



State of New Jersey

DEPARTMENT OF EDUCATION

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Acting Commissioner

January 28, 2022

Ian Rosenblum, Acting Assistant Secretary
Office of Elementary and Secondary Education
United States Department of Education
400 Maryland Ave, SW
Washington, DC 20202
Ian.Rosenblum@ed.gov

Dear Mr. Rosenblum:

Thank you for providing the opportunity for New Jersey to expand on the conversation from our January 11, 2022 call regarding New Jersey's financial commitments under the State maintenance of equity (MOEquity) requirements in section 2004(b) of the American Rescue Plan. During the call, you asked for a more thorough explanation of local tax effort in New Jersey and how it fits in to the determination of maintenance of equity as outlined in the guidance published by the United States Department of Education (USED) in the October 1st FAQ memorandum.¹

As you know, New Jersey's school funding law is progressive in that it provides more funding for school districts with higher needs in terms of student and district incomes. The core of the formula is the state's wealth-equalized aid that is provided to ensure fiscal equity for school districts. The allocation of New Jersey's wealth-equalized funding includes local revenues as part of the calculation of local needs. The goal of equalizing funding across all school districts in the state according to local needs aligns with the MOEquity requirements as stated in the second paragraph below question 17 of the FAQ:

Consistent with the purpose of the MOEquity requirements to ensure fiscal equity for high-need LEAs and highest-poverty LEAs, if the State includes such local revenues as part of its determination of State funding to meet a "guaranteed" funding level **or** as part of a "equalization" funding structure in order to ensure fiscal equity for LEAs, the State may consider the local revenues to be State funds for MOEquity purposes only and part of the calculation to determine any reduction of per-pupil funding.

Importantly, under New Jersey's current school funding formula, the calculation of wealth-equalized aid provided to districts requires a shared contribution, wherein each district is expected to raise a certain amount in general fund local tax levy each year. The determination of each district's expected local tax levy contribution is based on local ability to pay, as measured by district income and property value. This amount is then subtracted from the district's "adequacy budget"² in order to determine Equalization Aid; if the local fair share

¹ Located here: https://oese.ed.gov/files/2021/10/Maintenance-of-Equity-updated_10_1_21-FAQs.Final_.pdf

² This is the amount that the New Jersey School Funding Formula calculates that a district will need to spend in the current year based on the district's enrollment and student demographics.

is greater than the district's adequacy budget (i.e. the district can fully support its own students locally), the district receives zero dollars in Equalization Aid. This "equalization funding structure" that was created "to ensure fiscal equity for LEAs" meets USED stipulations in the October 1st FAQ memorandum to allow that a state "may consider the local revenues to be State funds for MOEquity purposes only."

Conceptually, this funding structure is similar to the school finance policy in Wyoming, a state in which USED allowed the inclusion of local property taxes in its MOEquity calculations. That state's "foundation program guarantee" is analogous to New Jersey's adequacy budget, as they both quantify the resources that school districts require to provide adequate educational opportunities to their students. With respect to local contribution, Wyoming requires school districts to impose a tax levy at a specific rate. Similarly, New Jersey calculates that districts can raise certain levy amounts based on each school district's fiscal capacity. Once that amount is determined, the state provides school aid to support the difference. Both Wyoming's and New Jersey's school finance policies rely on shared responsibilities between the states and local school districts for contributing financially to support educational opportunities.

In addition, the FAQ stipulates that the state may include local revenues for MOEquity determination so long as they "are part of a State's "guarantee" for education under State law":

...In some instances, however, local revenues, such as property taxes or taxes on mineral rights, are part of a State's "guarantee" for education under State law (e.g., a certain amount of funding is "guaranteed" to each LEA on a per pupil basis, a portion of which is generated locally depending on local financial capacity).

Because the New Jersey Constitution (Article VIII, Section IV) mandates a thorough and efficient system of education (T&E), and because school district budgets represent each district's determination of the spending necessary to provide T&E, state statute (N.J.S.A. 54:4-75) and case law mandate the provision of the full amount of a school district's certified levy to the school district, with no exceptions. Current law (N.J.S.A. 54:4-76) then provides a solution for municipalities if funds in their treasury are insufficient to meet this demand.

These levies are "guarantee[d] for education under State law" once they are struck by the school board, and effectuated by the local taxing authority, typically through the municipality. The levy amounts are determined through the district budget process that begins well before the start of the fiscal year (N.J.S.A. 18A:7F-5) making the amounts to be collected both known and required to be made available to school districts.

Although districts determine the amount of local levy based upon the specific needs of the district to meet T&E, they do so within the statutory boundaries. Each district "shall have a required local share" that is based, in part, on each district's wealth relative to all others and "no municipal governing body... shall certify a general fund tax levy which does not meet the required local share" (N.J.S.A. 18A:7F-5 (b)). Further, the statute sets "the tax levy growth limitation" which restricts how much each district can increase their levy (N.J.S.A. 18A:7F-38).

Districts, however, determine the amount of local levy necessary, within the statutory parameters, and are assured receipt of these funds from the local taxing authority once the levy is struck by the board of education. For this reason, the total of each LEA's levy and state support should be considered when determining maintenance of equity for each LEA.

Ian Rosenblum, Acting Assistant Secretary

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I look forward to hearing from you and am happy to provide any further information you require.

Sincerely,

A handwritten signature in black ink that reads "Angelica Allen-McMillan, Ed.D." The signature is written in a cursive style.

Angelica Allen-McMillan, Ed.D.

Acting Commissioner

AAM/kd