

## Discussion Points

1. Dr. Lily Laux took the helm at the Department of Education in January 2026, overseeing a department of more than 650 employees and \$22.0 billion in spending.
- **Questions:** Please set forth the priorities and goals of Dr. Laux for the Department of Education. How do the Commissioner's priorities differ from the prior Administration? What changes does the Commissioner intend to make to the department's internal operations and organization, program delivery, and program prioritization in terms of personnel and financial resource allocation?

Commissioner Laux has established several priorities for the department:

1. **Literacy:** Addressing that only 45 percent of third graders in New Jersey are reading on grade level through implementation of: evidence-based structured literacy practices, systematic phonics instruction, high-quality instructional materials, and early screening and intervention systems, as well as expanding access to high-quality early learning.
2. **Early Learning:** Expanding access where the need for preschool is greatest while maintaining quality across a mixed delivery system, so early childhood delivers on its promise as a foundation for long term student success. High-quality early learning strengthens school readiness, supports working families, and is one of the most effective long-term investments we can make for students.
3. **Tutoring:** Implementing a sustainable High Impact Tutoring program, a proven model to support students who have fallen behind grade level performance.
4. **Mental Health and Student Well-being:** Strengthening coordination between schools and community mental health providers, supporting trauma-informed practices, and building more coherent support systems.
5. **Educator Pipeline:** Reversing the decline in teacher replacement ratios (from 30:1 a decade ago to 9:1 currently) through multiple entry points into teaching, streamlined certification, improved retention supports, and addressing working conditions.
6. **Funding Stability and Modernization:** Providing greater predictability in school aid allocations and initiating comprehensive modernization of the School Funding Reform Act (SFRA) based on updated cost studies and current data.

To support the implementation of these priorities, Commissioner Laux is committed to operational simplification by reducing unnecessary complexity, compliance burden, and policy layers that complicate educators' work without improving outcomes. Her approach reflects systems-level responsiveness through real-time partnership with districts, requiring the department to function as a collaborative problem-solver.

Commissioner Laux has initiated a critical review of existing data and practices to identify unnecessary complexity, including streamlining guidance, eliminating duplicative reporting, and ensuring data systems provide actionable information without excessive burden. She is building enhanced stakeholder engagement through regular working groups focused on reducing operational friction. To support implementation, she is building the department's capacity to provide professional learning infrastructure for literacy, technical assistance for tutoring programs, curriculum guidance, and model intervention systems.

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She is committed to strategic focus, sustaining multi-year attention on core priorities, communicating transparently about constraints, and adjusting or eliminating programs that aren't producing results.

With constrained state revenues, expired federal pandemic funding, and anticipated federal cuts, Governor Sherrill and Commissioner Laux are prioritizing direct student service investments—literacy supports, high-impact tutoring, and increased access to mental health services.

2. The Governor proposes a \$33.0 million appropriation in the Department of Education in FY 2027 for the new School-based Partnerships for Access and Resilience for Kids (SPARK) grant program to expand mental health services in schools and improve coordination among school districts and providers. The SPARK program would replace the New Jersey Statewide Student Support Services (NJ4S) program operated by the Department of Children and Families, which is funded at \$43.0 million in FY 2026. The New Jersey Statewide Student Support Services (NJ4S) program has been contentious since before its implementation in the 2023-2024 school year. The Department of Children and Families has also long been administering the School Linked Services Program, which is recommended to be funded at an unchanged \$39.0 million in FY 2027. Operating in certain schools only, the program links schools and social and mental health services. The Department of Children and Families had previously recommended replacing the School Linked Services Program with the statewide NJ4S program.
- **Questions:** Please describe the planned operations and objectives of the School-based Partnerships for Access and Resilience for Kids (SPARK) grant program. Will the program be entirely new or will it be built on the New Jersey Statewide Student Support Services (NJ4S) program? When is the program expected to be operational? Will the program be phased in by geographical area?

The School-based Partnerships for Access and Resilience for Kids (SPARK) grant program is designed to expand mental health services for students through strengthened coordination between school districts and community-based mental health providers. The program's core objectives are:

- Creating sustainable partnerships between schools and licensed mental health providers to expand access to Tier II and Tier III services for students in need
- Reducing barriers for students and families to access mental health services
- Building school capacity for early identification of students in distress
- Supporting trauma-informed practices in school settings
- Establishing clear referral pathways between schools and community providers

While SPARK builds on lessons learned from NJ4S implementation, it represents a substantially redesigned approach. Key differences include:

- **Governance Structure:** SPARK will be administered by DOE rather than DCF, recognizing that schools are uniquely equipped to distinguish typical child development from behavior changes that may indicate emerging mental or behavioral health needs.

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- **Partnership Model:** Greater emphasis on sustainable school-district-provider partnerships rather than centralized service delivery.
- **Local Flexibility:** Districts will have more flexibility to choose partnerships that reflect local provider capacity and student needs.
- **Integration with School Operations:** Better integration with existing school support systems (school counselors, child study teams, student assistance coordinators).

The department anticipates SPARK becoming operational for the 2026-2027 school year, with program guidelines developed in spring 2026, applications in summer 2026, and implementation beginning fall 2026.

- **Will most of the employees planned to administer the SPARK program be transfers from the NJ4S program in the Department of Children and Families? How many employees, by title and compensation, are anticipated to administer the SPARK program?**

The department is evaluating staffing needs to administer the SPARK program. Personnel designs are still under discussion and the department will have more information available as the budget is finalized.

- **How is the SPARK program intended to interact with the School Linked Services Program operated by the Department of Children and Families? Is there a risk of duplicating services? How do the two departments expect to coordinate the administration of the SPARK and School Linked Services Program?**

### **Coordination with School Linked Services:**

The department recognizes the importance of clear coordination between SPARK and the School Linked Services Program. School Linked Services focuses on comprehensive wraparound supports for families (housing, food security, social services, mental health), while SPARK focuses specifically on expanding school district capacity and coordination to procure mental health services beyond what a school may be able to offer with existing resources. In schools where both programs operate, they serve complementary rather than duplicative functions. DOE and DCF are establishing formal coordination protocols including regular meetings between program administrators, shared reporting on schools served, and clear guidance to districts about appropriate uses of each funding stream. Grant applications will require districts to identify other mental health funding sources and demonstrate how SPARK funding will complement rather than duplicate existing services.

- **Why is the New Jersey Statewide Student Support Services (NJ4S) program recommended to be discontinued? Why is the responsibility for the SPARK grant program recommended to be assigned to the Department of Education when the Department of Children and Families has long been operating school-based youth mental health programs?**

New Jersey has long recognized the importance of supporting youth mental health. When NJ4S was first conceptualized, the State was responding to the broad social, emotional, and mental health needs that emerged during the COVID-19 pandemic. Since that time, New Jersey has continued to strengthen its youth mental health infrastructure across state agencies, including universal supports such as Mental Health First Aid through the Department of Human Services, the Garrett Lee Smith Suicide Prevention Grant through the Department of Health,

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and legislative changes that elevated the role of school counselors in addressing student mental health.

As a result, youth mental health support is now more firmly embedded in how New Jersey serves students. With these broader universal supports in place, the resources previously dedicated to NJ4S can be redirected to address the ongoing needs of students who continue to struggle and require more targeted support.

Several factors support DOE administration of SPARK. For example, schools are uniquely equipped to distinguish typical child development from behavior changes that may indicate emerging mental or behavioral health needs since school staff engage with students over an extended period of time.

The department is also well positioned to administer grant funding provided to schools to support youth mental health because it has the infrastructure and expertise needed to distribute, monitor, and manage education funding at the district and school level. Placing SPARK within the department also allows the program to be designed in alignment with school operations, applicable regulations, and the structures schools already use to support students.

In addition to providing resources, the grant program can be structured to help districts assess and strengthen their existing systems for supporting student mental health and overall well-being. This approach allows the State to address persistent student needs while also promoting stronger, more sustainable school-based supports.

- **What are the key differences and intended improvements in the SPARK program compared to the NJ4S program? Please explain the shortcomings of the NJ4S program that the SPARK program is intended to cure.**

NJ4S and SPARK were designed to serve different purposes. NJ4S was built as a prevention-first initiative focused on broad, universal supports, while SPARK is intended to strengthen intervention services for students with more significant or persistent mental health needs. SPARK is designed to complement the mental health infrastructure already provided by school districts and other State agencies.

3. The Governor recommends doubling the appropriation for the High-Impact Tutoring Program from \$7.5 million in FY 2026 to \$15.0 million in FY 2027. High-impact tutoring has been advocated as an effective technique to reduce the substantial student learning loss that occurred during the COVID-19 pandemic. The existing program supports the provision of targeted instruction and frequent, small-group tutoring aligned with classroom learning. Program funds can be used to provide tutoring services for students in grades three through eight who are not yet meeting grade-level expectations in English Language Arts or Mathematics, as well as students in other grades under certain circumstances. According to grant documentation, the FY 2026 appropriation will fund a project period running from May 1, 2026 to May 31, 2027, with applications due February 26, 2026. The department identified 298 local educational agencies as being eligible to apply for funds.

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- **Questions:** How many local educational agencies applied for funds through the High-Impact Tutoring Program? Has the department awarded funds yet? If so, please detail the local educational agencies that will receive funding.

The High-Impact Tutoring Program has completed two competitive grant rounds and is currently reviewing applications for a third. The FY 2023 and FY 2024 rounds totaling \$52 million (funded through \$16,958,085 in ARP GEER funds and \$35,000,000 from SFRF) served 297 participating LEAs, reaching 36,249 ELA students and 38,344 math students. These initial cohorts were designed to address persistent academic gaps exacerbated by the COVID-19 pandemic, with priority given to students in Grades 3 and 4 in English Language Arts and Mathematics. For the current FY 2026 round, the Notice of Grant Opportunity was released on January 16, 2026, with applications due February 26, 2026. The department received 195 applications and will make the awards in spring 2026. The \$7.5 million appropriation is anticipated to be dispersed to approximately 100 local education agencies (LEAs) through awards ranging from \$20,000 to \$400,000, based on a tiered system of student enrollment and student performance on the New Jersey Student Learning Assessments. Eligibility is limited to LEAs whose average student proficiency on the 2024-2025 NJSLA in grades 3-8 was less than 50 percent in ELA and mathematics. The grant period runs from May 1, 2026 through May 31, 2027.

- **What data are available to demonstrate the efficacy of the High-Impact Tutoring Program in New Jersey schools?**

Data from the initial two grant cohorts demonstrate significant impact based on the collection of student achievement and growth data that was locally developed and reported. Across all implemented programs, the number of students performing at or above grade level after tutoring increased by 18 percent in ELA and 19 percent in mathematics. Statistically significant increases in the number of students performing at and above grade level were observed across all grades ( $p < .001$ ), with the largest improvements noted in Grade 1 and Grade 3 across both ELA and math programs combined. Results suggest that tutoring for ELA was most effective for Grades 1 and 3, while tutoring for math was most effective for Grades 2, 3, and 10. Grantees employed varied approaches: 51.5 percent of districts used their own staff to deliver tutoring services while 31.8 percent contracted with vendors and 16.7 percent used a combination; tutoring most often occurred after school (66.9 percent) and during school (54.4 percent); tutor grouping was commonly structured at 3:1 (62.3 percent) or 1:1 (32.6 percent); and the most common time allocation was 90 minutes per week (41.8 percent) followed by 120 minutes per week (29.3 percent).

- **For what purposes will the proposed additional funding for the High-Impact Tutoring be used in FY 2027? Is the department planning on expanding in the program in any way, either in the intended uses of funds or the number of school districts receiving funding?**

The proposed doubling of the appropriation to \$15 million in FY 2027 would significantly expand program reach, allowing more school districts and students to participate. The department anticipates that this investment would not only double the impact of the FY 2026 program but may improve the efficacy of the High-Impact Tutoring grant by incorporating lessons learned from previous rounds. For the 2027 High-Impact Tutoring grant, NJSLA-A data will be used to evaluate student progress which will allow the department to have a single,

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consistent, standards aligned assessment data set that will be analyzed by the department or a third party to evaluate the effectiveness of the grant, identify outliers for further analysis, and disaggregate the data to find equity gaps in performance by gender, race/ethnicity, economically disadvantaged, special education, and multilingual student groups. This data will also be evaluated by grade level, school, and district level performance. This analysis will allow the department to ensure a high return on investment, and share best-practices for highly effective tutoring programs that districts may employ in the future.

4. The Governor's Action Team report entitled *Delivering a Strong Education for New Jersey Children*, released in January 2026, includes recommendations that would require an increase in the number of staff employed by the department, including:

- expanding the Office of Learning Equity and Academic Recovery with regional liaisons to support districts, early childcare providers, and community literacy partners and to help train and build a network of experienced teachers as literacy coaches and mentors;
- establishing an Office of High-Impact Tutoring to provide regional technical assistance, establish standards, qualifications and evaluations for high-impact tutors, and oversee quality monitoring; and
- building liaison capacity to support, oversee, and rebalance collaboration between districts and community-based preschool providers.

- **Questions:** Does the department intend to pursue any of these recommendations made by the Action Team? To the extent that implementing these efforts involves hiring experienced education professionals, how does the department intend to attract additional employees without detracting from an educator workforce that is already facing shortages? What is the estimated financial impact to the department of establishing or expanding the offices as recommended?

The department appreciates the Action Team's recommendations. The department intends to address the priorities outlined in the report and recognizes the Action Team made substantive recommendations to pursue those goals. The recommendations broadly align with the core priorities of both Governor Sherrill and Commissioner Laux in literacy, high-impact tutoring, school funding, educator pipeline, and early learning. Initial implementation will be approached through existing capacity and strategic partnerships. Given the challenging fiscal environment, the department is prioritizing creative approaches that leverage external expertise and build sustainable networks. The department is seeking to train existing staff both locally and regionally, to support these initiatives.

5. The Governor proposes increasing State funding for the New Jersey Innovation Authority by \$13.3 million in FY 2027. According to the FY 2027 Budget-in-Brief, the recommended funding level would "support the Governor's efforts to improve customer experience, reduce administrative burdens, and make government more responsive and accountable."

- **Questions:** Please describe the current and past collaborations between the New Jersey Innovation Authority and the Department of Education. What have been the objectives and outcomes of the joint projects? Please detail the associated impacts on the satisfaction of the department's stakeholders, its performance metrics, as well as expenditures and revenues.

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The department initiated active collaboration with the New Jersey Innovation Authority in early 2026, aligned with the Governor's emphasis on improving customer experience, reducing administrative burdens, and making government more responsive. The department looks forward to the opportunity to collaborate on projects or initiatives that can help our agency modernize program and service delivery, save our staff time, decrease administrative burden, achieve cost savings, and increase New Jerseyans' satisfaction with state services.

- **What additional collaborations is the department planning or implementing with the New Jersey Innovation Authority? What are the objectives of the new initiatives and their anticipated impacts on department revenues and expenditures? How are the new initiatives anticipated to improve the satisfaction of the department's stakeholders as well as the department's performance and administrative efficacy? Please use any available metrics that will be used to assess the success or failure of the initiatives.**

The department's most urgent collaboration with the Authority focuses on state performance reporting. Success would be measured by earlier release of performance data in subsequent years, improved usability of data dashboards for districts and families, and increased stakeholder satisfaction with data timeliness and accessibility. The department is also collaborating on artificial intelligence capabilities, exploring training all DOE staff on the AI Assistant platform. Successful implementation could reduce staff time on routine tasks, improve consistency in policy analysis and grant review processes, and enable more responsive service to districts.

### State School Aid

6. Several changes were introduced into the State school aid formula in FY 2026 in response to frequently voiced concerns about formula outcomes:
  - Limit year-to-year fluctuations in the State aid amounts of specific school districts by adding a three-percent floor and a six-percent ceiling for year-to-year changes;
  - Increase the predictability of a district's State aid by using three-year averages for the income and property valuation measures rather than more volatile single-year datapoints;
  - Notify school districts in advance that no district's aid would decline by more than three percent compared to the prior year based on the four main categories of aid;
  - Add additional security and mental health resources to the model used to determine the base per pupil amount;
  - Replace statewide averages for calculating special education funding with individual district enrollments; and
  - Introduce the Tax Levy Incentive Aid program that allows districts to apply for additional aid and taxing authority if they are spending and taxing below certain benchmarks.
- **Questions: What feedback did the department receive about the efficacy of the changes enacted in the FY 2026 Appropriations Act? Were the changes perceived as effective in addressing long-running school district concerns about the fairness, sufficiency, stability, and predictability of aid allocations? Will the department regularly solicit feedback from school districts about funding concerns?**

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This feedback process, conducted after the FY 2026 changes had been implemented, revealed several clear themes about how stakeholders perceived those changes and whether they should be made permanent through legislation. Stakeholder input was collected through a public online survey, which was completed by more than 3,300 stakeholders. The results are summarized in the Resolution 1378 report, which is publicly available ([link](#)). The department also appreciated the feedback received from stakeholders who sent 550 emails through the department's dedicated mailbox. The process also demonstrated a need for further engagement and analysis of the temporary changes enacted in the FY 2026 Appropriations Act and proposed in the Governor's proposed budget.

Multiple themes emerged. Regarding the use of multi-year wealth averaging, stakeholders expressed strong support for this change. 63 percent of survey respondents preferred averaging multiple years of income and property data over relying on single-year snapshots, recognizing that this approach reduced year-to-year volatility in state aid calculations. The change to use actual special education enrollment rather than the census-based method received overwhelming support, with 86 percent of respondents preferring this approach. Stakeholders viewed this change as more accurately reflecting each district's specific special education population and providing more aid to districts with high concentrations of students who need special services. There was particular concern that the previous census method had understated needs for districts with higher-than-average classification rates while simultaneously overfunding districts with lower classification rates.

The implementation of limits on state aid changes emerged as the single most important issue for stakeholders, with stability concerns mentioned more than any other area. 73 percent of respondents said losses should be limited for all districts. This strong support reflected stakeholders' experiences with severe and unpredictable aid swings in previous years, where some districts faced large percentage losses of their state aid in a single year. The implementation of a three percent floor on aid reductions was widely viewed as addressing a critical need for stability.

However, feedback on the six percent limit on aid increases demonstrated recognition of the fiscal realities required to provide stability. While 35 percent of respondents said increases should not be limited at all, 34 percent said aid increases should be limited, and 31 percent said there should be partial limits, meaning that 65 percent of respondents supported some form of limit on increases. Most significantly, among those who initially opposed unlimited increases or supported only partial limits, 36 percent indicated they would support limiting increases if it helped offset the costs of limiting decreases, demonstrating a pragmatic understanding of the fiscal trade-offs necessary to provide the three percent floor that enjoyed such broad support. This feedback suggests that stakeholders recognized that capping increases was a reasonable and necessary compromise to protect districts from severe cuts. The Sherrill Administration's decision to continue this approach in FY 2027 reflects stakeholder input recognizing the importance of providing stable, predictable funding while managing the state's structural budget challenges.

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### Fairness

The FY 2026 changes addressing fairness elicited various feedback from stakeholders, with the replacement of census-based special education funding generating strong positive response while other fairness concerns remained unresolved or were newly identified. The decision to calculate special education aid based on individual district enrollments rather than assuming all districts educate students requiring special education services at the statewide average classification rate received overwhelming support, with 86 percent of survey respondents preferring the actual enrollment approach. Stakeholders viewed this change as more equitable because it recognized that districts' special education populations vary considerably, and the previous census method understated needs for districts with higher-than-average classification rates while also overfunding districts with lower classification rates. This modification aligned state aid with the actual services districts must provide, addressing a concern that had been raised since the inception of the School Funding Reform Act in 2008, when the census method was adopted to remove incentives for districts to overclassify students to generate additional state funding.

However, significant fairness concerns remained regarding how the formula measures local fiscal capacity through the income and property valuation components that determine districts' "local fair share," the estimated amount a community should contribute toward education costs based on its wealth. Despite the introduction of three-year averaging to increase stability, 52 percent of survey respondents indicated that the income data should exclude outlying observations, citing concerns that the presence of a small number of extremely high-income residents or expensive ratables could skew a district's measured wealth, particularly in smaller communities where only a few taxpayers can make a disproportionate difference. The current measure uses aggregate income from State gross income tax returns supplemented by public assistance payments. Additionally, 54 percent of respondents expressed preference for using median income rather than aggregate income in the formula calculations, suggesting concern about whether the current approach captures a typical community's ability to pay versus being unduly influenced by income distribution patterns.

Stakeholders also identified concerns about fairness in the treatment of districts during the phase-in to full funding under P.L.2018, c.67, which was completed in FY 2025. While that legislation right-sized the formula to base aid allocations on current district characteristics rather than maintaining the adjustment aid that protected districts from receiving less than their FY 2009 funding levels, the transition process itself created new perceptions of unfairness. Districts that experienced significant aid reductions during the phase-in period raised questions about whether the pace of change adequately considered the practical challenges of adjusting educational programming and staffing to match reduced resources, even when those reductions reflected genuine changes in enrollment or community wealth. The three-percent floor implemented in FY 2026 addressed these concerns going forward, but it did not resolve frustration about the transition or about the underlying question of whether the formula's methodology for calculating adequacy budgets and local fair share truly captures all relevant dimensions of educational need and community capacity.

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### Sufficiency

On the question of sufficiency, stakeholders identified persistent issues that the FY 2026 changes did not fully address, despite the fact that the state achieved full funding of the School Funding Reform Act for the first time in FY 2025 and maintained that commitment in FY 2026. Transportation costs emerged as a significant concern, with districts spending a combined \$1.8 billion on transportation services statewide in FY 2024. Twenty-four percent of survey respondents indicated there should be an additional tax levy growth limitation adjustment for increases in transportation costs, reflecting concern that these expenses—which are driven by factors including fuel costs, driver salaries, contracted service rates, and state-mandated service requirements—are rising faster than the formula's cost factor adjustments, which have historically been limited to the Consumer Price Index (CPI). School leaders emphasized that transportation represents a fixed cost that must be met regardless of other budgetary pressures, and insufficient state aid for this purpose diverts resources from classroom instruction and educational programming.

Extraordinary special education aid presented another significant sufficiency challenge. The December 2025 report documented that the percentage of special education students with costs exceeding the extraordinary aid threshold more than doubled from 4.4 percent when SFRA was enacted to 9.8 percent by FY 2026. The report noted that "the average district per pupil special education cost used to calculate State school aid—\$38,984 in FY 2026—is approaching and will soon surpass the extraordinary excess cost threshold of \$40,000," meaning that the threshold intended to identify unusually high-cost students now approaches the average special education cost. Stakeholders expressed concern that the erosion of extraordinary aid reimbursements effectively shifted costs back to local property taxpayers and forced districts to make difficult decisions about resource allocation that could impact services for both special education and general education students.

The sufficiency concerns extended beyond specific categorical aid programs to broader questions about whether the adequacy budget calculations accurately reflect current costs and educational standards. The base cost per pupil and the various weights applied for at-risk students, English language learners, and students in different grade levels were established in 2008, with adjustments made through the Educational Adequacy Reports in 2011 and 2016 but no comprehensive recalculation since then. Stakeholders questioned whether these figures adequately account for changes including updated learning standards that require different instructional approaches and materials, greater mental health needs among students that require additional support services and specialized staff, increased technology requirements for both instruction and assessment, and rising costs for employee health benefits. While the FY 2026 changes included adding security and mental health resources to the base per pupil amount, stakeholders indicated this represented an incremental adjustment rather than the comprehensive cost study many advocated for.

### Stability

The FY 2026 changes received their strongest positive reception in addressing stability concerns, which stakeholders identified more frequently than any other issue during the feedback process. The three-percent floor on aid reductions was particularly valued by school districts. This provision directly addressed one of the most serious problems identified during the 2024-2025 outreach hearings: the fact that some districts had experienced significant

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percentage losses of their state aid in a single year under the formula as it operated following full implementation of P.L.2018, c.67. Survey results demonstrated overwhelming support for this stability measure, with 71 percent of respondents indicating that aid losses should be limited for all districts, and an additional 16 percent supporting limits for at least some districts based on specific circumstances. The provision protecting districts from severe cuts allowed them to avoid the impacts of dramatic aid reductions, including cutting teaching staff, enlarging classroom sizes, eliminating important programs, and deferring building maintenance and repairs, all consequences that stakeholders had repeatedly cited as undermining educational quality.

The multi-year averaging for wealth measures similarly received strong support for its contribution to stability, with 63 percent of survey respondents preferring the use of multiple years of income and property data over relying on single-year snapshots. Stakeholders recognized that this approach reduced year-to-year volatility in state aid calculations by dampening the impact of fluctuations in property valuations or aggregate income that might result from one-time events rather than genuine changes in a community's fiscal capacity.

The implementation of limits on state aid changes emerged as the single most important issue for stakeholders, with stability concerns mentioned more than any other area. 71 percent of respondents said losses should be limited for all districts. This strong support reflected stakeholders' experiences with severe and unpredictable aid swings in previous years, where some districts had faced large percentage losses of their state aid in a single year. The implementation of a three percent floor on aid reductions was widely viewed as addressing a critical need for stability.

However, feedback on the six percent limit on aid increases demonstrated important recognition of the fiscal realities required to provide stability. While 35 percent of respondents said increases should not be limited at all, 34 percent said aid increases should be limited, and 31 percent said there should be partial limits, meaning that 65 percent of respondents supported some form of limit on increases. Most significantly, among those who initially opposed unlimited increases or supported only partial limits, 36 percent indicated they would support limiting increases if it helped offset the costs of limiting decreases, demonstrating a pragmatic understanding of the fiscal trade-offs necessary to provide the three percent floor that enjoyed such broad support. This feedback suggests that stakeholders recognized that capping increases was a reasonable and necessary compromise to protect districts from severe cuts. The Sherrill Administration's decision to continue this approach in FY 2027, maintaining both the three percent floor and six percent ceiling, reflects both stakeholder input recognizing these trade-offs and the fiscal realities of providing stable, predictable funding while managing the state's structural budget challenges.

### **Predictability**

The FY 2026 changes made meaningful progress toward improving the predictability of state aid allocations, though stakeholders identified additional transparency and procedural improvements that would further strengthen districts' ability to plan budgets and manage operations effectively. The advance notification that no district's aid would decline by more than three percent based on the four main aid categories provided districts with certainty for budget development, allowing them to plan staffing levels, program offerings, and resource

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allocations with confidence than in previous years when aid amounts could change substantially and sometimes unexpectedly. The three-year averaging for wealth measures contributed to predictability by reducing the likelihood that unusual single-year fluctuations in property valuations or income would cause dramatic aid swings, creating a more stable baseline for districts to anticipate future funding levels. The combination of the floor and ceiling provisions established clear boundaries within which most districts could expect their aid to change.

However, survey results and written comments revealed that predictability challenges remained in several areas. Stakeholders requested greater transparency regarding how state aid calculations are made, specifically asking for a user-friendly website that would display the main drivers of state aid allocations and explain how those calculations changed from year to year. As part of the Governor's accountability agenda, the Department of Education will develop user-friendly dashboards and mapping tools on its website that clearly explain the primary drivers of state aid and how those allocations change annually. Respondents emphasized that without information about the formula's mechanics and the specific factors driving their district's aid changes, it was difficult to understand aid fluctuations or to anticipate how future changes in enrollment, demographics, or community wealth might affect funding levels.

The timing of aid announcements and budget finalization processes also emerged as predictability concerns. Districts indicated they needed extended timeframes for finalizing their budgets after state aid announcements to adequately respond to funding changes, and the opportunity to adjust budgets if their state aid changed during state budget negotiations in June—well after districts have typically finalized and in some cases already voted on their local budgets.

Stakeholders also identified the interaction between state aid changes and the property tax levy cap as a predictability challenge. The statutory limit allowing districts to increase the general fund tax levy by no more than two percent of the prior year's levy functions differently depending on how reliant a district's budget is on state aid versus local property taxes. For districts receiving a large share of their funding from state aid, the two-percent levy cap provides limited flexibility to compensate for aid reductions or to respond to cost increases that exceed the allowable levy growth. The Tax Levy Incentive Aid program introduced in FY 2026 addressed this issue for a subset of districts, those spending below adequacy and taxing below their local fair share, by allowing them to increase levies beyond the two-percent cap without voter approval and providing state aid equal to the lesser of five percent of the additional levy raised or \$1 million. However, only 81 of approximately 300 eligible districts elected to utilize this option, and just over \$12 million of the \$20 million appropriated for the program was disbursed. The limited uptake suggested either that most eligible districts did not face immediate fiscal pressures requiring levy increases beyond the cap, or that political or community considerations made such increases unfeasible even when financially beneficial.

### Soliciting Feedback

Governor Sherrill has made clear that modernizing the school funding formula will be an ongoing, collaborative process rather than a one-time adjustment. Throughout the next year, the department will undertake a broader review of the school funding formula. The

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administration has already begun statewide conversations to modernize the school funding formula.

Commissioner Laux reinforced this commitment publicly and stated, "I look forward to continued conversations with stakeholders from across the state as we work to modernize and stabilize the school funding formula. Our core commitment remains: funding will continue to follow students and their needs, a principle central to New Jersey's education system." The department intends to regularly solicit feedback throughout the process of formula modernization.

Fundamentally, the department's commitment to regularly soliciting stakeholder feedback reflects recognition that the school funding formula is not a static policy that can be perfected once and left unchanged, but rather a dynamic system that must adapt to evolving educational requirements, demographic shifts, economic conditions, and lessons learned from implementation experience.

This approach acknowledges that the Examination of School Funding Policies Pursuant to FY 2026 Budget Resolution 1378 report's policy options require further stakeholder consultation, technical analysis, and fiscal modeling before being translated into legislative proposals. It also recognizes that building consensus around sustainable reforms takes time and requires iterative engagement where initial reactions inform refinements, competing interests are balanced through negotiation, and implementation experiences from initial changes guide design of subsequent modifications.

7. The FY 2027 Governor's Budget maintains the changes to school funding that were newly enacted on a temporary one-year basis in FY 2026 (listed in Discussion Point No. 3 above). The FY 2026 Appropriations Act also required the department to examine the feasibility of making the changes permanent. As part of the examination, the department was to seek stakeholder feedback. To that end, the department conducted an online survey that was completed by more than 3,300 stakeholders. In December 2025, the department issued a report outlining the responses to the survey and possible avenues for school funding reform. The report included several policy options that are currently not implemented:

- regarding local resource measures:
  - accounting for outliers in income data;
  - replacing aggregate income with median income;
- regarding limits to annual changes in State aid:
  - applying a standard year-over-year percentage limit to all districts' aid changes;
  - applying a standard limit based on a share of the district's general fund budget;
  - limiting aid changes according to specific district criteria;
  - repeating a phase-in to full funding;
- regarding tax levy flexibility:
  - increasing the two percent levy growth limit;
  - returning to limits that are based on districts' operating budgets rather than the amount of the levy; and
  - using levy waivers to target specific districts or areas of spending.

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- **Questions:** What factors led to the decision to maintain the FY 2026 Appropriations Act changes to the school funding formula in the FY 2027 Governor's Budget without modification? What consideration was given to the other options presented in the department's report issued in December 2025? For what reasons were the other options rejected?

The decision to maintain the FY 2026 Appropriations Act changes to the school funding formula in the FY 2027 Governor's Budget without modification was driven primarily by the need to preserve stability and predictability in State aid after several years of significant volatility. If the formula had been enacted per statute this year some school districts would have seen losses in state aid up to 60 percent. The FY 2026 changes, including the use of three-year averaging for wealth measures, the shift to actual special education enrollment, and the establishment of a three-percent floor on aid reductions and a six-percent ceiling on increases, were designed to address widely documented concerns about sharp year-to-year fluctuations that made district budget planning increasingly difficult. Maintaining these provisions for a second consecutive year allows districts to rely on known parameters while their impacts are more fully evaluated.

Comprehensive modernization of the formula requires additional fiscal modeling, stakeholder engagement, and legislative deliberation, none of which could be responsibly completed within the FY 2027 budget development timeline. Preserving the FY 2026 framework avoids introducing new complexity or uncertainty while this broader review proceeds.

Fiscal constraints also factored significantly into the decision. The combination of constrained State revenues and existing budgetary commitments limited the feasibility of additional formula adjustments in FY 2027. Maintaining both a floor on aid reductions and a ceiling on increases was necessary to balance stability for districts with overall fiscal sustainability. Finally, the FY 2026 changes reflected practical solutions informed by stakeholder feedback and maintaining them in FY 2027 allows the State to continue protecting districts from severe aid losses while laying the groundwork for longer-term reforms to be considered in future budgets.

### **Consideration of Options in December 2025 Report**

The department carefully reviewed the alternative options outlined in the December 2025 report during development of the FY 2027 Governor's Budget. Each option was evaluated for fiscal impact, data readiness, administrative feasibility, and potential unintended consequences across districts with differing transportation and demographic characteristics. Options that would have increased cost factors above inflation were recognized as potentially beneficial to districts but would have required additional State appropriations in a fiscally constrained environment. Options related to efficiency calculations were also examined; however, the department determined that implementing changes before completion of upgrades to the District Report of Transported Resident Students data system would risk relying on incomplete or insufficient data. The option to establish a new extraordinary transportation aid program raised concerns about long-term cost growth and sustainability, based on experience with other categorical aid programs where fixed thresholds led to expanding eligibility without commensurate funding. Finally, procedural options to address transportation aid through the Educational Adequacy Report process were viewed as more

## Discussion Points (Cont'd)

appropriately considered as part of broader formula modernization rather than through the FY 2027 annual budget. As a result, the Administration concluded that additional analysis and stakeholder engagement were necessary before advancing any of these options and therefore preserved the existing framework while positioning these issues for further study in future budget cycles.

The department's recommended options were intended to frame policy choices and identify potential longer-term approaches to addressing transportation aid concerns, rather than to serve as immediate implementation proposals. Each option was evaluated for its fiscal impact, data requirements, administrative complexity, and potential for unintended consequences across districts with differing transportation characteristics.

The department also considered procedural options that would allow transportation aid to be reviewed through the Educational Adequacy Report process. While that approach does not require immediate funding changes, it should be pursued as part of a broader statutory and formula modernization rather than through the annual budget. Ultimately, none of the options presented could be implemented within the FY 2027 budget cycle without additional analysis, data validation, and stakeholder engagement. Accordingly, the FY 2027 budget maintains the existing framework while positioning transportation aid policy for further study and potential reform as part of the comprehensive school funding formula modernization effort.

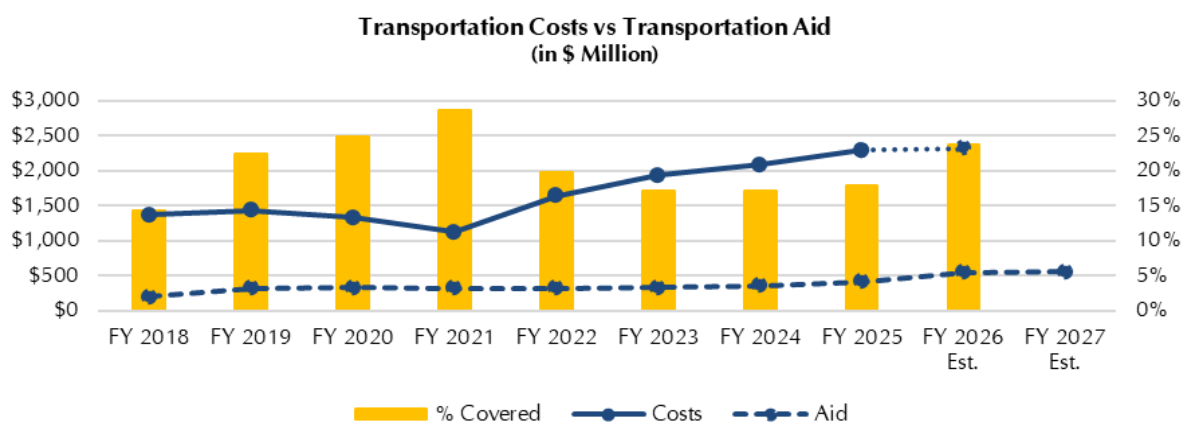
### Considerations for the FY 2028 Budget

The department intends to consider the other options presented in the December 2025 report as part of the broader review of the School Funding Reform Act. The budget proposal this year preserves stability while allowing time for additional data collection, fiscal modeling, and stakeholder engagement. Several of the options identified, particularly those related to transportation aid cost factors, efficiency measures, and extraordinary cost reimbursement, require more robust and reliable data and careful analysis to assess potential distributional and fiscal impacts. These options will be evaluated alongside other potential reforms to inform future budget and legislative proposals.

8. The determination of transportation aid under the school funding formula has been perennially contentious, in no small part because aid outcomes fall significantly below the true cost of transportation that school districts experience. In a December 2025 report examining school funding policies, the department set forth several options for addressing concerns regarding transportation aid, including:

- increasing cost factors in the existing formula by more than inflation;
- updating the calculation of efficiency and utilizing efficiency incentives; and
- providing additional aid for extraordinary transportation costs.

## Discussion Points (Cont'd)



- Questions:** Why is the FY 2027 Governor’s Budget not recommending the implementation of any of the changes to the calculation of transportation aid outlined in the December 2025 report on school funding policies? What would be the effect on State appropriations of adopting each of the options presented in the report? Does the department plan for changes to the transportation aid formula in FY 2028?

The FY 2027 Governor's Budget does not recommend implementation of the transportation aid formula changes outlined in the December 2025 report on school funding policies for several reasons relating to timing, data infrastructure, stakeholder input, and the Administration's strategic approach to comprehensive formula modernization. The December 2025 report provided the department with only approximately three months to conduct thorough fiscal analysis, engage in additional stakeholder consultation on specific transportation proposals, and prepare legislative drafting before the budget was largely finalized in early March 2026. This timeline was insufficient to properly evaluate the complex interactions between potential formula changes and the broader school funding system, particularly given that transportation aid represents approximately \$559 million in proposed state appropriations.

The Administration is prioritizing a broader review of the school funding formula that reflects a deliberate strategy to avoid piecemeal changes that could have unintended consequences. The December 2025 report revealed significant uncertainty among stakeholders regarding transportation aid methodology, with 42 percent of survey respondents indicating they were unsure whether the current transportation aid formula represents the best approach, the largest single response category. Additionally, while 34 percent of respondents indicated the current formula is reasonable, only 24 percent definitively stated it is not the best methodology. This lack of consensus among education stakeholders counseled a more measured approach that allows for continued dialogue and data-driven decision-making.

The department is currently making significant upgrades to the District Report of Transported Resident Students (DRTRS) system that will provide substantially enhanced data collection capabilities for measuring route efficiency, seat utilization, and other key metrics necessary to

## Discussion Points (Cont'd)

inform evidence-based formula modifications. As noted in the December 2025 report, "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." The report specifically recommended that enhanced data collection "could be included in the next EAR [Educational Adequacy Report]," acknowledging that the infrastructure necessary to support informed transportation aid formula changes is still under development. Implementing formula changes before this enhanced data collection system is operational and has gathered sufficient information would undermine the goal of creating a more responsive and accurate funding mechanism.

### Impact of Adopting Options from the Report

Regarding the fiscal effects of adopting the options presented in the December 2025 report, the department acknowledges that comprehensive fiscal impact analyses were not included in the report, as the recommendations were intended to frame policy discussions rather than provide final implementation proposals. However, some general observations can be made about each option's potential fiscal implications.

Option 1 (Increase cost factors by more than inflation) would directly increase state appropriations above the current practice of adjusting parameters by the Consumer Price Index (CPI). Any increase in cost factors would proportionally increase the state appropriation.

Option 2 (Update the calculation of efficiency) presents a more complex fiscal picture, as this option could either increase or decrease total appropriations depending on how the revised efficiency calculation is structured and whether it is used as a redistributive mechanism or tied to additional funding. Currently, the statutory "incentive factor" in the formula, a bus utilization ratio intended to reward efficient operations, has been set to 1.0 for all districts since the inception of SFRA, meaning it does not impact aid allocations. If this factor were activated, it could redistribute existing appropriations toward districts demonstrating higher seat utilization rates without necessarily increasing total state costs. However, the current calculation excludes contracted transportation services, which represent a significant share of district operations. Including all contracted routes in efficiency calculations could alter many districts' ratios and potentially require additional appropriations if the goal is to avoid penalizing districts that rely on contractors. Additionally, the report distinguishes between seat utilization efficiency and route efficiency, noting that "the calculation does not consider bus route efficiency, only seat utilization." Developing and implementing a more comprehensive efficiency measure that accounts for route optimization would require enhanced data collection capabilities currently being developed in the DRTRS system redevelopment, making it premature to estimate fiscal impacts until that data infrastructure is operational.

Option 3 (Add authority for the department to recommend changes through the EAR) is primarily a procedural and authorization change that would not have immediate fiscal impact in FY 2027. This option would amend N.J.S.A. 18A:7F-46 to include the transportation aid formula among the components that the department reviews and makes recommendations about every three years through the Educational Adequacy Report process. The December 2025 report notes this approach "would allow the department to utilize new data to be

## Discussion Points (Cont'd)

collected in the District Report of Transported Resident Students system for future analysis and recommendations" and "would allow time for the department to incorporate suggestions from the field regarding items that could be factored into the formula." Future fiscal impacts would depend on what specific changes the department recommends in subsequent EARs based on analysis of improved data. The main cost associated with this option would be staff time and analytical resources required to study transportation data and develop evidence-based recommendations, which could likely be accommodated within existing departmental capacity. This option represents the most flexible approach, as it would enable data-driven changes without requiring immediate legislation for each adjustment.

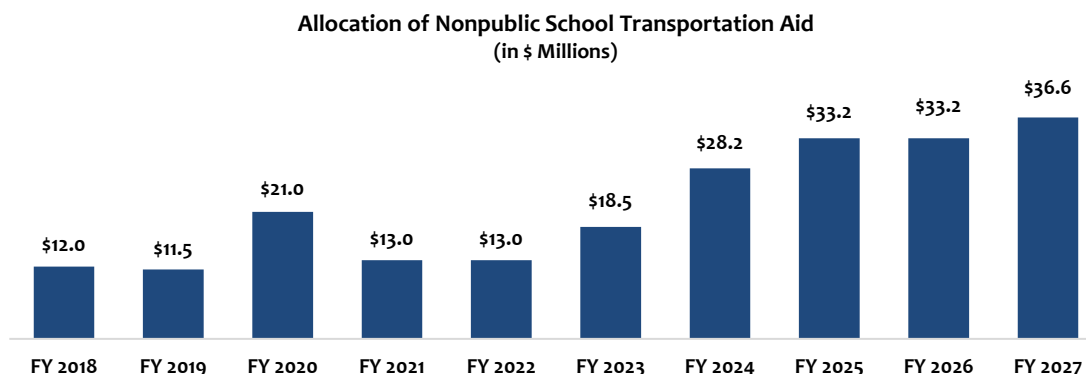
Option 4 (Provide additional aid for extraordinary transportation costs) would create an entirely new categorical aid program modeled after the existing extraordinary special education aid program, and its fiscal impact would depend on the eligibility thresholds and reimbursement percentages established. The December 2025 report provides a cautionary example from the extraordinary special education aid program, where the percentage of students qualifying for aid more than doubled from 4.4 percent when SFRA was enacted to 9.8 percent by FY 2026, while reimbursement rates were simultaneously cut in half from 84 percent to 52 percent, despite a \$20 million increase in appropriations. This occurred because the statutory thresholds were never adjusted for inflation, causing the program to grow beyond the appropriated funding levels. The report notes that "the average district per pupil special education cost used to calculate State school aid, \$38,984 in FY 2026, is approaching and will soon surpass the extraordinary excess cost threshold of \$40,000." If extraordinary transportation aid followed a similar pattern with fixed thresholds, initial costs could grow substantially over time. Districts currently spending significantly above average transportation costs per student could qualify immediately, while inflation would cause an increasing number of districts to exceed the threshold in subsequent years without corresponding appropriation increases. Establishing this program would require careful actuarial analysis to project costs over a multi-year period and develop sustainable thresholds that capture exceptional rather than routine high costs.

The department plans to study and address transportation aid formula changes as part of the comprehensive review of the formula. Transportation aid, as one of the four main categorical aid programs currently representing over \$500 million in annual state support, would necessarily be a significant component of any comprehensive formula modernization effort. Transportation has been identified as one of the main cost drivers increasing district budgets, and while the department will be reviewing the way transportation aid is calculated and allocated, it will also be doing a comprehensive review to recommend methods of cost containment in this area. The department will continue to work with the legislature to contain transportation costs and be responsive to related policy concerns.

9. Nonpublic school transportation costs represent a significant outlay for several school districts, which routinely raise concerns about the sufficiency of State aid for this purpose. Under current law, school districts are required to provide transportation services to students enrolled in nonpublic schools in the district if the student lives:
  - more than 2 miles from the school in the case of an elementary or middle school student or more than 2.5 miles from the school in the case of a high school student; and
  - less than 20 miles from the school.

## Discussion Points (Cont'd)

The annual appropriations act establishes a maximum per pupil amount that a school district is permitted to spend on transportation services for nonpublic school students (\$1,177 in FY 2026). If a contract exceeds that maximum, the amount is paid to the parent of the student instead. The State covers the difference between the maximum per pupil amount established in the annual appropriations act and \$710.



- Questions:** How can the department support districts in managing nonpublic school transportation costs? Does the department recommend any reforms to the requirements to provide transportation services to nonpublic school students or to the calculation of transportation aid for nonpublic school students? Is it possible for school districts to spend more than the maximum per pupil amount on transportation services for nonpublic school students? If so, under what circumstances?

The State absorbs the majority of the cost of nonpublic school transportation. In the proposed budget, districts will receive State transportation aid of \$578.38 per pupil, plus \$15.82 per mile between a student’s home and school for those nonpublic students that receive mandated busing similar to public school students. In addition, for those that receive aid in lieu of busing the State reimburses district transportation expenditures that exceed \$710 per pupil, up to the statutory maximum of \$1,177 per pupil. The department can support districts in managing these costs through several approaches: providing technical assistance on efficient routing and contracting practices; improving data collection and transparency to inform policy discussions; and working with the Legislature to consider policy modifications that better align mandated services with available funding while maintaining the state's commitment to supporting nonpublic school access.

Coordinated Transportation Service Agencies (CTSAs) exist for the specific purpose of coordinating routes among neighboring districts serving students who attend the same nonpublic schools can create economies of scale, particularly in regions with high concentrations of nonpublic school enrollment. Rather than each district operating separate routes to the same destination, districts could jointly contract for services, share vehicles and drivers, or arrange for one district to provide transportation on behalf of multiple districts with appropriate cost-sharing agreements. The department continues to assist in facilitating such arrangements by supporting regional discussions among districts with significant nonpublic school populations, providing model inter-district agreements that address liability,

## Discussion Points (Cont'd)

cost allocation, and operational responsibilities, and clarifying any legal or operational questions that might impede cooperation. Regional coordination is important in areas where nonpublic schools serve students from multiple districts, as independent routing by each district inherently creates inefficiencies.

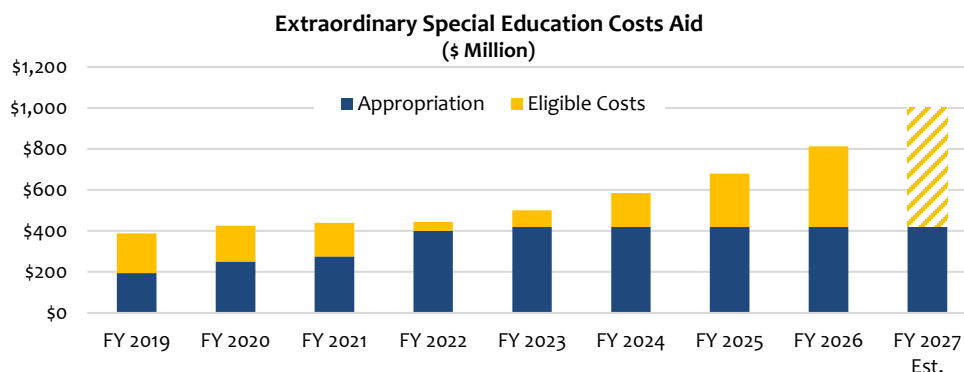
The department is not recommending reforms to the requirements for providing transportation services to nonpublic school students or to the calculation of transportation aid for nonpublic school students in the FY 2027 budget. The budget maintains the current statutory framework, continuing the existing distance requirements, the \$1,177 maximum per pupil spending cap, and the state reimbursement structure covering the difference between \$710 and the per pupil cap.

School districts generally cannot spend more than the maximum per pupil amount on transportation services for nonpublic school students. The per pupil cap is established annually in the appropriations act, \$1,177 in both FY 2026 and FY 2027. When the cost of transporting a nonpublic school student exceeds the maximum, the parent or guardian is eligible to receive aid-in-lieu of transportation in an amount equal to the statutory maximum. There are instances where districts may spend more than this limit if the projected number of students riding a route changes throughout the year, increasing the cost to over \$1,177 per pupil.

10. The “School Funding Reform Act of 2008” obligates the State to reimburse districts for a percentage of eligible extraordinary special education costs above amounts that are not adjusted for inflation. Eligible costs include any costs in excess of:
- \$40,000 for special education students integrated into a classroom with peers, to be reimbursed at a rate of 90 percent;
  - \$40,000 for special education students educated in separate public school programs, to be reimbursed at a rate of 75 percent; and
  - \$55,000 for tuition costs for special education students at approved private schools for students with disabilities, to be reimbursed at a rate of 75 percent.

However, in the past several years, the annual appropriations acts have underfunded extraordinary special education aid relative to the requirements in State law. While extraordinary special education aid has remained funded at \$420.0 million annually since FY 2023, costs have risen significantly, with the result being that the appropriation has funded less of the eligible costs in each year. The FY 2027 Governor’s Budget recommends maintaining the funding level at \$420.0 million.

## Discussion Points (Cont'd)



In a report examining school funding policies published by the department in December 2025, the department noted that average per pupil special education costs rose from \$19,519 in FY 2009 to an estimated \$38,984 in FY 2026 and expressed concerns that average costs would soon exceed the \$40,000 threshold for reimbursement of extraordinary special education costs. Adjusted for inflation, the average per pupil special education cost could be \$40,387 in FY 2027. In response, in the December 2025 report, the department presented the possibility of increasing the reimbursement thresholds, either all at once or gradually, to levels that are more consistent with the law’s original intent.

- Questions:** Are special education costs increasing at a rate that is commensurate with other education costs? If not, what factors can be identified as uniquely affecting special education costs?

No, special education costs are not increasing at a rate commensurate with other education costs; they are escalating significantly faster. Average per pupil special education costs rose from \$19,519 in FY 2009 to an estimated \$38,984 in FY 2026, representing an approximate doubling of costs over the 17-year period. When adjusted for inflation to FY 2027, average per pupil special education costs could reach \$40,387.

Several factors have been identified driving this disproportionate growth. Specialized personnel costs represent a significant driver, as special education requires staff with advanced credentials and expertise, including special education teachers with subject-specific certifications, speech-language pathologists, occupational therapists, physical therapists, behavioral specialists, applied behavior analysts, and school psychologists, who may command higher compensation than general education teachers and face similar workforce shortages that drive wages upward. These positions must be maintained at lower student-to-staff ratios than general education, meaning personnel cost increases are magnified when distributed across fewer students. Related therapeutic services mandated by students' Individualized Education Programs (IEPs) add costs with no general education equivalent, and if the average intensity or duration of required services has increased due to changing clinical standards or more complex student needs, per-pupil costs rise accordingly.

Private school tuition escalation represents another cost driver unique to special education. When districts cannot appropriately serve students in district programs and must place them in approved private schools for students with disabilities (APSSDs), they face tuition rates that have increased from a median of \$48,190 to \$87,049, substantially exceeding inflation. All but one APSSD now charges tuition above the \$55,000 extraordinary aid threshold that was

## Discussion Points (Cont'd)

originally intended to capture exceptional costs. These schools serve student populations with the most significant needs requiring highly specialized staff, very low student-to-staff ratios, specialized facilities and therapeutic resources, and limited enrollment sizes preventing economies of scale.

Additionally, assistive technology and specialized equipment costs, compliance and administrative expenses unique to special education, litigation and due process costs, and evolving standards emphasizing inclusion, early intensive intervention, and comprehensive transition services all contribute to cost growth without comparable expense categories in general education.

Special Education services is another area which could benefit from regionalization and shared services efforts which may both lower costs and deliver high quality instruction to students. While comprehensive cost decomposition analysis is needed to quantify each factor's relative contribution, the available evidence clearly demonstrates that special education costs are increasing substantially faster than general education costs due to multiple drivers unique to serving students with disabilities.

- **What consideration was given to increasing the extraordinary special education aid thresholds in FY 2027? Has the department identified potential new thresholds? Does the department intend to work toward changes to extraordinary special education aid in FY 2028?**

The department has committed to examining extraordinary aid as part of broader special education funding review rather than addressing it in isolation. The December 2025 report stated that "the 2026 EAR...committed to further reviewing changes in special education expenditures since the inception of the SFRA" and recommended comprehensive analysis of "the SFRA's methodology for allocating Special Education funding," recognizing that extraordinary aid thresholds interact with base special education aid calculations, classification rates, service delivery models, and overall adequacy budget determinations. Making threshold adjustments before completing this examination risks creating unintended consequences or misalignments with other formula components. The Administration is committed to initiating statewide conversations to modernize the school funding formula.

### School District Financial Health

11. In response to a FY 2026 OLS Discussion Point, the department stated that it provides oversight of a school district's budget on an annual basis, including "robust" technical assistance, mid-year budget reviews, and budget development and approval provided by Executive County Business Officials, Executive County Superintendents, and leaders in the department's Division of Finance. Additionally, school districts are evaluated under the New Jersey Quality Single Accountability Continuum, which includes an assessment of fiscal management.

In FY 2025, at least four districts were reported as projecting year-end deficits during the year. In FY 2026, the number of districts projecting year-end deficits has grown, based on news reports. On average, the deficits appear to account for about 8.8 percent of the total budget, but in some cases,

## Discussion Points (Cont'd)

the projected deficit amounts to nearly 20 percent of the district's total budget. Deficits can result in employee layoffs, school closures, building sales, loan requests, and appeals to voters for additional funds.

The FY 2027 Governor's Budget includes a new appropriation of \$400,000 for School District Accountability Monitors, while the Budget in Brief indicates that the Governor is proposing an increase in department resources dedicated to oversight, technical assistance, and early detection of financial distress.

- **Questions:** At what point in the school budget review and approval process are State financial oversight measures failing to prevent districts from incurring significant deficits? How will the additional resources proposed by the Governor build on existing department resources to provide more robust oversight of school district finances and improved response to projected deficits?

State financial oversight currently faces challenges at multiple points in the budget review and approval process, though characterizing these as "failures" may oversimplify the complex logistical, informational, and structural factors that limit the State's ability to prevent districts from experiencing fiscal distress. The most significant challenge occurs at the budget development and initial approval stage, where districts must finalize budgets based on projected revenues and expenditures before the fiscal year begins, often with incomplete or uncertain information about critical variables including negotiated salary settlements, health benefit costs, and special education placements. After the start of the fiscal year, school districts are required to submit their Board Secretary's report and then twice annually to the county superintendent's office for December and June. The Board Secretary's report shows the revenues, original budget, transfers, encumbrances, and expenditures for each major line item in the budget that occur throughout the year after the budget is adopted. As with all financial data, this relies on the presupposition that all transactions are recorded properly and in accordance with generally accepted accounting principles. If, for instance, liabilities of the district aren't recorded it may not become apparent during this review.

Further, school districts are very human capital-intensive organizations and consequently most of all budgets are for salary and benefits. When submitting a budget, a school district is required to submit a position control roster that ties to the line-item budget. This position control roster balances with the budget at that point in time and must be managed throughout the year by the administration and board for movement in positions. This being the case, if an unbudgeted position is recommended for hire by the superintendent and subsequently approved by the board of education, it would not appear in the department's review of the district.

The mid-year monitoring period presents additional challenges where early warning signs may not trigger timely interventions. While the department conducts mid-year budget reviews and Executive County Business Officials provide ongoing oversight, districts experiencing emerging fiscal stress may not report problems promptly, may underestimate the severity of developing issues, or may believe they can address shortfalls through internal adjustments

## Discussion Points (Cont'd)

without state intervention. By the time deficits become apparent, often when preliminary audit data is reviewed or when districts acknowledge they cannot meet payroll or vendor obligations, the fiscal year may be substantially complete, limiting available remediation options. Districts facing deficits in the 8-20 percent range described in the question have likely experienced multiple compounding factors throughout the year which can also include special education costs exceeding budget assumptions, salary settlements or benefit cost increases surpassing budgeted amounts, or unanticipated expenses from facilities emergencies, legal settlements, or other contingencies. Current oversight mechanisms may identify that these pressures are accumulating, but if the district has exhausted available flexibility, state technical assistance cannot create resources that don't exist.

Enhanced monitoring capacity and earlier detection of fiscal distress are needed. The Governor's proposed budget includes increasing DOE resources dedicated to oversight, technical assistance, and early detection of financial distress to help ensure that education funding is used effectively and that districts remain financially stable. Current oversight, while including appropriate components, lacks sufficient capacity to identify and respond to some of the emerging problems seen recently before they become severe. Additional monitors and analysts would enable more frequent district reviews, more sophisticated analysis of financial indicators suggesting developing stress, and more intensive technical assistance to districts showing warning signs. However, even enhanced monitoring cannot fully prevent deficits when districts face structural challenges. Addressing underlying fiscal imbalances will likely require cost containment efforts that extend beyond monitoring and technical assistance alone. As the department continues to build its capacity in this area, it will focus on identifying and developing cost containment strategies in major expenditure categories such as transportation and special education, while also improving its ability to identify and assess other emerging cost drivers affecting district budgets.

### **Further Steps to Preventing Deficits**

Enhanced predictive analytics and early warning systems would strengthen the department's ability to identify districts at risk of fiscal distress before budgets are adopted. With integrated data on districts' historical expenditure patterns, enrollment trends, special education costs, negotiated salary agreements, and other key variables, the department could develop risk models that flag districts whose proposed budgets rely on overly optimistic assumptions, underestimate likely costs, or project insufficient fund balance to absorb normal variance. These models could identify specific risk factors such as enrollment projections inconsistent with demographic trends or recent patterns; special education cost budgets below historical averages without explanation for anticipated reductions; salary and benefit projections that don't account for known contractual obligations or step increases; or proposed budgets that would deplete fund balance below prudent reserve levels. While this enhanced capacity will enable earlier identification of such structural problems and could facilitate state policy responses, it is not a substitute for addressing the underlying causes of fiscal imbalance. Early identification would enable the department to engage districts in budget modification discussions before adoption rather than discovering problems mid-year when correction options are limited.

## Discussion Points (Cont'd)

Increased monitoring intensity and technical assistance capacity enabled by FY 2027 appropriations could allow engagement with a university partner to create these types of analytical systems. Further the department is engaged with stakeholders in identifying ways to improve training and professional development for district business officials, superintendents, and boards of education to strengthen local capacity for sound fiscal management. Many districts experiencing deficits may lack sophisticated financial management expertise, particularly those with limited administrative staff or districts where business official positions have experienced turnover. Enhanced training would be particularly valuable for newly appointed business officials and board members who may not fully understand the complexities of school finance when making budget decisions.

12. Under current regulations, when a district identifies a projected year-end general fund deficit, the district must report the deficit to the executive county superintendent within two days, identify the main causes of the deficit, and develop a corrective action plan within 30 days.

- **Questions: What are the causes most frequently identified as causing mid-year deficits? To what extent are these causes isolated, single-year issues versus long-term situations?**

Several key causes of mid-year deficits emerge as patterns across multiple districts. These issues typically stem from a combination of accounting failures, weak oversight, and unsustainable financial practices rather than external funding reductions.

One of the most frequently identified problems is the failure to properly accrue and record expenditures throughout the fiscal year. Districts that fail to properly encumber or otherwise record expenditures in a timely manner can face mid-year deficits. This is especially true of higher spend areas including salary, health benefits, utility expenditures, TPAF and FICA reimbursement deficits, and other accruals that go unrecorded which creates significant gaps between actual financial status and what appears in the books. Another theme that has emerged in some districts facing major budget deficits is the hiring and/or maintenance of unbudgeted staff.

Inadequate budget monitoring and insufficient internal controls contribute to the cause of major deficits. This can include a district failing to consistently monitor budget-to-actual expenditure, allowing overspending to continue unchecked. Requisitions that are not properly encumbered can lead to insufficient funds in accounts. Districts that face deficits have also struggled with unapproved budget transfers, revenues and expenditures entered in the wrong line items or accounting periods, and encumbrances that do not reconcile to subsidiary ledgers, all of which obscure the true financial picture.

Unsustainable budgeting practices further create structural problems that lead to recurring deficits. This has been true in cases of districts using surplus funds and one-time revenues to support ongoing operating costs, creating an unsustainable pattern that eventually depletes reserves. Overreliance on one-time revenues and overestimating available surplus when preparing budgets are practices that may mask underlying financial problems.

## Discussion Points (Cont'd)

Financial systems and procedures themselves often prove inadequate to support sound fiscal management. Some districts operate with non-functioning or inadequate financial reporting systems, relying heavily on manual journal entries and year-end adjustments rather than maintaining ongoing accurate accounting. Bank reconciliations are sometimes incomplete or inaccurate, further compromising the reliability of financial data.

The common thread throughout these cases is that deficits typically result from structural imbalances combined with weak financial controls.

### **Isolated Issues vs. Long Term Structural Issues**

Most of the identified causes of mid-year deficits represent long-term, structural problems rather than isolated, single-year issues. The nature and pattern of these deficits indicate systemic failures in financial management rather than one-time events or temporary difficulties.

The most clearly systemic problems are those related to inadequate budget monitoring and internal controls. When districts have unencumbered requisitions, fail to reconcile encumbrances to subsidiary ledgers, or consistently post revenues and expenditures in the wrong line items or accounting periods, these represent fundamental breakdowns in financial procedures that develop over time. Such widespread control failures don't occur suddenly in a single year; they reflect long-standing gaps in staffing, training, systems, or organizational priorities.

Similarly, unsustainable budgeting practices are inherently multi-year problems. The practice of using surplus funds and one-time revenues to support recurring operating costs creates a structural imbalance that worsens each year. As surplus is depleted and one-time revenues disappear, the gap between revenues and expenses grows. Overreliance on extraordinary aid to balance base budgets represents the same pattern, using temporary resources to fund permanent costs. These practices may take several years before manifesting as a crisis, but the underlying problem is long-term and structural.

Inadequate financial systems and procedures clearly represent long-term deficiencies. Non-functioning financial reporting systems, reliance on manual journal entries, and incomplete bank reconciliations don't emerge overnight. These issues indicate years of underinvestment in technology, insufficient staffing of business offices, or inadequate attention to establishing proper accounting protocols. The fact that some districts resort to extensive manual adjustments at year-end rather than maintaining accurate books throughout the year demonstrates deeply embedded procedural failures.

The depletion of reserves typically results from multi-year patterns rather than single-year events. Reserves are depleted gradually as districts consistently draw down funds without replenishing them, often while simultaneously failing to adequately budget for the costs those reserves were meant to cover. This pattern reflects years of structural imbalance between revenues and expenditures.

## Discussion Points (Cont'd)

The deficits that emerge mid-year are typically the visible manifestation of problems that have been building over time, finally reaching a point where they can no longer be masked by one-time revenues, surplus funds, or accounting manipulations.

### **Causes of Mid-Year Deficits**

The most significant causes of mid-year deficits are unmistakably the result of district-level decisions and practices. The failure to properly accrue and record expenditures throughout the fiscal year represents a fundamental failure of internal accounting procedures and management oversight. When months of health benefits, utilities, or other routine expenditures go unrecorded, this reflects decisions about staffing, training, prioritization, and supervision of the business office—all matters entirely within district control.

Inadequate budget monitoring and internal controls similarly represent management choices. The decision to not monitor budget-to-actual expenditure, to allow hundreds of requisitions to proceed without proper encumbrance, to permit unapproved budget transfers, or to fail to reconcile encumbrances to subsidiary ledgers all reflect district priorities and management practices. These are not external impositions but rather internal failures of oversight and accountability.

Unsustainable budgeting practices represent perhaps the clearest example of district-level decision-making creating deficit conditions. The choice to use surplus funds and one-time revenues to support recurring operating costs is a deliberate budgeting strategy, even if its long-term consequences are ignored or misunderstood. Districts choose to overestimate available surplus when budgeting and choose to rely on extraordinary aid to balance base budgets rather than making structural adjustments to align recurring revenues with recurring expenditures. These are strategic decisions made by district leadership and boards of education.

The failure to implement planned staff reductions is entirely within district control. When reductions are budgeted but then reversed through transfers back into salary accounts, this represents a conscious decision to maintain staffing levels despite having budgeted for cuts.

Inadequate financial systems and procedures reflect long-term decisions about investment in technology, business office staffing and training, and establishment of proper accounting protocols. While resource constraints may play a role, the failure to maintain accurate bank reconciliations, the reliance on manual journal entries and year-end adjustments, and the operation of non-functioning financial reporting systems all indicate insufficient attention to establishing and maintaining basic financial controls.

Grant management failures, including overspending of time-limited federal grants and inadequate tracking of expenditures, represent district-level implementation and oversight issues. While grant terms and requirements are externally imposed, the management of those funds and compliance with spending restrictions are entirely within district control.

## Discussion Points (Cont'd)

Some causes of mid-year deficits do have external elements. Special education tuition and out-of-district placement costs are often cited as budget pressures. These are not optional expenditures and are tied to federal and state special education mandates requiring certain services, and students and their families have legal rights to appropriate placements. While individual placements may be unpredictable, overall special education enrollment trends and cost patterns are generally knowable.

Health insurance costs can and do increase due to factors external to a school districts control and have been an area of continued significant increase. This may be affected by market factors and districts' own claims experience. Utility costs can fluctuate based on external market conditions and weather patterns.

The preponderance of evidence indicates that mid-year deficits result primarily from district-level decision-making and management failures. The causes most frequently identified are internal matters: accounting failures, inadequate controls, unsustainable budgeting strategies, and inadequate systems and procedures. Even where external factors create cost pressures, districts maintain control over how they budget for those costs, how they monitor expenditures, and whether they implement structural adjustments when recurring costs exceed recurring revenues.

- **How many districts have identified projected year-end general fund deficits to date for the current fiscal year? Have all the districts implemented corrective action plans as required? What steps will the department take to help ensure long-term financial stability for these districts?**

To date there are three districts that have been in contact with the department to communicate a projected year-end general fund deficit. Pursuant to N.J.A.C. 6A:23A-16.10(b) a board of education shall notify the county superintendent within two working days if they incur or project a year end deficit. Within 30 days of the discovery of the deficit, a board of education must develop a corrective action plan to correct the discovery of a deficit. District administration and a board of education that identifies a potential deficit may take immediate remedial action to obviate the potential deficit condition, thereby eliminating the need for department notification or intervention. When these mid-year deficits became known the department immediately engaged with the districts to formulate corrective action plans to alleviate the deficits within 30 days of its discovery. Immediate financial help may come from the Department in the form of receiving the entire fiscal year's state aid allocation in advance rather than on a typical monthly payment schedule. Those districts that have been identified as having mid-year deficits continually interact with the department to monitor progress toward year end and the formulation of the FY 2027 budget. Going forward the department continues to provide technical assistance to these districts to help ensure long-term financial stability. As of this date, based on information and belief of the Department, the districts have represented that they have taken corrective action to no longer have projected deficits by 6/30/26. All districts are subject to annual audit by external auditors appointed by the Board and the final audited results of operations for the year will become known when the final audits are submitted.

## Discussion Points (Cont'd)

13. The State can place a fiscal monitor in a school district to provide direct oversight of a board of education’s business operations and personnel matters if the district receives an adverse opinion or a disclaimer of opinion in its annual independent audit, or if the district meets certain other criteria related to inefficient financial management. A fiscal monitor is also required if the district receives an advance State aid payment.

- Questions:** In each of the last ten years, how many districts have had a State fiscal monitor? Has a fiscal monitor been placed in every district that has met the criteria allowing for such placement? How does the department measure the success of a fiscal monitor’s placement? What criteria does the department consider when reviewing a school district’s request for advance State aid payments? What conditions must be met for the department to agree with the request?

Number of Districts with Monitors For The Past 10 Years	
Data is as of June 30 of the Applicable Year	
Year	Number of Monitor Districts
2025	7
2024	9
2023	10
2022	9
2021	9
2020	11
2019	10
2018	10
2017	11
2016	12

Several factors explain and justify this selective application of monitor authority. Numerous districts meet at least some of the statutory criteria without having monitors appointed. Only seven districts currently have monitors assigned, with nine individual monitors serving those districts.

The department assesses severity when determining whether monitor placement is warranted. The statutory criteria range from relatively technical issues (such as late audit submission) to severe fiscal crises (such as adverse audit opinions or actual fund deficits). A district that meets criteria due to submitting its audit a few weeks late presents a very different situation than a district with a multi-million-dollar deficit and material weaknesses in internal controls. The Commissioner's discretionary authority allows for tailoring the intervention to the severity of the problem.

Monitors are typically appointed due to fiscal management concerns or as a condition tied to receiving a State Aid Advance. Monitor placement is reserved for situations where fundamental governance failures exist or where the State has a significant financial stake through loan provision. Districts meeting technical criteria but without these deeper systemic issues may be addressed through other means such as technical assistance, corrective action

## Discussion Points (Cont'd)

plans, increased reporting requirements, or fiscal agent designation short of full monitor appointment.

Monitor placement represents a significant intrusion on local governance and democratic control. Monitors can override the elected board of education, control all personnel decisions, and manage the entire budget. This level of state intervention should be reserved for situations where local governance has demonstrably failed, and less restrictive alternatives have been exhausted or are clearly inadequate. The principle of preserving local control wherever possible justifies exercising discretion to not place monitors in every district technically meeting criteria, instead reserving this intervention for situations where it is truly necessary.

A district that meets criteria but immediately develops and implements an acceptable corrective action plan to resolve issues may not require monitor oversight. The permissive statutory language, practical resource constraints, severity variations across districts meeting criteria, availability of alternative interventions, and the importance of preserving local control all justify selective rather than automatic monitor placement. The current practice of maintaining only seven monitored districts suggests a thoughtful, strategic approach that reserves the most intensive intervention for situations of greatest need and risk. This approach allows the department to maximize impact with limited resources while providing districts opportunities to address deficiencies without the significant financial and governance costs associated with monitor placement.

### **Measuring Success**

A State monitor remains in place until the Commissioner determines that all remedial actions required under the plan have been implemented, the necessary local capacity and fiscal controls have been restored to school district operations, and any state aid advance is repaid. This establishes two fundamental success measures. First, the monitor must ensure development and implementation of an acceptable plan to address the circumstances that triggered the monitor appointment, with the enabling statute specifying that the plan shall include measurable benchmarks and specific activities to address the deficiencies of the school district. Second, the district must demonstrate that it has rebuilt the internal systems, procedures, and capacity to manage its own operations without state oversight.

Monitors report weekly to the department, providing regular updates on progress. Additionally, monitors report monthly to the board of education and members of the public at regularly scheduled board meetings, and they must meet with the board on at least a quarterly basis to discuss the past actions that led to monitor appointment and to provide board members with education and training that address identified deficiencies.

### **Criteria for State Aid Payments**

When reviewing a school district's request for advance State aid payments, the department conducts a case-specific assessment focused on the immediacy of the district's cash-flow needs and the fiscal circumstances that gave rise to the request. The department examines whether the district faces a near-term inability to meet payroll or other essential operating obligations, the extent to which the shortfall reflects timing differences in revenue receipts versus more structural budget challenges, and the district's overall financial management

## Discussion Points (Cont'd)

practices, including audit history, internal controls, and compliance with reporting requirements. The department also considers whether the district has taken reasonable steps to mitigate the shortfall, such as budget adjustments, expenditure controls, use of available fund balance, or development of a corrective action plan, as well as the district's prior use of extraordinary State fiscal assistance and its record of repayment.

Approval of an advance State aid request is discretionary and conditioned on the department's determination that the request addresses a temporary cash-flow issue and that future revenues are sufficient to support repayment without creating additional fiscal instability. If an advance is approved, the district is required to provide updated financial information and cash-flow projections acceptable to the department, agree to repayment terms through offset of future State aid payments, and comply with any enhanced monitoring or reporting requirements deemed necessary. Advance State aid is intended as a limited, short-term intervention to maintain continuity of operations and is not a substitute for addressing underlying fiscal or governance challenges. The repayment term cannot exceed ten years, though the State Treasurer may set a shorter term.

14. In January 2026, the department announced the initiation of a State intervention in Lakewood Township School District after a prolonged legal battle over school funding and \$295.1 million in loans from the State to the school district between FY 2015 and FY 2025. Lakewood, however, has indicated its intention to fight the State intervention in court.

According to the State Intervention Plan for the school district, the intervention would involve:

- appointment of a State district superintendent;
  - appointment of highly skilled professionals in the areas of Governance and Legal Compliance, Special Education, Transportation and Operations, Fiscal Management, and Nonpublic Student Services;
  - appoint other district leadership positions;
  - allowing the current board of education to continue in an advisory capacity, with the addition of up to three new members appointed by the department; and
  - development of an improvement plan to address areas of deficiency and limited capacity.
- **Questions:** What is the status of the State takeover of Lakewood Township School District? What is the anticipated timeline of achieving the department's goals outlined in the State Intervention Plan? What are the ramifications if the State intervention is not successful?

The department has filed an Order to Show Cause calling on the Lakewood Public School District to demonstrate why the State should not initiate a full State intervention of the district, pursuant to N.J.S.A. 18A:4-23, N.J.S.A. 18A:7A-15, N.J.A.C. 6A:3-3.1, N.J.A.C. 6A:30-6.6, and N.J. Const. art. VIII, § 4, ¶ 1. The district filed an Answer to the Order to Show Cause on March 5, 2026, and the matter was transmitted to the Office of Administrative Law for a contested hearing.

## Discussion Points (Cont'd)

Beyond those procedural details, the department cannot comment on this matter as it is pending litigation. However, the Order to Show Cause and other relevant items are available for review on the department's website at the following link:

<https://www.nj.gov/education/news/2026/NJDOEInitiatesStateTakeoverOfLakewoodTownshipSchoolDistrict.pdf>

15. Under current law, school districts and local governments are permitted to join together to form health insurance funds to provide health benefits to their employees with the objective of lowering costs and increasing efficiency by combining resources and managing insurance collectively. There are currently 10 health insurance funds, of which approximately 142 school districts are a part.

In September 2025, the Office of the State Comptroller released a report regarding issues with three health insurance funds in which proposed contracts from the health insurance funds were found to involve violations of public contracting laws, improper efforts to steer contracts to preferred vendors, undisclosed conflicts of interest, and the use of a fake public entity to attract business.

- **Questions:** Does the department view health insurance funds as an effective way to lower costs for school districts? Does the department provide school districts with any guidance or assistance regarding the use of health insurance funds? If so, has the report issued by the Office of the State Comptroller changed the guidance offered to school districts?

The Department views any shared services or collaborative opportunity as an effective way to lower costs for school district, health insurance funds (HIFs) included. HIFs create a shared risk pool for districts with the intent of lowering the overall cost of health benefits. Eligibility for HIFs often rely on a district's own claims experience loss ratio and thus not all school districts are able to become members of these funds.

The department does not provide school districts with any guidance or assistance specific to the use of HIFs. HIFs authorizing statutes reside in Title 40A and are governed by the Department of Banking and Insurance and Department of Community Affairs.

16. School district consolidation has long been viewed as a pathway to lower operating costs and property tax bills. Accordingly, the State has supported school districts wishing to merge. Since FY 2023, the annual appropriations act has included funding through the Department of Community Affairs for Regional School District Consolidation Feasibility Studies. Additionally, P.L.2018, c.67 incentivized regionalization studies by providing an altered schedule for State aid reductions for any district that conducted a regionalization study and created or joined a regional school district within two years.

- **Questions:** Please list all school district consolidations that have occurred in the last ten years. What has been the level of interest in merging with other districts that school districts have manifested to the department? Are school districts eager to merge as a measure of long-term cost control?

## Discussion Points (Cont'd)

In the last ten years, there have been two school district consolidations that were successfully approved by the voters. In 2024, the communities of Highlands and Atlantic Highlands formed the Henry Hudson Regional School District serving grades PK-12. Prior to the merger, both towns operated their own K-6 school districts while the Henry Hudson Regional High School District served students in grades 7-12. In March 2026, the voters of Stow Creek School District and Greenwich Township School districts approved consolidation into a PK-8 regional school district, although this has not yet been implemented.

The Department regularly communicates with school districts through its Field Services division and Executive County Superintendent offices regarding school consolidation. With many districts across the state navigating rising costs, some have explored or expressed interest in consolidation as a potential option. The Department continues to work with the Department of Community Affairs (DCA) to support districts in consolidation through the School Regionalization Efficiency Program (SREP) which funds feasibility studies for school districts. According to DCA, 14 grants have been issued in the last three years.

- **To what extent have school districts been able to realize cost savings through consolidation? What have been the main sources of the cost savings? How do consolidations affect labor costs when school districts with different pay scales merge? Are the pay scales of the district with lower compensation levels typically increased over a small number of years to match those of the higher-paying merging district to avoid intra-district compensation imbalances?**

Given the lack of successful consolidation efforts in recent years in New Jersey, the Department does not have sufficient data to draw conclusions on sources of cost-savings. Generally speaking, differences in pay scales across school districts is one factor that must be considered. The manner in which pay scales would be aligned would be case-by-case and would have an impact on potential cost savings.

- **What are the characteristics of school districts that have the largest potential to achieve measurable cost savings through consolidation? Does the potential for consolidation-related efficiencies diminish as the size of involved school districts increases?**

The potential for cost savings through consolidation varies case-by-case. Cost savings is dependent on a number of factors including salary guides, property values, enrollment, debt service, transportation needs, and more. The interplay of these different factors make it difficult to offer generalizations on the type of district likely to achieve cost savings. Successful consolidation requires careful planning, stakeholder engagement, and deep analysis about both costs and benefits.

### Student Support Programs

17. P.L.2024, c.52 requires school districts to biannually conduct literacy screenings of all students in grades kindergarten through three and provide necessary assistance beginning in the 2025-2026 school year. Previous appropriations for Literacy Initiatives have been used to provide grants for school districts to implement universal literacy screeners.

## Discussion Points (Cont'd)

- **Questions:** To date, have all school districts implemented literacy screening as required? Has the department received any data regarding the results of the literacy screenings? What conclusions can be drawn from the data?

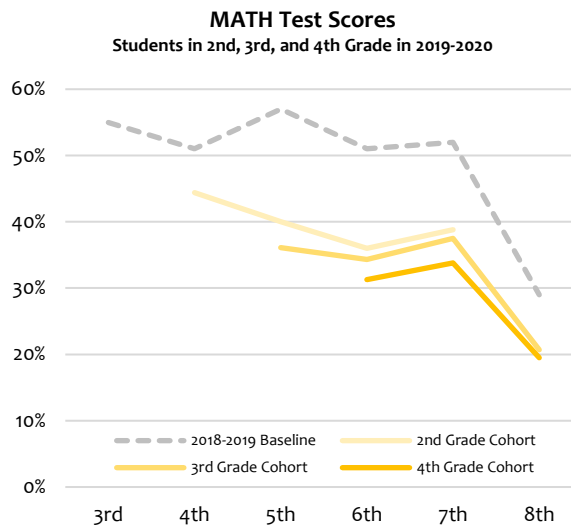
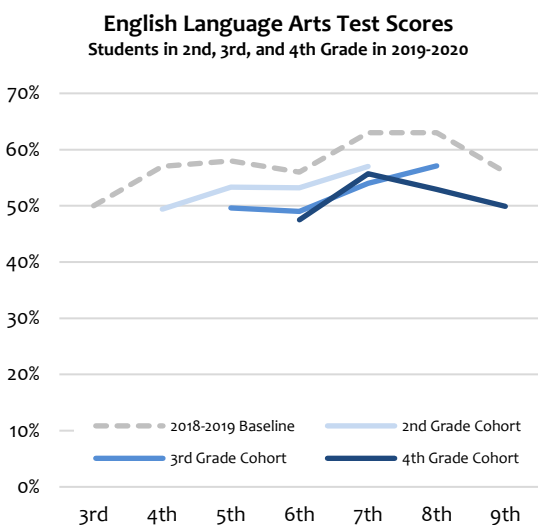
School districts have largely implemented literacy screening as required, with 76 percent of LEAs using approved screeners. The department has received data regarding both screener usage and student performance, which is displayed through the NJDOE Literacy Screening Dashboard. The data shows that 71 percent of LEAs are utilizing either DIBELS 8 (45 percent) or iReady (26 percent) as their primary screening tools, with smaller percentages using other approved assessments including STAR Assessments, Acadience, MAP Assessments, and AimsWeb Plus. However, implementation is not yet universal: 26 percent of LEAs submitted information about using non-approved screeners, and 7 percent have not submitted screening information at all. Requiring the department to contact LEAs directly to reinforce with them the legal requirements and failure to comply will lead to negative consequences during QSAC monitoring. Initial reporting indicates improvements in the mid-year screening window, as a result of the communications to the field.

The screening data establishes New Jersey's baseline for literacy intervention, measuring students across five domains depending on grade level: letter naming fluency and phonemic awareness in kindergarten; phonics and decoding skills in kindergarten through grade 3; oral reading fluency in grades 1 through 4 and beyond; and comprehension in grades 2 and beyond. This baseline data enables the department to identify where targeted support is most needed and to track progress over time as districts implement evidence-based structured literacy practices. The data reinforces the urgency of the literacy priority, as research indicates that 95 percent of students can achieve reading proficiency with high-quality, evidence-based instruction, yet New Jersey currently sees only 45 percent of third graders reading on grade level.

The department is using this data to inform multiple support systems for districts, including screening analysis workbooks to help interpret results, intervention planning templates to guide tiered support, professional learning through LEARning About Literacy courses, and comprehensive implementation guidance. The transparency provided through the dashboard allows the department to identify districts that may need additional technical assistance in implementing screening requirements or selecting appropriate approved tools, while also enabling stakeholders to understand statewide patterns in literacy screening implementation and student performance.

18. While test scores show improvement in each cohort of students since the COVID-19 pandemic, students who were in grades two, three, and four at the onset of the COVID-19 pandemic have not yet shown substantial and sustained improvement.

## Discussion Points (Cont'd)



- Questions:** What academic interventions are available for students who were in grades two, three, and four at the onset of the COVID-19 pandemic? How can school districts support these students and ensure that they are college- or career-ready by the time they graduate from high school?

Students who were in grades two, three, and four at the onset of the COVID-19 represent a critical cohort requiring sustained support to ensure college and career readiness by graduation. The department has prioritized several interventions available to districts to address persistent academic gaps exacerbated by the pandemic. High-impact tutoring remains the cornerstone intervention, with the Governor proposing to double the High-Impact Tutoring appropriations from \$7.5 million to \$15.0 million in FY 2027. While the program prioritizes students in grades 3-8 not yet meeting grade-level expectations in English Language Arts or Mathematics, its proven effectiveness makes it a scalable intervention for older students still experiencing learning gaps.

The department's literacy focus extends beyond early elementary grades to address foundational reading skills that some older students may still lack. Universal literacy screening requirements and structured literacy implementation provide frameworks for identifying older students with reading difficulties and delivering appropriate intervention, recognizing that reading proficiency is foundational to success across all content areas and post-secondary pathways. Districts are supported through screening analysis workbooks, intervention planning templates, professional learning opportunities, and technical assistance to implement tiered intervention systems that can serve students across grade levels.

The department emphasizes that ensuring college and career readiness for this cohort requires sustained, multi-year focus rather than short-term interventions. Districts should prioritize early warning systems that identify students falling behind on graduation requirements or post-secondary benchmarks, intensive support in foundational literacy and numeracy skills that underpin all content learning, clear pathways to both two-year and four-year post-secondary options including career and technical education programs, and

## Discussion Points (Cont'd)

partnerships with community organizations that can provide wraparound support and mentoring. The department is committed to providing technical assistance to districts in designing comprehensive support systems for this cohort, monitoring their progress toward graduation and post-secondary readiness, and advocating for sustained state investment in interventions that have proven effective in addressing pandemic-related learning loss.

### Federal Funds

19. Over the past year, the federal government has implemented many changes that affect the department and local schools, including withholding funding for certain educational programs; discontinuing support for diversity, equity and inclusion initiatives; and reallocating portions of the federal Department of Education to other federal agencies.

The New Jersey Department of Education has worked closely with the federal Department of Education in the administration of several key programs that support education in New Jersey as a whole, disadvantaged students, and students pursuing career and technical education. The federal-state partnership includes the disbursement of significant funds by the federal Department of Education to New Jersey for State and local use. In FY 2027, for example, the federal government is expected to contribute \$1.1 billion to the budget of the New Jersey Department of Education, or 5.0 percent of the New Jersey department's projected FY 2027 resources of \$23.0 billion.

- **Questions:** Please provide an overview of the effects that changes in federal education policy have had on the department and school districts.

Changes in federal education policy have required department time and resources to navigate uncertainty and protect New Jersey's interests, though the practical impact on funding and program operations has been mitigated due to successful litigation and stakeholder advocacy. The State has challenged several federal actions in court, including the U.S. Department of Education's reduction in force of 1,300 employees, cancellation of extended time previously granted districts to spend down COVID relief funds, and attempts to condition continued funding on compliance with new interpretations of federal civil rights rules. New Jersey has prevailed in several high-profile cases. As a result of litigation challenging the abrupt cancellation of liquidation extensions, New Jersey received its full reimbursement request of almost \$80 million in Elementary and Secondary School Emergency Relief (ESSER) funding approved for extended liquidation on behalf of 21 impacted school districts. Additionally, multistate litigation resulted in the release of approximately \$145 million to New Jersey in Title I-C, II-A, IV-A, and IV-B funding. The settlement of Title VI litigation in February 2026 removed conditions the federal government had attempted to place on receiving federal funds based on its new interpretation of civil rights compliance requirements.

Beyond litigation, the department has monitored developments including the Trump Administration's efforts to dismantle the U.S. Department of Education (USED), with six other federal agencies recently announced to administer former USED grant programs. This shift raises questions about implementation quality and grant administration capacity of federal agencies lacking education-related expertise. Additionally, the "Big Beautiful Bill" (H.R. 1) created a federal school choice initiative — the "Education Freedom Tax Credit" — that states may opt into, under which individuals may receive a credit of up to \$1,700 for contributions to

## Discussion Points (Cont'd)

nonprofits providing scholarships for public or private education services. The federal Treasury Department expects to issue implementing rules and guidance to states later this year. The department also joined a multistate guidance document for schools on DEI and accessibility initiatives in response to federal Office for Civil Rights communications, making clear that nothing in federal guidance changed existing law or obligations to uphold federal and state civil rights laws.

- **Excluding the funding component, please explain which of the department's programs rely on a collaboration with the United States Department of Education in their day-to-day operations. In which programmatic areas is the administration of the department's programs particularly dependent on the effectiveness of the United States Department of Education?**

The department's federally-funded programs inherently require ongoing collaboration with USED for technical assistance, guidance interpretation, compliance monitoring, and program reporting. Programs such as Title I-A (supporting disadvantaged students), IDEA (special education services), and various Title II and Title IV programs and other discretionary grants depend on federal guidance for implementation standards, allowable expenditures, and accountability measures. The effectiveness of USED directly impacts the department's ability to provide clear direction to districts, respond to implementation questions, and ensure compliance with federal requirements. The recent reallocation of some USED programs to agencies lacking education-specific expertise raises concerns about this essential technical support infrastructure.

- **How has the reallocation of portions of the federal Department of Education impacted the department's ability to administer programs that rely on collaboration with the federal government? Identifying specific programs, where applicable, as a result of the reallocation of portions of the federal Department of Education or any changes in the federal government's priorities since January 2025:**
  - a) **Has the New Jersey Department of Education experienced any delayed federal response times?**

The department is monitoring response times as the federal restructuring proceeds, though definitive patterns have not yet been established given the ongoing nature of the transition.

- b) **Has the quality of the interactions deteriorated?**

It is premature to make comprehensive assessments, though the shift of education programs to agencies without education-specific expertise creates concern about the quality and relevance of future technical assistance and program guidance.

- c) **Has the federal government ceased to provide certain programmatic support? And**

Beyond the cancellation of the School-Based Mental Health Grant Program (discontinued after Year 3 of 5), specific programmatic support cessations have not been formally documented, though the department continues monitoring this situation closely.

## Discussion Points (Cont'd)

- d) **Has the New Jersey Department of Education had to change its operating procedures and resource allocation in response to any changes in the performance of the federal government?**

Yes. The department has devoted time and resources to navigating federal uncertainty, including scrutinizing award notices for references to new conditions, supporting the Attorney General's Office in litigation efforts, and interpreting confusing or contradictory federal guidance. While these efforts have successfully protected funding and program continuity, they represent a reallocation of staff time and attention away from other priorities.

- **Has the department received all anticipated federal funding in FY 2026 to date? If not, please detail the amounts and sources of funding not received and describe the impact of this withdrawal of funds. What was the impact of any delays in the receipt of federal funds?**

As of March 2026, the department has received all anticipated federal funding for FY 2026.

20. The table below shows all allocations to the Department of Education from the State’s largely discretionary \$6.24 billion federal Coronavirus State Fiscal Recovery Fund grant under the American Rescue Plan Act of 2021. The federal grant had to be obligated by December 31, 2024 and must be expended by December 31, 2026. Any sum remaining unexpended after this date will revert to the federal government. States, however, may transfer unexpended previously obligated funds among programs that had received an allocation by December 31, 2024.

Status of Coronavirus State Fiscal Recovery Fund Allocations to the Department of Education as of March 17, 2026			
PROGRAM	ALLOCATED	EXPENDED	BALANCE
Universal Pre-K Facilities Fund (SDA)	\$121,000,000	\$39,095,680	\$81,904,320
Learning Acceleration	\$35,830,484	\$23,908,739	\$11,921,745
North Bergen High School	\$10,425,000	\$902,717	\$9,522,283
County Special Service Schools	\$10,100,000	\$4,069,175	\$6,030,825
Union County Vo-Tech Academic Building	\$8,000,000	\$3,086,296	\$4,913,704
Educator and Staff Training Initiatives	\$3,000,836	\$2,432,131	\$568,705
Special Education Services - Students with Disabilities	\$145,775,250	\$145,628,692	\$146,558
Mount St. Dominic Academy	\$500,000	\$500,000	\$0
Union Public School - Capital and/or Operational Expenditures	\$2,000,000	\$2,000,000	\$0
<b>TOTAL</b>	<b>\$336,631,570</b>	<b>\$221,623,430</b>	<b>\$115,008,140</b>

- **Questions:** By program, please identify the date by which the department expects to fully disburse the remaining Coronavirus State Fiscal Recovery Fund balances. Please identify the programs for which the department anticipates surplus balances by the federal December 31, 2026 expenditure deadline relative to the allocations shown in the table above as well the reasons for the expected surplus balances. If applicable, please describe the plan for reallocating undisbursed amounts prior to the federal expenditure deadline.

## Discussion Points (Cont'd)

The department aims to fully expend all SFRF monies by the December 31, 2026 deadline. As of this date there is \$228.6 million expended and \$91 million in encumbered funds that the department expects to spend them by the deadline. The department will work with the Division of Disaster Recovery and Mitigation in the Department of Community Affairs and the Governor's Disaster Recovery Office to ensure that any unspent funds are reallocated towards other eligible State needs and expended before the deadline.