

LEGISLATIVE FISCAL ESTIMATE TO
SENATE COMMITTEE SUBSTITUTE FOR
SENATE COMMITTEE SUBSTITUTE FOR
SENATE, No. 40

STATE OF NEW JERSEY

DATED: DECEMBER 30, 1996

BILL SUMMARY

The Senate Committee Substitute for Senate Bill No. 40 SCS of 1996 changes the method of allocating school aid to local districts beginning in the 1997-98 school year. The bill establishes: (1) an amount to be used in the calculation of the cost of maintaining and supporting a thorough and efficient system of free public schools for each pupil; (2) wealth criteria for the allocation of the wealth-based portion of the school aid formula; (3) per pupil aid amounts for various other categories of State aid; (4) limits on aid growth; (4) limits on aid loss; (5) limits on district budget growth; and (6) a requirement that the Governor, in consultation with the Commissioner of Education, issue a biennial *Report on the Cost of Providing a Thorough and Efficient Education* containing recommendations concerning changes in the school aid formula.

AGENCY COMMENTS

The Department of Education (DOE) did not respond to a formal request for a fiscal note on the original Senate Bill No. 40. The DOE has at various times released computer generated funding simulations of the legislation, the most recent of which is noted below.

OFFICE OF LEGISLATIVE SERVICES COMMENTS

FISCAL IMPACT:

This bill provides that all aid entitlements paid in fiscal year 1998, except those for school facilities and transportation, shall be based on a Department of Education simulation. Based on the most recent DOE printout, adjusted for transportation aid, the Office of Legislative Services (OLS) estimates the State cost of this bill at \$4,293 million in fiscal year 1998, \$286 million more than in fiscal year 1997. The OLS estimates that the State cost will increase by an additional \$103 million in fiscal year 1999, and \$346 million in fiscal year 2000.

ESTIMATED STATE COST OF SCS FOR S-40 SCS (Millions)			
	FY 1998	FY 1999	FY 2000
1. Core Curriculum Standards	\$2,620.2	\$2,751.2	\$2,888.8
2. Special Education	\$585.6	\$610.3	\$636.7
3. Early Childhood	\$287.6	\$295.4	\$303.9
4. Demonstrably Effective Program	\$175.4	\$184.2	\$193.4
5. Bilingual	\$57.4	\$61.5	\$65.9
6. Vocational	\$22.6	\$23.7	\$24.8
7. Distance Learning	\$50.4	\$53.0	\$55.7
8. Adult Education	\$25.0	\$26.5	\$28.0
9. Instructional Supplemental	\$17.0	\$17.9	\$18.8
10. Supplemental CCS (Regular)	\$208.7	\$221.3	\$234.6
11. Supplemental CCS (Additional)	\$33.0		
12. Transportation	\$243.9	\$243.9	\$243.9
13. Rewards and Recognition	\$10.0	\$10.0	\$10.0
14. Stabilization (listed by section)			
A 10% Aid Growth Cap	(\$173.8)	(\$152.5)	
B 10% Aid Decrease Limit	\$52.7	\$34.3	\$21.5
C 99% of 1991 Enrollment	\$51.5		
D High Enrollment	\$3.0	\$3.0	\$3.0
E Pupils in Special Svcs. Dists.	\$11.0		
F Tax Rates & Budget Levels	\$10.7	\$10.7	\$10.7
G 45% Senior Citizens	\$0.9	\$0.9	\$0.9
TOTAL	\$4,292.8	\$4,395.1	\$4,740.6
<i>Increase From Prior Year</i>	\$285.5	\$102.4	\$345.5

Other Items:

Debt service and facilities aid amounts are not included in this fiscal estimate because the Senate Committee Substitute does not establish aid amounts for these programs. Rather, the substitute directs that "debt service aid shall be determined in the budget" for fiscal year 1998, and that facilities aid, beginning in fiscal year 1999, shall be distributed through a new formula, which the "Governor shall submit to the Legislature at least 60 days prior to the 1998 budget address." The bill does not alter the payment of teacher pension and social security costs. Therefore, these costs, which can also be expected to increase, are not included in the fiscal estimate. The fiscal year 1997 base amount includes \$22 million in municipal aid for the State operated school districts, which is paid pursuant to a section of law that would be repealed under this bill.

The Senate Committee Substitute authorizes the transfer to the State's General Fund of current and future loan repayment balances in two revolving school facilities funds operated by the New Jersey Economic Development Authority. It appears these funds are intended to finance distance learning network aid and, if so, would reduce the net State cost of the Senate Committee Substitute by approximately \$11 million annually.

ASSUMPTIONS FOR GROWTH IN AID:

In the presentation of the fiscal impact on the State budget for fiscal years 1998, 1999 and 2000, the proposed State aid program amounts, listed in the table on the previous page, are organized into the following categories: (1) aid programs with specified growth factors; (2) aid programs for which growth factors are unspecified; and (3) stabilization aid programs.

Aid Programs With Specified Growth Factors:

The aid programs with specified growth factors in the bill include the following nine State aid programs: core curriculum standards; special education; early childhood; demonstrably effective program; bilingual; county vocational; distance learning; adult education; and instructional supplemental. In fiscal year 1998, the projected cost of these programs is \$3,840 million, 89 percent of the total cost of the bill. Under the provisions of the bill, the annual growth in these programs is determined by the Consumer Price Index (CPI) and the number of pupils eligible for the various aid categories.

The amounts for fiscal years 1999 and 2000 are estimated using a simulation of the school aid formulas which assumes the following: CPI equals 3.0 percent; district enrollment growth equals the growth used by the DOE in calculating fiscal year 1998 data; district income and property wealth remain constant; and to the extent that spending affects aid amounts, districts spend at their cap levels. The OLS notes that in even numbered years the *Report On the Cost of Providing a Thorough and Efficient Education* may recommend adjustments to the per pupil amounts which may differ from the CPI growth.

Aid Programs With Unspecified Growth Factors:

The aid programs for which the growth factors are unspecified include the following three programs: transportation aid; rewards and recognition aid; and the two components of supplemental core curriculum standards aid.

The bill establishes that the total amount of transportation aid for fiscal year 1998 shall not exceed the total in fiscal year 1997. The bill directs that the Governor submit proposed transportation incentive factors and supporting data to the Legislature for fiscal year 1999 and thereafter. Accordingly, the OLS assumes that transportation aid

costs for fiscal years 1998, 1999, and 2000 will remain at the fiscal year 1997 level of \$244 million. The actual cost may vary, depending on the interplay between the data and the policy determinations resulting from the proposed transportation incentive factors.

The aid amounts under the rewards and recognition program are not based on a formula and are to be determined by the annual legislative appropriation. The OLS does not assume a change from the fiscal year 1998 amount.

Aid amounts for the supplemental core curriculum standards program will be affected by annual changes in district and Statewide equalized tax rates. The OLS aid estimates for this program are based on the aid simulation and assumptions discussed above.

A second component of supplemental core curriculum standards aid affects the 28 Abbott districts and those school districts in district factor group A. Subsection b. of section 5 of the bill provides additional aid to these districts, in fiscal year 1998, if those districts would be required to increase local property taxes to meet the required local share. These districts receive \$33 million in fiscal year 1998. The bill requires the commissioners of the Department of Education and the Department of Community Affairs to make recommendations regarding the continuation of this aid in subsequent years. Those recommendations shall not be implemented without legislation. This fiscal estimate does not assume the continuation of this aid beyond fiscal year 1998.

Stabilization Aid Programs:

Stabilization aid, pursuant to section 10 of the bill, limits large increases or decreases in the annual State aid allocation to individual school districts, and provides additional aid for certain districts. Subsection a. establishes a limit on a school district's annual State aid increase over the prior year of 10 percent (eight percent for fiscal year 1998) or the growth rate in a district's resident enrollment, whichever is greater. Subsection b. establishes a limit, or floor, on a school district's annual State aid decreases from the prior year of 10 percent. According to Department of Education data, subsection a. results in a State expenditure of \$174 million less than what would otherwise be generated by the formula. Subsection b. results in an increased State expenditure of \$53 million in fiscal year 1998.

The State aid impact of stabilization will decline after fiscal year 1998. The OLS aid estimates for this program are based on the aid simulation and assumptions discussed above. However, the OLS assumes that the effect of the stabilization aid growth cap in subsection a. will end in fiscal year 2000. Language in that subsection instructs the commissioner to ensure that "any district with a stabilization reduction in 1997-98" shall have its total stabilized aid reflect "the actual pupil counts of the district" by that year. This

should end the stabilization cap for those districts, since all aid must reflect actual pupil counts. Small effects of the stabilization limits on other districts should continue beyond that date.

Subsection c. of section 10 limits aid reductions for certain districts for fiscal year 1998. According to DOE data, 192 districts will receive \$52 million of supplemental stabilization aid in fiscal year 1998. In subsequent years the bill requires legislative approval for the continuation of this aid. Subsection e. provides aid in fiscal year 1998 for districts with pupils in county special services districts. This fiscal estimate does not assume the continuation of these two stabilization aid categories beyond fiscal year 1998. However, if continued supplemental stabilization aid were to be approved by the Legislature for the fiscal years 1999 and 2000, the State costs reported in this fiscal estimate for the fiscal years 1999 and 2000 would increase by the value of continued supplemental stabilization aid.

Subsection d. provides aid for certain districts with high enrollment levels. Subsection f. provides aid for certain districts with high equalized tax rates. Subsection g. provides aid for certain districts with high proportions of senior citizens age 65 or older. This fiscal estimate assumes the \$14.6 million in aid for these three components of stabilization aid will continue in future fiscal years.

GENERAL FUND REVENUES:

Section 22 of the bill authorizes the transfer to the State's General Fund of current and future loan repayment balances in two revolving school facilities funds operated by the New Jersey Economic Development Authority (EDA). The two funds - the \$125 million Public School Facilities Loan Assistance Fund and the \$25 million Public School Facilities Code Compliance Loan Fund - make low interest loans to school districts for construction, renovation and safety projects. They were created in 1993 and capitalized by State appropriations and the sale of EDA bonds.

As of July 1996, the two funds had been completely committed to school district projects. The \$150 million lent by the EDA has and is producing repayments (with 1.5 percent interest) of approximately \$171 million through fiscal year 2014. An amount of \$20.5 million has already been transferred from the EDA fund balances to the State's General Fund pursuant to language in the fiscal year 1997 appropriations act. Loan repayments over the next several years will total slightly more than \$11 million annually, after which they will taper down gradually (assuming no further recommitment of balances by the EDA). Under the provisions of P.L.1996, c.48 and this Senate Committee Substitute, the repayments will be redirected for deposit in the General Fund and dedicated for school district technology capital projects related to distance learning networks. It appears these funds are intended to finance distance learning network aid and, if so, would

reduce the net State cost of the Senate Committee Substitute by the amounts annually transferred from the EDA loan funds to the State's General Fund.

This fiscal estimate has been prepared pursuant to P.L.1980, c.67.