
Presented To:

**The Board of Trustees of the Village
of South Orange, New Jersey**

January 11, 2015

An Analysis of K-12 Education Funding in South Orange

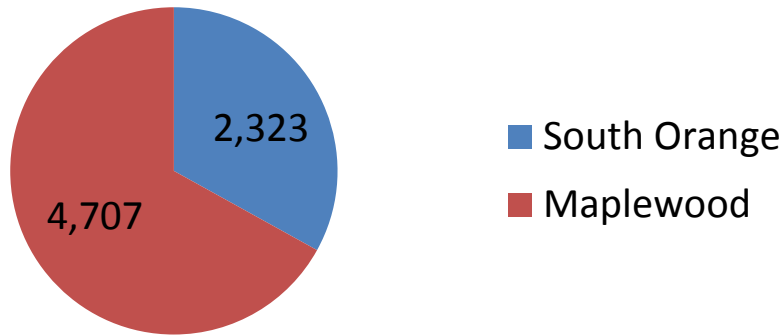
Background

- South Orange shares our K-12 school district with our neighboring town of Maplewood.
- By statute, we are known as a “consolidated district”. There are only a few consolidated districts in the state, and only one other similar in size to Maplewood/South Orange.
- The funding formula for consolidated districts is different by statute than for the more common “regional districts”.
 - Regional districts have considerable latitude in funding apportionment among member municipalities; whether by equalized valuation, student enrollment, or some combination of these factors (N.J.S.A. 18A:13-34).
 - Consolidated districts are required to use a funding formula that is based only on equalized valuation (N.J.S.A. 18A:8-37).
- Due to an imbalance in equalized valuation vs. student population in the two towns, South Orange is disproportionately levied on a per student basis.
- Current statute makes it all but impossible to enact equitable school funding apportionment between the two municipalities.

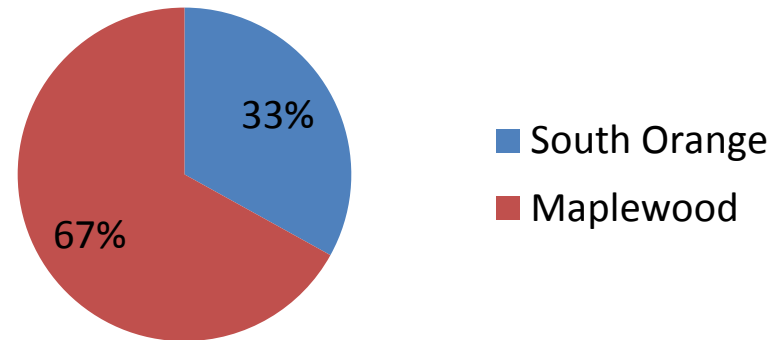
The Big Picture

- South Orange has 33% of the school district's students.

Student Enrollment

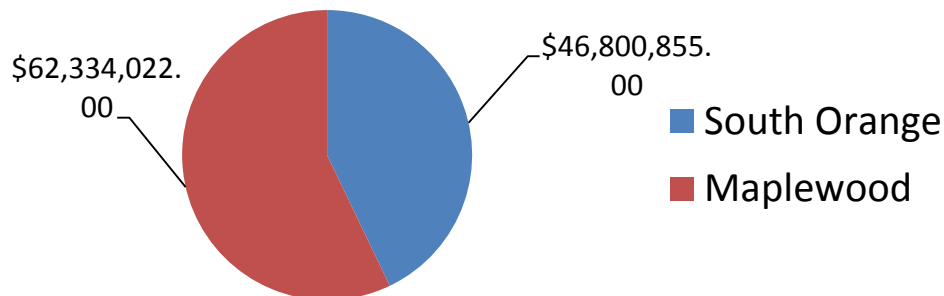


Student Enrollment by %

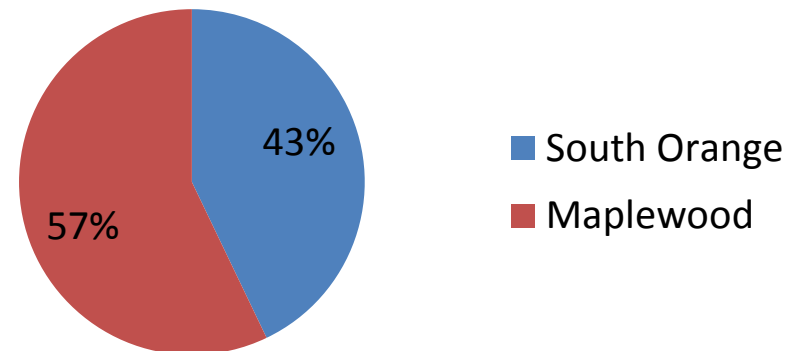


- South Orange pays 43% of the school district's budget.

School Budget Apportionment (\$ without debt service)



School Budget Apportionment (%)



Apportionment by the Numbers*

- The total South Orange assessed value is \$2.236B.
- The total Maplewood assessed value is \$3.065B
- Due to equalization at the county level, South Orange's school tax rate is \$2.14 per \$100 of assessed value, while Maplewood's school tax rate is \$2.08 per \$100 of assessed value.
- South Orange sends 2,323 students to the district.
- Maplewood sends 4,707 students to the district.
- The math – Annual cost per student:
 - $(\text{Assessed Value} * \text{Tax Rate}) / \text{Number of Students} = \text{Annual cost per student}$
 - South Orange: $(\$2.236\text{B} * \$.0214) / 2,323 = \$20,599$
 - Maplewood: $(\$3.065\text{B} * \$.0208) / 4,707 = \$13,544$

* All Dollar amounts are from BOE publication "TAX IMPACT OF THE PRELIMINARY 2015-2016 BUDGET ON THE AVERAGE RESIDENTIAL PROPERTY"

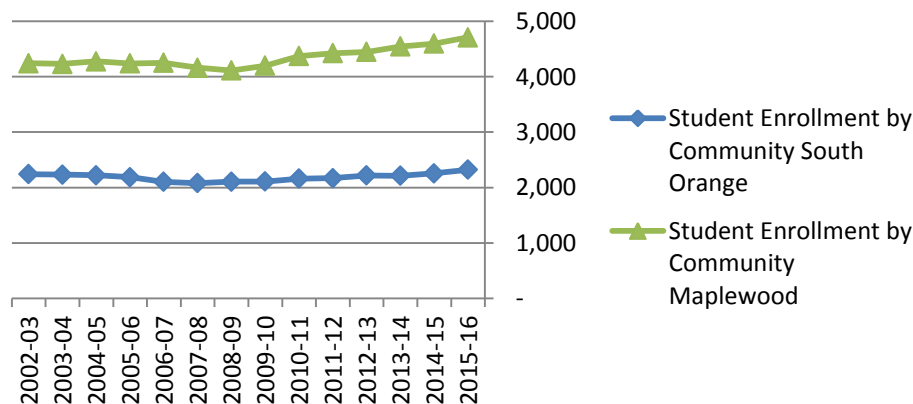
The Tax Impact*

- Total 2015-2016 SOMA School Tax Appropriation = \$111,661,121
- South Orange share of school tax based on aggregate assessed value = \$47,832,664
- Hypothetical South Orange share of school tax if based on student population = $\$111,661,121 * 33\%$, or \$36,848,170
- $\$47,832,664 - \$36,848,170 = \$10,984,494$. This is the amount that South Orange overpays each year to the SOMA school district on a student population basis.
- This translates to approximately 13% of the property tax bill, or about \$2,300 per year for the average South Orange taxpayer.
- The average South Orange school tax bill is \$9,814, to educate the 2,323 students we send to the district, or \$4.22 per student annually to the average taxpayer.
- The average Maplewood school tax bill is \$8,244, to educate the 4,707 students they send to the district, or \$1.75 per student annually to the average taxpayer.

* All Dollar amounts are from BOE publication "TAX IMPACT OF THE PRELIMINARY 2015-2016 BUDGET ON THE AVERAGE RESIDENTIAL PROPERTY"

The Reasons Why

- NJ State Income Tax is highly progressive. It is Constitutionally dedicated to property tax relief.
- The 31 former Abbott school districts receive the vast majority of State funds for property tax relief.
- Urban tax abatements take billions of ratables off the Abbott school districts' tax rolls.
- The School Funding Reform Act of 2008 implements a new formula, called “Local Fair Share”. This formula uses a combination of equalized property value and aggregate income within a district to determine overall wealth and therefore the need for aid. It is effectively a secondary income tax levied as a property tax, but does not consider any individual’s ability to pay, only the district aggregate.
- The apportionment of SOMA School District’s school tax, based on “equalized real estate value” alone, overtaxes South Orange as it does not take student enrollment into account.
- The district school budget is mostly for student education and administration. We enjoy the legacy of buildings largely paid for and having little debt service.
- Fewer South Orange students attend, and the trend is relatively flat: 4% increase since 2002.
- More Maplewood students attend, and the trend is upward: 11% increase since 2002.



Remedies

Consolidated districts are rare and may not be afforded the statutory remedies provided to regional districts to cure disequilibrium and taxing inequities:

- The Maplewood South Orange School district is one of eight “Consolidated Districts” and is not a “Regional District”. Ours is the largest consolidated district. The next largest is Caldwell, West Caldwell which is in equilibrium “sending and taxing proportionately to enrollment”, by happenstance.
- Under N.J.S.A. 18A: 13-23, regional districts may apportion the school district tax based upon: (A) proportionate enrollment, (B) equalized values, or (C) some combination thereof. Somerset Hills apportions taxes on proportionate enrollment, as an example.
 - **Regional Districts can gain relief by Ballot, “seeking the majority vote, of those voting, to alter or amend the taxing formula”.** State officials acknowledge, “these ballots always lose as nobody votes to increase their taxes”. It is a zero sum event.
 - **Regional Districts can gain relief by Ballot, “seeking dissolution of the District”.** But the courts have intervened to retain the regional district in certain cases.
 - **Or, the Maplewood South Orange District could be merged with another local School District** which would open up the school district taxing process to negotiation pursuant to N.J.S.A. 18A:13-23.
- It is possible that South Orange could be compelled to remain in the District even if a vote for dissolution were successful.
- We may be able to seek administrative relief from the Education Commissioner, but Legislative relief appears to be necessary.
- Regional districts organized at the High School level with local K-8 districts are common in the State, as are local districts that pay tuition to another district on a per-student basis.

The Call to Action

South Orange needs fairness, equity and prompt relief. We ask the Board of Trustees to consider these issues and objectives as we move forward with the goal of a fair school funding formula for South Orange.

- Learn the nuances about school finance, who benefits and who pays. New Jersey has the 2nd highest taxes in the Nation, Essex County had the 6th highest property taxes in the nation, and South Orange property taxes are among the Nation's highest.
- Consider the very real tax impact of the current formula on the average South Orange taxpayer. The numbers are clear that we are paying more than our fair share.
- Understand that changing the District's school funding schemes based upon enrollment would reduce South Orange's taxes, but increase Maplewood's taxes. It is a zero-sum game.
- Communicate with our State Legislators. Ask them to amend the State law to provide similar funding options to Combined Districts as those afforded to Regional Districts.
- Consider that almost all NJ school districts operate under statutes that allow funding formulas based on student population. We are one of very few that is expressly forbidden to do so by statute.
- Keep an open mind, as alternatives to the current Consolidated District may be available to South Orange, and could have considerable tax advantages.

Next Steps

- We would like to start with a Resolution indicating that the Village of South Orange is aware of a funding imbalance in our district, and intends to take actions in attempt to correct the imbalance.
- The resolution, to be drafted based on comments and feedback from this presentation, should have general goals and provisions including:
 - Affirm that there is an imbalance and inequity, including an independent audit of the numbers.
 - Seek the advice of legal counsel as to possible remedies: Administrative, Legislative, Ballot.
 - Inform the public of the imbalance.
 - Notify our State elected Representatives of the imbalance and seek their relief.