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School Funding in New Jersey: A Fair Future for All

Part 2: School Resources, Revenues, and Taxes

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About This Series

NJPP's second annual report on the state of school funding in New Jersey arrives at a time of unprecedented challenges, both fiscal and educational. The COVID-19 pandemic has forced school districts to radically change how they deliver instruction, while the ensuing economic downturn has created a fiscal crisis for both the state and its local school districts. Ironically, the looming threat of cuts to education spending comes at a time when there is a stronger research consensus than ever about the role of funding in student academic achievement: Adequate and equitable school funding is the necessary precondition for student success. If New Jersey is to see its students thrive through this emergency, it must find a way to ensure that all children, no matter where they live or what learning challenges they face, have access to schools that are adequately funded.

This series, *School Funding in New Jersey: A Fair Future for All*, provides an in-depth look at the current state of school finance in New Jersey: how the state got here, what the consequences have been for our students, and how the state should proceed in the face of the current crisis.

Summary

As explained in the introduction to this series, adequate school resources are the key precondition for educational success. If New Jersey wishes to maintain and even improve its education system through the COVID-19 crisis, it must, like any other state, find adequate revenues for its schools. In this report, we focus on two of the three core indicators of statewide school funding fairness and effectiveness: *effort* and *progressivity* (the third, *adequacy*, is found in Part 4 of this series). *Effort* is a measurement of how much of a state's economic capacity is directed toward K-12 education. *Progressivity* measures how much more (or less) a state's neediest school districts receive relative to its most affluent.

New Jersey makes a strong effort to fund its schools by devoting more of its economic capacity to education funding than most other states. Unfortunately, New Jersey decreased its tax effort and elementary and secondary school funding since the last recession. New Jersey's high-poverty districts have suffered the greatest consequences of these reductions. Even though New Jersey exerts high

effort relative to other states, it made less effort to fund schools after the Great Recession of 2008 than before. The state never made up for these losses in school revenues following the recovery; consequently, New Jersey has lost its position as the leader in progressive financing of schools.

Like in other states, New Jersey's effort to fund schools is directly tied to its taxation system. Complaints about taxes are a regular feature of political debates in New Jersey; however, the state is not a tax-and-spend outlier. We show herein that New Jersey ranks 31st in the nation on own source revenues, and eighth in the nation on state and local taxes (as a percentage of income).¹ In addition, New Jersey's state and local taxes are less regressive than its neighbors: while the wealthiest residents still pay less in state and local taxes than the middle, New Jersey's overall tax system is marginally more progressive than tax systems in other states. An important reason for this relative progressiveness in taxes is the New Jersey school aid system. *State aid to schools is tax relief*: it makes state and local taxes more progressive because it distributes the tax burden for schools more equitably. New Jersey's state school aid system is one of the primary reasons its taxes are less regressive here than they otherwise would be.

While property taxes can be a particular source of ire for some in New Jersey, they are an important part of the state's school funding system because they are less volatile and, therefore, less likely to decline in an economic downturn. This feature will be especially important in the coming years as the nation faces a likely recession. Property taxes do tend to be regressive; however, there are policy approaches that can address this feature, such as pooling commercial and industrial property taxes and redistributing them statewide.

New Jersey is moderately better than most states at progressively funding its schools by driving funding where student needs are greatest and tax capacity is lowest. However, for the first time in decades, New Jersey's highest-poverty schools are spending *less* than its lowest-poverty schools. This slide toward regressive funding has real and educationally harmful consequences: New Jersey's least affluent schools have fewer teachers per student and less competitive teacher salaries than they did before the recession of 2009.

In the face of an economic slump, New Jersey may be forced to consider cuts in state aid. In the previous recession, New Jersey (unlike other states) chose to make cuts based on a percentage of school budgets, and not on a percentage of state aid. This was a better approach that caused less harm to districts serving the most disadvantaged students. This report includes a simulation of cuts using both approaches; while funding cuts are never ideal, the harm to the districts enrolling students in the highest poverty districts is lessened when cuts are made based on school budgets.

NJ School Funding: Effort and Progressivity

Understanding School Funding Effort and Progressivity

Over the years, school funding researchers have proposed different ways to judge the effectiveness and efficiency of state school finance systems. In work over the past decade, the authors of this brief have developed three core school finance indicators: *effort*, *progressivity*, and *adequacy*. While each are simple to comprehend, these indicators together can create a detailed picture of a state's commitment to fairly and fully funding its K-12 schools.

Effort (or fiscal effort) measures how much of states' total economic resources or capacity are spent directly on K-12 education. While simple comparisons of per pupil spending are often used to evaluate a state's commitment to school funding, these comparisons fail to acknowledge that states with smaller economic capacity must exert greater effort than states with greater capacity to raise the same amount of revenue for their schools. Because effort is measured as a percentage of economic capacity, we can better determine whether states lag behind in spending because they don't have the capacity to raise revenue (e.g., they have smaller economies from which to draw tax revenue), or because they refuse to devote sufficient resources to education.

Progressivity is a measurement of how much more – or less – funding higher poverty districts receive compared to lower poverty districts. Progressivity is often referred to as "fairness," and it is premised on the widely accepted fact that students from disadvantaged backgrounds tend to require more resources than their more affluent peers to achieve the same level of educational outcomes. Valid measures of progressivity must account for factors that affect the value of the education dollar, but lie outside the control of school districts: poverty, labor market costs, population density, district size, etc.

Adequacy, simply put, measures whether the amount raised by a state to fund its schools is enough. Adequacy considers not only the input – school funding – but also the output: test scores, graduation rates, college enrollment and attainment, etc. In previous work, the authors of this brief define adequacy in terms of a common "benchmark" (national average scores) that is educationally meaningful, using estimates from complex models that take into account factors such as student characteristics, labor market costs, and district characteristics.² We explore New Jersey's school funding adequacy in Parts 3 and 4 of this series.

New Jersey In National Context

This section reviews long-term trends and the position of New Jersey among states on a handful of key indicators from the School Finance Indicators Database (SFID).³ The SFID is a new longitudinal district and state level data system designed by the authors of this brief, in collaboration with Matt Di Carlo of the Shanker Institute.⁴ This section begins by focusing on two key indicators: effort and progressivity.

Table 1

School Finance Indicator	National Average	New Jersey	NJ's National Rank
<i>Effort:</i> Percentage of state economic capacity devoted to education.	3.5 percent	4.6 percent	3
<i>Progressivity:</i> Percent difference in adjusted state and local revenue between highest poverty districts (30 percent) and lowest poverty districts (0 percent).	1.7 percent	6.5 percent	12

Source: Baker, B. D., Di Carlo, M., & Weber, M. (2020). *School Finance Indicators Database*. The Shanker Institute. <http://schoolfinancedata.org/>

Regarding “*effort*”: New Jersey devotes 4.6 percent of its capacity (i.e., Gross State Product) to K-12 education; this is the third highest effort in the nation. In comparison, the typical state devotes about 3.5 percent. Individual states’ effort levels range from about 2.4 percent in Nevada to over 5 percent in Vermont. Other higher-effort states include Wyoming (4.7), New York (4.5), and Alaska (4.5). Lower-effort states include Arizona (2.6), North Carolina (2.7), Delaware (2.8), and Tennessee (2.8). Most states, however, are within 0.5 percentage points of the national average (though even small differences can translate into large amounts of revenue, particularly in states with large economies).

The U.S. average effort increased from 3.7 percent in 2004 to a high of 4.1 percent in 2009. This was followed by a five-year decline between 2009 and 2014, stabilizing at roughly 3.5 percent since then. In fact, between 2009 and 2017, fiscal effort decreased at least nominally in every single state except Wyoming. Overall, then, average effort has not rebounded since the Great Recession, and is slightly lower in 2017 than it was in 2004. Time trends in New Jersey’s effort to fund schools are explored below.

Regarding “*progressivity*”: New Jersey ranks 12th in the extent to which state and local revenue is targeted in higher amounts to districts serving higher poverty student populations. School funding in the Garden State is somewhat higher in the highest-need districts than the lowest-need ones; however, other states (such as Wyoming, Alaska, and Utah) allocate revenue in an even more progressive manner. In nine states, high-poverty school districts receive at least 10 percent more revenue than zero-poverty districts. New Jersey is not one of these states: it only allocates 6.5 percent more revenues to these high-poverty districts. In 28 states, high-poverty districts actually receive *less* revenue; in other words, the majority of states’ finance systems fund their high- and low-poverty districts either equally or regressively. Two of these states, Pennsylvania and Connecticut, are neighbors of New Jersey.

On average, state and local education funding in the U.S. is neither progressive nor regressive. That is, the highest-poverty districts in the typical state tend to receive similar amounts of revenue, all else being equal, as do the lowest-poverty districts. U.S. average progressivity has increased very modestly over the past two decades, going from minimally regressive in 1997 (revenue in the highest-poverty districts was 3 to 4 percent lower than in the lowest-poverty districts) to minimally progressive in 2017 (revenue was about two percent higher in the highest-poverty districts compared with the lowest-poverty districts). At the national level, education funding has been relatively flat with respect to child poverty. We explore time trends in New Jersey’s progressiveness of school resources below.

It is difficult to state with certainty whether any state is progressive *enough*; in other words, whether the additional amounts of school funding allocated to the districts with the greatest need are enough to equalize educational opportunity for their students. This is where measures of *adequacy* are important – measures that take into account student outcomes relative to school spending. Parts 3 and 4 of this series focus on questions of adequacy, looking at how student outcomes and school spending are linked, and whether New Jersey’s school funding system drives enough resources where they are needed to meet its goals.

Other Indicators of School Finance

Regarding both the relative level of funding for schools and the progressiveness of that funding, most states are in worse position now than they were prior to the Great Recession of 2008. Even within that national context of backsliding, New Jersey, which had been a model of progressive school finance policy, has backslid more than others.

Table 2 shows the rank among states for New Jersey in 2007 and 2017 on several key indicators. Nationally, effort has declined across states. New Jersey has dropped one spot within that, both on education spending as a share of gross domestic product (state) and personal income. New Jersey has also dropped in staffing ratios for high-poverty districts, from fourth to 11th. Further, where New Jersey was once ranked high (13th), when comparing staffing ratios in the highest to lowest-poverty districts, New Jersey now ranks 45th. The patterns are similar for current instructional spending per pupil. New Jersey has dropped, but continues to rank relatively high, on the level of spending in high-poverty districts. But New Jersey has plummeted to 40th in the progressiveness of current spending per pupil. New Jersey remains higher on the progressiveness of combined state and local revenue per pupil for now, but has dropped significantly (from third to 12th). New Jersey’s federal aid share is relatively small, adding little to overall progressiveness. As the competitiveness of teacher salaries has declined nationally (relative to other workers)⁵, New Jersey teacher salaries have held their own somewhat better than others.

Table 2

Measure	Rank in 2007 (out of 50)	Rank in 2017 (out of 50)
Effort & Coverage		
Effort (GDP State)	2	3
Effort (Income)	5	6
Percent 6 to 16 in Public Schools	42	31
Statewide Charter Enrollment Share	25	30
Enrollment Share in pre-K for Children from Low-income Families	1	1
Resource Levels		
Teachers per 100 Pupils in High-poverty Districts	4	11
Current Expenditures per Pupil in High-poverty Districts	2	7
State & Local Revenue per Pupil in High-poverty Districts	2	5
Teacher Salary Parity	9	4
Resource Progressiveness		
Fairness Ratio: Teachers per 100 Pupils	13	45
Fairness Ratio: Current Spending	10	40
Fairness Ratio: State & Local Revenue	3	12

Source: Baker, B.D., Di Carlo, M., Srikanth, A., Weber, M.A. 2020. Rutgers Graduate School of Education/Albert Shanker Institute: School Finance Indicators Database. Retrieved from: <http://www.schoolfinancedata.org>.

Fiscal Effort and Taxes in New Jersey

New Jersey's Effort to Fund Schools: Trends Over Time

Figure 1 shows two measures of education funding effort over time, where the state's effort is measured in terms of the share of economic capacity spent in combined state and local revenues on elementary and secondary education over time. The capacity measures are 1) gross domestic product (state)⁶ and 2) aggregate personal income.⁷ Gross state product is the total value of all goods and services produced by the state's economic activity. Personal income is how much money people in a state receive from their economic activity, including wages and other sources of income. The two measures are closely related; consequently, trends showing how much of each is devoted to education will be related.

State and local spending on K-12 education in New Jersey as a percent of personal income is lower than it's been since the 1990s. Effort climbed through the period of increased investment in higher-poverty school districts in New Jersey. Effort peaks as capacity dips during the recession. It's important to note this peak does not suggest that spending in absolute terms increased; rather, as the economy shrank,

education spending as a proportion of the entire New Jersey economy grew. As the economy recovered, however, effort declined, and continued to decline through the most recent available data. An opportunity to reinvest, by at least restoring and maintaining effort, has been squandered.

Figure 1

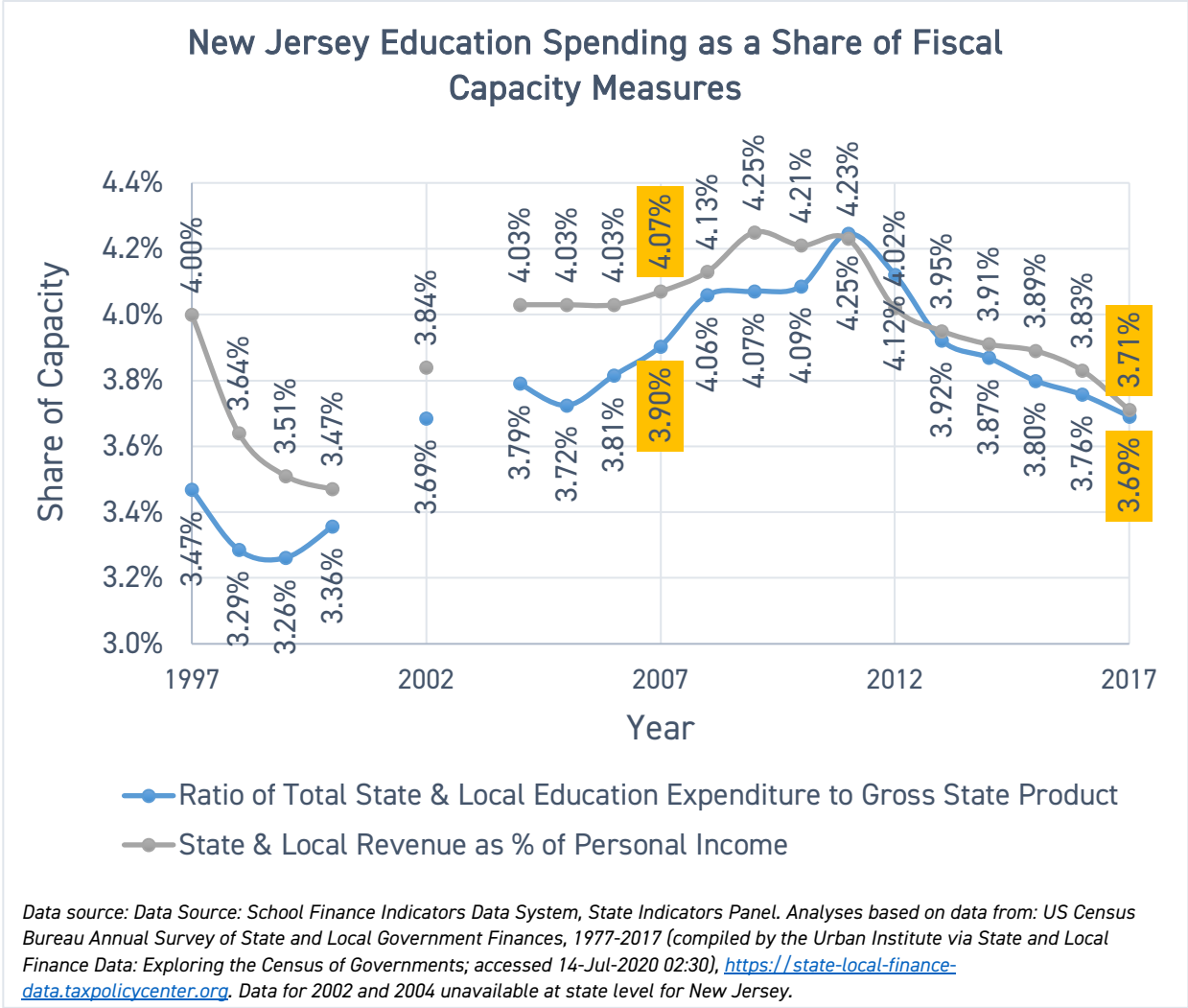
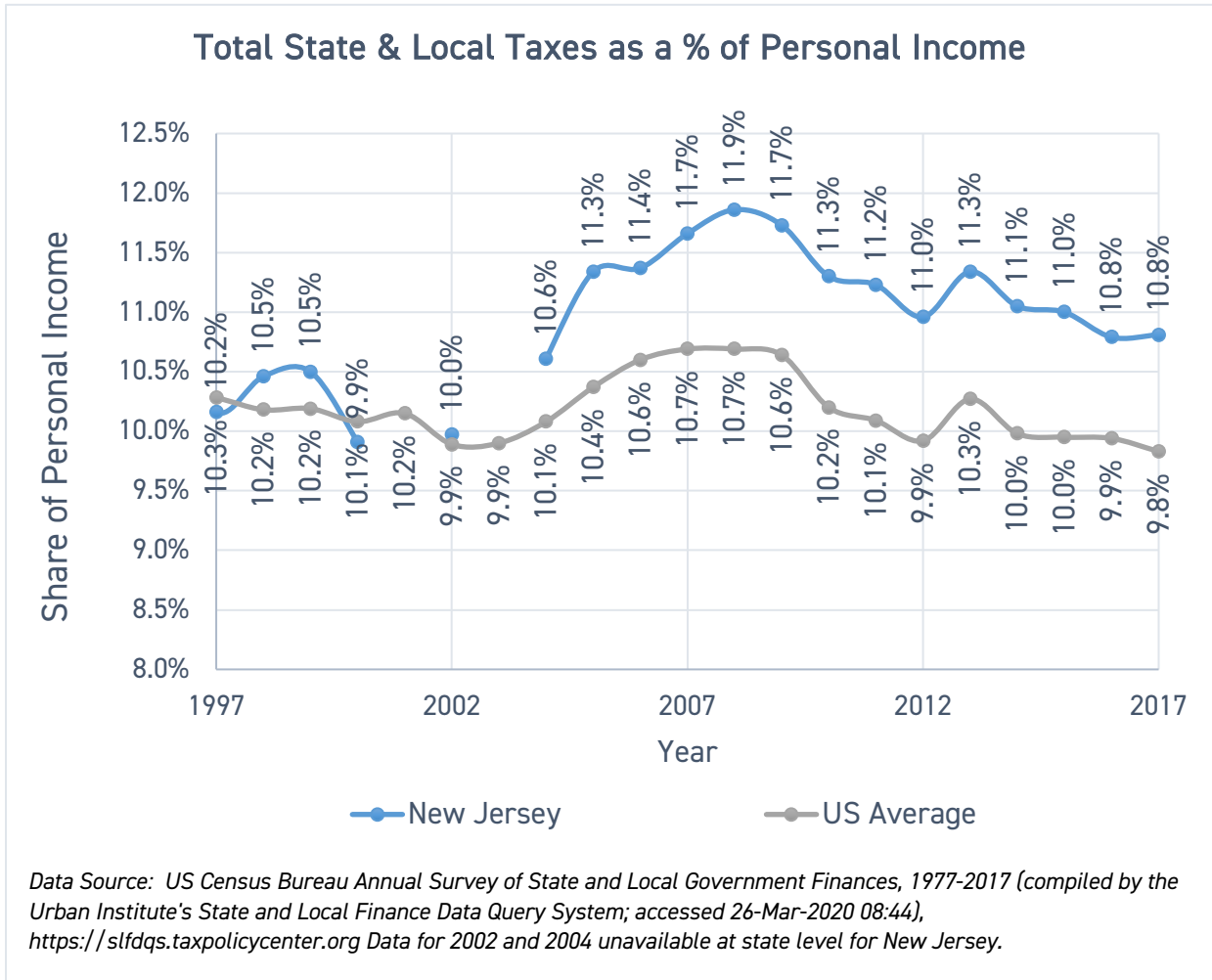


Figure 2 shows that combined state and local tax effort overall (not just taxes for education) in New Jersey has been on the decline, parallel with national averages. New Jersey is not alone in declining state and local taxes (as a share of income) over time: national trends show declining overall tax effort, and declining education effort in particular. But New Jersey is also not nearly as well positioned as it was in the mid-2000s to buffer a major economic slump; tax effort was substantially higher before the 2008-09 recession than it is now.

Figure 2



New Jersey Tax Policy in Context

This section provides a snapshot of New Jersey tax policy relative to other states, and broken out by tax revenue type, starting by comparing New Jersey to the other states in overall revenue collections and taxes. New Jersey is often described as a “high-tax state.” It is also, however, a high-income state, and more income will inevitably lead to more revenues. Further, because New Jersey residents are relatively wealthier, on average, than residents in most other states, they will pay more in federal taxes. But when looking only at state and local revenues as a percentage of personal income (Figure 3), New Jersey is modest in how much it collects relative to other states: the state ranks 31 out of the 50 states plus Washington, D.C.

Figure 3

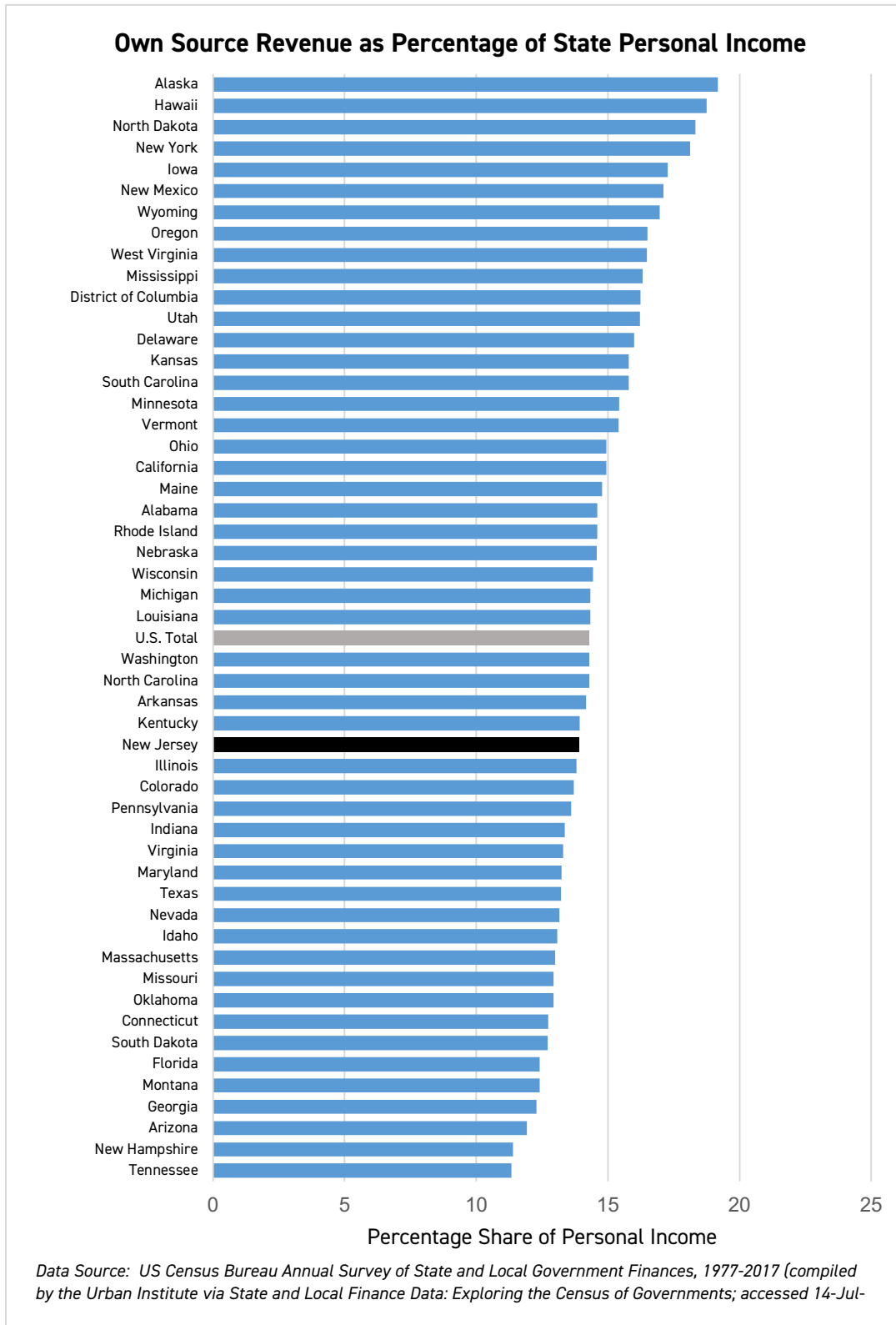
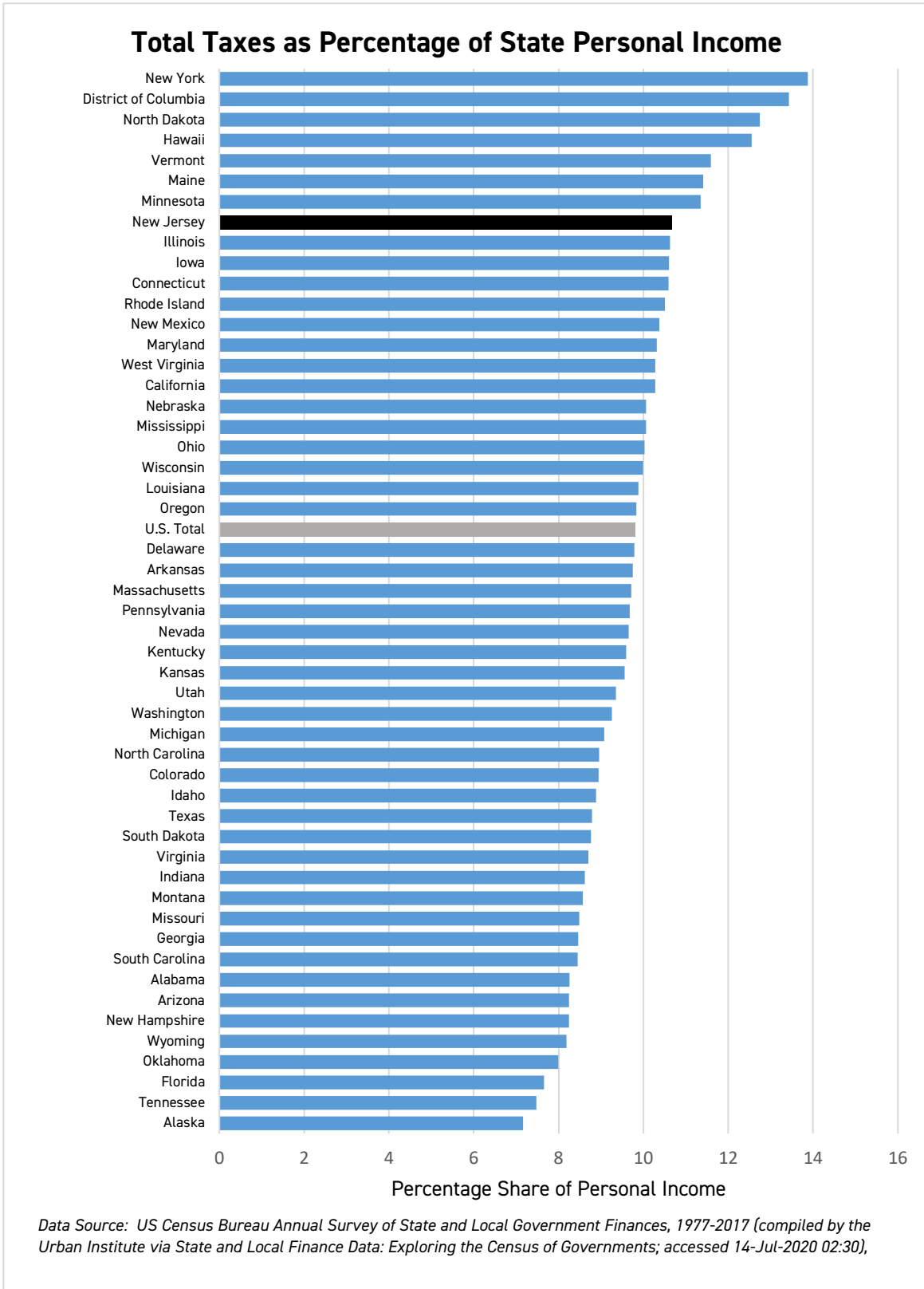


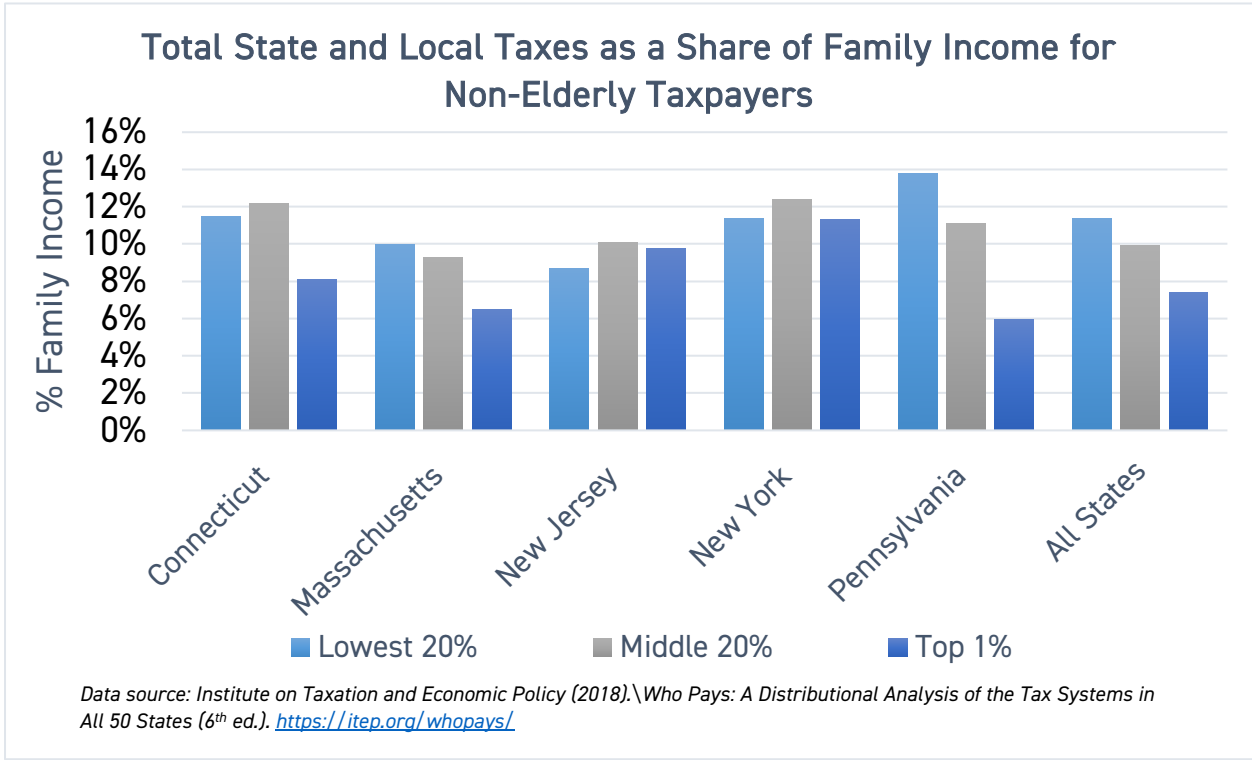
Figure 4



States and localities collect revenues from sources other than taxes, including state college tuition, payments to public hospitals, tolls, etc. If these revenue sources are excluded and taxes are included, New Jersey’s relative standing rises to eighth highest. While New Jersey’s effective rate of 10.7 percent is higher than the national average of 9.8 percent, the state is not even in the top five highest state and local tax rates in the nation. Also notable is that New Jersey’s effective overall tax rate is lower than New York’s, almost identical to Connecticut’s, and within one percentage point of Delaware and Pennsylvania. New Jersey, in other words, is hardly an outlier when it comes to taxes, especially when compared with its neighbors.

Again, New Jersey is a comparatively affluent state; however, incomes vary greatly within the state itself. How the state taxes residents with differing levels of income is an important consideration, especially when constructing a school funding system that serves students coming from a wide variety of socio-economic backgrounds. Figure 5 shows that total state and local taxes as a share of income in New Jersey are, on average, comparable to surrounding and peer states, and lower on average than New York in particular. New Jersey taxes are marginally more progressive than other states, with the lowest 20 percent by income paying a smaller share of income in state and local taxes than the top 1 percent. This is a striking contrast to Pennsylvania, where the bottom 20 percent pays more than twice their income in taxes of the top 1 percent. New Jersey has maintained a more progressive tax system than others.

Figure 5

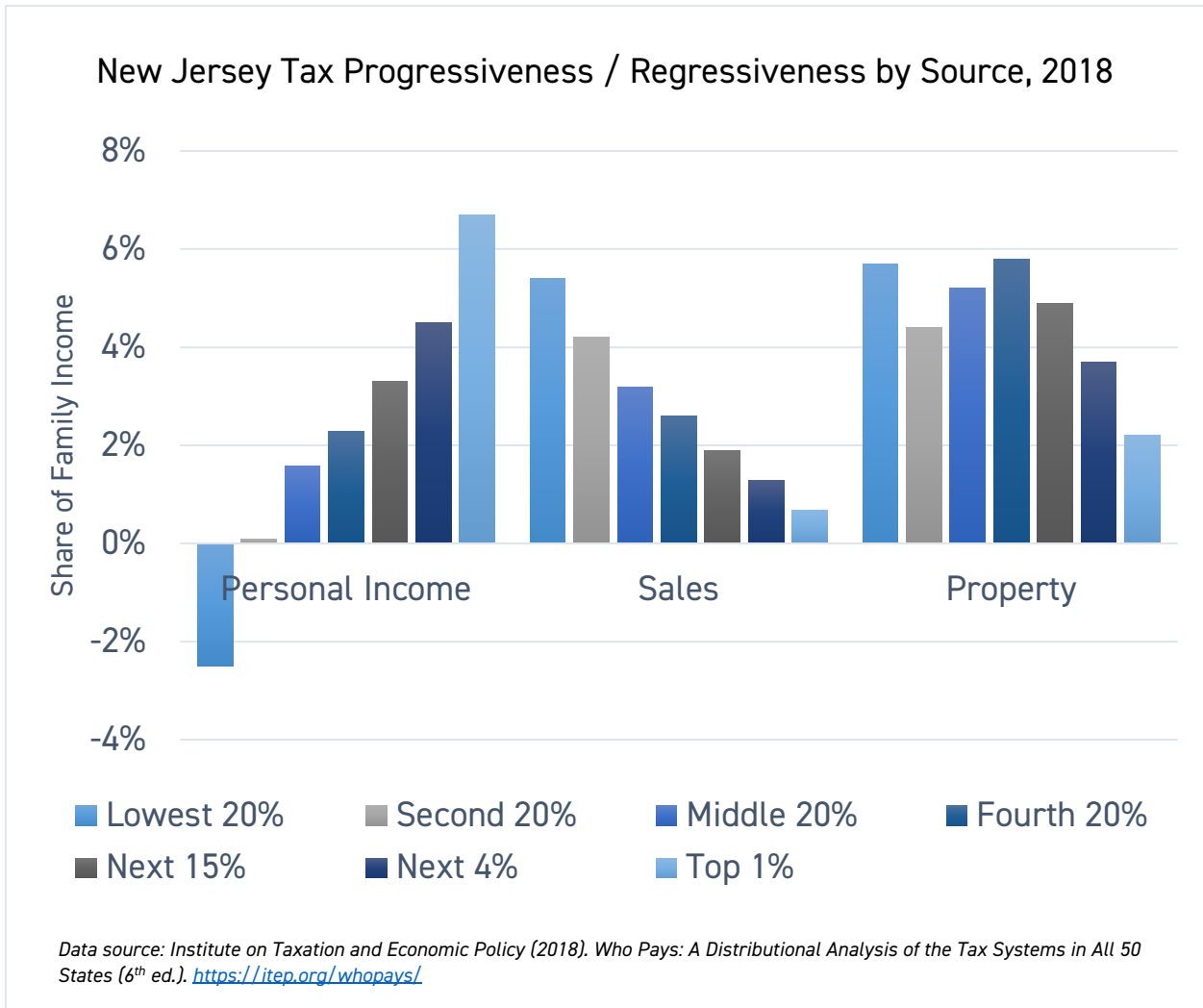


In considering the progressiveness of a state's taxes, it is important to consider the progressiveness of its school aid system. A progressive school aid formula reduces the burden on taxpayers in less affluent communities, replacing revenues that would be raised at the local level with revenues raised at the state level. State taxes, even when flat, will be spread out across residents in both more affluent and less affluent communities. The result is that state and local taxes will become less regressive overall. New Jersey's modestly progressive school aid formula, therefore, has helped the state to develop a modestly progressive tax system.

Figure 6 breaks out progressiveness by tax revenue source in New Jersey. New Jersey's personal income tax is strongly progressive, and provides a significant share of the revenue for the state general fund, which in turn is used to support the school finance formula. These pieces all interconnect. Because the state school finance formula itself distributes funding to local school districts progressively, that formula provides significant property tax relief to the poorest communities.

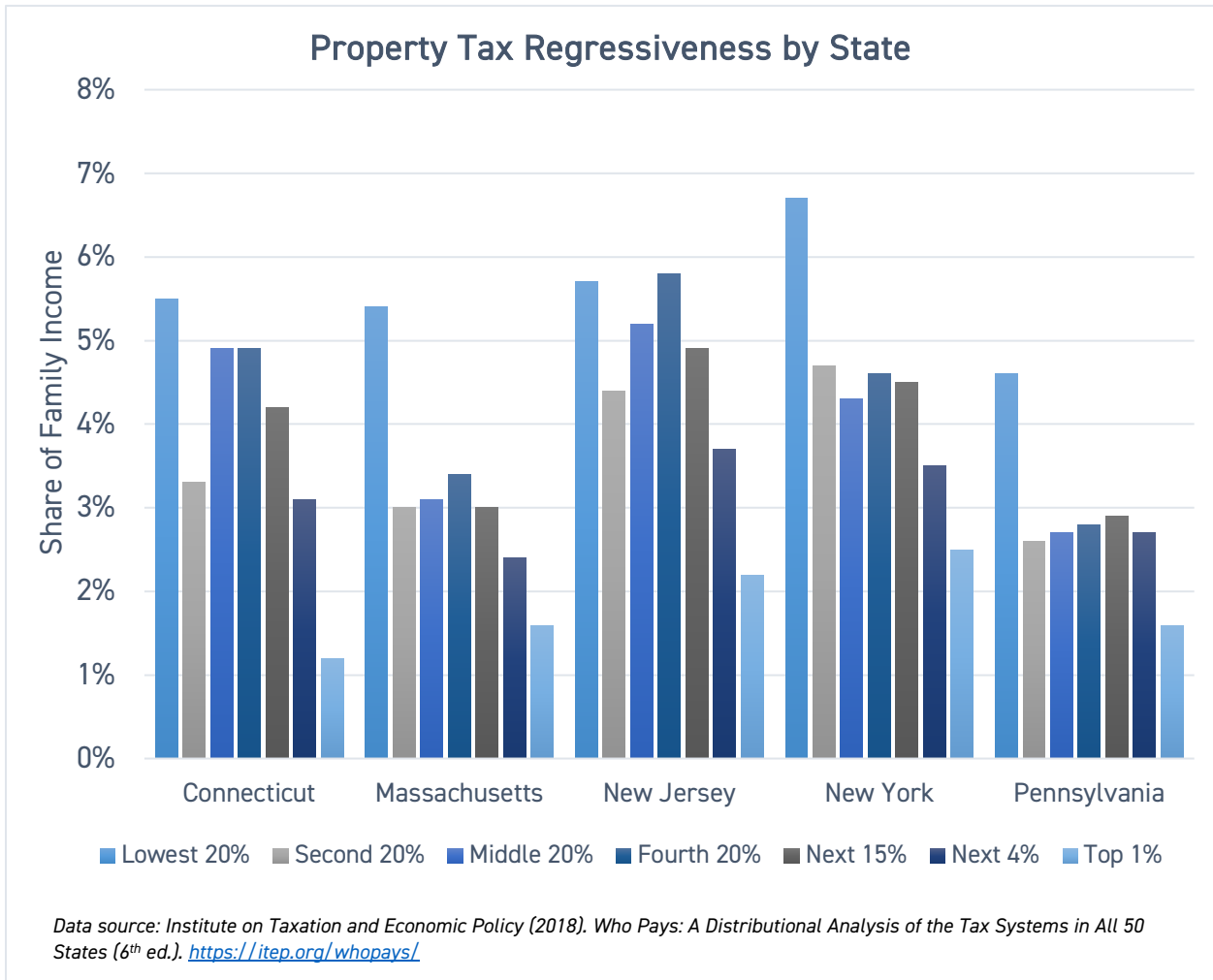
State aid for schools (and state aid to municipalities) *is* tax relief.⁸ State aid provides the opportunity for school districts or municipalities to provide the level of needed service without overburdening local property taxes. When state aid is increased, property taxes, especially for the least affluent communities, can stay in check. When state aid is decreased, communities that can will often offset the difference – to pay the price of maintaining current programs and services – by increasing property taxes. New Jersey's progressive income taxation, coupled with progressive distribution of state aid to local public-school districts, makes the property tax in New Jersey less regressive than in other states. More state aid, therefore, means more of the tax burden for schools is shifted to higher-income citizens – the ones more able to shoulder the burden. This is particularly true if the state aid is derived from increases to income taxes specifically on high-income individuals. Figure 6 shows that in New Jersey, despite exemptions for necessities such as food and clothing, the sales tax is the most regressive tax in the state. In addition, despite the progressiveness of the school funding formula, property taxes are still regressive – but not as regressive as they might otherwise be if state aid was less. As Figure 6 shows, low-income families still pay nearly three times their income in property tax as compared to the top one percent; undoubtedly, they would pay even more if state aid were cut.

Figure 6



Finally, Figure 7 compares property tax regressiveness between New Jersey and neighboring and peer states in 2018. While New Jersey’s property taxes remain regressive, New Jersey’s property taxes are less regressive than those in other states. In particular, the aggressive targeting of state aid in the past to the poorest school districts has kept in check differences across the bottom four groups here (bottom 20 percent to all but the top 5 percent). The uneven distribution, however, suggests that New Jersey still has work to do. Further, as the progressiveness of school funding has waned over the past decade, without correction, property taxes in New Jersey can be expected to become more regressive over time. If policymakers are concerned with keeping property taxes as low as possible for New Jersey’s least affluent residents and its middle class, a robust system of state aid to schools is critically important.

Figure 7



Revenue Sources and Volatility In New Jersey

Property taxes, the primary source of local revenues in New Jersey, have long been a source of controversy in the state. New Jersey relies heavily on property taxes to raise local revenues relative to other states.⁹ Some pundits and policymakers describe this as a structural disadvantage. A few points, however, are critical to understand when considering the revenues and tax policies underpinning the state’s school finance system:

- While revenues from income taxes are most useful for improving equity across jurisdictions (generating state general fund revenues for redistribution through the school aid formula), revenues from income taxes are also the most volatile. Revenues from income taxes rise in times of economic growth, but fall during economic slowdowns. Overreliance on income taxes to fund education, therefore, makes school budgets more susceptible to economic slumps.¹⁰

- Revenues from property taxes tend to be most stable and least volatile sources of revenues for schools over time. When or if they do dip, those dips tend to lag with respect to revenue loss from income taxes. Property tax revenues, therefore, can serve as an important buffer to volatility in income tax revenues.¹¹
- Property taxes, as explained above, also tend to be more regressive than income taxes (though not as regressive as sales taxes). But there are ways to ways to make property taxes a less inequitable source of funding for local schools. One approach is to implement statewide property taxes on commercial and industrial properties to generate revenue pools for redistribution.¹² This would retain the stabilizing features of property taxes while allowing their benefits to be distributed more equitably among school districts.¹³

Figure 8 shows New Jersey state and local revenues by source over time, and Figure 9 shows the year over year volatility of New Jersey revenues by source. Note that in Figure 8, property tax revenues grow relatively consistently over time. Sales tax revenues are flat over time in New Jersey, except for a brief bubble prior to the great recession. Revenues climb overall, primarily as a function of gradually climbing property tax revenues. Income tax revenues increased during the period in which the state was aggressively supporting the Abbott school reforms, suggesting that at least some of the additional revenue being collected in income taxes was being used to fund the state’s highest-need school districts.

Notably, the overall drop in total state and local revenues (all programs and services) during the 2008-2009 recession is largely a function of declining income tax revenues. During and immediately after the Great Recession, income taxes declined sharply, even as property taxes modestly increased. These revenues have crept back upward toward pre-recession levels, but changes to overall state and local revenue have not translated to full restoration of funding to New Jersey’s schools. It is very likely that New Jersey will see a similar pattern in the coming years: an economic downturn leading to a decline in income taxes, but not necessarily in property taxes, which are less volatile.

Figure 8

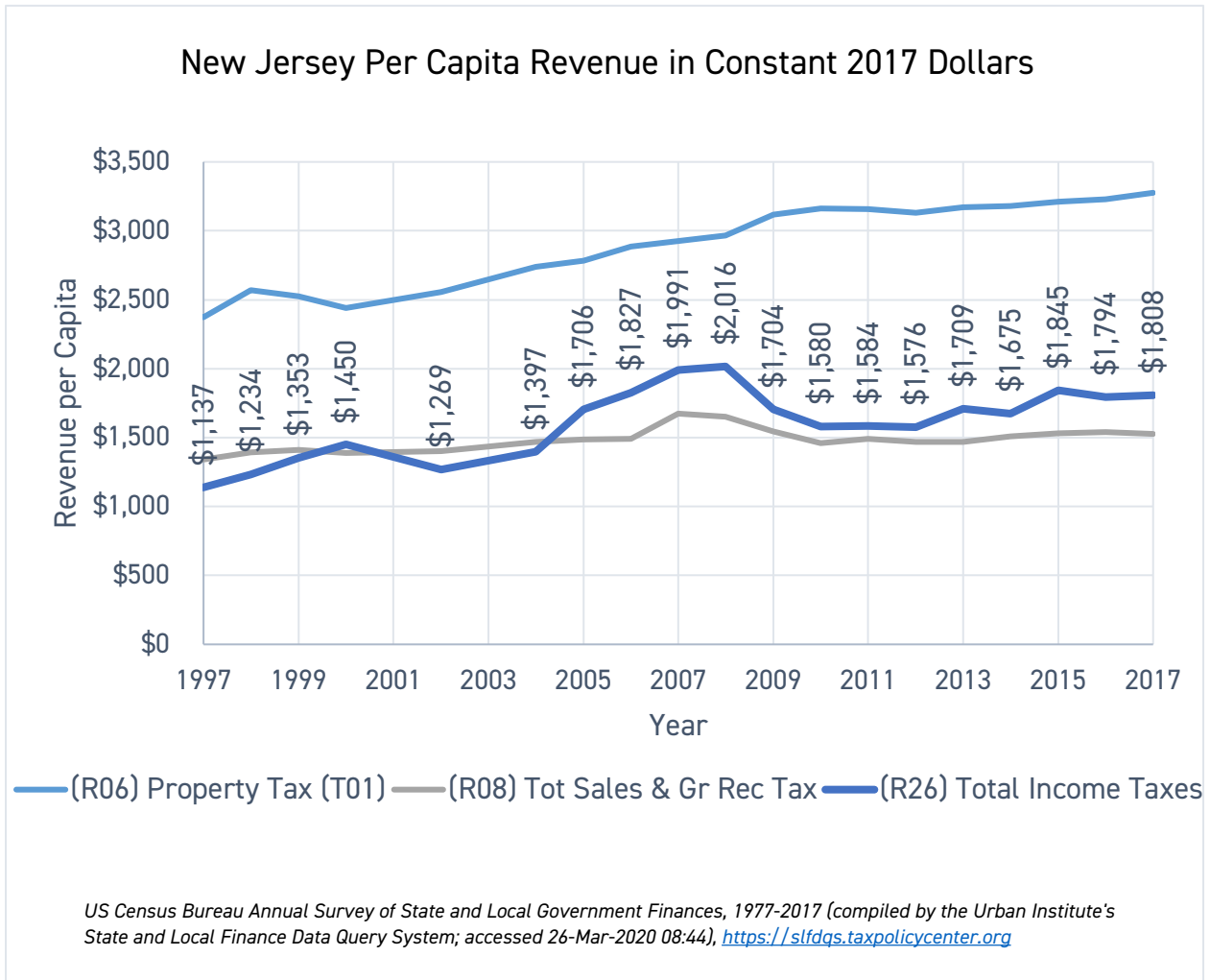
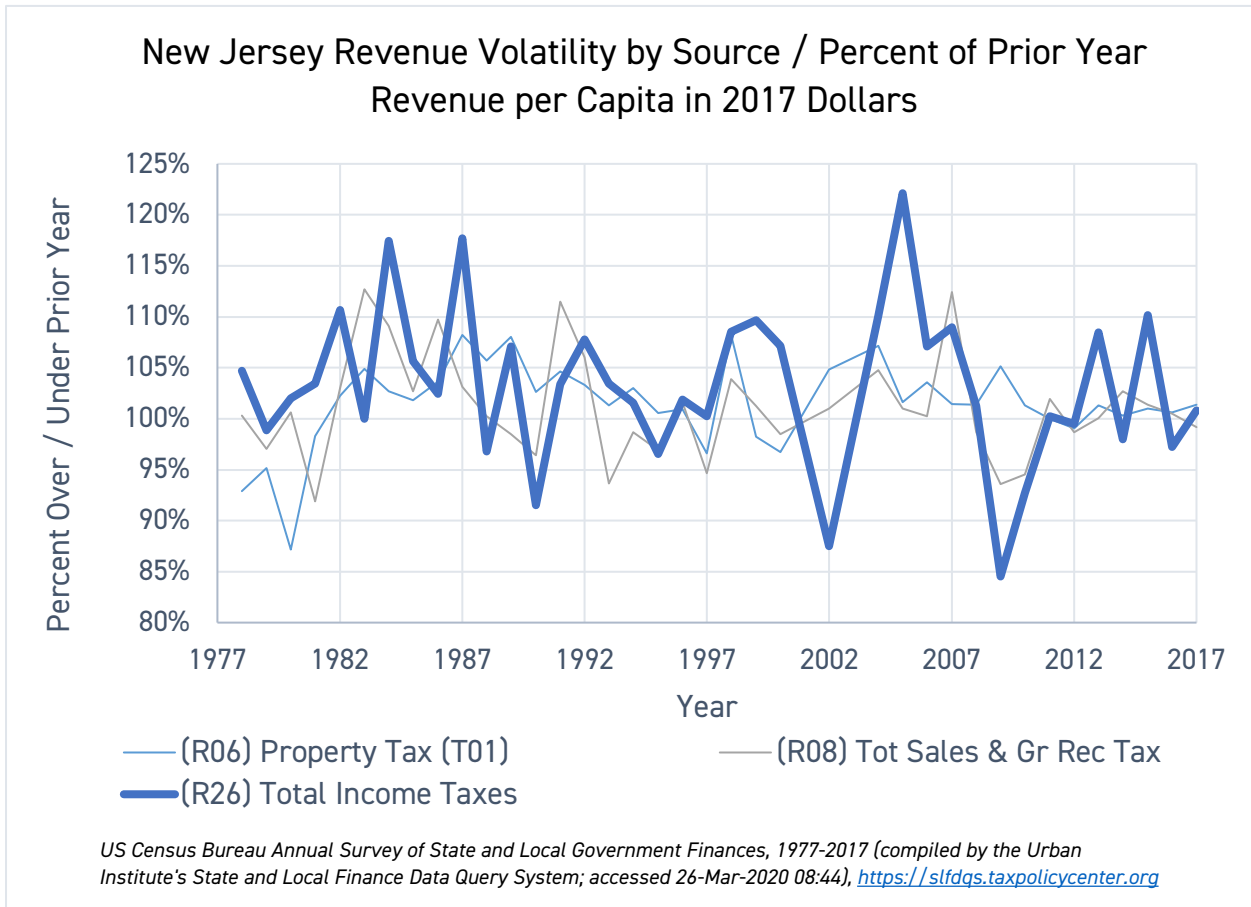


Figure 9 shows the year over year volatility of revenue sources. The measure is revenue per capita in one year as a percent of the prior year. A less volatile revenue source will have peaks and valleys that are less extreme, as revenues will be more consistent over time. Figure 9 shows that there have been two significant economic shocks to New Jersey’s revenues. One occurred in the early 2000s (post-9/11 economic shock) and the other during the Great Recession (roughly from 2008 to 2011). Income tax revenue volatility was significant during both periods, but state general funds suffered somewhat greater impact in the great recession because of the concurrent dip in sales tax revenues. Property tax revenues largely weathered both storms, helping to keep New Jersey’s school finance system afloat and less subject to economic shocks. Notably, while there was a significant rebound in income tax revenue following the post-9/11 shock, no such rebound took place after the Great Recession. The “sinking” of New Jersey’s school finance system, then, largely occurs in the aftermath – from 2013 forward – of the Great Recession, when the state failed to put sufficient effort into restoring, at the very least, full funding of the existing school finance law (SFRA).

Figure 9



Local capacity to raise property taxes varies widely from one local public-school district to the next, leading to substantial local revenue disparities. But years of related research have found that the share of a state’s overall school funding system that comes from local sources is not a strong determinant of whether that system results in an overall progressive distribution of education spending.¹⁴ That is, significant reliance on local property taxes for schools need not lead to a vastly inequitable, regressive system, if state aid is aggressively targeted to need and capacity. Unfortunately, many states allocate significant shares of state aid to districts with both greater capacity and less student need, reinforcing disparities.¹⁵ Even when New Jersey was among the most progressive states in the nation in terms of education funding, the state still relied more heavily on property taxes as a source of revenue to support public schools than most other states, because New Jersey more effectively targets state aid to where it’s needed. That said, even New Jersey allocates at least some state aid to less needy districts – aid which could be reallocated toward reinstating progressiveness.

One additional point on revenues: the largest share of federal revenues are allocated based on poverty rates through the Title I program. This does slightly improve the progressiveness of funding; however, the effect of federal revenues on progressiveness is smaller in New Jersey than in the other states, because federal revenue is a much smaller share of New Jersey’s overall school funding. While federal funding accounted for 8.1 percent of total K-12 school revenues nationwide (2016-17), in New Jersey only 4.2 percent of revenues come from federal sources, the lowest percentage in the nation. Across the nation, federal K-12 school funding comes to \$1,135 per student (2016-17); New Jersey only receives \$900 per student, the sixth lowest total in the United States.¹⁶ New Jersey is a relatively affluent state, so it is not surprising that federal revenues, which are distributed in large part based on student economic disadvantage, would be lower than in other, less affluent states. Generally, under federal tax policy, New Jersey is one of the so-called “donor states,” a group of Northeastern states that send more revenues to the federal government than they receive in federal expenditures.¹⁷ Even if federal funds to schools were to increase substantially in the coming years, New Jersey will certainly have to continue to rely heavily on its own revenues to fund its schools.

Progressiveness of School Resources in New Jersey

Figure 10 tracks the per pupil spending, adjusted for changes in labor costs¹⁸ over time, for New Jersey school districts by poverty quintile. There was a substantial infusion of support to high-poverty districts from 1999 through 2008, followed by a decline in support for those districts, which has yet to rebound. Other districts track similarly with one another, ending the period at marginally above their spending levels in the late 1990s.

Figure 10 shows that in recent years, New Jersey has crossed a threshold where, for the first time since the mid-1990s, the state’s lowest-need districts again outspend the state’s highest-need districts. That is, on average, the spending differential between low- and high-poverty districts is no longer progressive, but regressive, after having been among the most progressively funded systems in the nation in the mid-2000s.

Figure 10

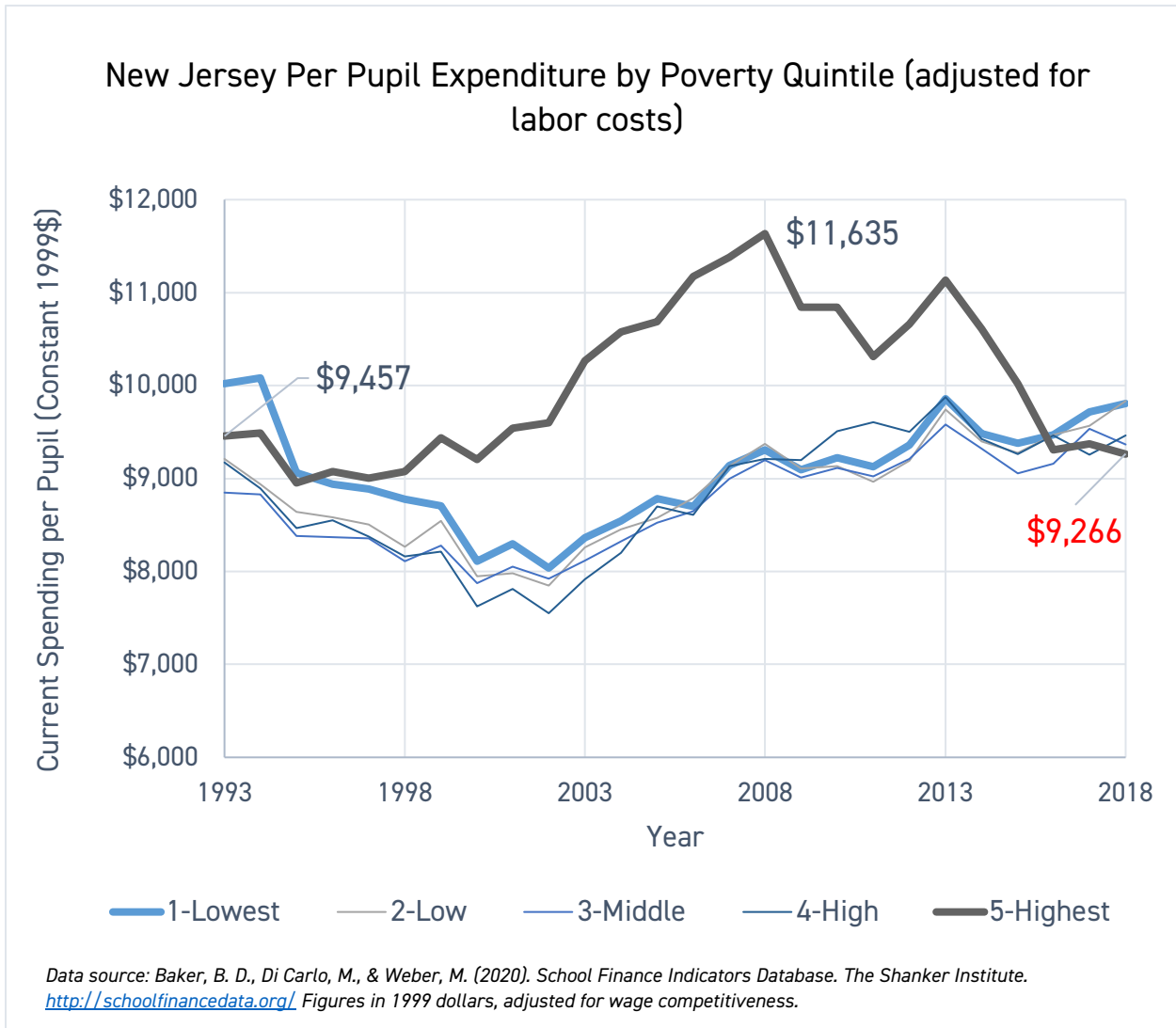
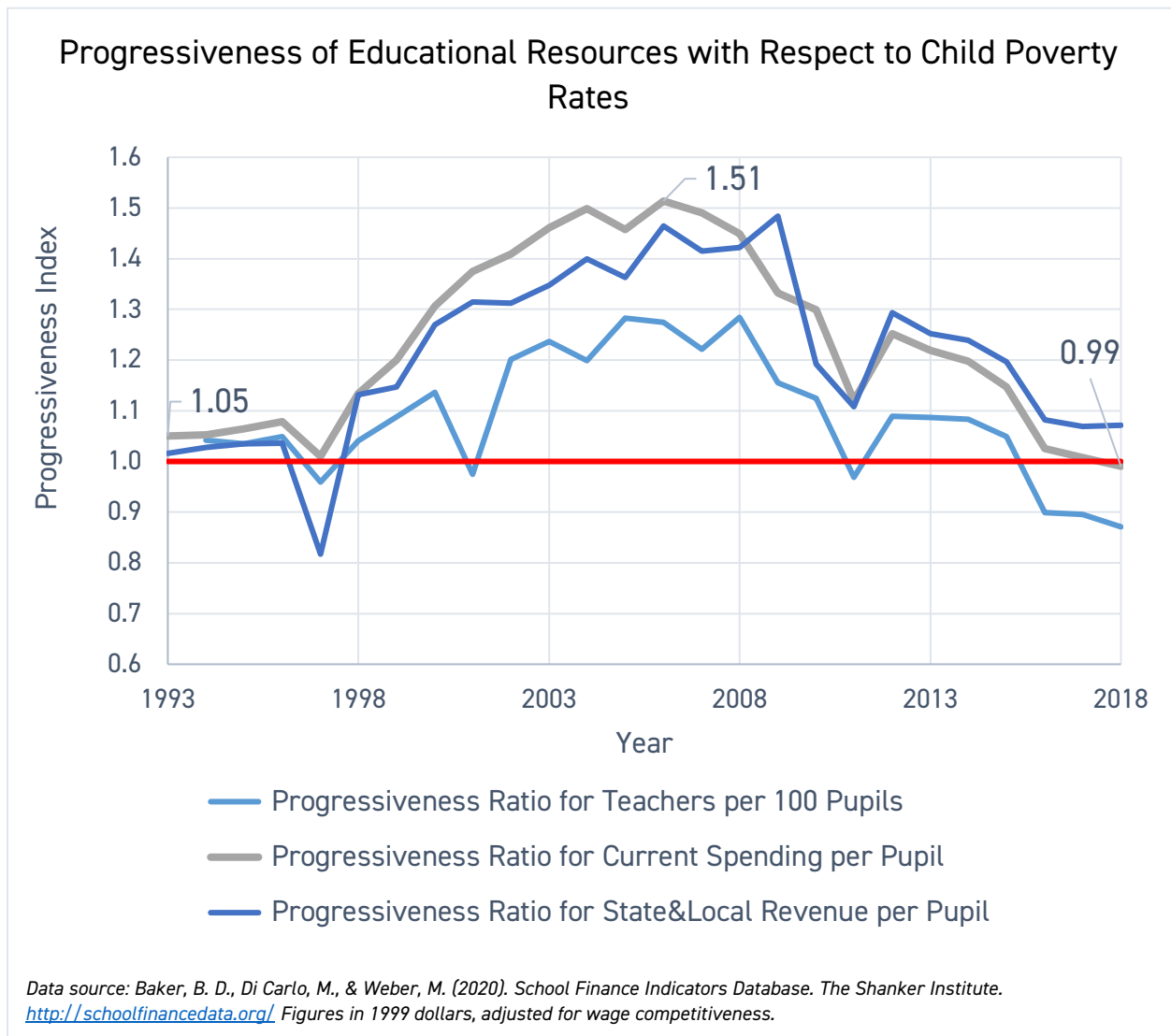


Figure 11 specifically tracks the progressiveness ratio for current operating expenditures per pupil, state and local revenues per pupil, and teachers per 100 pupils, from 1993 to 2017. The progressiveness ratio is the ratio of resources (per pupil) in a high-poverty district (30 percent census poverty rate, which is equivalent to about 60 to 80 percent qualifying for free or reduced priced lunch) to that of a low-poverty district (0 percent census poverty), in a model that controls for regional differences in labor costs, district size (economies of scale) and population density. By the mid-2000s, current spending per pupil in high-poverty districts was about 50 percent higher than that of low-poverty districts: a strong progressive differential, though still likely insufficient for fully closing achievement gaps.¹⁹ State and local revenue was in a similar range.

Interestingly, the relatively progressive funding of New Jersey schools never fully translated to equally progressive ratios of certified staff. Staffing costs are, by far, the largest portion of K-12 education

spending.²⁰ We would assume, therefore, that much of the additional revenue going to the highest-poverty districts would be spent on staff, and that staff-per-student ratios would rise accordingly, though differences may also be reflected in increased wages. However, as operating funds (funds that pay for teacher salaries, benefits and other school staffing costs) were scaled up, investment in infrastructure lagged. There simply weren't enough available classrooms in high-need districts to reduce class sizes by adding certified staff. By the time there were, the progressive funding had begun to taper off, and then collapsed.

Figure 11



Better vs. Worse Cuts? Looking Back to Inform the Path Forward

During the great recession, New Jersey leaders did some things right – or at least less poorly than neighboring states during the period of recessionary cuts to state aid to schools. For example, when there are state revenue shortfalls, the least equitable (most damaging to progressiveness) approach to levying aid cuts is to cut state aid to individual school districts as a percent of total state aid, as was done in many states (including Ohio, New York, Pennsylvania, and Connecticut)²¹ during the previous recession. This is a highly regressive policy, as the cuts will fall harder on the districts that rely more heavily on state aid: namely, the least affluent districts. A more equitable, though still problematic approach is to cut state aid as a percent of district budgets, as was done in New Jersey in 2011.²² In this scenario, cuts are distributed more evenly across districts with differing tax capacities; however, more affluent districts will have a greater ability to make up for the cuts, leading to a more regressive funding system overall.

Table 3 provides an illustration of these different scenarios, using 2017 state and local revenues as a starting point. As a baseline, the lowest-poverty quintile (most affluent) of districts in the state start with about \$200 more revenue per pupil than the highest-poverty quintile (least affluent). Most of the revenue (about 90 percent) in the low-poverty quintile is from local sources – because these districts have a higher local taxing capacity – and most of the revenue in the highest-poverty quintile (80 percent) is from the state. Per pupil, state and local revenue is relatively flat across poverty quintiles. If the same total amount of money was cut from the system, then either five percent of total state and local revenue could be cut, or 12 percent of state revenue only. If only a percent of only state aid were cut, low-poverty districts would get a cut of \$233 per pupil; high-poverty districts, however, face a cut of nearly \$1,000 per pupil. Such cuts substantially erode progressiveness. By contrast, if we cut as a percent of districts’ budgets (combined state and local), similar per pupil amounts across districts would be cut by poverty quintile. This is still problematic, however, because lower-poverty districts – which are typically higher-capacity – have greater ability to replace these aid cuts with local tax increases to maintain programs and services. But the damage done to high-poverty districts isn’t nearly as severe as it is when only state revenue is cut.

New Jersey took this latter, more equitable approach following the last recession. In addition, the New Jersey Supreme Court ordered the restoration of the five percent cut to Abbott districts, further easing the fiscal damage to that select group of school districts.²³ Nonetheless, in the years that followed, New Jersey’s school finance system reverted from a national model, to relative mediocrity, albeit still funded at higher average levels than school finance systems elsewhere. Much of the flattening of the progressiveness of the New Jersey funding system does in fact come from lower-need, higher-capacity districts responding to aid cuts and freezes by raising additional local revenues, simply because they could. The system would likely have been even worse off had cuts been levied as a share of state aid, *and* not restored by the court.

Table 3: Simulated Implementation of Cuts to State Aid

Scenario	Poverty Quintile	Local per Pupil	State per Pupil	Cut per Pupil	Total per Pupil After Cut
Baseline	1-Lowest	\$9,020	\$1,942		\$10,962
	2-Low	\$8,375	\$2,372		\$10,746
	3-Middle	\$7,512	\$2,953		\$10,466
	4-High	\$6,161	\$3,935		\$10,096
	5-Highest	\$2,623	\$8,166		\$10,789
Cut 12 percent of State Aid	1-Lowest	\$9,020	\$1,709	\$233	\$10,729
	2-Low	\$8,375	\$2,087	\$285	\$10,461
	3-Middle	\$7,512	\$2,599	\$354	\$10,111
	4-High	\$6,161	\$3,463	\$472	\$9,624
	5-Highest	\$2,623	\$7,186	\$980	\$9,809
Cut 5 percent of Per Pupil Revenue	1-Lowest	\$9,020	\$1,393	\$548	\$10,414
	2-Low	\$8,375	\$1,834	\$537	\$10,209
	3-Middle	\$7,512	\$2,430	\$523	\$9,943
	4-High	\$6,161	\$3,430	\$505	\$9,591
	5-Highest	\$2,623	\$7,626	\$539	\$10,250

It is unknown how the current crisis will affect school funding in the future. However, if cuts in state aid are inevitable, New Jersey should learn from its past and take the route least likely to negatively impact the state’s progressivity in school funding.

New Jersey faces an uncertain short-term economic future amid the current national and regional health crisis. There is little doubt that the state will face substantial shortfalls in revenues from personal and corporate income taxes. The fate of sales taxes is less well known, but with the complete shutdown of major in-person retail, the state can expect a shock to sales tax revenues that differs from past recessions.

Unfortunately, as outlined here, New Jersey’s public-school system is not as well positioned to face this uncertain near-term future than it was at the onset of the Great Recession. This is especially true for the state’s highest-poverty communities. Some guiding principles for the path forward include:

- If state aid cuts are levied, the state must consider the impact of those cuts both on school spending and tax progressiveness: specifically, cuts as a share of total budgets are more equitable than cuts as a share of state aid;

- If state aid cuts are levied, the state should target sources of state aid currently allocated to districts having greater capacity to offset losses, and to districts with fewer students in need (English language learners, students in economic disadvantage, and students with disabilities);
- To the greatest extent possible, the state should seek to maintain and rebalance the revenue streams that support New Jersey’s public schools, as well as identify strategies to reduce the regressiveness of the state’s sales tax.

We explore these issues with more specific analyses of the School Funding Reform Act in Part 3 of this series.

Conclusions

This report, Part 2 in the series on New Jersey school funding, takes a deep dive on school resources, taxes, and revenues for New Jersey’s schools, focusing on two of three important indicators of the state’s school funding system: *effort* and *progressivity*. Effort is the amount of a state’s economic capacity that is put toward its schools; progressivity measures how much additional funding the state drives toward or away from its neediest districts. The third indicator, *adequacy*, is addressed in the latter parts of this series.

Compared to other states, New Jersey still makes a strong “effort” to fund its schools: it devotes more of its economic capacity to education funding than most other states. Unfortunately, New Jersey made less effort to fund its schools after the Great Recession of 2009; consequently, its effort is weaker than it was a decade ago. The state never made up for the losses in school revenues following the recovery; the state’s schools are, therefore, in worse fiscal position now than they were before the previous recession.

New Jersey is also moderately better than most states at progressively funding its schools: it drives more funding where student needs are greatest and tax capacity is lowest. For the first time in decades, however, New Jersey’s highest-poverty schools are spending less than its lowest-poverty schools, an indication that the state is backsliding on school funding progressivity.

New Jersey is not a tax-and-spend outlier: it ranks 31st in the nation on own source revenues, and eighth in the nation on state and local taxes (as a percentage of income). New Jersey has more progressive state and local taxes than its neighbors; however, the wealthiest residents of New Jersey still pay less in taxes than those in the middle. The progressiveness of New Jersey taxes is due, in part, to the state’s aid to schools. State aid to schools *is* tax relief: it makes state and local taxes more progressive because it distributes the tax burden more equitably, shifting it from regressive property taxes to progressive income taxes. This said, property taxes are still an important part of New Jersey’s school funding system: they are less volatile than other taxes and, therefore, less likely to decline in an economic slump.

In the face of the coming economic downturn, New Jersey should maintain and enhance the features of its school aid system that promote school funding progressiveness while decreasing tax regressiveness. If cuts in school funding need to be made, it is better to make cuts based on school budgets, and not simply cut overall state aid, which will harm the highest-poverty districts more.

The next report of this series examines the state's school funding law, the School Funding Reform Act (SFRA).

Endnotes

¹ US Census Bureau. 2000, updated annually. Annual Survey of State and Local Government Finances, 1977-2017. Compiled by the Urban-Brookings Tax Policy Center. Washington, DC: Urban-Brookings Tax Policy Centers (2017).

² Baker, B. D., Weber, M. A., Srikanth, A., Kim, R., & Atzbi, M. (2018). The real shame of the nation: The causes and consequences of interstate inequity in public school investments. Rutgers, The State University of New Jersey. <http://www.schoolfundingfairness.org>

³ Baker, B. D., Di Carlo, M., & Weber, M. (2020). School Finance Indicators Database. The Shanker Institute. <http://schoolfinancedata.org/>

⁴ For more on the methodology used here, see: Baker, B. D., Di Carlo, M., & Weber, M. A. (2020). The Adequacy and Fairness of State School Finance Systems; Key Findings from the School Finance Indicators Database. Albert Shanker Institute. <http://schoolfinancedata.org/annual-report/>; further details are available in the SFID Codebook: http://schoolfinancedata.org/wp-content/uploads/2020/02/SID_Codebook_2020.pdf

⁵ Allegretto, S., & Mishel, L. (2019). The teacher weekly wage penalty hit 21.4 percent in 2018, a record high: Trends in the teacher wage and compensation penalties through 2018. Washington, DC: Economic Policy Institute.

⁶ Bureau of Economic Analysis (2020). "Gross Domestic Product by State." <https://www.bea.gov/data/gdp/gdp-state>

⁷ Urban Institute (2020). "State and Local Finance Data: Exploring the Census of Governments." <https://state-local-finance-data.taxpolicycenter.org>.

⁸ Duncombe, W., & Yinger, J. (2001). Alternative paths to property tax relief. Property taxation and local government finance, 243-294.

⁹ Urban Institute & Brookings Institution, Tax Policy Center (2020). "Tax Policy Center Briefing Book; The State of State (and Local) Tax Policy; How do state and local property taxes work?" <https://www.taxpolicycenter.org/briefing-book/how-do-state-and-local-property-taxes-work>

¹⁰ Baker, B. D., Green, P. C., & Richards, C. E. (2008). *Financing education systems*. Prentice Hall.

¹¹ Baker & Green (2008).

¹² Brent, B.O. (1999). An analysis of the influence of regional nonresidential expanded tax base approaches to school finance on measures of student and taxpayer equity. *Journal of Education Finance*, 24 (3), 353-378

Ladd, H.F. & Harris, E.W. (1995). Statewide taxation of nonresidential property for education. *Journal of Education Finance*, 21 (1), 103-122.

¹³ Baker & Green (2008).

¹⁴ Baker, B. D., & Farrie, D. (2010). Is school funding fair? A national report card technical report. <http://www.schoolfundingfairness.org/is-school-funding-fair/reports>

¹⁵ Baker, B. D., & Corcoran, S. P. (2012). The Stealth Inequities of School Funding: How State and Local School Finance Systems Perpetuate Inequitable Student Spending. Center for American Progress.

¹⁶ National Center for Education Statistics (2019). "Table 235.20. Revenues for public elementary and secondary schools, by source of funds and state or jurisdiction: 2016-17" https://nces.ed.gov/programs/digest/d19/tables/dt19_235.20.asp

¹⁷ Cummings, M. (2019) "Who are the Givers? The Northeast Subsidizes Federal Spending." <https://rockinst.org/blog/who-are-the-givers-the-northeast-subsidizes-federal-spending/>

¹⁸ We use an extended version of the old National Center for Education Statistics Education Comparable Wage Index in the School Finance Indicators Database. Because education is labor intensive and most costs are labor costs, it is important that we adjust for maintaining the competitiveness of wages for teachers.

¹⁹ Duncombe, W., & Yinger, J. (2005). How much more does a disadvantaged student cost? *Economics of Education Review*, 24(5), 513-532.

²⁰ https://nces.ed.gov/programs/coe/indicator_cmb.asp

²¹ Baker, B.D. (2011). "Grading the Governors' Cuts: Cuomo vs. Kasich vs. Corbett (revised AGAIN!)" [Blog post]. <https://schoolfinance101.wordpress.com/2011/05/05/grading-the-governors-cuts-cuomo-vs-kasich-vs-corbett/>

²² Mooney, J. (March 1, 2011) "Doing the Math on State Aid to New Jersey Schools." NJSpotlight. <https://www.njspotlight.com/2011/03/11-0228-2050/>

²³ Baker, B.D. (2011). “Demystifying today’s Abbott Decision.” [Blog post]
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