

# New Jersey's School Funding Formula 101

Funding for your schools comes from a few sources: local property taxes, aid from the State of New Jersey and aid from the federal government, although most New Jersey districts receive minimal aid from the federal government.

Here we will describe the basics of the funding formula the state uses to disperse aid to local New Jersey districts.

There are three types of financial aid that the state awards local school districts annually through the state budget: equalization aid, categorical aid and grants earmarked for specific district(s) and/or specific purpose(s). Grants are completely at the discretion of the Legislature and the Governor. This article will discuss what comprises equalization and categorical aid. This is also known as the funding formula.

## What is an Adequate Budget?

Answering this question is the first step the state takes in formulating its equalization aid to a district. In short, for every school district the state calculates what would be the necessary funding level to provide a "thorough and efficient education" to every pupil in that district. This is what is referred to as the **Adequacy Budget**. The state then calculates the **Local Cost Share**; or, what it believes the local taxing authority would be able to raise and earmark for the school district's budget. The difference between the Adequacy Budget and the Local Cost Share, if one exists, is covered by the state through **Equalization Aid**.

## Components of an Adequate Budget

Every year the state starts its Adequacy Budget calculation with a baseline of what it would cost to educate one elementary school student with no external factors considered. This baseline number is what is referred to as the **Base Per Pupil Amount (BPA)**. In calculating the BPA, the state looks at a variety of factors, including teachers' salaries, costs of supplies, the rate of inflation, and more.

Once the BPA is derived, the student body is analyzed and additional "weights" are added for each individual student for whom a weight applies. The weights are periodically revisited by the State and sometimes raised or lowered, but as of Fiscal Year 2014, the weights discussed here are current.

Elementary school students are considered the baseline and are counted as 1.00 student. This means that it would cost the BPA to educate one elementary school student, absent any other factors. Recognizing the additional costs associated with educating children as they get older, weights are added to pupils of more advanced schools. Every middle school student is calculated as 1.04 students; 1.16 for high school students; and 1.26 for vocational-technical students.

An additional weight is added for each child enrolled in the Free and Reduced Lunch Program. These children are what the funding formula refers to as At Risk, and their weight depends on how many At Risk students comprise the student body. A district whose At Risk student body is under 20 percent receives an additional weight of 0.42 per At Risk pupil. The weight increases with the percentage of At Risk students until it reaches 40 percent where the weight is capped at 0.46. Any district with more than 40 percent of its student body classified as At Risk still receives a weight of 0.46 per At Risk student.

Additionally, a 0.46 weight is added for students who have Limited English Proficiency (LEP) unless they also qualify as At Risk. In the event they are also At Risk, their LEP weight is 0.0981.

So let's look at some examples and see how the weights are added up:

**EXAMPLE 1:** Student X is a high school student for whom English is a second language. He is also one of the few students in the school enrolled in the Free School Lunch Program (under 20 percent of the student body). What is the weighted calculation for Student X?

**The answer is 1.6781.** Student X's baseline weight is 1.16 due to being a high school student. In addition, he is considered At Risk due to being enrolled in the Free School Lunch Program. Since the student population is less than 20 percent enrolled in the program, his At Risk weight is 0.42. Finally, he is additionally weighted due to being an LEP student, but this weighting is limited to 0.0981 due to it being combined with also being At Risk.

$$1.16 + 0.42 + 0.0981 = 1.6781$$

**EXAMPLE 2:** Student Y is enrolled in the county vocational-technical school and is considered LEP. She attends a district where the half of the students are enrolled in the Free and Reduced Lunch Program, though she is not enrolled herself. What is the weighted calculation for Student Y?

The answer is 1.72. Student Y's baseline weight as a vo-tech student is 1.26. She receives an additional weight of 0.46 due to her limited English proficiency. If she were enrolled in the Free and Reduced Lunch Program that weight would have been 0.0981 and she would have also received 0.46 for being At Risk in a high At Risk district, but that was not the case. Consequently her LEP weight stays at 0.46

$$1.26 + 0.46 = 1.72$$

Other factors such as transportation costs, security aid and extraordinary special education are covered through categorical aid, which is separate from the Adequacy Budget and will be discussed later. After every student has been given a weighted score, these scores are added up to give a weighted representation of the entire student body. That number is then multiplied by the Base per Pupil Amount (BPA); and that number is then added to two-thirds of a district's special education costs as determined by the State (SIDENOTE: Special Education calculation is discussed more in-depth under Categorical Aid). Finally, the resulting number is then multiplied by a Geographic Cost Adjustment (GCA) that factors in the cost of living for the county in which that district is located. That final number is the district's Adequate Budget.

#### How Much Must the Local School District Pay?

Now that the state has figured out what is an Adequate Budget, the next step is to figure out how to pay for it. More specifically, the state figures out how much the local community is responsible for and how much the state is responsible for. The local communities' portion is referred to as the **Local Cost Share**.

There are two variables that the state considers in deriving a Local Cost Share: **Property Values** and the Income of a district's residents. The aggregate Property Value and Income of the district are separately multiplied against rate multipliers; added together and then divided by two to get a final Local Cost Share. The equation below illustrates this:

$$[(\text{Property Value} * \text{Property Rate}) + (\text{Income} * \text{Income Rate})]/2$$

Once the Local Cost Share is figured, the state provides the difference in **Equalization Aid**. Theoretically, the Equalization Aid is the difference between a district's Adequacy Budget and its Local Cost Share. It would be more accurate; however, to say that Local Cost Share is the difference between a district's Adequacy Budget and Equalization Aid.

The difference is subtle but important. A popular misconception is the state derives what is an Adequate Budget; then determines what a district can afford to pay and provides the difference in Equalization Aid. In reality, the State derives what is an Adequate Budget; then determines how much Equalization Aid can be provided. The difference is left to the school district to address through the Local Cost Share. The state is able to do this because it is the state that determines the wealth rate multipliers for property values and incomes.

It should be noted that the Local Share is not a dictated local funding level. Rather, it is a recommended funding level used for the calculating of State Aid. A district is only obligated to locally raise and spend enough funds needed to provide all pupils within its jurisdiction a constitutionally guaranteed "thorough and efficient" education. Of course, since the State has to approve every district's budget, the Local Share generally serves as a good guideline in determining what a district should raise and spend.

#### Categorical Aid

The School Funding Reform Act (SFRA), enacted in 2008, created aid categories separate of the Adequacy Budget. Additionally, the Governor has, from time to time, created other categories to address specific issues. Regardless of how many categories the Governor decides to create and fund, the SFRA requires seven categories be funded. These are:

##### 1. Special Education

Special Education is unique in the State budget in that it falls under both the Adequacy Budget calculation and Categorical Aid. In addressing special education, the school funding law sought to discourage over-classification by

districts. Consequently, Special Education Aid is not dependent on the number of special education students a district has. Instead, it is assumed that 14.78 percent of every district's student population is classified as special education, with an additional 1.72 percent needing speech therapy.

So in calculating a district's Special Education Aid, the state calculates the average additional costs in excess of the Base per Pupil Amount associated with providing special ed and speech therapy to a student. These numbers are multiplied against 14.78 percent and 1.72 percent of the student body, respectively, and added together. Two-thirds of the resulting number is then added into the Adequacy Budget calculation, discussed earlier. The remaining one-third, after applying the Geographic Cost Adjustment, is the district's Special Education Categorical Aid.

Let's look at an example:

In a given year, the state has determined excess costs for special education at \$15,000 and speech therapy at \$1,200. How much Special Education Categorical Aid could a district of 1,000 students in Atlantic County expect?

The answer is \$722,981. A district with 1,000 students would have presumed populations of 147.8 special education students and 17.2 speech therapy students. Those two populations are multiplied against their respective excess costs and then added together. Two-thirds of that number are then removed and added to the Adequacy Budget. Atlantic County's GCA (0.9693 as of Fiscal Year 2014) would then be applied to the remaining one-third and the resulting number, rounded to the nearest dollar, represents the district's Special Education Aid.

$$\$15,000 * 147.8 = \$2,217,000$$

$$\$1,200 * 17.2 = \$20,640$$

$$\$2,217,000 + \$20,640 = \$2,237,640$$

$$\$2,237,640 * 1/3 = \$745,880 \text{ (with the remaining } \$1,491,760 \text{ going to the Adequacy Budget calculation)}$$

$$\$745,880 * 0.9693 = \$722,981.484$$

## 2. Extraordinary Special Education

For students that have excessive special education costs associated with their services, districts can receive categorical aid to compensate. The state currently defines "excessive" costs as anything over \$45,000; unless the student is in private placement, in which case the threshold is \$60,000. In such cases, the state will reimburse the district for 90 percent of the excessive costs if they are provided in district. If the special education services are provided out of district, the reimbursement rate is 75 percent. The district is, however, responsible for all costs under the threshold.

For example, let's look at a student whose special education costs are \$80,000.

Below is how much the district would be reimbursed for each scenario:

• If the student is provided services in-district:

o  $\$80,000 - \$45,000 = \$35,000$  Extraordinary Special Education Costs

o  $\$35,000 * 90\% = \$31,500$

• If the student is provided out of district services through another public school or other public education facility:

o  $\$80,000 - \$45,000 = \$35,000$  Extraordinary Special Education Costs

o  $\$35,000 * 75\% = \$26,250$

• If the student is provided private, out-of-district services:

o  $\$80,000 - \$60,000 = \$20,000$  Extraordinary Special Education Costs

o  $\$20,000 * 75\% = \$15,000$

## 3. Security Aid

Security aid has two parts. The first is the baseline cost a district receives for each pupil in the district, which is a uniform number throughout New Jersey. On top of that, districts receive additional security aid for every At Risk student in the district. Both amounts are set by the state; however, At Risk Security Aid has consistently been approximately 5.7 times the baseline Security Aid cost.

## 4. Transportation Aid

Transportation Aid starts with two baselines; the cost per pupil of transporting (1) a regular student; and (2) a special education student. These costs are calculated by the state and are uniform. On top of these two baselines, two Average Per Mile rates are set; again one for regular students and one for special education students. The distance

traveled between a pupil's home and their school is multiplied by the Average Per Mile, and that number is added to the applicable transportation baseline. This number represents what the state will reimburse for that particular student's transportation, and the summation of all the students' transportation reimbursement is what a district can expect in Transportation Aid.

#### **5. School Choice Aid**

This is specifically for districts which are enrolled in the inter-district public school choice program. It is intended to cover additional costs that are associated with receiving school choice enrollees.

#### **6. Adjustment Aid**

This is often referred to as "hold harmless" aid, and for good reason. Its original intent was to ensure that when state funding was reinvented through the SFRA in 2008, no district would lose funding due to the new calculations. It continues to exist in the law and represents the negative difference, if one exists, between a district's State Aid for this year and the aid received in 2008. Let's look at an example:

A district received \$14 million in total State Aid in 2008. This year, between Equalization Aid and all other (e.g., non-Adjustment) categorical aid they are scheduled to receive \$13 million. Under this scenario, they will receive an additional \$1 million in Adjustment Aid.

#### **7. Adequacy Aid**

Districts that spend less than their Local Cost Share are considered 'Under Adequacy.' Adequacy Aid helps bridge the gap for these districts that cannot raise their Local Cost Share without exceeding the 2 percent property tax cap.

For example, let's take an Under Adequacy district. To make the math easy, for every 1 percent this district raises the property tax levy, it can raise \$25,000. Now let's say a variable changes the district's Adequacy Budget, and consequently change its Local Cost Share. This variable could be a number of things: a spike in At Risk and/ LEP students; a larger-than-usual class moving from middle to high school; or a sudden increase in vocational school enrollment.

If these changes resulted in an increase of the Local Cost Share of \$50,000, the district would be expected to cover the increase by raising its tax levy 2 percent. If, however, the changes result in a Local Cost Share increase of \$60,000, the district would still be required to adhere to the 2 percent cap. Consequently, they would be expected to raise \$50,000 and they would receive \$10,000 in Adequacy Aid to achieve an Adequate Budget.