

# ASSEMBLY BUDGET COMMITTEE

## STATEMENT TO

### ASSEMBLY, No. 500

# STATE OF NEW JERSEY

DATED: JANUARY 3, 2008

The Assembly Budget Committee reports favorably Assembly Bill No. 500.

Assembly Bill No. 500, the “School Funding Reform Act of 2008,” establishes a new system for the funding of public school districts. The goal of the new formula is to create a fair, equitable, and predictable funding formula based on student characteristics, regardless of the community in which a student resides.

The bill maintains current requirements for the establishment and update by the State Board of Education of the core curriculum content standards that define the substance of a thorough education; however it repeals the sections of the “Comprehensive Educational Improvement and Financing Act of 1996,” (CEIFA) P.L.1996, c.138, which established the State aid formulas that supported school district programs to implement the standards, and establishes revised formulas for that purpose.

The bill continues the requirement that the Governor issue a report to the Legislature concerning a thorough and efficient education. Under the bill, the Educational Adequacy Report will be issued every three years. The report will establish the base per pupil amount, which is the amount per elementary school pupil necessary to provide a thorough and efficient education, the weights that will be applied to that amount to reflect the differing cost of educating a pupil at the middle and high school levels and at county vocational school districts, and various other factors related to the State aid formulas established under the bill. The per pupil amounts and cost factors will apply to the three successive fiscal years beginning one year from the subsequent July 1 with annual adjustments for inflation by the CPI for the two school years following the first school year to which the report is applicable.

The base per pupil amount established in the report will serve as the basis for determining a school district’s base cost. The base cost will be determined by multiplying the base per pupil amount by the district’s weighted enrollment. In the case of a county vocational school district, an additional weight is applied to reflect the higher cost of the programs provided by these districts. For the 2008-2009 school year, the base per pupil amount will equal \$9,649, with adjustment by

the CPI for each of the two school years following the first school year to which the report is applicable.

A district's base cost is then applied to the calculation of a district's adequacy budget. The base cost is adjusted to reflect the additional costs associated with the education of at-risk students, bilingual students, students who are both at-risk and bilingual (combination students), a percentage of the costs associated with providing services to general special education services students, and all of the costs associated with providing services to speech-only students. A geographic cost adjustment is also applied to reflect county differences in the cost of providing educational services.

Under the bill, an at-risk student would include students who are eligible for free or reduced-priced lunches. This is a significant change from past State funding practices that have historically included only students eligible for free lunches. Since it is widely accepted that a district with a high concentration of at-risk students incurs greater costs than a similar district with a lower concentration of at-risk students, the weight for a district's at-risk students is based on a sliding scale with the weight increasing as the proportion of at-risk students increases. In districts with an at-risk concentration of less than 20%, each at-risk student will receive a weight of .47. This weight will increase to a maximum weight of .57 for districts with an at-risk concentration greater than or equal to 60%. In the case of a bilingual student, a weight of .5 is applied; and in the case of a pupil who is both bilingual and at-risk, the pupil will receive the full at-risk weight plus one-quarter of the weight for a bilingual pupil, .125, to address non-overlapping resources.

In the case of special education pupils, two-thirds of the census-based costs associated with general special education services pupils and 100% of the census-based costs associated with speech-only pupils are included within the adequacy budget calculation. The formula uses the census approach for funding special education students based on the State average classification rate. This rate is then applied to the district's resident enrollment, and the resulting number of students is then multiplied by the average excess special education cost. For the 2008-2009 through 2010-2011 school years, the State average classification rate for general special education services students is set at 14.69%. For the 2008-2009 school year the excess cost for general special education services students will be \$10,898 and the amount will be inflated by the CPI in each of the next two school years. In the case of students who receive speech-only services, a State average classification rate of 1.897% will be applied. The excess cost will be \$1,082 for the 2008-2009 school year with the amount adjusted by the CPI as described above.

Under the bill, a local share is calculated for each school district's and county vocational school district's adequacy budget. The local share represents the ability of the district to support its adequacy

budget based upon the district's property and personal income wealth. A district will receive State equalization aid, the wealth equalized portion of a district's State aid, to support that portion of the adequacy budget which cannot be supported locally in accordance with the local share calculation.

The bill establishes two categorical State aid programs. One of those programs will support the one-third of the census-based cost of providing services to general special education students which is not supported through the adequacy budget. Again, a census approach is used which considers the State average classification rate and excess cost, and a geographical cost adjustment is applied.

The second categorical aid program is for security costs. Under the formula the base per pupil security amount is set at \$70. Districts may also receive an additional per pupil amount for each at-risk student based on a sliding scale formula that increases the additional per pupil amount in accordance with the district's concentration of at-risk students, up to a maximum of \$406 in districts with at least 40% of the students deemed at-risk. Again, a geographical cost adjustment is applied to the security categorical aid formula.

The bill also includes preschool education State aid which will fund a significant expansion of early childhood programs. Under the bill, all A and B district factor group districts, and all CD district factor group districts with a concentration of at-risk pupils equal to or greater than 40%, will be required to offer full-day preschool for all three- and four-year old students. All other school districts will be required to offer full-day preschool for at-risk three- and four-year old students. The district will receive preschool education aid to support each pupil for whom the district is required to provide free preschool. The per pupil aid amount reflects the differing costs of placement in an in-district preschool program, a program provided by a licensed child care provider, or a Head Start Program. For the 2008-2009 school year, the per pupil aid amount will equal \$11,506 for pupils enrolled in an in-district program, \$12,934 for pupils enrolled in a licensed child care provider program, and \$7,146 for pupils enrolled in a Head Start Program. As with other State aid categories, the per pupil amounts will be annually adjusted by the CPI and then revised in the Educational Adequacy Report

In accordance with regulations adopted by the commissioner, all districts will be required to submit a five-year plan that provides for the full implementation of full day preschool for all eligible three- and four-year olds by the 2013-2014 school year. The district must annually update the plan based on actual implementation experience. In the case of a school district that did not receive any form of preschool aid in the 2007-2008 school year, the 2008-2009 school year will be a planning year. Beginning in the 2009-2010 school year, such districts will receive preschool education aid as calculated under the bill and may also receive start-up funds in that school year. The bill

also includes provisions which deal specifically with the amount of preschool education aid which will be provided in the 2008-2009 school year for districts which received Early Launch to Learning Initiative aid, early childhood program aid, and preschool expansion or education opportunity aid in the 2007-2008 school year.

This bill continues extraordinary special education aid with a number of revisions. The threshold will be \$40,000 for an individual classified pupil if that pupil is educated in an in-district public school program with non-disabled peers or if that pupil is educated in a separate public school program for students with disabilities. In the case of an in-district public school program the extraordinary special education aid will equal 90% of the district's actual costs for instructional and support services for the pupil that exceed the threshold and in the case of a separate public school program the extraordinary special education aid will equal 75% of the district's actual costs for that pupil that exceed the threshold. The threshold is set at \$55,000 in the case of a pupil educated in a separate private school for students with disabilities. In this case the extraordinary special education aid will equal 75% of the tuition for that pupil that exceeds the threshold. Receipt of extraordinary special education aid will be conditioned upon a demonstration by the district that the pupil's individualized education plan requires the provision of intensive services.

Under the bill, transportation aid is funded in the same manner as under CEIFA with a formula that represents a level of funding to reimburse districts for the cost of efficiently transporting eligible pupils based on regular or specialized modes of transportation, eligible pupils transported, and average miles per eligible pupil. In light of the fiscal impact of using updated pupil figures for transportation services, in the 2008-2009 school year a school district will receive 81.4876% of its entitlement.

The bill also establishes the State aid category of adjustment aid. For the 2008-2009 school year, each district will receive adjustment aid in such amount as to ensure that the district receives the greater of the amount of State aid calculated for the district in accordance with the bill's provisions or the district's 2007-2008 State aid increased by 2%. In the 2009-2010 and 2010-2011 school years, districts will receive adjustment aid in such amount as to ensure that the district receives the greater of the amount of State aid calculated for the district in accordance with the bill's provisions or the amount of State aid, other than educational adequacy aid, that the district received for the 2008-2009 school year. For the 2011-2012 school year and for each subsequent school year, a district that has a decline in its weighted enrollment, adjusted for bilingual and at-risk pupils, between the 2008-2009 school year and the budget year that is not greater than 5% will receive adjustment aid in such amount as to ensure that the district receives the greater of the amount of State aid calculated under

the bill or the amount of State aid that the district received in the 2008-2009 school year. In the case of a school district that has had such a decline in enrollment that is greater than 5%, the district will experience a reduction in adjustment aid in accordance with its percentage decline in resident enrollment that exceeds 5%.

The bill also establishes the State aid category of educational adequacy aid for certain school districts that received education opportunity aid in the 2007-2008 school year and are spending below adequacy. If the commissioner determines that the district is not meeting educational adequacy standards or that it meets certain municipal overburden criteria, educational adequacy aid will be provided to assist the district in meeting their adequacy budget level. Under the aid formula such a district is required to increase its general fund tax levy over the prior year levy.

The bill addresses issues associated with the funding of charter school students as well as the remaining choice students. The bill also amends the school construction law, the “Educational Facilities Construction and Financing Act,” to establish the category of SDA district, which is a district that received education opportunity aid or preschool expansion aid in the 2007-2008 school year. For these school districts the State share for their school facilities projects will remain at 100% and they will be constructed by the New Jersey Schools Development Authority. The bill also revises numerous sections of law that are related to school funding and school budgeting procedures.

The bill also:

- Provides that in the case of a district that is spending above adequacy and taxing above its local share and that receives an increase in State aid between the prebudget and budget years that exceeds 2% or the CPI, whichever is greater, the district’s tax levy growth limitation must be reduced by the amount of State aid that exceeds 2% or the CPI, whichever is greater. For the purposes of this provision, the CPI will be capped at 4%;
- Permits the Commissioner of Education to increase the State aid growth limit for a county vocational school district that has revised one or more of its programs from a shared-time program to a full-time program between the 2001-2002 and 2007-2008 school years or will make such revision in the 2008-2009 school year;
- Permits school districts to apply for additional special education categorical aid if the district has an unusually high rate of low-incidence disabilities, such as autism, deaf/blindness, severe cognitive impairment, and medically fragile;
- Requires the commissioner to complete a study to determine whether the tax levy growth limitation enacted in 2007 is more effective in addressing disparities in school district spending

than the spending growth limitation under the provisions of CEIFA or whether a revised growth limitation is warranted;

- Requires the commissioner to be satisfied that all educational expenditures in a district are being spent effectively and efficiently prior to authorizing the disbursement of State funds to the district and authorizes the commissioner to take any affirmative action necessary to ensure districts are expending funds in this manner;
- Permits SDA districts, those districts that received education opportunity aid or preschool expansion aid in the 2007-2008 school year, to include in their annual capital outlay budget one or more school facilities projects of up to \$500,000 each upon the commissioner's approval;
- Amends the "School District Fiscal Accountability Act" to provide that for all purposes other than for the purposes of the "New Jersey Tort Claims Act," the State monitor appointed to a district will be considered an employee of the district, and to provide that the State monitor will have the authority to appoint legal counsel under certain circumstances;
- Permits the commissioner to adjust the date for the submission of district budgets if the availability of preliminary aid numbers for the subsequent school year warrants such adjustment;
- Deletes a provision included in CEIFA that required the commissioner to wait for three consecutive years of failing test scores prior to being permitted to take certain actions such as directing the restructuring of curriculum and enforcing spending at the full adequacy budget;
- Deletes a provision included in CEIFA that prevented the commissioner in reviewing a district's budget from eliminating, reducing, or reallocating funds for courtesy busing or from requiring the district to eliminate these funds from their base budget and include them in a separate proposal to be approved by the voters or board of school estimate;
- Revises the permanent statutes to reflect a change that has been included in the annual appropriations act that provides that State aid will be paid to districts on the eighth and the twenty-second of each month from September through June rather than on the first and fifteenth;
- Permits the commissioner to enact emergency rules to effectuate the provisions of the bill and provides that those rules will be in effect for no longer than 12 months after which the rules will be readopted or amended by the commissioner pursuant to the "Administrative Procedure Act";
- Provides that the area cost allowance under EFCFA will be established and revised by the commissioner according to a schedule that she deems necessary and eliminates the statutory

requirement that the area cost allowance be automatically inflated by the cost index;

- Requires that a charter school provide notice to the resident district within 15 days of the signing of the Individualized Education Plan (IEP) in the case of an IEP that results in a private day or residential placement and permits the resident district to challenge the placement within 30 days according to a process set forth in existing law;
- Repeals various sections of law:
  - State aid formula provisions of CEIFA;
  - N.J.S.A.18A:8-1.1 – provides to a specific district a special apportionment of annual appropriations;
  - N.J.S.A.18A:22-8.6 – prevents the commissioner from reducing a line item in a district’s budget relating to courtesy busing under certain conditions; and
  - N.J.S.A.34:15F-10 - permits districts to appeal to the commissioner to use funds under a specific CEIFA State aid program for mentoring.

FISCAL IMPACT:

The Office of Legislative Services estimates the cost of implementing the proposed school funding formula to be \$8.365 billion in fiscal year 2008-2009; this represents an increase of \$553.2 million, or 7.1%, relative to comparable categories of State education aid during the 2007-2008 school year. As shown in Table 1, \$7.841 billion support K through 12 education services while the remaining \$523.4 million would provide preschool education aid.

**Table 1**  
**State Education Aid for 2008-2009 School Year**

K – 12 Aid	
Equalization Aid	\$5,655,850,748
Special Education Aid	\$823,406,235
Security Aid	\$223,695,241
Transportation Aid	\$283,851,795
Adjustment Aid	\$848,289,216
Educational Adequacy Aid <sup>1</sup>	\$6,069,000
Total K – 12 Aid	\$7,841,162,235
Preschool Education Aid	\$523,443,872
<b>Total State Education Aid</b>	<b>\$8,364,606,107</b>

<sup>1</sup> Estimate for Educational Adequacy Aid provided by the Department of Education.

The provisions of the bill included in subsection d. of section 5 (State aid growth limit) restrict the amount by which a school district’s State aid can increase from the prebudget to budget year to 20% for a district that is spending below its adequacy level and 10% for a district spending above that amount. This has the effect of significantly reducing the total amount of State aid districts receive and defers increases in State aid to future years. OLS estimates that aid would increase in the 2008-2009 school year by an additional \$1 billion in the absence of the limits. This provision, as well as the proposed expansion of early childhood education programs by the 2013-2014 school year, means that certain cost increases will be deferred into future fiscal years.

Table 2 provides OLS cost estimates for fiscal years 2010 through 2013 and the change in State aid relative to the previous fiscal year. Actual future State expenditures will differ to the extent that certain factors, such as enrollment, inflation, districts’ implementation and expansion of early childhood programs, and policy decisions made by the Executive diverge from the assumptions used in the cost estimates.

**Table 2**  
**State Education Aid for 2009-2010 through 2012-2013 School**  
**Years Under Provisions of Senate Bill No. 4000**

	K – 12		Preschool Ed. Aid		Total	
	Aid	Change	Aid	Change	Aid	Change
FY 2010	\$8.167 b	\$326.2 m	\$653.7 m	\$130.2 m	\$8.821 b	\$456.4 m
FY 2011	\$8.508 b	\$340.5 m	\$704.9 m	\$51.2 m	\$9.213 b	\$391.8 m
FY 2012	\$8.823 b	\$315.4 m	\$780.9 m	\$76.0 m	\$9.604 b	\$391.4 m
FY 2013	\$9.142 b	\$318.2 m	\$867.4 m	\$86.5 m	\$10.0 b	\$404.7 m

The estimated total cost of the bill in fiscal year 2009-2010 is \$8.821 billion, an increase of \$456.4 million over the estimated cost of the previous fiscal year. In addition to inflation, enrollment, and certain districts continuing to receive aid increases equal to the State aid growth limit, other factors causing the aid increases are the initial expansion of preschool education and full funding of transportation aid (which, under the proposal, is prorated in the first year).

State aid is estimated to increase by an additional \$391.8 million in the subsequent fiscal year (FY 2010-2011). Again, the increases are largely the result of inflation, increases in enrollment, districts receiving aid increases at the State aid growth limit, and the continued expansion of preschool enrollment.

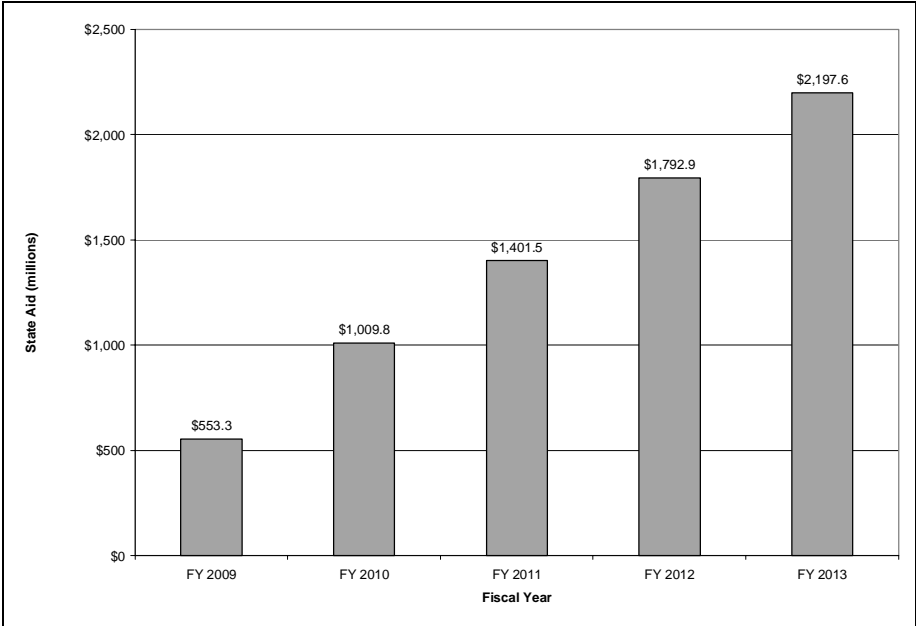
Estimates for the next two fiscal years (FY 2001-2012 and FY 2010-2013) are subject to greater uncertainty. The proposed legislation requires that the Executive Branch issue an Educational



Adequacy Report by March 15, 2010, and every three years thereafter. The first report will establish the base per pupil cost, various weights, and excess costs for general special education services, and speech only services for the 2011-2012 and 2012-2013 school years. To the extent that the report recommends factors that differ from the estimates used in this analysis, actual State expenditures may be greater or lower. As simulated, State aid would increase by \$391.4 million in fiscal year 2011-2012 and by an additional \$404.7 million in the subsequent fiscal year.

Figure 1 displays the cumulative State aid increase relative to fiscal year 2007-2008. By the 2012-2013 school year, State aid would have grown to just over \$10.0 billion, a cumulative increase of nearly \$2.2 billion.

**Figure 1**  
**Cumulative Change in State Education Aid**



It should be noted that multiple factors may lead to actual costs that deviate from the estimates included in the analysis. Such factors include enrollment trends and changes in the rate of inflation and decisions made by the Department of Education as authorized under various provisions of this bill including the provision of start-up costs for preschool programs.