

LEGISLATIVE FISCAL ESTIMATE

[Second Reprint]

ASSEMBLY, No. 5537

STATE OF NEW JERSEY
219th LEGISLATURE

DATED: JUNE 24, 2021

SUMMARY

- Synopsis:

Modifies certain procedures pertaining to school district regionalization; establishes grant program for cost reimbursement of conducting regionalization feasibility studies; and provides financial incentives for regionalization.
- Type of Impact:

Annual State expenditure increase; annual local cost and revenue increases.
- Agencies Affected:

Department of Community Affairs; Department of Education; Local Governments

Office of Legislative Services Estimate

Fiscal Impact	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
State Cost Increase		Indeterminate	
Local Cost Increase		Indeterminate	
Local Revenue Increase		Indeterminate	

- The Office of Legislative Services (OLS) concludes that the grant program established under the bill may result in indeterminate annual State expenditure increases to provide grants to school districts and governing bodies to conduct feasibility studies related to school regionalization and to provide certain financial incentives designed to encourage regionalization efforts. The State will also provide reimbursement to school districts for elections held to establish or enlarge districts. The magnitude and timing of these State expenditure increases are indeterminate because the extent of the financial incentives that will be provided is not known, nor is how many feasibility studies or elections will be undertaken in a given year.
- Under the bill, participating school districts will incur increased costs to undertake feasibility studies and hold elections to establish or enlarge a limited purpose or all purpose school district. The timing and magnitude of these cost increases will vary among districts; however, as mentioned, the State will provide reimbursement for the increased expenditures. Certain provisions of the bill would allow participating school districts to spread out cost increases

related to regionalization over longer periods of time than what is provided under current law, thereby reducing the budgetary impact on school districts when implementing their regionalization plans.

- In addition to the increased revenues that school districts will receive from State reimbursements related to their feasibility studies and election costs, the bill also provides financial relief to districts given approval or preliminary approval under the grant program and have a positive State aid differential and are therefore subject to State aid reductions. Districts with positive State aid differentials would still be subject to State aid reductions under the bill, but they would experience the reductions under a different, less accelerated schedule than what is provided under the provisions of P.L.2018, c.67 (commonly referred to as S-2).

BILL DESCRIPTION

This bill creates a grant program within the Division of Local Government Services in the Department of Community Affairs, the purpose of which is to provide for the reimbursement of eligible costs associated with conducting feasibility studies that support the creation of meaningful and implementable plans to form or expand regional school districts. In order to be eligible for a grant, applicant boards of education or certain municipal governing bodies are required to meet specific criteria laid out in the bill. Boards of education or governing bodies whose applications under the grant program are approved would be reimbursed up to an amount or percentage to be annually determined by the division. The bill also provides for preliminary application approval in certain instances.

The bill provides that, whenever a regional district is formed following the approval of a grant application, the salary guide and terms and conditions of employment, whether established through a collective negotiations agreement or past practice, of the constituent school district with the largest number of teaching staff members will apply in full after three years following the formation of the regional district or until a successor agreement is negotiated with the majority representative of the new school district, whichever occurs first.

The Department of Education would reimburse participating districts for any costs incurred to hold an election to establish or enlarge a limited purpose or all purpose regional district provided that the decision to establish or enlarge a limited purpose or all purpose regional district stems from the completion of a feasibility study conducted in connection with the bill's grant program.

Under the bill, a school district that is a regional school district created following the approval of a grant application will, from the first full school year following the creation of the regional school district through the 2028-2029 school year, receive State school aid in an amount that is the greater of: the amount of State school aid that the newly created regional school district would receive as a regional school district; or the sum of the amount of State school aid received by each school district constituting the newly created regional school district prior to the creation of the regional school district. The bill also extends the timeline by which a school district receiving approval or preliminary approval under the grant program would experience State aid reductions pursuant to S-2 by a period of four additional years beyond what is provided for under the current State aid reduction timeline.

The bill also includes a variety of other measures concerning the creation and enlargement of regional school districts, the addition of other purposes to certain regional districts, and the withdrawal of certain school districts and governing bodies from regional districts. The bill contains various provisions on the following subjects related to school district regionalization in certain scenarios, including: employment, tenure, and seniority rights; board of education

membership; the provision of transitional support in the event that a school district or municipality withdraws from one regional school district to join another regional school district; and the phasing-in of the tax apportionment method adopted by the voters.

FISCAL ANALYSIS

EXECUTIVE BRANCH

None received.

OFFICE OF LEGISLATIVE SERVICES

State Expenditure Increases

The OLS concludes that the grant program established under the bill may result in indeterminate annual State expenditure increases to provide grants to school districts and governing bodies to conduct feasibility studies related to school regionalization and to provide certain financial incentives designed to encourage regionalization efforts. The State will also provide reimbursement to school districts for elections held to establish or enlarge districts. The OLS does not know the number of school districts that will participate in the grant program and ultimately gain approval for their regionalization plans, which precludes the OLS from providing an estimate for how much annual State expenditures are likely to increase. The OLS notes that the bill does not contain an appropriation for the grant program.

The OLS also notes that the grant program established under the bill is constructed in a substantially similar way to the Department of Community Affairs' Local Efficiency Achievement Program (LEAP). Currently, the LEAP provides Challenge Grants, Implementation Grants, and County Coordinator Fellowships Grants to support various initiatives aimed at increasing shared services and consolidation. In the 12-month FY 2021 period, the LEAP was appropriated a total of \$10 million through the Department of Community Affairs' "Shared Services and School District Consolidation Study and Implementation Grants" line item. Relevant to this bill, of the total \$10 million appropriation, the LEAP's Implementation Grants provide \$2 million for costs associated with school district consolidation studies. The Implementation Grants provide for the reimbursement of costs associated with school district consolidation and countywide school district studies that support the creation of regionalization plans. Publicly available evidence indicates that costs incurred by school districts to conduct school district regionalization studies range from as low as \$20,000 to approximately \$150,000 for regionalization efforts involving a larger number of districts.

It is possible that the implementation and administration of the grant program established under the bill can be coordinated or enveloped within the LEAP. The OLS notes that, if this is the case, the implementation of the grant program may lead to increased expenditures to the extent that such administrative costs are necessary to carry out the grant program in accordance with the provisions of the bill.

The State would also experience cost increases to reimburse participating districts under the grant program for elections held to establish or enlarge a limited purpose or all purpose regional district. These election expenses may vary depending on several factors in the participating districts, including the size of the municipalities constituting the districts.

Local Cost and Revenue Increases

Under the bill, participating school districts will incur increased costs to undertake feasibility studies and hold elections to establish or enlarge a limited purpose or all purpose school district. The timing and magnitude of these cost increases will vary among districts.

The OLS also notes that various provisions of the bill provide alternatives to current law concerning the creation of new regional school districts. These alternatives would, over certain periods of time, spread out increases in costs to school districts or governing bodies involved in a regionalization effort. For example, current law allows for three methods of cost apportionment when a regional district is created or enlarged. These allowable methods of cost apportionment may be based on equalized property valuation, enrollment, or a combination of property valuation and enrollment. The bill provides that the Commissioner of Education may provide for a 10-year phase-in of the cost apportionment method or another transitional methodology not to exceed 10 years, thereby delaying cost increases for some school districts. In addition, under current law, the salary guide and terms and conditions of employment in a new school district is required to be that of the constituent district with the largest number of teaching staff members prior to the creation of the new regional district. It has been noted that the largest constituent district tends to be the higher paying school district. Under this bill, a regional district that is formed following the approval of a grant application would generally be permitted to apply the salary guide and terms of employment of the largest constituent district in full after a period of three years following the creation of the new district or until a successor agreement is negotiated, whichever occurs first. This change will delay increases in costs for some school districts and allow them time to plan for changes related to their personnel expenditures.

The OLS notes that participating school districts under grant applications that are approved or preliminarily approved and have State aid differentials that are positive would receive more State aid than they otherwise would have received pursuant to the provisions of S-2. Districts with positive State aid differentials would still be subject to State aid reductions, but they would experience the reductions under a different, less accelerated schedule than what is provided under S-2. Given that the OLS does not know which districts may receive approval or preliminary approval under the grant program, it cannot predict the impact that the different State aid reduction schedule established under this bill would have on participating districts. In addition, under the bill, regional school districts created following the approval of a grant application would receive the greater of the amount of State school aid that the newly created regional school district would receive as a regional school district or the sum of the amount of State school aid received by each school district constituting the newly created regional school district prior to the creation of the regional school district. This could result in more State school aid revenues for some school districts than they otherwise would have received.

Section: Education

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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.).