Frequently asked questions on the School Funding Reform Act of 2008

On January 7, 2008, the New Jersey State Legislature passed the “School Funding Reform Act of 2008.” This legislation establishes a new system for funding public school districts in New Jersey.

Here are some frequently asked questions about the new law and why NJEA supported its passage.

Q: Why did New Jersey need a new funding formula?

There are several reasons. First, the New Jersey Supreme Court determined in its 1997 Abbott v. Burke decision (“Abbott IV”) that the previous funding formula, known as the “Comprehensive Education Improvement and Financing Act” (CEIFA), was unconstitutional for children in 31 of the state’s poorest urban communities. CEIFA was later determined to be unconstitutional for children in several poor rural communities as well. When lawmakers stopped funding the formula in 2002, the law became obsolete.

Q: What happened after the old school funding law became obsolete?

Most districts were flat-funded for five of the last six years, meaning that they received the same amount of aid year after year though their costs and enrollments may have risen and their demographics and economic circumstances may have changed. Property taxes rose precipitously as many local communities tried to pick up the slack caused by stagnant state aid. Some districts lobbied successfully for more money at the expense of other districts that may have needed it more. The result was a fragmented system that lacked a rational basis for distributing state aid.

Q: How will the School Funding Reform Act of 2008 help this situation?

It will provide an additional $552 million dollars in state aid to school districts. More importantly, if fully funded, it will provide a predictable and prescribed means of distributing state aid to all school districts.

Q: How does the new school funding formula work?

The state has established a base per pupil amount. This is the amount per elementary school student that the state has determined to be adequate to provide an educational program that allows students to be proficient in the state Core Curriculum Content Standards. This number is then multiplied by various factors or “weights” to reflect the differing cost of educating a student at the middle and high school levels, at county
vocational school districts, and various other factors that make it more expensive to educate some students. Every three years the state will revisit these amounts via an “Educational Adequacy Report.” During the years in between reports, these amounts will be increased by the Consumer Price Index (CPI). The base per pupil amount established in the Educational Adequacy Report will become the basis for determining a school district’s base cost. The base cost will be determined by multiplying the base per pupil amount by the district’s weighted enrollment. The purpose of calculating the base cost this way is to have the funding (state and local) reflect the actual costs of educating students based on their specific needs.

Q: Where does school funding come from?

The law is funded through two sources. There is a local share that comes from local school property taxes. The state share comes from state income and other taxes. A small part of local funding comes from state grants provided through federal aid for education.

Q: Why do some districts get more state aid than others?

School funding mechanisms are designed and intended to achieve taxpayer equity and educational adequacy. To achieve equity, the adequacy budget is shared (i.e. equalized) so taxpayers of differing levels of wealth will have somewhat equal burdens of paying for education. State aid is distributed to districts based upon the wealth of districts. Therefore, poorer districts receive a larger portion of their budgets from state aid than do wealthy districts.

Q: What is an “adequacy budget”?

The State determines the “adequate” base amount per pupil that is necessary to meet the Core Curriculum Content Standards and meet the requirements of the educational clause of the State Constitution. The district’s “adequacy budget” is calculated by multiplying the base amount per pupil times the student enrollment of the district, and is then weighted to reflect the costs of various specialized student populations such as special education, at-risk, Limited English Proficiency (LEP), and combined at-risk/LEP pupils.

Q: How is a district’s local share determined?

The district’s local share of the budget is determined by the wealth of the district. Wealth is based upon equalized property values and personal income, which are weighted equally.

Q: How is a district’s state share determined?
The state share, which is the district’s state aid, is calculated by subtracting the local share from the adequacy budget. If the local share is larger than the adequacy budget then the state aid is set at zero.

Q: What happens if, under the new formula, the calculated adequacy budget is LESS than the district is currently spending?

Under the new law, these districts are considered to be “overspending.”

Q: What happens if, under the new formula, the calculated adequacy budget is MORE than the district is currently spending?

These districts are considered to be “under-spending.”

Q: How does the new funding formula address districts that are spending at levels either over or under adequacy?

The formula caps state aid increases at 10 percent for districts that are spending over adequacy and caps state aid increases at 20 percent for districts spending under adequacy.

Q: What happens if, under the new formula, the calculated local share is MORE than the district is currently raising through school property taxes?

Such districts could be required to raise local property taxes to reach their “local fair share” under the law.

Q: What happens if, under the new formula, the calculated local share is LESS than the district is currently raising through school property taxes?

These districts are may be allowed to direct some of their local aid increases to property tax relief (see next question).

Q: Is it true that some districts will be forced to use some of their state aid to provide property tax relief?

For districts spending over adequacy and taxing over the local fair share, a portion of their state aid increase must be used for property tax relief. The new funding formula requires that any state aid increase over 2 percent or the CPI, whichever is greater, must be used for tax relief. So, for example, if such a district receives a 10 percent increase in state aid, it may direct the first 2 percent, or a percent equal to the increase in the CPI –
whichever is greater – to schools. The remainder must be used for property tax relief.

(NOTE: the current CPI increase is 2.89 percent.)

Q: How is the new school funding law different from the old one?

The new formula attempts to provide aid to districts based on the specific needs of their students. Unlike CEIFA, it will be used to distribute aid to all districts – eliminating the “Abbott” designation. There are also significant differences in the way it provides funding for “at-risk” students, special education, and security costs. In addition, the new formula significantly expands the state’s obligation to provide early childhood programs to students. Finally, it uses a geographic cost adjustment to reflect county differences in the cost of providing educational services.

Q: What happens to funding for the former “Abbott” districts?

A: Those districts will be treated like all other districts, but the funding they receive under the law – which in some cases includes significant amounts of “adjustment aid” – will be “held harmless” indefinitely.

Q: What is “adjustment aid”?

A: When the new formula calculated state aid for a district, and the total 2008-2009 state aid was less than what the district is currently receiving for 2007-2008, then “adjustment aid” was provided to make up the difference to ensure that the district would not suffer a loss in state aid. In fact, more “adjustment aid” was provided to make up the difference so that each district received at least 2 percent more than its current 2007-2008 state aid. In subsequent years, decreases in “adjustment aid” will occur only if districts experience enrollment declines of more than 5 percent.

Q: Can future funding be reduced?

A: The only reason a district can lose state aid is if its enrollment goes down by more than 5 percent cumulatively, based on 2008-2009 figures. Furthermore, that reduction in aid will be limited to the difference in percentage between the actual enrollment decline and 5 percent, and would be applied to 2008-2009 “adjustment aid” only. For example, let’s say a district suffers a 2 percent decline in enrollment in 2009-2010, followed by a 3 percent decline in 2010-2011. That’s a total of 5 percent. It would suffer no loss in adjustment aid. But let’s say in the next year, it loses another 2 percent of students. That’s a total of 7 percent, so the district would see a reduction of 2 percent in its adjustment aid (not its total aid).

Q: How is funding for at-risk students different under the new formula?
Under the old law, “at-risk” students were defined as those eligible for free lunch. The new formula expands that definition to include students eligible for reduced price lunch as well. This means that more districts will receive more aid under the new formula to serve their at-risk student populations. Further, districts with higher concentrations of at-risk students will receive more aid per student than districts with lower concentrations of at-risk students. NJEA supported this change in the formula.

Q: How is funding for special education different under the new formula?

Under the old law, state aid for special education was considered a “categorical aid.” This meant that the state provided aid to districts for each special education student they served at an amount commensurate with each student’s individual classification. All districts received the same dollar amount for students in the same classification, regardless of their wealth.

The new formula is different in two significant ways. First, only one-third (1/3) of a district’s special education aid will be distributed as a categorical aid. The remainder of aid will be “wealth equalized”—in other words, wealthier districts will have a portion of their aid adjusted downward because they can afford to pay more.

Second, rather than providing funding to districts for each special education student they serve, districts will receive aid based on the state average classification rate. This is called a “census” model. The new law sets the classification rate at 14.69% for the 2008-2009 through 2010-2011 school years. Lawmakers introduced this approach to provide districts with a disincentive to over classify students.

Q: How does NJEA feel about the new method of calculating special education aid?

The Association has concerns about this approach. NJEA has Delegate Assembly policy which states that special education funding should be distributed on a categorical basis. NJEA fought unsuccessfully to have special education remain as a categorical aid. The Association was successful in securing an amendment to allow districts to apply for additional special education categorical aid in the event that they have unusually high rates of low-incidence disabilities. This is intended to mitigate the financial impact the special education census approach used in the formula could have on certain districts.

Q: What if this approach for funding special education doesn’t work?

The legislation provides that the state must complete an independent study of the effectiveness of the census-based approach for calculating special education costs. NJEA successfully lobbied to a provision in the bill to ensure that the study is completed by June 30, 2010.
Q: Are extraordinary special education costs calculated differently under the new formula?

Yes. NJEA is pleased that under the new formula the state is obligated to pay 90 percent of per-pupil special education costs exceeding $40,000 for in-district placements or private placements; and 75 percent of per-pupil costs exceeding $40,000 in separate public schools and $55,000 in private out-of-district placements. Currently, the state only funds about 23 percent of these excess costs, so this represents a positive change. In order to win passage in the legislature, lawmakers agreed that additional aid beyond what the bill requires will be included in FY 2009 budget language.

Q: How is security aid provided under the new formula?

Districts will receive anywhere from a minimum of $70 to a maximum of $406 per pupil in security aid, depending on student demographics. Districts with higher concentrations of at-risk students will receive higher amounts of security aid per pupil. This aid is included as part of the district’s total state aid allotment. Districts are not restricted in how they use this aid.

Q: Is the new school funding formula constitutional?

The Attorney General’s office on Jan. 3 issued an opinion stating that “if the Department’s funding proposal is enacted it will meet the requirements of the Thorough and Efficient Clause of the New Jersey Constitution.” It is unclear at this time whether there will be a court challenge to the new law.

Q: Didn’t NJEA oppose the legislation at one point? Why did the Association change its position?

Yes, we did initially oppose the legislation. The 106-page bill was not released to the public until mid-day on December 20. After a long night of analyzing the document, NJEA identified several areas of concern and felt compelled to oppose the bill because it did not appear that there would be sufficient time to work with the lawmakers to resolve these concerns, given the winter holidays and few meetings scheduled prior to the end of the legislative session.

After learning of NJEA’s opposition, the Governor’s office immediately scheduled a meeting with the Commissioner of Education and other administration officials. Negotiations continued over the holidays. NJEA was successful in obtaining amendments to the bill that, on balance, made the legislation acceptable. Among those amendments were provisions to:
* Modify restrictions in the bill to allow certain districts to apply a greater portion of their state aid increases to educational purposes before being required to apply a portion their increases toward tax relief.
* Require the Department of Education to release the Educational Adequacy Report every three years instead of every five years, to ensure that per pupil amounts and cost coefficients are adjusted more frequently in order to more accurately reflect actual costs.
* Clarify language ensuring that, with the exception of the first year, the Commissioner must adopt regulations to implement this formula pursuant to the Administrative Procedures Act.
* Allow districts to apply for additional special education categorical aid in the event that they have unusually high rates of low-incidence disabilities. This is intended to mitigate the financial impact the special education census approach could have on certain districts.
* Clarify that the Commissioner will conduct an independent review of the special education census funding methodology and make any adjustments for funding by June 30, 2010.

Q: Why did NJEA decide to support the new formula?

NJEA supported the new aid formula because it:

* Increases state aid to schools by providing an additional $552 million in state aid to districts in 2008-2009.
* Expands quality preschool programs to all districts by investing $310 million over the next six years – and bringing total preschool spending to over $800 million.
* Increases funding for extraordinary special education costs.
* Increases funding for at-risk students by broadening the definition of “at-risk” to include students who are eligible for both free- and reduced-price lunches.
* Provides increased state aid to a large number of districts that have been flat-funded for five the past six years.

Q: Does NJEA have any remaining concerns about the new formula?

The Association remains concerned about the ability of current Abbott districts to maintain existing programs that have proven to be successful in raising student achievement and in closing achievement gaps. NJEA fought unsuccessfully to restore an appeals process for Abbott districts. NJEA will closely monitor this situation and will vigilantly seek changes to this formula in the event that it leads to a diminution of educational opportunities for students in these districts. Future funding is dependent upon the will of the governor and the Legislature.

NJEA also has concerns about the impact of the new methodology for calculating special education aid. The Association will not hesitate to seek changes to the law, if necessary.