

LEGISLATIVE FISCAL ESTIMATE

[Second Reprint]

ASSEMBLY, No. 3452

STATE OF NEW JERSEY 221st LEGISLATURE

DATED: MARCH 21, 2024

SUMMARY

- Synopsis:** Provides tax levy cap adjustment for certain school districts experiencing reductions in State school aid.
- Type of Impact:** Annual school district revenue increase.
- Agencies Affected:** School districts.

Office of Legislative Services Estimate

Fiscal Impact	<u>FY 2025</u>	<u>FY 2026 and Thereafter</u>
School District Revenue Increase	Up to \$107.1 million	Up to approximately \$305.5 million

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

BILL DESCRIPTION

This bill provides a tax levy cap adjustment for certain school districts that are experiencing State school aid reductions.

Under current law, a school district is generally prohibited from increasing its property tax levy by more than two percent compared to the previous school year. However, there are certain authorized adjustments to the general two percent limitation that permit a district to account for certain increases in factors such as enrollment, health care costs, and certain normal and accrued liability pension contributions.

The bill would establish an allowable adjustment to the tax levy growth limitation for a school district that experiences a reduction in State school aid under P.L.2018, c.67, commonly referred to as “S2,” in FY 2025. The amount of the allowable adjustment would be equal to the district’s State school aid reduction from FY 2024 to FY 2025. The bill would establish a second allowable adjustment beginning in FY 2026 in which a district that is experiencing a reduction in State school

aid compared to the prior year and is spending below adequacy would be permitted to increase its local tax levy by an amount equal to the difference between the district's prebudget year adjusted tax levy and the district's prebudget year local share.

The bill prohibits any school district that increases its tax levy using the allowable adjustments established by the bill from reducing its total number of school district employees. However, a district would be permitted to reduce its total number of employees if the Department of Education approves the reduction in the district's proposed budget as a result of an anticipated decline in enrollment.

FISCAL ANALYSIS

EXECUTIVE BRANCH

None received.

OFFICE OF LEGISLATIVE SERVICES

The OLS estimates that this bill would result in a maximum revenue increase of approximately \$107.1 million in FY 2025 for school districts as a result of increased local tax levies. In subsequent years, the OLS concludes that the bill may result in a revenue increase of up to approximately \$305.5 million.

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

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

The bill stipulates that a district increasing its tax levy according to the provisions of the bill would not reduce the total number of school district employees compared to the number of employees in the prior year, except as approved by the Department of Education in the case of an anticipated decline in enrollment. As a result, a school district that chooses to increase its tax levy under the bill may not experience cost savings that would otherwise have been experienced due to the reduction in staff. However, nothing in the bill would increase costs to school districts compared to the prior year.

Section: Education

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This legislative fiscal estimate has been produced by the Office of Legislative Services due to the failure of the Executive Branch to respond to our request for a fiscal note.

This fiscal estimate has been prepared pursuant to P.L.1980, c.67 (C.52:13B-6 et seq.).