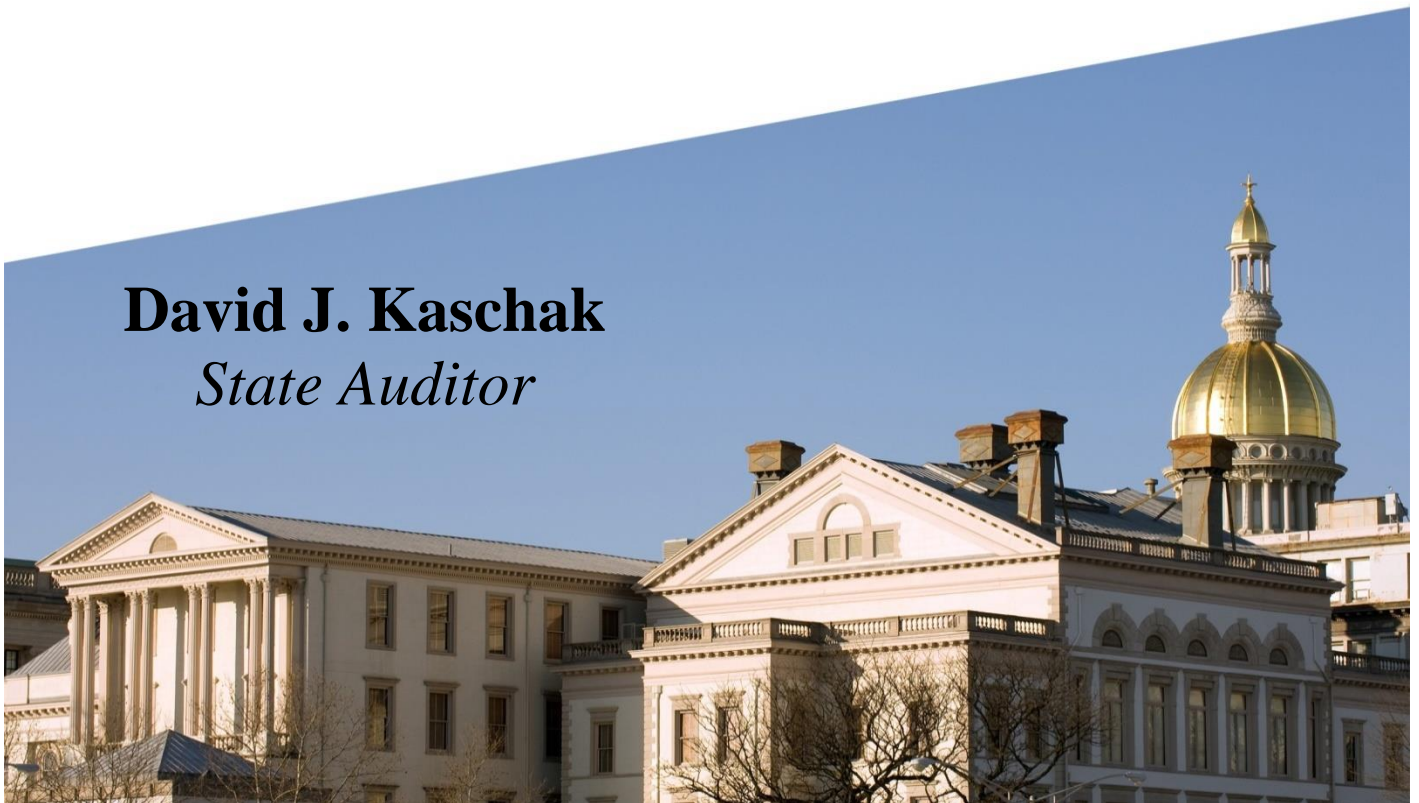


*New Jersey Legislature*  
★ *Office of* LEGISLATIVE SERVICES ★  
**OFFICE OF THE STATE AUDITOR**

Issue Paper  
School Funding

**David J. Kaschak**  
*State Auditor*



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We are providing the attached issue paper regarding school district funding for your review and consideration. The issues were based on our recent forensic audit of a school district.

A handwritten signature in cursive script that reads "David J. Kaschak".

David J. Kaschak  
State Auditor  
July 11, 2023

Seth Hahn, Executive Director, Assembly Majority Office  
Timothy P. Lydon, Executive Director, Senate Majority Office  
Mark H. Duffy, Executive Director, Assembly Republican Office  
Christine Shipley, Executive Director, Senate Republican Office

# Issue Paper School Funding

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### **Glossary – Definitions and General Provisions**

**Adequacy Budget** – The adequacy budget (AB) for each school district shall be calculated as follows:  $AB = (BC + AR \text{ Cost} + LEP \text{ Cost} + COMB \text{ Cost} + SE \text{ Census}) \times GCA$  where BC is the district's base cost; AR Cost is the cost of providing educational and other services for at-risk pupils; LEP Cost is the cost of providing educational and other services for bilingual education pupils; COMB Cost is the cost of providing educational and other services for pupils who are both at-risk and bilingual; SE Census is the cost of providing programs and services to general special education services pupils and speech-only pupils; and GCA is the geographic cost adjustment.

**Below Adequacy** – A district with a budget set below the minimum needed to provide all of its students with a thorough and efficient (T&E) education. This can occur if a district's spending does not equal the sum for the prebudget year of its equalization aid, special education categorical aid, security categorical aid, and the general fund local levy.

**Categorical Aid** – State aid allocated to each district regardless of its ability to raise local revenue. Amounts are typically determined by multiplying the cost factor for a particular category by the number of students that qualify for the aid.

**Local Share** – The ability of a district to support its AB based on property and personal income wealth. This shall be calculated as follows:  $LS = (EQVAL \times PVR \times 50\%) + (INC \times INR \times 50\%)$  where EQVAL is the district's equalized valuation; PVR is the statewide property value rate; INC is the district's income; and INR is the statewide income rate.

**Mandated Transportation** – Pursuant to N.J.S.A. 18A:39-1, transportation shall be provided to public school students, nonpublic school students, and special education students who reside remote from their assigned school of attendance.

**State Aid** – The school funding formula that shall provide for the maintenance and support of a T&E system of free public schools for the instruction of all children between the ages of five and eighteen years. This is allocated to each district based on characteristics of student population and up-to-date measures of a district's ability to pay.

**Wealth-Equalized Aid** – State aid allocated to each district based on its ability to raise enough local revenue to support its AB. This portion of the funding formula is applied uniformly to all districts, distributing state aid equitably based on each community's ability to pay.

**Adequacy Budget, Local Share, and State Aid**

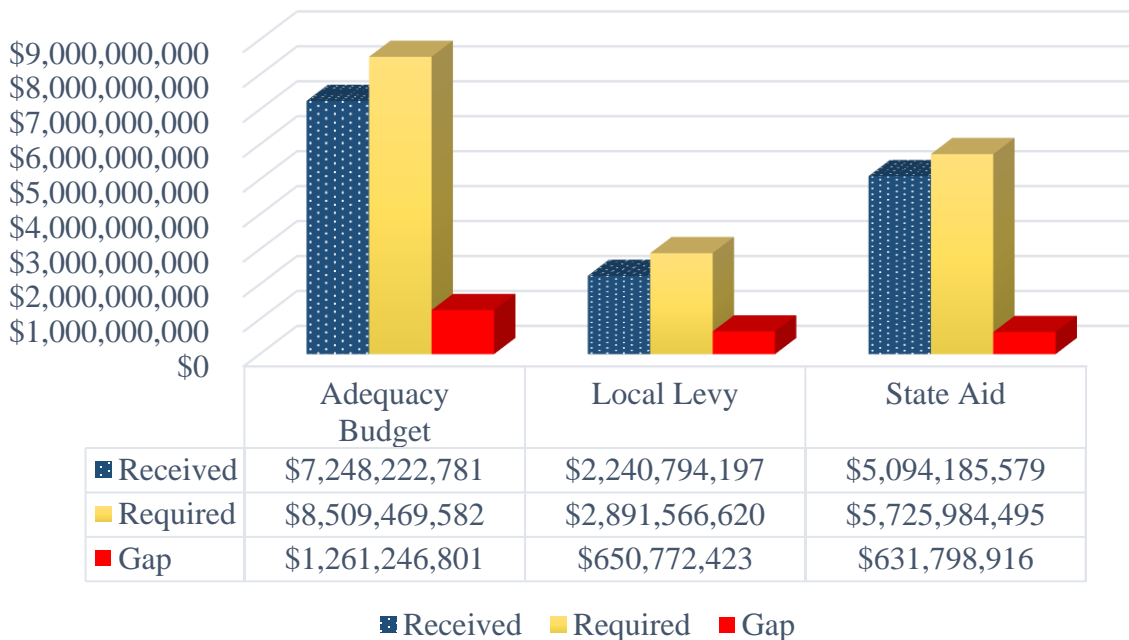
**Background:**

Pursuant to the School Funding Reform Act of 2008, P.L. 2007, c.260, school districts receive an allocation of two types of aid considered necessary to provide the maintenance and support of a thorough and efficient (T&E) education: wealth-equalized aid and categorical aid. The final calculation of a district’s aid allocation is the difference between the adequacy budget (AB) and local share, plus the sum of categorical aid.

**Issue:**

Currently, there is a gap in funding for certain school districts regarding wealth-equalized aid, categorical aid, local share, and state aid. As a result, these districts must ensure the provision of a T&E education with limited funding. The chart below shows the funding gaps between amounts received and amounts required for the 60 school districts that had gaps in each of their adequacy budgets, local tax levies, and state aid allocation in fiscal year 2022.

**60 School Districts with Funding Gaps in Adequacy Budget, Local Levy, and State Aid**



Source: The Education Law Center

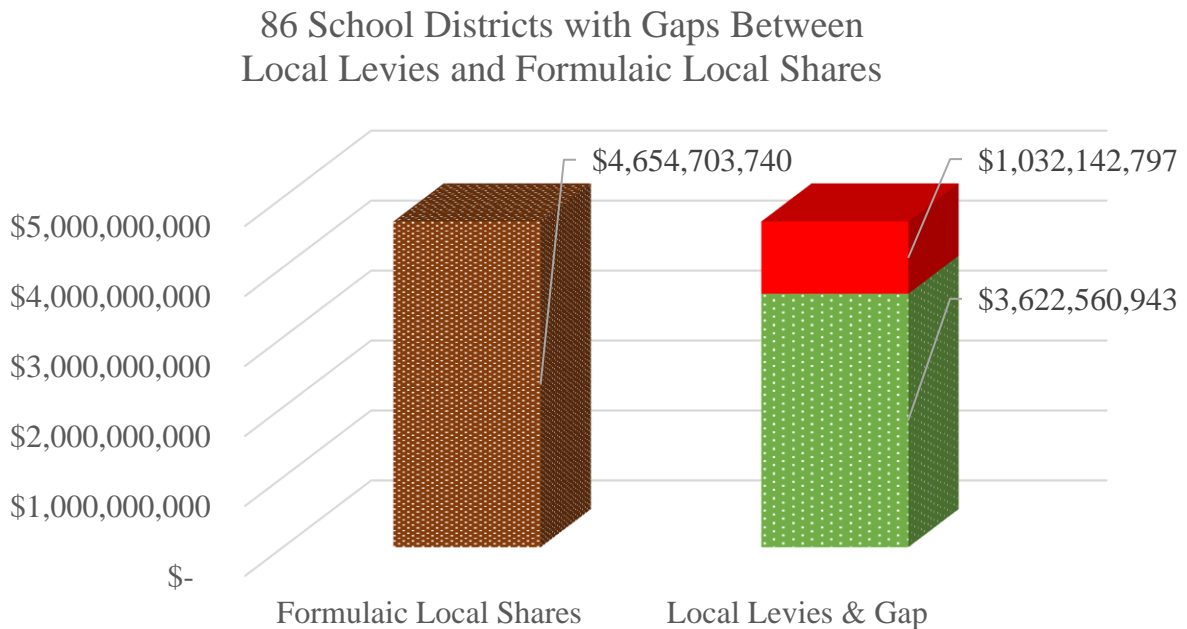
### School District Budget Increases are Limited

#### Background:

Pursuant to N.J.S.A. 18A:7F-38, a school district shall not adopt a budget with an increase in its adjusted tax levy that exceeds the tax levy growth limitation calculated as follows: the sum of the pre-budget year adjusted tax levy and the adjustment for increases in enrollment multiplied by two percent, with adjustments for increases in health care costs and certain normal and accrued liability pension contributions.

#### Issue:

This law inhibits certain school districts from raising additional funding to meet their formulaic local share. According to fiscal year 2022 data obtained from the Education Law Center, there were 86 below adequacy school districts that had a combined \$1.03 billion funding gap between their actual local tax levies and formulaic local shares. If each of these school districts raised its local tax levy by the allowable amount, it would have only generated an additional \$72.5 million, or seven percent of the local funding gap. The chart below shows the cumulative formulaic local shares, local tax levies, and proportion of funding gaps compared to the two percent increase for these school districts.



Source: The Education Law Center

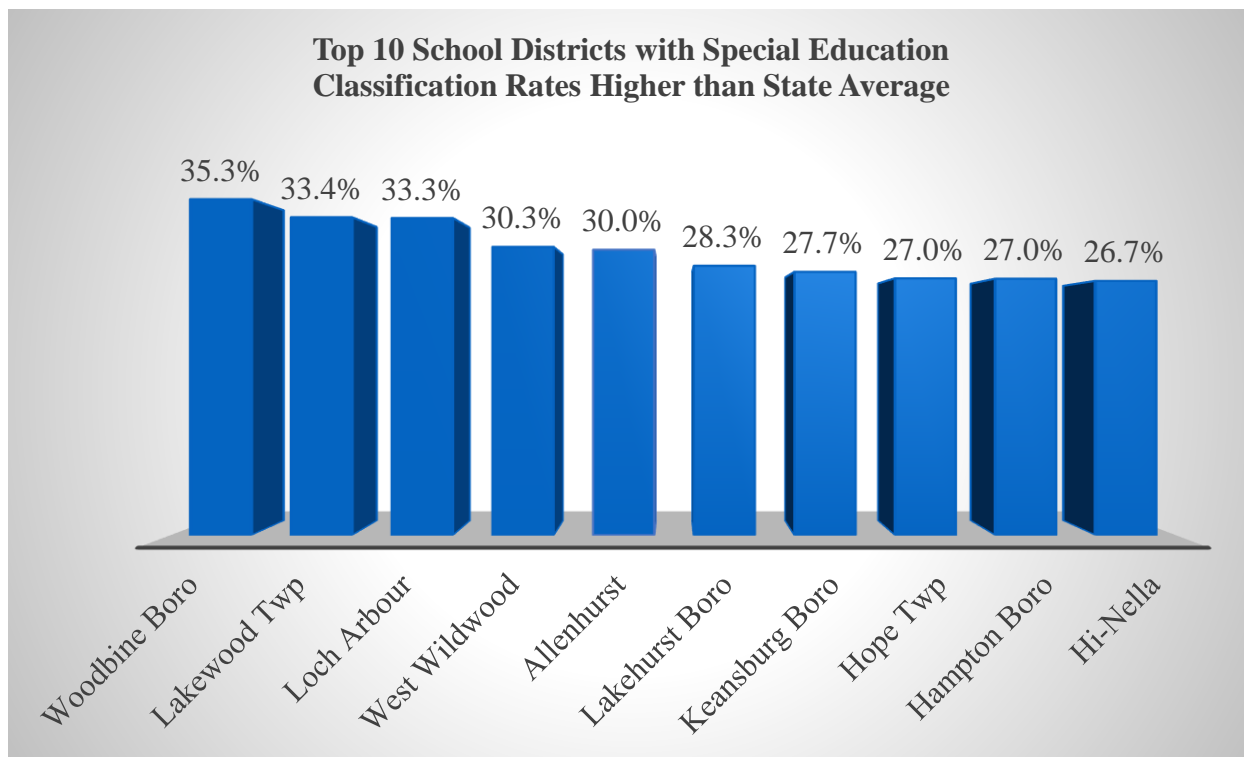
### Special Education Aid

#### Background:

Pursuant to the School Funding Reform Act of 2008, P.L. 2007, c.260, the state provides special education aid to school districts by applying a census-based formula using the state average classification rate. In fiscal year 2023, the state average classification rate was 15.9 percent.

#### Issue:

Because the census-based methodology is applied, school districts receive funding for special education based on the assumption that 15.9 percent of the total student population requires special education services. According to October 2021 enrollment data obtained from the New Jersey Department of Education, 324 school districts had a classification rate of at least 16.9 percent, which is one percentage point higher than the rate used in the formula. The chart below shows the 10 school districts with the highest special education classification rates.



Source: New Jersey Department of Education

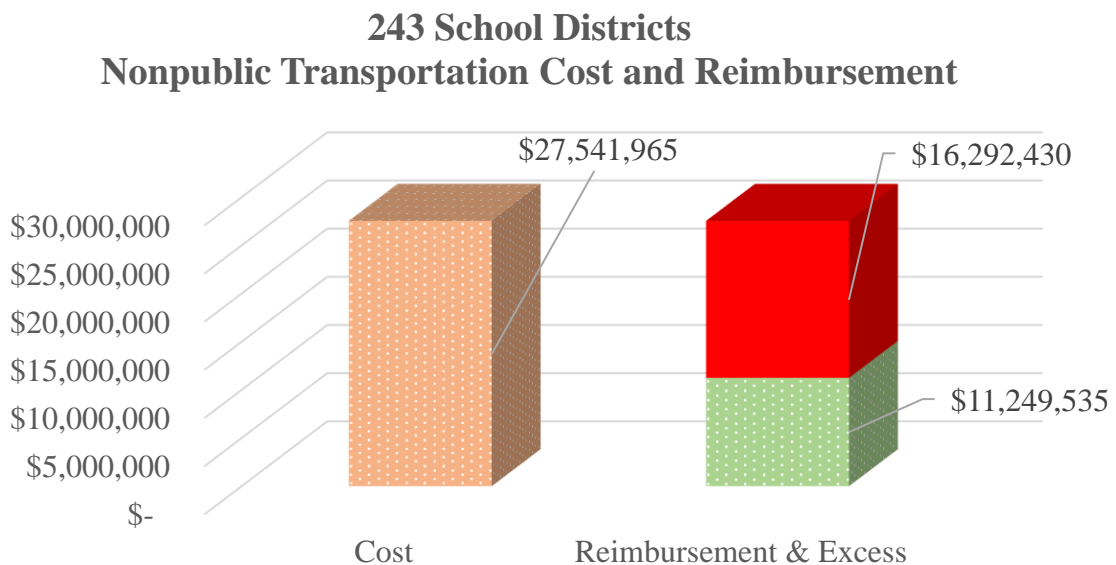
**Limited Reimbursement of Nonpublic School Transportation Costs**

**Background:**

Pursuant to N.J.S.A. 18A:39-1, school districts shall provide mandated transportation to all public and nonpublic students who live remote from their school. In fiscal year 2020, school districts were entitled to reimbursement of nonpublic school transportation costs in excess of \$710 but not more than \$1,000 per pupil, or a maximum of \$290 per pupil.

**Issue:**

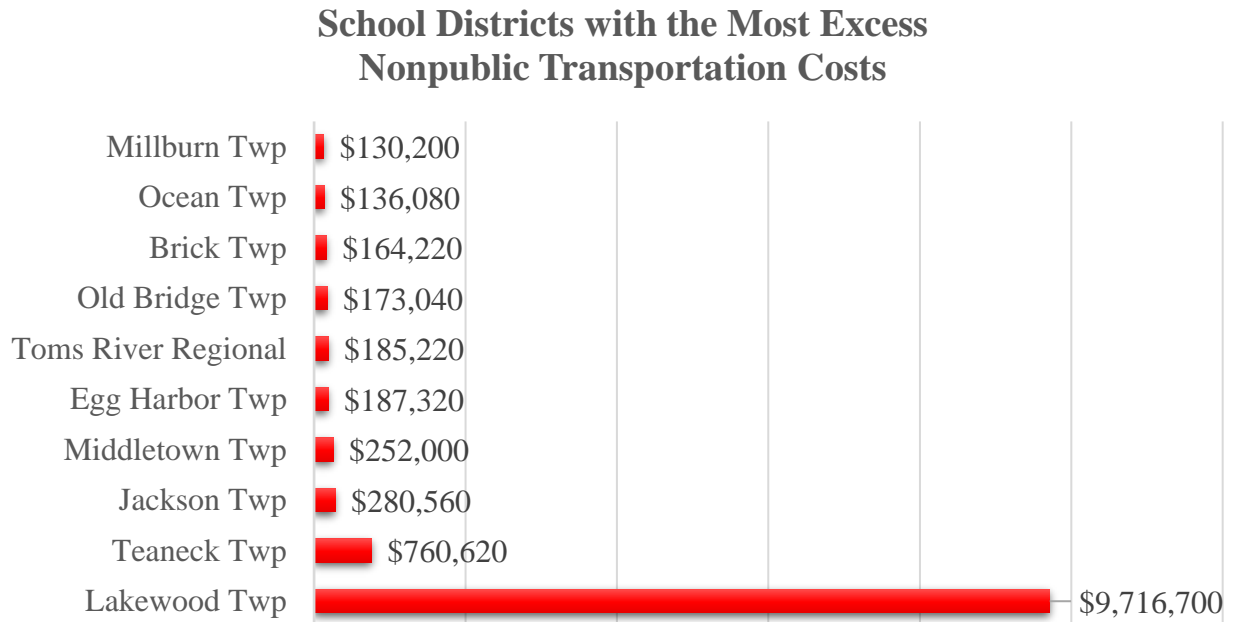
Certain school districts may not be receiving an adequate amount of funding to help support the costs resulting from this mandate. According to October 2020 data obtained from the District Report of Transported Resident Students, 243 school districts provided mandated transportation totaling \$27.5 million to 38,792 nonpublic students. These districts were reimbursed \$11.2 million, yielding excess costs of \$16.3 million, as illustrated in the following chart.



Source: New Jersey Department of Education



Lakewood school district's excess costs of \$9.7 million represented 60 percent of the total excess costs. The following chart shows the 10 districts with the most excess costs.



Source: New Jersey Department of Education

## **Commercial Valuation Stabilization Aid**

### **Background:**

Pursuant to P.L. 2016, c4, municipalities confronted by severe fiscal distress may be determined to be in need of stabilization and recovery. Supplementing this law, N.J.S.A. 18A:7F-65 created an additional category of state aid called commercial valuation stabilization aid, which was to be awarded to school districts located in municipalities where commercial property accounted for at least 75 percent of the total assessed property valuation in 2008 and the assessed value of commercial property declined by at least 25 percent between 2008 and 2013.

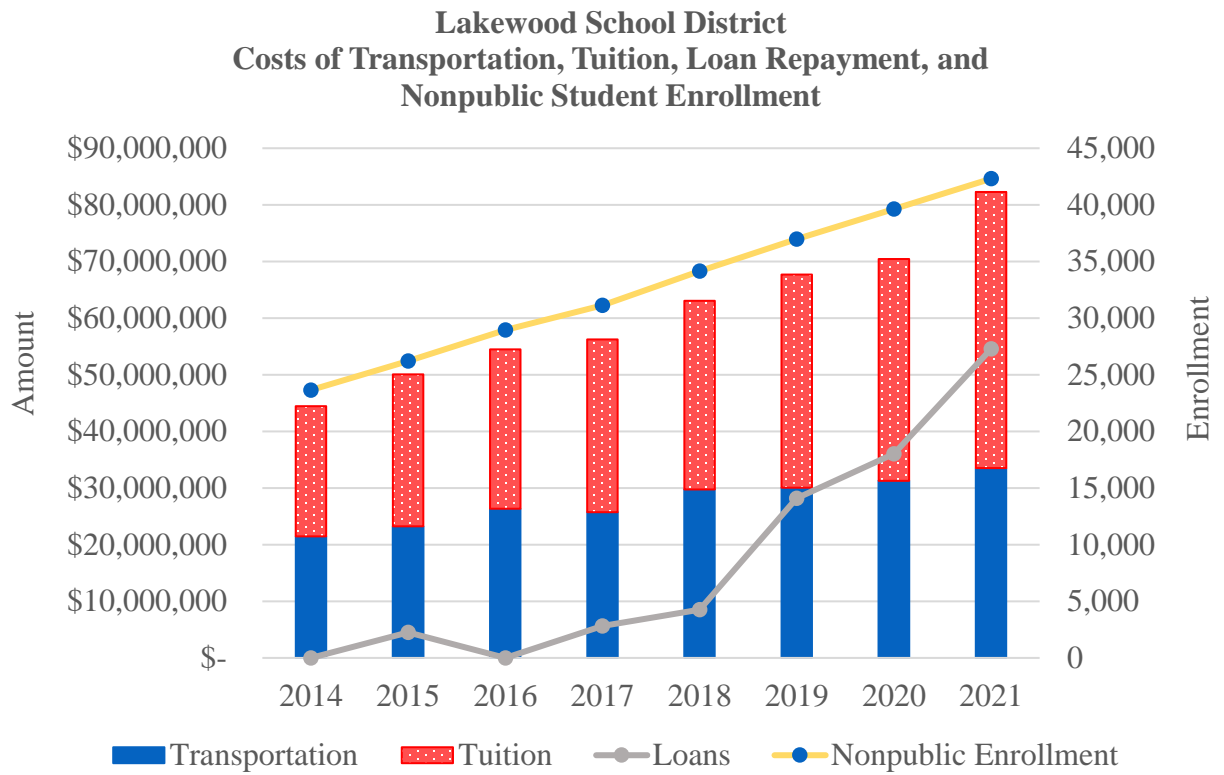
### **Issue:**

Under the current law, Atlantic City school district is the only school district that meets the criteria to receive commercial valuation stabilization aid. Commercial property accounted for nearly 78 percent of the municipality's total assessed property valuation in 2008 and declined from \$16 billion in 2008 to less than \$11 billion in 2015, nearly 32 percent.

Lakewood school district may be considered a district confronted by severe fiscal distress and could benefit from the creation of an additional state aid category similar to commercial valuation stabilization aid because of the aforementioned reasons discussed in this paper, as well as the following:

- For fiscal years 2014 through 2018, the district had budgetary deficits in its general fund.
- From fiscal year 2014 through 2021:
  - Despite the assignment of four state monitors with total salaries of \$936,667 to provide fiscal oversight, the district continues to experience fiscal issues.
  - The district amassed \$137.4 million in loans, which included a \$54.5 million loan in fiscal year 2021.
  - Transportation and tuition costs totaled \$488.7 million. Of this amount, \$401.3 million (82 percent) were tuition payments for special education students sent out-of-district to approved in-state private schools for students with disabilities and mandated transportation of nonpublic students sent to nonpublic schools. These issues were mentioned earlier in this paper.
  - Nonpublic student enrollment averaged 32,881 students, including 42,307 students in fiscal year 2021. This contributed to the nonpublic transportation cost mentioned above.

The chart below depicts the aforementioned information.



Source: New Jersey Office of the State Auditor

## **Establishment of a Commission for Nonpublic Students**

### **Background:**

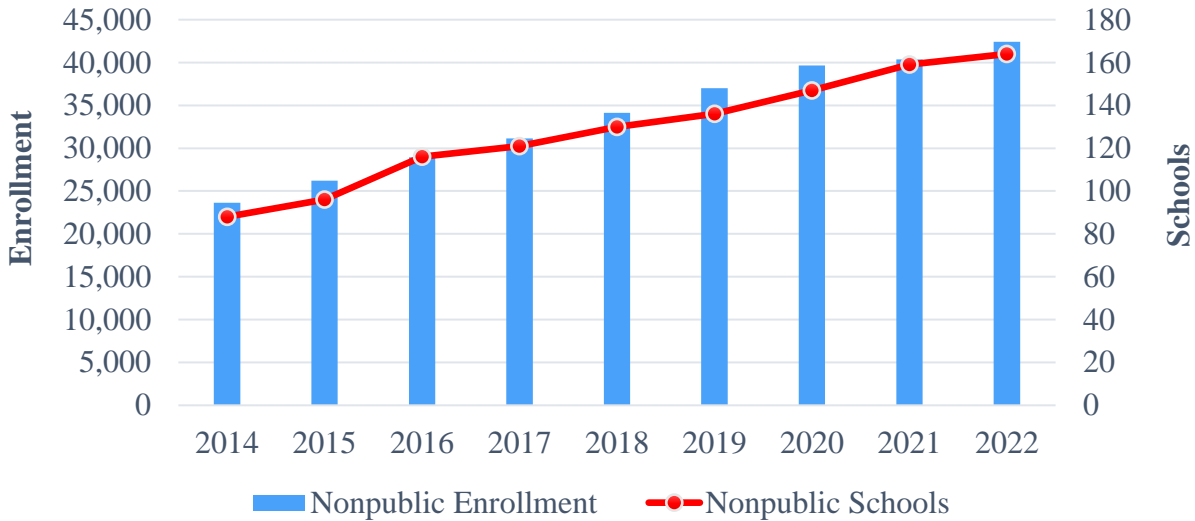
Pursuant to N.J.S.A. 18A:6-52, whenever five or more boards of education in any county and the Commissioner of Education after study and investigation deem it advisable to establish a county educational services commission, such boards of education may petition to the state board of education for permission to establish such a commission. The state board shall determine whether there is a need for such a commission and whether its operation is feasible.

### **Issue:**

Ocean County, specifically Lakewood school district, could benefit from the establishment of a commission similar to the Monmouth Ocean Educational Services Commission (MOESC) and the Union County Educational Services Commission (UCESC) for its nonpublic student population. Both of these commissions were established to provide educational programs and services to students in a more cost-effective manner. The MOESC works on a contract basis with public school districts to provide services to nonpublic students, and the UCESC provides state-mandated services to over 4,000 nonpublic students enrolled in 70 nonpublic schools.

Lakewood school district's nonpublic enrollment of 42,396 represented 95 percent of Ocean County's nonpublic enrollment. From fiscal years 2014 through 2022, Lakewood school district's nonpublic enrollment increased from 23,652 to 42,433, an overall increase of 18,781 students (79 percent). During that same period, the number of nonpublic schools increased from 88 to 164, an overall increase of 76 nonpublic schools (86 percent), as summarized in the following chart.

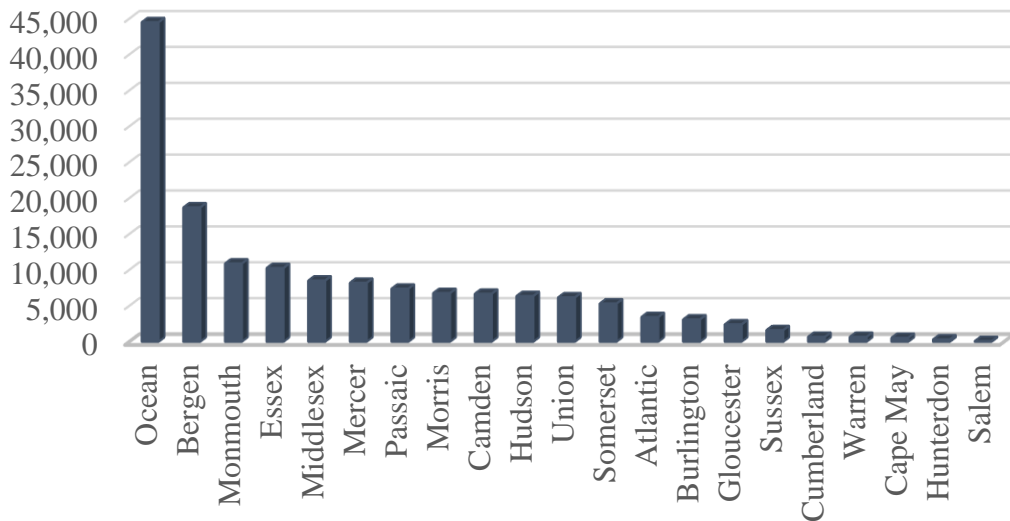
### Lakewood School District's Nonpublic Enrollment and Nonpublic Schools Fiscal Years 2014 through 2022



Source: New Jersey Department of Education

According to data from the October 2021 count of student enrollment, 243 school districts had 152,324 nonpublic students enrolled. The increase in Lakewood School District’s nonpublic enrollment has resulted in Ocean County having a significantly higher nonpublic enrollment than other counties, as shown below.

### Nonpublic Enrollment by County As of October 2021



Source: New Jersey Department of Education