



A Path Forward: School Funding Solutions

Initial report written by NJASBO but has been edited to be LRHSD specific

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Introduction

The Lenape Regional High School District has been at the forefront of addressing the impact of the School Funding Reform Act (SFRA) formula. Since its implementation in 2008, the district has expressed concerns regarding the fairness and methodology of the formula and has actively advocated for reform. At the time of the SFRA's enactment, the state acknowledged that changes to school district funding could not be implemented within a single fiscal year. As a result, districts identified as overfunded were held harmless, meaning their funding would not be immediately reduced. However, in 2018, state legislators passed S-2, a bill that mandated a seven-year reduction in state aid based on the SFRA formula's calculations.

In response to the anticipated loss of state aid, the district took immediate action to identify budget cuts that would minimize the impact on students and staff. These efforts continued over several years. However, by the final year of anticipated cuts, the district faced reductions that were more than 14 times greater than originally projected. A significant factor contributing to this drastic loss is a major flaw in the formula, which causes substantial fluctuations in the local fair share calculation, resulting in large, unpredictable gains or losses for individual districts.

This report outlines the primary issues with the current school funding formula and details how these issues specifically affect the Lenape Regional High School District. Additionally, the report offers recommendations for legislative consideration to address these challenges and ensure more equitable funding for all districts.

For those who would like an understanding of the History of the formula that section then follows. Finally, a recap of the perfect storm of legislation, inflation, and demand for services juxtaposed against the intent of the original formula explains how we have arrived at our current fiscal cliff.

Management Summary

LRHSD recommends the following actions to address the fiscal stressors and fluctuating state aid funding situations.

Short Term Solutions related to the Formula:

- Transportation Costs- Revise transportation aid formula components to reflect current expenses. Create a transportation spending growth limitation adjustment.
- Tax Levy Cap- Allow districts without a state aid increase equal to at least 2% to increase taxes for the amount equal to 102% of the previous year state aid.
- Local Fair Share: Equalization & Income Factors- Utilize a 5-year rolling average or variance cap for both equalization and income factors to smooth out annual fluctuations in Local Fair Share calculation.
- Health Benefit Costs- Revise the spending growth limitation adjustment for health benefit costs.

Short Term Solutions to Provide Fiscal Assistance to Districts outside of the SFRA Calculation:

- Special Education & Extraordinary Aid Expenditures-
 - Fully fund extraordinary aid expenditures. Expand the categories of mid-year eligible reimbursements per 18A:7F- 55 and make them available.
 - Incorporate special education transportation into the extraordinary aid reimbursement calculation.
 - Increase Special Education funding generally to include a district's actual enrollment instead of the state average.
- Cap Adjustments- Optimally remove the 2% tax levy cap. Alternatively, move expenditures such as capital outlay, fuel costs, legal expenses, mental health services, tutoring, PERS assessments, private school tuition adjustments, energy costs & other prioritized, mandated or uncontrollable expenditures outside the 2% levy cap.
- Homeless Costs- Fund homeless transportation costs at the state level.
- Debt Service Aid Assessment- Eliminate Debt Service Aid Assessment of \$26.5 million. LRHSD assessment annually for the last 13 years has been \$276,524.
- Public Employee Retirement System Assessments- Cap PERS assessments to 2% and notify districts of their assessments prior to the adoption of district budgets.
- Teacher Pension & Annuity Fund Reimbursements- Reduce TPAF pension reimbursement rate for federally funded positions to 7.5%.
- Consumer Price Indexing- Utilize a more current CPI calculation.

Long Term SFRA Recommendations:

- Professional Judgement Panel- Reconvene a Professional Judgement Panel to update current factors including geographical cost factors.
- Payments in Lieu of Taxes- Require PILOT agreements to contain school district compensation to reflect any financial impacts on districts and local taxpayers.
- At Risk Students- Convene a working group to identify an alternative methodology to free and reduced applications, etc. to reflect at risk student status.

Detailed Recommendations

Short Term Solutions related to the Formula:

Transportation Costs: LRHSD has seen a 42.52% increase in transportation costs since 2020-21 school year while state aid for transportation has only increased 9.87%. The state only funds 25.6% of the district’s transportation costs. These sharp increases have occurred while the district had moved to more cost-efficient neighborhood bus stops, eliminating all after school transportation and elimination of courtesy bussing.

School year	2020-21	2021-22	2022-23	2023-24	Over last 4 years
State Aid Revenue	3,574,557.00	3,571,276.00	3,708,021.00	3,927,296.00	
		(3,281.00)	136,745.00	219,275.00	
		-0.09%	3.83%	5.91%	9.87%
Total Expenditures	10,752,132.00	11,506,386.00	14,489,079.00	15,324,265.00	
Difference		754,254.00	2,982,693.00	835,186.00	
% increase per year		7.01%	25.92%	5.76%	42.52%
Total Paid for by Tax Dollars	7,177,575.00	7,935,110.00	10,781,058.00	11,396,969.00	

Recommendation: Revise transportation aid formula components to reflect current expenses. Create a transportation spending growth limitation adjustment.

Tax Levy Cap: The 2% cap law is based on tax levies and not overall budgets. Competitive salary settlements well exceed the 2% number throughout the state. Salaries and benefits typically comprise 85% of a district budget. The cap law did not take into consideration the ratio of funding between state aid and tax levy. Inflationary costs and statutory limits on tax levy increases prohibit districts from having the ability to fund current programs and due to this gap forces most districts not receiving more state aid to implement cuts year after year.

Illustration below shows a typical budget with increases and how the tax levy cap without a state aid increase creates a deficit in the next year requiring cuts.

	2024-25	Estimated 2025-26		
General Budget	173,474,347			
Non-Salaries	26,021,152	26,541,575	2% increase*	
Salaries - roughly 85% of budget	147,453,195	152,614,057	3.5% increase	
Tax levy	137,770,007	140,525,407	2% cap increase	
Difference that state aide should pay	35,704,340	38,630,225	\$ 2,925,885	Deficit

*Illustrated with 2%: however, districts are recognizing increases in supplies and services well more than 2%

Recommendation: Allow all districts who do not receive state aid at least equal to CPI to increase taxes to account for the deficit equal to the CPI.

Local Fair Share: Equalization & Income Factors: LRHSD saw significant variance in not only the 2022-2023 state aid calculation but more significantly in the 2023-2024 state aid calculations which skewed our funding significantly. Our current analysis of the equalized valuation and District income showed an increase of 8.4% and 11%, respectively. The overall increase in local fair change of 10% reduced the district’s state aid by \$4,692,106 which far exceeds the 2% tax levy increase we are permitted.

	FY25 State aid	FY24 State Aid	Difference	% increase
Equalized valuation	49,693,348	45,841,201	3,852,147	8.40%
District Income	67,728,762	61,024,178	6,704,584	10.99%
Local fair share	117,422,110	106,865,379	10,556,731	9.88%

Recommendation: NJASBO is recommending that a 5-year rolling average or variance cap be utilized for both equalized valuations and income used in the SFRA formula. This will help to smooth out significant swings in aid due to these factors and facilitate smoothing of budget planning and district staffing.

Health Benefit Costs: PL 2020, C. 44 changed the employee contribution towards health benefits from a percentage of the health benefit cost to a static percentage of salary. The result has been a transference of health benefit costs including any premium increases to the school district taxpayers. With 2% tax levy caps and shifts in the share of increased health benefit costs other areas of the budgets such as salaries must be reduced to balance budgets.

Recommendation- While the early termination of C. 44, prior to its 7-year expiration and return to collective bargaining would be optimal, most likely it is not probable. In the absence of that action, we would recommend a revision in the current spending growth limitation adjustment (NJSA 18A:7F-38d) for health benefit costs that is not tied to the state’s health benefit plan increases which are unpredictable and lack relevance to private plan and joint insurance fund experience and trends. We recommend it be tied to the tax levy cap percentage.

Short Term Solutions to Provide Fiscal Assistance to Districts outside of the SFRA Calculation:

Special Education & Extraordinary Aid Expenditures:

LRHSD analyzed actual audited special education costs and revenues. Special education funding increased \$568,376 in 4 years while expenditures increased almost 6 times as much equaling \$3,311,131.

The increases in expenditures are well above the tax levy cap for each year excluding 2023-24. In 2023-24, although expenditures decreased slightly, state revenue decreased more creating a larger shortfall than the previous.

Extraordinary Aid State level funding remains flat for the third year in a row resulting in state funds covering a decreasing percentage of these costs. Extraordinary aid expenditures are not fully funded as it has decreased from 90.1% for FY21 to 61.8% for the most recent FY24 reimbursement. Additionally, the transportation analysis shows a staggering increase of \$1.17 million (42% increase) in special education transportation costs between 2020-21 and 2023-24. Special education transportation expenditures are not eligible for extraordinary aid reimbursement. Finally, while 18A:7F-55 allows for some reimbursements during the applicable school year, the eligible expenditures are limited, and we are not aware of any current procedures in place for districts to take advantage of the process. Districts are expected to 'front' all of these costs in anticipation of some unknown reimbursement after the respective school year. This creates cash flow issues and budgeting uncertainties especially for smaller districts.

Recommendation- Fully fund extraordinary aid expenditures. Expand the categories of mid-year eligible reimbursements per 18A:7F-55 and make them available. Incorporate special education transportation into the extraordinary aid reimbursement eligibility. Increase special education funding generally.

Special Education Audited Expenditures:					
		2020-21	2021-22	2022-23	2023-24
Revenues					
Extraordinary Aid	10-3121	2,980,574	3,404,026	3,817,976	3,548,950
Categorical Special Education Aid	10-3132	4,238,655	4,238,655	4,238,655	4,238,655
Total Special Education Revenues		7,219,229	7,642,681	8,056,631	7,787,605
Percent Change			5.87%	5.42%	-3.34%
Expenditures					
Total Special Education Instruction (In-District)	11-2XX-100-XXX	11,046,983	10,968,416	12,059,063	11,957,584
Tuition to Other LEAs within state-Special	11-000-100-562	194,634	383,725	151,529	173,067
Tuition to CSSD	11-000-100-565	1,833,873	1,966,489	1,525,344	1,238,839
Tuition s Priv Sch For the Dsiabled W/I State	11-000-100-566	4,411,132	4,334,935	5,336,748	6,138,485
Tuition s Priv Sch For the Dsiabled out of State	11-000-100-567	48,800	27,569	109,507	62,677
Tuition - State Facilities	11-000-100-568	301,429	221,432	182,754	123,225
Tuition - Other	11-000-100-569	188,378	-	-	-
Total Out of District Tuition Costs-Special Education		6,978,246	6,934,150	7,305,882	7,736,293
Total Undist. Expend-Speech, OT, PT and F	11-000-216-XXX	640,768	749,305	1,193,355	1,060,746
Total Undist. Oth Supp Serv Std-Extra Serv	11-000-217-XXX	1,916,948	2,524,260	3,017,088	2,833,307
Total Undist. Expend-Child Study Teams	11-000-219-XXX	2,957,022	3,229,181	3,425,551	3,283,168
Total Undist. Expend-Special Education		5,514,738	6,502,746	7,635,994	7,177,221
Total Special Education Costs		23,539,967	24,405,312	27,000,939	26,871,098
Shortfall in funding		16,320,738	16,762,631	18,944,308	19,083,493
State funding % of total costs		30.7%	31.3%	29.8%	29.0%
Percentage Change			3.68%	10.64%	-0.48%

Source: Annual Comprehensive Financial Reports

Extraordinary Aid

Fiscal Year	FY24 Eligible costs	State Paid	State Paid Revenue	Change
FY21	3,308,293.00	90.094%	2,980,573.50	
FY22	4,057,919.00	83.886%	3,404,025.93	423,452.44
FY23	5,322,333.00	71.735%	3,817,975.58	413,949.65
FY24	5,744,962.00	61.775%	3,548,950.28	(269,025.30)

Source: Extraordinary Aid Printouts

Special education aid – Currently, the state’s methodology for determining special education aid relies on the state average percentage of students enrolled in special education, which is then applied to an individual district’s enrollment figures. This system creates disparities in funding: districts with a higher percentage of special education students are underfunded relative to their actual enrollment, while districts with fewer special education students receive more than their fair share of state funds.

The Lenape Regional High School District (LRHSD) is committed to supporting the needs of our special education students. However, the current funding structure has led to necessary budget cuts in non-mandated areas to meet these needs. The following comparison highlights the difference between the funding level received last year and the amount the district should have received if funding were based on actual special education enrollment.

Budget Year	2025	2024	2023
October 15 ASSA Year	10/15/2023	10/15/2022	10/15/2021
Total Resident Enrollment	6595	6647	6721
Special Education	1203	1217	1208
Speech Only	4	9	10
Percentage of Special Ed students is district	18.2%	18.3%	18.0%
Equalization Aid			
District Should Receive	16,323,785	15,599,697	15,265,440
Per NJ State Aid Notice	14,387,991	13,567,306	13,380,249
District Shorted	1,935,794	2,032,391	1,885,191
Special Education Categorical Aid			
District Should Receive	8,161,892	7,799,848	7,632,720
Per NJ State Aid Notice	7,123,846	6,844,896	6,716,541
District Shorted	1,038,046	954,952	916,179
Special Education Aid (SFRA) underfunding	\$ 2,973,840.22	\$ 2,987,343.24	\$ 2,801,369.92

Recommendation- Change funding formula to include actual enrollment utilizing the enrollment from the ASSA which is consistent with the rest of the funding formula.

Cap Adjustments- It cannot be stressed enough that the current budget cap is 2% of tax levy and NOT the entire budget amount. With the aforementioned double digit increases in expenditures, teacher salary settlements averaging 3.3+%, non-controllable expenses such as fuel costs, etc., budgets cannot be balanced without cutting other spending items. Certain expenditures have also been deemed necessary due to the pandemic's effects. Expectations of continuing technological resources, meals without regard to ability to pay, mental health and tutoring services add to the fiscal strain.

Recommendation- Optimally the 2% tax levy cap would be removed legislatively. Alternatively, in order to provide financial cap relief, we recommend that expenditures such as capital outlay, fuel costs, legal expenses, mental health services, tutoring, PERS assessments, private school tuition adjustments & other prioritized or uncontrollable services be moved outside the 2% levy cap.

Tuition Adjustments- PSDs- Current code allows for Private Schools for the Students with Disabilities (PSD) to increase tuition rates after district budgets are adopted. Districts are required to pay those increased costs in that current year. Vocational and send-receive tuition adjustments are billed, collected or paid in subsequent years allowing for proper budgeting for those expenditures.

Recommendation- Align PSD tuition adjustments with code that applies to all other service providers. Defer payment of any tuition adjustments generated after a district's budget approval to subsequent years.

Homeless Costs- The McKinney Vento Act requires that local districts ensure homeless children and youth are identified and enrolled in school and have a full and equal opportunity to succeed in school. Given the student's option to attend their prior school while they do not have 365 days of continuous permanent residency in the new district (evidenced by a lease, utility bills, etc.), transportation costs can be significant.

Recommendation- Fund homeless transportation costs on the state level incurred during those periods of time.

Debt Service Assessment- In previous years districts applied for and received grants from the (EDA) now the School Development Authority (SDA) for construction projects. Typically, the grant amounts were a minimum of 40% of eligible construction costs. Since 2011, the state has been clawing back a portion of the State's debt issuance costs in the form of an SDA debt service assessment. The assessment for fiscal 2023-24 continues the aid reduction by \$276,524. The 13-year cumulative loss of funds equals just \$3,594,812. Although the law, P.L. 2000 c.72 (C.18A:7G-15) has never been formally amended, the SDA assessment is included in a language provision inserted in the annual Appropriations Act (2023-24 handbook pg. B-49).

Teachers' Pension & Annuity Fund Reimbursement (TPAF)- Districts are required to reimburse the state for both social security and pension costs related to TPAF eligible employees who are compensated via federal funds such as Title I and ESSER funds to name a few. The social security reimbursement rate remains at the statutory federal rate of 7.65% however the pension reimbursement rate has been risen exponentially by the state as evidenced below. This repayment results in districts benefiting by only 47.07% of the federal funds for the 2022- 2023 fiscal year. In comparison, the employee TPAF contribution rate is 7.5%. This reimbursement rate waters down districts' actual receipt of federal funds and discourages utilization of federal funds for TPAF (e.g. teacher) salaries.

Recommendation- Reduce the TPAF pension reimbursement rate to 7.5%.

Final TPAF Rate:	
2022-23	45.28%
2021-22	45.47%
2020-21	35.24%
2019-20	28.34%
2018-19	27.50%
2017-18	23.85%
2016-17	20.07%
2015-16	17.29%
2014-15	13.95%

Source: NJDOE

Consumer Price Indexing- Various expenditures are constrained by CPI indices that are lagging in some cases by 2 years. For example, the transportation CPI that allows for contract increases up to a specified percent is 5.86%. When CPI rates are not reflective of current economics it causes a loss of contractors or a bidding situation with significant increases. See the increases noted under Transportation Costs.

Recommendation- Utilize a more current CPI calculation.

Long Term SFRA Recommendations:

Professional Judgement Panel- The original panel was convened in 2005. While the intent of the tri-annual Educational Adequacy Report is to keep the factors current, the mere passage of time has rendered them incomplete. For example, the pandemic has pivoted districts to a much greater use of technology and related resources. Current times are demanding greater mental health and tutoring resources. The original models need to be revised to be representative of current educational operations.

Recommendation- Reconvene a Professional Judgement Panel to update current factors including geographical cost factors, weights, etc.

Payments in Lieu of Taxes (PILOTS)- While there is disagreement over the perceived effect of PILOTS on local school districts, the inclusion of school districts in the creation of these agreements varies. While the exclusion of the related ratables from the equalization figures of the local fair share calculation arguably could benefit some districts' equalization aid, statewide only 55% of districts receive equalization aid to begin with. The potential impact of the development on the resources of the district and the existing local taxpayers compared to the receipt of funds by the municipality should be a matter of discussion and agreement.

Recommendation- Require PILOT agreements to contain school district compensation to reflect financial impacts on districts and local taxpayers if any.

History of SFRA

The current school aid formula, implemented via the School Funding Reform Act (SFRA), is 15 years old. The law was passed at the end of the 2006-07 session (P.L.2007, c.260) and first implemented in the fiscal year 2008-2009.

As originally conceived, the SFRA was designed to end decades of litigation involving disparities in per pupil spending levels between wealthy suburban districts and many of the poorer urban districts. Historically the state had attempted to ‘close the gap’ between rich and poor districts by providing additional aid targeted to the ‘poor’ districts. No limits had been placed on spending in so-called wealthy districts who were free to use their own property wealth to increase per-pupil spending as they desired.

The SFRA addressed this problem by defining a per-pupil adequacy amount, a statutory amount to provide an ‘adequate’ level of spending regardless of a student’s geographic location. This per-pupil adequacy amount incorporated a key factor carried over from both previous funding formulas - a focus on district enrollment.

Districts’ budgets were built by determining the cost for each individual student based on the assignment of weighted factors to determine what it would cost to educate each student, then calculating the amount to provide an ‘adequate’ education for all the students in each district.

Per the original design of the SFRA formula, the district adequacy budget is funded by the state and each local district based on a combination of individual districts’ property and income wealth – their local fair share. The wealthier the district, the larger the portion of the adequacy amount is raised from each district’s property tax levy.

SFRA’s largest aid category is Equalization Aid, funded as explained above in a ‘wealth-equalized’ manner. This funding is meant to provide for basic operational costs. Other aid funding for specific program categories like pupil transportation, students with special

learning needs and English language learners is provided through SFRA without regard to the income and property wealth of individual districts. Categorical Aid reflects districts’ enrollment and is based on the number of qualified students in each district without regard to local income or property wealth.

In addition, the method of individual student wealth determination included a student’s eligibility for free/reduced lunch, through which the state directed a large portion of aid to districts with the largest percentage of poor students.

Unfortunately, SFRA was never implemented as it was originally designed. To secure enough votes to pass the proposal was modified to guarantee that no district lost funding from the previous year regardless of enrollment or local wealth changes. The so-called ‘hold harmless’ clause provided sufficient votes to get the legislation through both houses of the Legislature.

This change required the addition of a new category of aid termed Adjustment Aid to guarantee continuation aid to all districts.

For the first time in decades the SFRA represented a methodology that the NJ Supreme Court ruled constitutional. However, the hold-harmless provision included in the law, required a portion of the amount intended for educational adequacy aid (Equalization Aid) to be diverted to districts who were subject to the ‘hold harmless’ provision of the final law.

According to the original SFRA statute Adjustment Aid was supposed to phase out in 3 years and Equalization Aid was to be fully funded. That was the intention until the next fiscal year’s budget (2009-2010) had to be adjusted to reflect the dramatic loss of gross income tax revenue attributable to the banking collapse that began October 2008.

Within a year a new Governor was faced with a multi-billion-dollar shortfall in revenue resulting in a massive reduction in school aid. The State froze school aid for eight years before the Legislature intervened with S-2, a phase-out of Adjustment Aid that should have occurred years earlier.

How we Arrived at the Current Situation

Legislative Actions that Interfered with the Implementation of SFRA:

Levy Cap

Compounding current school funding problems, the Legislature enacted P.L. 2010, c.44 that established a formula that limits increases raised by taxation (tax levy) to a maximum 2% for each local unit budget. This law specifically impacted districts that weren't providing sufficient funding to meet the SFRA local fair share requirement. In many instances the levy cap law prevented districts spending below the statutory adequacy amount from increasing their local levy to meet the SFRA formula requirement. The SFRA statute never envisioned a statutory limit on local taxing ability. As years went by with no changes in local levies, the implications of spending below the 2% limit became even more severe.

Because the cap law only allowed growth on individual districts' prior year spending levels, districts receiving adjustment aid for an extended period felt no pressure to raise their levies and the cumulative effect of no additional local contributions grew substantially.

P.L. 2011, c. 78

The enactment of this legislation in 2011 cushioned the crush of health benefit increases on districts by shifting the burden partially to employees. Despite the 2% levy cap districts were generally able to manage premium increases by sharing them with the employees. Prior to Chapter 78 unions were very, very reluctant to open the door to employee's sharing of premium costs. In fact, in 2009-2010, the last school year before Chapter 78 was adopted, only 13 percent of the contracts analyzed by NJSBA had any employee contribution at all. The law sunset in 2015 and was negotiable after that point.

S-2 (P.L. 2018, c.67)

Legislation was passed in July 2018 to modify the existing distribution of school funding with the intent of realigning the amount of State aid provided to school districts with their current needs. The main purpose was to reallocate adjustment aid from districts that were overfunded based on the SFRA formula (many of whom were not raising a local levy consistent with the SFRA's local fair share requirement) to districts that had never been fully funded according to the statutory formula.

In recognition of the extended period that adjustment aid had been allowed to continue, the law was designed to reallocate this aid (nearly \$700 million at its peak) over a 7-year period. This required local districts that had been receiving adjustment aid for years to increase local spending proportional to the reduction in their state funding. For many districts (more than 200) the need to increase local spending created a financial crisis, compounded by the limitations imposed by the 2% levy cap.

The cumulative effect of not increasing their levies over multiple school years and the consequences of a 2% levy cap prevented many districts from moving forward without making dire spending reductions. Inaction at the local level coupled with recent dramatic inflationary cost increases led to the State Legislature approving a \$103 million supplemental appropriation last spring to prevent devastating educational cuts in the fiscal 2023-24 school year.

In summary, the consequences of not implementing the SFRA as originally intended by adding a hold harmless provision, the failure to limit adjustment aid to the original 3-year phase-out and the implementation of a 2% levy cap have created a situation some 15 years later that requires a thorough review of the SFRA's statutory definitions and various formula components.

P.L. 2020, c. 44

Health benefits legislation in 2020 promised tax savings for districts & their taxpayers as well as district employees. This legislation annihilated collective bargaining agreements in terms of employee health benefit contributions by changing them from typically a percentage of premiums to a minimal percentage of salary. The shift in bottom line cost sharing has swung significantly back to the districts and dramatically reduced employee contributions. This has added increased pressure on districts' abilities to fund adequate budgets.