Introduction

Mr. Chairman, members of the Committee, thank you for permitting me to speak with you today.

Our public schools are presently experiencing EXTREME financial pressures. Even more threatening, however, is a structural financial problem that – left unaddressed – will make things ever worse for our schools in the future.

I’d like to open with some brief comments identifying this structural financial problem – and also its solution.

The Nature of the Financial Problem Afflicting Our School Districts

The fundamental financial problem afflicting New Jersey’s school districts is that their costs are growing at an unaffordable pace – a pace that every year requires state and local taxpayers to come up with approximately $1.2 billion more than the year before.

In this current fiscal year, school districts covered most of their increased costs with the $1.057 billion they received in federal stimulus funds. But this was a one time federal payment. So for Fiscal Year 2011, school districts need to come up with enough new money to cover TWO years worth of cost increases – and they can’t.

Governor Christie did his part to help. With the State facing an absolutely massive budget deficit, no one supposed he would be able to come up with any increased state funding for schools. But in his proposed FY 2011 budget, the Governor cuts spending for non-school purposes deeply so he can achieve the savings necessary not only to close New Jersey’s massive state deficit, but also provide school districts with $238 million in increased state funding. That’s a 2.4% percent increase in state funding for school districts amidst the greatest economic downturn since the Great Depression.

Local property taxpayers are being asked by school districts to help also, and by the time this year’s school budgets are finalized, we will likely see school property taxes throughout New Jersey up by about 3 to 4 percent. That’s a much smaller year-to-year increase than has been typical in the past 10 years, but remember: a lot of homeowners have lost their jobs, and even many of those who haven’t are still suffering from sharply reduced incomes.
The state is sending school districts more money, and property taxpayers will send school districts some more money. But with school district salaries rising at three times the rate of inflation, and with the premiums on school employees’ rich health benefits soaring, school districts still can’t make ends meet – so most are being forced to layoff employees and cut programs.

That’s not good for our children – but there is something far more frightening that I would like the Committee to appreciate. If we don’t address the things driving up school district costs, school districts will need another $1.2 billion of new money in Fiscal Year 2012; another $1.2 billion on top of that in Fiscal Year 2013; another $1.2 billion on top of that in Fiscal Year 2014, and so it will go year after year after year.

Will state and local taxpayers be able to come up with all that additional new money each year? The answer is NO—at least, not without raising state and local tax rates each year. Without tax rate increases, for taxpayers to constantly come up with $1.2 billion more than the year before, you will need the state’s economy and each community’s ratable base to grow at a pace of approximately 5 percent a year. That is NOT reasonable to expect – and neither is it reasonable to expect that New Jerseyans will allow you to raise their sales tax, income tax, and property tax rates year after year after year.

So if nothing changes, then on top of the layoffs school districts are preparing for Fiscal Year 2011, they will likely be forced to layoff even more personnel in Fiscal Year 2012, even more personnel in the fiscal year after that, and even more in the fiscal year after that.

We can’t let this happen. We owe it to our children to fix this problem.

**There’s Only One Solution**

To zero in on a solution, we need to zero in on the source of the problem.

In school districts, what is causing costs to rise at an unaffordable pace is the unaffordable pace at which salary and benefit costs are rising. Salary and benefit costs constitute the majority of school district expenses and they are the specific costs rising most rapidly.

We can propose different strategies to address the financial problem afflicting our school districts, but the only solution that will fix this structural problem is slowing the growth pace of district salary and benefit costs.

Some have proposed an income tax surcharge as a solution. It would not be. Raising income tax rates would do significant and on-going damage to our state economy, while the $900 million raised by the surcharge would cover just eight months of school districts’ rising costs. At the end of eight months, we’d be right back where we are now.
We should not accept significant and continuing damage to our state economy in exchange for so temporary a fiscal gain.

Others have suggested that mandate relief or expanded shared services by school districts – including the sharing of a superintendent – might assist some school districts’ finances. Pursuing these strategies would provide financial benefits and would not have adverse consequences for our state economy. So the Department of Education will present the Legislature with proposals for mandate relief and will work to encourage expanded shared services by school districts.

That said, it should be noted that while these strategies will enable school districts to operate with fewer administrative and support personnel, they will not slow the pace at which individual salary and benefit costs are rising in school districts. Put another way, these strategies will enable some school districts to \text{get by} with fewer employees than they have today, but they will not change the structural reality that school districts will need to \text{keep} shedding employees year after year – even after they fall below the number of employees they do need. The pressure on school districts to constantly cut employee numbers will continue until we solve districts’ structural financial problem by bringing the pace at which district salary and benefit costs are rising in line with the pace at which our state economy can reasonably be expected to grow.

This structural financial problem \text{CANNOT} be solved by school boards and school district administrators. The most courageous and talented amongst them will manage the resultant challenges better than their peers. But it would be ridiculous to imagine that school boards are all spineless and superintendents are all incompetent and that’s why costs are soaring in every school district. The pervasive financial distress you see is the product of \text{state} laws. Past state leaders created districts’ structural financial problem and only today’s state leaders can solve it.

Recognizing this, Governor Christie will be advancing proposals that will work to moderate the pace at which school district salary and benefit costs are rising throughout New Jersey. In addition, he will be proposing a constitutional cap on the pace at which spending for direct state services can rise, thereby dramatically increasing the amount of state funding that will be kept available for the education of our children in the years ahead.

These initiatives \text{will} solve the structural financial problem plaguing our public schools. Instead of school districts being forced to constantly lay people off, they’ll be able to start increasing their teaching staffs, enabling them to expand the educational services they provide our children. That is an important part of the Governor’s vision for public education. He wants to do more than stabilize school districts’ finances. He wants school districts to gain the ability to help \text{more} special needs children with early intervention services, so these children will be able to develop capacities that otherwise they would never develop. He wants school districts to be able to \text{expand} their after school programs, so there is a safe place available for children while their parents are at
work. He wants school districts to be able to increase the advanced placement courses they can offer, so more of our sons and daughters will be able to reach for the stars.

I would like to add that the Governor’s proposals will work to increase the solvency of both our teachers’ pension fund and their post-retirement health benefits fund. Teachers union leaders will likely oppose the Governor’s initiatives because they will require a moderating of those benefits too. But making these funds solvent through increased taxpayer contributions alone is not viable – the amount of money it would demand from taxpayers is far greater than taxpayers could ever afford.

Various elements of the proposals that will be advanced by the Governor are still being finalized. When the proposals are presented, I would encourage the Legislature to pass them right away because in addition to solving our school districts’ long-term financial problems, they will also enable many school districts to rescind layoff notices for the fiscal year immediately ahead.

Indeed, the Governor’s initiatives may be the only constructive way layoffs can be avoided in Fiscal Year 2011. In another state, union leaders might encourage teachers to forego salary increases for a year so layoffs could be avoided. But that is not happening widely here. Most of our union leaders have not even been willing to ask their members for a salary freeze. They don’t seem to care about the young teachers at risk of losing their jobs.

Senators, that leaves our school districts dependent upon you and your colleagues. For our children’s sake, I urge you to support the proposals that the Governor will soon present to you. We need to moderate the growth pace of school district salary and benefit costs. If we don’t, the financial crisis afflicting public education in New Jersey will only get worse.