



NJDOE News

**DEPARTMENT OF EDUCATION
BUDGET COMMITTEE TESTIMONY
BY COMMISSIONER BRET SCHUNDLER**

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Introduction

Mr. Chairman, members of the Committee, thank you for permitting me to speak with you today.

I'd like to open with some brief comments about last week's historic school board elections.

Less than a week ago, voters throughout New Jersey sent a resounding message:

- they are TIREDB of school salaries and benefit costs rising rapidly while the incomes of other New Jerseyans are falling and 10% of state residents are out of work altogether...
- and they are NOT going to support increased property, income, and sales tax rates to pay for it.

The voters ARE NOT angry at teachers, mind you.

In school districts where teachers stood up to the NJEA's Trenton leadership and volunteered to forgo a pay increase this year, school budgets *overwhelmingly* were ratified.

But in other districts, the budgets overwhelmingly went down.

The NJEA turned out every vote it can. But taxpayers turned out in *much* larger numbers and rejected nearly 60 percent of school budgets.

Our public schools are in financial crisis – but New Jerseyans know that raising taxes is NOT the answer.

We need to listen to the voters – lest next year 60% of elected officials be rejected.

The Nature of the Financial Problem Afflicting Our School Districts

The fundamental financial problem afflicting New Jersey's school districts is that their costs are growing at an unaffordable pace – a pace that every year requires state and local taxpayers to come up with approximately \$1.2 billion more than the year before.

In this current fiscal year, school districts covered most of their increased costs with the \$1.057 billion they received in federal stimulus funds. But this was a one-time federal payment. So for Fiscal Year 2011, school districts need to come up with enough new money to cover TWO years worth of cost increases – and they can't.

Governor Christie did his part to help. With the State facing an absolutely massive budget deficit, no one supposed he would be able to come up with *any* increased state funding for schools. But in his proposed FY 2011 budget, the Governor cut spending for non-school purposes deeply so he could achieve the savings necessary to balance the State's budget while also providing school districts with \$238 million more in state funding. That's a 2.4% percent increase in state funding for school districts amidst the greatest economic downturn since the Great Depression.

Local property taxpayers will also help school districts some. By the time this year's school budgets are finalized, we will likely see total school property taxes in New Jersey rise by about 4 percent. That would be a much smaller year-to-year increase than has been typical in the past 10 years, but remember: a lot of homeowners have lost their jobs, and even many who haven't are suffering from sharply reduced incomes.

The state will send school districts more money and property taxpayers will send school districts more money. But with school district salaries rising at three times the rate of inflation, and with the premiums on school employees' rich health benefits soaring, school districts still cannot make ends meet. That's forcing our school districts to consider layoffs and program cuts.

That's not good for our children – and there is something even more frightening we need to understand. If we don't address the things driving up district costs, school districts will need another \$1.2 billion of new money in

Fiscal Year 2012; another \$1.2 billion on top of that in Fiscal Year 2013; another \$1.2 billion on top of that in Fiscal Year 2014. In fact, as the years roll on, they'll need progressively more.

Will state and local taxpayers be able to come up with all that additional money each year? The answer is NO – not without continually raising state and local tax rates. Without constant RATE increases, for taxpayers to come up with \$1.2 billion more than the year before, you will need the state's economy and each community's ratable base to grow at a pace of 5 percent a year. That is NOT reasonable to expect – and neither is it reasonable to expect that New Jerseyans will ALLOW their elected officials to raise their property tax, income tax, and sales tax rates every year.

So if nothing changes, then on top of the layoffs school districts are preparing for Fiscal Year 2011, they will be forced to lay off even more personnel in Fiscal Year 2012, even more in the fiscal year after that, and even more in the fiscal years after that.

We CAN'T let this happen. We owe it to our children to fix this problem.

There's Only One Solution

To zero in on a solution, we need to zero in on the source of the problem.

In school districts, what is causing costs to rise at an unaffordable pace is the unaffordable pace at which salary and benefit costs are rising. Salary and benefit costs constitute the majority of school district expenses and they are the specific costs rising most rapidly.

We can propose different strategies to address the financial problem afflicting our school districts, but the ONLY solution that will fix this structural problem is slowing the growth pace of district salary and benefit costs.

Some have suggested that an income tax surcharge would solve this problem. IT WOULD NOT. Raising income tax rates would do significant, on-going damage to our state economy, but the \$900 million raised by a surcharge would cover just nine months of school districts' rising costs. At the end of nine months, we'd be right back where we are now. We should not accept significant, continuing damage to our state economy in exchange for a temporary fiscal gain.

Others have suggested that mandate relief or expanded shared services by school districts – including the sharing of a superintendent – might assist school districts' finances. Pursuing these strategies WOULD provide financial benefits and would not have adverse consequences for our state economy. So the Department of Education will present the Legislature with aggressive proposals for mandate relief and will work hard to expand shared services by school districts.

That said, it should be noted that while these strategies will enable school districts to operate with fewer administrative and support personnel, they will NOT slow the pace at which individual salary and benefit costs are rising. Put another way, these strategies will enable school districts to *get by* with fewer employees than they have today, but they will not change the structural reality that school districts will need to KEEP shedding employees year after year – even *after* they fall below the lesser number of employees they will need.

The pressure on school districts to constantly cut employee numbers will continue until we solve districts' structural financial problems by bringing the pace at which their salary and benefit costs are rising in line with the pace at which our state economy is growing.

This CANNOT be achieved on a continuing basis by school boards and school district administrators. The most courageous and talented amongst them will manage the resultant challenges better than others. But it would be ridiculous for anyone to imagine that school boards are all spineless and superintendents are all incompetent and that's why costs are soaring in every school district. The pervasive financial distress you see in our school districts is the product of *state* laws. Past state leaders created districts' structural financial problems and only you and the Governor can solve it.

Recognizing this, Governor Christie will be advancing proposals that will work to moderate the pace at which school district salary and benefit costs are rising throughout New Jersey. In addition, he will be proposing a constitutional cap on the pace at which spending for direct state services can rise. Checking the growth of state government will ensure that when economic growth *does* increase state revenues, the money is kept available for property tax relief and the education of our children.

A basic outline of the Governor's proposals can be found in the budget documents he provided the Legislature. They are also summarized in the handouts I have provided you.

The NJEA has responded to this outline. It charges that if teachers are required to make greater contributions toward their health care premiums and to accept pension benefits based on their last 5 years of service, 30,000 will retire. This claim *slanders* the union's own members. And it is patently false.

New Jersey's teachers are NOT in the profession merely for free health care and because of their current pension benefits formula. The wonderful people we have in the system teach because they feel called to the *noble work* of teaching.

Thus, if we do have a higher than usual number retire, it will be teachers who have been thinking about retiring in the next year or two – not those who so love teaching that they want to keep working.

And rest assured that the Governor's Toolkit will include reforms making it practicable for school districts to hire a higher than usual number of new teachers. If retirement papers *are* filed by district personnel who have been thinking about retiring within the next two years, districts *will* be able to bring on the new personnel they would then need.

In fact, with the average salary and benefits cost for a teacher in his or her first three years of service only half that of a teacher nearing retirement, we could see districts enter the new school year with the same staffing levels they enjoy today despite the over one billion dollars districts have lost in federal stimulus funds.

The bottom line is this: the Governor's initiatives will NOT force great teachers to retire. And far from harming our public schools, the Governor's initiatives WILL fix the structural financial problem that has been plaguing our public schools.

With districts' costs rising more slowly and their state funding rising more rapidly, districts will no longer be continually having to lay people off. They will instead be able to increase their teaching staffs in most years going forward, enabling them to expand the educational services they provide our children. As a result:

- *More* special needs children will be able to obtain early intervention services, so they can develop capacities that otherwise they will never develop.
- Districts will be able to *expand* their after school programs, so there can be a safe place made available for children while their parents are at work.
- High schools will be able to *increase their* advanced placement offerings, so more of our sons and daughters can reach for the stars.
- And, also importantly, the pension and health care benefits school retirees are counting on will *be* there for them.

Union opposition to pension reform is threatening the solvency of New Jersey's pension system. Because you understand that, you disregarded the NJEA's sometimes personal attacks against you last month and supported the pension reforms authored by Senate President Sweeney and Speaker Oliver.

You know that more needs to be done – and you know that the NJEA will attack you, perversely, if you do what it takes save its members' pensions. I ask you not to lose heart – to continue to have the courage to do the right thing for retirees.

Don't be like the politicians of the past – and the politicians still running the NJEA today. Don't promise you will secure exorbitant pension benefits that the taxpayers of New Jersey CANNOT POSSIBLY AFFORD.

In the coming months, it will become increasingly obvious that if we do not moderate benefits for future retirees, the system will ultimately go broke.

When the Governor's proposals are presented, I encourage you to support their immediate passage. They will solve our school districts' long-term financial problems, even as they enable many school districts to rescind all layoff notices for the year ahead.

The Governor and I have repeatedly stated that there is still time – both in districts with passed budgets and in districts with defeated budgets – for salary freezes and voluntary health benefit contributions to be negotiated that could eliminate the need for layoffs in most districts. The Department of Education will allow districts to book savings from successful negotiations, and adjust their budgets accordingly, until the State's Budget needs to be finalized on June 30th.

But the Governor cannot force union leaders to allow their members to vote on these matters. Thus, the Governor's legislative initiatives may be the *only* certain way in which layoffs can be avoided.

In another state, union leaders would encourage teachers to forgo salary increases for a year to eliminate the need for layoffs. But that is not happening widely in New Jersey. Most NJEA leaders will not even allow their members to VOTE on a salary freeze. They just don't seem to care about young teachers losing their jobs.

Assembly members, that leaves our school districts dependent upon you and your colleagues. For our children's

sake, I urge you to support the proposals that the Governor will present to you.

We need to moderate the growth pace of school district salary and benefit costs. If we don't, the financial crisis afflicting public education in New Jersey will only get worse.