LEGISLATIVE FISCAL ESTIMATE

[Second Reprint]

ASSEMBLY, No. 355

STATE OF NEW JERSEY
214th LEGISLATURE

DATED: JULY 19, 2010

SUMMARY

Synopsis: Establishes a permanent Interdistrict Public School Choice Program.

Type of Impact: Expenditure Increase from General Fund or Property Tax Relief Fund.

Agencies Affected: Department of Education and local school districts.

Office of Legislative Services Estimate

Fiscal Impact	Year 1	Year 2	Year 3
State Cost		Indeterminate - See comments below	
Local Cost		Indeterminate - See comments below	
Local Revenue		Indeterminate - See comments below	

- Due to factors that cannot be predicted, the Office of Legislative Services is not able to estimate the potential State and local costs associated with the creation of a permanent Interdistrict Public School Choice Program. These costs would be determined by the number of students who participate in the choice program and which choice districts they attend.

- Sending districts would be responsible for providing transportation services to choice students who attend school more than two miles (2.5 miles for high school students) away from home. This may lead to a cost increase for the sending district if the cost of transporting the student to a choice district is greater than the transportation cost incurred when the student was enrolled in the resident district.

- New choice districts would receive an increase in revenue in the form of school choice aid and, possibly, other forms of State school aid awarded pursuant to the "School Funding Reform Act of 2008" (SFRA).

- Because of other provisions in SFRA pertaining to adjustment aid and the State aid growth limit, a sending district is unlikely to experience a decrease in State school aid when a student enrolls in a choice district. This would lead to a net increase in State expenditures.

BILL DESCRIPTION

Assembly Bill No. 355 (2R) of 2010 establishes a permanent Interdistrict Public School Choice Program. P.L.1999, c.413 created a five-year school choice program. This legislation would make that program permanent, with some modifications.

Under the provisions of the bill, school districts may submit an application to the Commissioner of Education to become designated as a choice district; any district that was designated a choice district pursuant to P.L.1999, c.413 would continue to operate as a choice district as if it had been so designated under this bill. Students are permitted to participate in the choice program if the student was enrolled in the student's resident district for at least one full year immediately preceding enrollment in a choice district; this requirement does not apply to a student enrolling in preschool or kindergarten who has a sibling enrolled in the choice district. The bill provides that the sending district would be responsible for providing transportation services to choice students enrolled in schools more than two miles (more than 2.5 miles for high school students) but not more than 20 miles from home.

FISCAL ANALYSIS

EXECUTIVE BRANCH

None received.

OFFICE OF LEGISLATIVE SERVICES

Due to factors that cannot be predicted, the Office of Legislative Services is not able to provide an estimate of the additional cost to the State and sending districts and the additional revenue to choice districts that would result from Assembly Bill No. 355 (2R). The primary factor that will determine the increased costs or revenue will be the number of new students to participate in the choice program and the choice districts in which the students enroll. While the magnitude of the impact cannot be determined, the interaction between the provisions of this legislation and the SFRA would likely result in three outcomes: 1) choice districts would receive an increase in revenue; 2) sending districts may incur greater transportation costs; and 3) State expenditures would increase.

Key Provisions of the "School Funding Reform Act of 2008"

The fiscal implications of this legislation are inextricably linked to key provisions of the SFRA. As such, it is necessary to briefly review certain elements of the school funding law:

- **Adequacy Budget:** Under the provisions of SFRA, an adequacy budget is calculated for each school district and represents the portion of the costs that the State deems sufficient for the district to provide a thorough and efficient education to its students that will be supported by the State on a wealth-equalized basis. The figure is unique to each district and is determined by factors such as the resident enrollment and student demographics (e.g., eligibility for free or reduced price lunch or status as an English language learner).

- **Primary Aid Categories:** SFRA includes four aid categories that are linked to the total enrollment (as well as other factors), including equalization, special education categorical, security, and transportation aids.
- **Adjustment Aid:** SFRA provided that in the 2008-2009 school year, a school district would receive adjustment aid in an amount sufficient to yield a two percent increase in total State aid relative to the amount of aid received in the 2007-2008 school year. In the 2009-2010 and 2010-2011 school years, adjustment aid is awarded to ensure that a district does not receive less State aid than it did in the 2008-2009 school year. In subsequent school years, this aid category is awarded to ensure that a district does not receive less total aid than it did in the 2008-2009 school year provided that the district did not experience a significant enrollment decline.
- **State Aid Growth Limit:** A district's increase in State aid relative to the previous school year is limited to either 10 percent or 20 percent (depending on the district's spending level). If the funding formula would yield an increase in aid greater than the applicable State aid growth limit, then an adjustment is made to reduce the aid awarded such that the total aid increase matches the growth limit.
- **School Choice Aid:** SFRA provides that, for the purpose of calculating State aid, a choice district will include choice students in the resident enrollment. Additionally, a district receives choice aid for each choice student equal to the adequacy budget local levy per pupil amount. The combination of choice and equalization aids provides a choice district with its adequacy budget, on a per pupil basis, for each choice student. School choice aid is not subject to the State aid growth limit and is not included in the calculation of adjustment aid.

Increased Revenue to Choice Districts

A-355 (2R) would lead to an increase in revenue in choice districts through the provision of State school aid. The specific amount would be contingent on at least two factors: 1) the number of choice students to enroll in the choice district; and 2) the choice district's adequacy budget per pupil. The combination of equalization and choice aids awarded to a choice district will be equal to the district's adequacy budget per pupil.

The legislation's impact on the other primary aid categories is ambiguous. The addition of choice students to the choice district's resident enrollment would tend to increase the amount of aid the choice district would receive under the other primary aid categories. However, this effect would be nullified if the choice district either receives adjustment aid or is subject to the State aid growth limit. In the case of a choice district that receives adjustment aid, an increase in any primary aid category that results from the enrollment of a choice student would be offset by a decrease in adjustment aid. The net effect would be no change in total revenue to the choice district (unless the increase in aid associated with the enrollment of choice students exceeds the amount of adjustment aid received). Similarly, a choice district that has, in the absence of choice students, reached its applicable State aid growth limit would not receive any additional revenue from any primary aid category once the choice students are included in the resident enrollment. It is important to note that the choice aid awarded under SFRA would not affect a choice district's adjustment aid and is not subject to the State aid growth limit.

Increased Cost to Sending Districts

A-355 (2R) is likely to increase transportation costs for school districts in which some students leave the district to enroll in choice districts. Under the provisions of this bill, the sending district is required to provide transportation services (or pay aid-in-lieu-of transportation) for choice students who live more than two miles (2.5 miles for high school students) and not more than 20 miles from the school that the choice students attend. It is not possible to estimate the additional cost that would be incurred by the sending districts, as it is contingent on the number of its students who choose to enroll in the choice program and the distance between the students' homes and the choice districts they attend relative to the schools they attend in their resident districts. However, it does not appear to be unreasonable to assume that, in the aggregate, a choice student will be transported over a greater distance between home and school than the distance the same student would have been transported had the student remained enrolled in the sending district.

Increased Cost to State

As previously discussed, A-355 (2R) would lead to an increase in school choice aid paid by the State to choice districts and may lead to an increased State expenditure in categories of other State school aid awarded pursuant to SFRA as the choice districts count the choice students in the resident enrollment. It is very unlikely that this increased aid to choice districts will be offset by a decrease in State aid to the sending districts that the choice students are leaving. This results from the fact that the vast majority of school districts either receive adjustment aid or their total aid is subject to the State aid growth limit.

In the case of a sending district that receives adjustment aid, the loss of students to a choice district would lead to a decrease in the other primary aid categories under SFRA. However, given the fact that total State school aid cannot decrease below the amount awarded in the 2008-2009 school year, adjustment aid would increase by the same amount that the other aid categories decreased, yielding no net change in the amount of aid awarded to the sending district. During the 2009-2010 school year, 43 percent of all school districts received adjustment aid and, therefore, would not experience a net reduction in State school aid as a result of students leaving the district to enroll in a choice district.

In the case of a sending district in which its State aid was subject to the State aid growth limit, the loss of students to a choice district would affect the preliminary State aid calculation prior to the imposition of the growth limit. However, to the extent that a district's growth in State aid is capped, any change in the district's preliminary aid calculation would be immaterial to its final State aid award, since the preliminary award will be reduced to comply with the State aid growth limit (the exception would be a circumstance in which the reduction associated with students leaving the district to enroll in a choice district uniquely causes the district's aid to fall below the applicable growth limit). During the 2009-2010 school year, 55 percent of all school districts were subject to the State aid growth limit and therefore, would not likely experience a net reduction in State school aid as a result of students leaving the district to enroll in a choice district.

When these two factors are combined, 93 percent of all districts would likely not experience a net reduction in State school aid as a result of their students leaving the district to enroll in a choice district. Given that the choice districts would certainly receive additional revenue (in the form of school choice aid) and would possibly receive increases in other categories of aid, there would be a net increased cost to the State.

Section:	*Education*
Analyst:	*Allen T. Dupree* *Senior Fiscal Analyst*
Approved:	*David J. Rosen* *Legislative Budget and Finance Officer*

This legislative fiscal estimate has been produced by the Office of Legislative Services due to the failure of the Executive Branch to respond to our request for a fiscal note.

This fiscal estimate has been prepared pursuant to P.L. 1980, c.67 (C. 52:13B-6 et seq.).