

New Jersey's Schools in Financial Crisis

Questions and Answers with Education Commissioner Bret Schundler

Is Governor Christie proposing a cut in state funding for New Jersey's public schools?

Governor Christie's proposed budget increases state funding for our schools in the year ahead by \$238 million, which is a 2.4% increase.

With the State facing a massive budget deficit, and with more than a third of state spending comprised of assistance to school districts, most people thought state funding for our schools would need to be cut for New Jersey to balance its budget. Instead, the Governor is proposing substantial cuts in other categories of state spending so he can close the \$10.7 billion budget gap while increasing state funding for school districts.

If Governor Christie is not cutting state funding for education, why are school districts saying that their total aid is down?

School districts are hurting because they will lose \$1.057 billion in non-recurring federal fiscal stimulus money in the school year that begins this September.

This is something school districts knew was going to happen. When President Obama provided federal stimulus money to New Jersey last year, he said the money should be considered a one-time appropriation that would not be repeated.

Knowing that the State would be facing a huge budget deficit, and knowing that school districts would not be getting another billion dollars from Washington, the Corzine Administration counseled school districts to be prepared for significant reduction in funding in the year ahead.

Why are some school districts losing a higher percentage of aid than others?

This \$1.057 billion reduction in federal funding is being apportioned to school districts on an equal percent of budget basis. Doing the math, school districts will lose aid in an amount that is equal to 4.994% of their FY'10 budget.

This spreads the budget pain of the federal funding reduction evenly – but for school districts that have only a small percentage of their budget covered by external funding, this produces a high percentage aid loss.

In years when the aid available to school districts is rising (as is the case in most years), this approach to apportioning aid will result in these same districts enjoying large percentage aid increases.

Apportioning aid losses and gains on an equal percent of budget basis puts every district in the same boat. It ensures that school districts which have never received a lot of aid will ultimately get the fair share of aid they deserve.

But in a year when what is being apportioned is pain, not gain, equal treatment and shared sacrifice requires that school districts make difficult choices, just as Governor Christie has needed to.

Why are some superintendents saying that their district will lose all of its aid?

Financial assistance for school districts comes either in the form of cash or as direct state spending on their behalf.

Some districts will not receive any “formula aid” in the year ahead, which is one very large category of cash aid that most districts receive. But all school districts will have a higher level of expenses directly paid by the State. For instance, in the year ahead, the State will pay \$823 million for the post-retirement medical expenses of school districts’ former employees. That will be up \$48 million from what the State appropriated for such medical expenses this year. In addition, the State government is liable for the cost of teachers’ pensions and pays districts’ Social Security contributions. The Social Security contributions paid by the State on behalf of teachers are projected to exceed \$791 million in the next year.

To be clear, then, when superintendents say their district will not be getting any state aid in the year ahead, what they mean is that their district will not be getting any formula aid from the State. Their districts will still be having the State directly pay many rising expenses on their behalf, and may still be receiving diverse lesser categories of cash aid.

How large are the expenses that the State directly covers for school districts?

This year the State will directly cover \$2.33 billion of school district expenses. Moreover, if the State had made all the diverse pension fund payments that the New Jersey Education Association is demanding, that number would have been \$5.33 billion. To provide a sense of how great a subsidy that would be, if the State returned these cost burdens back to school districts, districts would have to raise school district property taxes by about a third.

Do school district budgets show what the State is spending on their behalf?

No, they don’t. The fact that few people are aware of how much the state is subsidizing school districts – even the State’s most affluent school districts – highlights a problem with school district accounting. People aren’t aware of how much our public education system is really costing us, or that the State is directly paying ever increasing bills for every single school district in New Jersey.

As New Jersey’s Commissioner of Education, I am going to change school district accounting in a way that will make these facts clear to everyone. This change will shine a light on the State’s direct bill-paying on behalf of school districts so the public will understand that the average New Jersey school district is now spending almost over \$19,000 per pupil.

We spend more than this average on special education students and high school students. We spend less on grammar school students. That \$19,000 is what New Jersey taxpayers are spending for the average student.

With per pupil spending in our public schools over \$19,000 a child, why are school districts being forced to contemplate layoffs?

School salary and benefit costs in New Jersey are the highest in the nation – and they are rising at over three times the rate of inflation and far faster than similar costs in the private sector.

The previously mentioned federal stimulus money helped balance school district budgets in this current budget year. It is currently paying the salaries of approximately 16,000 school district employees. This one-time federal appropriation will not be available to districts in the school year that starts in September and districts will be hard-pressed to keep these 16,000 people on the payroll.

To help school districts afford to keep these employees, districts are cutting their non-payroll expenses so they can shift the savings to their salary accounts. Districts are also seeking some property tax increases to partially replace their lost federal funding.

But making the financial challenge for districts exceedingly difficult is the fact that school unions are demanding that districts come up with large salary increases this year as well.

Why doesn't Governor Christie just order a salary freeze, so school districts can avoid laying off teachers?

If the Governor issued an emergency decree freezing school district salaries, it is very possible the courts would overturn him, charging that he lacks the constitutional authority.

That said, Governor Christie and New Jersey's school boards have both requested that New Jersey's education unions voluntarily give up this year's pay hikes, and voluntarily agree to employee cost-sharing relative to health benefits, so school districts can reduce or eliminate layoffs.

Such a move by New Jersey's school unions would largely offset school districts' net loss of federal aid.

If school unions won't help, can the Governor and Legislature solve the crisis? Would the long-term financial reforms proposed by Governor Christie create savings fast enough for school districts to avoid layoffs in September?

Yes, they absolutely would. School districts will be presenting their budgets to the public before the Governor's spending reforms can be acted upon by the Legislature, and many will be forced by difficult financial circumstances to make layoff preparations.

But if the Governor's proposed collective bargaining, health benefit cost-sharing, and pension reforms are passed by the Legislature expeditiously, most school districts will be enabled to rescind their pink slips before any layoffs are actually implemented.

The immediate financial savings to districts of being able to: 1) settle open contract negotiations on reasonable terms; 2) have current employees share in the cost of their health benefits; and 3) save on pension costs would be substantial.

In addition, because the Governor has proposed an August 1st effective date for several of his reforms, many school district employees nearing retirement would likely choose to leave this year so that they can enjoy free health care benefits and richer pension benefits for the rest of their lives.

Since employees nearing retirement have a compensation package worth almost twice as much as that of new employees, retirements will enable districts to substantially cut the staff reduction necessary to achieve a target level of budget savings.

In fact, it is possible that the number of early retirements would exceed the number needed to balance district budgets. Districts would then be able to bring on two new hires for each extra early retirement and, when all is said and done, possibly maintain the same staffing levels they have today.

While not what one would normally want, this course would be preferable to having school districts forced to greatly reduce their staffing levels via layoffs.

What's holding up the Governor's reforms?

Collective bargaining, health benefit cost-sharing, and pension reform legislation is not new. Bills that include the reforms sought by the Governor have all been before the Legislature for a long time. The Legislature could vote to pass the reforms in a matter of weeks and eliminate the need for school district layoffs.

The thing holding up action is fear. New Jersey's public sector unions are powerful. The teachers union alone has dues income greater than the budgets of New Jersey's Democratic and Republican parties combined. Public employee unions oppose the Governor's proposals because the reforms would bring public sector compensation growth more in line with private sector compensation growth, instead of allowing it to rise 2 or 3 times as fast.

The Legislature should summon the political courage to pass the Governor's reforms now. If it doesn't, New Jersey's school districts will be forced to layoff thousands of teachers at the end of this school year; and then next year, even more; and then the year after that, even more.

Without reform, the financial crisis harming school districts will not abate because teacher compensation costs will continue to rise far faster than New Jersey's economy tends to grow, making it impossible for state aid growth to keep pace. Soaring property taxes and continual school district layoffs will be the inevitable result.

Will the Governor's financial reforms provide long-term benefits for public education?

Yes, they absolutely will.

The Governor has proposed to constitutionally limit the pace of spending growth for Direct State Services. But no cap has been proposed for state aid to school districts and local governments.

As the Governor's plans to reinvigorate New Jersey's economy produce fruit, state revenues will rise. With the state no longer able to spend every new growth-generated tax dollar on an expansion of state government, a higher percentage of new tax dollars will begin to flow to school districts.

With compensation costs at the school district level under reasonable control, these dramatic increases in state aid will enable school districts to increase the size of their teaching staffs -- not just cover the rising pay and benefit costs associated with current staffing levels.

School districts will be enabled to increase the availability of pre-school services, reduce their class sizes, provide more personal assistance to special needs children, expand their afterschool programs, and offer new adult education programs.

Indeed, with state funding increased and teaching staff costs under reasonable control, school districts will be enabled to expand their educational programs even as they lower their property tax levies.

The Governor's financial reforms are about much more than money. They are about increasing educational opportunity for every child in the State of New Jersey.

What should New Jerseyans who care about the State's children do?

Governor Christie did not cause the financial crisis that is threatening New Jersey's schools and school children, but he has shown us a way out of it.

Our fundamental problem is that school employee compensation costs are rising far faster than the economy typically grows. That means there is no property or state tax rate at which school districts will ever be able to achieve financial stability. We can keep raising tax rates, but for all the tax pain it causes, school staff costs will continue to rise faster than school revenues, leading to a continual need by school districts to downsize teaching staff levels.

Governor Christie has properly identified the problem, properly identified a solution, and is courageously battling New Jersey's most powerful special interest groups to do what is right for the state's children, taxpayers – and, in fact, public employees too.

New Jerseyans who care about our children should tell their state representatives to support the Governor's legislative program.