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## School Funding in New Jersey: A Fair Future for All Part 3: The School Funding Reform Act – 2020 Update

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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

New Jersey's School Funding Reform Act (SFRA) is designed to drive more funding to districts with greater needs but lower tax capacity. These are districts with lower property values, often due to depressed housing values resulting from decades of racially discriminatory housing policies; consequently, they must have much higher taxes rates simply to raise equivalent funds for their local schools. Students in these districts are more likely to be English language learners and come from low-income families: these are the students who need more resources to achieve equal educational opportunity. SFRA, therefore, makes school funding more fair for both taxpayers and students.

Unfortunately, tracking SFRA funding shows the collapse of progressive funding in New Jersey over the past decade. More school districts are falling below their spending targets in 2019 than they were in 2010, the first year of SFRA. This is because many districts have not received the state aid they should, and some districts are not making the local required effort to fund their schools that is required by the

law. A common feature of districts falling well below SFRA funding targets (more than \$5,000) is that they serve predominantly Latinx and low-income student populations. Schools in districts with larger funding gaps have fewer certified staff per pupil, and have less competitive teacher wages for otherwise similar teachers.

New Jersey saw its largest gains in student achievement for economically disadvantaged students during the mid-2000s – the same time funding to Abbott school districts was being scaled up. After the Great Recession, however, the state pulled back from its commitment to equitable education funding; consequently, gains for disadvantaged students stalled. In addition, achievement levels and growth are lower, year-after-year, in districts with funding gaps compared to districts without. In recent years, schools in districts with larger funding gaps have lower student outcomes on statewide standardized tests, demonstrating just how important adequate school spending is.

The Governor's budget for this year – released before the pandemic – was moving more state aid toward traditionally underfunded districts, although not enough to make up for historical funding gaps. In addition, SFRA spending targets were based on older and lower standards for student learning; they are likely to be insufficient for the state's newer, more rigorous standards. Closing these spending gaps must be a priority for New Jersey, even in the midst of another recession. The statistical models in this report (Section 5 below) suggest that closing the SFRA funding gap leads to substantial gains in student outcomes. Closing a spending gap by \$1,000, for example, is able to offset about half the difference in math achievement associated with a 10 percentage point increase in a school's share of low-income students.

In response to the economic downturn, New Jersey should maintain and enhance the features of its school aid system that promote school funding progressiveness while decreasing tax regressiveness. New Jersey's school funding system has features that drive aid to districts that are already overfunded and have high local taxing capacity. Some state aid for special education, for example, automatically goes to more affluent districts, regardless of those districts' ability to raise local revenues for schools. Although it appears for the time being that aid will be held constant from prior years, if cuts in state aid need to be made, New Jersey should first target the aid flowing to these high-capacity districts, including categorical aid that is allocated outside of the adequacy formula.

If weak economic conditions persist in future years and further adjustments need to be made, it is more equitable to make cuts based on school budgets, and not simply cut overall state aid, which will harm the highest-poverty districts more. Judicial actions are not enough to ensure all of New Jersey's students receive adequate funding: the state must take legislative and administrative actions to resolve the underfunding of many of its school districts, particularly those that do not have standing under the *Abbott* rulings. In addition, and as we discuss below, SFRA spending targets should be recalibrated to align with new, higher standards; currently, they are too low, as they were based on previous, less rigorous outcome goals.

## The Current Status of the School Funding Reform Act (SFRA)

### SFRA: The Basics

The School Funding Reform Act (SFRA) of 2008 was created to end decades of legal wrangling over school funding in New Jersey. At its core is a formula that determines how much funding a school district needs to educate its students (referred to here as the “adequacy budget” or “target”), how much it can be expected to contribute locally to that cost, and how much school aid the state will allocate to that district.

The adequacy budget is primarily set through a weighted-pupil foundation formula. The SFRA sets a base per pupil amount to educate an elementary school student, and then provides for “weights” that add additional costs. The “weights” are based on student characteristics, such as economic disadvantage, English language learner (ELL) status, and grade level. A district counts its “weighted” students based on their enrollments of these different types of students: an ELL student, for example, is “weighted” at 1.5 times a non-ELL student. The weighted student count multiplied by the base cost sets the adequacy budget for a school district.

The SFRA sets a “local fair share” (LFS) amount based on a district’s average property value and its average income. Districts with higher property values and wealthier residents are expected to contribute more to their school budgets, while districts with lower property values and less affluent residents are expected to contribute less. In theory, the state makes up the difference between the adequacy target and the LFS. In reality, however, the SFRA has never been fully funded by the state, and many districts receive less than they should to meet their targets. In contrast, many districts spend in excess of their targets, often by raising more local revenue than their LFS.<sup>1</sup>

SFRA has other features, which we discuss throughout this report. Among them is “categorical aid,” which is allotted outside of the adequacy formula, meaning student characteristics and LFS do not affect how the state disburses it. Much of this aid is tied to special education: districts receive some special education funding from the state regardless of their local capacity to raise revenues. The law also has growth caps and allows for adjustment aid, a hold-harmless provision that does not let aid go below the previous years’ allocation. SFRA was amended in 2018 by S-2, a law that phases out these provisions in the original law that kept districts from receiving less state aid than they received in previous years.<sup>2</sup>

## SFRA Spending Targets and Underfunded School Districts

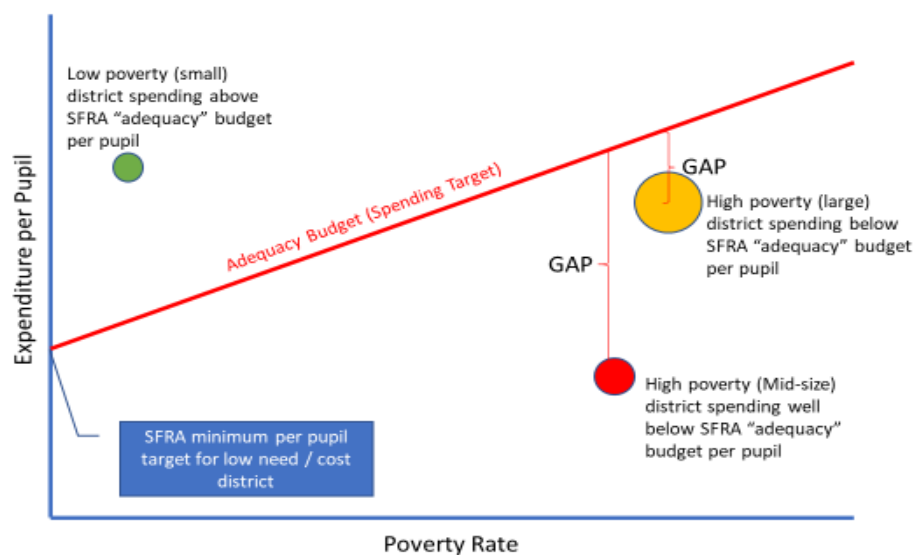
This section explores the current specifics of SFRA, updating last year’s analysis of school districts that either:

- Spend above the “adequacy budget” targets set by SFRA,
- Fall below their estimated need targets,
- Fall more than \$5,000 per pupil below their targets.

Figure 1 provides an illustration of district positions relative to their SFRA adequacy targets. On average, SFRA adequacy targets increase with district poverty concentrations. It costs more to achieve common outcome goals as poverty rises, and SFRA appropriately recognizes (though understates) these additional costs.

Some low-poverty districts also have relatively high local capacity to raise additional revenues; many have for years and will continue to do so, and many are also relatively small in size. High-poverty districts often fall below their adequacy budget targets, including Abbott districts that had previously benefited from the significant scale up of funding prior to the Great Recession. Other districts are high in poverty and fall very far below their adequacy targets. Many of these districts are not Abbott districts, and have not enjoyed the same benefits either before or after the last recession. The authors choose an arbitrary cut-off of \$5,000-per-pupil to characterize districts that are substantially below their per pupil targets set forth in SFRA.

Figure 1



It is important to reiterate a point made in the 2019 NJPP report: adequacy targets set by SFRA are based on a tallying of schooling inputs that were presumed necessary to achieve the state's mandated outcome goals at that time (early 2000s), while complying with all other requirements. Outcome demands, however, have increased substantially since that time, as have a variety of other expectations and requirements on local public schools. For example, since the passage of SFRA, statewide assessments in New Jersey have changed three times, from the NJASK to the PARCC to the NJSLA (which is similar to the PARCC).<sup>3</sup> The later assessments are considered to be more difficult than the former, relying on advanced standards and curricula. In addition, adjustments were made to SFRA at the time of its adoption to achieve sufficient political support, leading to a formula that understated actual needs and costs, even at the time when student achievement standards were lower. In other words, while SFRA is a rationally structured formula, the formula needs recalibration to address current demands, as well as demographic and economic changes over time. Current targets set by SFRA are likely well below actual needs, especially for the state's highest-poverty communities.

Figure 2 is a series of panels (or graphs) that show projected adequacy budget targets compared with actual current spending per pupil (blue diamonds) at three points in time: 2010, 2015, and 2019. The left-hand panels show actual reported spending along with two spending targets: reported SFRA targets (blue line), and our simulated targets (red line). Both lines serve as targets for what *should* be; in other words, if SFRA was fully funded, actual spending would align with these targets, and every point would fall on to one of the lines. The gaps or surpluses in spending are the distance between the adequacy targets and the actual spending. In graphs on the left, a district whose target (red or blue line) is higher than its actual spending (blue diamond) is underfunded: it is not spending what it should to meet its adequacy goal. Conversely, a district whose target is lower than its actual spending is overfunded: it spends more than it needs to meet adequacy (as defined by SFRA). The right-hand panels show these differences, or gaps between actual spending and our simulated targets. District enrollment sizes are represented by the sizes of the markers, and the districts are ordered by the percentage of students who are low-income (qualify for free lunch).

Figure 2



Shortfalls compare “Budgetary Cost per pupil” (Indicator 1) from the New Jersey Taxpayer’s Guide to Education Spending to two measures of SFRA funding targets.<sup>4</sup>

In 2010, there existed a reasonable degree of alignment between actual per pupil spending and SFRA adequacy targets. This is seen in the top left panel, where only a handful of districts “pop” above their projected need targets and likewise, only a handful fall visibly below. Further, in the top right panel, districts generally fall along, or at least parallel to the horizontal red line, which is where a district’s actual spending matches its adequacy target. Even then, districts are spread around that horizontal red line in a limited range: few districts spent more than \$5,000 or more per pupil *above* their target, and very few spent \$5,000 or more *below* their target. Large, high-poverty districts (many former Abbott districts) fall relatively close to their adequacy targets. Only a handful of the higher-poverty small districts, marked with red dots, fall more than \$5,000 per pupil below their adequacy targets.

By 2015, a substantially greater number of high-poverty districts fall well below their adequacy targets, and many (though not all) former Abbott districts also start to fall further below their calculated needs (falling off the red horizontal line). Lower-poverty districts begin to rise above their calculated needs, many by more than \$5,000 per pupil. The change in the distribution of districts around the red line is an indication of New Jersey’s backsliding away from progressive funding of schools. By 2019, these disparities are further exacerbated. A significant problem here, from a state budget perspective, is that as those large circles fall further below the horizontal red line, it becomes more expensive for the state to dig its way out. Many districts are now approaching the \$5,000 gap line, while some of the smaller, very high-need districts are approaching, and even surpassing, the \$10,000 gap line.

There are two reasons why districts fall below their adequacy targets:

- First, many are not yet receiving the state aid that would be required to make them whole.
- Second, the required local effort – the local contribution from local property taxes – within SFRA is, in fact, not actually required, and a handful of districts do not put up the full required local contribution.

Under the prior Abbott funding, the state was fully obligated to ensure that schools in Abbott districts were able to offer specific programs and services. This requirement was without regard for local contribution. Consequently, many Abbott districts (including Jersey City, the state’s second largest school district) did not – and in some cases, due to limits on property tax increases, could not – raise what would become the local effort required under SFRA. In 2010 the legislature imposed a two percent cap on increases to local property taxes, making it implausible for many districts to increase their property taxes to achieve their local effort requirement.<sup>5</sup>

The next three figures illustrate the population characteristics of districts that a) exceed their adequacy targets, b) fall below their adequacy targets, but not by any more than \$5,000 per pupil, and c) fall more than \$5,000 per pupil below their adequacy targets. Figure 3 shows that over the past several years the number of students in districts exceeding adequacy (blue line) has been relatively constant. The number of children attending districts falling below their adequacy targets, but not more than \$5,000,

is declining – but that’s only because the number of children attending districts more than \$5,000 per pupil below their adequacy targets is increasing.

Figure 3

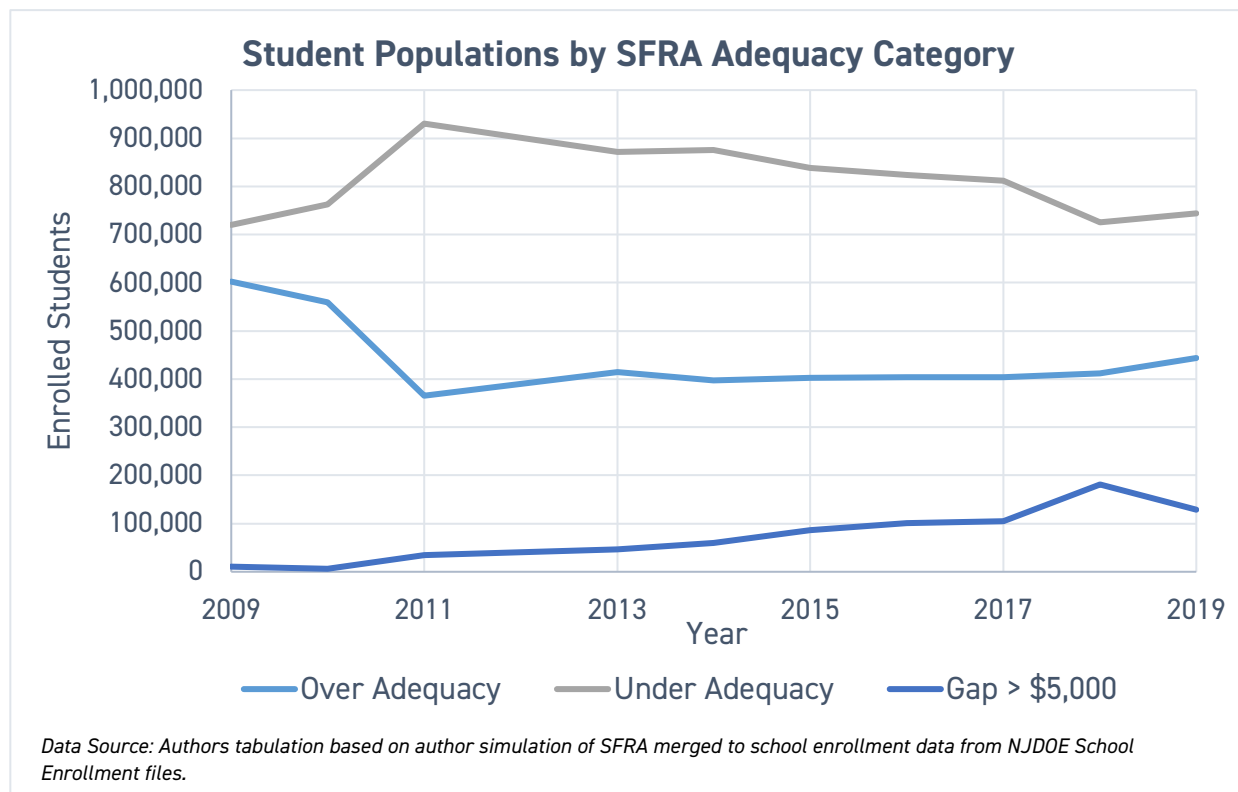


Figure 4 shows that districts exceeding their adequacy budgets have fewer than 20 percent of children qualifying for free lunch (these students’ families have incomes less than 130 percent of the threshold for poverty). In contrast, districts falling below adequacy targets (but less than \$5,000 below) have double the rates of children from low-income families. On average, districts falling more than \$5,000 below their adequacy targets have approximately triple the shares of low-income children compared to districts above their adequacy targets. In all, districts that have more children from low-income families are more likely to be underfunded.<sup>6</sup>



Figure 4

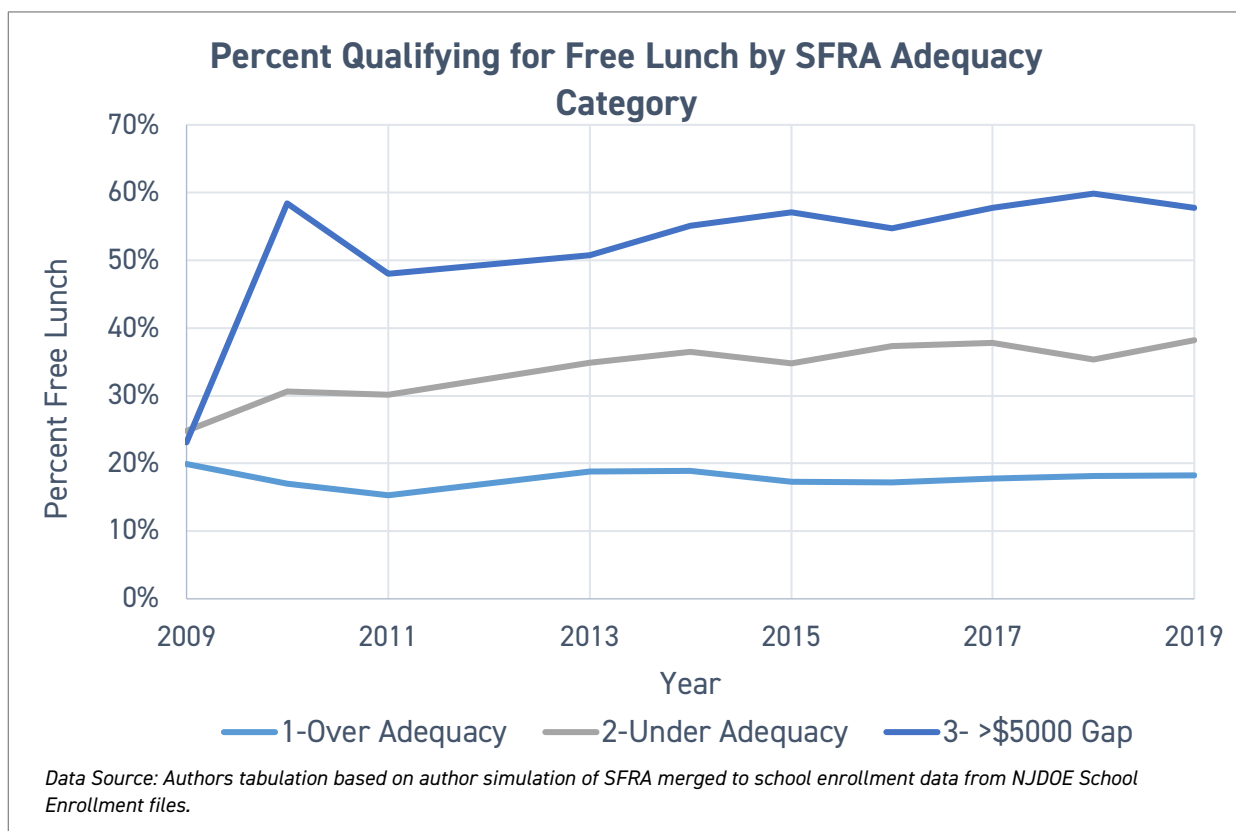


Figure 5 shows that districts above their adequacy targets tend to serve few English Language Learners. Conversely, districts falling below their adequacy targets serve much larger shares of English Language Learners (ELL). Most notably, however, districts falling more than \$5,000 below their adequacy targets serve very large shares of ELLs. In fact, a defining feature of districts with the largest funding gaps is that they are predominantly Latinx districts serving large shares of ELLs. These are the districts most in need of additional staff and resources: the SFRA formula is specifically set up to drive more funding toward districts that enroll ELL students. And yet these districts are the ones most likely to be severely underfunded.

Figure 5

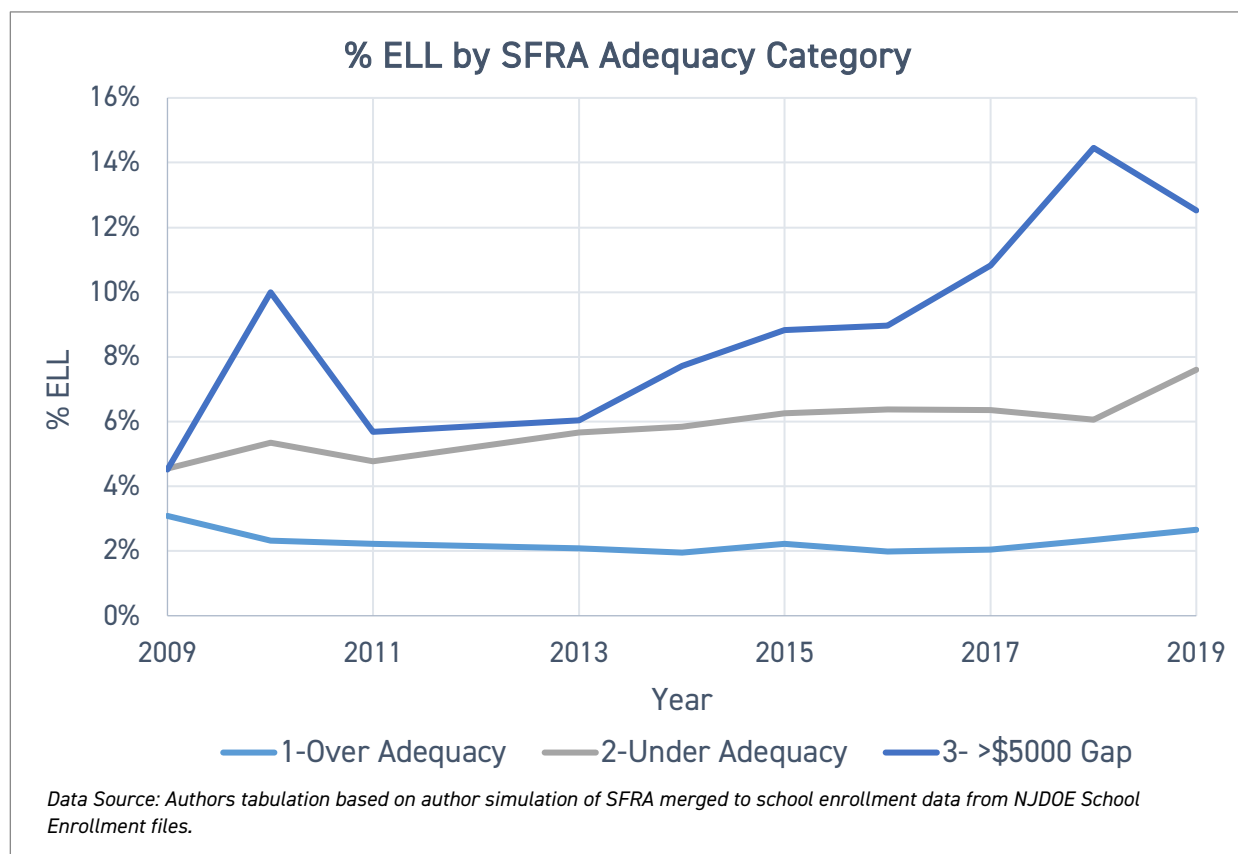


Figure 6 and Figure 7 display the racial disparities by school position relative to adequacy targets. There is a strong relationship between school districts serving low income and non-English speaking students and the concentration of racial and ethnic minorities. New Jersey remains a highly segregated state in terms of both race and poverty. Decades of litigation intended to resolve disparities in school funding in New Jersey, from *Robinson v. Cahill* to *Abbott v. Burke*, focused primarily on the state's larger urban centers where the state's black populations were concentrated due to racially motivated housing policies and practices. From the late 1990s through the mid to late 2000s, these districts received substantial increases in funding – funding which has since receded. While many of these same cities – such as Paterson, Camden and Newark – had sizeable Latinx populations prior to and during this period, the state's Latinx student populations continued to grow outside of these cities, concentrated in midsized towns and cities around the state including Dover, Bound Brook and Freehold Borough. These cities and towns were not beneficiaries of even the short-lived boost in aid received by Abbott districts.

Figure 6 shows that schools in districts that fall below adequacy generally have larger populations of Black student than schools in districts that are above their adequacy targets. However, schools in districts falling substantially below their adequacy targets do not disproportionately serve Black children. By contrast, Figure 7 shows that schools in districts with spending to adequacy gaps greater

than \$5,000 are majority Latinx in their enrollments. Schools with the largest adequacy gaps serve about 4 times the share of Latinx students as schools in districts above their funding targets. Other schools in districts below their adequacy targets serve nearly double the Latinx shares of schools in districts above their adequacy targets.

Figure 6

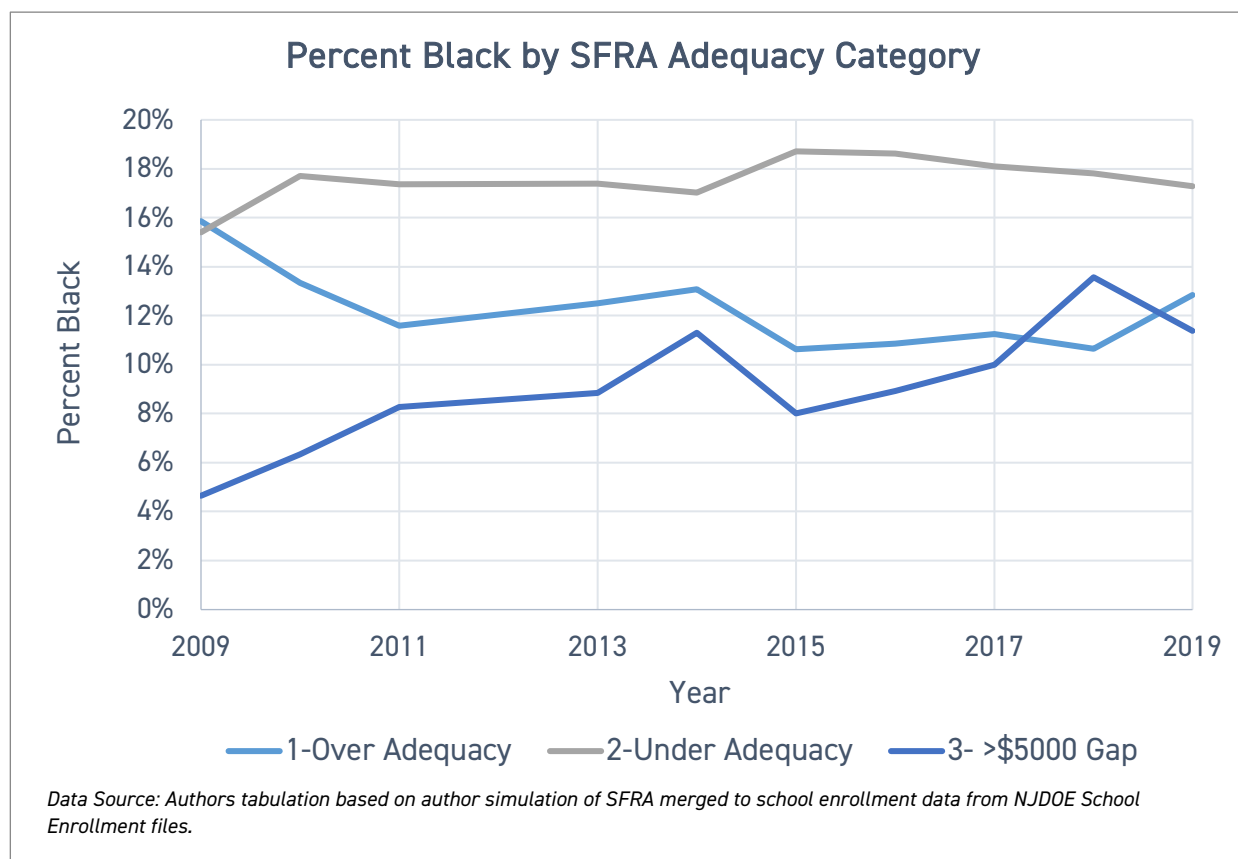
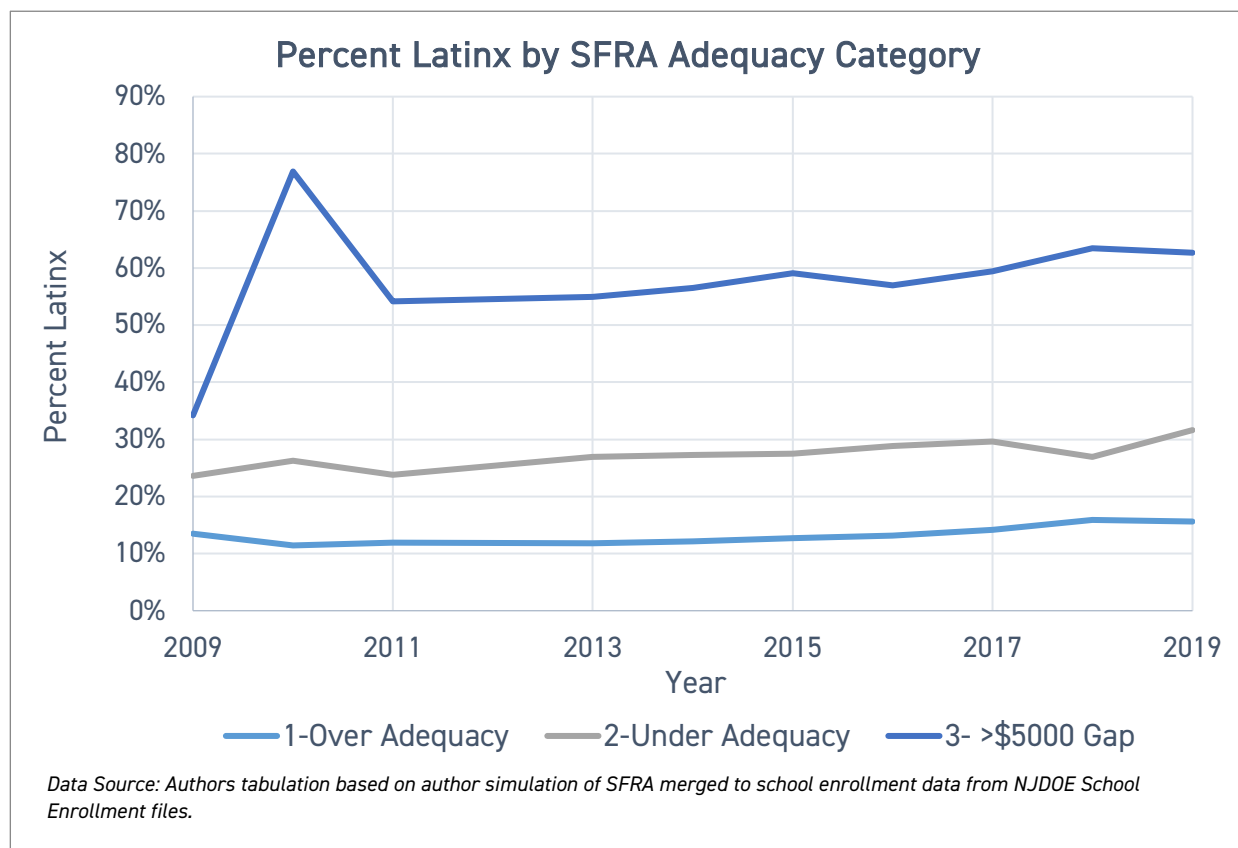


Figure 7



## Resource Implications for Underfunded Schools

Districts with the largest funding gaps tend to serve children with the greatest needs, a finding that is historically more common in states other than New Jersey.<sup>7</sup> The design of SFRA acknowledges that children with greater needs – those from low-income households and those who speak English as a second language – require not merely the same, but additional resources to achieve common outcome goals. Schools and districts serving children with greater needs require more funding so they can leverage financial resources into human resources, both in terms of providing more competitive wages for their teachers and other staff, and in terms of providing the additional staffing necessary to address the more complex task of achieving high outcomes for children from disadvantaged backgrounds.<sup>8</sup> In all, these districts need both more and better paid staff to get the job done. These costs are multiplicative: *increased teacher quantity x increased wages = higher costs*. Progressive financing is required to achieve the goal of equal educational opportunity for these disadvantaged students.

Figure 8 shows that the aggregate salary expense per pupil is highest in districts exceeding their adequacy budgets, lower in districts falling below their adequacy budgets, and lowest in districts falling more than \$5,000 per pupil below their adequacy budgets. Less spending per pupil means less

competitive salaries for staff, fewer staff per pupil, or both, reducing the quality of education for students. These are the real, school-level resource implications of failing to fully fund out districts. The less money a district is provided in total – from state, local, federal and other sources – the less that district is able to spend on key resources.

Figure 8

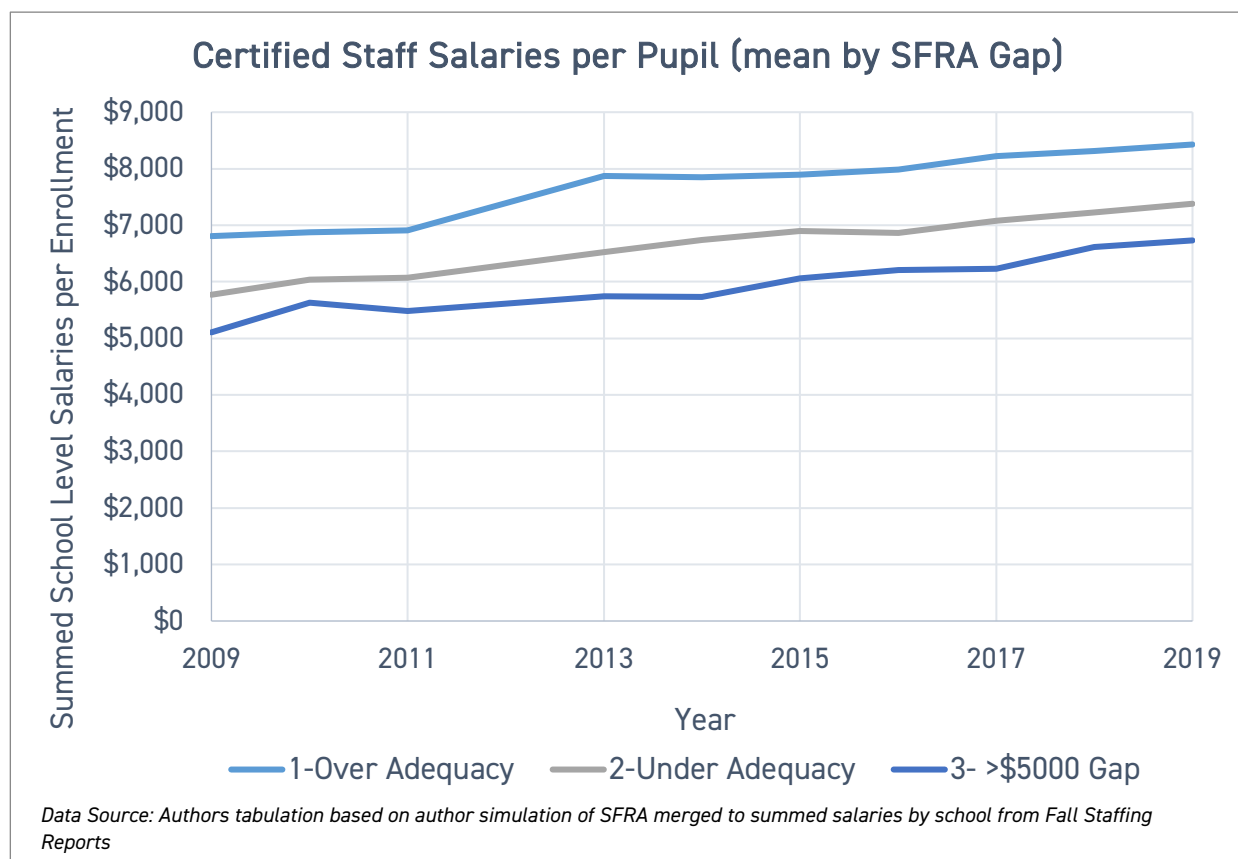


Figure 9 tracks the competitiveness of teacher wages for each district, relative to teachers of the same experience and degree levels, for all other districts in the same county.<sup>9</sup> For example, if a district’s competitive wage index is 1.05, that district’s teachers, at their current experience and degree levels, are being paid, on average, 5 percent more than in other districts in the same county. A .95 index would indicate 5 percent less than county average. It’s important to understand that it typically requires higher teacher wages to recruit and retain (to mitigate turnover) comparable teachers in districts with higher poverty and minority concentrations. Here, we see that the districts with greater funding gaps, which we know serve higher-need populations, also have less competitive wages than their surroundings. There is some volatility of the wage competitiveness for teachers in districts with funding gaps greater than \$5,000 because this group adds more districts, with varied wages, over time. However, on average, this group still provides the least competitive wages, despite having the greatest needs.

Figure 9

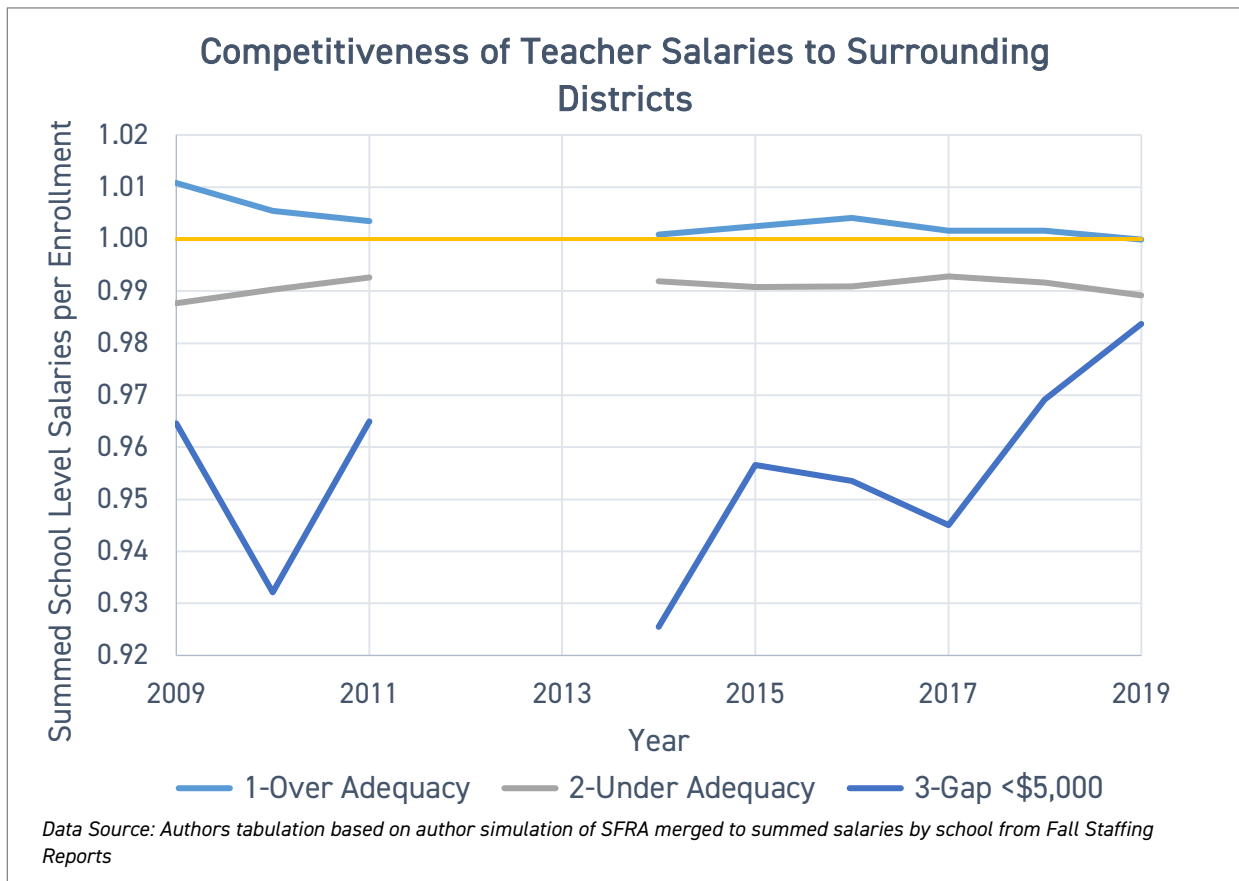
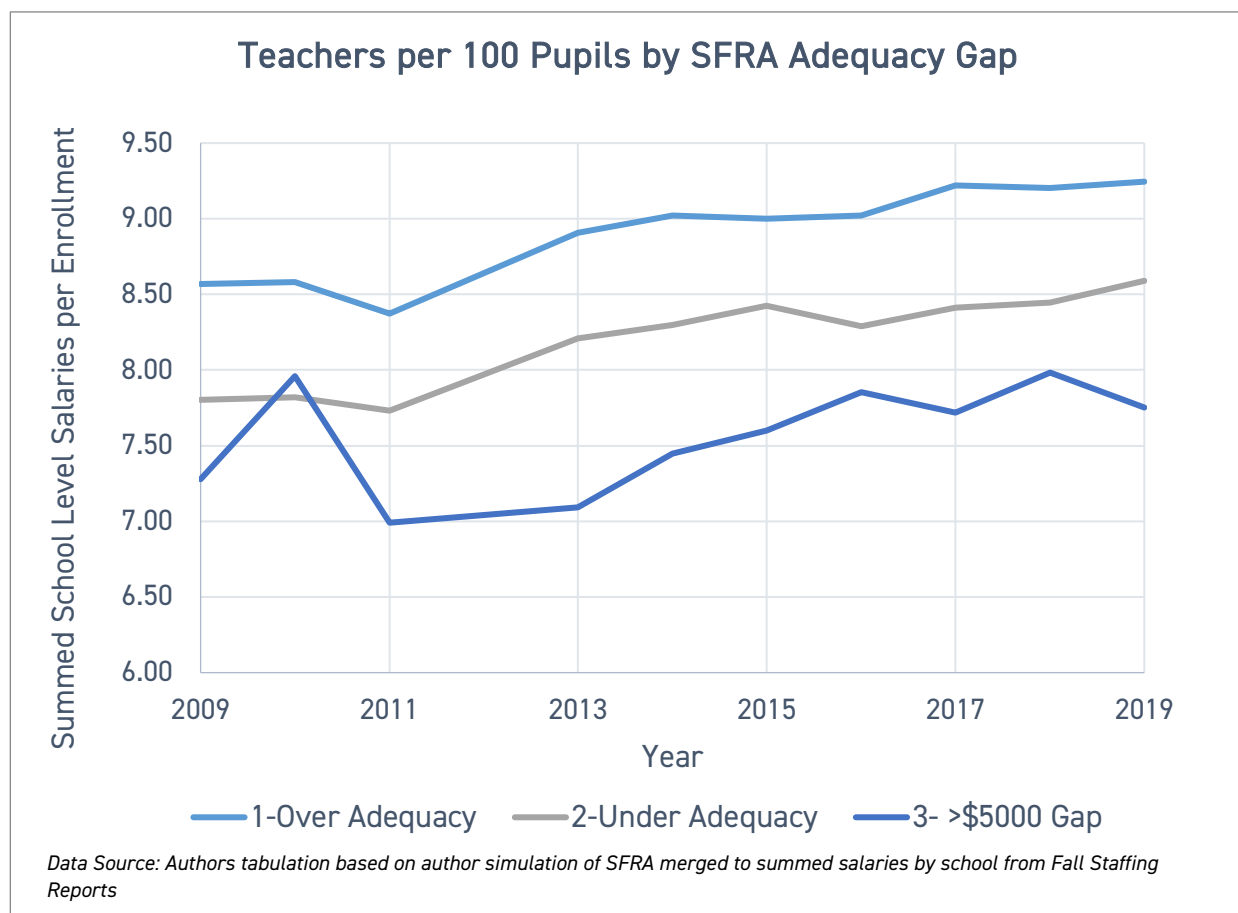


Figure 10 shows the differences in staffing ratios over time, focusing specifically on the numbers of teachers per 100 pupils. Again, districts serving student populations with greater needs typically require more, not fewer, hands on deck. But Figure 10 also shows that districts exceeding their adequacy targets (which also serve less needy student populations) tend to have the largest number of teachers per 100 pupils, whereas the districts with the largest gaps and greatest needs have the fewest teachers per 100 pupils.

Figure 10



These three figures illustrate that the district gaps in funding with respect to SFRA targets have been consequential for actual, important school-level resources. Since we know that the SFRA funding gaps fall disparately by student need, we also know that the school-level resource implications fall disparately by student need. New Jersey’s system has, over the past several years, reverted to the type of regressive system seen previously in other states known for their inequitable school funding systems, including New York and Pennsylvania. In the coming years, any changes to New Jersey’s school funding system must strive to move all school districts away from funding inadequacy – even in the face of the upcoming fiscal challenges the state will soon face.

### School Year 2020-21: Planning for Post-Pandemic School Funding

There are many unknowns as we move toward the 2021 school and fiscal year. Earlier in the budget season, Governor Murphy released his district by district school funding increases, which in the aggregate included approximately \$300 million in new school aid.<sup>10</sup> While these projections are now on hold due to the pandemic<sup>11</sup>, it is illuminating to explore how the Murphy administration proposed to distribute those aid increases with respect to the identified gaps. It is worth noting that the Governor publicly outlined his proposal for aid increases from Bound Brook,<sup>12</sup> which is a midsized,

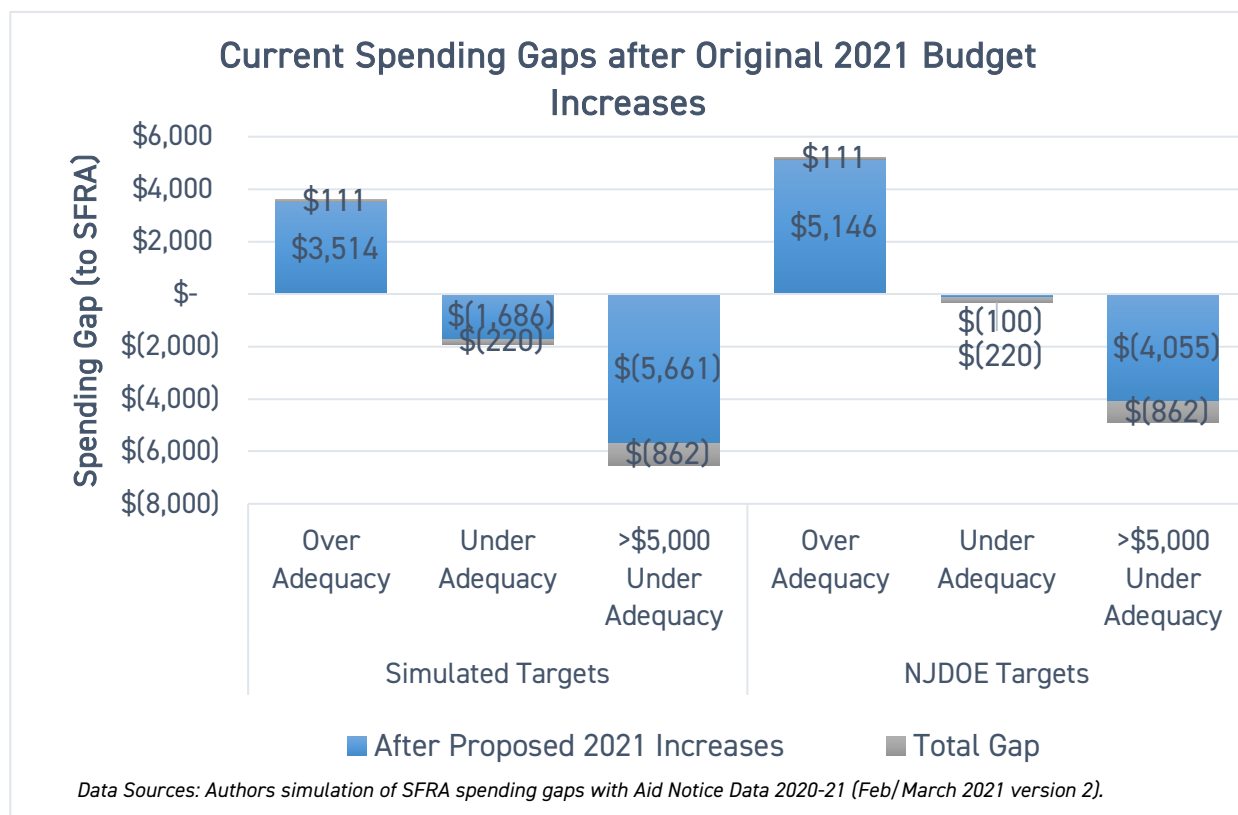
predominantly Latinx school district that, by the authors' estimates, has been among the most underfunded districts in the state. Symbolically, the administration appeared to be signaling that it was looking to close funding gaps for those districts that had been underfunded in recent years.

We also note that Murphy's budget was developed under S-2, a new law "...with the intent of realigning the amount of State aid provided to school districts with their current needs."<sup>13</sup> S-2 makes two significant changes to SFRA: it eliminates growth caps and it eliminates adjustment aid, both of which alter a district's state aid calculation based on its previous aid amounts. S-2 is controversial in that it can significantly decrease a district's aid compared to previous years; some individual school districts have objected strongly to these changes.<sup>14</sup> To the extent that S-2 influenced the original Murphy budget, it is useful to examine how that budget brought about systemic changes in aid distribution to understand the impact of the law.

Figure 11 shows the average funding gaps per pupil for each group by using the two different gap estimation methods described above. Gaps are larger when we use our estimates, which include an updated wage inflation index. We also use spending measures that are current only through 2019. Even with this limited analysis, we find that the Murphy budget proposal did increase aid most significantly (\$862 per pupil) for those districts with the largest gaps and greatest needs. Aid increases were smaller, around \$220 per pupil for other districts facing spending gaps, and aid was decreased to districts exceeding adequacy targets. This is reasonable adjustment to the allocation of state aid – but ultimately insufficient. Given the historic underfunding of the districts that are most under adequacy, it would take several more years at this rate to fully close these funding gaps. In addition, those funding gaps continue to be measured against a formula developed to achieve 2008 student achievement goals, which are not as ambitious as current standards.



Figure 11



While these increases moved severely underfunded districts in the right direction, it is unlikely that even these modest aid increases will be attainable in the near future; tax revenues in New Jersey will unquestionably be down over the next several years. It is, therefore, worthwhile to audit thoroughly the distribution of all school aid with respect to district needs and local capacity, with the goal of identifying additional opportunities for more progressive redistribution of aid. In a 2012 report for the Center for American Progress (CAP) Bruce Baker and Sean Corcoran identified “stealth” inequities in school funding formulas.<sup>15</sup> These were state aid programs or components of state aid programs that had been adopted in the process of political compromise, which led to the distribution of significant shares of state aid to districts that simply had less need for that aid: districts that already had lower local tax rates, high enough per pupil spending and relatively low student needs. In many states these aid programs were large enough to actually exacerbate wealth related disparities across communities. In addition, state aid increases in wealthier communities are often used not for tax relief, but to increase school spending even further in districts that already spend comparatively high amounts. In these cases, state aid was doing the opposite of what it is generally intended to do: reduce school funding inequities and provide tax relief. If revenues decline substantially over the next several years – and they almost surely will – the state should not distribute limited resources in ways that contradict its goals.

New Jersey is not as problematic in this regard as its neighboring states of New York and Pennsylvania, which were among those highlighted in the CAP report. But even in New Jersey significant shares of state aid are allocated to districts with less need, lower local tax burdens, and spending that rises above their adequacy targets. For example, New Jersey school funding law stipulates that one-third of special education state aid is allocated to local public-school districts regardless of the differences in their tax capacity (not “equalized” for differences in their ability to raise revenues). In addition, when the target amount of special education spending is calculated, all districts are assumed to have the same rate of learning disabilities in their student populations; in other words, target spending is determined regardless of differences in actual student needs. This is in spite of evidence that shows disability rates and types can and do vary from district to district.<sup>16</sup> As explained in our first-year report, the state’s special education aid program should be revisited, aligned with differences in actual student needs across districts, and 100 percent of that aid should be equalized (run “through,” not around, the foundation formula).<sup>17</sup>

Special education aid is not the only state aid to New Jersey schools that is distributed outside of the Adequacy Budget. “Categorical aid” includes security aid, transportation aid, and school choice aid (for districts enrolled in the inter-district school choice program). Categorical aid also includes adjustment aid, which is being phased out under legislation enacted in 2018.<sup>18</sup> Table 1 takes an approach to identifying categorical aid that could potentially be recaptured and distributed toward restoring progressiveness. SFRA measures the property values and incomes of a school district’s residents to determine its local capacity to raise its “fair share” of revenues. Districts that are identified as “zero-aid” districts – those with sufficient local capacity to raise their own revenues for the general aid formula – should also be considered “zero-aid” for categorical aid: the aid distributed outside of equalization aid. Alternatively, categorical aid could be run through the “equalized” formula, making its distribution subject to limitations by a district’s tax capacity. Zero-aid districts that currently spend over adequacy targets will receive over \$215 million in state aid under the revised adopted budget. The aid programs that result in this distribution should be evaluated for redistribution, as many of the districts receiving this aid have the local taxing capacity to pay for these programs.

Table 1

Adequacy Category 2019	Equalization Aid	FY 2021 Aid Revised Budget
1-Over Adequacy	Qualifies	\$1,314,282,933
	<b>Zero-Aid</b>	<b>\$215,627,539</b>
2-Under Adequacy	Qualifies	\$5,562,086,694
	Zero-Aid	\$81,259,003
3-Gap >\$5,000	Qualifies	\$1,296,001,434
	Total (relevant jurisdictions*)	\$8,469,257,603

*"Zero-Aid" includes: School Choice, Transportation, Special Education, Security, Adjustment, Vocational Expansion.*

## Student Outcomes Over Time and in Relation to Spending Gaps

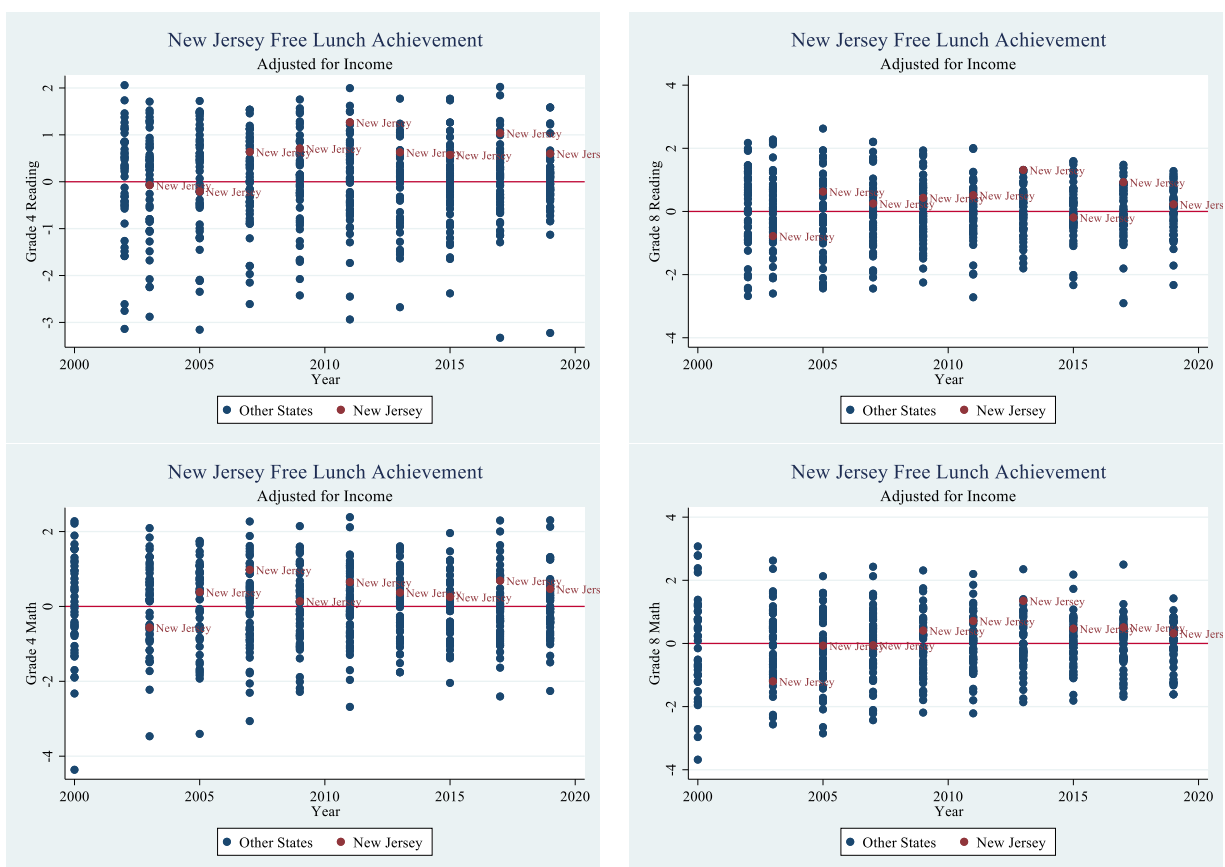
In this section we review New Jersey students' outcomes on national and state assessments. We begin with the exams most widely used to compare states to each other: the National Assessment of Educational Progress (NAEP). Administered every two years, the math and reading components of the NAEP assesses student achievement in all 50 states, as well as Washington D.C. Unlike statewide standardized tests, which are taken by nearly all students in public schools and vary from state to state, a common NAEP exam is given to a representative sample of students across the country. The test samples are selected so as to allow for comparisons between all students in states, as well as subgroups, including students from low-income families.

Figure 12 shows the position of low-income students in New Jersey, adjusted for income differences across states, relative to students in other states. Here we are viewing gains *within the mix* of states, and gains *controlling for differences in income* across states (income of the families of low-income children in particular).<sup>19</sup> The horizontal red line indicates the average for these low-income students across states. There is some unexplained volatility to NAEP scores over time. There is also the fact that states at higher average points in the distribution tend to be constrained in their further upward mobility. On average, the lower the starting point, the greater the gain; in other words, it appears to be harder to increase your score if you scored high previously. This explains the convergence of scores over time.

Across these four graphs we see is that in the mid-2000s – at the same time that Abbott funding was being scaled up, and the New Jersey school funding system became more progressive – New Jersey's low-income children rose from below national average scores for their subgroup to above average scores. This is an important point that often gets lost in statewide debates about education funding: during the time when New Jersey committed itself to more equitably funding its schools, the state's

least advantaged children saw substantial gains in outcomes. But from 2011 or 2013 forward – the era when the state pulled back from its commitment to more equitable education funding – New Jersey’s low-income children did not make additional gains. Continuing to cut back on school funding for New Jersey’s neediest students runs the risk of erasing the hard-won gains made in the decade before the Great Recession.

Figure 12



Next, we look at differences in PARCC assessment scores across New Jersey schools, from 2015 to 2018, in relation to student population characteristics and in relation to the size of funding gaps these districts face. The PARCC – Partnership for Assessment of Readiness for College and Career – is a statewide assessment given to nearly all students in Grades 3 through 8 (and to many high school students, although individual course selections can determine which students take which tests, especially in mathematics). The PARCC replaced the NJASK in 2015; scores on the two exams are not comparable.

As explained in previous sections, schools in districts with larger funding gaps also tend to serve more low-income students, and especially more ELL students. It is important, therefore, to control for differences in student populations when comparing school district PARCC scores, as test scores

correlate strongly with student characteristics. Figure 13 shows that, after controlling for student population characteristics, closing the SFRA funding gap by \$1,000 is associated with improving math scale scores by about one point. To put this into context: a two percentage point increase in low-income shares is associated with scores that are about two points lower. A \$1,000 closure of funding gap, therefore, is able to offset about half the difference in math achievement associated with a ten percentage point increase in low-income shares.

Figure 13

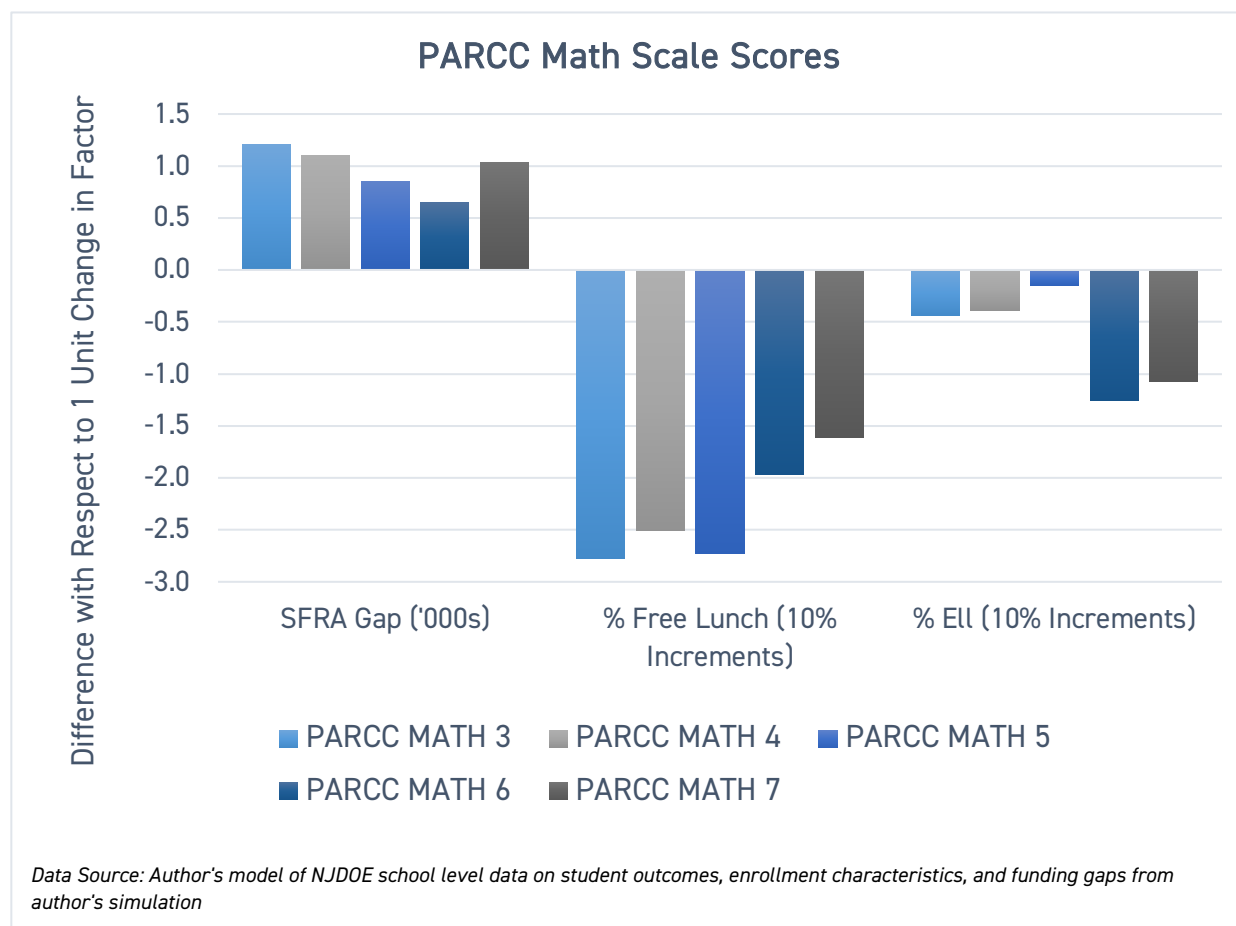
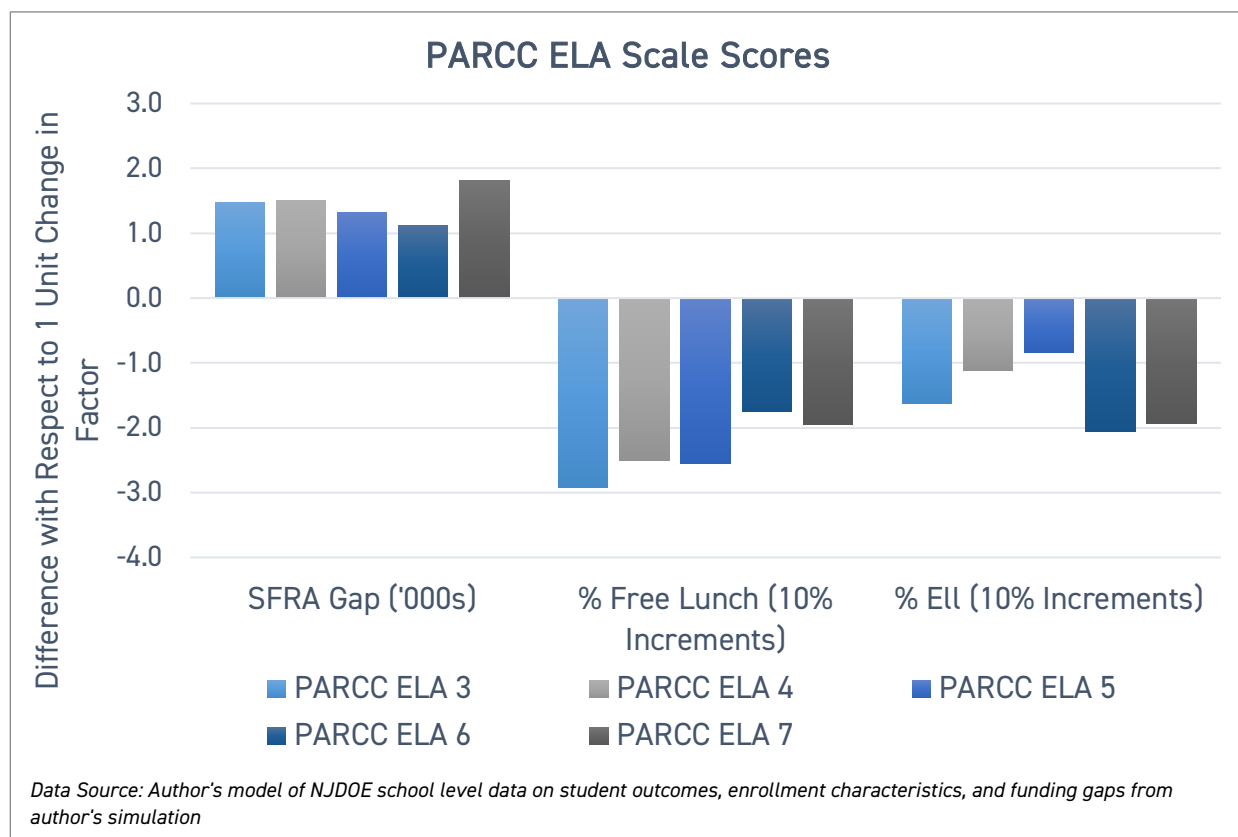


Figure 14 shows the same analysis as Figure 31, but for English Language Arts scores on PARCC. Here we see that a \$1,000 per pupil closure of the SFRA funding gap is nearly sufficient to offset a ten percentage point difference in low-income children.

Figure 14



The final two graphs in this section (Figure 15 and Figure 16) summarize growth percentiles over time by the adequacy categories previously identified: 1) districts above their SFRA adequacy targets, 2) districts below those targets and 3) districts more than \$5,000 per pupil below those targets. Student growth percentiles (SGPs) are intended to reflect the relative growth in achievement from one year to the next, comparing students with similar starting points on the PARCC. A school with a higher median SGP may still have relatively low achievement; however, its students have still made substantial gains relative to other students with similar test scores. SGPs, therefore, are arguably better – although certainly not perfect – at reflecting the contribution of schools and teachers to student learning from one year to another.

Recent research by the authors has shown an anomalous shift in NJDOE growth percentiles between 2013 and 2015 primarily for high-poverty school districts, when the state shifted from the previous NJASK assessments to the PARCC test.<sup>20</sup> As such, it's hard to make any real judgments about changes to policies or practices in relation to these shifts in outcomes. The shifts are most likely a function of calculating growth across two different assessments, and not some major disruptive intervention in high-poverty schools causing great gains.

Keeping this caution in mind, we still see that relative growth in student scores for districts facing funding gaps is lower, year after year, than growth in districts exceeding their adequacy targets. Slower growth over time in higher-need, under-resourced districts puts the state on a trajectory to increase outcome gaps – gaps that both previous research and our analysis here suggests would be mitigated by closing funding gaps.

Figure 15

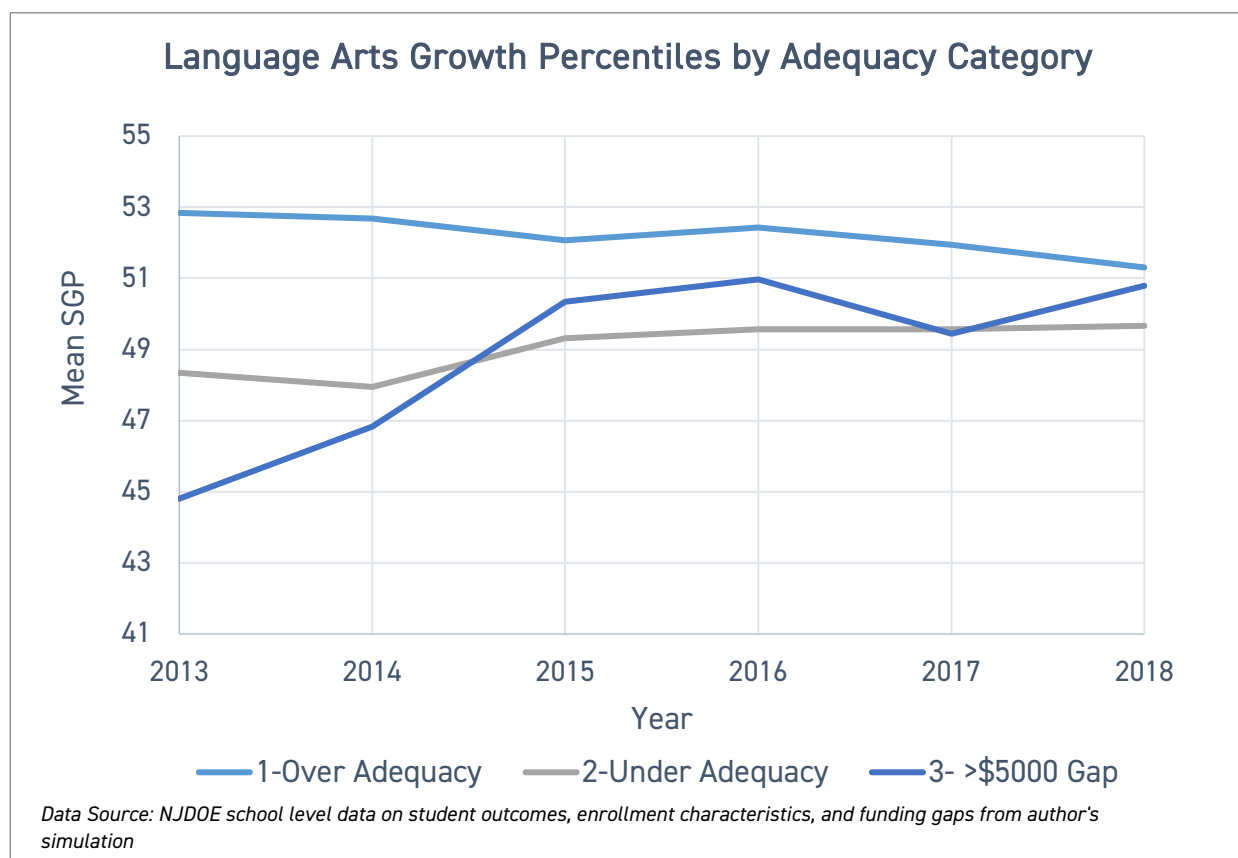
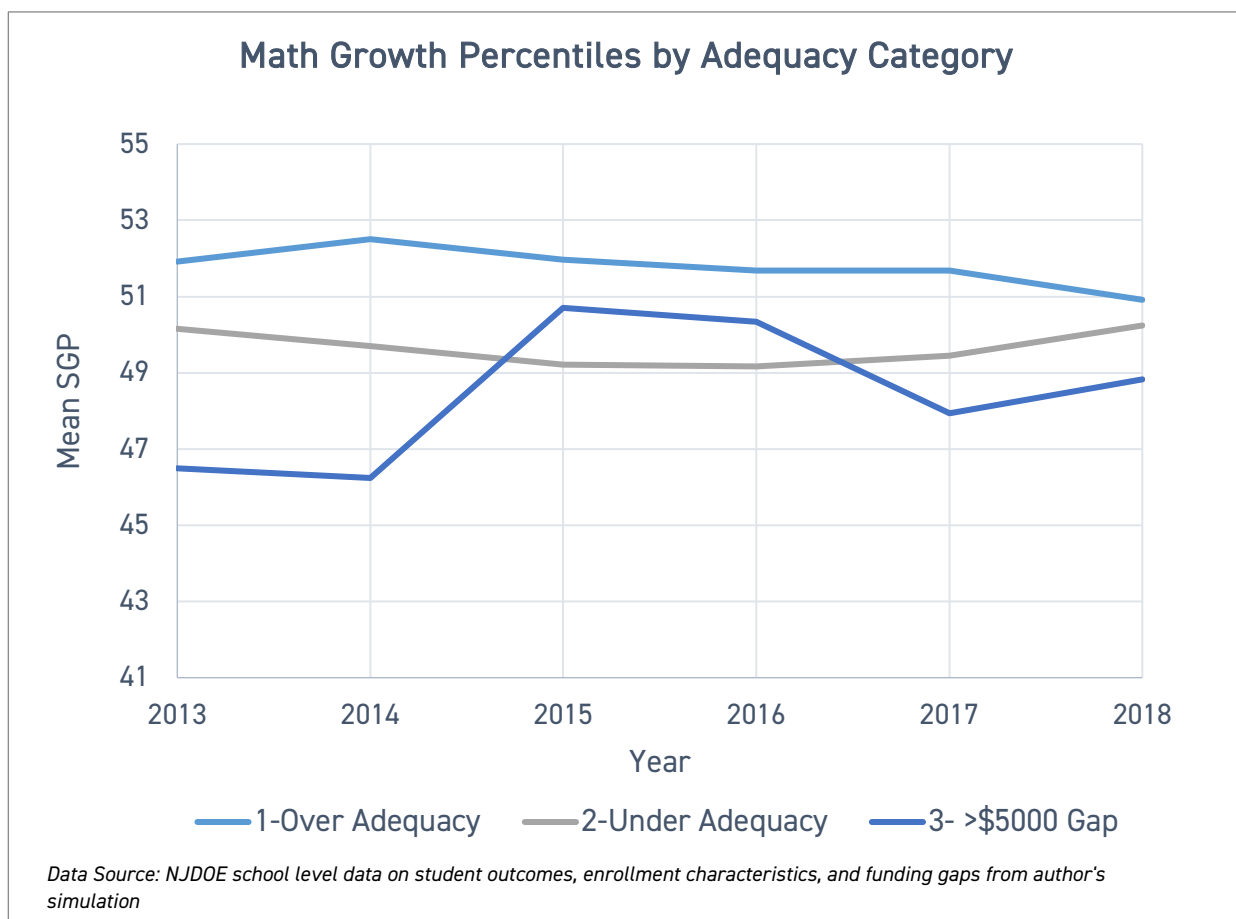


Figure 16



## Conclusions

This report, Part 3 in a series on New Jersey school funding, focuses on the current state of New Jersey's school funding law, the School Funding Reform Act (SFRA), and the consequences of failing to fully fund the law's provisions. SFRA is designed to drive more state aid to districts with both the greatest needs and the least capacity to raise school revenues locally. Unfortunately, due to a decade of underfunding, many school districts in New Jersey continue to receive less funding than SFRA says they should. These districts serve high proportions of low-income students; many enroll high proportions of Latinx students. Consequently, these students attend schools with relatively fewer teachers per pupil and less competitive teacher wages.

After the Great Recession of 2008, New Jersey pulled back from its commitment to equitable school funding. Districts that are underfunded show less student growth, on average, as well as lower student outcomes compared to adequately funded districts. The models in this report suggest closing a \$1,000 spending gap offsets about half the difference in math achievement associated with a 10 percentage point increase in a school's share of low-income students.



SFRA has features that allot state aid to districts that are already overfunded and/or have strong local taxing capacity. If cuts to state aid have to be made, they should start with these features, which include categorical aid outside the adequacy formula. If further cuts need to be made, they should be based on school budgets, and not simply on overall state aid. In addition, SFRA spending targets should be recalibrated to align with the state's new, higher standards.

The next report of this series explores New Jersey's relative position in the nation on fully and fairly funding its schools, and how this affects student outcomes.

## Endnotes

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<sup>1</sup> We explore the historical under- and over-funding of New Jersey school districts in last year's report: Baker, B.D. & Weber, M.A. (2019) New Jersey's School Funding Reform Act at 10 Years. New Jersey Policy Perspective.

<https://www.njpp.org/publications/report/in-brief-new-jerseys-school-funding-reform-act-at-10-years-2/>

<sup>2</sup> Baker and Weber (2019).

<sup>3</sup> NJASK: New Jersey Assessment of Skills and Knowledge. PARCC: Partnership for Assessment of Readiness for College and Career. NJSLA: New Jersey Student Learning Assessment.

<sup>4</sup> We compare current spending per pupil to two versions of constitutional adequacy targets, both derived from "Information Only notice aid data," obtained by request from NJDOE. These data include all of the underlying elements and calculations required to simulate SFRA. First, we use the state's own calculation of Adequacy Budget divided by resident enrollment pupils, focused specifically on K-12 students. Next, we run our own simulation of the parameters of SFRA, using Taylor's Comparable Wage Index, as an annual inflation factor (and forecasting 2016-2018 from prior year average inflation). This index reflects an important reality often missed in school funding analyses: competitive wages have grown faster over time than consumer products and services.

<sup>5</sup> [https://www.njleg.state.nj.us/2010/Bills/PL10/44\\_.PDF](https://www.njleg.state.nj.us/2010/Bills/PL10/44_.PDF)

<sup>6</sup> We note here that districts with high concentrations of economically-disadvantaged students have begun offering free lunches to all students under a federal program. There is reason to believe these districts are undercounting their percentage of free lunch-eligible students, as families do not have to apply and affirm they are low-income in order to qualify. It is possible, therefore, that the number of economically disadvantaged students in underfunded schools shown here is underestimated.

<sup>7</sup> Baker, B. D., Di Carlo, M., & Weber, M. (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/>

<sup>8</sup> Baker, B. D. (2017). How money matters for schools. Palo Alto, CA: Learning Policy Institute.

<https://learningpolicyinstitute.org/product/how-money-matters-report>

<sup>9</sup> We compare the wages of teachers within the same county as a way to account for differences between different labor markets in staffing costs.

<sup>10</sup> "Education Law Center (June 24, 2020). "Governor Murphy Takes \$330 Million In School Funding Off The Table"

[https://edlawcenter.org/news/archives/school-funding/governor-murphy-takes-\\$330-million-in-school-funding-off-the-table.html](https://edlawcenter.org/news/archives/school-funding/governor-murphy-takes-$330-million-in-school-funding-off-the-table.html)

<sup>11</sup> Mooney, J. (August 26, 2020). "Amid COVID Crisis, NJ Schools See Stable State Funding." NJ Spotlight.

<https://www.njspotlight.com/2020/08/nj-budget-preserves-school-funding-covid-costs-questions/>

<sup>12</sup> Insider NJ (February 28, 2020) "Governor Murphy Visits Bound Brook to Highlight School Funding Increases in His FY2021 Budget Proposal" <https://www.insidernj.com/press-release/governor-murphy-visits-bound-brook-highlight-school-funding-increases-fy2021-budget-proposal/>

<sup>13</sup> [https://www.njleg.state.nj.us/2018/Bills/S0500/2\\_11.HTM](https://www.njleg.state.nj.us/2018/Bills/S0500/2_11.HTM)

<sup>14</sup> Sitrin, C. (February 12, 2019) "Eight School Districts Sue NJ DOE Over Cuts in State Aid" NJ Spotlight.

<https://www.njspotlight.com/2019/02/19-02-11-eight-school-districts-sue-doe-and-treasury-over-cuts-in-school-funding/>

<sup>15</sup> 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.

<https://www.americanprogress.org/issues/education-k-12/reports/2012/09/19/38189/the-stealth-inequities-of-school-funding/>

<sup>16</sup> Baker, B. D., & Ramsey, M. J. (2010). What We Don't Know Can't Hurt Us?: Equity Consequences of Financing Special Education on the Untested Assumption of Uniform Needs. Journal of Education Finance, 35(3), 245-275.

<https://doi.org/10.1353/jef.0.0018>

<sup>17</sup> We note here that one complicating factor is "extraordinary special education" aid, which is reserved for students with profound disabilities that require interventions that are extremely costly (greater than \$45,000). A small school district,

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even in an affluent community, may experience a large effect on their budget from enrolling even a very few of these students. “Circuit breakers” that provide state aid to districts in this situation are, in our opinion, reasonable.

<sup>18</sup> Adjustment aid is a controversial form of categorical aid that “held harmless” districts threatened with the loss of revenues under SFRA. Senate bill S-2, enacted into law in 2018, phases out adjustment aid over six years. See:

[https://www.njleg.state.nj.us/2018/Bills/So500/2\\_1.HTM](https://www.njleg.state.nj.us/2018/Bills/So500/2_1.HTM)

<sup>19</sup> It is important to adjust for differences in income across states among low-income students when making these comparisons. “Low-income” on the NAEP means that a student qualifies for free or reduced-price lunch; eligibility is set at 185 percent of the national poverty level. There is considerable variation, however, in the income levels across states for these students. Adjusting for this variation helps make comparisons more valid.

<sup>20</sup> Weber, M., & Baker, B. D. (2017). NEPC Review: School District Reform in Newark (National Bureau of Economic Research, October 2017) and Assessing the Impact of the Newark Education Reforms (Center for Education Policy Research, Harvard University, September 2017). National Education Policy Center.

<https://nepc.colorado.edu/thinktank/review-newark-reform>