

‘S-1701’ and the 2005-06 School Budget: Changes to Benefit Communities and Education Programs

- New Jersey Association of School Administrators
 - New Jersey Association of School Business Officials
 - New Jersey Education Association
 - New Jersey Principals and Supervisors Association
 - New Jersey School Boards Association
 - Garden State Coalition of Schools
-

Ch. 73, P.L. 2004 (“S-1701”) imposes restrictions on school district budget and financial practices. The restrictions will result in property-tax hikes by 2006, inadequate supervision of classroom instruction, and reduction of education programs and staff. They will jeopardize hazardous-route transportation and will postpone needed facility projects.

Our organizations collectively and individually believe that the full repeal of S-1701 would have the greatest benefit to our state’s property taxpayers and its public school students. At the same time, we understand that full repeal may not come in time for the 2005-06 school budget process. Therefore, we are identifying primary areas of concern. Changes to these areas, if implemented expeditiously, would resolve major difficulties facing local school districts in developing proposed budgets for 2005-06.

These areas are permissible surplus, administrative cost limits, spending growth limitation adjustments, and flexibility in budgeting.

Permissible Surplus

S-1701 required all districts to reduce surplus to the greater of 3% or \$100,000 in 2004-05. The law will further reduce surplus to 2% in 2005-06. In planning their budgets, school districts take into account the possibility of unanticipated costs—ranging from utility increases to the mid-year relocation into the community of those special education students who receive high-cost private school services. For many school districts, these unanticipated costs could outstrip the surplus permitted under S-1701. Since school districts cannot operate at a deficit, the only choice available to meet federal and state requirements and fixed costs (such as special education and heat/utilities) would be to cut other areas, such as regular education programming or maintenance.

The law’s surplus restriction runs contrary to sound financial principles, which have served as the basis for previous, long-standing state Department of Education policy. This restriction also undermines needed flexibility for long-term district planning. Until enactment of S-1701, statute permitted non-Abbott school districts to establish surplus accounts that ranged between 3% and 6%. Further, the New Jersey State Department of Education’s previous policy and, more recently, administrative code required school districts to obtain state permission to budget surplus below the 3% minimum.

Our organizations' goal remains reestablishment of the 3% to 6% surplus range. To attain that goal, we propose that—

- **The Legislature amend Ch. 73, P.L. 2004 to repeal the provision requiring the further reduction of school district surplus to 2% in 2005-06.**
- **The Legislature pass an additional amendment to increase allowable surplus to 4.5% in 2006-07 and to 6% in 2007-08.**

Administrative Spending Limits

S-1701 restricts administrative spending to the *lesser* of (a) regional benchmarks established by the New Jersey State Department of Education or (b) the previous year's administrative spending, plus an increase equal to the greater of 2.5% or the cost of living. Our organizations do not believe that administrative spending limits are necessary. We also believe that they could have a negative effect on the quality of instruction.

The latest statistics from the state and federal departments of education indicate a *downward trend* in administrative spending and employment in New Jersey's schools.

- October 2004 data from the U.S. Department of Education/National Center for Education Statistics rank New Jersey 22nd among the states in the percentage (8.13%) of school operating budgets going toward school and central office administration (for 2000-01), a drop from 21st place in 1999-2000 (8.39%) and 3rd place (10.42%) in 1992-93.

(SOURCE: U.S. Department of Education, National Center for Education Statistics, Digest of Education Statistics, 1996, 1997, 2002, 2003. [Analysis: New Jersey School Boards Association].)

- The same October 2004 NCES report shows that New Jersey spent 71.43% of public school expenditures on instruction, instructional staff and student support services. The nationwide average was 71.09%.

(SOURCE: U.S. Department of Education, National Center for Education Statistics, Digest of Education Statistics, 2003, Table 162, "Total expenditures for public elementary and secondary education, by function and state or jurisdiction: 2000-01," [Analysis: New Jersey School Boards Association].)

- The number of administrators employed by New Jersey public schools has *decreased* over the past 15 years (1989-90 through 2003-04), according to the most recent state Department of Education statistics. In comparison, the numbers of public school students and teachers have increased by 28.3% and 30.8%, respectively, during the same period.

(SOURCE: N.J. State Department of Education, Fall Survey and Vital Education Statistics.)

S-1701's administrative spending limits hurt growing school districts that will need additional supervisory staff, those districts that have effected cost efficiencies that brought them below the regional cost benchmarks, and small school districts that have chosen to implement cost-efficiencies in administrative and non-administrative areas.

Our organizations will continue to advocate for the repeal of S-1701's unnecessary administrative spending limits. Until that goal can be met, our organizations propose that—

- **The Legislature amend S-1701 so that its administrative spending limits are defined as the *greater* of (a) the regional benchmarks established by the Commissioner of Education or (b) the district's advertised per pupil administrative costs for the pre-budget year, plus an increase equal to the greater of 2.5% or the cost of living.**
- **The Commissioner of Education shall have the flexibility to permit school districts to exceed the administrative limits if they demonstrate that they have made every effort to implement administrative efficiencies. Further, districts shall be permitted to exceed administrative limits if they experience enrollment increases, the creation of administrative vacancies, nondiscretionary fixed costs, or one-time expenditures, such as those involving the opening of a new school, fees for legal services, or bond referenda.**

Spending Growth Limitation (Cap) Adjustments

Spending Growth Limitation Adjustments (SGLAs) are designed to help school districts meet necessary, often locally funded needs (such as hazardous-route transportation) or to have the resources to pay for fixed costs over which they have no control (such as insurance). These needs are not going away, nor are cost increases in insurance, utilities, state and federally required special education, and school security.

S-1701 drastically reduces the SGLA provided to school districts for the cost of non-mandatory, non-state-funded transportation usually provided in the interest of student safety.

To enable school districts to contend with S-1701's restrictions, our organizations propose that the Legislature amend the law to restore, extend or create the following adjustments to school district spending growth adjustments:

- **Expand the spending growth limitation adjustment for special education to include the full cost of providing this state- and federally mandated service.** A cap adjustment for the full cost of special education would give school districts needed financial flexibility in providing this state- and federally mandated service, which often involves high-cost out-of-district placements. This expanded SGLA is already reflected in three of the bills introduced to address S-1701. Coupled with possible increased federal support included in the November 2004 reauthorization of the Individuals with Disabilities Education Act, such an amendment could result in genuine property tax relief and flexibility in funding regular education programs.
- **Restore the spending growth limitation adjustment for the full cost of non-mandated student transportation.** Restoring this SGLA to include the full cost of non-mandated student transportation will avert cuts in hazardous-route busing that will likely jeopardize the safety of students or cuts in education programs.
- **Establish and/or make permanent spending growth limitation adjustments for increases in the costs of utilities, health benefits, insurance and domestic security.**

These changes have been proposed in legislation addressing S-1701. Some are already in place on a temporary basis. Making them permanent would help school districts contend with cost increases that are out of their control without endangering classroom programming.

Flexibility in Budgeting

S-1701 has imposed restrictions on the ability of school districts to administer their own budgets, of voters to authorize expenditures of locally raised revenue, and of school districts to structure academic programs. These restrictions have little or no impact on the Legislature's purpose for passing S-1701—to provide temporary property tax relief. They also remove from the community the ability to decide routine budgetary matters and place it in the hands of a state bureaucracy, whose capacity to deal with them will be questionable in the state's current budgetary climate.

Our organizations propose that the Legislature make the following amendments to Ch. 73, P.L. 2004:

- **Eliminate all of S-1701's limits on budgetary transfers.** These restrictions apply to transfers of surplus and unbudgeted or under-budgeted revenue, as well as to line-item transfers of more than 10% of a budget category. These limits also require state Department of Education approval of many transfers that were previously considered routine matters handled at the local level.

These restrictions harm a school district's ability to appropriate funds at any time to its Capital Reserve Account. Without this latitude, districts will have difficulty properly planning for facility projects. These restrictions also limit a district's ability to respond effectively to immediate financial situations. Moreover, at a time when the acting Governor is calling for cutbacks in the size of state government, this provision appears to foist a responsibility on the Department of Education that it will not have the staffing capacity to handle.

- **Eliminate S-1701's restrictions on local authority over budgetary decisions, including submission of second-ballot questions to voters.** Provisions limiting school boards' ability to propose second-ballot questions and to eliminate existing programs diminish communities' ability to make decisions on spending local funds and designing education programs.

Second questions: Second-ballot questions address programs and services that are supported completely by locally raised revenue and are outside the requirements of the state's Core Curriculum Content Standards.

S-1701 changes the previous method under which local school boards submitted second ballot questions to voters. Essentially, the law transfers the control over the second question from the community to the State Department of Education. The local taxpayer still has the responsibility to fund 100% of a second question. However, the Department of Education now holds veto power over what is included in these questions.

- Under S-1701, a school district cannot present to its voters any second question dealing with the continuation of an existing program unless the state Department of Education deems it to be inefficient or ineffective or that it incurs excess administrative cost. Currently, no guidelines exist to define "inefficient or ineffective" in relation to this provision. Along with the financial constraints facing state government, the lack of clear guidelines would make consistent and effective administration of this provision unattainable.
- In addition, a district cannot place on the ballot a second-ballot-question dealing with new programs, unless a review by the state Department of Education shows that it has addressed any administrative inefficiencies—a term that has yet to be defined. This lack of local flexibility will harm growing school districts, districts with small enrollments, districts that have already reduced their administrative costs below regional benchmarks.

Along with the financial constraints facing state government, the lack of clear guidelines would make consistent and effective administration of this provision unattainable.

Budget decisions: S-1701 also removes a school district's ability to eliminate any existing program from its budget unless that program is inefficient, ineffective or has excess administrative costs. Clear guidelines to administer this provision do not exist. (The provision is not addressed within the Commissioner of Education's proposed regulations.) Moreover, the clause limits school district financial flexibility at a time when the state is under funding its school finance system. In this fiscal climate, the local school district should retain the ability to determine elimination or maintenance of programs using the state's Core Curriculum Content Standards, as well as its own local education goals and financial situation, as the basis for its decision.

The six organizations that developed this paper—the New Jersey Association of School Administrators, the New Jersey Association of School Business Officials, the New Jersey Education Association, the New Jersey Principals and Supervisors Association, the New Jersey School Boards Association and the Garden State Coalition of Schools—appreciate the opportunity to work with members of the state Legislature to achieve these important changes in time for the 2005-06 school budget year.