



NEW JERSEY SENATE

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February 27, 2017

Hon. Steven M. Fulop  
Mayor of Jersey City  
P.O. Box 1302  
Jersey City, NJ 07303

Dear Mayor Fulop:

Thank you for attending the public hearing of the Senate Select Committee on School Funding Fairness in Newark on Wednesday. I am grateful for your recognition that it is important for the Governor and the Legislature to change the tax abatement laws to ensure that school districts in the future receive their fair share of PILOT payments in proportion to the percentage of property taxes that go to school taxes in each municipality. I am also appreciative of your commitment to ensure that all schoolchildren in New Jersey receive the "thorough and efficient" education promised in the New Jersey Constitution regardless of whether they live in the poorest city or the wealthiest suburb.

School funding is a complicated issue, which is why we have been working on it in a deliberative and bipartisan basis. As I promised during the hearing, I am writing to you to correct some of your misunderstandings about the impact of the proposals we have been discussing to bring fairness to the School Funding Reform Act for both schoolchildren and taxpayers across the state.

The School Funding Reform Act of 2008 is a national model that was unanimously ruled constitutional by the New Jersey Supreme Court. It was a landmark piece of legislation that put an end to decades of court rulings in *Robinson v. Cahill* and *Abbott v. Burke* that treated school districts, their schoolchildren and their taxpayers differently based upon whether they were litigants in the school funding cases.

Under the SFRA, a new school aid formula was established requiring funds to "follow the child" under a weighted formula that provided additional aid for special needs, those who participate in free or reduced lunch, and English language limited students, and increasing levels of support for different levels of education from elementary to middle school to high school to vocational-technical school that recognizes legitimate cost differentials.

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Under the SFRA, the “local fair share” to come from property taxes is assessed to school districts based on the property wealth and the income of their taxpayers, and state equalization aid then makes up the remainder of the funding needed to provide an “adequacy budget” that meets the weighted educational needs of students in each school district.

In order to sustain a fair and equitable formula, the state should not subsidize a school district’s local fair share. State funding is not infinite, so funding beyond the state’s obligation comes at the expense of underfunding in other districts.

Unfortunately, the Legislature inserted two additional state aid provisions in 2008 that skewed the fairness of the formula. The first was the addition of “hold harmless” adjustment aid that was designed to guarantee that no school district would receive less money than it had received in previous years – no matter how overfunded the formula showed that school district to be. The second was a “growth cap” that limited increases in future school funding and has resulted in severe underfunding of districts with rapid enrollment growth or rising populations of at risk, special needs or English language limited students.

These provisions were supposed to be temporary and last no more than a couple years. But after nine years, both adjustment aid (for those who receive over 100% State SFRA aid) and the growth cap are still in place, and as a result of those provisions and the failure of the state to provide adequate school funding, some districts today are receiving 175% of the state aid to which they are entitled and some are receiving as little as 11%.

It is our responsibility as state legislators to fix these inequities by phasing out adjustment aid, properly funding enrollment growth, and by fully, properly, and fairly funding the State portion of the SFRA formula. That is what we are proposing to do.

Contrary to your assertions at our Senate Select Committee on School Funding Fairness hearing, our proposals will not take away state aid from urban and minority schoolchildren and give it to wealthier suburbs. That is what the Governor’s proposal from last summer would have done.

Our proposal does the exact opposite. In fact, the 31 urban school districts in the *Abbott v. Burke* litigation – including Newark, Elizabeth, Paterson, Trenton, Camden and your own Jersey City – would gain \$365 million in additional state SFRA school aid under our proposal. Some districts, such as Newark, Elizabeth, Paterson and Trenton would receive very large increases, while others – including Jersey City and Hoboken – would receive 100% of the state SFRA funding to which they are entitled under the formula.

Needless to say, I was severely disappointed that you tried to pit neighbor against neighbor in an effort to retain Jersey City’s surplus State SFRA funding, and by your inclusion of Newark in the

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list of school districts whose aid would be cut under 100% State SFRA funding. As we have said repeatedly, Newark would gain more State funding than any other district under our plan – in fact, Newark would gain more in state SFRA formula funding than Jersey City would lose in adjustment aid over 100% state funding if we applied the school funding formula fairly.

Continuing to provide more than \$500 million in adjustment aid to school districts that are lucky enough to have experienced sizable ratable and income growth and districts whose school population has declined is not morally justifiable when urban districts like Paterson and Trenton that are underfunded by tens of millions of dollars are being forced to lay off staff and when fast-growing districts like Kingsway Regional, Freehold and Monroe receive no additional funding for enrollment growth.

As a reminder the SFRA create two school funding numbers – one for the State to fund and one that the local school district funds. The SFRA established an equitable formula for determining the “local fair share” that school districts should be paying, and as mayor of Jersey City, you are undoubtedly aware that Jersey City pays just 36% of its fair share of school funding – the fifth-lowest percentage in the state. Jersey City underfunds the local SFRA share to its schools by \$202 million, and even with the \$121 million in aid by which you are overfunded by the State, and to which your booming city is no longer entitled, your city is still under-adequacy by \$90 million. Our legislation recognizes the need to create an exception to the cap for school districts that are under adequacy and underfunding their local fair share to enable them to meet their funding obligation.

Meanwhile, the Garden State Coalition of Schools reports that more than 200 school districts around the state that are receiving less state aid than they should are overtaxing their residents more than their “local fair share” to ensure that their schoolchildren receive a quality education.

Contrary to your totally unfounded contention that our Senate plan would force property tax increases in towns that are providing a quality education superior to that required by the state’s “adequacy formula,” our proposal would bring all of these districts to 100% funding and allow school boards to decide how much of the increased state aid to which they are entitled should be invested in their schools and how much should be returned to taxpayers in the form of property tax cuts.

Most of these towns are not enjoying the economic renaissance that Jersey City and the Gold Coast have enjoyed as development continues to boom west of the Hudson. That is why the tax abatement issue is so important from the standpoint of state and local tax equity.

Jersey City’s municipal government, as you know, is receiving about \$127 million in PILOT payments toward its municipal budget – which is actually about \$30 million more than the city would have been receiving from these abated properties if no tax abatements had been awarded.

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Meanwhile, the school district loses more than \$50 million a year in school property tax payments it would have received from those developments.

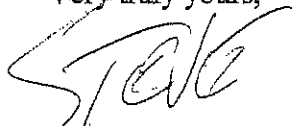
Even if all of these tax abatements were indeed needed to ensure the economic growth and development of Jersey City – which Senator Michael Doherty pointedly questioned at Wednesday’s hearing – there is a good argument to be made that all or some of the PILOT payments for those abatements should have been shared proportionately among municipal, school and county taxpayers.

With school taxes making up 25% of Jersey City property taxes, more than \$30 million in PILOT payments should have gone to the schools to bring Jersey City closer to the “adequacy budget” needed to properly educate the city’s schoolchildren, whose quality of education is currently being shortchanged by \$90 million a year.

I am certain that the Governor and the Legislature will take up your suggestion that we revisit the tax abatement issue this spring to ensure that schoolchildren receive their fair share of PILOT payments.

I look forward to meeting with you if you would like further information on our plans to bring fairness to New Jersey’s school funding formula and a quality education for all of our schoolchildren.

Very truly yours,



Stephen M. Sweeney  
Senate President

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- Hon. Michael J. Doherty
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- Hon. M. Teresa Ruiz
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