



December 2025

Examination of School Funding Policies

Pursuant to FY2026 Budget
Resolution 1378



Examination of School Funding Policies, Budget Resolution 1378

Introduction

For the first time in history, the State Fiscal Year 2025 budget fully funded the school aid formula under the School Funding Reform Act (SFRA), completing a seven-year phase-in plan designed in partnership with the New Jersey Legislature. As part of the Murphy Administration's commitment to reviewing the formula following completion of that milestone, in winter 2024-2025 the New Jersey Department of Education (Department) engaged in an outreach effort to gather feedback from stakeholders regarding the SFRA and other laws related to education finance. The Department invited the public to comment on school funding in New Jersey through email submissions and at public hearings. Four hearings were held between December 2024 and January 2025 in northern, central, and southern parts of the State, where more than 150 people registered to share their concerns. While participants offered a wide range of perspectives on various matters, there were certain recurrent themes throughout the sessions:

- Greater stability in the total aid received from one year to the next;
- Greater flexibility in the tax levy growth limitation;
- The use of the census-method rather than considering districts' actual number of students classified as requiring special education services; and
- Improving the formula's alignment to rising transportation costs.

To address some of these concerns, and based on the Department's winter 2024-2025 outreach efforts, the Governor's Budget Message proposed several language provisions to modify school finance policy for FY2026. Specifically, the budget included language provisions to implement the following changes:

- Incorporate multiple years of wealth data in calculating wealth-equalized State aid;
- Apply districts' actual special education enrollment when calculating special education costs rather than using the State average classification rate;
- Limit increases and decreases in State aid relative to FY2025 levels; and
- Allow school districts that meet specific criteria certain flexibilities to exceed the statutory school tax levy growth limit.

As enacted, the FY2026 Appropriations Act included a language provision requiring the Department to conduct an examination of school funding policies, including how policies may be enacted on a permanent basis, rather than through the use of language provisions in the State budget.¹ To that end, and to build on the Department's winter 2024-2025

¹ The language provision reads, "Notwithstanding the provisions of any law or regulation to the contrary, from the amounts hereinabove appropriated from Salaries and Wages, the Department of Education shall undertake an examination of codifying school funding policies and ensuring that these policies are enacted

outreach efforts, additional stakeholder input was collected through an online survey available to the public, which was completed by more than 3,300 stakeholders including district administrators, teachers, parents, and other constituents. The Department is grateful to all who took the time to thoughtfully complete the survey, the results of which are summarized in this report. The Department also appreciates the feedback received from stakeholders who sent 550 emails through the Department's dedicated mailbox detailing their concerns and providing suggestions for improvement.

This report satisfies the requirements included in the budget language. Specifically, the report outlines policy options related to the language provisions in the FY2026 Appropriations Act and other issues identified for examination. The report incorporates feedback from stakeholders and includes where statutory changes may be necessary that would be required to enact the options on a permanent basis.

through distinct and non-temporary legislation. The examination shall include stakeholder input and assess how to create multi-year policies for issues including but not limited to funding changes, special education, and transportation. The department shall submit a report on the findings of its examination to the State Treasurer and the Joint Budget Oversight Committee, or its successor, not later than December 1, 2025. In addition to the amounts hereinabove appropriated from the Wages and Salaries program classification, there are appropriated such additional amounts as are determined to be necessary to conduct this examination, subject to the approval of the Director of the Division of Budget and Accounting.”

Local Resource Measures

Background

The largest aid category of the New Jersey school funding formula – equalization aid – is calculated with the goal of providing greater State support to districts that have lesser local resources to support their schools. As this aid category is “wealth-equalized,” meaning more aid is allocated to school districts with higher need, equalization aid is designed to help all districts ensure equitable access to a high-quality education, regardless of their level of local resources.

Equalization aid is provided to districts based on two criteria: need, according to student demographics (e.g. the number of students at various grade levels, as well as how many students are low-income, bilingual, etc.), and the ability of the community to support the needs of those students based on local resources. The SFRA measures local resources using the most recently available year of residents’ aggregate income² and districts’ total taxable equalized property values.³ Both measures are used to calculate an estimated “local share” for each district, which is an estimate of the district’s ability to contribute toward the cost of education.

For the first time, based on a language provision included in the FY2026 Appropriations Act, the “local share” calculation utilized a three-year average of districts’ wealth measures, rather than only the most recent year, in an effort to provide greater stability in the measure of local resources. This multi-year average was identified by stakeholders in the 2024-2025 outreach hearings as well as the November 2025 comment period. Commenters advocated for modifying the wealth measures to increase stability of annual aid changes. Other stakeholders cited an overreliance on local share in the formula.

Options and policy implications

1. **Option 1: Continue using multi-year wealth measures**

The SFRA could be amended to make permanent a multi-year average calculation to stabilize changes in the wealth measures from year to year. Nearly two-thirds (63 percent) of survey respondents indicated that averaging multiple years of data was preferable to using only the most recent year, with a majority preferring a five-year average over a three-year average.

² Total aggregate income of the residents of the taxing district based on the most recently available data provided by the Department of the Treasury which has been derived from New Jersey Gross Income Tax returns. This is supplemented with public assistance income provided by the Department of Human Services.

³ This is the total equalized valuation of properties located in the taxing district as certified by the Director of the Division of Taxation of the most recent year available.

However, it is important to note that adding more years to the calculation will cause the wealth measures to deviate from current district conditions, since averaging across multiple years dampens the impact of current and most recent changes. The more years used, the greater this effect. Thus, including more years in the average could make a community that has seen tremendous growth in local resources appear less prosperous, or a community that is experiencing a decline in local resources appear more well-off than it is. If choosing to modify this calculation, legislators should consider a balance between accurately reflecting a community's current circumstances and stabilizing annual changes.

Mechanism

This option would require legislation amending the definitions of INC and EQVAL in the equalization aid calculation at section a. of N.J.S.A. 18A:7F-52 to add the number of years to be included in the average.

2. Option 2: Account for outliers in the income data

During the 2024-2025 SFRA outreach, stakeholders highlighted the inclusion of high-income individuals in the local share calculation. In the November 2025 outreach survey, 52 percent of respondents said the data should exclude outliers. One concern cited by respondents is that movement among high-income individuals in and out of school districts could cause unpredictable changes in districts' local resource measures. The effect could be more pronounced for smaller towns, where only a few residents' high incomes can make a significant difference. Eliminating income outliers from the data would exclude high-income tax filers that typically contribute significantly to the local tax base but would also provide a measure of income that is more predictable in instances where the income measure is based on a small number of income earners.⁴

⁴ Since the Department is not authorized to access individual income data, any analysis and adjustments to remove outliers would require the Department of the Treasury to carry out this work.

Mechanism

This option would require legislation amending the definition of “District income” at N.J.S.A. 18A:7F-45 to exclude outlying observations.

3. Option 3: Replace aggregate income with median income

The current measure of aggregate income is based on tax return data provided by Department of the Treasury, as well as government assistance payments. More specifically, the current measure represents the sum of income reported on State gross income tax returns attributable to a municipality. As such, the data includes income that may be anomalies, such as exceptionally high-income tax filers relative to others in the community or one-time sources of income, such as lottery winnings or a significant property sale. During the 2024-2025 SFRA outreach hearings, stakeholders suggested using median income values in the formula to better represent the typical taxpayer in each school district, as the median statistic is less likely to be influenced by outlying observations. This sentiment was echoed in the November 2025 outreach survey, in which 54 percent of respondents said median income should be used instead of the aggregate. The median income measure would either need to be provided by the Department of the Treasury or can be taken from the US Census Bureau annual survey.

Mechanism

This option would require legislation amending definitions of income at N.J.S.A. 18A:7F-45 and N.J.S.A. 18A:7F-52.

Special Education Funding

Background

Prior to the enactment of the SFRA, State aid for special education was provided to school districts based on the number of students classified in each “tier” of special education category. Tier I was provided for classified students who received up to four related services, such as occupational therapy, physical therapy, counseling, or corrective speech services. Other disabilities that were considered to require less intensive services, such as

specific learning disability, were included in Tier II, which provided a lower per-pupil amount of State aid, while classifications thought to require more intensive services, such as autism, were classified under Tier IV, generating a larger amount of State aid per pupil. Since higher tiers provided additional funding, the development of the SFRA was structured around addressing the inherent incentive to “overclassify” students in order to generate additional state funding – a major concern at the time.

The SFRA modified special education funding in three ways. First, it replaced the tiered funding with a Statewide average “excess cost” per pupil, or the average cost of providing special education services in excess of the cost of providing general education services. Second, it adopted a census-based funding methodology, where districts are funded based on the assumption that the percent of students receiving special education services in each district equals the Statewide average, rather than the actual number of classified students. Third, a portion of the district’s excess cost amount (two-thirds) was incorporated into the wealth-equalized State aid calculation, and the remaining one-third was given directly through special education categorical aid.

Some stakeholders expressed concerns that, in their view, using the census method may understate some districts’ need for special education funding when the district’s actual classification rate exceeds the State average, while simultaneously overfunding districts with classification rates less than the State average. The FY2026 Appropriations Act included a language provision specifying that special education funding would be calculated using actual enrollment for students receiving special education rather than the census-based method.

Options and policy implications

1. **Option 1: Continue use of actual special education enrollment**

A vast majority (86 percent) of respondents to the November 2025 outreach survey preferred using actual district enrollments rather than the special education census method. Respondents shared that using actual special education enrollments would more accurately reflect each district’s specific special education population and provide more aid to districts with high concentrations of students who need special services.

If choosing to pursue this option, legislators should consider the appropriate per-pupil cost to apply to a district’s special education students. The previously used “tier” method described above, for example, applies different per-pupil rates depending on a student’s classification tier, whereas under the FY2026 Appropriations Act, the Department applied the average special education cost.

Mechanism

This option would require legislation replacing average classification rate with special education enrollment at N.J.S.A. 18A:7F-51 and 55.

2. Option 2: Revert to using census-based methodology

Proponents of the census-based method suggest that, while the approach may understate or overstate a district's need for special education funding, costs for special education vary significantly for each student and may sometimes be greater even in districts that have fewer students that require services if the district contains a few students with high needs who require expensive services. The census approach funds all districts for the same rate of special education students. Proponents of this method also suggest that applying the State average classification rate removes any incentive for school districts to overclassify students as requiring special education services. According to the survey results, only six percent of respondents preferred the use of the census method for funding special education.

Mechanism

This option would not require legislative or administrative action.

Extraordinary Special Education Aid

Background

As explained above, the SFRA estimates an average “excess cost” to account for special education services in addition to the base cost of educating general education students. However, some students require services that cost significantly more than the average excess cost. Extraordinary special education aid (extraordinary aid) provides school districts with partial reimbursements for the costs of providing instructional and support services for special education when those costs exceed a specific threshold. The original SFRA included the following reimbursement percentage and cost threshold combinations used to calculate extraordinary aid, based on student placements:

- For individual students placed in publicly operated programs that include both special and general education populations, costs that exceed \$40,000 are reimbursed at 90 percent;
- Costs for placements in publicly operated programs that are separate from the general education population are reimbursed at a rate of 75 percent of the amount exceeding \$40,000; and
- Costs for placements in approved private schools for students with disabilities (APSSDs) are reimbursed at 75 percent of the expenditure amount exceeding \$55,000.

Unlike most cost parameters in the formula, the extraordinary aid reimbursement percentages and cost thresholds have not been updated or increased to account for inflation since the start of the SFRA, resulting in an increasing share of special education students qualifying for extraordinary aid. The reimbursement percentages are specified in state law; the cost thresholds are recommended by the Department every three years in its Educational Adequacy Report (EAR). As noted in the 2026 EAR, the *average district per pupil special education cost* used to calculate State school aid - \$38,984 in FY2026 - is approaching and will soon surpass the extraordinary excess cost threshold of \$40,000 (for placements in public settings). In the interest of stability, the Department did not recommend any changes to the thresholds for FY2026 but committed to further reviewing changes in special education expenditures since the inception of the SFRA.

When the SFRA was enacted in FY2009, 4.4 percent of classified students had costs that triggered eligibility for extraordinary aid; by FY2026, that rate had more than doubled to 9.8 percent. Similarly, the \$55,000 threshold applicable to students enrolled in an APSSD increasingly reflects routine rather than exceptional tuition costs. When the SFRA was first implemented, 30 percent of APSSDs’ tuition rates qualified for reimbursement, with a median tuition rate of \$48,190. In FY2025, the median tuition rate climbed to \$87,049, and all but one APSSD qualified for reimbursement based on having a tuition amount greater than the extraordinary aid threshold for APSSDs.

A frequently cited concern from stakeholders regarding the program is that the amount appropriated for extraordinary aid each year is less than the amount needed to fully fund the program as it currently exists, which has led to the statutory reimbursement rates being prorated by larger amounts over time. In FY2022 districts were reimbursed for 84 percent of the amount authorized by statute. By FY2025, that reimbursement rate was 52 percent, despite an increase in State appropriations of \$20 million over FY2022.

Options and policy implications

1. Option 1: Increase extraordinary aid eligibility thresholds

One option would increase extraordinary aid thresholds to levels that are more consistent with the law's original intent, reflecting exceptionally high costs for individual special education students. Thresholds may be calculated based on a targeted percentage of students that would qualify for extraordinary aid.

Additionally, increasing the thresholds would provide higher reimbursement rates, all else being equal, for costs that are truly exceptional. In targeting those costs, however, fewer students would reach the threshold necessary for additional funding. Feedback from the November outreach survey shows that 79 percent of survey respondents support updating the extraordinary aid thresholds to reflect the actual cost of providing special education services.

Mechanism

Increasing extraordinary aid thresholds outside the EAR process would require legislation amending the thresholds referenced at N.J.S.A. 18A:7F-55(b) and (d).

2. Option 2: Gradual increase in extraordinary aid thresholds

A second option would be to gradually increase the extraordinary aid thresholds. Some may consider the possible increases described in Option 1 to be too sharp of a deviation from current law to implement immediately. Alternatively, the thresholds could be increased annually by a certain amount until they reach a new target level.

This option includes the same benefits and drawbacks as in Option 1, but provides school districts with the benefit of allowing more time to adjust their budgets as needed to align with the new funding thresholds.

Mechanism:

Requiring a gradual increase in extraordinary aid thresholds would require new legislated requirements. One possible location would be a new subsection h. of N.J.S.A. 18A:7F-55.

3. Option 3: Maintain the status quo

As previously noted, leaving the thresholds unchanged yields a larger share of special education students being eligible for extraordinary aid over time. This may be considered a desirable outcome if the objective is for the State to support an increasing share of special education costs. In the November outreach survey, 65 percent of respondents said they prefer a broader range of students to qualify, even if it leads to lower partial reimbursements. It should be noted that maintaining the status quo without increasing the extraordinary aid appropriation would likely cause reimbursement rates to decrease each year as more students become eligible.

Under this option, as the eligible special education costs increase, the State would need to increase its support for extraordinary aid to fully fund reimbursements. For example, the amount appropriated to support extraordinary aid for the 2024-2025 school year would have had to nearly double to fully fund such an obligation. The underlying policy objective of the State funding a larger share of special education can only be accomplished with an increase in funding that is sustained in future years.

Mechanism

This option would not require legislative or administrative action.

Transportation Aid

Background

School districts are required to transport students who live within their school district boundaries to their school of attendance as long as the student meets certain requirements, and State transportation aid is provided for all mandated students. These mandated students include students who attend both public and nonpublic schools, although the per-pupil amount a school district can spend on the transportation nonpublic school student is limited each year according to statute and the annual Appropriations Act.

Eligibility for mandated transportation is based on the student's grade level and the distance between the student's home and school of attendance; a student is eligible if this distance is more than two miles for elementary and middle school students, and more than 2.5 miles for high school students. Students with an individualized education plan (IEP) that requires specific transportation services are also eligible for mandated transportation regardless of their distance from home to school; the IEP must indicate that either regular transportation or special transportation services are needed.⁵

Transportation aid is provided to all districts and consists of two calculations - one for mandated regular transportation services, and another for special transportation services. Separate per pupil and per mile rates are used for each population, with higher per-pupil rates for special transportation services to account for additional required services. Since the beginning of the SFRA, the per pupil and per mile rates have been updated for increases in inflation according to the New Jersey Consumer Price Index (CPI) calculated by the New Jersey Department of the Treasury.

In addition to the formula above, the SFRA includes one additional adjustment. The formula includes an incentive factor, which is a bus utilization ratio that is calculated every year and published in the Department's annual release of the Taxpayers' Guide to Education Spending (TGES) as the Transportation Efficiency Ratings. The incentive factor has been set to one for all districts since the beginning of the SFRA effectively meaning that a district's bus utilization ratio does not impact the amount of transportation aid it receives.

In FY2024,⁶ school districts spent a combined total of over \$1.8 billion on transportation services Statewide, including expenditures for courtesy (i.e., optional), hazardous route, and subscription busing. In FY2026, the State provided districts with \$549 million⁷ in

⁵ Special transportation services include those that require an aide, an extended school year, or a wheelchair.

⁶ The most recent available audited data.

⁷ \$33 million of the \$549 million appropriation amount will be provided as reimbursement for additional nonpublic school transportation costs that is funded separately from the SFRA Transportation Aid formula.

transportation aid for mandated transportation services, accounting for about 30% of districts' total costs.

During the 2024-2025 SFRA outreach hearings and November 2025 comment period, many stakeholders identified the high and increasing costs of transportation as an issue that complicates the budget process. For example, 24 percent of survey respondents said there should be an additional tax levy growth limitation adjustment for increases in transportation costs. School leaders cited increasing costs for salaries and contracted services and requested that the State provide additional funding or tax levy flexibility for these costs. Stakeholders also indicated that funding for transportation should account for differences between school districts, including factors such as efficiency, the utilization of electric vehicles, courtesy busing, driver salaries, and the availability of alternative public transportation for students. Respondents also suggested that the formula provide aid for hazardous route busing and a greater amount of aid for transporting students who require special transportation services and students experiencing homelessness. While the FY2026 State appropriation included additional flexibility for district tax levies, the transportation aid formula was not updated other than to increase the parameters according to inflation.

There are several options that may be considered, either in isolation or combined together, for updating the transportation aid formula.

Options and policy implications

1. **Option 1: Increase cost factors in the existing formula by more than inflation**

This option would require the Department to evaluate different approaches to determine growth to the formula's cost factors aside from CPI. This could include identification of highly variable factors, such as fuel costs, or through an evaluation of district audited expenditures over time.

Mechanism

While the cost factors can be updated via the EAR, to require the Department to evaluate (or utilize) specific approaches would require legislation amending subsection b. of N.J.S.A. 18A:7F-57, which governs the update of transportation aid parameters.

2. Option 2: Update the calculation of efficiency

Currently, the statutory calculation for the utilization ratio only shows the efficiency of utilizing all of the space on each bus and includes regular transportation services that are operated by the school district. This method excludes certain aspects of transportation efficiency.

First, services that are provided through contracts are not included in the calculation. Including all contracted routes in each district could provide a more comprehensive figure of how well buses are being utilized.

Second, the calculation does not consider bus route efficiency, only seat utilization. Currently, the Department is making significant upgrades to the annual collection of transportation data that will allow for greater measures and analyses of route efficiency; however, it will take time to study the data and propose a funding methodology. This could be included in the next EAR, as outlined in (Option 3) below.

Mechanism

This option would require legislation amending the definition of IF (incentive factor) at N.J.S.A. 18A:7F-57 to reflect the actual ratio of each district's busing capacity.

3. Option 3: Add authority for the Department to recommend changes to transportation aid through the EAR

When asked about the current transportation aid formula, 34 percent of respondents said it is a reasonable methodology of calculating aid, while 24 percent said it is not. However, the largest share of responses – 42 percent – said they were unsure if it is the best methodology. The current list of items to be considered in the Department's EAR recommendations could be supplemented to authorize the Department to recommend changes to the transportation aid formula. This would allow the Department to utilize new data to be collected in the District Report of Transported Resident Students system⁸ for future analysis and recommendations. The new data may be used to inform recommendations to change the formula if necessary. This option would also allow time for the Department to incorporate suggestions from the field regarding items that could be factored into the formula.

⁸ This system is currently undergoing redevelopment to add functionality and to provide the Department with additional student transportation data.

Adding authorization as part of the EAR review process will allow for more responsive changes to be made, rather than starting with new legislation as the data changes.

Mechanism

This option would require legislation amending EAR components at N.J.S.A. 18A:7F-46 to include the transportation aid formula.

4. Option 4: Provide additional aid for extraordinary transportation costs

During the 2024-2025 SFRA outreach, many stakeholders identified the sometimes exceptionally high cost of special transportation services. A new aid category could be created for districts to apply to the Department for reimbursement for transportation services with exceptionally high costs, such as special education students with special transportation needs, students experiencing homelessness who must be transported to their original school of attendance, or students transported to an out-of-county vocational school.

Mechanism

This option would require legislation amending State law. One possible location would be a new subsection of N.J.S.A. 18A:7F-57 – which governs transportation aid – creating extraordinary transportation aid.

Limits to Annual Changes in State Aid

Background

When the SFRA was initially implemented, it included an aid category known as adjustment aid, which ensured districts would never receive less funding than they did the year before the funding formula was enacted. The SFRA amendment enacted through P.L. 2018, c.67 (chapter 67) was presented as a remedy to “right-size” the formula by phasing districts into their full funding amounts based on current district characteristics, rather than basing aid allocations on historical funding. It also included limits on aid reductions for a handful of districts meeting very specific criteria. However, these targeted limits ended with the conclusion of the phase-in.

The Governor’s FY2026 budget proposal included measures to limit the percent by which aid could increase or decrease relative to districts’ FY2025 aid allocations, a key concern that stakeholders identified during the 2024-2025 outreach hearings. The budget language limited aid losses for all districts across the primary K-12 aid categories to three percent of FY2025 aid, and limited increases to six percent of FY2025 aid. However, these limits are not permanent, as they applied only to the FY2026 school year.

During the November 2025 outreach, the Department received more feedback about the need for stability than any other area. Stakeholders expressed concern about the impact of aid changes on the budget process, emphasizing a need for more transparency and predictability along with stability in their annual aid allocations. Survey respondents overwhelmingly supported limiting aid losses – 71 percent said losses should be limited for *all* districts, and 16 percent said they should be limited for at least some districts based on specific circumstances.

Meanwhile, 34 percent of respondents said aid *increases* should be limited for school districts, 35 percent said aid increases should not be limited at all, and 31 percent said there should be partial limits. Additionally, of those who said increases should be unlimited or partially limited, 36 percent said they would support limiting increases if it was done to help offset the cost of providing limits on decreases.

The Department recognizes the importance of maintaining funding stability for students’ educational needs and recommends that, when considering the options below, any new policy should balance the need for stability with the ability of the funding formula to respond to changing district circumstances, given finite resources.

Options and policy implications

- 1. Option 1: Apply a standard year-over-year percentage limit to all districts’ aid changes**

Limiting both State aid reductions and aid increases would increase the stability and predictability of the formula, helping school districts with program and budget planning. However, restricting aid losses makes the formula less responsive to changing enrollment and district characteristics – and requires more State funding. Applying a standard limit to the percentage of the year-over-year aid change will yield bigger changes (both positive and negative) in overall revenue for districts that receive a greater share of State aid, while districts that start with less aid will see smaller changes. According to the November outreach survey, 48 percent of respondents said that aid losses should be limited according to the previous year’s aid amount.

Mechanism

This option would require legislation amending State law. One possible location would be new subsection(s) of N.J.S.A. 18A:7F-68 (same provision where the phase-in to full funding under chapter 67 is codified).

2. Option 2: Apply a standard limit based on a share of the district’s general fund budget rather than the percent change in aid

Like Option 1, this option would increase both stability and predictability for districts’ budgeting purposes but simultaneously make the formula less responsive to changing district characteristics. However, Option 2 is structured around the recognition that the amount of a district’s budget that consists of State aid varies across school districts. Therefore, the practical impact of a given aid percentage change under Option 1 would vary for districts depending on how reliant their budget is on state aid. Limiting aid increases and decreases according to districts’ *budgets*, rather than the amount of prior year aid the district received, would uniformly affect all districts’ budgets by the same proportion. According to the November outreach survey, 21 percent of respondents said that aid losses should be limited according to the size of the district’s budget.

Mechanism

This option would require legislation amending State law. One possible location would be new subsection(s) of N.J.S.A. 18A:7F-68 (same provision where the phase-in to full funding under chapter 67 is codified).

3. Option 3: Limit aid changes according to specific district criteria

Alternatively, criteria could target districts that meet specific criteria. Depending on the legislature's policy goals, criteria might consider, for example, any combination of:

- District spending relative to adequacy budgets, state averages, or other benchmarks;
- District tax levies relative to local share, state averages, or other benchmarks;
- Aid losses relative to a measure other than prior year aid or district budgets, such as a district's maximum permitted tax levy increase;
- Enrollment growth, overall or for particular student groups; and/or
- Other criteria designed to target specific groups of districts that may see the greatest benefit from limiting aid losses or providing larger aid increases.

The most widely supported criteria for limiting a district's aid losses, at 7-8 percent of survey respondents each, were increasing enrollment, declining local wealth, and high tax levies.

Mechanism

This option would require legislation amending State law. One possible location would be new subsection(s) of N.J.S.A. 18A:7F-68 (same provision where the phase-in to full funding under chapter 67 is codified).

4. Option 4: Repeat a phase-in to full funding

The options above provide stability for districts, but would gradually move current funding further from current district characteristics without any reset. By limiting aid changes, many districts would receive a different amount of aid than what is calculated under the funding formula, and that number would grow over time. This option (Option 4) would provide a new phase-in to full funding. The phase-in could repeat the one that was recently completed (through chapter 67), or it could apply an alternative schedule, such as a three-year phase-in to coincide with the EAR. The latter option would allow districts to be phased into full funding, but would mitigate aid swings that may be caused in the first year of changes proposed in each new EAR. The tradeoff in these approaches lies with how quickly the formula is able to respond to district-level changes. While a repeated phase-in would yield unpredictable changes from year-to-year, it would allow a re-set at specific intervals to ensure the aid allocations remain up to date according to district characteristics.

Mechanism

This option would require legislation amending State law. One possible location would be replacing the entirety of current N.J.S.A. 18A:7F-68 (same provision where the phase-in to full funding under chapter 67 is codified) with a new phase-in schedule.

Tax Levy Flexibility

Background

N.J.S.A. 18A:7F-38 limits the amount by which a school district can increase its general fund tax levy without voter approval. The method and amount of the limitations have changed over time, as have the exceptions to allow additional increases. Currently, levy increases are generally limited to two percent of districts' prior year levy, with certain adjustments for enrollment growth, health care costs, and pension liabilities. The current limits were initially introduced to limit property tax increases, but various stakeholders have expressed concern regarding the limits they place on districts' abilities to respond to the rising costs of education and/or changes to State school aid. Moreover, the limits have prevented districts with greater ability to contribute locally from increasing their local effort in accordance with the formula's calculation of the local share.

Limits based on the previous year's levy have a disproportionate impact on districts that rely more heavily on State aid and those with levies that make up a smaller share of the district's budget. This is exacerbated by the fact that even a moderate increase in the wealth measures can increase a district's local share, which results in decreased equalization aid, all else being equal. A district that receives a greater share of aid from the State will have a lower ability to respond to such aid changes since their tax levy makes up a smaller share of the budget.

Levy limits were a key concern stakeholders identified during the 2024-2025 SFRA outreach hearings, and again during the November 2025 comment period. A high share of survey respondents (80 percent) said they had experienced tax increases in the last five years. Regarding whether districts should be able to increase their levies above the current statutory limit, stakeholders requested more flexibility, particularly for costs that are outside the district's control. In total, 64 percent of respondents said that districts should be allowed to levy above the current statutory limits either based on specific circumstances or as decided by local boards of education.

In FY2025, recognizing the inability of some districts to reach or maintain their local share under the current levy limit, the Legislature passed P.L.2024, c.13, allowing districts that meet certain criteria to apply for flexibilities to exceed the statutory limit for that year. In FY2026, budget language was added to again allow districts to apply for flexibilities from the limit. Based on this clear interest, and balancing the obligation to maintain tax levy affordability, the Department examined possible options for how to enact permanent legislation to responsibly provide districts with the flexibility needed to maintain efficient and successful operations.

Options and policy implications

1. Option 1: Increase the two percent levy growth limit

One option is to raise the allowable levy growth limit for all districts. Raising the allowable percentage increases across all districts would provide additional flexibility for districts to better keep pace with the funding formula's estimate of their local ability to pay. It is worth noting that increasing the levy growth limit by a flat rate would be less impactful for districts where the local levy makes up a smaller share of the budget.

Mechanism

This option would require legislation amending the tax levy growth limitation outlined at N.J.S.A. 18A:7F-38.

2. Option 2: Return to limits that are based on districts' operating budgets rather than the amount of levy

Prior to the enactment of P.L.2007, c.62, a limit was applied to a district's net budget (as measured by the sum of various revenue sources, including the tax levy and State aid) rather than the tax levy. Such an approach guarantees that the allowable change in the tax levy will be responsive to changes in State aid. All else being equal, a district with a larger increase in aid would be allowed a smaller increase (or have a required decrease) in the tax levy to remain within the net budget cap.

One possible advantage of limiting increases in districts' net budgets is that this method ties a district's permissible levy change to the needs of the districts, while basing levies on prebudget year levy amounts (Option 1) is less related to changes in district's budgetary needs. However, limiting net budget changes rather than levy changes may lead to larger year-over-year percentage changes in local levies, particularly for those districts that currently have lower tax levies in proportion to the size of their budgets.

Mechanism

This option would require legislation replacing the current tax levy growth limitation at N.J.S.A. 18A:7F-38 with new language outlining net budget increase limitations.

3. Option 3: Use levy waivers to target specific districts or areas of spending

Another option is to use additional levy adjustments to target specific subsets of districts meeting certain criteria. For example, a levy adjustment could apply only to districts with State aid reductions, districts spending below adequacy, or districts with lower tax effort (e.g. low tax rates or levying under their local share). Qualifying districts could then be provided an adjustment to increase their levy in order to meet a certain target, such as the amount of State aid lost, or the amount needed to bring them up to their adequacy budget or their local share.

Alternatively, statutory adjustments can be added to authorize any district to increase their levy, but only under specific circumstances. For instance, one option could allow adjustments for all districts equal to the amount of any State aid reduction. Another option could allow adjustments for cost increases in specific areas, such as student transportation, tuition, or high-cost special education services. These areas were identified by many of the stakeholders who sent comments in November 2025.

Mechanism

This option would require legislation amending the tax levy growth limitation outlined at N.J.S.A. 18A:7F-38.

Conclusion

This report summarizes policy options based on feedback received from stakeholders through the 2024-2025 regional outreach hearings and the November 2025 survey results. In taking into account the various options, two points should be considered. First, in general, these options should not be considered “either-or” possibilities. While some of the

options are inherently mutually exclusive, several may be combined to achieve a particular outcome. Second, most of the changes anticipated by respondents would require a statutory change to make those changes permanent or a language provision in the annual Appropriations Act for temporary changes. To help guide conversations about considerations to change school funding statutes, this report, as noted throughout, identifies specific areas of statute that would require modification to effectuate a given policy change.