportion, with the result that total Compensatory Education Aid remains almost constant, and there is some shift of funds from poor districts to wealthier places. These proposals by the Department of Education will be implemented automatically for the school year 1988-89 in the absence of any further legislative action.

### Proposal

- (5) The Subcommittee proposes that Compensatory Education Aid be calculated by counting each element of the testing program on which a pupil is deficient and multiplying by the full additional cost factor of .18 and the prior year state average Net Current Expense Budget per pupil.

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<sup>1</sup>High School Proficiency Test

The Education Subcommittee believes that the Department's proposal is not a "solution". To juggle figures in the way proposed to meet the dual count problem is meaningless. An examination of the Department of Education report in which the .18 additional cost factor was originally proposed,<sup>1</sup> leads to two conclusions: (1) the .18 factor was based on an extensive study of the actual costs of providing compensatory education programs, and (2) there is solid justification for counting pupils twice if they must be enrolled in two compensatory programs. The report repeatedly states "the same design factors apply to both reading and math but only one is included for the purpose of this study."

#### Cost and Tax Impact

The additional cost of this proposal to the State in 1986-87 would be \$70.8 million. Of this amount, 40% would go to the lowest-wealth quintile of school districts (See Appendix 9). All of this money would be used to increase expenditures for remedial programs, with none going for property tax relief.

#### Capital Facilities

State aid is provided to assist school districts in meeting their costs for debt service to provide capital facilities. Aid is calculated as a percentage of the prior year's debt service payments, with the percentage varying inversely with the wealth of the school district.<sup>2</sup> There is no minimum aid for debt service. In 1986-87, the appropriation for debt service and capital outlay equalization aid amounted to 2.8% of total State aid.

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<sup>1</sup>An Updated Look at Additional Cost Factors for State Compensatory Education, July 21, 1981

<sup>2</sup>The formula for calculating the State's share is the same as for CEEA (See Appendix 1).

### Problems

- A. Since State aid covers a percentage of only the prior year debt service, school districts must bear the entire cost of starting a capital facilities program from their own property tax base. This results in a significant inhibiting factor when such programs are considered.
- B. Secondly, there is a large backlog of capital needs, estimated by the Department of Education at \$1.3 billion. This is a minimal amount, representing only what the school districts have reported as necessary to remedy health and safety deficiencies. Even if the prior-year problem is solved, there is considerable doubt that the poorest places can afford to pay their share -- small as it may be -- of such a large backlog of capital needs.

### Proposals

- (6) The Subcommittee proposes that the funding of debt service aid be placed on a current year basis.

Since debt retirement schedules generally are set well in advance, it should not be difficult to forecast fairly accurately the amount of State aid necessary to provide current year funding for the outstanding debt in a given year.

- (7) The Subcommittee proposes that the formula for debt service aid be revised to provide for a higher State share and for full State funding, upon certification of need by the State, of all debt service requirements in school districts having less than 25% of the guaranteed valuation per pupil<sup>1</sup>.

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<sup>1</sup>See Appendix 5 for proposed new formula.



In those districts receiving full State funding of debt service under this proposal, three additional provisions should apply: (1) the Commissioner of Education should be given the option of controlling the actual construction of new facilities if he considers this appropriate; (2) State aid funds for debt service should be paid directly by the State to the bond holders, rather than to the school district; (3) a district qualifying for full funding should remain at that level during the life of any bonds issued, even if its equalized valuation per pupil increases.

#### Cost and Tax Impact

There is no cost to the State of current year funding alone (Proposal (6)), based on debt service now being paid. This is because relatively little new debt is being issued, while old debt is being retired.

Revision of the debt service formula (Proposal (7)) has a higher cost to the State. In 1986-87, if combined with current year funding, this would amount to \$22.6 million, based on the debt service currently being paid (See Appendix 9).

However, a note of caution is appropriate here. Capital facilities have not been built in many cases because of the lack of financial resources. The availability of additional State funds will stimulate activity and cost estimates based on current budgetary data almost certainly will be on the low side. To fund the \$1.3 billion accumulated backlog of capital needs would require an annual expenditure for debt service of \$130.6 million on a 20-year life at 8% interest. If the revised State aid formula is applied to this figure, the cost to the State would be \$60.9 million (See Appendix 9).

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The total increase in State aid would be the cost for aid on currently outstanding debt (\$22.6 million), plus the cost for aid in funding the backlog of accumulated needs (\$60.9 million), or \$83.5 million.

In addition to increased State aid, there would be \$47.1 million in higher property taxes required to pay the local share of debt service to remedy the backlog of health and safety deficiencies in capital facilities.

#### Minimum Teachers' Salaries

Legislation was passed in 1985 requiring a minimum salary for teachers of \$18,500 and providing State funds for three years to cover the cost of bringing all salaries up to that point from their level in 1984-85. Full state funding ends with the 1987-88 school year, unless the S.L.E.R.P. Commission makes other recommendations which are enacted into law.

The program was supported on the grounds that starting salaries had lagged behind the rest of the salary scales, and that some drastic remedy was necessary to enhance the desirability of teaching as a profession.

The impact of the law appears to have been moderately equalizing<sup>1</sup> despite having funds distributed on a non-equalized basis, since actual salaries in 1984-85 had been lowest in the poorest places. On the other hand, there is evidence that "Wealthy districts that obviously do not have problems recruiting qualified teachers were provided with salary supplements they did not need."

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<sup>1</sup>That is, slightly more than 20% of the funds went to the poorest districts enrolling 20% of the pupils.

### Problems

- A. State appropriations to cover the full cost of this program have grown about 25% per year from \$39.5 million in 1985-86, to \$50 million in 1986-87, and to an estimated \$60 million in 1987-88. Real costs of the program may continue to grow at this rate. In 1988-89, school districts will begin to face a portion of this cost. There is a phase-out provision under which the State will continue to fund the difference between \$18,500 and the product of a 7% annual increase from the 1984-85 level. As the 7% growth rate brings the 1984-85 levels up to \$18,500, however, a large and sudden burden will be imposed on the local tax base, even though a portion of it may be covered by CEEA. For example, a district having a teacher with a starting salary of \$15,500 in 1984-85 has received \$3,000 per year in State aid for that teacher in 1985-86, 1986-87, and 1987-88. In 1988-89, the aid will cease and the full cost will be transferred to the local budget. In many cases, this adds up to hundreds of thousands of dollars.
- B. Starting teacher salaries, while brought more into line with other states by the 1985 act, are still low compared with other professions.
- C. There is nothing in the law to prevent starting salaries from lagging again behind other salary scale changes.

### Proposals

- (8) The Subcommittee proposes that full State funding for the teachers' minimum salary program be phased out gradually over the period 1988-89 through 1992-93, with local school district costs becoming a portion of the NCEB on which Current Expense Equalization Aid is paid.

Eventually, the full cost of teachers' salaries should be included in the base on which CEEA is paid. By phasing out the full State funding portion over a longer period, the drastic impact on the local tax base, now impending for

1988-89 and 1989-90, will be ameliorated. (See Appendix 6 for a phase-out schedule).

- (9) The Subcommittee proposes that a comprehensive survey of starting professional salaries be authorized on a continuing basis, and that consideration should be given to teachers' minimum salaries in relation to other starting professional salaries.

#### Cost and Tax Impact

The estimated expenditures by the State under Proposal (8) in 1988-89, are \$48.0 million for direct grants-in-aid and \$9.4 million as a part of CEEA, for a total of \$57.4 million. Estimates for subsequent years are shown in Appendix 6. The most recent estimate of the direct cost to the State of existing legislation is \$10 million in 1988-89, with an additional \$22.8 million to be covered by CEEA, for a total of \$32.8 million. Therefore, the increased cost to the State in that year would be \$57.4 million minus \$32.8 million, or \$24.6 million. It should be noted that this is not an additional new cost to the State over and above the actual current level, but rather a slower reduction in State obligations than would be the case under current law.

Local costs would increase by \$17.6 million in 1988-89 under the proposal, instead of \$42.2 million as presently estimated, with estimates for subsequent years shown in Appendix 6.

#### Kindergarten and Pre-Kindergarten Education

Almost all elementary school districts now offer at least a half-day kindergarten program, while a smaller number have moved to full-day kindergartens. Although enrollment is not mandatory, most children who attend the public schools do start in kindergarten. Children in these programs are counted as regular resident pupils, and CEEA is calculated and paid on the basis of their enrollments.

A smaller number of school districts have initiated pre-kindergarten programs, also on a voluntary basis. Enrollment totals only about 6,000, less than 10% of the potential. Again, pupils enrolled in these programs are included in the regular resident enrollment and the district receives additional amounts of CEEA because of their participation.

#### Problems

- A. While full-day kindergartens are considered desirable for many children, they are not universally available in New Jersey school districts.
- B. Although early childhood education has been found to be highly beneficial for a child's future educational development, public pre-kindergarten programs are still relatively rare in New Jersey, and school districts are not required to offer them.
- C. Funding of current expenses on a prior-year basis imposes a special burden on low-resource school districts, especially in the start-up period for new programs, but continuing each year as costs rise.

#### Proposal

- (10) The Subcommittee proposes that full-day kindergarten programs and one year of pre-kindergarten education be encouraged in every elementary school district, with enrollment on a voluntary basis and the costs to be funded through Current Expense Equalization Aid on a current-year basis.

The Subcommittee particularly urges that pre-kindergarten programs be established in school districts where large numbers of pupils consistently perform poorly on measures of educational achievement. There is growing evidence that this type of program is effective in enhancing performance in later years.

Summary

The net result of the Education Subcommittee's proposals would be:

- (1) A substantial equalization of spending levels, except for the highest-wealth districts. In the lowest quintile of districts, the average budget per pupil would approach the State average (See Appendix 12).
- (2) An improvement in taxpayer equity. The average tax rate in the poorest districts would drop from \$1.47 to \$1.24 (See Appendix 11).
- (3) A stronger limit on the increase in future school costs. The revised budget cap for 1987-88, for example, would be 9.6% rather than 14.5%.
- (4) A targeting of aid to places having deficient educational performance, through a mandated minimum budget level.
- (5) More adequate financial support for remedial programs through Compensatory Education Aid.
- (6) Provisions to eliminate substandard capital facilities.
- (7) Provisions to ameliorate the impact on the property tax of the end of the teachers' minimum salary program.

The cost of the proposals is estimated for 1986-87 at \$372.2 million in additional State aid over the amount appropriated in that year<sup>1</sup>. There would also be an estimated \$43.7 million reduction in local property taxes for schools.

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<sup>1</sup>Not including the cost of the teacher minimum salary proposal, which is \$24.6 million in 1988-89.

Education Subcommittee  SUMMARY OF PROPOSALS	State Totals		
	Cost to State 1986-87	Change in Local Taxes 1986-87	Change in Local Budgets 1986-87
Current Expense Equalization Aid should be paid as a percentage of the current year budget. The budget cap formula should be changed to provide for 6% annual growth, plus or minus an inflation factor based on a portion of the annual growth in state equalized valuation.	\$+186.2	\$- 99.0	\$+ 87.2
School districts which fail to meet specified standards of educational performance should be required to budget at least at the average per-pupil level for all other districts which do meet those standards.	+ 31.7	+ 8.3	+ 39.9
New and additional sources of revenue should be made available to counties and municipalities.	No estimates		
Compensatory Education Aid should be calculated by counting each element of the testing program on which a student is deficient and multiplying by the full additional cost factor of .18 and the prior year state average Net Current Expense Budget.	+ 70.8	--	+ 70.8
Funding of Debt Service Aid should be placed on a current year basis.	--	--	--
The formula for Debt Service Aid should be revised to provide for a higher State share and, particularly, for full State funding, upon certification of need by the State, of all debt service requirements in school districts having less than 25% of the guaranteed valuation.	+ 83.5	+47.1	+130.6
Full State funding for the teachers' minimum salary program should be phased out gradually over the period 1988-89 through 1992-93, with local school district costs becoming a portion of the NCEB on which Current Expense Equalization Aid is paid.	(+ 24.6)*	(-24.6)*	--
A comprehensive survey of starting professional salaries should be authorized on a continuing basis and consideration should be given to teachers' minimum salaries in relation to other starting professional salaries.	No estimates		
Full-day kindergarten programs and one year of pre-kindergarten should be encouraged in every elementary school district, with enrollment to be on a voluntary basis and the costs to be funded through Current Expense Equalization Aid on a current-year basis.	No estimates		
Total	+372.2	- 43.7	+328.5

\*1988-89; not included in totals.

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**A P P E N D I C E S**



Appendix 1

Existing Formula for State Share in  
Calculation of Current Expense Equalization Aid

$$\text{State Share} = 1.0000 - \frac{\text{School District Equalization Valuation per Pupil}}{\text{Guaranteed Valuation per Pupil}}$$

(But never a negative figure)

Where:

$$\text{Guaranteed Valuation} = 1.344 \times \frac{\text{State Average Equalized Valuation per Pupil}}{\text{per Pupil}}$$

Appendix 2

Existing Formula for Minimum Aid State Share  
in Calculation of Current Expense Equalization Aid

$$\text{Minimum Aid State Share} = .10 \left( 1.0000 - \frac{\text{School District Equalization Valuation per Pupil}}{\text{Minimum Aid Guaranteed Valuation per Pupil}} \right)$$

(But never a negative figure)

Where:

Minimum Aid Guaranteed Valuation = 11.5 X  $\frac{\text{State Average Equalized Valuation per Pupil}}{\text{per Pupil}}$

### Appendix 3

#### Proposed Budget Cap Formula:

$$\begin{array}{ccccccc} \text{Permissible Increase} & & & \text{Basic} & & & \\ \text{in Budget} & = & \text{Base} & \text{Cap} & \text{Equalization} & & \\ & & \text{Budget} & \text{Rate} & \text{Factor} & \times & \text{Enrollment} \\ & & \times & \times & & & \end{array}$$

Where:

The larger of:

$$\begin{array}{lcl} \text{Base Budget} & = & \begin{array}{l} \text{Prior Year} \\ \text{School District} \\ \text{NCEB per Pupil} \end{array} \text{ or } \begin{array}{l} \text{Prior Year} \\ \text{State Average} \\ \text{NCEB per Pupil} \end{array} \end{array}$$

$$\begin{array}{l} \text{*Basic Cap Rate} = 6\% + \left( \begin{array}{l} \text{Deviation} \\ \text{of the} \\ \text{Annual} \\ \text{Percentage} \\ \text{Growth} \\ \text{in State} \\ \text{Equalized} \\ \text{Valuation} \\ \text{per Pupil} \\ \text{from 6\%} \end{array} \right) \left( \frac{5}{\text{Deviation} + 5} \right) \end{array}$$

$$\begin{array}{lcl} \text{Equalization Factor} & = & \frac{\text{Prior Year State Average NCEB/Pupil}}{\text{Prior Year School District NCEB/Pupil}} \end{array}$$

$$\text{Enrollment} = \text{Prior Year School District Resident Enrollment}$$

# Appendix 4

Impact of Current Year Funding and Minimum Budget Proposal on Uncertified School Districts, 1986-87.

	Present System		Current Year Funding With Minimum Budget and Modified Budget Caps			
	NCEB per pupil	NCEB Tax Rate	Change in State Aid	Change in Local Tax	NCEB per pupil	NCEB Tax Rate
Egg Harbor City	3,806	1.57	+ 97,684	- 97,684	3,806	1.39
Pleasantville	3,708	1.23	+ 480,493	- 62,704	3,895	1.21
#East Rutherford	4,080	.79	-	-	4,080	.79
#Rochelle Park	4,179	.63	-	-	4,179	.63
Washington (Bur.)	5,899	1.80	+ 4,932	- 4,932	5,899	1.78
Camden	2,774	1.27	+18,933,523	- 424,804	3,722	1.19
Maurice River	3,759	1.41	+ 171,237	- 108,656	3,850	1.27
Vineland	2,967	1.05	+ 5,502,419	+ 1,765,215	3,723	1.22
East Orange	3,573	1.70	+ 6,691,730	- 3,974,217	3,795	1.10
Newark	4,092	1.85	+16,252,654	-16,252,654	4,092	1.26
Orange	3,703	1.31	+ 1,162,720	- 636,541	3,832	1.11
Essex V-T	4,581	1.41	+ 520,007	- 495,142	4,590	1.30
So. Gloucester	2,960	1.06	+ 900,398	+ 298,571	3,823	1.27
Kingsway	3,246	1.09	+ 213,308	+ 162,542	3,725	1.24
Hudson V-T	6,282	2.29	-	-	6,282	2.29
Jersey City	3,766	1.23	+ 9,601,531	- 9,074,770	3,783	.95
Hoboken	4,263	1.23	+ 762,252	- 762,252	4,263	1.13
Weehawken	3,382	.92	+ 438,476	- 384,918	3,974	1.03
Union City	3,175	.92	+ 3,656,343	- 379,527	3,693	.96

#Minimum aid district

# Appendix 4

Impact of Current Year Funding and Minimum Budget Proposal on Uncertified School Districts, 1986-87.

	Present System		Current Year Funding With Minimum Budget and Modified Budget Caps			
	NCEB per pupil	Tax Rate	Change in State Aid	Change in Local Tax	NCEB per pupil	Tax Rate
Bloomsbury	3,808	1.18	+ 27,932	- 20,691	3,856	1.11
#Franklin (Hunterdon)	3,813	1.07	-	-	3,813	1.07
Hunterdon Central	4,665	1.38	+ 148,400	- 148,400	4,665	1.35
Trenton	3,722	1.43	+ 4,382,080	-2,684,077	3,842	1.15
#Lawrence (Mercer)	4,840	.84	-	-	4,840	.84
Jamesburg	4,398	1.33	+ 108,155	- 108,155	4,398	1.22
Asbury Park	3,712	1.23	+ 824,954	- 458,324	3,835	1.03
#Wall	3,868	1.14	-	-	3,868	1.14
Little Egg Harbor	2,299	.78	+ 361,270	+ 880,652	3,554	1.19
Eagleswood	2,892	.95	+ 56,092	+ 80,452	3,882	1.27
#Southern Regional	4,066	.33	-	-	4,066	.33
Point Pleasant	3,573	1.06	+ 236,641	- 168,134	3,721	1.08
Plumsted	3,250	1.24	+ 496,956	- 195,792	3,547	1.06
Paterson	2,896	1.04	+20,075,414	+ 969,888	3,781	1.11
Passaic V-T	3,341	1.02	+ 620,819	+ 470,180	3,869	1.13
#West Paterson	4,010	1.00	-	-	4,010	1.00
#Wayne	4,881	1.08	-	-	4,881	1.08
Ringwood	4,101	1.27	+ 195,348	- 195,348	4,101	1.21
Bloomingtondale	4,299	1.27	+ 117,858	- 117,858	4,299	1.23

#Minimum aid district

New Jersey State Library

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# Appendix 4

Impact of Current Year Funding and Minimum Budget Proposal on Uncertified School Districts, 1986-87.

	Present System		Current Year Funding With Minimum Budget and Modified Budget Caps			
	NCEB per pupil	NCEB Tax Rate	Change in State Aid	Change in Local Tax	NCEB per pupil	NCEB Tax Rate
Penns Grove - C.P.	3,545	1.39	+871,881	-451,863	3,721	1.17
Montague	2,846	.90	+ 58,190	+265,962	3,762	1.17
Sussex V-T	6,808	2.14	+191,901	-174,819	6,831	2.02
Sussex-Wantage	3,285	1.17	+630,435	- 75,030	3,671	1.13
#Westfield	4,774	1.19	-	-	4,774	1.19
Liberty	3,166	1.08	+183,465	+ 18,320	3,686	1.10
Frelinghuysen	3,534	1.05	+ 12,814	+ 37,197	3,922	1.16

#Minimum aid district

Appendix 5

Proposed Formula for State Share in  
Calculation of Debt Service Equalization Aid

$$\text{State Share} = 1.33 \left( 1.000 - \frac{\text{School District Equalized Valuation per Pupil}}{\text{Guaranteed Valuation per Pupil}} \right)$$

(But never a negative figure  
and  
never more than 1.0000)

Where:

$$\text{Guaranteed Valuation} = 1.344 \times \frac{\text{State Average Equalized Valuation per Pupil}}{\text{per Pupil}}$$

Appendix 6

Schedule for Proposed Phase-Out of Full State  
Funding for Minimum Teachers' Salary Program

		Estimated Total Cost <sup>1</sup>	Percentage Direct State Funding	Estimated Direct State Aid	Estimated Cost In Local NCEB	Estimated Shares of NCEB	
						State (35%)	Local (65%)
Actual:	1985-86	\$39.5	100%	\$39.5	-	\$ -	\$ -
	1986-87	50.0	100%	50.0	-	-	-
	1987-88	60.0	100%	60.0	-	-	-
Projected: Present Law	1988-89	75.0	13%	10.0	65.0	22.8	42.2
	1989-90	93.8	5%	5.0	88.8	31.1	57.7
	1990-91	117.2	1%	1.0	116.2	40.7	75.5
	1991-92	146.5	-	.5	146.0	51.1	94.9
	1992-93	183.1	-	-	183.1	64.1	119.0
Projected: Proposal	1988-89	75.0	80%*	48.0	27.0	9.4	17.6
	1989-90	93.8	60%*	36.0	57.8	20.2	37.6
	1990-91	117.2	40%*	24.0	93.2	32.6	60.6
	1991-92	146.5	20%*	12.0	134.5	47.1	87.4
	1992-93	183.1	-	-	183.1	64.1	119.0

<sup>1</sup>Projected to grow at 25% per year

\*Percentage of 1987-88 State funding.



1986-87 Basic Data		School Districts Ranked by Wealth					Total	Appropriations
		Highest Quintile	Second Quintile	Third Quintile	Fourth Quintile	Lowest Quintile		
Budget	A. Resident Enrollment	223,421	224,747	223,863	224,342	224,248	1,120,621	--
	B. Equalized Valuation	126,970,923,977	71,167,597,877	48,497,975,409	31,833,997,455	15,206,340,921	293,676,835,639	--
	C. Equalized Valuation per Resident Pupil	568,303	316,656	216,641	141,899	67,810	262,066	--
	D. Current Expense Budget	1,330,604,620	1,157,266,387	1,096,056,627	1,077,539,536	1,041,636,791	5,703,103,961	--
	E. Debt Service Budget (School + Municipal for School Purposes)	47,156,473	39,555,977	44,276,145	43,427,795	39,176,280	213,592,670	--
	F. Capital Outlay Budget	18,583,552	16,147,773	12,953,624	13,841,807	8,747,984	70,274,740	--
	G. Total Budget	1,396,344,645	1,212,970,137	1,153,286,396	1,134,809,138	1,089,561,055	5,986,971,371	--
	H. Total Budget per Resident Pupil (Minus Tuition)	6,037	5,305	5,030	4,960	4,823	5,230	--
Tax Levy	I. Current Expense Tax Levy	1,032,828,498	861,027,127	614,076,493	421,930,357	211,413,212	3,141,275,687	--
	J. Debt Service Tax Levy	43,670,391	31,441,096	26,035,396	16,984,042	9,584,980	127,715,905	--
	K. Capital Outlay Tax Levy	17,061,968	13,416,185	11,622,039	6,436,603	2,494,091	51,030,886	--
	L. Total Tax Levy	1,093,560,857	905,884,408	651,733,928	445,351,002	223,492,283	3,320,022,478	--
	M. Equalized Tax Rate	.86	1.27	1.32	1.40	1.47	1.13	--
Capital Needs	N. Accumulated Capital Needs	301,924,438	205,872,103	201,791,653	270,620,739	301,799,128	1,282,008,061	--
	O. Debt Service to Finance Capital Needs at 8% for 20 years	30,751,608	20,968,485	20,552,883	27,563,264	30,738,845	130,575,085	--

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The Present State Aid System 1986-87			School Districts Ranked by Wealth					Total	Actual Appropriations
			Highest Quintile	Second Quintile	Third Quintile	Fourth Quintile	Lowest Quintile		
Current Expense Equalization Aid	Basic		--	67,924,498 5.2%	277,931,096 21.2%	421,227,530 32.1%	545,291,146 41.5%	1,312,374,270	1,430,814,000
	Minimum Aid		71,938,114 61.5%	44,991,785 38.5%	-- --	-- --	-- --	116,929,899	
	(Sub-Total)		(71,938,114) 5.0%	(112,916,282) 7.9%	(277,931,096) 19.4%	(421,227,530) 29.5%	(545,291,146) 38.2%	(1,429,304,169)	
Debt Service Equalization Aid			4,342 --	3,644,724 5.1%	15,703,551 22.0%	23,235,926 32.5%	28,873,894 40.4%	71,462,437	82,698,000
Capital Outlay Equalization Aid			960 --	903,462 8.1%	3,145,294 28.1%	4,264,737 38.1%	2,865,269 25.6%	11,179,722	
Categorical Aid	Special Education		46,804,684 18.6%	48,535,943 19.3%	48,247,139 19.2%	54,602,735 21.7%	52,949,307 21.1%	251,139,808	266,434,000
	Compensatory Education	Regular	10,789,205 9.8%	10,925,321 9.9%	14,987,329 13.6%	27,108,647 24.6%	46,457,379 42.1%	110,267,881	110,176,000
		HSPT	5,613,870 11.8%	6,061,628 12.7%	7,028,750 14.8%	11,100,712 23.3%	17,827,225 37.4%	47,632,185	48,574,000
	Bilingual		2,785,488 10.3%	2,248,731 8.3%	2,110,305 7.8%	6,456,929 23.9%	13,378,268 49.6%	26,979,721	26,948,000
	Local Vocational		924,927 11.8%	1,679,228 21.5%	993,684 12.7%	2,081,082 26.6%	2,131,136 27.3%	7,810,057	7,966,000
	Transportation Aid			33,955,421 21.6%	32,623,535 20.8%	37,519,655 23.9%	31,434,301 20.0%	21,476,113 13.7%	157,009,026
Miscellaneous Grants-in-Aid	Minimum Teacher Salary		6,505,952 14.2%	7,092,547 15.4%	10,946,112 23.8%	10,222,233 22.2%	11,176,156 24.3%	45,943,000	103,764,000
	Other (Allocation Known)		4,934,909 16.4%	4,990,188 16.6%	4,651,062 15.4%	6,934,297 23.0%	8,630,668 28.6%	30,141,124	
	Other (Allocation Unknown)		Allocation Unknown	Allocation Unknown	Allocation Unknown	Allocation Unknown	Allocation Unknown	Allocation Unknown	
Pension Costs	TPAF		70,592,363 24.1%	61,947,778 21.2%	56,558,598 19.3%	51,798,173 17.7%	51,720,811 17.7%	292,617,723	314,141,000
	Social Security, Pension Adjustment Act, etc.		Allocation Unknown	Allocation Unknown	Allocation Unknown	Allocation Unknown	Allocation Unknown	Allocation Unknown	307,399,000
Total	Known Allocation		254,850,235 10.3%	293,569,368 11.8%	479,822,575 19.3%	650,467,302 26.2%	802,777,372 32.4%	2,481,486,853	2,904,105,000
	Unknown Allocation		Allocation Unknown	Allocation Unknown	Allocation Unknown	Allocation Unknown	Allocation Unknown	Allocation Unknown	

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Impact of Education Subcommittee Proposals on State Aid 1986-87		School Districts Ranked by Wealth					Total	Appropriations
Current Expense Equalization Aid	Current Year Funding at Full Entitlement; New Budget Caps	Highest Quintile	Second Quintile	Third Quintile	Fourth Quintile	Lowest Quintile		
	Minimum Budget Level	+ 4,687,874	+13,817,363	+35,877,234	+54,789,940	+77,064,571	+186,236,982	
Debt Service Equalization Aid		--	+ 312,143	+ 232,837	+ 1,740,563	+29,383,026	+ 31,668,569	
	Current Year Funding of Existing Debt at Full En- titlement and Revised Formula	+ 16,574	+ 1,414,478	+ 5,920,624	+ 7,897,464	+ 7,346,089	+ 22,595,229	
	Funding of Accumulated Back- log of Needs with Revised Formula	+ 13,639	+ 2,681,865	+10,037,891	+19,760,106	+28,419,249	+ 60,912,750	
Compensatory Education Aid	Full Funding on Dual Count at .18 Add. Cost Factor	+ 8,243,359	+10,258,780	+ 9,399,012	+14,398,020	+28,474,514	+ 70,773,685	
Net Change in State Aid		+12,961,446	+28,484,629	+61,467,598	+98,586,093	+170,687,449	+372,187,215	

Proposed State Aid System 1986-87		School Districts Ranked by Wealth					Total	Required Appropriations
		Highest Quintile	Second Quintile	Third Quintile	Fourth Quintile	Lowest Quintile		
Current Expense Equalization Aid	Basic	--	85,344,943 5.6%	314,041,167 20.5%	477,758,034 31.2%	651,738,744 42.6%	1,528,882,888	
	Minimum Aid	76,625,988 64.8%	41,700,845 35.2%	--	--	--	118,326,833	
	(Sub-Total)	(76,625,988) 4.7%	(127,045,788) 7.7%	(314,041,167) 19.1%	(477,758,034) 29.0%	(651,738,744) 39.6%	(1,647,209,721)	
Debt Service Equalization Aid	Existing Debt	20,916	5,059,202	21,624,175	31,133,390	36,219,983	94,057,665	
	Backlog of Needs Debt	--	5.4%	23.0%	33.1%	38.5%		
		13,639	2,681,865	10,037,891	19,760,106	28,419,249	60,912,750	
		--	4.4%	16.5%	32.4%	46.7%		
Capital Outlay Equalization Aid		960	903,462	3,145,294	4,264,737	2,865,269	11,179,722	
		--	8.1%	28.1%	38.1%	25.6%		
Categorical Aid	Special Education	46,804,684 18.6%	48,535,943 19.3%	48,247,139 19.2%	54,602,735 21.7%	52,949,307 21.1%	251,139,808	
	Compensatory Education	24,646,434 10.8%	27,245,729 11.9%	31,415,091 13.7%	52,607,379 23.0%	92,759,118 40.6%	228,673,751	
	Bilingual	2,785,488 10.3%	2,248,731 8.3%	2,110,305 7.8%	6,456,929 23.9%	13,378,268 49.6%	26,979,721	
	Local Vocational	924,927 11.8%	1,679,228 21.5%	993,684 12.7%	2,081,082 26.6%	2,131,136 27.3%	7,810,057	
Transportation Aid		33,955,421 21.6%	32,623,585 20.8%	37,519,655 23.9%	31,434,301 20.0%	21,476,113 13.7%	157,009,025	
Miscellaneous Grants-in-Aid	Minimum Teacher Salaries	6,505,952 14.2%	7,092,547 15.4%	10,946,112 23.8%	10,222,233 22.2%	11,176,156 24.3%	45,943,000	
	Other (Allocation Known)	4,934,909 16.4%	4,990,188 16.6%	4,651,062 15.4%	6,934,297 23.0%	8,630,668 28.6%	30,141,124	
	Other (Allocation Unknown)	Allocation Unknown	Allocation Unknown	Allocation Unknown	Allocation Unknown	Allocation Unknown	Allocation Unknown	
Pension Costs	TPAF	70,592,363 24.1%	61,947,778 21.2%	56,558,598 19.3%	51,798,173 17.7%	51,720,811 17.7%	292,617,723	
	Social Security Pension Adjustment Act, Etc.	Allocation Unknown	Allocation Unknown	Allocation Unknown	Allocation Unknown	Allocation Unknown	Allocation Unknown	
Total	Known Allocation	267,811,681 9.4%	322,053,996 11.3%	541,290,173 19.0%	749,053,396 26.2%	973,464,822 34.1%	2,853,674,068	
	Unknown Allocation	Allocation Unknown	Allocation Unknown	Allocation Unknown	Allocation Unknown	Allocation Unknown	Allocation Unknown	

APPROPRIATIONS

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Impact of Education Subcommittee Proposals on Local Property Taxes 1986-87		School Districts Ranked by Wealth					Total	Appropriations
		Highest Quintile	Second Quintile	Third Quintile	Fourth Quintile	Lowest Quintile		
Current Expense Equalization Aid	Current Year Funding at Full Entitlement; New Budget Caps	-4,687,874	- 4,429,328	-19,159,723	-33,488,195	-37,243,001	-99,008,122	
	Minimum Budget Level	--	+ 884,504	+ 785,707	+ 7,751	+ 6,585,332	+ 8,263,294	
Debt Service Equalization Aid	Current Year Funding of Existing Debt at Full En- titlement and Revised Formula	- 16,574	- 1,414,478	- 5,920,624	- 7,897,464	- 7,346,089	-22,595,229	
	Funding of Accumulated Back- log of Needs with Revised Formula	+30,737,969	+18,286,620	+10,514,992	+ 7,803,158	+ 2,319,596	+69,662,335	
Compensatory Education Aid	Full Funding on Dual Count at .18 Add. Cost Factor	--	--	--	--	--	--	
Impact on Local Property Taxes	Change in Tax Levy	+26,033,521	+13,327,318	-13,779,648	-33,574,750	-35,684,162	-43,677,721	
	Change in Equalized Property Tax Rate	+ .02	+ .02	- .03	- .10	-.23	-.01	
	Estimated Resulting Average Tax Rate	.88	1.29	1.29	1.30	1.24	1.12	

Impact of Education Subcommittee Proposals on Expenditures 1986-87		School Districts Ranked by Wealth					Total	Appropriations
		Highest Quintile	Second Quintile	Third Quintile	Fourth Quintile	Lowest Quintile		
Current Expense Equalization Aid	Current Year Funding at Full Entitlement; New Budget Caps	--	+ 9,388,035	+16,717,511	+21,301,745	+39,821,570	+ 87,228,861	
	Minimum Budget Level	--	+ 1,196,647	+ 1,018,544	+ 1,748,314	+35,968,358	+ 39,931,863	
Debt Service Equalization Aid	Current Year Funding of Existing Debt at Full En- titlement and Revised Formula	--	--	--	--	--	--	
	Funding of Accumulated Back- log of Needs with Revised Formula	+30,751,608	+20,968,485	+20,552,883	+27,563,264	+30,738,845	+130,575,085	
Compensatory Education Aid	Full Funding on Dual Count at .18 Add. Cost Factor	+ 8,243,359	+10,258,780	+9,399,012	+14,398,020	+28,474,514	+ 70,773,685	
Impact on Expenditures	Change in Budget	+38,994,967	+41,811,947	+47,687,950	+65,011,343	+135,003,287	+328,509,494	
	Change in Budget per Resident Pupil*	+175	+187	+213	+290	+602	+293	
	Estimated Resulting Average Budget Per Pupil*	6,212	5,492	5,243	5,250	5,425	5,523	

\*Including estimated additional pupils under Pre-K Program.



