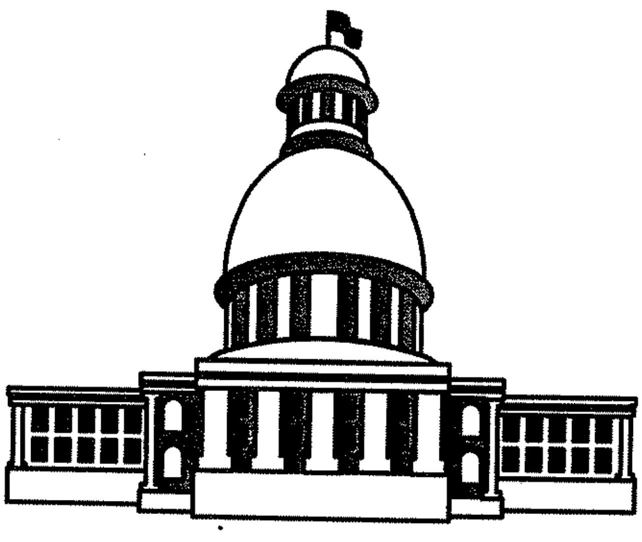
Education Funding Review Commission's
Report to the
Governor and the Legislature

Financing New Jersey's Public Schools



July 1994

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Executive Summary

A majority of the Education Funding Review Commission voted to recommend the adoption of the following education funding proposal for New Jersey public schools:

Type of Formula: The commission recommends a two-tiered formula which combines a high foundation formula with a guaranteed tax base component to support local leeway spending. The high foundation level recommended by the commission will guarantee that all districts in the State receive sufficient resources to support a "thorough and efficient" education.

Target Foundation Level: The proposal sets the foundation level for the special needs school districts at the projected current year local levy budget average for the I and J District Factor Group districts. The foundation level for all other school districts in the State is set at 90% of the projected current year local levy budget average for the I and J districts. In calculating the foundation amounts, the commission's proposal utilizes the QEA definition of special needs district and the 1990 District Factor Groupings for the identification of the I and J districts.

Pupil Count: The proposal provides that State aid for school districts will be based on current year pupil counts. A current year count ensures that a school district will have the resources necessary to adequately support needed programs for the district's student population.

Grade Weighting: The proposal utilizes grade weights in calculating a school district's foundation budget to account for the additional costs of certain programs and services.

Wealth Measure: The proposal utilizes equalized property valuation as the measure of determining a school district's eligibility for State aid. The commission concluded that the equalized property wealth of a community is the most equitable measure of its ability to support educational expenditures.

Phase-In: The proposal provides that the special needs school districts will be phased in to parity at the I and J average spending level within three years with the implementation of the formula beginning in 1995-96 and full phase-in achieved by 1997-98. The target foundation amount of 90% of the I and J average spending level for all other school districts would be phased in over a four year period with implementation beginning in 1995-96 and full phase-in achieved by 1998-99.

Required Local Effort: Under the proposal, there is a required local effort for all school districts of $1.08 per $100 of equalized valuation. A district that could raise the foundation amount with a tax rate below $1.08 would not have to levy at $1.08. School districts that do not meet their foundation budget (the guaranteed expenditure per pupil multiplied by student enrollment) through this local effort would receive foundation aid to make up the difference.

Budget Caps: There is no budget cap for school districts below the target foundation amount per pupil for that year. For districts spending above the I and J average spending level, the cap would be the larger of the latest three year average annual growth in the PCI or the CPI or 4%. For school districts between the foundation amount and the I and J average, there would be a variable cap.

State Funded Local Leeway: State aid will be provided to school districts with wealth below the local leeway guaranteed valuation on that portion of the district's budget that falls between the district's foundation level and the current year I and J average. The aid will be calculated using a guaranteed tax base (GTB) formula.

Budget Vote: There is no public vote on any school district budget that is at or below the district's foundation budget for that year. A budget referendum would be required on any budget that exceeds the district's foundation level.

Categorical Aid: The commission's proposal provides that special education aid, bilingual education aid, and at-risk aid continue to be funded as separate categorical aid programs, using a system which applies an additional cost factor to a base amount. The commission also recommends the doubling of the additional cost factor for at-risk students in special needs school districts. Transportation aid would continue as a separate program based on the costs of school districts to provide the service.

Teachers' Pension and Social Security (FICA): The commission recommends that the State continue its funding of the employer cost of teachers' pensions and Social Security.

The Education Funding Review Commission's Report to the Governor and the Legislature:

Financing New Jersey's Public Schools

Introduction

Since 1970, the State of New Jersey has been involved in a series of legal challenges to its system of funding public elementary and secondary education. These challenges have been based in large part upon the assertion that New Jersey's system of funding public education has not met the constitutional requirement to provide students with a thorough and efficient education, in particular those students who reside in the property poor urban communities of the State. The "thorough and efficient" clause, which became part of the State constitution in 1875, provides that:

"*The Legislature shall provide for the maintenance and support of a thorough and efficient system of free public schools for the instruction of all the children in this State between the ages of five and eighteen years.*" (N.J. Const. (1947) Art. VIII, s.4, para.1)

The question of whether New Jersey's system of public school education meets the mandate of the T&E clause continues to be the subject of debate. In fact that system as embodied in the "Quality Education Act of 1990," P.L 1990, c.52, was recently reviewed by this State's Supreme Court and found to be unconstitutional as applied to the thirty special needs school districts. Enacted in June of 1990 and substantially amended even prior to its implementation, the QEA proved to be the focus of controversy and divisiveness. Almost immediately concerns were raised by members of the educational community and other interested persons concerning possible negative effects of various provisions of the law. It was therefore in an effort to arrive at some consensus on school funding that the Education Funding Review Commission was established by former Governor Jim Florio and the Legislature to study public school finance and to make recommendations on how best to provide an equitable level of educational opportunity to all public school children in the State. While the controversy surrounding the QEA served as the initial catalyst for the creation of the commission, the suspension of certain provisions of that law following the 1992-93 school year meant in effect that the commission was confronted with the task of crafting a new funding statute.

Education Funding Review Commission

The Education Funding Review Commission was established pursuant to the provisions of the "Public School Reform Act of 1992," P.L 1993, c.7. That law provided for a one year transitional school funding formula for the 1993-94 school year and established the commission to examine the issue of school finance and to make recommendations for the reform of school funding.

The Education Funding Review Commission is composed of 15 members, three appointed by the President of the Senate, three appointed by the Speaker of the General Assembly, six public members appointed by the Governor, and three representatives of the New Jersey Associations for Public Schools appointed by the Governor upon recommendation by the associations. The members of the commission are as follows:

Albert Burstein, Esq., Chairman

Dr. Margaret E. Goertz, Vice-chair

Ms. Priscilla B. Anderson

Dr. Robert E. Boose

Dr. Joshua Chow

Dr. Henry A. Coleman

Dr. Vito Gagliardi

Mr. Thomas P. Geyer

Mr. John L. Harris

Mr. James Moran

Michael J. Perrucci, Esq.

Melody Sawyer Richardson, Esq.

Mr. Michael Ritacco

Mr. Dennis Testa

Ms. Helen W. Walsh

The statutory charge made to the commission was to recommend "the specific provisions of a school funding formula which will establish a system of school funding which is sufficient to provide an equitable level of educational opportunity for all public school children in New Jersey." The commission was directed to issue its findings and recommendations and deliver a copy of same to the Governor and the Legislature. This report encompasses those findings and recommendations.

The commission organized on April 23, 1993 and between that date and April 13, 1994 held a total of twenty-eight meetings. During those meetings the commission heard testimony from representatives of diverse segments of the educational community, State policymakers, and experts in the area of school finance, to solicit their views on the problems associated with educational funding in New Jersey and their recommendations on the steps which need to be taken to provide a stable and equitable source of funding. During the course of its deliberations, the commission discussed a number of school funding proposals. Those proposals all offered different means of providing equitable educational opportunities in all school districts while addressing matters raised by the New Jersey Supreme Court in its 1990 Abbott v. Burke decision.

In addition to its meetings, the commission held four public hearings at various locations throughout the State to afford members of the public an opportunity to be heard on the issue of school finance and to present their recommendations for consideration by the commission. This report is based upon the information and recommendations received by the commission at its meetings and hearings and the extensive discussion and deliberation on the part of commission members which was engendered by those meetings.

Acknowledgments

The Education Funding Review Commission could not have functioned during the course of its deliberations and in the preparation of this report without the unstinting and continuous help of Kathleen Fazzari of the Office of Legislative Services and Dr. Ernest Reock of Rutgers University, Center for Government Services. All commissioners are appreciative for their assistance in performing this public service.

The Quality Education Act

When the Education Funding Review Commission began the process of considering its recommendations for a new school funding formula, it made a decision not to focus its efforts on revising the school funding mechanism established under the "Quality Education Act of 1990," P.L.1990, c.52, but rather to consider new proposals offered for consideration as possible mechanisms for ensuring educational opportunity for all students within the State and addressing the mandates of the Abbott Court. The commission's decision was supported by testimony it heard from various individuals and groups concerning negative consequences which certain components of the QEA may have had on various groups of school districts.

In testimony before the commission, concern was raised about the ability of the special needs school districts to reach parity with the I and J districts under the QEA. Specifically, concern was expressed that the 1.05 special needs foundation aid weight which is intended to "push" the special needs school districts to parity with the I and J districts is inadequate to do so. Although the law stipulates that the Governor may recommend changes to this weight in even-numbered years which shall take effect automatically unless rejected by the Legislature, no revision has occurred to date and given the absence of any revision critics are convinced that it will be virtually impossible for the special needs districts to reach parity by 1995-96.

Criticism was also raised before the commission in regard to the equity spending cap provision for special needs districts under the QEA. The equity spending caps for special needs districts are more permissive than the caps for non-special needs districts and again are intended to assist the special needs districts in incrementally moving toward parity by 1995-96. Under the QEA, equity spending caps are established by calculating a percentage budget increase for the regular education budget of each special needs district which if sustained until 1995-96 would result in a local levy budget for that special needs district that equals the average local levy budget for the I and J districts. The criticism which has been raised concerning the equity cap provision, however, is that there is no link between the cap provision and the required spending level of special needs districts. Given the lack of a nexus between required spending and the equity spending cap, the QEA has no explicit mechanism to move the special needs districts incrementally toward parity during the phase-in period. Critics contend that this makes it unlikely that parity would ultimately be achieved. Moreover, even if a special needs district budgets up to its equity cap, if the district's maximum foundation budget is below that cap level, then the district will only receive State aid up to its maximum foundation budget.

Concern was also expressed before the commission concerning the inclusion of income in the calculation of a school district's fair share under the QEA. As discussed later in this report, questions were raised about the reliability of the federal income data which has been used to measure wealth and the ability to tap State income tax data adequately for this purpose. Data reviewed by the commission on the inclusion of income in the QEA fair share calculation suggests that the income figures being used are at best only estimates of the income base of school districts. In addition, an expert presented data which suggests that the inclusion of income within the formula may tend to skew the picture received of a community's ability to support education particularly in communities with moderate property wealth. Finally, the issue was raised that municipalities within the State only have access to property taxes and are not able to tax the income of their residents in any manner which may make the inclusion of income within the fair share formula inappropriate.

A final issue concerning the QEA which was raised before the commission was its definition of maximum Statewide foundation aid. The QEA caps State aid to education and requires that State aid for all categorical programs and teachers' pensions and social security be deducted first from available maximum Statewide school aid and that the aid which remains is available for distribution as foundation aid. Critics argue that the significant growth in the State aid obligation required for the categorical programs and teachers' pensions and social security has resulted in a compression in the amount of foundation aid available to many school districts which has meant higher property taxes and cuts in academic programs.

Due to the concerns raised in connection with specific provisions of the QEA, the commission determined that it would be most productive to begin its consideration of school funding with a "clean slate" as opposed to considering modifications to the present formula.

The EFRC Funding Proposal

On April 13, 1994, a majority of the Education Funding Review Commission voted to recommend the adoption of the following education funding proposal for New Jersey public schools:

Type of Formula: The commission recommends that public school education be funded through a two-tiered formula which combines a high foundation formula with a guaranteed tax base component to support local leeway spending. It is the majority's belief that a foundation formula offers the best mechanism for ensuring that students are provided with necessary educational resources regardless of where they reside and that such a formula appropriately makes it a State responsibility to define the level of resources required for an adequate education. The high foundation level recommended by the commission will guarantee that all districts in the State receive sufficient resources to support a "thorough and efficient" education as required by the State constitution through a combination of State and local revenues.

Target Foundation Level: The proposal provides that the foundation level for the special needs school districts would be set at the projected current year local levy budget average for the I and J District Factor Group districts. In 1994-95 that average is $7,756. This provision is in keeping with the directive of the New Jersey Supreme Court in its Abbott v. Burke decision that the State's funding scheme must assure that per pupil expenditures in the poor urban districts be substantially equal to per pupil expenditures in the property rich districts. Under the commission's proposal, the local levy budget is defined as local taxes raised for the General Fund plus foundation aid and local leeway aid.

The foundation level for all other school districts in the State would be set at 90% of the projected current year local levy budget average of the I and J districts which for 1994-95 is $6,980. The 90% level for non-special needs districts makes provision for the cost-of-living differentials between the northern and southern regions of the State and also allows for limited local spending choices under the guaranteed tax base component of the proposal. School districts which are currently spending below these averages would be phased in up to those spending amounts according to a time table which is discussed later in this report.

In calculating the foundation amounts, the commission's proposal utilizes the QEA definition of special needs district and the 1990 District Factor Groupings for the identification of the I and J districts. It should be noted that included among the recommendations which the commission adopted and which are outlined in a later section of this report, is a recommendation which calls for a study of the current system of designating special needs school districts.

Pupil Count: The commission's proposal provides that State aid for school districts will be based on a current year pupil count. It is the consensus of a majority of the commission that a current year count ensures that school districts will have the resources necessary to adequately support needed programs within the district for its student population. The commission heard testimony from a variety of individuals which indicated that the State's use of prior year pupil counts has prevented many districts from instituting critical programs as those programs must be completely funded by local dollars during their first year start-up period. It has been suggested that this burden may be particularly onerous on the poorer urban communities where the often high local tax burden makes it difficult to raise the resources necessary to cover the entire cost of new programs during this first year. While the use of prior year enrollments may benefit districts with declining enrollments, it disadvantages districts with growing enrollments. This is significant given the fact that enrollments are presently growing at an average of 2% per year in the State.

The commission received testimony which indicated that current year pupil counts are presently used in 35 states. Therefore, the commission recommends that the Department of Education undertake a study of the systems used in other states to implement current year funding and design a plan which provides for the allocation of State aid on a current year basis in the most effective manner possible. It is the commission's recommendation that the system of current year funding adopted in New Jersey provide for periodic audits during the course of the school year to verify the accuracy of State aid distribution and to make necessary adjustments in pupil counts to reflect demographic changes which have occurred.

Grade Weighting: The commission recommends the use of grade weights in calculating a school district's foundation budget to account for the additional costs of certain programs and services. Its proposal utilizes the schedule of grade and program weights adopted pursuant to the "Quality Education Act of 1990" as follows:

1/2 day pre-school and 1/2 day kindergarten	0.50
Full-day pre-school and full-day kindergarten	1.00
Grades 1-5	1.00
Grades 6-8	1.10
Grades 9-12	1.33
Special education services pupils	1.00
Evening school	0.50
Post graduate	0.50
County vocational school	1.33
Post secondary vocational	1.33

Wealth Measure: The commission's proposal utilizes equalized property valuation as the measure of determining a school district's eligibility for State aid. During the course of its deliberations, the commission heard from numerous individuals concerning difficulties which have resulted from the State's inclusion of income within the calculation of a school district's ability to support its foundation budget under the QEA. Questions were raised about the reliability of the federal income data which has been used to measure wealth as well as the ability to tap State income tax data adequately for this purpose. It was reported to the commission that of the ten states which currently use a combination of income and property wealth within their State aid formulas, no two states measure income in the same manner. The commission agreed with the finding of a study which it reviewed on the inclusion of income within the calculation of a school district's fair share under the QEA, that school district income figures are at best only estimates of the income base of school districts.

Concern was also raised that the inclusion of income within any formula does not adequately reflect the ability of all members of a particular community to support educational expenditures. The study referred to above found that the inclusion of income within the QEA fair share formula has tended to skew the picture received of a community's ability to support education particularly in communities with moderate property wealth per pupil. This finding correlates with testimony received by the commission from a number of communities which raised the issue that while they have rather modest property values within their borders, a handful of their residents may be earning incomes well above the rest of those within the community. It was argued that the inclusion of income data distorts the picture one receives of the ability of such a community to support education and has led to a significant loss of State aid for those communities. The commission concluded that while the inclusion of income within the State aid formula may be intended to address in some way the problems faced by individuals living on fixed incomes, such as senior citizens, there are property tax relief mechanisms available to address that concern.

Finally, the commission notes that municipalities within New Jersey have only the ability to tax local property and are not able to tax the income of their residents in any manner. Therefore the property wealth of the community would appear to be the most equitable measure of its ability to support its foundation budget.

Regional Adjustments: The commission's proposal does not make any adjustments for regional factors. While the commission discussed the issue at some length, it was the feeling of a majority of its members that a reliable measure of regional cost factors is not available.

Phase-In: The commission's proposal provides that the special needs school districts will be phased in to parity at the I and J average spending level within three years with the implementation of the formula beginning in 1995-96. In light of the fact that parity for the special needs school districts was ordered by the Supreme Court in 1990 and that the authors of the QEA, in attempting to address the court's decree, had established 1995-96 as the parity target, it was the commission's feeling that 1997-98 should be the limit which the State imposes upon itself to meet the court's directive in regard to special needs district parity.

The target foundation amount of 90% of the I and J average spending level for all other school districts would be phased in over a four year period with implementation beginning in 1995-96 and full phase-in achieved by 1998-99. During the phase-in period, foundation amounts for both special needs and non-special needs districts would be calculated separately for each district depending on the base year local levy budget of the district and its distance from the target foundation amount at full phase-in. The calculation of foundation amounts during the phase-in period is discussed more fully in the simulation of the commission's plan found in Appendix A.

Required Local Effort: The commission's proposal provides that all districts would be required to raise their required local effort each year as calculated under the foundation formula. The required local effort would be set at $1.08 per $100 of equalized valuation for districts spending at the target foundation amount for the aid year. A district that could raise the foundation amount with a tax below $1.08 would not be required to levy at $1.08. Instead, the district would be required to levy whatever tax rate is needed to raise the foundation amount. A district could, however, levy additional taxes either to raise expenditures under the proposal's local leeway provision or to maintain a budget that already exceeds the foundation amount.

During the phase-in period, the required local effort would be reduced for any district whose foundation amount is less than the target foundation amount for that year. The calculation of the required local effort during the phase-in period is discussed more fully in the simulation of the commission's plan found in Appendix A.

Approximately 60% of the State's students live in school districts with school tax rates that currently exceed $1.08 per $100 of equalized valuation. The $1.08 rate represents a decrease from the State average school tax rate for 1993-94 of $1.16 and the commission's plan would be providing property tax relief to a substantial number of taxpayers.

Budget Caps: Under the commission's proposal there will be no budget cap for school districts that are below the target foundation amount per pupil for that year. The base cap rate for school districts spending above the I and J average spending level would be the larger of the latest three year average annual growth in the PCI or the CPI or 4%. For school districts between the foundation amount and the I & J average, the plan proposes a variable cap based upon the ratio of the prior year I & J average budget to the prior year district budget per pupil - (prior year I & J average/prior year district budget per pupil)^2 x base cap rate = district cap rate. Any district may go an additional 2% beyond its cap with voter approval and utilizing local tax resources. This 2% option is not reflected in the simulation of the commission's plan found in Appendix A.

Local Leeway Guaranteed Valuation: Under the commission's proposal, the local leeway guaranteed valuation for the second tier GTB aid would be set at the current year target foundation amount for the State divided by $1.08 per $100 of equalized valuation.

State Funded Local Leeway: For school districts with wealth below the local leeway guaranteed valuation, the State would aid that portion of a district's permissible budget under the budget cap that falls between the district's foundation level and the current year I & J average. Local leeway aid would be calculated using a guaranteed tax base formula.

Budget Vote: Under the commission's proposal there would be no public vote on any school district budget that is at or below the district's foundation budget for that year. A vote on those budgets would not be needed because the State would require each district to tax at its required local effort. There would, however, be a budget referendum on any school district budget that exceeds the district's foundation level. Any budget referendum that is rejected by the voters would follow the budget appeal procedure established under current law.

Special Education State Aid: The commission recommends that special education aid be continued as a separate categorical aid program. Under its proposal, the aid would be calculated as the product of: (1) the greater of the current base amount ($7,232) or the target foundation amount for the non-special needs districts for that year; (2) the existing additional cost factors for special education; and (3) the number of students eligible for special education services in the current year. State aid for special education would not be wealth equalized.

The commission also recommends the formation of a task force to study the funding of special education, in particular the current excess cost factors. This recommendation is discussed further in a later section of this report.

Bilingual Education State Aid: The commission recommends that bilingual education aid be continued as a separate categorical aid program. Under its proposal, the aid would be calculated as the product of: (1) the greater of the current base amount ($7,232) or the target foundation amount for the non-special needs districts for that year; (2) the existing additional cost factors for bilingual/ESL education; and (3) the number of students eligible for bilingual/ESL education services in the current year. State aid for bilingual education would not be wealth equalized.

At-Risk State Aid: The commission recommends that at-risk aid be funded as a separate categorical aid program. Under its proposal, the aid would be calculated as the product of: (1) the greater of the current base amount ($7,232) or the target foundation amount for the non-special needs districts for that year; (2) the additional cost factors for at-risk students; and (3) the number of students eligible for free meals or free milk in the current year. The commission notes that historically programs established for disadvantaged students (such as Title I) have been funded using a poverty measure and the use of the free meals, free milk eligibility standard for at-risk aid makes it relatively easy for districts to collect the necessary information.

The commission also recommends the doubling of the additional cost factor for at-risk students in special needs school districts. The increased aid which results from this change would be phased-in over a three year period beginning in 1995-96. The commission notes that at-risk aid was established under the QEA as a mechanism to meet the directive of the Abbott Court that some provision be made, similar to categorical aid, to address the special disadvantages and educational needs of students in the poorer urban districts. Although the QEA provided that the at-risk weight was to be reviewed by the Governor in April, 1992 and every even numbered year thereafter, with a recommendation made to the Legislature for any necessary revision in the at-risk weight, no adjustment has been made since the QEA was adopted. It is the determination of a majority of the commission therefore, that given the fact that the at-risk weight has remain unchanged since 1991-92 with no evaluation of its adequacy, as well as the fact that students within the special needs school districts continue to face unique educational disadvantages which require programs and services specifically designed to address and ameliorate those disadvantages, it is appropriate that the at-risk weight be increased to provide additional funding for students within the special needs districts. Under the commission's proposal, at-risk State aid would not be wealth equalized.

Transportation Aid: The commission recommends that transportation aid continue as a separate program based on the costs of school districts to provide the service and that State aid for transportation not be wealth equalized. The commission did, however, hear testimony on a number of problems with the current transportation aid formula and recommends the formation of a task force to study the current formula. This recommendation is discussed in a later section of the report.

Teachers' Pension and Social Security (FICA): The commission reviewed the issue of funding teachers' pension and Social Security costs extensively and engaged in lengthy discussion of whether these costs should remain with the State or be included within the foundation amount. The commission members who favored having teachers' pension and Social Security costs remain with the State, expressed concern over the property tax implications of shifting these costs to local budgets. Also, the non-educational nature of the costs and the difficulty of properly assigning the costs to districts, due to historical data limitations, was also raised.

Those commission members who favored including teachers' pension and Social Security costs within the foundation amount, expressed concern over the projected rapid growth of pension costs, the fact that these costs annually claim an increasing share of total State education aid, and the non-equalized nature of the distribution of State aid for teachers' pension and Social Security costs. Ultimately, however, a majority of commission members voted to recommend that the State continue its funding of the employer cost of TPAF and Social Security and to exclude those costs from the foundation amount.

Other Recommendations

In addition to the foregoing education funding proposal, the Education Funding Review Commission adopted recommendations in the following areas:

At-Risk Aid: The commission recommends that in order to be eligible for at-risk aid a school district be required to prepare and submit a plan to the Department of Education that outlines the problems within the district that will be addressed through at-risk funding. The plan would require the approval of the Department of Education prior to the receipt of at-risk aid and the funding allocated to the district would be restricted in its use to the programs outlined in the plan. The department would track the funds allocated under the plan and conduct an annual audit to ensure that the funds had been spent in accordance with the district's plan. The Department of Education would work with school districts to identify programs and areas appropriate for the use of at-risk funds that would be in accordance with guidelines prepared by the department. The commission would caution against the adoption of guidelines that are overly restrictive and recommends that they be broad and flexible enough to allow districts to address problems that may be unique to the particular district and community. It is essential, however, that the guidelines ensure that funds are targeted to address the problems that have been identified within the district as impeding the educational progress of at-risk students.

Special Needs School Districts: The commission recommends that the Department of Education study the current definition of special needs district as established in section 3 of the "Quality Education Act of 1990," (N.J.S.A.18A:7D-3). Specifically, the commission recommends that the definition be reconsidered to take into account the poor, rural districts within the State. The commission notes that under the current definition, a school district must, as of June 5, 1990, have been classified by the Department of Education as an urban district and included within the department's district factor groups A or B; or, be a district in which the quotient produced by dividing the number of pupils eligible for AFDC by the resident enrollment, less the number of preschool, evening school and post-graduate pupils, is greater than or equal to 0.15 and the number of pupils eligible for AFDC is greater than 1,000. Throughout the course of its deliberations, one issue that was raised continually was the difficulties faced by other districts within the State that struggle with the problems of poverty as do the special needs districts but that do not meet the criteria of an urban district. It is the commission's conclusion that the students of this State would benefit from a review of the definition of special needs district to determine the advisability of eliminating the requirement for urban classification.

The commission also notes that the Department of Education has recently revised its district factor groupings to reflect the 1990 census and the special needs district definition needs to be considered in light of this revision as well. Under the revision, seven additional districts could qualify as special needs districts in light of their inclusion in district factor groups A and B and two current special needs districts could lose that status. The Department of Education should review the districts affected by the revision and make a recommendation to the Legislature on whether the seven additional districts should be included within the special needs definition and the two districts eliminated or grandfathered into the definition.

Accountability: A. The commission recommends that all monitoring and accountability standards imposed by the State through the Department of Education be applied uniformly across all school districts. The commission heard testimony that under present State Board of Education regulations, there are requirements that special needs school districts must meet that are not imposed upon all other school districts. It is the commission's feeling that all school districts should be required to meet the same reporting and accountability standards.

B. The commission recommends that each school district be required to develop a comprehensive operational plan on an annual basis. The plan should be developed as part of the State's monitoring procedure for the evaluation of the performance of each public school district and should be consistent with those regulations. The plan should outline the operations of the district in light of available revenues and necessary expenditures and should be tied in with the educational goals and purposes of the district and its student objectives and outcomes.

During the course of its deliberations, the commission was continually reminded of the public's skepticism that public funds for education are being spent in as efficient and effective a manner as possible. The commission envisions that the recommended operational plan would be a vehicle for tying together the fiscal resources available to the district with the educational goals and benchmarks the district is attempting to achieve. The plan would demonstrate that the district's resources are being directed at those areas which the State and the district have identified through the monitoring process as required outcomes. Highlighting the linking of resources and expenditures through such a plan as a piece of the monitoring process may serve to increase public confidence in the fiscal accountability of school districts and consequently public support for educational expenditures.

C. The commission recommends that the Department of Education be allocated the staff and resources necessary to implement its recently revised regulations, Procedures for the Evaluation of the Performance of Each Public School District (N.J.A.C. 6:8-4.1 through 4.12). Adopted as a result of the work of the Task Force on Educational Assessment and Monitoring and implemented in July, 1993, these regulations are designed to ensure educational planning within districts based on particular educational goals, learning objectives, and performance standards. The commission supports the revised monitoring procedures and notes that if properly implemented they can enhance the educational accountability of school districts. However, the commission heard testimony from a number of groups and individuals that the department has not been given the staff necessary to effectively implement those regulations, nor the resources necessary to design and develop the testing and evaluation measurements that those regulations require.

Efficiency Incentives: The commission recommends that in addition to the provisions of current law which authorize school districts to maintain surplus, any public school funding law adopted by the State should authorize a school district to establish a separate account into which it may deposit non-categorical and non-transportation funds which it has managed to accumulate through the institution of a district efficiency or innovation. The funds could be maintained for a three year period and would be available to the district for capital projects or other purposes.

The commission also recommends that the Department of Education develop incentives directed at assisting school districts to institute efficiencies but ensuring that the districts are not fiscally penalized for doing so.

State Aid for Categorical Programs: The commission recommends that State aid for the categorical programs, special education, bilingual education, and at-risk, be funded as they are presently with an excess cost factor for the individual aid program applied to the foundation amount. Although the commission supports the above method of funding categorical programs, it does take issue with that provision of the QEA which stipulates that State aid for the categorical programs shall be deducted from maximum Statewide school aid and that the remaining aid constitutes available maximum Statewide foundation aid. While it is the commission's recommendation that any funding proposal adopted by the State be fully funded, the commission also strongly recommends that the State ensure that the equalization components of the formula be fully satisfied in order to advance the equalization objectives of the funding scheme.

The commission also recommends that State aid that is allocated to school districts for specific categorical programs be restricted in its use to those programs, and that there be a prohibition against the use of such funds in other parts of the district's budget. It is the commission's understanding that State aid received for categorical programs can be diverted to other areas of the district's budget. The commission concludes that State aid received for categorical programs should be spent on those programs for which it was granted and not other school activities.

Special Education State Aid Task Force: The commission recommends the formation of a task force to study issues associated with the funding of special education. During the course of its deliberations, several issues were raised before the commission in regard to State aid for special education. The first issue was that of problems associated with the current structure of financing education for handicapped students through a system of average excess cost factors. Critics of the present funding scheme testified that under the current system in which State aid is generated by the student's classification rather than the student's placement, school districts receive the same level of State aid regardless of the actual cost of the placement. This has at times led school districts to establish classifications where the State aid reimbursement is greater as opposed to the placement that might be the most appropriate for the student. Critics also contend that the system encourages districts to place students in unduly restrictive programs and has discouraged the mainstreaming of students within the regular classroom due to the fact that State aid is not available to finance many of the support services which certain special education students may require within the regular classroom setting. Although several elements of the Plan to Revise Special Education have been adopted, the recommendation that the labelling of special education students be based upon their educational needs as opposed to their disability has not yet been fully implemented.

A second issue that was raised on numerous occasions is the tremendous financial drain which is being placed on school districts by the costs associated with the residential placement of special education students, particularly in private, out-of-state schools. It is possible for the cost of such placements to run in excess of $150,000 per year and the impact of such costs on the budgets of school districts, especially smaller school districts, can be tremendous. It was suggested both that the State aid reimbursement for special education take into account the prohibitive costs of such placements and that there is a need to develop a greater supply of special education residential placements within the State. In any event, it is apparent that the issues associated with State aid for special education students need to be reviewed and the commission recommends that a task force should be appointed for this purpose.

Consolidation of School District Functions and Services: The commission recommends that a study be conducted of possible incentives that might be provided to facilitate agreements between intergovernmental agencies for the coordinating of services and joint purchasing agreements. While the commission heard impressive testimony from representatives of educational services commissions on joint activities and efforts which are being made to provide coordinated and cost effective services among school districts, through the course of its deliberations it became clear to the commission that not enough is being done in this regard. Such efforts need to be made not only among school districts but between school districts and other governmental agencies as such coordinated efforts hold the key to controlling the escalating cost of providing services. Specific incentives need to be developed to promote such voluntary consolidation efforts.

Facilities: The commission recommends that the Department of Education conduct a study to determine the most appropriate financing mechanism to address the unmet physical facilities needs of school districts and that the Legislature and the Governor take steps to implement that mechanism.

The commission heard testimony from Department of Education representatives that the department has identified an estimated $6 billion facilities need for New Jersey's public schools and that of the 2,279 public school buildings in use statewide in 1991-92, 934 of those buildings were more than 50 years old (41%). The problem of substandard physical facilities becomes that much more acute in light of the fact that following a period of enrollment decline, it is now estimated that between the 1992-93 school year and the 2000-01 school year, New Jersey's school population will increase by approximately 226,000 students placing increasing demands on school buildings.

The problem is particularly acute in the special needs districts where 64% of the buildings are over 50 years old. This point was reinforced for commission members not only through repeated public testimony but by the commission's tour of a special needs school district. Many of these districts have difficulty using the limited resources that are available for physical facilities renovation and repair due to the fact that the problems associated with older buildings, such as the presence of asbestos and obsolete electrical systems, make the renovation and retrofitting of such buildings extremely difficult. At the same time, these districts are unable to establish the programs that have been identified as critical to the educational improvement of their students, such as full day kindergarten and pre-kindergarten programs, due to a lack of appropriate facilities to house those programs. Facilities improvement is a critical issue which must be addressed if educational improvement is to be achieved within the special needs districts.

The commission notes that $250,000,000 was made available for the renovation and repair of public school buildings through the "Public School Capital Finance Assistance Act," P.L.1993, c. 102, enacted on April 8, 1993. It is the commission's understanding that all of those available funds have at this point been committed. The Department of Education may want to recommend to the Legislature an expansion of that program operated under the auspices of the New Jersey Economic Development Authority or the enactment of a general obligation bond issue.

<u>Transportation Formula Task Force</u>: As indicated earlier in this report, the commission concluded that State aid for transportation should be allocated to school districts based on the cost to the district of providing the service. It is also the feeling of the commission, however, that the transportation services provided by school districts must be provided in accordance with established standards of efficiency and that any transportation formula used to reimburse school districts should not allow districts to receive more State aid than they actually expended for transportation services.

During the course of its deliberations, the commission heard testimony to suggest that the State could realize substantial savings in its State aid for transportation account if that formula was revised to promote efficiency through the application of benchmarking principles. It was also suggested that some elements of the formula need to be altered to reduce unnecessarily high aid payments to some districts. In particular, the issue of the transportation of special education students was raised and the fact that districts are receiving special education transportation reimbursement for some of these students when in fact they are being transported on standard school buses with regular education students. Another aspect of the formula which it was suggested needs to be reviewed is the use of a three tiered system of State aid reimbursement to school districts based on the county in which the school district is located. In particular, the accuracy of designating a particular county as a very high cost county as opposed to a high cost or medium cost county was questioned. Due to these and other possible problems with the current transportation aid formula, it is the commission's determination that a thorough review of the State aid formula for transportation services is called for at this time.

Ms. Priscilla B. Anderson, Dr. Robert E. Boose, Dr. Margaret E. Goertz, Mr. John Harris, Mr. James Moran, Mr. Michael Ritacco, Mr. Dennis Testa, Ms. Helen W. Walsh

FINANCING PUBLIC SCHOOLS IN NEW JERSEY

A MINORITY REPORT OF THE

EDUCATION FUNDING REVIEW COMMISSION (EFRC)

According to the state's constitution, the state is required to provide a thorough and efficient education for all eligible pupils. Therefore, even though much of the decision-making and resource-raising responsibilities have been devolved to local school districts, the constitutional responsibility remains with the state to ensure that resources for education are adequate, equitably allocated, and efficiently expended. The goals of the Education Funding Review Commission should have been to: 1) keep the overall cost of education in check, especially given that New Jersey is already the highest per-pupil spending state in the country; 2) eliminate spending and property tax burden disparities among school districts, as required by the court; and 3) increase accountability in educational attainment, preferably through a system of incentives to encourage greater innovation.

Adequacy in School Finances

A significant amount of money, almost $9,500 per pupil in school year 1993-94, is being spent to educate students in New Jersey. This amount is nearly double the national average ($5,300) and almost $1,500 higher than other high-spending jurisdictions, such as Alaska ($7,700), New York ($7,600) and Connecticut ($7,500).

Equity in School Finances

In terms of equity in education finance, the state seems to have fallen short in fulfilling its responsibility in several respects. First, there are tremendous disparities among school districts, both in terms of the level of per pupil expenditures and in the property tax burdens required to finance those expenditures. Second, the outcomes or levels of student attainment in our school system do not seem to reflect the high level of resources devoted to educating the children of the state. The state aid that is provided does not serve to reduce expenditures or property tax burden disparities among school districts. In fact, approximately fifty percent of state education aid (i.e., categorical aid and support for teacher pensions) is not allocated in an equalizing manner (i.e., it does not consider the level of wealth or property tax burdens in the recipient school district) and, at least under the Quality Education Act, the non-equalized aid had a higher funding priority. In effect, equalizing aid was a residual. Given the relative rate of growth of categorical programs and teacher pension obligations, the "residual" remaining to accomplish any equalization objectives seems an ever-declining amount. Finally, there are no incentives to improve educational attainment embedded in the current state education aid system.

While a clear improvement over the current system, the proposals approved by EFRC do not go very far in addressing the goals outlined above. Under the EFRC-proposed reforms, overall spending will be significantly increased (on top of the already first-in-the-nation level).

disparities in spending and (especially) property tax burdens will remain significant, and no clear incentives to improve accountability will be provided. Subsidies to wealthy districts continue undiminished, in spite of the fact that the state cannot afford them and they add to the difficulty of closing the expenditure and tax burden disparities.

More significant alternatives were proposed and considered, but ultimately not adopted by the Commission. For example, the so-called "Geyer" plan would have taken total education expenditures in the state, divided by the pupil enrollment, and allocated the resulting spending per pupil to each district, based on that district's enrollment. This reform would have reduced disparities, kept overall spending in check, and provided incentives in that districts would have had the resources and the flexibility to consider various innovations to improve student learning. In addition, a state-wide property tax (at a rate of $1.08-$1.16) would have both reduced disparities among districts and generated revenues adequate to maintain the current overall level of spending. An alternative proposal would have simply set a local tax rate (at $1.00, for example) and then required a local school district to cover all of its (regular and categorical) spending needs up to the point that revenues from that tax were exhausted, before <u>any</u> state education aid was provided.

These and other innovative reforms were rejected by the Commission, in large part because of a lack of resolve to say that those districts that can afford to finance their own programs should do so. The Commission continuously debated whether poor/special needs districts should be provided the resources required to operate on parity with the state's wealthy districts, but steadfastly refused to reconsider the (lack of) wisdom in subsidizing the activities of these wealthy school districts. Subsidies for the poor were debatable, continued subsidies for the wealthy were not!

Again, the approved proposals will represent an improvement over the current school funding system. However, the opportunity to address and resolve the real problems in our current system has been wasted. The Commission was far more interested in speculating about what the legislature and the court would view as acceptable or reasonable than in being reformists (i.e., determining the best funding system for the state's future). Opportunity is a lot like virginity, once lost it can never be reclaimed. The happy news is that we can bring real equality to our system of taxing and spending for education in New Jersey. The sad news is that, apparently, we won't.

Accountability and Efficiency in School Finances

Too many seem to believe that equality is a bad thing. According to this thinking, money spent trying to teach poor folk is wasted while taxes spent on well-off kids will turn them into productive workers and leaders of the 21st Century. If we "level down" to make things equal, the thinking seems to go, we won't have any leaders and workers in the 21st Century. Property tax equality is a bad thing too because it would discommode the richer half of the population.

These assumptions are pretty cock-eyed. If decades of scholarly research by education experts have taught us anything, it is that schools per se do not have the sole or principal effect on the achievement of children. Given remotely comparable school resources for all, the highest achieving children will usually be those of the most intensely aspiring parents. It is their lives outside the classroom that ultimately distinguish children from one another, through role models and the setting and reinforcement of high aspirations on the one hand and through environments characterized by instability and economic deprivation on the other.

We should fund schools equally because each New Jersey child has an equal claim to public resources, whether generated through state or local taxes. We can fund New Jersey schools equally because equality will not, as some claim, hobble the workers and leaders of the 21st Century. Therefore, we should move as expeditiously as possible to equalize per pupil spending and the property tax burdens imposed to finance them.

The most bitter antagonists of any plan that shifts resources instead of adding to them are often educators operating within the system. They want to see everyone's spending brought up to the level of the rich districts, an operation that would direct billions more dollars into the number of teachers and administrators and/or the compensation that they receive. (Note that New Jersey's pupil-teacher ratio is already among the lowest in the country, although significant variations are evident among school districts.) Unfortunately, the rich districts have become so bloated during the past decade of school-cost hyperinflation that "leveling up" everyone is extremely costly. Meanwhile, the productivity of labor in our schools is declining. It now takes about twice as many payroll and benefit dollars paid to school employees as it did in 1988 to graduate one New Jersey student.

Managed well, our present expenditures seem enough to support New Jersey's public schools. Better management is truly the key to more success, but it is harder to accomplish than equal funding. Questions of management would be a more profitable focus for the future than funding issues have been.

Dr. Joshua Chow

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Appendices

A. Prof. Ernest Reock's simulation of the EFRC's recommendations

B. Glossary of Education Terms

Education Funding Review Commission Plan 2B

SIMULATION

General Description: This is a high foundation plan, supplemented by a small GTB leeway plan permitting additional state aid up to the spending level of the higher socio-economic districts in the state (I and J districts).

Assumptions: The following assumptions have been made in the simulation:

Equalized Valuation in every district will decline by 0.7% from 1992 to 1993 and will grow at 2% per year thereafter. This is a conservative estimate, reflecting a slow economic recovery.

Weighted Enrollment: While the plan calls for enrollment to be weighted by the ratios used in the Quality Education Act and stated in the plan parameters, full data on which to make these calculations has not been available. Thereafter, as a substitute in this simulation, weights have been developed for districts classified by grade pattern, based upon their actual expenditure experience. The weights used are:

Grade Pattern	Weight
K-6	.859
K-8	1.004
K-12	1.064
7-12	1.279
9-12	1.456
Sp.Svc.	1.017
Voc.	.948

Enrollment change in every district will be in accordance with the changes in resident enrollment observed in the district from 1989 to 1992. This equates to about a 2% annual increase statewide.

Special Needs districts will be used as currently designated in law.

"I & J" districts will be as designated by the Department of Education using 1990 Census data.

Foundation levels per weighted pupil for each year will be established as shown below:

(a) determine the actual average local levy budget per weighted pupil for various kinds of school district for 1993-94.

(b) project each average per-pupil budget figure to 1994-95 at +2%.

(c) project the I & J district average per-pupil budget through the end of the phase-in period in 1998-99 at +2% per year (approximately the result of a 4% annual growth in total budget and a 2% growth in enrollment). Continue the projection for another year to provide estimates of one year of "normal" growth beyond the phase-in.

(d) For 1998-99, find 90% of the projected I & J district average per-pupil budget.

(e) for Special Needs districts, find the difference between the projected 1994-95 average budget per pupil ($6,464) and the projected full phased-in budget per pupil in 1997-98 ($8,230), and divide into three equal increments to find the target foundation amounts for the intervening years.

(f) for all other districts, find the difference between the projected 1994-95 average budget per pupil ($6,779) and the projected full phased-in budget per pupil in 1998-99 ($7,556), and divide into four equal increments to find the target foundation amounts for the intervening years.

(g) individualize the foundation amounts for each school district for each year during the phase-in period by calculating annual foundation amounts which will bring each district the appropriate increment from their projected 1994-95 local levy budget per pupil to the full foundation amount at full phase-in, but no more than the target foundation amounts for that year calculated in (e) and (f).

	I & J District Average Local Levy Budget per Weighted Pupil	90% of I & J Average	Target Foundation Amounts: Special Needs Districts	Target Foundation Amounts: Other Districts
1993-94	7,604		6,337	6,646
1994-95	7,756		6,464	6,779
1995-96	7,911		7,053 (1/3)	6,973 (1/4)
1996-97	8,069		7,641 (2/3)	7,168 (1/2)
1997-98	8,230		8,230 (1.0) (Full phase-in)	7,362 (3/4)
1998-99	8,395	7,556	8,395	7,556 (1.0) (Full phase-in)
1999-00	8,563	7,707	8,563	7,707

<u>Budget caps</u> will be <u>fully utilized</u> in every district for expenditures permitted by the variable percentage budget cap which are eligible for state leeway aid.

Expenditures permitted by the additional 2% cap, and not eligible for state leeway aid, will <u>not</u> be utilized.

This is intended as a middle ground in estimating future school district behavior where options are available.

<u>Special education aid</u> for future years may be estimated by:

(a) finding the average additional cost factor which, when multiplied by the base amount ($7,232) and by the number of special education pupils in 1991 results in the full state aid entitlement for 1992-93.

(b) projecting the 1991 enrollment to each future year at +2% annually.

(c) for each future year, multiplying the projected current year special education enrollment by the base amount and by the average additional cost factor found in (a) above.

<u>Bilingual education aid</u> may be estimated for future years by the same procedure described above for special education aid.

<u>County vocational program aid</u> may be estimated for future years by the same procedure described above for special education aid.

<u>At-risk aid</u> may be estimated for future years by the same procedure described above for special education aid, except that separate calculations will be made for Special Needs districts and other districts, with the additional cost factor for Special Needs districts being doubled over a 3-year period beginning in 1995-96.

<u>Transportation aid</u> may be estimated for future years at +4% annually, which is the growth rate observed between 1991-92 and 1992-93.

<u>TPAF aid</u> (Teachers Pension and Annuity Fund) may be estimated for future years at +14% annually, which is the growth rate observed from 1992-93 to 1993-94.

<u>FICA aid</u> (Social Security) may be estimated for future years at +8% annually, which is the growth rate observed from 1992-93 to 1993-94.

<u>Debt service</u> costs and state aid will not be considered in the simulation.

RESULTS OF THE SIMULATION

Table 1 shows Estimated Foundation Aid and Leeway Aid.

Table 2 shows Estimated Average Local Levy Budgetsper Pupil and Average Tax Rates.

Table 3 shows the Special Education Aid cost estimates.

Table 4 shows the Bilingual Education cost estimates.

Table 5 shows the At-Risk Education cost estimates.

Table 6 shows the County Vocational Program Aid cost estimates.

Table 7 shows the Transportation Aid cost estimates.

Table 8 shows the TPAF and FICA cost estimates.

Table 9 consolidates all state aid cost estimates.

Table 10 shows total state aid as a percentage of total local district costs plus pension costs.

IMPACT

Table 1 shows the overall cost impact of the two-tier state aid plan at the state level, with break-downs for special needs districts and other districts if every district budgeted to its full cap under the budget cap formula, but not to the additional 2% cap available to every district. Table 2 shows the impact on average budgets and average tax rates under the same assumptions, again with detail for special needs and other districts.

The first year cost shown in Table 1 for 1995-96 is about $1,434,000,000 higher than the comparable state aid provided in 1993-94. Most of the aid is foundation aid, but $71,000,000 is provided by Leeway Aid.

Much of the first year increase is due to the tax relief built into the plan through a required local effort tax rate of only $1.08 per hundred. In fact, the statewide total tax levy in 1995-96 (omitting debt service) drops by over $400,000,000 when compared with 1993-94, with much of this tax relief going to the non-special needs districts. The average state school tax rate is estimated to drop from $1.16 in 1993-94 to about $1.03 in 1995-96.

Annual aid increases in 1996-97 and 1997-98 are smaller than in 1995-96, although still substantial as the special needs districts continue to be phased in. Following completion of the special needs phase-in, the annual rate of annual aid increase is smaller in 1998-99. By 1999-00, the first "normal" year after phase-in of all districts, the annual increase in aid reaches its lowest point.

Tables 3 through 8 provide projections, respectively, of special education aid, bilingual education aid, at-risk education aid, county vocational program aid, transportation aid, and pension aid. Other than the increase in at-risk aid for special needs districts, these are based on the normal growth of existing state aid programs due to enrollment growth and changes in the foundation amount per pupil.

Table 9 pulls all of the aid projections together into a single aid projection. The estimated two-year increase in 1995-96 from 1993-94 actual aid is estimated at $1,880,000,000.

Table 10 relates the projected state aid to property tax levies and total costs. From a state aid percentage of 41.6% in 1993-94, the proposed program is estimated to raise state aid to about 54.5% of total costs by the end of the phase-in period in 1998-99.

Table 1. EFRC-2B. Estimated State Foundation Aid, Transition Aid, and Leeway Aid in Millions of Dollars.

	Foundation Aid	Transition Aid	Potential Leeway Aid	Total Aid	Change From Prior Year
93-94					
Sp.Nds.	1,339	4	--	1,343	
Others	1,199	81	--	1,280	
Total	2,538	86	--	2,624	
94-95					
Sp.Nds.					
Others					
Total					
95-96					
Sp.Nds.	1,609	--	18	1,627	+ 284 *
Others	2,379	--	52	2,431	+ 1,151 *
Total	3,987	--	71	4,058	+ 1,434 *
96-97					
Sp.Nds.	1,845	--	7	1,851	+ 224
Others	2,669	--	63	2,732	+ 301
Total	4,514	--	69	4,583	+ 525
97-98					
Sp.Nds.	2,090	--	--	2,090	+ 239
Others	2,974	--	71	3,046	+ 314
Total	5,064	--	71	5,136	+ 553
98-99					
Sp.Nds.	2,176	--	--	2,176	+ 86
Others	3,295	--	77	3,372	+ 326
Total	5,471	--	77	5,548	+ 412
99-00					
Sp.Nds.	2,265	--	--	2,265	+ 89
Others	3,516	--	104	3,620	+ 248
Total	5,780	--	104	5,884	+ 336

*Two-year change from 1993-94.

Table 2. EFRC-2B. Estimated Average Local Levy Budgets per Pupil and Current Expense Tax Rates

	Budgets			Tax Rates		
	Total Local Levy Budgets*	Total Weighted Enrollment	Average Local Levy Budget Per Pupil	Total Current Expense Tax Levy*	Total Equalized Valuation*	Average Current Expense Tax Rate
93-94						
Sp.Nds.	1,892	298,620	6,337	549		
Others	6,450	970,550	6,646	5,169		
Total	8,342	1,269,170	6,573	5,718	493,680	1.16
94-95						
Sp.Nds.						
Others						
Total						
95-96						
Sp.Nds.	2,142	309,169	6,928	515		
Others	7,218	1,013,667	7,120	4,787		
Total	9,359	1,322,836	7,075	5,302	513,625	1.03
96-97						
Sp.Nds.	2,383	314,435	7,579	532		
Others	7,702	1,035,193	7,441	4,971		
Total	10,086	1,349,628	7,474	5,502	523,897	1.05
97-98						
Sp.Nds.	2,642	319,718	8,264	552		
Others	8,210	1,056,784	7,769	5,164		
Total	10,852	1,376,501	7,884	5,717	534,375	1.07
98-99						
Sp.Nds.	2,761	324,984	8,497	585		
Others	8,737	1,078,310	8,103	5,365		
Total	11,499	1,403,294	8,194	5,951	545,063	1.09
99-00						
Sp.Nds.	2,885	330,251	8,735	620		
Others	9,165	1,099,836	8,333	5,545		
Total	12,049	1,430,087	8,426	6,165	555,964	1.11

*In millions of dollars.

Table 3. EFRC2-B. Estimated Special Education Aid

Aid Year	Base Amount per Pupil	X	Average Additional Cost Factor	X	Number of Pupils	=	Special Education Aid
1992-93	7,232		(.397)		203,068 (10/91)		582,473,320
1993-94							
1994-95					223,148 (10/93)		
1995-96	7,232		.397		232,163	=	667,000,000
1996-97	7,232		.397		236,806	=	680,000,000
1997-98	7,362		.397		241,543	=	706,000,000
1998-99	7,556		.397		246,373	=	739,000,000
1999-00	7,707		.397		251,301	=	769,000,000

Notes:

(1) Base amount per pupil is the higher of $7,232 or the annual target foundation amount for non-Special Needs districts.

(2) The average additional cost factor is determined using 1992-93 state aid data. Continuation of this figure assumes no change in additional cost factors or in the distribution of pupils among programs or classifications.

(3) The special education enrollment for 1992-93 (as of 10/91) and 1994-95 (as of 10/93) includes all resident pupils in special education classes, resource rooms, supplementary and speech instruction, state facilities, regional day schools, and county vocational and special services districts.

Future enrollments are projected at +2% per year from the 1994-95 base figure, including a conversion to current year enrollment counts. Use of this growth rate assumes no change in the proportion of pupils classified for special education.

Table 4. EFRC2-B. Estimated Bilingual Education Aid

Aid Year	Base Amount per Pupil	X	Additional Cost Factor	X	Number of Pupils	=	Bilingual Education Aid
1992-93	7,232		.18		44,284 (10/91)		57,615,788
1993-94							
1994-95					47,016 (10/93)		
1995-96	7,232		.18		48,915		64,000,000
1996-97	7,232		.18		49,894		65,000,000
1997-98	7,362		.18		50,892		67,000,000
1998-99	7,556		.18		51,909		71,000,000
1999-00	7,707		.18		52,948		73,000,000

Notes:

(1) Base amount per pupil is the higher of $7,232 or the annual target foundation amount for non-Special Needs districts.

(2) The additional cost factor is as now included in the Quality Education Act.

(3) Future bilingual enrollments are projected at +2% per year from the 1994-95 (10/93) base figure, including conversion to current year enrollment counts. Use of this growth rate assumes no change in the proportion of pupils eligible for bilingual classes.

Table 5. EFRC2-B Estimated At-Risk Education Aid

Aid Year		Base Amount per Pupil	X	Average Additional Cost Factor	X	Number of Pupils	=	At-Risk Education Aid
1992-93	Sp.Nds.					(152,895)		
	Others					(91,737)		
	Total	7,232		(.165)		244,632 (10/91)		291,938,673
1993-94								
1994-95	Sp.Nds.					(185,003)		
	Others					(111,002)		
	Total					296,308 (10/93)		
1995-96	Sp.Nds	7,232		.220		192,477		306,000,000
	Others	7,232		.165		115,486		138,000,000
	Total							444,000,000
1996-97	Sp.Nds.	7,232		.275		196,327		390,000,000
	Others	7,232		.165		117,796		141,000,000
	Total							531,000,000
1997-98	Sp.Nds	7,362		.330		200,253		487,000,000
	Others	7,362		.165		120,152		146,000,000
	Total							632,000,000
1998-99	Sp.Nds.	7,556		.330		204,258		509,000,000
	Others	7,556		.165		122,555		153,000,000
	Total							662,000,000
1999-00	Sp.Nds.	7,707		.330		208,343		530,000,000
	Others	7.707		.165		125,006		159,000,000
	Total							689,000,000

Notes:

(1) Base amount per pupil is the higher of $7,232 or the annual target foundation amount for non-Special Needs districts.

(2) The average additional cost factor is determined using 1992-93 state aid data.

(3) The breakdown of at-risk enrollment between Special Needs districts and others is based on the distribution of At-Risk aid in 1992-93. Future enrollments for each group of districts is projected at +2% per year from the 1994-95 base figures, including a conversion to current year enrollments. Use of this growth rate assumes no change in the proportion of pupils classified as at-risk.

Table 6. EFRC2-B. Estimated County Vocational Program Aid

Aid Year	Base Amount per Pupil	X	Average Additional Cost Factor	X	Number of Pupils	=	County Vocational Program Aid
1992-93	7,232		(.216)		18,094 (10/91)		28,293,174
1993-94							
1994-95					16,735 (10/93)		
1995-96	7,232		.216		17,411		27,000,000
1996-97	7,232		.216		17,759		28,000,000
1997-98	7,362		.216		18,114		29,000,000
1998-99	7,556		.216		18,477		30,000,000
1999-00	7,707		.216		18,846		31,000,000

Notes:

(1) Base amount per pupil is the higher of $7,232 or the annual target foundation amount for non-Special Needs districts.

(2) The average additional cost factor is determined using 1992-93 state aid data. Continuation of this figures assumes no change in the proportion of secondary and post-secondary pupils.

(3) Future enrollments are projected at +2% per year from the 1994-95 base figure.

Table 7. EFRC2-B. Estimated Transportation Aid

Aid Year	Transportation Aid
1992-93	257,629,261
1993-94	
1994-95	
1995-96	290,000,000
1996-97	301,000,000
1997-98	313,000,000
1998-99	326,000,000
1999-00	339,000,000

Notes:

(1) Aid projected from the base year 1992-93 at +4% annually, which is the growth rate observed from 1991-92 to 1992-93.

Table 8. EFRC2-B. Estimated Pension Aid

Aid Year	Teachers Pension and Annuity Fund (TPAF)	Social Security (FICA)
1992-93		
1993-94	384,738,000	392,129,000
1994-95		
1995-96	500,000,000	457,000,000
1996-97	570,000,000	494,[illegible]0,000
1997-98	650,000,000	533,000,000
1998-99	741,000,000	576,000,000
1999-00	844,000,000	622,000,000

Notes:

(1) TPAF aid is projected from the 1993-94 base year at +14% annually, which is the growth rate observed from 1992-93 to 1993-94.

(2) FICA aid is projected from the 1993-94 base year at +8% annually, which is the growth rate observed from 1992-93 to 1993-94.

(3) This estimate does not reflect the revisions to the State pension laws recently enacted pursuant to P.L. 1994, c. 62.

Table 9. EFRC2-B. Summary of State Aid Estimates in Millions of Dollars

Aid Year	Foundation Aid	Transition Aid	Leeway Aid	Spec. Ed. Aid	Biling. Aid	At-Risk Aid	Cty. Voc. Prog. Aid	Transportation Aid	TPAF Aid	FICA Aid	Total Aid	Chg. from Prior Year
1992-93	2,371	86	--	582	58	292	28	258	338	362	4,375	
1993-94	2,538	86	--	583	57	293	29	264	385	392	4,627	+ 252
1994-95												
1995-96	3,987	--	71	667	64	444	27	290	500	457	6,507	+1,880*
1996-97	4,514	--	69	680	65	531	28	301	570	494	7,252	+ 745
1997-98	5,064	--	71	706	67	632	29	313	650	533	8,065	+ 735
1998-99	5,471	--	77	739	71	662	30	326	741	576	8,693	+ 628
1999-00	5,780	--	104	769	73	689	31	339	844	622	9,251	+ 558

*Two-year increase from 1993-94.

Notes:

(1) 1992-93 and 1993-94 data are actual aid figures reported on DOE Net Budget and Local Levy Budget state aid print-outs except for TPAF and FICA figures which are appropriations.

(2) 1995-96 through 1999-00 data are estimates with more detail shown in Tables 1 through 8.

(3) Debt service aid is not included.

(4) This estimate does not reflect the revisions to the State pension laws recently enacted pursuant to P.L. 1994, c. 62.

Table 10. EFRC2-B. Estimated State Aid as a Percentage of Total Costs*

Aid Year	Property Tax Levies	State Aid	Pension Costs	Total Costs*	State Aid as a % of Total Costs*
1992-93	5,437	4,375	700	10,512	41.6%
1993-94	5,718	4,627	777	11,122	41.6
1994-95					
1995-96	5,302	6,507	957	12,706	51.0
1996-97	5,502	7,252	1,064	13,818	52.5
1997-98	5,717	8,065	1,183	14,965	53.9
1998-99	5,951	8,693	1,317	15,961	54.5
1999-00	6,165	9,251	1,466	16,882	54.8

* "Total Costs" shown here do not include debt service, Federal aid, or miscellaneous local revenues.

(1) This estimate does not reflect the revisions to the State pension laws recently enacted pursuant to P.L. 1994, c. 62.

Glossary

At-Risk Students: Students whose disadvantaged socioeconomic background may present special educational and social challenges. Under the commission's proposal, State aid is provided to finance preventive and remedial programs designed to meet the needs of at risk students. Eligibility for at-risk aid is based on family income; students who qualify for free meals or free milk programs would generate the aid.

District Factor Groups (DFGs): Ranking of school districts prepared by the Department of Education based on socioeconomic status. Originally prepared by the department in 1975 for use in reporting test scores, the District Factor Groups became involved in the debate over school funding when the Supreme Court utilized the DFGs as a mechanism to calculate school funding disparities in accordance with socioeconomic status. The DFGs are revised every ten years to reflect changes in census data.

Equalized Property Valuation: The estimated value of taxable property based on the market value as distinguished from the locally assessed value. The equalized property valuation of the taxing district or taxing districts is certified by the Director of the Division of Taxation on October 1 of the prebudget year; based on economic data produced by actual sales.

Foundation Aid: State education aid to local school districts based on the difference between a district's foundation budget and its required local effort.

Foundation Amount: The level of per pupil expenditures guaranteed to all school districts through a combination of State aid and locally raised revenue to cover the costs of educating one elementary school student. This amount is then weighted to account for the cost difference in each grade category or program when calculating the district's foundation budget.

Grade Weights: Multipliers applied to the basic foundation amount to reflect the varying costs of educating students in different grades and programs. Under the commission's proposal, grade weights are provided for half day and full day kindergarten and preschool, grades 1-5, 6-8, 9-12, adult high school programs, and county vocational schools.

Guaranteed Tax Base: Equalizes the ability of each school district to raise dollars for education. It focuses on local ability to generate money for education but leaves the district free to determine how much of that capacity it wishes to tap. Under a guaranteed tax base formula, school districts choose their tax rates for education. State aid is the difference between what would be raised with the guaranteed tax base and what the district can raise at that tax rate.

Local Leeway Aid: State aid provided to a school district with wealth below the local leeway guaranteed valuation and applied to that portion of the district's budget which falls between the district's foundation level and the current year I & J average budget. Under the commission's proposal, local leeway aid is calculated using a guaranteed tax base formula.

Local Levy Budget: A school district's budget for regular education programs. Under the commission's proposal, the local levy budget includes the district's foundation aid, local leeway aid, and local tax levies raised for General Fund purposes (current expense and capital outlay).

Parity: Substantial equality of spending between school districts for regular education programs. In its June 1990 Abbott v. Burke decision, the New Jersey Supreme Court ruled that additional funding must be provided to ensure spending parity between wealthy suburban districts and poor urban districts. Under the commission's proposal, parity for the special needs districts is defined as the projected current year local levy budget average for the I & J District Factor Group districts.

Required Local Effort: The tax rate that a local district must levy to raise the required local contribution to its foundation budget.