ASSEMBLY APPROPRIATIONS COMMITTEE

STATEMENT TO

[First Reprint]

ASSEMBLY, No. 3452

with committee amendments

STATE OF NEW JERSEY

DATED: MARCH 14, 2024

The Assembly Appropriations Committee reports favorably and with committee amendments Assembly Bill No. 3452 (1R).

As amended, this bill provides a tax levy cap adjustment for certain school districts that are experiencing State school aid reductions.

Under current law, a school district is generally prohibited from increasing its property tax levy by more than two percent compared to the previous school year. This limited increase is often referred to as a "tax levy growth limitation" or a "property tax cap." However, State law authorizes certain allowable adjustments to the general two percent limitation, thereby permitting a district to account for certain increases in items such as enrollment, health care costs, and certain normal and accrued liability pension contributions.

The amended bill would provide for an allowable adjustment to the tax levy growth limitation for a school district that experiences a reduction in State school aid in the 2024-2025 school year pursuant to the provisions of P.L.2018, c.67, which is commonly referred to as "S2." The amount of the allowable adjustment equals the difference between the amount of State aid received by the school district in the previous school year and the amount of State aid received by the school district in the 2024-2025 school year.

The amended bill would provide for another allowable adjustment for a school district that is experiencing a reduction in State school aid and is spending below adequacy in any school year after the 2024-2025 school year. Under current law, a school district is considered to be spending below adequacy if its prebudget year spending (defined as the sum from the prior school year of equalization aid, special education categorical aid, security categorical aid, and the school district's tax levy) is below its projected adequacy spending (defined as the sum for the school year in which the budget will be implemented of its adequacy budget, special education categorical aid, and security categorical aid). For these districts, the allowable adjustment to the tax levy is to be

equal to the difference between the prebudget year adjusted tax levy, after application of all other adjustments permitted under current law, and the district's prebudget year local share. A district's local share is the amount that the school funding formula law determines the district can afford to raise locally, as measured by district income and equalized property values.

Finally, the amended bill prohibits any school district that increases its tax levy using the allowable adjustments established by the bill from reducing its total number of school district employees. However, a district may reduce its total number of employees if the Commissioner of Education approves the reduction in the district's proposed budget.

COMMITTEE AMENDMENTS:

The committee amended the bill to:

- remove provisions of the bill permitting a school district to increase its adjusted tax levy up to the amount of its State school aid reduction in the 2023-2024 school year;
- provide that a district, which is losing State school aid and is spending below adequacy in any school year after the 2024-2025 school year, may increase its adjusted tax levy up to the amount of the district's prebudget year local share, after application of all other allowable adjustments under current law;
- prohibit a school district increasing its adjusted tax levy pursuant to the provisions of the bill from reducing its total number of school district employees. The bill, as referred to the committee, prohibited districts from reducing its total number of teachers; and
- remove provisions of the bill that prohibit a school district increasing its adjusted tax levy pursuant to the provisions of the bill from reducing its total amount of general fund appropriations for either instruction or support services.

FISCAL IMPACT:

The Office of Legislative Services (OLS) estimates that this bill would result in a revenue increase of up to approximately $107.1 million in FY 2025 as a result of increased local tax levies. In subsequent years, the OLS concludes that the bill may result in a revenue increase of up to approximately $305.5 million.

In the 2024-2025 school year, the bill permits a school district that experiences a reduction in State aid to increase the district's local tax levy in an amount equal to the difference between the amount of aid received in the budget year and the amount of aid received in the prebudget year. According to State Aid notices provided by the Department of Education, the Statewide reductions in State school aid total approximately $107.1 million for the 2024-2025 school year. If

the OLS assumes that every eligible district increases its tax levy by the allowed amount, the total possible increase would be equal to $107.1 million.

In any year after the 2024-2025 school year, the bill permits a school district that experiences a reduction in State aid and is spending below adequacy to increase the district's local tax levy up to the amount necessary for the district to be taxing at the local share. Based on an analysis of FY 2025 information, the OLS estimates that 50 school districts could be eligible to increase their local tax levies by a combined total of $305.5 million. However, this estimate will most likely change, possibly by a significant amount, once these provisions come into effect for the 2025-2026 school year.