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For years, the West Orange Public Schools has suffered under the weight of an unfunded formula. We have also benefited from the recent ramp up to full funding. The last few years, however, have seen our support from the state eroded, and we have been forced to cut our budget and reduce resources that would benefit our students. I write to you today as the President of the West Orange Board of Education to support necessary changes to the school funding formula.

First, there are significant flaws in the way a district's local fair share is calculated.

One of the biggest problems with the current structure of the formula is that a district's local fair share can increase at a rate that far outpaces its ability to raise funds through the local tax levy. For the 2025-26 school year, our local fair share was \$140,484,329. In three years, this amount has increased 36% from \$103,493,983 (2022-23). Despite regularly raising our tax levy to the permissible cap, there is no way that we can keep up with this kind of increase. The increase in our local fair share should be capped so that it does not exceed our ability to levy additional property taxes, and we should be rewarded for continuing to do our part to fully fund our schools.

Another problem is that gross income is used in the calculation. Our local fair share is inflated because of the use of gross income as a component in the school funding formula. When West Orange residents do well financially, they pay more income taxes - which flow directly to the state. That income does not contribute to our budget in any way, nor do increases in that income increase our tax revenue. The state constitution requires the income tax to be used to defray local property taxes, but paradoxically an increase in our gross income leads to a **decrease** in our state aid ... and an increase in our reliance on local property taxes. If our equalization aid for 2025-26 had been calculated solely based on equalized valuation, we would be due an additional \$25 million. This is a travesty.

A third issue is that local fair share can be strongly influenced by outliers with large year over year differences. For example, between 2020 and 2021 our gross income as a district increased 15.6%

from \$2.5M to \$2.9M. That change significantly inflated our local fair share for the 2024-25 school year, diminishing our expected level of aid. The decision to use a rolling average when calculating local fair share was a good one, and the length of the time period used for calculating that average should be increased beyond three years. To the extent that a district's wealth and income should be used to calculate its fair share, the state should be focused only on long term trends.

Next, it is important that annual changes to school funding - especially reductions - are implemented in a controlled fashion.

In the 2024-25 school year, many districts saw huge reductions in their state aid. This year, those reductions were limited to 3% of a district's previous year aid allocation. This is a step in the right direction, but it still leaves serious issues unaddressed.

There are a number of reasons that a district's aid calculation can be reduced year over year. In some cases, those reductions are deserved. If a district actually had a significant decrease in enrollment, they should also be able to reduce staffing to absorb that reduction in aid. However, most districts that lost aid did not also lose enrollment. Their decrease in aid was driven by an increase in their local fair share calculation. From the 2024-25 to the 2025-26 school year, our weighted enrollment changed by less than 1%. Our calculated adequacy budget increased by 9.7% (\$13.7M) and our calculated local fair share increased by 15.1% (\$18.5M). This resulted in a significant decline in our calculated equalization aid. West Orange's situation is not unique.

Despite raising our tax levy to the permissible cap, it is impossible for us to cover the difference. For the state to cut our funding, knowing full well that our costs are increasing beyond our capacity to raise revenue, is unconscionable. In a situation where a district is raising its tax levy and still cannot keep up with cost increases, its aid allocation should never be reduced.

Furthermore, in the event that the state does reduce a district's aid allocation it should cap that reduction based on a percent of the district's budget - not a percent of its previous aid allocation. This is because state aid makes up a different share of each district's budget. In West Orange, we lost 3% of our state aid. This reduction amounted to 0.5% of our operating budget. Fairfield, which is less reliant on state aid, also lost 3% of its aid allocation. However, this only amounted to 0.2% of its operating budget. In Essex Fells, its 3% reduction in aid was equivalent to only 0.1% of its operating budget. The most meaningful measure for how well a district can absorb a cut in funding is how big that cut is relative to its operating budget - not relative to its previous aid allocation.

If the state needs to place a temporary cap on future increases to other districts in order to offset a cap on reductions to districts that are losing funding, that's a fair trade off. West Orange has been there. From the creation of SFRA through the 2024-25 school year, we have been underfunded and we had patiently awaited the planned phase in of funding. While we would have loved to jump to full funding in a single year, each infusion of cash was a welcome opportunity to make targeted investments throughout the district. It's much easier to budget knowing that revenues will increase than it is to absorb a single, catastrophic cut in one year.

A third topic to consider is tax levy flexibility, and this is tied to the previous two issues.

Current policy imposes a fairly strict cap on local tax levies, and there are relatively few opportunities for school boards to exercise any flexibility over and above that cap. Frankly, we would prefer to never have to raise our tax levy above the 2% cap. However, this is only possible if the state provides sufficient and predictable funding to cover unsustainable increases in local costs. If the state does not provide funding and if the state fails to control costs for things like transportation, special education, and healthcare, then the only alternatives are to a) raise the local tax levy or b) cut staffing and services. There are limits to how long that second option is feasible.

While we were preparing the budget for the 2025-26 school year, we had to close a multi-million dollar gap created by increased costs and a reduction in state aid. We raised our tax levy to the permissible cap, but that was not enough to prevent significant cuts throughout the district. Community members came to our meetings and asked us to increase the tax levy further. They had read in the news how some districts were able to go above the cap. We had to explain to them that those provisions did not apply to West Orange.

At this time, we are not asking for additional tax levy flexibility - because our tax levy is already high. We have consistently raised more than our fair share. However, if current trends continue, in just a few years we will be spending below adequacy and raising below our fair share. The only way for us to keep pace and continue to provide a thorough and efficient education, and the only way for the 2% cap to remain viable, is for the state to pay **its** fair share.

A final topic that needs to be addressed is how the state supports districts as they fund required programs and services, like transportation and special education.

The Department of Education survey asked what percentage of district transportation costs were covered by transportation aid. In West Orange, our 2025-26 budget anticipates transportation costs of about \$17.3M. We received just \$3.9M in aid. In other words, state aid covers

approximately 22.7% of our transportation costs. If you look back to the 2019-20 school year, we received \$3.0M in aid against \$10.6M in anticipated spending. The funding rate that year was 28.3%. Since then, our costs have increased faster than state aid - resulting in an increased impact on our local budget.

Transportation is a major cost issue for districts across the state, and we are not alone. Based on an analysis of this year's user-friendly budgets, 25 districts have at least a \$10M gap between their transportation costs and their state aid. The median funding rate for these districts, including a mix of large urban, suburban, and regional school districts, is just 26.5%. Transportation is a large cost driver, and it is increasing far beyond the 2% levy cap. If the state intends to maintain a policy of capping tax levy increases, it must revisit the formula for categorical transportation aid - increasing the funding levels and covering large year over year increases. The formula should also account for so-called courtesy bussing, which is often critical for students who do not have a safe walking route to their local school.

Special education is another huge cost for local school districts. In previous years, categorical special education funding was determined based on the average number of students receiving special education services statewide. Using this census rate in 2024-25, the formula provided funding for 1,078 students in West Orange. When the formula was altered in 2025-26 to use the actual count of students, we received funding for 1,362 students. This resulted in us being allocated approximately \$3M in additional funding. However, we did not actually see any of it because of the reduction in our equalization aid.

This change in calculating special education categorical aid makes sense and it should be maintained moving forward. Using a census-based approach encourages districts to underclassify and underserve students. It penalizes districts like West Orange, which prides itself on a robust special education program that strives to support every student in our district. Fully funding special education at the state level, including revisiting and revising the thresholds for extraordinary aid, is critical to supporting districts so that they can provide a thorough and efficient education while still operating under a rigid tax levy cap. As the Educational Adequacy Report demonstrates, the cost of special education - especially students who need to be sent out of district to receive the appropriate resources - continues to increase at a rapid rate.

Fully funding the formula for the 2025-26 school year was a big step forward for New Jersey. For more than a decade, the School Funding Reform Act was an aspirational goal on which the state

failed to deliver. Now, it's a reality. But that reality also exposes the flaws in the system, which were previously hidden by the fact that the formula itself was not fully funded.

Moving forward, the Legislature and Department of Education must work together to alter the formula to ensure that school districts receive sufficient funding to deliver a thorough and efficient education. Costs continue to increase and tax levies continue to be capped. The only way to make that system work is for the state to fill the gap. Some of the changes made last year, including the averaging of wealth data, the cap on aid reductions, and using actual special education enrollment, are a step in the right direction. Now is the time to go further by eliminating or minimizing the role of gross income as a part of the local fair share, placing reasonable limits on the increase in a district's local fair share, maintaining state aid levels when a district's costs are increasing, and more fully funding transportation and special education.

On behalf of the West Orange Board of Education, our students, and our school community, I implore you to think carefully about how to improve the school funding formula and ensure that it works for districts like ours. Our ability to do our job - along with our students' futures - depends heavily on the decisions you make over the next few months.

Sincerely,

Brian Rock

President, West Orange Board of Education