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Background on Severe Funding Formula Flaws

The school funding formula defect that is breaking the Lakewood School District and other Districts with similar populations is now critical. The 2017-18 school budget general fund tax levy increased \$2,873,971 (3.05%) from \$94,088,028 to \$96,961,999. Yet, the District was nearly forced to fire 25% of its teachers. A New Jersey Department of Education state aid loan of \$8,522,678 allowed the school district to avoid this and other cuts and to provide a budget that ensures a thorough and efficient education.

2016-2017 saw similar challenges, with tax levy increases at or above cap and major deficits and state loans and other bailouts. Likewise previous years had the same problem. These point to an underlying set of flaws in the funding formula as it relates to Lakewood and to other districts in the state.

Funding Formula Flaw I

Despite a finding by the Joint Legislative Committee in its Final Report on Public School Funding Reform that changes were needed in the way in which property wealth and income are calculated to address shortcomings in the then current statutory (CEIFA) formula which artificially inflate the apparent wealth of some communities, the SFRA equalization aid formula maintained the same flawed enrollment-based local share formula as under CEIFA. The Joint Legislative Committee recommended that a community's ability to pay (local share) be based upon per capita equalized valuation and income rather than per student equalized valuation and income. This direction was not followed.

The Joint Legislative Committee stated that "For districts with relatively large populations of senior citizens or other households without school-aged children and districts with relatively large populations of nonpublic school students, this measure (enrollment-based) distorts the district's wealth. Calculating both measures per capita will more accurately reflect the wealth of the total community and therefore more accurately reflect the ability of the community to support public education."

This directive was not followed. It leads to our first deficiency, which concerns how a district's wealth is calculated in the state equalization aid formula.

Since the local share formula in SFRA remains the same as the local share formula in CEIFA, Lakewood's local share (wealth) remains distorted and the anomaly in the characteristics of the Lakewood School District remains unaddressed in the current school funding formula. Lakewood is a district with relatively large populations of nonpublic school students. The negative impact of this anomaly is that it directly reduces the amount of equalization aid the district receives and has caused the general fund tax levy to be disproportionately high. Under a full funding scenario for the 2017-18 school year Lakewood's local share is \$102,034,106 which is an amount in excess of its general fund

tax levy of \$96,961,999. Under a full funding scenario for the 2016-17 school year Lakewood's local share was \$92,059,994 a more than \$9 million increase in one year. If this magnitude of an increase happens again for 2018-19 then it's within the realm of possibility that all of the district's equalization could be eliminated. In addition, under SFRA a district that has a general fund tax levy below its local fair share is by definition deemed to be below adequacy. Unless Lakewood can magically raise its general fund tax levy next year to some amount equal to or above \$102 million, or whatever the local fair share is determined to be, it will again legally be below adequacy. The intention of SFRA was that all districts attain adequacy and be able to meet the Constitutional requirement to provide a thorough and efficient education. This will not occur in Lakewood.

#### Funding Formula Flaw 2

The second deficiency concerns how funding for special education programs and services is provided to school districts under SFRA. Two thirds of the modeled special education cost (not real cost) established by the formula is funded by the local property tax levy and equalization aid, if any. This two thirds portion is district wealth based aid for the modeled special education costs that are included within a school district's adequacy budget calculation. The remaining one third of the modeled special education costs are supported by categorical aid which is 100 % state supported. For 2017-18 the formula established cost was calculated based solely upon the Lakewood school district's resident school enrollment of approximately 6,092 students (about 6% of Lakewood's population (100,758 census bureau estimate for 7/1/16). The cost amount is based upon 14.92% of the resident enrollment (909 students in Lakewood's case). The 14.92% is the average statewide special education classified student rate and termed the Census Method under the SFRA. Note that a count of the actual number of students requiring special education services is not used in the state aid determination. In a typical K-12 school district the formula established cost amount would be based upon an enrollment approximating 15% of the district's population since the vast majority of the school age population would be enrolled in the public schools. Significantly for Lakewood, no consideration is provided in the formula for the fact that a public school district is mandated by both Federal and State law to provide special education services for students in both the public schools and nonpublic schools. In fact, once classified for special education services all classified students must enroll in the public schools notwithstanding the vast majority would attend nonpublic schools if not for being classified.

Accordingly, the Lakewood Public School District is responsible for a student population base of 36,000 plus students for special education purposes not just the 6,000 plus students that constitute the public school district's resident enrollment, which is an egregious misnomer as it relates to the universe of students the public school district is required to consider and provide special education services to when necessary. The district continues to provide all of the required special services. This count deficiency must be addressed since it is also possible for the school district's equalization aid in 2018-19 to be below the 2017-18 full funding amount or worse yet completely eliminated due to growth in Lakewood's wealth as it is calculated under the SFRA. If this turns out to be the case the school district would receive only the special education categorical aid (full funding amount for 2017-18 is only \$5,010,063).

### Impacts

While the "School Funding Reform Act of 2008." (SFRA) might be fully funded in the 2018-19 school year it won't ease the Lakewood School District's unique school funding formula problem. It might instead make it worse due to deficiencies in the law and Lakewood's unique demographics.

Under a full funding scenario for the 2017-18 school year information from the New Jersey Department of Education shows the Lakewood School District would have received \$3,251,269 more SFRA aid than the district actually will receive for 2017-18.

This additional aid would not have avoided the necessity of New Jersey Department of Education intervention. Significantly, equalization aid, as the largest state category would have decreased from \$15,070,904 to \$7,823,284 while special education categorical aid would have increased from \$2,873,971 to \$5,010,063. The fact that there would have been a net increase of \$3.25 million is solely attributable to the fact that transportation state aid would have increased to a level that appears to be appropriate given Lakewood's unique student transportation circumstance. But it is clear that the state aid provided for the purpose of offering students a thorough and efficient education would have been reduced.

This near guarantees state intervention and loans for the 2018-19 school year. The loans are problematic (a loan of \$5,640,183 was also approved for the 2016-17 school year) since they will have to be repaid out of funds that likely will not be available for that purpose. Unless the State wants simply that the New Jersey Department of Education intervene again in 2018-19 and continue to make loans the new administration should seriously consider addressing the very unique school funding formula problem that hurts Lakewood and some other districts immediately.