



***Estimated Financial Impact of the “Freeze” of
State Aid on New Jersey School Districts,
2002-03 to 2005-06***

By Dr. Ernest C. Reock, Jr.

This paper, by Rutgers Professor Emeritus Ernest C. Reock, Jr., is part of the Institute on Education Law and Policy's project entitled *Toward a Rational State Policy on School Funding and Accountability*. Dr. Reock's paper discusses the Comprehensive Education Improvement and Financing Act of 1996 (CEIFA) and the ramifications of the funding freeze that began in 2002-03. He concludes that the state aid freeze caused massive under-funding of many school districts throughout the state, especially poor non-Abbott districts, and may well have contributed to the property tax crisis New Jersey faces.

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The Comprehensive Education Improvement and Financing Act of 1996 (CEIFA) went into effect for the 1997-98 school year. The law provided for a dynamic set of state school aid formulas that would send varying amounts of money to local New Jersey school districts reflecting annual changes in enrollment, budgets, and local fiscal resources. Before the law could be implemented, however, a decision by the New Jersey Supreme Court in the case of *Abbott v. Burke* found CEIFA to be unconstitutional as to poor urban school districts, which became known as the “Abbott districts.”¹ The court decision required that additional state aid (“Abbott Parity Aid”) be provided to the Abbott districts to ensure that their funding for the “regular education budget per pupil” would be equivalent to the average comparable budget in a large group of wealthier suburban schools (the I and J districts²).

CEIFA was fully funded for five years. Beginning in 2002-03, constricted state fiscal resources were cited to justify “freezing” most parts of CEIFA at their 2001-02 level, and this has continued through 2006-07. Abbott Parity Aid required by the court decision was largely unaffected by the “freeze” and continued to reflect current conditions.

The purpose of this paper is to estimate the financial impact that CEIFA and the attendant Abbott decision would have had on state aid if CEIFA had been implemented from 2002-03 through 2005-06 as it was originally enacted. In the absence of fully detailed data, many short cuts have been taken, and the results reported here should be considered only a very rough estimate.

An effort will be made to differentiate the impact by type of school district, with districts classified by socio-economic status:

- **Abbott Districts** – The 30 or 31 poor, urban school districts identified by the court as in need of special financial aid;
- **Other Poor Districts** – Other low socio-economic-status school districts in DFG A and B that are not in the Abbott group.
- **Middle Districts** – School districts in neither the two lowest DFG categories—A and B--nor in the two highest—I and J;
- **I & J Districts** – High socio-economic status school districts; and
- **All Other Districts** – County vo-tech districts and unclassified districts.

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CEIFA is a very complex statute, originally encompassing 16 different formulas. The Abbott decision added another element, and various changes have been made since 1996. For purposes of this paper, the aid formulas have been grouped into three categories:

Core Curriculum Standards Aid
All Other CEIFA Formula Aid
New Aid Formulas

Core Curriculum Standards Aid (CCSA)

CCSA is the largest element of the CEIFA package, amounting to about \$3.5 billion per year. It is distributed to school districts on an equalized basis through a foundation-type formula, with both property values and personal income used to measure local school district fiscal resources. Provisions are included for the calculation of a State “T & E” budget per pupil, based on costing-out a hypothetical model school district.

A critical part of the formula is that the law set the total amount of CCSA for 1997-98 at \$2,620,200,000, a figure that was to be indexed for future years by changes in statewide school enrollment and in the Consumer Price Index. Given this “cap” on CCSA, it is not difficult to estimate the total amount of CCSA that would have been paid each year during the “freeze” period if the formula had been fully funded. These data are shown in Table 1.

Table 2 shows the amounts of CCSA actually received by each type of school district from 1997-98 through 2005-06. On average, 51.70% went to Abbott districts, 9.03% to Other Poor Districts, 35.46% to Middle Districts, 2.28% to I and J districts, and 1.52% to county vo-tech and unclassified districts. If these percentages are applied to the data in Table 1, the shortfall in CCSA experienced by each of these categories of district would be as shown in Table 3.

Abbott Parity Aid

Thirty of the 31 Abbott districts receive Abbott Parity Aid to bring their regular education budget per pupil up to the average level of the I & J districts.³ If they were to receive greater amounts of CCSA under CEIFA, their entitlement to Abbott Parity Aid would be reduced. In the case of almost every Abbott district, the amount by which CCSA would have been increased, if CEIFA were fully funded, is less than the Abbott Parity Aid received. Therefore, almost the full amount of increased CCSA would have reduced Abbott Parity Aid. The only exception is Asbury Park, where, in 2005-06, the estimated increase in CCSA would have been somewhat larger than the

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Abbott Parity Aid actually received. Table 4 shows estimates of the reductions in Abbott Parity Aid that would have resulted from full funding of CEIFA between 2002-3 and 2005-06.

Impact on Abbott Parity Aid

As indicated above, full funding of CCSA would not have eliminated Abbott Parity Aid, but it would have gone a long way toward stabilizing it. This is shown in Table 5.

Table 1: Total Shortfall in Core Curriculum Standards Aid, 2002-03 to 2005-06.⁴

Budget Year	CPI % Increase (2 years Prior)	Enrollment % Increase	Calculated Total CCSA Entitlement	Total CCSA Actually Expended	Estimated Annual Shortfall In CCSA
1997-98			2,620,200,000	2,454,330,741	
1998-99	2.6	1.8	2,736,715,054	2,599,540,641	
1999-00	2.1	1.8	2,844,481,419	2,812,573,193	
2000-01	1.5	1.7	2,936,230,157	2,872,897,858	
2001-02	2.3	1.9	3,060,834,967	3,004,549,482	
2002-03	2.8	1.6	3,196,882,959	3,005,526,448	191,000,000
2003-04	2.9	1.2	3,329,067,676	3,004,549,482	325,000,000
2004-05	2.8	0.3	3,432,548,416	3,004,549,482	428,000,000
2005-06	2.3	0.1	3,515,008,526	3,004,549,482	510,000,000
All estimates rounded to nearest million dollars.					
Sources: CPI increase is the average annual increase in the Consumer Price Index for the calendar year before the budget year for the New York and Philadelphia areas as reported by the U.S. Department of Labor. Annual enrollment increase and CCSA Actually Expended are from data provided by the New Jersey Department of Education for the <u>New Jersey Legislative District Data Book</u> .					

Table 2: Core Curriculum Standards Aid Actually Received by Type of School District, 1997-98 to 2005-06.

Budget Year	Abbott Districts	Other Poor Districts	Middle Districts	I & J Districts	Other Districts	Total
1997-98	1,263,336,923	203,397,209	880,191,257	70,822,298	36,583,054	2,454,330,741
1998-99	1,345,939,920	223,807,528	924,873,862	66,524,947	38,394,384	2,599,540,641
1999-00	1,414,044,546	267,908,105	1,022,816,473	64,511,140	43,292,929	2,812,573,193
2000-01	1,456,014,794	275,605,066	1,032,849,081	63,910,272	44,518,645	2,872,897,868
2001-02	1,566,540,556	279,067,379	1,052,433,103	62,573,870	43,934,574	3,004,549,482
2002-03	1,566,540,556	279,067,379	1,053,410,069	62,573,870	43,934,574	3,005,526,448
2003-04	1,566,540,566	279,067,379	1,052,433,103	62,573,870	43,934,574	3,004,549,482
2004-05	1,573,279,215	272,328,720	1,052,433,103	62,573,870	43,934,574	3,004,549,482
2005-06	1,573,279,215	251,230,374	1,060,078,156	66,763,936	53,197,801	3,004,549,482

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Table 3: Estimated Annual Shortfall in CCSA by Type of School District Due to the “Freeze” in State Aid, 2002-03 to 2005-06.

Budget Year	Abbott Districts	Other Poor Districts	Middle Districts	I & J Districts	Other Districts	Total Additional CCSA
2002-03	86,000,000	10,000,000	80,000,000	10,000,000	5,000,000	191,000,000
2003-04	155,000,000	23,000,000	128,000,000	13,000,000	7,000,000	325,000,000
2004-05	201,000,000	38,000,000	165,000,000	16,000,000	8,000,000	428,000,000
2005-06 ⁵	244,000,000	66,000,000	186,000,000	13,000,000	-	509,000,000
All estimates rounded to nearest million dollars; detail may not add to total due to rounding.						

Table 4: Estimated Annual Change in Abbott Parity Aid if CEIFA Had Been Fully Implemented, 2002-03 to 2005-06.

Budget Year	Abbott Districts	Other Poor Districts	Middle Districts	I & J Districts	Other Districts	Total Change Due to Full CEIFA Funding
2002-03	- 86,000,000					- 86,000,000
2003-04	-155,000,000					- 155,000,000
2004-05	-201,000,000					- 201,000,000
2005-06	-243,000,000					- 243,000,000

Table 5: Estimated Impact of Full Funding of Core Curriculum Standards Aid on Abbott Parity Aid, 1997-98 to 2005-06.

Budget Year	Actual Abbott Parity Aid Paid	Change in Actual Abbott Parity Aid From Prior Year	Estimated Shortfall in CCSA Due to State Aid “Freeze”	Estimated Abbott Parity Aid Needed With Full CCSA Funding	Estimated Change in Needed Abbott Parity Aid From Prior Year With Full CCSA Funding
1997-98	216,210,099		0	216,210,099	
1998-99	243,515,681	+ 27,305,582	0	243,515,681	+ 27,305,582
1999-00	269,234,478	+ 25,718,797	0	269,234,478	+ 25,718,797
2000-01	371,026,411	+101,791,933	0	371,026,411	+101,791,933
2001-02	404,169,845	+ 33,143,434	0	404,169,845	+ 33,143,434
2002-03	532,538,517	+128,368,672	86,000,000	446,000,000	+ 42,000,000
2003-04	697,716,651	+165,178,134	155,000,000	543,000,000	+ 97,000,000
2004-05	818,794,387	+121,077,736	201,000,000	617,000,000	+ 74,000,000
2005-06	877,166,162	+ 58,371,775	243,000,000	634,000,000	+ 17,000,000

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Other CEIFA Formula Aid

In addition to CCSA, CEIFA, during its five years of full funding, included the following special aid programs:

- Stabilization Aid
- Special Education Aid
- Bilingual Education Aid
- County Vocational Program Aid
- Transportation Aid
- Adult and Post-Graduate Education Aid
- Supplemental Core Curriculum Standards Aid
- Additional Supplemental Core Curriculum Standards Aid
- Distance Learning Network Aid
- Early Childhood Education Aid
- Demonstrably Effective Program Aid
- Academic Achievement Awards
- Supplemental School Tax Reduction Aid
- Instructional Supplement Aid
- Supplemental Stabilization Aid
- Post-Secondary Vocational Aid
- School Choice Aid

Most of these aid programs were in the original CEIFA law; a few were added later, and some were not funded throughout the CEIFA full funding period. Each kind of aid had a different formula, including such parameters as enrollments, student classifications, family income, mileage from school, district property wealth, district tax rate, change in other state aid from previous year, and concentration of senior citizens. A projection of each of these formulas is well beyond the scope of this paper, even if all of the pertinent data were available. Instead, they have been lumped together and projected as a group on a per-pupil basis. Basic data are shown in Table 6.⁶

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Table 6: Other State Formula Aid Under CEIFA, Actual, Projected, and Shortfall, 1997-98 to 2005-06.

Budget Year	Abbott Districts	Other Poor Districts	Middle Districts	I & J Districts	Vo-Tech and Unclassified	Total
Actual Aid						
1997-98	803,664,242	182,644,386	623,404,503	159,384,413	71,245,067	1,840,342,611
1998-99	780,925,719	203,844,119	720,876,342	191,646,091	73,693,105	1,970,985,376
1999-00	796,995,943	209,778,529	734,045,360	210,555,322	82,761,407	2,034,136,561
2000-01	794,015,136	233,759,662	827,168,833	222,503,328	90,127,729	2,167,574,688
2001-02	866,444,929	259,370,621	907,582,151	243,218,390	92,895,187	2,369,511,278
Average Annual % Increase	+ 2.0%	+ 9.2%	+ 10.0%	+11.3%	+ 6.9%	+ 6.5%
Projected Aid:						
2002-03	884,000,000	283,000,000	998,000,000	271,000,000	99,000,000	2,535,000,000
2003-04	901,000,000	309,000,000	1,098,000,000	301,000,000	106,000,000	2,716,000,000
2004-05	919,000,000	338,000,000	1,207,000,000	335,000,000	114,000,000	2,913,000,000
2005-06	938,000,000	369,000,000	1,327,000,000	373,000,000	121,000,000	3,128,000,000
Actual Aid:						
2002-03	866,595,737	259,960,493	908,717,712	243,218,390	92,895,187	2,371,387,519
2003-04	846,634,220	254,354,041	873,044,259	227,151,554	85,725,553	2,286,909,627
2004-05	850,422,581	251,072,529	873,970,080	227,251,554	85,625,553	2,288,342,297
2005-06	850,555,525	231,173,723	858,785,817	244,515,312	105,551,751	2,290,582,128
Aid Shortfall:						
2002-03	+17,000,000	+ 23,000,000	+ 89,000,000	+ 27,000,000	+ 6,000,000	+164,000,000
2003-04	+55,000,000	+ 55,000,000	+224,000,000	+ 74,000,000	+20,000,000	+429,000,000
2004-05	+69,000,000	+ 87,000,000	+333,000,000	+108,000,000	+28,000,000	+625,000,000
2005-06	+87,000,000	+138,000,000	+468,000,000	+128,000,000	+16,000,000	+837,000,000

New Aid Formulas

During the period when most state school aid was “frozen,” three new state aid programs were added in an effort to compensate partially for limitations on the growth of regular CEIFA aid:

Consolidated Aid

In 2003-04, three of the original CEIFA aid formulas – Distance Learning Aid, Academic Achievement Awards, and Adult Education Aid -- were eliminated, with their funding being lumped together with an additional

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approximately \$64,000,000. The resulting sum of approximately \$148,000,000 then was redistributed on the basis of a new formula for Consolidated Aid. In subsequent years, Consolidated Aid was “frozen” at the 2003-04 level.

Additional Formula Aid

In 2004-05, another new aid program – Additional Formula Aid – was implemented, providing a flat 3% increase in state aid for all but the Abbott districts. The approximately \$90,000,000 thus distributed was frozen in the subsequent year.

Abbott Border Aid

In 2005-06, a third new program was enacted in response to complaints that some districts bordering on Abbott districts were experiencing special financial problems. This was a relatively small program of about \$20,000,000.

State aid distributed under these three new post-CEIFA programs must be deducted in estimating the impact of the original CEIFA law as enacted. These deductions are shown in Table 7.

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Table 7: State Aid Distributed Under New Post-CEIFA Programs of Consolidated Aid, Additional Formula Aid, and Abbott Border Aid, 2002-03 to 2005-06.

Budget Year	Aid Program	Abbott Districts	Other Poor Districts	Middle Districts	I & J Districts	Other Districts	Total Change
2002-03	Consolidated Aid						
	Additional Formula Aid						
	Abbott Border Aid						
	Total Aid						
2003-04	Consolidated Aid	-33,962,673	-13,336,980	-76,380,835	-16,066,836	-7,844,267	-147,591,591
	Additional Formula Aid						
	Abbott Border Aid						
	Total Aid	-33,962,673	-13,336,980	-76,380,835	-16,066,836	-7,844,267	-147,591,591
2004-05	Consolidated Aid	-34,094,447	-13,205,206	-76,380,835	-16,066,836	-7,844,267	-147,591,591
	Additional Aid Formula		-16,097,894	-60,055,748	-9,173,768	-4,125,132	-89,452,542
	Abbott Border Aid						
	Total Aid	-34,094,447	-29,303,100	-136,436,583	-25,240,604	-11,969,399	-237,044,133
2005-06	Consolidated Aid	-34,094,447	-11,640,602	-74,238,789	-18,948,179	-8,669,574	-147,591,591
	Additional Formula Aid		-14,787,892	-59,861,230	-9,780,738	-5,022,682	-89,452,542
	Abbott Border Aid		-8,014,023	-11,676,890			-19,690,913
	Total Aid	-34,094,447	-34,442,517	-145,776,909	-28,728,917	-13,692,256	-256,735,046

Net Impact of the State Aid “Freeze”

The estimated net impact of “freezing” CCSA and Other CEIFA Formula Aid, and adding new aid programs of Consolidated Aid, Additional Formula Aid, and Abbott Border Aid, is brought together in Table 8. Only the data for 2005-06 are shown, although similar estimates for earlier years can be assembled from Tables 3, 4, 6 and 7.

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Summary

As shown in Table 8, by the fourth year of the state aid “freeze,” total under-funding of state aid had reached an annual level of about \$846,000,000. Shortfalls in CCSA were a lesser part of this total; the largest part was due to the Other Formula Aid, which was largely frozen at its 2001-02 level. This is state aid money that could have been used to increase local budgets or to provide property tax relief.

The heaviest impact, by far, was on the Other Poor Districts, where the shortfall amounted to about \$1,627 per pupil in 2005-06. In the Middle Districts the impact was \$758 per pupil. By contrast, the impact of the “freeze” shortfall amounted to only \$386 per pupil in I and J districts, and \$188 per pupil in Abbott districts.

If the additional state aid had been used to reduce the school tax levy instead of to increase school spending, the resulting property tax reductions in 2005-06 would have amounted to 20.2% in Other Poor Districts, 8.9% in Middle Districts, 5.7% in Abbott Districts and 3.5% in I and J Districts.

In sum, the financial impact of the state aid “freeze” on some schools districts, particularly Other Poor Districts, has been substantial. At least on an interim basis, additional state aid could be provided to those districts and others simply by fully funding CEIFA in accordance with the original legislative intent.

Table 8: Summary of Estimated State Aid Shortfalls During the “Freeze” of CEIFA State Aid, 2005-06.

Type of District	Fully-funded CCSA	CCSA Reduction In Parity Aid	Fully-funded Other CEIFA Aid	New Aid Programs Deducted	Net Shortfall
Abbott Districts	244,000,000	-243,000,000	87,000,000	- 34,000,000	54,000,000
Other Poor Districts	66,000,000		138,000,000	- 34,000,000	170,000,000
Middle Districts	186,000,000		468,000,000	-146,000,000	508,000,000
I & J Districts	13,000,000		128,000,000	- 29,000,000	112,000,000
Other Districts	-		16,000,000	- 14,000,000	2,000,000
All Districts	509,000,000	-243,000,000	837,000,000	-257,000,000	846,000,000

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Notes

¹ Originally, the court identified 28 Abbott districts; the number and identity have fluctuated slightly between the original 28 and the current 31. During the period covered by this paper, two changes in school district classification took place: (1) Salem City was added as the 31st Abbott district in 2004-05; and (2) there was a general re-classification of districts based on the 2000 Census, which is reflected in the 2005-6 data.

² New Jersey has a classification system known as District Factor Grouping (DFG) under which all districts are categorized as A through J largely on socioeconomic measures, with A being the lowest and J the highest.

³ Hoboken is the exception, receiving neither CCSA nor Abbott Parity Aid because of its high tax rates and personal income and its high budget level.

⁴ The total amount of CCSA Actually Expended consistently has run a few percentage points less than the Calculated CCSA Entitlement. The reason may lie in the CPI and Enrollment percentage increases used in calculating the Entitlement, although this does not explain why the CCSA distributed in the first year (1997-98) falls short of the total of \$2,620,200,000 authorized in the law.

⁵ Substantial variations in totals between 2004-05 and 2005-06 are due in part to changes in DFG classifications.

⁶ This analysis does not consider the fact that some forms of “Other CEIFA Aid” are included within the definition of the Regular Education Budget, and any increases in them would result in reducing Abbott Parity Aid. However, these forms of aid actually were declining during the implementation period, so the “freeze” resulted in a “hold harmless” situation.