How Fair is the "Fairness Formula" for New Jersey School Children & Taxpayers?

A Preliminary Analysis

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Executive Summary

This brief provides a first look at the "Fairness Formula," Chris Christie's school tax reform plan. In this analysis, we show:

- The "Fairness Formula" will greatly reward the most-affluent districts, which are already paying the lowest school tax rates as measured by percentage of income.
- The "Fairness Formula" will force the least-affluent districts to slash their school budgets, severely increase local property taxes, or both.
- The premise of the "Fairness Formula" – that the schools enrolling New Jersey's at-risk students have "failed" during the period of substantial school reform – is contradicted by a large body of evidence.

The "Fairness Formula," then, would transform New Jersey's school funding system from a national model of equity[1] into one of the least equitable in the country, both in terms of education and taxation. This proposal is so radical and so contradicted by both the evidence and economic theory that even the harshest critics of school funding reform cannot support it.

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[1] See: http://www.schoolfundingfairness.org

Introduction

This research brief provides a preliminary, limited analysis of the "Fairness Formula" introduced last week by Governor Chris Christie.[2] The plan calls for, among other things, a constitutional amendment to allow for the flat distribution of state aid, which would run counter to both current policy and over three decades of judicial rulings.

Governor Christie has touted his plan on the basis of several claims: that suburban school districts are overtaxed, that urban districts collect relatively small amounts of local taxes to support their schools, and that urban districts have not shown improvement even with large infusions of state aid.

Using state data, we show:

1) As a percentage of income, New Jersey's wealthiest districts have the smallest effective school property tax rates. While the residents of "J" districts (the state's highest socio-economic status districts) undoubtedly pay higher rates in state income tax, their effective school property tax rate, as a percentage of income, is lower than even the "A" districts' rate. Given this reality, a progressive state income tax that distributes more aid to less-wealthy districts is a logical policy.

2) The Christie "Fairness Formula" would greatly increase property tax rates in the least wealthy districts, even if school budgets were slashed well below what is required by the School Funding Reform Act (SFRA). While Christie's plan would undoubtedly cut the effective school tax rates for the state's wealthiest districts, the "A" districts would have to raise effective rates by <u>five times</u> to reach the adequacy targets prescribed by SFRA. Even if adequacy were redefined to match the overall revenue of the districts that raise & receive the smallest amount of funding ("CD" districts), "A" districts would still have to raise rates by over three times to match that reduced level of spending.

In addition, in a review of the research, we show:

3) Scholars of school finance and education agree that New Jersey's students in economic disadvantage have demonstrated substantial gains in school outcomes over a period of significant funding reform. Even Eric Hanushek, the prominent Stanford researcher best known for casting doubt on the claim that more money improves school outcomes, has said New Jersey students have shown particularly strong growth on national assessments. Other scholars of school finance and education agree and cite New Jersey's commitment to funding adequacy as a probable cause for the state's superior outcomes.

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[2] http://www.nj.gov/governor/taxrelief/

The consequences of the "Fairness Formula," then, would be tax cuts for districts already paying the lowest effective property tax rates, tax hikes for the least-wealthy districts, and budget cuts for the districts that enroll the largest proportion of at-risk students. These consequences stand in contradiction to a body of research that shows adequate resources are necessary for student success, and New Jersey's least advantaged districts have shown substantial gains during a period of school finance reform.

Background

On June 21, 2016, Governor Chris Christie announced his new plan for distributing state aid to school districts. The "Fairness Formula" would set a fixed per pupil aid amount – $6,599 – for every district in the state, regardless of that district's proportion of at-risk students or its tax base.

In defending his plan, Christie makes three overall claims:

1) <u>Suburban school districts are paying a disproportionately large amount of local taxes to fund their schools.</u> Governor Christie says: "*Look at Ridgewood, it is spending at the state average, yet it only gets about $600,000 in aid and all the rest comes from the local taxpayer. They have had to make adjustments in their lives, too ... Let's not just talk about adjustments on one side, there have been 30 years of adjustments but 75 percent of the people in the state that we ignore.*"[3]

2) <u>Urban districts are overspending even as local taxpayers don't contribute enough in local taxes to their schools.</u> Governor Christie says: "*But here is the unintended consequence of the unfair school funding formula: in those 31 SDA [Schools Development Authority] districts, they spend a fraction of their property taxes on schools as compared to the rest of the state. That's right—the statewide average percentage of property taxes spent on schools is 52%; in the 31 SDA districts it is half that—only 26%. Are they taxing less? Oh no, they are just growing the size of their municipal government.*"[4]

    "*The whole foundation of Abbott v Burke was the inequity in funding between suburban-rural districts and urban districts, and that has not only been eliminated but obliterated in the other direction. So the underpinnings of Abbott no longer exist.*"[5]

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[3]   http://www.njspotlight.com/stories/16/06/22/q-a-with-gov-christie-about-his-radical-school-funding-plan/
[4] http://nj.gov/governor/news/news/552016/approved/20160621a.html
[5]   http://www.njspotlight.com/stories/16/06/22/q-a-with-gov-christie-about-his-radical-school-funding-plan/

3) <u>Urban districts have spent inordinately large amounts of money, yet student outcomes have not improved.</u> Governor Christie says: "*In 1990, 23% of the state's students, representing the SDA districts, got 41% of the state aid. Today, while still representing only 23% of the state's students, they receive 59% of the state aid.*

    Has that enormous differential in state aid brought greater achievement in the 31 districts? No. Absolutely not. Tragically so for the families in those districts and for the taxpayers all across New Jersey who have been footing the bill for the last 30 years."[6]

In this brief, we test these claims about relative levels of taxation and state aid using state-level data (see the Appendix for data sources and technical information). To compare districts, we use New Jersey's District Factor Group (DFG) designations.[7] These eight categories, spanning from "A" to "J," are representative of a district's relative socio-economic status (SES), which allows for useful comparisons.

Next, we review the research literature regarding student outcomes during the period of school funding reform in New Jersey to examine whether at-risk students have seen achievement gains.

Comparing Effective Tax Rates

State revenue and local property taxes account for 92.5 percent of all revenues that fund New Jersey schools.[8] State aid is distributed, under SFRA, primarily on the basis of how many at-risk and Limited English Proficient (LEP) students a district enrolls, and on its capacity to raise local revenues based on the taxable value of the district's property and the income of its citizens (data that is collected from state income tax forms). A Geographic Cost Adjustment (GCA) is also used to account for regional variations in the cost of living.

Figure 1 shows the per pupil equalized property value and the income per pupil used by the New Jersey Department of Education (NJDOE) in its 2016-17 state aid calculations.[9] As expected, both the property valuation and the income per pupil are far less in low-SES districts ("A") compared to high-SES districts ("J").

The implication for school funding is clear: if a lower-SES "A" district and a higher-SES "J" district wanted to raise equivalent revenues per pupil through local property taxes, the "A" district would have to tax itself at a much higher rate

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[6] http://nj.gov/governor/news/news/552016/approved/20160621a.html

[7] http://www.state.nj.us/education/finance/rda/dfg.pdf

[8] http://nces.ed.gov/programs/digest/d15/tables/dt15_235.20.asp 2012-13 figures. The remainder of revenues comes federal sources (4.4%), local sources other than property taxes (1.1%), and private sources (2.0%).

[9] In the 2016-17 State Aid notices, property values are calculated using 2015 data, and income uses tax data from 2013. These lags are typical for State Aid notices.

than the "J" district. As a practical matter, that higher rate would also take a larger share of the district's overall income; school finance researchers often refer to the effective share of income devoted to school revenues as "effort."
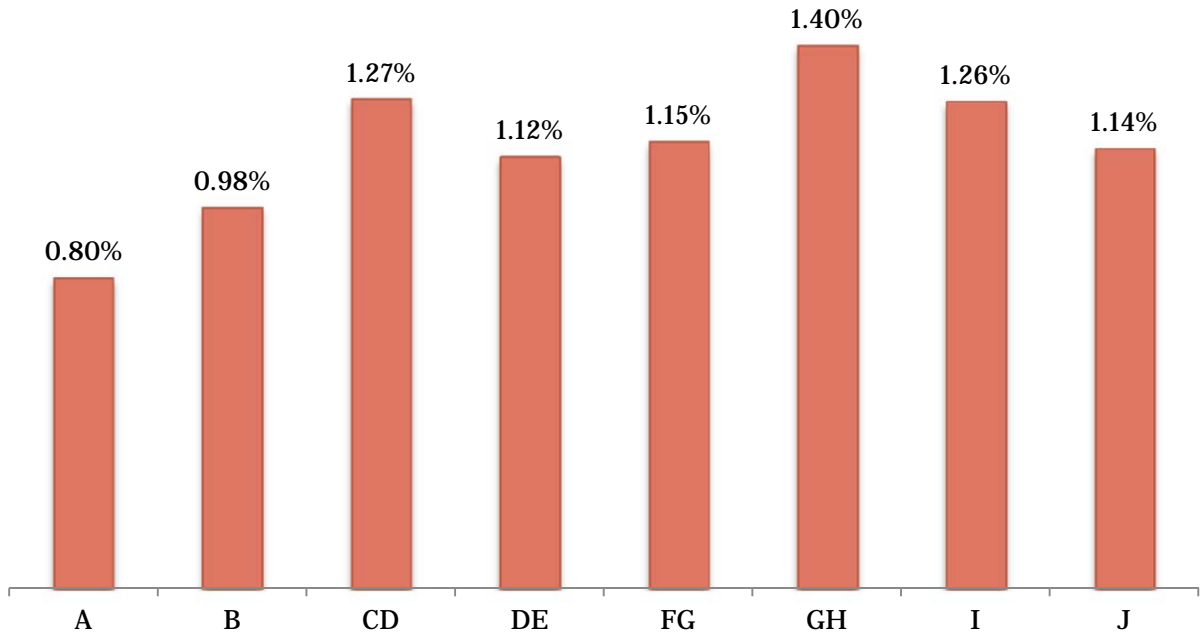
Figure 1

Equalized Property Value and Income Per Pupil Figures, 2016-17 State Aid Statements, NJ School Districts by DFG
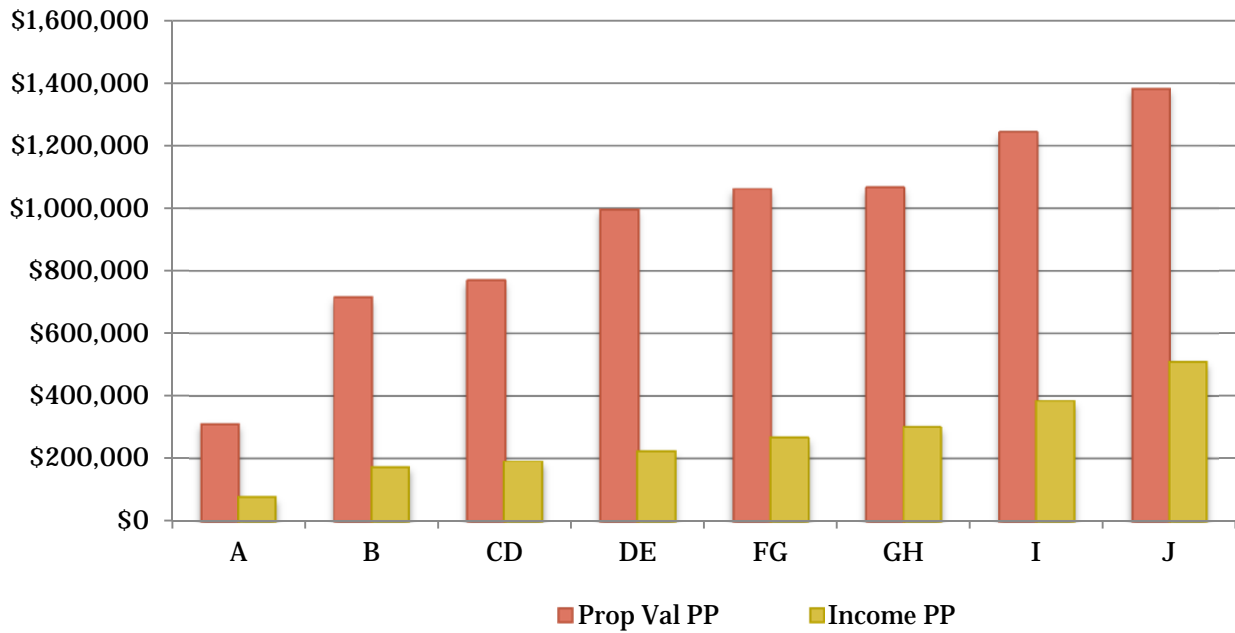
Data sources: NJDOE, 2016-17 State Aid Summary: http://www.nj.gov/education/stateaid/1617/
NJDOE, Variables from the FY17 Legislature Model (full funding) "Information Only" Notices(from Education Law Center.)
Note: property values use 2015 figures, and income is from 2013 state tax data.

Figure 2

Effective Property Tax Rate (School Levy/Equalized Property Value), 2016-17, NJ Districts by DFG

Data sources: NJDOE, 2016-17 State Aid Summary: http://www.nj.gov/education/stateaid/1617/
NJDOE, Variables from the FY17 Legislature Model (full funding) "Information Only" Notices (from Education Law Center.)

Figure 3

**Effective School Tax Effort (School Levy/Aggregate
Income), 2016-17, NJ Districts by DFG**
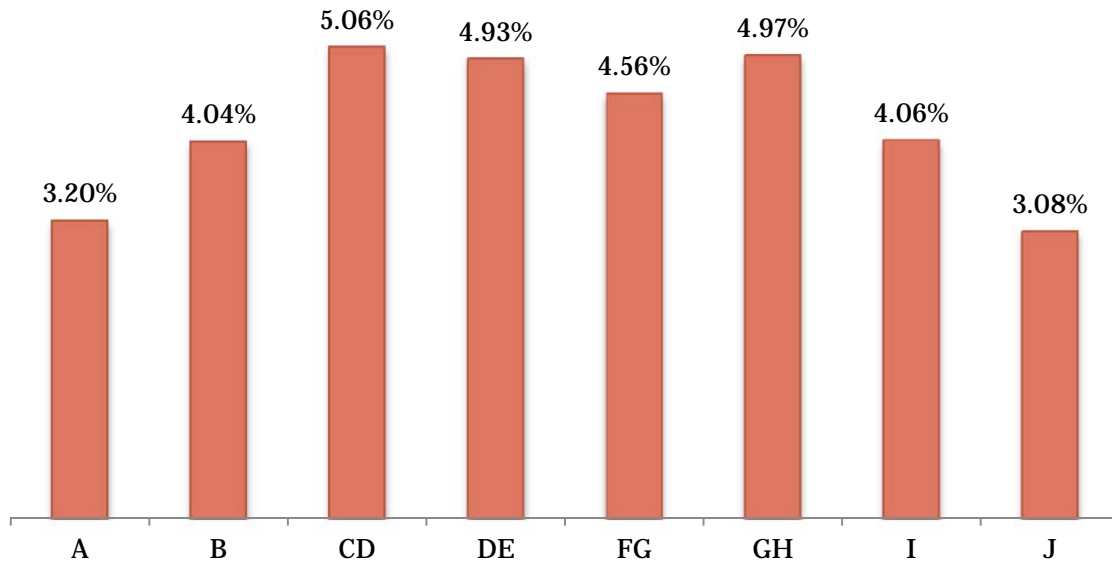
A progressive state income tax that redistributes aid to school districts based on taxing capacity should, therefore, theoretically lead to flattened property tax rates in districts with different SES levels. But the reality in New Jersey is more complex.

Figure 2 shows the effective tax rates for the eight different DFGs. It is true that "A" and "B" districts have the lowest effective property tax rates; however, "J" districts have a lower effective rate than CD, FG, GH, and I districts.

Figure 3 shows that this disparity is even greater when evaluating school taxes as a percentage of income. "J" districts, in fact, pay the lowest average tax rate as a percentage of aggregate income; in other words, they make the least "effort" to raise revenues. "I" districts' effort is only slightly greater than "B" districts'.

Why would this be? Most likely, the wealthiest districts hit a point where they don't need to raise more money to run effective schools, especially because they have so few students who are at-risk and don't need additional resources.

In any case, a comparison of the effort of New Jersey's least- and most-affluent districts gives little reason to believe that "J" (and even "I") districts are overtaxed compared to "A" and "B" districts.

Comparing Revenues

Figure 4 shows the total state and local revenues per pupil for each of the DFGs.[10] While it is true that "A" districts collect the most total revenue per pupil, the amount is only $245 more on average per pupil than "GH" districts (1.4% greater), and $380 more than "I" districts (2.25% greater). By far, "CD" and "DE" districts collect the smallest amount of revenue.

These raw numbers, however, do not account for differences in student populations. SFRA weights students, allotting more resources to schools that serve greater numbers of at-risk[11] or LEP students. This weighting is based on a large body of evidence that shows at-risk and special needs students require more resources to achieve parity in outcomes.[12]

In the SFRA formula, weighting leads to an "adequacy budget": the amount SFRA determines is needed to provide an adequate education.[13] It would be instructive to determine how much a district would be over or under adequacy under the "Fairness Formula." The Adequacy Budget figure, however, does not include spending covered by many types of "categorical" aid.[14] Since the "Fairness Formula" ostensibly includes all types of aid, it is difficult, if not impossible, to determine exactly how the Christie proposal would affect different districts' abilities to reach true adequacy.

This said, we can still evaluate the ratio of total K-12 revenues to the Adequacy Budget under SFRA and under the Christie proposal; while not exactly a measure of how much districts would be over or under the amount needed for true adequacy, the ratio would give us a reasonable relative approximation.

Figure 5 shows this ratio for three different scenarios. The first is total revenue over/under the current SFRA Adequacy Budget: "A" and "B" districts are, on average, under adequacy, "CD" and "DE" districts are close to adequacy, and higher-SES districts are above adequacy.

Scenario 2 shows the amount over/under adequacy under the "Fairness Formula." Under the Christie plan (assuming the same local taxation), these districts maintain their relative positions; however, the inequities are far greater. "A" districts, currently with revenues on average $1,929 per pupil below the Adequacy Budget, would now find themselves over $10,000 below the Adequacy Budget target. Conversely, "J" districts, currently $2,828 dollars above adequacy, would be $8,840 above.

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[10] Note that school levy figures are lagged by one year in state aid notices.

[11] At-risk is defined by qualification for the federal school lunch program, which requires a household income less than 185 percent of the poverty line. See: http://www.fns.usda.gov/nslp/national-school-lunch-program-nslp

[12] For a comprehensive overview of this research, see: http://www.shankerinstitute.org/resource/does-money-matter-second-edition In addition, a study published in February of 2016 was released too late to be included in this review: http://www.nber.org/papers/w22011

[13] Whether SFRA actually comes to the figure needed for adequacy is a matter of debate; see: https://schoolfinance101.files.wordpress.com/2011/10/baker-pjp-sfra-report-web.pdf

[14] This aid includes categories such as Transportation, Choice, Special Education Categorical, PARCC Readiness, Adjustment, Professional Learning Community, and Host District Support.

Of course, Governor Christie claims higher-SES districts would not spend more but use state aid to instead reduce property taxes. Empirical evidence, however, suggests this is unlikely. Research on the New York State STAR property tax relief program shows spending actually *increased* in high-SES districts following implementation, likely because the cost of obtaining more educational services decreased, making those services more economically desirable.[15]

Figure 4
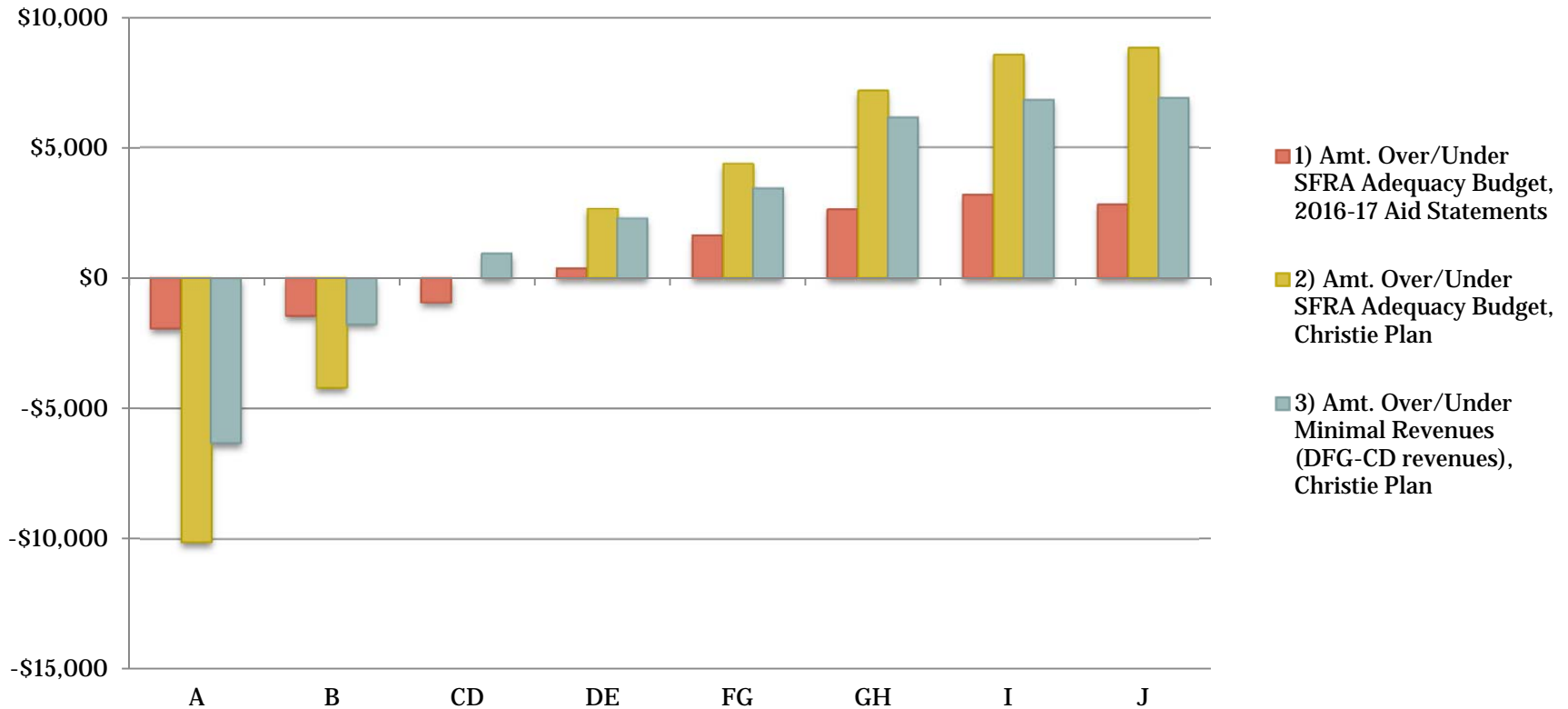
Total State/Local Revenue Per Pupil, 2016-17, NJ Districts
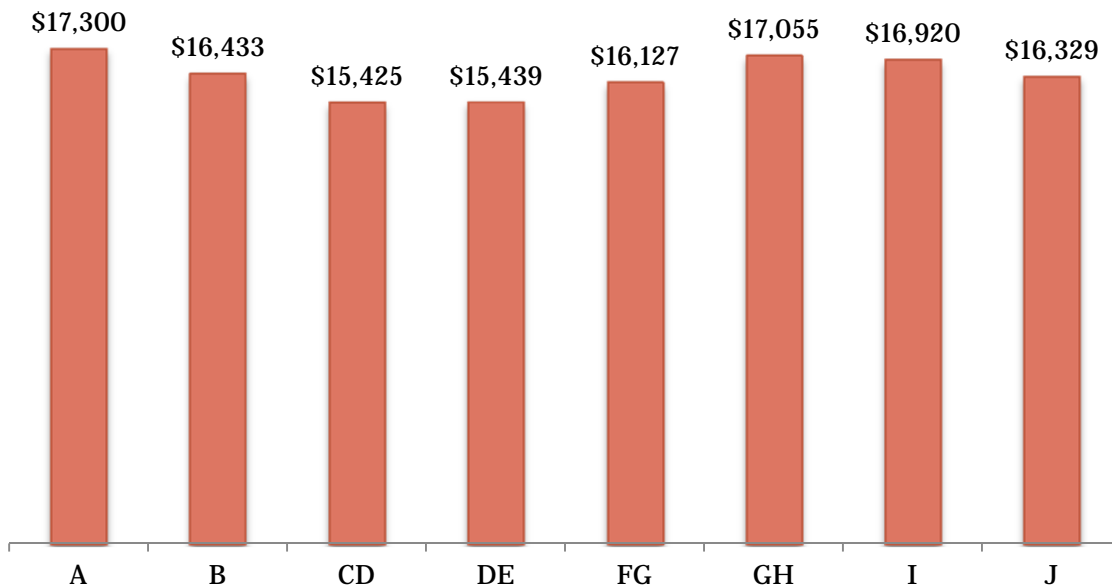
Data sources: NJDOE, 2016-17 State Aid Summary: http://www.nj.gov/education/stateaid/1617/
NJDOE, Variables from the FY17 Legislature Model (full funding) "Information Only" Notices (from Education Law Center.)

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[15] Eom, Tae Ho; Duncombe, William; and Yinger, John, "Unintended Consequences of Property Tax Relief: New York's STAR Program" (2005). Center for Policy Research. Paper 176. http://surface.syr.edu/cpr/176

Figure 5

Total Revenue Over/Under Adequacy Budget or Minimal Revenues (DFG-CD Revenues), 2016-17, NJ Districts

"Minimal Revenues (DFG-CD Revenues)" is determined by the average revenues collected by DFG-CD districts.
Data sources: NJDOE, 2016-17 State Aid Summary: http://www.nj.gov/education/stateaid/1617/
NJDOE, Variables from the FY17 Legislature Model (full funding) "Information Only" Notices (from Education Law Center.)

Figure 6

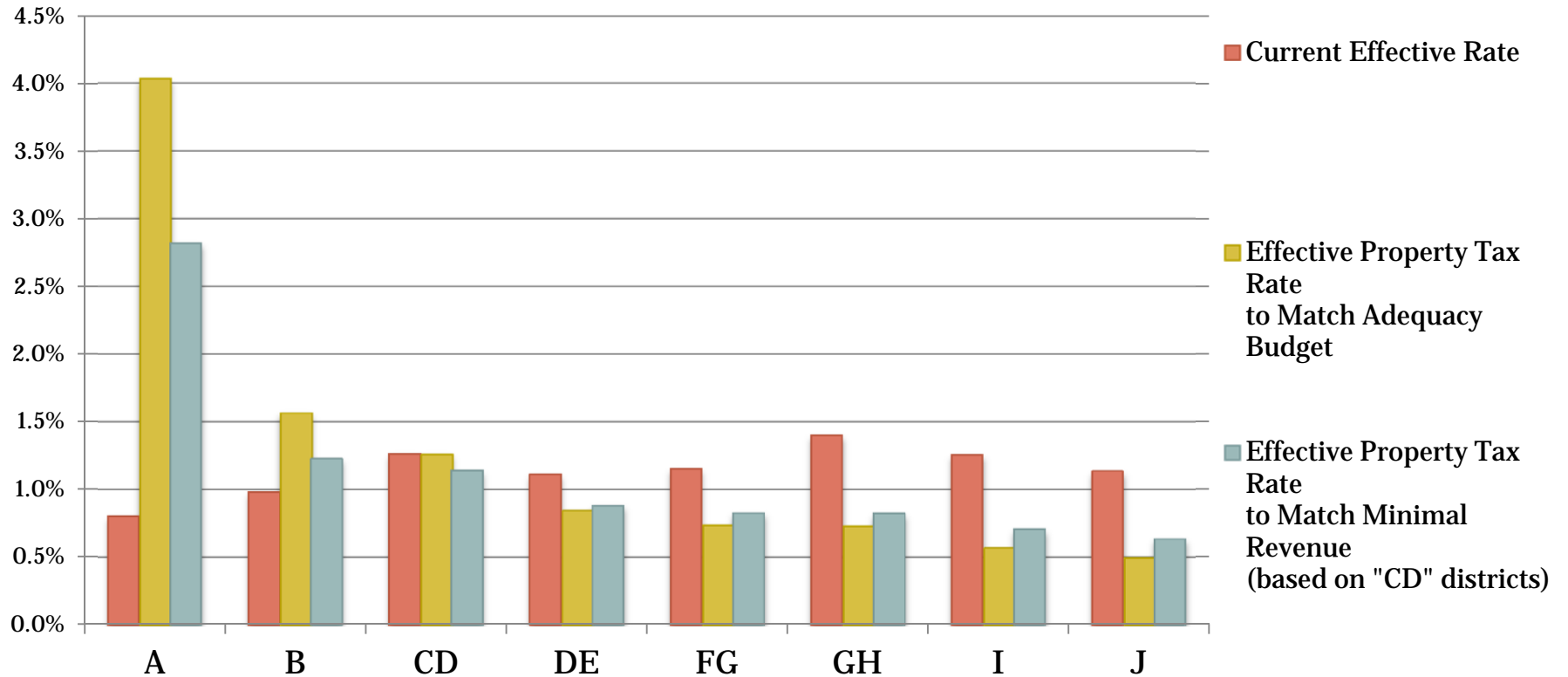## Changes in Effective Property Tax Rates Under the "Fairness Formula" to Meet the Adequacy Budget or Minimal Revenues (DFG-CD Revenues), 2016-17, NJ Districts

"Minimal Revenues (DFG-CD Revenues)" is determined by the average revenues collected by DFG-CD districts.
Data sources: NJDOE, 2016-17 State Aid Summary: http://www.nj.gov/education/stateaid/1617/
NJDOE, Variables from the FY17 Legislature Model (full funding) "Information Only" Notices (from Education Law

Figure 7

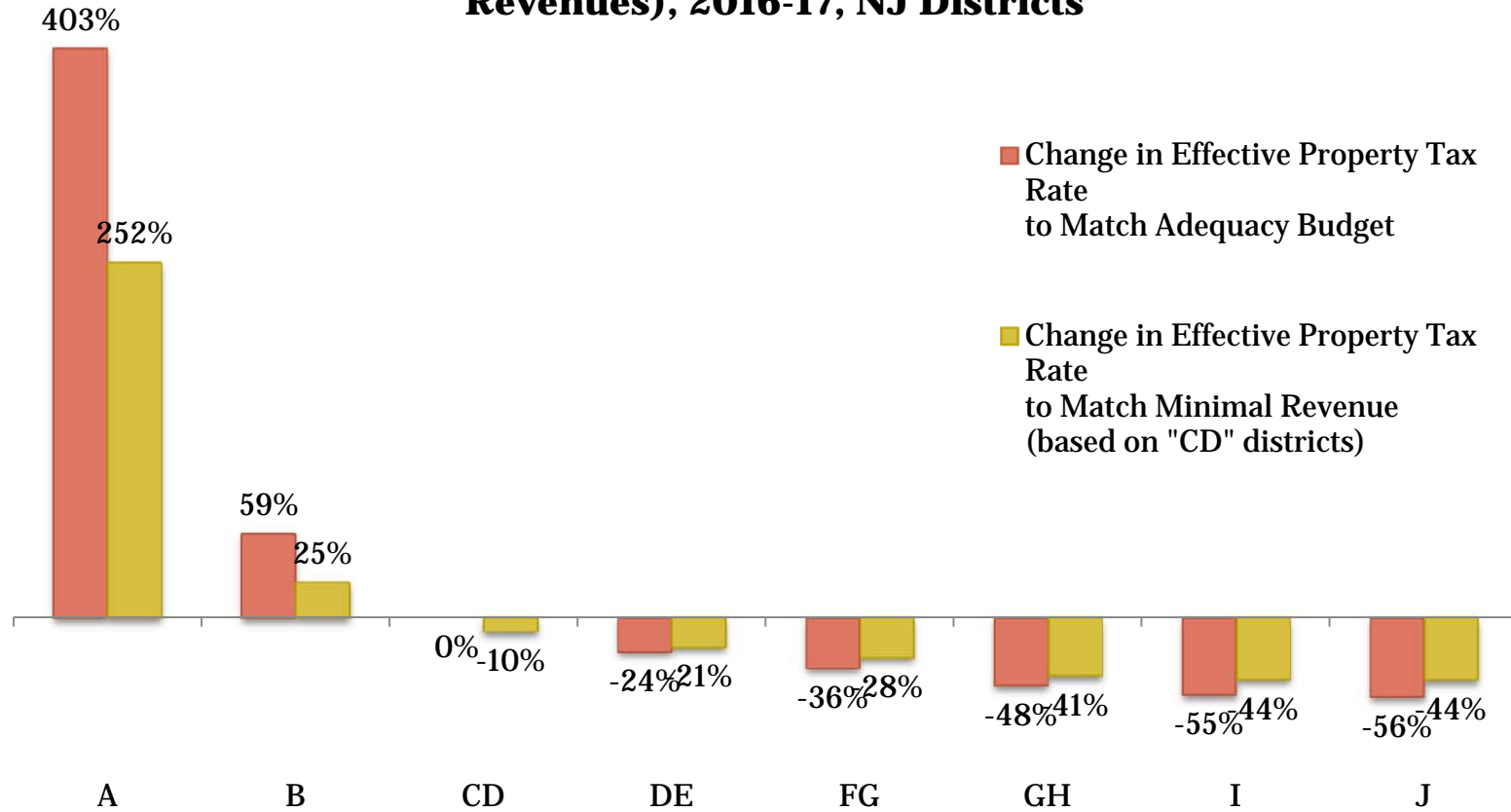## Change in Effective Property Tax Rates Under "Fairness Formula" to Meet Adequacy Budget or Minimal Revenues (DFG-CD Revenues), 2016-17, NJ Districts

■ Change in Effective Property Tax Rate
to Match Adequacy Budget

■ Change in Effective Property Tax Rate
to Match Minimal Revenue
(based on "CD" districts)

403%

252%

59%

25%

0% -10%

-24% -21%

-36% -28%

-48% -41%

-55% -44%

-56% -44%

A   B   CD   DE   FG   GH   I   J

"Minimal Revenues (DFG-CD Revenues)" is determined by the average revenues collected by DFG-CD districts.
Data sources: NJDOE, 2016-17 State Aid Summary: http://www.nj.gov/education/stateaid/1617/
NJDOE, Variables from the FY17 Legislature Model (full funding) "Information Only" Notices (from Education Law Center.)

Another premise of the Christie plan is that low-SES districts will cut spending. But even substantially lower spending by "A" districts will still leave them with a large revenue gap to fill at current tax rates. Scenario 3 is based on the lowest average revenue collected by a DFG: "CD" districts, which (as shown in Figure 4) collect an average $15,425 in total revenue per pupil. If "A" districts wanted to collect this minimum amount of revenue, under the Christie plan they would still have to generate an additional $6,316 in local revenue. "J" districts, meanwhile, would collect $6,916 above this target.

Figure 6 shows the effective school tax rates for each DFG under each of these three scenarios; Figure 7 shows the changes in the rates. To match their Adequacy Budgets, "A" districts would have to increase their school tax rates over 400 percent – again, largely because their property values are comparatively low. And even if the state ignores relevant research and sets a minimal revenue target that matches "CD" districts, "A" districts would still have to increase local effective school tax rates around 250 percent. At the same time, "I" and "J" districts would see large decreases in their effective property taxes.

The Effects of School Funding Reform in New Jersey

> *Urban education, despite 30 years of Supreme Court required intervention by the state, is still failing students and their parents at an alarming rate. The theory from the Supreme Court was that money would solve the problem.*
>
> *They were wrong. Very wrong. And the results prove it. They have not solved our failures in urban education and, in the process, have led to New Jersey to be amongst the highest taxed states in America. They have required the legislature and Governors to craft ridiculous school funding formulas that cheat thousands of families out of funding and thousands more from a valuable education.*
>
> *- Governor Chris Christie, June 21, 2016*
> *http://nj.gov/governor/news/news/552016/approved/20160621a.html*

In testing the claim that school funding reform has not led to improvements in student outcomes, we must keep in mind that actual number of years when New Jersey substantially increased state aid to urban schools is much smaller than the number of years that the state and education advocates have litigated changes in school funding.

School funding reform litigation in New Jersey dates back to 1973, when the New Jersey Supreme Court, in *Robinson v. Cahill*, found that New Jersey's school

funding system violated the state's constitution.[16] Starting in 1981, school finance rulings by the Court were made in the *Abbott* series of cases.[17]

While eventually influential, the *Abbott* rulings did not immediately lead to significant increases in state aid for urban schools. Darling-Hammond (2010, p. 125) states that "a major infusion of funding to the high-needs districts"[18] occurred in 1997; however, in the next decade, the state repeatedly requested and was granted one-year limits on school funding remedies.[19]

In 2008, the NJ Legislature enacted a new school funding formula: SFRA, the School Funding Reform Act. The Supreme Court affirmed SFRA's constitutionality in 2009; however, since 2010, SFRA has never been fully funded. By 2016, the cumulative underfunding of SFRA by the Christie administration reached over $6 billion.[20]

The history of school funding reform in New Jersey, then, is one of fits and starts, where full adequate funding of the state's urban districts has been inconsistent at best. Nonetheless, education finance scholars – including those most skeptical of the positive effects of funding reform on student outcomes – agree that New Jersey's schools have made significant gains during periods of school funding reform:

- Stanford economist Eric Hanushek is the nation's best-known critic of school funding reform, and has specifically cast doubt on the efficacy of New Jersey's school funding efforts.[21] Yet, as Baker[22] (2016) notes, in a report comparing growth on the National Assessment for Educational Progress Hanushek states New Jersey is a "top-ten improver" (p. vii) on the National Assessment of Educational Progress (NAEP) from 1992 to 2011.[23] Further, New Jersey is tied for third in "% reduction in percentage below basic" for Grade 8 scores, and 11th for Grade 4 scores (p. 29). Since achievement correlates significantly to socio-economic status, many (if not most) of the "below basic" students who showed improvement undoubtedly came from New Jersey's most disadvantaged districts.

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[16] http://www.schoolfunding.info/states/nj/lit_nj.php3

[17] http://www.edlawcenter.org/cases/abbott-v-burke/abbott-history.html

[18] Darling-Hammond, L. (2015). *The flat world and education: How America's commitment to equity will determine our future.* Teachers College Press.

[19] http://www.edlawcenter.org/cases/abbott-v-burke/abbott-history.html

[20] http://www.edlawcenter.org/news/archives/school-funding/underfunding-the-sfra-the-legacy-for-nj-school-children.html

[21] http://www.aei.org/publication/the-effectiveness-of-court-ordered-funding-of-schools/ Baker and Welner (2011) provide a thorough rebuttal to Hanushek's claims about New Jersey, in addition to other claims of the ineffectiveness of the state's reform efforts, here: http://www.colorado.edu/education/sites/default/files/attached-files/Baker%20&%20Welner_School%20Finance%20and%20Courts-%20Does%20Reform%20Matter,%20and%20How%20Can%20We%20Tell-.pdf

[22] http://www.shankerinstitute.org/resource/does-money-matter-second-edition

[23] http://files.eric.ed.gov/fulltext/ED534652.pdf

Furthermore, in a recent interview[24], Hanushek states that the basic premise of the "Fairness Formula" – equal distribution of state aid without regard to taxing capacity – is without merit:

> "'Virtually every state in the union recognizes that state funding must compensate for low property tax bases when local property taxes are a significant proportion of total funding,' said Hanushek. 'Particularly given the large number and highly variable districts in [New Jersey], not recognizing differences in tax bases would introduce some very destabilizing impacts across districts.'"

- Baker and Welner (2011)[25] show that, while there have been variations, there was a period of school funding "progressiveness" from 1998 to 2005 in New Jersey where the state showed significant progress in student outcomes:

> "New Jersey and Massachusetts, which both sustained their reforms and targeted resources to low-income children, beat the national average yearly growth on NAEP in all cases." (p. 2403)

- In a study of the effects of the Abbott reforms on Grade 11 test scores, Resch (2008)[26] finds:

> "The results presented in the previous section show that there is a significant positive impact of the Abbott policy on 11th grade achievement in the Abbott districts. [...] Using student-level data I show that there are significant improvements for minority students in both math and reading. The impact is roughly one-fifth of a standard deviation in test scores and one-quarter of the achievement gap between white and minority students without considering Abbott status. These effects are quite large." (p. 94)

- Goertz and Weiss (2009)[27] find gains for the Abbott districts in both state and national assessments:

> *New Jersey State Assessments.* From 1999 to 2007 statewide student scale scores increased dramatically on the fourth grade mathematics assessment. Mean scale scores shot up by 26 points over these eight years, with the greatest increases in the Abbott districts. As a result, during this time period there was significant closure in the achievement gap between the Abbott districts and the rest of the state. (p.23).

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[24] https://www.the74million.org/article/christie-plan-for-funding-nj-schools-widely-criticized-cami-anderson-warns-of-devastating-impact

[25] http://www.colorado.edu/education/sites/default/files/attached-files/Baker%20&%20Welner_School%20Finance%20and%20Courts-%20Does%20Reform%20Matter,%20and%20How%20Can%20We%20Tell-.pdf

[26] https://deepblue.lib.umich.edu/bitstream/handle/2027.42/61592/aresch_1.pdf;jsessionid=FB3CC1F091F00368FDC4E24B50CB1D21?sequence=1

[27] http://files.eric.ed.gov/fulltext/ED523993.pdf

Also:

> *National Assessment of Educational Progress (NAEP).* The NAEP results confirm the changes we saw using state assessment data. NAEP scores in fourth-grade reading and mathematics in central cities rose 21 and 22 points, respectively between the mid-1990s and 2007, a rate that was faster than the urban fringe in both subjects and the state as a whole in reading. Eighth-grade NAEP scores are available starting in 2003. Between 2003 and 2007, scores for the urban districts rose six points in eighth-grade reading and 18 points in eighth-grade mathematics, a considerably higher rate of growth than in the suburbs and statewide. (p. 26)

- There is evidence New Jersey's Limited English Proficient (LEP) students, many of whom reside in low-SES districts, made significant gains from 2002 to 2009[28]:

> - From 2002/03 to 2008/09, LEP students' performance in language arts literacy increased in all grades studied (grades 3, 4, 8, and 11).
>
> [...]
>
> - From 2002/03 to 2008/09, LEP students' performance in math increased in all grades studied (grades 3, 4, 8, and 11).
>
> [...]
>
> - From 2002/03 to 2008/09, the achievement gap between LEP students and general education students in grades 3 and 4 narrowed in both language arts literacy and math. The achievement gap in grades 8 and 11 narrowed in language arts literacy but widened in math. (pp. iv-v)

- In 2011, Howard Wainer, former Principal Research Scientist at the Educational Testing Service and a recognized leader in the field of psychometrics, wrote this in *NJ Spotlight*[29]:

> New Jersey's black students performed as well in 2011 as New Jersey's white students did in 1992. Given the consequential differences in wealth between these two groups, which has always been inextricably connected with student performance, reaching this mark is an accomplishment worthy of applause, not criticism.

It is, admittedly, difficult to separate the effects of school funding reform from other potential causes of the growth in test scores for New Jersey's at-risk and LEP students. This evidence, however, clearly contradicts the claim that the

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[28] http://files.eric.ed.gov/fulltext/ED531432.pdf
[29] http://www.njspotlight.com/stories/11/1130/1236/

period of funding reform was a time of "failure" for the schools that serve New Jersey's most disadvantaged students.

Limitations

This is a preliminary analysis; as such, it is subject to several limitations:

- District Factor Groups (DFGs) were last designated in 2000 based on decennial data. It is likely the socio-economic status of some districts have changed and DFGs would, today, be reassigned (although few would likely change very much). Districts within DFGs also vary in SES, although how much is difficult to say. This said, DFGs are a useful way to concisely group districts by SES for a preliminary analysis.
- Federal and other revenue is not counted. This revenue is likely distributed unequally among DFGs, with more federal revenue going to lower-SES districts. Overall, however, federal revenue is a small part of most district's funding, and including it would likely not greatly impact this analysis.
- The Geographic Cost Adjustment (GCA) is used in the calculation of a district's Adequacy Budget. But DFGs do not necessarily spread out evenly into the geographies used in the GCA, potentially distorting relative aggregate figures in this analysis. It is worth noting Governor Christie's plan appears not to take GCAs into account.
- Likewise, grade levels are not given equal weight in the calculation of the Adequacy Budget. New Jersey has a significant number of K-8 districts that feed regional high schools that operate as separate districts. We have not checked to see if there are K-8 districts with different DFG designations than the regional high schools they feed; if there were substantial numbers, it might distort aggregate figures (although likely not by much).
- Governor Christie has said that special education aid would not necessarily be subject to the "Fairness Formula." Special education funding in New Jersey is complex; without the details of Christie's plan, it is difficult to know exactly how special education funding should be treated in this type of analysis.
- Christie also indicated charter school funding could be changed under the "Fairness Formula," and that charters may not be subject to the large cuts in state aid that would be imposed on low-SES districts. Again, without further details, it is difficult to know how charter funding would impact this analysis. It is worth noting, however, that the largest concentrations of charter schools are in the "A" and "B" districts; if charters were "held harmless" in their funding, the consequences for these districts would be even more severe, as charters receive funding primarily from "pass-throughs" of local and state revenues from their host districts.

Conclusions and Policy Recommendations

This preliminary analysis shows that lower-SES school districts will be gravely affected by the "Fairness Formula." Because of their lower property valuations, "A" and "B" districts will have to raise their local tax rates very substantially to achieve parity even with the districts that collect the smallest amount of school revenues. The loss of state aid in these districts would almost certainly both drive up local taxes and force districts to severely cut services and programs.

At the same time, New Jersey's wealthiest districts – which already pay the least in property taxes as a proportion of their income – would receive a windfall. While these districts may cut property taxes, evidence from New York State suggests this extra revenue will instead lead to greater inefficiency.

The "Fairness Formula" is predicated on the notion that low-SES districts in New Jersey have "failed" during a period of school finance reform. But high-quality research contradicts the claim; New Jersey's at-risk and LEP students have made substantial gains over the past two decades. A growing body of research suggests these gains were made, at least in part, thanks to increased revenues targeted at low-SES school districts.

This analysis should give all stakeholders in New Jersey's public school system pause when examining the "Fairness Formula." New Jersey has been a leader in moving toward equitable and adequate funding for schools. That leadership has yielded real benefits for this state's students and families. Abandoning this commitment to provide tax relief for the wealthiest taxpayers in the state makes little sense, either as educational or fiscal policy.

New Jersey's current property tax rates are already quite regressive. In a 2015 analysis, the Institute on Taxation and Economic Policy[30] found that the lowest quintile of taxpayers paid an effective overall property tax rate of 6.1 percent, while the top 1 percent paid an effect rate of 2.2 percent. In this context, a school funding plan that would lead to higher local school tax rates for low-income districts makes little sense.

ITEP also found the overall tax rate for New Jersey to be regressive, even with a progressive income tax that redistributes aid to low-SES districts. Surely, most policy makers would agree that making overall taxes even more regressive is not a greater priority than making sure all children in New Jersey have the resources they need for an adequate education.

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[30] http://www.itep.org/whopays/states/new_jersey.php

Appendix

State aid data for this brief is from two sources:

- 2016-17 State Aid Summaries from the NJ Department of Education: http://www.state.nj.us/education/stateaid/1617/
- "Variables from the FY17 Legislature Model 'Information Only' Notices." The Education Law Center made this file available.

Resident enrollment, tax levy, equalized property values, and Adequacy Budget figures come from the file provided by ELC (thanks to Dr. Danielle Farrie, Research Director). All other figures come from the State Aid Summaries.

All analyses were done using Stata statistical software; graphs were prepared in Microsoft Excel.