EDUCATION LAW CENTER

A ROADMAP FOR IMPROVING NEW JERSEY'S SCHOOL FUNDING FORMULA:

MODIFYING THE PROPERTY TAX CAP

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About the Author

Danielle Farrie, Ph.D., is Research Director at Education Law Center. Since 2008, she has conducted research and data analysis to support public policy advocacy for ELC and partner organizations. Dr. Farrie is the lead author of ELC's ***Making the Grade*** report and has authored book chapters and peer-reviewed articles on topics such as school finance and school segregation. She has testified about school funding issues before numerous state and national commissions and has provided expert testimony in state school funding lawsuits. She holds a Ph.D. in sociology from Temple University.

About Education Law Center

Education Law Center (ELC) pursues justice and equity for public school students by enforcing their right to a high-quality education in safe, equitable, non-discriminatory, integrated, and well-funded learning environments. We seek to support and improve public schools as the center of communities and the foundation of a multicultural and multiracial democratic society. We strive to secure and protect the rights of students who are underserved, experience inadequate learning opportunities, or face discrimination based on race, ethnicity, socioeconomic status, language, religion, sex, sexual orientation, gender identity, immigrant or migrant status, or disability. To achieve these goals, we engage in litigation, research and data analysis, policy advocacy, communications, and strategic partnerships and collaborations

Introduction

New Jersey, like many states, has long struggled with the tension of maintaining a well-funded public education system while not overburdening residents with high property taxes. New Jersey's school funding formula, 2008's School Funding Reform Act (SFRA), includes a determination of how much local funding – raised through property taxes – is necessary to support each school districts' budget. At the same time, New Jersey also has a property tax cap that is intended to keep spending down and protect residents from large annual increases in their property tax bills.

It's time to study and improve the Local Fair Share calculation in the state's formula and make sure school districts can meet it.

In many school districts across the state, these two laws are in opposition: one law requires districts to raise taxes to meet their local funding obligation under the SFRA, and the other restricts the amount of local revenue that can be raised through the school tax levy. In this report, we demonstrate how the property tax cap and funding expectations under the SFRA are in conflict and contribute to disparities in educational opportunities for many New Jersey students.

Funding New Jersey's School Aid Formula, the School Funding Reform Act

New Jersey uses a foundation aid formula to finance its public education system. A foundation formula establishes a minimum spending level at which each district can provide a quality education program. The responsibility for funding that program is then split between the state, which makes direct payments to districts in the form of state aid, and local revenue. Districts are required to levy a minimum tax rate, typically assessed on property values, to raise their local share of school funding.[1] The difference between the district's formula required minimum spending level and the local levy determines the amount of state aid a district receives. This type of formula promotes equity because state aid is proportionate to a district's property wealth: low-wealth districts receive more state aid, and high-wealth districts receive less.

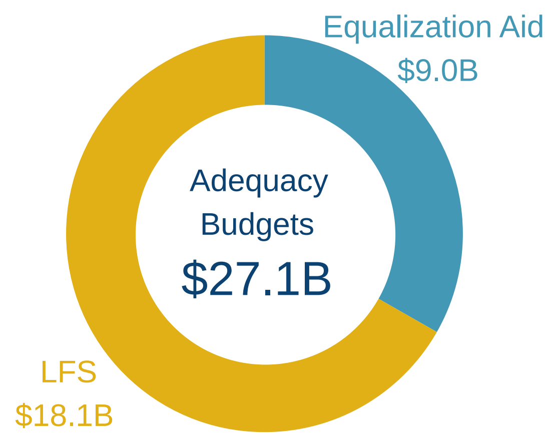
Under New Jersey's formula, the SFRA, a unique spending target is calculated for each district. A "base" per-pupil amount is allocated for every enrolled student ($13,946 in 2024-25), and then additional funding is provided for students based on their characteristics, i.e., grade level, poverty status, and Multilingual Learner status. This additional funding is applied as a "weight," or a percentage of the base cost.[2] The "Adequacy Budget," or minimum funding level, is then split

1 Local governments are responsible for assessing the value of taxable property and then determining the rate at which that property must be taxed to generate the required revenue. These rates are often expressed as "mill rates" or the amount of tax payable per $1,000 of assessed value.
2 For more information on how the SFRA operates, see ELC's report, Spending Targets under the School Funding Reform Act.

Figure 1. SFRA's Adequacy Budget

between a state and local share. The local share is calculated using the Local Fair Share (LFS) formula, which uses school districts' property valuations and personal income levels to determine how much revenue should be raised locally through the collection of property taxes. The state share is provided through a category of state aid called Equalization Aid, calculated as the difference between Adequacy and the LFS (Figure 1). In 2024-25, the state contributed 33% of the Adequacy Budget through Equalization Aid, and municipalities were responsible for the remaining 66% (see Figure 2).

Figure 2. State and Local Share, 2024-25



Determining Local Fair Share

Every school district is assigned a unique LFS using a formula that considers the district's ability to raise local revenue based on the community's wealth. Wealth is measured using personal income and property values. LFS is calculated using the following formula:

District LFS = (Property valuation × Property multiplier × .5)
+ (Personal income × Income multiplier × .5)

Every year, the LFS formula determines two "multipliers," or rates, that are multiplied against every municipality's assessed property valuation and aggregate personal income.[3] The total amount generated by the formula is the district's LFS: the amount they need to raise in property taxes to fund their Adequacy Budget.[4]

3 The LFS formula that determines the multipliers is complex and poorly understood. A subsequent report will provide greater detail on how the multipliers are calculated and propose modifications that would create greater stability and predictability.
4 In many cases, the LFS exceeds the district's Adequacy Budget. In this case, the district would need to raise a LFS equal to their Adequacy Budget (not more) and would not receive Equalization Aid.

For example, consider the following two districts: Woodbridge Township and Union City. They both have a similar sized Adequacy Budget, but Woodbridge's LFS ($188 million) is nearly three times as large as Union City's ($67 million). This is because Woodbridge has much higher property values and much higher income levels and is therefore expected to fund a larger portion of Adequacy with local revenue (Figure 3).

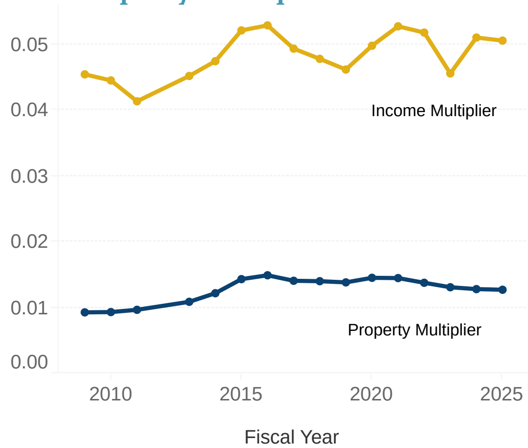
Figure 3. Local Fair Share Comparison

Woodbridge LFS: ($14.8B x .01271 x .5) + ($3.7B x .05060 x .5) = $188M

Union City LFS: ($5.6B x .01271 x .5) + ($1.3B x .05060 x .5) = $67M

District	Adequacy Budget	Property Value	Personal Income	Local Fair Share	Equalization Aid	State Share
Woodbridge Twp	$289M	$14.8B	$3.7B	$188M	$102M	35%
Union City	$288M	$5.6B	$1.3B	$67M	$221M	77%

Figure 4. SFRA's Income and Property Multipliers



Because there are so many moving parts, it is difficult for school districts to forecast their LFS from one year to the next. Districts must project trends in their own income levels and property values and also predict whether the statewide multipliers will increase or decrease. The challenge of accurately predicting the multipliers is portrayed in Figure 4, which shows the year-to-year variance in both multipliers used for the entire state.

The Property Tax Cap

In 2010, several years after the SFRA's implementation, Governor Chris Christie and the New Jersey Legislature instituted a 2% property tax cap on school district budgets with limited exemptions (see box for a detailed overview). School districts are prevented from increasing their school levy by more than 2% each year but are provided adjustments to the cap if student enrollment, pension obligations, or health care costs increase. Districts can "bank" unused taxing capacity in a given budget year to use in any of the three subsequent budget years, after which it expires. Local school boards may also submit to voters separate proposals to raise additional funds for specific purposes, but these must be clearly identified and approved by a majority of voters.

Property Tax Cap Background

In June 2006, the New Jersey Legislature held a special session to address property tax relief and reform. The Legislature created four bicameral, bipartisan Joint Committees to "review and formulate proposals to reform property taxes." In 2007, as a result of this legislative effort, Governor Jon Corzine signed into law a new property tax cap. The tax cap limited annual growth in the school levy to 4%, but with many exemptions including adjustments for enrollment growth, reductions in unrestricted State aid, and increasing health care costs. In addition to these automatic adjustments, school districts could also apply to the Commissioner of Education for additional adjustments related to increases in special education costs, tuition, capital outlay, facilities, failure to meet core curriculum content standards, energy costs, insurance costs, transportation, and more. Beyond the allowable exemptions, school districts also had the option to seek voter approval to exceed the 4% cap. Following the Joint Committees' recommendation, the law included a sunset provision after five years to "act as a 'safety valve' so that any unexpected consequences of imposing a levy cap could be addressed before the cap would be made permanent."[7]

A year later, the School Funding Reform Act (SFRA) of 2008 was enacted, changing the way school districts were funded. The SFRA included a provision directing the Commissioner of Education to complete a study of the tax levy cap enacted in 2007 to determine whether the cap affected disparities in spending among districts and to provide a recommendation as to whether the tax cap should continue beyond the 2011-12 sunset date, or if alternatives should be considered.

In 2010, soon after signing a state budget that reduced state aid to school districts by over $1 billion, Governor Chris Christie enacted an even stricter property tax cap. The new law reduced the cap from 4% to 2%, eliminated most of the exemptions, and made the cap permanent. The provision requiring a study of the impact of the tax cap by the Commissioner of Education was also eliminated.

The 2% property tax cap has remained in effect for nearly all districts, with a few recent exceptions. In 2018, amendments to the SFRA, known as Senate Bill 2 (S2), provided the 31 "SDA" districts, those entitled to remedies under the Abbott v. Burke school funding litigation, with a waiver from the tax cap that allowed them to raise taxes to reach their "fair share" of local funding as defined by the SFRA. These waivers were in place from 2018-19 through 2024-25. In May of this year, Governor Phil Murphy signed legislation (A4161/S3081) that allows districts that experienced a reduction in state aid between FY21 and FY25 to raise taxes to offset those losses up to a maximum increase of 9.9%, without needing voter approval. These exemptions only apply for the 2024-25 school year.

7 2007 NJ Sess. Law Serv. Ch. 62

Local Funding Disparities

While the LFS calculation represents the amount of local funding that school districts need to support their Adequacy Budget, the law does not actually require districts to raise that amount, nor does it prevent them from raising more. As a result, there are vast disparities in the extent to which districts are, in fact, raising their local share, with some raising far more and others raising far less than what is required. Between 2008-09 and 2023-24, the number of districts that have failed to raise their LFS has ranged between 17% and 35% annually (Figure 5), affecting between one-third to more than one-half of students across the state.

If underfunded, low SES districts increased their levy to the 2% limit every year, it would take an average of 24 years just to reach their current LFS.

Figure 5. Percentage of School Districts Raising Less Than Their Local Fair Share

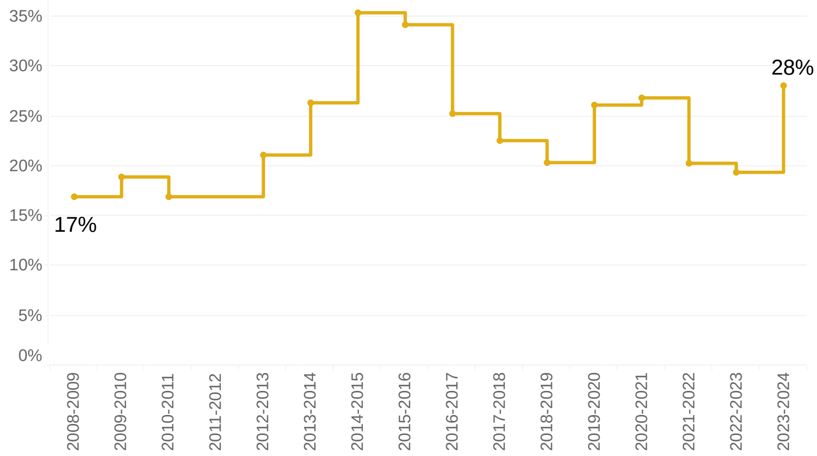
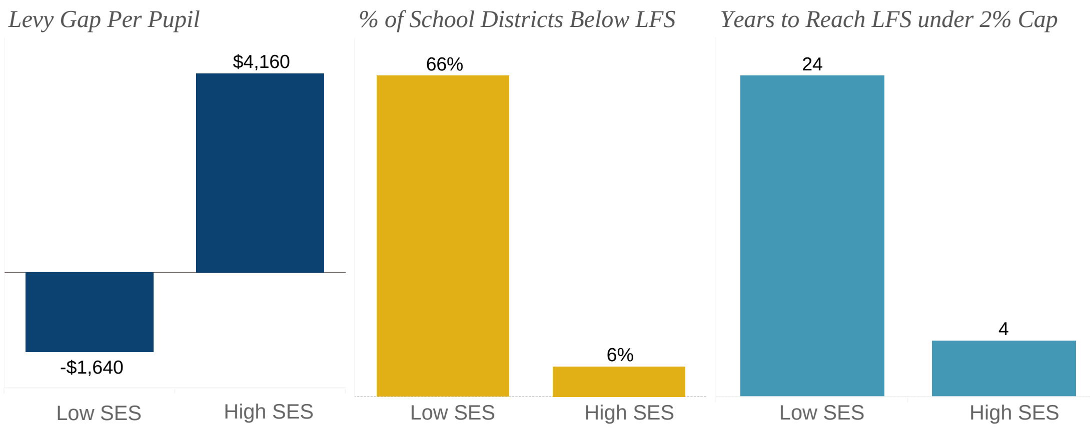


Figure 6 shows that districts with a lower socioeconomic status (SES) are, on average, raising less local funding than is required to reach adequacy. In the poorest districts, local funding averages $1,640 per pupil below what is required for adequacy, while local funding averages $4,160 per pupil above what is required in the wealthiest districts. Two-thirds of low SES districts are below their LFS compared to only 6% of high SES districts. If underfunded, low SES districts increased their levy to the 2% limit every year, it would take an average of 24 years just to reach their current LFS. It would take high SES districts only four years. Though these disparities were not caused by the property tax cap, the policy makes it nearly impossible to overcome them.

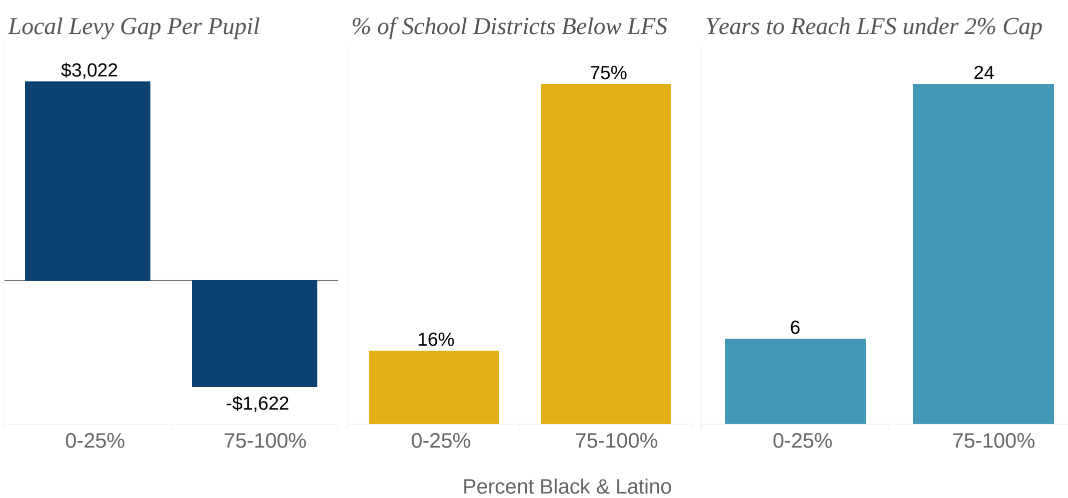
Figure 6. Local Funding Disparities by Socioeconomic Status (SES)*



*SES is defined using New Jersey's District Factor Groups, updated to reflect recent Census data. Low SES includes districts in DFG A&B and High SES includes DFG I&J. DFG CD through GH are not shown.

These local funding disparities are also stark along racial lines. Districts that are more than 75% Black and Latino are funded, on average, $1,622 per pupil below the LFS requirement, and those that are less than 25% Black and Latino are $3,022 above their LFS. Three-quarters of districts that are more than 75% Black or Latino are below LFS, compared to only 16% of districts that are less than 25% Black or Latino. These heavily Black and Latino districts would need four times as long to reach their LFS under the current cap than districts where they are underrepresented: 24 years, on average, compared to six (see Figure 7).

Figure 7. Local Funding Disparities by Student Race



Two Policies at Odds

It is easy to see how these two state policies – the local funding obligations under the SFRA and the property tax cap – conflict. There are two scenarios in which the tax cap prevents districts from achieving adequate funding levels. First, there are districts that are consistently below their LFS, and the tax cap prevents them from closing the gap because there is simply too much ground to make up. Second, there are districts where an annual increase in their LFS is larger than what they can raise within the 2% cap, potentially dropping the district below adequate funding levels and sometimes also triggering a reduction in state aid.

Districts Historically Below their LFS

From the 2008-09 school year through 2023-24, 59 school districts were below their LFS every single year.[5] Another 55 districts were below their LFS for at least ten of the last fifteen years. In 2023-24, there were 240 districts below their LFS, and, on average, they raised 81% of the levy that was required by the SFRA. The 59 districts that were consistently underfunded raised an average of 68% of what was required (Figure 8).

The challenges that the property tax cap places on districts that have been repeatedly below LFS are significant. As of 2023-24, these districts would need an average of 21 years to reach their current LFS. This challenge is even more pronounced because the LFS is a moving target and tends to increase for most districts each year.

Figure 8. District Status Relative to Local Fair Share, 2023-24

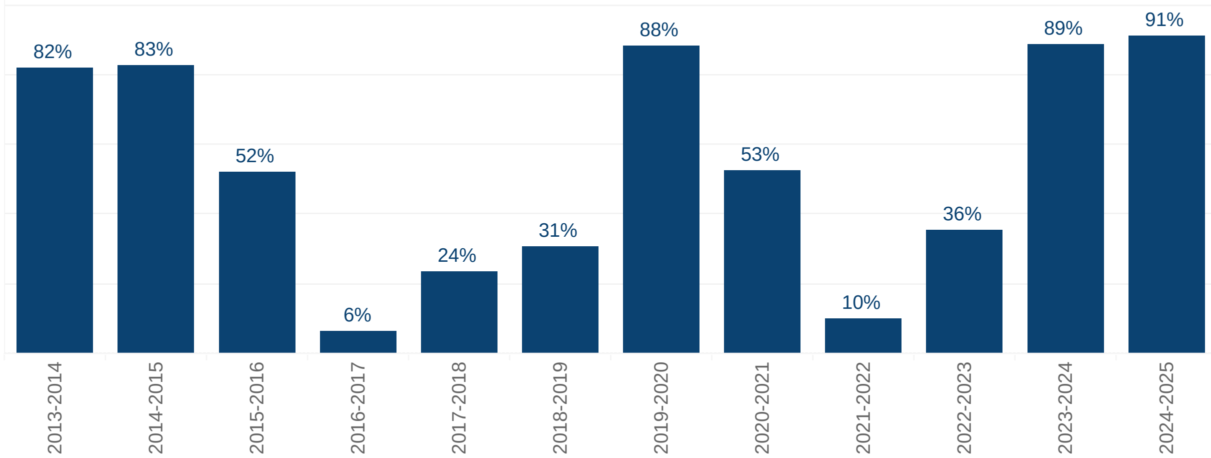
Years Below LFS	# Districts	Average Share of LFS Raised by Levy	Years to Reach LFS under 2% Cap
Every Year (15)	59	68%	21
10-14 Years	55	89%	6
5-10 Years	45	94%	3
1-4 Years	81	93%	2
Total	240	81%	12

Annual Local Fair Share Increases Beyond the 2% Cap

The property tax cap also has the potential to prevent districts from maintaining adequate funding levels. There is nothing in the SFRA that prevents a district's LFS from increasing by more than 2% from one year to the next, so a district could see an annual LFS increase that exceeds the ability to raise revenue under the cap, even if the district was previously raising the required amount. In fact, these kinds of increases happen regularly. Figure 9 shows the percentage of districts that experienced a greater than 2% annual increase in their formula-determined LFS between 2013-14 and 2024-25.[6] In seven of the 12 years, more than half of school districts saw a greater than 2% increase in the LFS requirement. In five of those years, more than 80% of districts saw an increase of this size.

5 Because the SFRA was not run for the 2011-12 school year, we cannot determine whether a school district's local levy was above or below their Local Fair Share for that year.
6 Though the tax cap was in place beginning with the 2010-11 school year, we cannot evaluate changes in LFS under the tax cap until 2013-14 because the SFRA was not run in 2011-12.

Figure 9. Share of Districts with a Greater than 2% Annual Increase in LFS

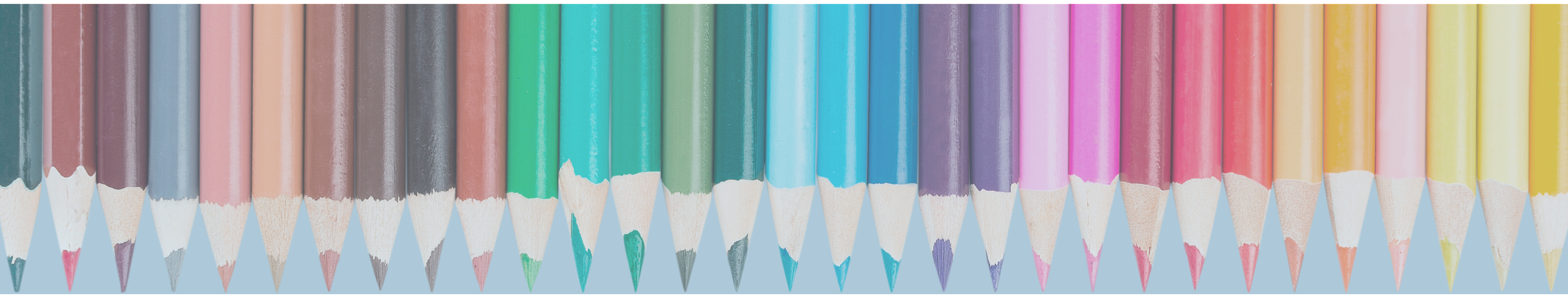


The Property Tax Cap and State Aid

As the SFRA has come closer to full state funding, the consequences of shifts in LFS combined with property tax caps are more apparent. For some districts, an increase in LFS requires them to raise more local revenue but has no effect on state aid. These are districts where their Adequacy Budget under the SFRA is entirely locally funded because of high levels of community wealth (property and/or income). In other words, they do not receive Equalization Aid from the state. For these districts, the tax cap potentially threatens their ability to keep up with rising costs, but it does not compromise their state aid.

In other districts, however, the change in LFS is directly tied to how much Equalization Aid they are entitled to. This is why some districts have experienced surprising losses in state aid as their LFS has increased. For example, in 2024-25, Cherry Hill's LFS increased by $22 million (14%), while the district's Equalization Aid was reduced by $12 million. A 2% increase on its levy generates under $4 million, far from making up the state aid loss.

Without the flexibility to raise taxes to meet these new local funding obligations, the ability of school districts to provide enough revenue to support their Adequacy Budget, or even just to make up for state aid losses, is compromised. Relaxing the tax cap would provide districts with the authority to raise required local revenue to prevent cuts to essential programs and services.



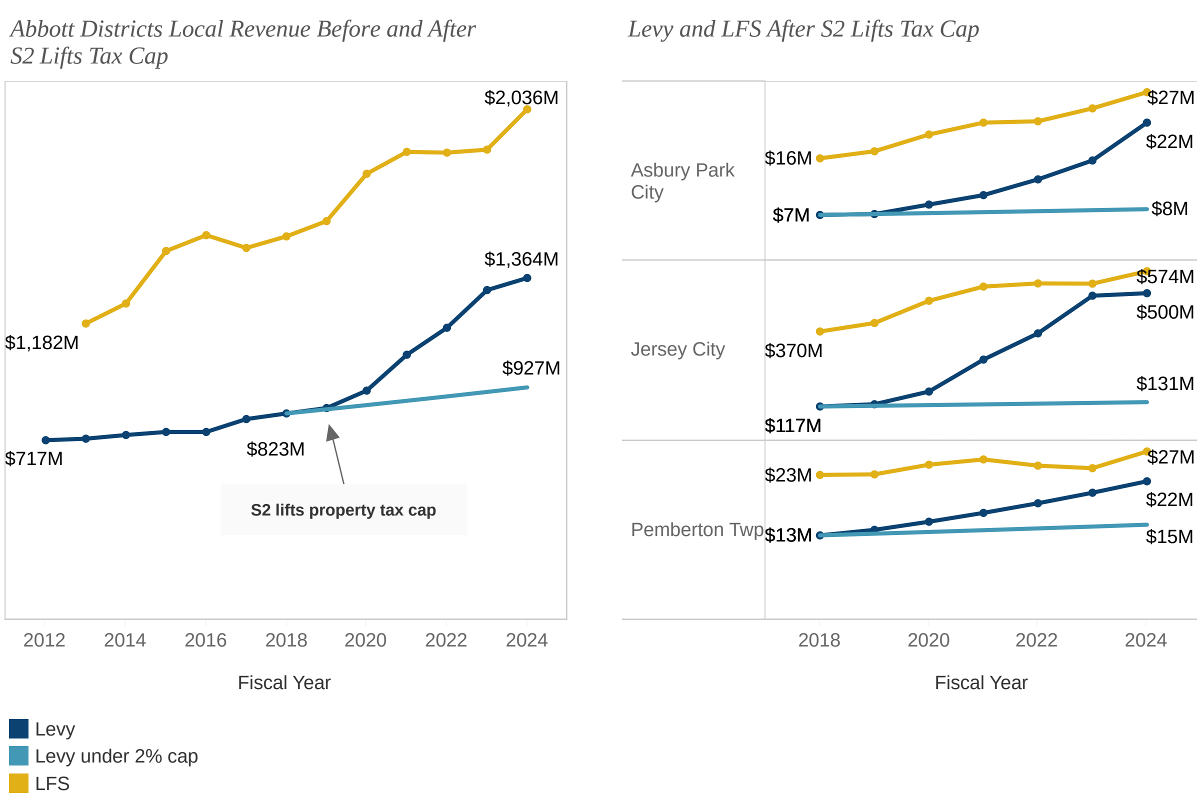
Evidence that Lifting the Property Tax Cap Works

Senate Bill 2 (S2), the 2018 amendment to the SFRA, provided the former Abbott districts with an additional waiver from the 2% property tax cap. Between 2018-19 and 2024-25, these districts were allowed to increase their tax levy up to their LFS. Many districts took advantage of this waiver and made significant progress towards closing local funding gaps, progress that would not have been achievable under the tax cap.

Figure 10 shows that in the six years prior to S2, local revenue in the 31 Abbott districts increased by $106 million, or an average of 2.5% annually. In the six years after the cap was lifted, the levies increased by $541 million, an average of 11% annually. Asbury Park, Jersey City and Pemberton made significant progress when the cap was lifted. Between 2018-19 and 2024-25, Asbury Park's LFS increased by $11 million. Under the 2% tax cap, the district would have only been able to raise about $1 million. Instead, the district raised taxes by over $14 million, bringing the district much closer to, though still below, its required local funding levels.

The S2 waiver from the property tax cap has allowed districts to close local levy gaps, offset state aid reductions, and make significant progress towards achieving adequate funding levels. If the waivers under S2 are not extended, this progress will be stalled or even reversed.

Figure 10. Impact of S2's Waiver of Property Tax Cap for Abbott Districts



Recommendations

The existing property tax cap may have kept property taxes somewhat in check for New Jersey homeowners, but it did so at the expense of the state's public schools. The existing cap for school taxes is problematic because it conflicts with school districts' obligations to raise local revenue to support their Adequacy Budgets under the SFRA. Education Law Center offers the following recommendations to the New Jersey Legislature:

1. Provide a permanent waiver of the property tax cap so that districts that are raising less than their proposed LFS can raise taxes by the amount necessary to make up the difference. Districts taxing above their Local Fair Share would still be subject to the cap.

2. Require school districts that are below adequacy and below their Local Fair Share to raise their school levy by a minimum percentage each year to ensure progress towards adequate funding levels, unless they can demonstrate that their spending levels are sufficient to deliver the New Jersey Student Learning Standards.

3. Commission a study of the Local Fair Share, which should include an examination of how the existing property tax cap affects school districts' ability to adequately fund their schools. The study should also explore other modifications to the LFS formula so that it more accurately reflects districts' ability to raise taxes and to reduce year-to-year volatility in local funding expectations.

The Legislature must not wait to take these steps. Policy changes must be enacted before the Governor's FY2026 Budget Address so that school districts have tools in place to effectively manage their budgets and ensure their students have the resources they need to succeed.