



Rebalancing the Scales: How to Achieve a Fairer, More Transparent School Funding Formula in New Jersey



**A REPORT FOR THE GARDEN STATE INITIATIVE
BY CHRISTIAN BARNARD**

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Executive Summary

New Jersey's K-12 finance system is one of the most expensive in the country. The state ranks third in the nation with state and local K-12 funding levels at \$26,990 per student. Consequently, it also has the country's highest property tax collections per capita and the fifth-highest state and local tax collections per capita. Given these facts, it's important to examine whether dollars are allocated efficiently and in a way that doesn't disproportionately burden some taxpayers.

This report finds that, while the Garden State's K-12 finance system has student-centered elements, it still faces persistent issues with transparency and fairness to taxpayers and students. Specifically, the analysis highlights the following problems:

Transparency

- » District leaders and local residents aren't provided adequate information related to the cost demands of the state's main funding formula, the School Finance Reform Act (SFRA). Even though the SFRA controls billions in taxpayer dollars, its underlying assumptions were determined by a professional judgment panel in the mid-2000's and are largely inaccessible to the public.
- » Stakeholders aren't provided timely or clear information as to how state aid decisions are made, whether these decisions reflect student enrollment changes, and how they affect local taxes. For instance, state aid decisions are made about a month before final local district budgets are due, making it difficult for local officials to plan.

Student-Level Funding Disparities

- » While New Jersey's K-12 funding system is geared toward delivering greater funding to higher-need students, funding disparities persist that aren't related to student needs. For instance, despite the three school districts having similar student poverty rates, Jersey City receives \$22,942 per student, North Bergen receives \$19,437 per student, and Newark receives \$26,632 per student.
- » Year-over-year changes in state aid are volatile and often not reflective of actual changes in student populations across districts. For instance, because of caps on state aid losses for declining enrollment districts for FY26, 192 districts collectively receive \$396 million more

than the law says they should under the state funding formula and 284 others receive \$383 million less than they should.

Taxpayer Burdens

- » New Jersey's main funding formula makes unattainable assumptions about Local Fair Share (LFS), or the share of a district's formula budget that is expected to be covered by local property taxes. For example, state LFS assumptions grew faster than the state's 2% annual local property tax growth cap for nearly all school districts in FY25.
- » There's little uniformity or stability in local tax rates expected under the funding formula, leading to unequal tax effort expectations on local residents. For instance, among districts with 2,000 or more students, some are expected to tax at rates less than 1.2% while others are expected to tax above 1.6%.
- » The SFRA's LFS calculation methodology leads to state aid being overly concentrated in a small number of high-need school districts. For instance, just over 50% of state aid is concentrated in only 22 school districts (out of 590 operating school districts). This leads to disproportionately high tax effort in middle-income school districts.

To address these problems, the author of this paper makes the following recommendations:

- 1. Stabilize and slow the growth of the state funding formula cost demands:** Slowing the growth in SFRA cost demands that were built into the formula in 2008 (see section I.2, "SFRA Formula Cost Assumptions") would make state aid changes more predictable and burden local taxpayers less.
- 2. Simplify the local share measurement:** Simplifying how Local Fair Share is measured and ensuring its expectations are compatible with the property tax growth limit would decrease volatility in state aid and reduce burdens for taxpayers, particularly in middle-income school districts.
- 3. Preserve the 2% annual property tax growth cap:** Adopted in 2010, New Jersey's annual property tax growth cap has shielded local taxpayers from bearing a disproportionate share of new SFRA costs and encourages fiscal restraint.
- 4. Limit use of caps on decreases/increases in state aid:** Although placing limits on the increases or decreases in state aid for individual school districts from year to year is intended to decrease state aid volatility, it creates another problem: state funding changes don't parallel actual changes in district enrollment. New Jersey should ensure that state aid determinations reflect actual district enrollment each year.
- 5. Improve transparency in SFRA calculations and state aid decisions:** State aid determinations should be made further in advance of final budget deadlines for school districts. Aid notices should also include disclosures about why state funding has increased/decreased and how local taxpayers could be affected.

Introduction

New Jersey’s K-12 finance system is one of the most expensive in the country. The state ranks third in the nation in per-student funding.¹ In the 2024-2025 school year, its traditional public schools received an average of \$26,990 in revenue per student.² The cost of devoting large shares of public resources to K-12 education contributes to New Jersey landing first in the nation with the highest property tax collections per capita, and 5th in the country with the highest state and local tax collections per capita.³

Given the substantial cost of public education in New Jersey, it’s vital to examine whether dollars are allocated efficiently and in a way that doesn’t disproportionately burden some taxpayers. While the state’s K-12 funding system incorporates student-centered elements, it still faces persistent issues with transparency and fairness for both taxpayers and students.

At the heart of these problems is the School Funding Reform Act (SFRA) of 2008—the state’s primary K-12 funding formula. The SFRA determines each district’s “adequacy budget” or “adequacy target” mainly based on school district enrollment and student characteristics (e.g., low income, special education, etc.). The costs of the SFRA formula are split between state and local tax sources. Higher-wealth, higher-income districts are expected to cover a greater share of their adequacy budget locally. Underlying the formula base and weights is a complex set of school operational cost assumptions that are periodically updated and adjusted for inflation.

Overall, 80.7%, or \$27.1 billion, of all state and local funds allocated to New Jersey public schools flow through the SFRA.⁴ Between the 2017-18 and 2024-25 school years, SFRA state aid increased by \$1.4 billion, or 13.1%, in inflation-adjusted terms.⁵ At the same time, New Jersey school district enrollments were flat. The remaining 19.3% of non-federal funds come from local property taxpayers beyond what the SFRA requires, as well as categorical state grants outside of the SFRA.

1 Aaron Smith, Jordan Campbell, Christian Barnard, “Public Education at a Crossroads: A Comprehensive Look at K-12 Resources and Outcomes,” Reason Foundation, 2024. <https://reason.org/k12-ed-spending/crossroads-report/> (9 June 2025).

2 “2024-25 User-Friendly Budgets,” New Jersey Department of Education, *NJ.gov/education*, 4 December 2024. <https://www.nj.gov/education/budget/ufb/2425/index.shtml> (9 June 2025).

3 Dorothy Nuefeld, “Interactive Map: U.S. Property Taxes by State,” *visualcapitalist.com*, Visual Capitalist, 27 Dec. 2023. [https://www.visualcapitalist.com/cp/us-property-taxes-by-state/#:-:text=Homeowners%20in%20New%20Jersey%20paid,taxes%20per%20person%20in%202020.&text=On%20a%20per%2Dcapita%20basis,Hampshire%20and%20Connecticut%20at%20\\$3%2C800](https://www.visualcapitalist.com/cp/us-property-taxes-by-state/#:-:text=Homeowners%20in%20New%20Jersey%20paid,taxes%20per%20person%20in%202020.&text=On%20a%20per%2Dcapita%20basis,Hampshire%20and%20Connecticut%20at%20$3%2C800) (accessed 10 June 2025).

4 Authors’ calculation based on adequacy budgets for FY25 divided by all state and local revenues reported in the user-friendly budget. Calculation does not consider districts raising above or below local fair share.

5 Ibid.

School district leaders and residents often lack access to predictable, timely, and understandable information on how the SFRA funding formula is determined and how these determinations impact district budgets, tax burdens, and students.

The growth in SFRA funding formula adequacy targets is expensive, even for one of the highest-earning and highest-taxed states in the country. Each year, the state legislature attempts to strike a balance between three competing factors: funding formula adequacy targets, district-level enrollment changes, and available resources (both state and local). In practice, the results of this balancing act are concentrated state aid increases for a small group of high-need districts, caps on increases/decreases in state aid, and unpredictable local property tax hikes.

But if the goal is to ensure funding parity for students with similar needs and consistent treatment of taxpayers—as it should be—this is simply the wrong balance. When the state prioritizes funding for ever-increasing adequacy targets for some districts and propping up districts that are losing students, many other groups of students and taxpayers bear the negative consequences. Students with similar needs are not funded equally across New Jersey school districts, state funding increases don't align with enrollment growth, residents bear uneven tax rates that favor some jurisdictions over others, and state aid changes are unpredictable from year to year.

New Jersey should pursue school finance reforms that enhance transparency for taxpayers and school district leaders, slow the growth in formula spending demands, distribute state aid more equally for students with similar individual needs, and allocate new funds based on current enrollment.

This report is divided into four sections: transparency, student-level funding disparities, taxpayer burdens, and concluding policy reform recommendations.

I. Transparency

Any discussion of K-12 funding fairness should start with an examination of the system’s transparency. After all, even if researchers and other stakeholders can identify funding patterns that short-change some students or disproportionately burden some taxpayers with publicly available data, they are limited in their ability to fix the problems if they can’t access and understand the policy mechanisms driving those patterns.

In New Jersey, there are notable transparency issues that make it difficult or impossible for stakeholders to understand how billions of taxpayer dollars are allocated. Namely, the public has a limited understanding of how SFRA formula cost assumptions are calculated and updated. This makes it difficult for taxpayers to challenge or understand why educational costs have well outpaced inflation over the last decade and whether that cost growth is justifiable. For example, without understanding what cost assumptions informed the development of the per-student amount and weights for higher-need students, state residents can’t know if those cost assumptions are connected to school services that reliably benefit students. Also, local officials have little time to budget in response to unpredictable state aid decisions.

1. K-12 Funding System Summary

Under the SFRA, the state’s primary funding formula, each student receives a base per-student amount (\$13,946 in FY25). Students qualifying for free lunch under the National School Lunch Program are counted as low-income students (at-risk) and receive weight multipliers of 47% above the base at a minimum. At-risk students living in districts with higher concentrations of poverty receive gradually higher multipliers, depending on the level of concentration, up to 57% above the base amount. Similarly, English learners receive a 50% weight multiplier above the base as well as an additional 12.5% multiplier if they are also at risk. Altogether, these costs are covered through a combination of local LFS property taxes and state equalization aid.⁶ In FY25, the state equalization aid portion was \$9 billion or 26.7% of all state and local revenues.⁷ Outside these core, unrestricted formula allocations, New Jersey also has several categorical grants for special education, transportation, security aid, and open enrollment aid (called “school choice aid”). State dollars mostly fund these grants. However, two-thirds of regular special education funds are separated out and added

6 “SFRA State Summary,” Education Law Center, 2025. <https://edlawcenter.org/research/sfra-state-summary/> (10 June 2025)

7 “2024-25 State Aid Summaries,” New Jersey Department of Education, *NJ.gov/education*, 15 May 2025. <https://www.nj.gov/education/stateaid/> (12 June 2025).

to the district’s unrestricted equalization aid budget described in the previous subsection.⁸ State aid through categorical funds totaled \$2.5 billion or 7.5% of all state and local funding in FY25.⁹

Additionally, New Jersey school districts raise local property taxes outside of what the SFRA assumes for a formula local share. Significantly, many school districts in the state raise less locally than the SFRA requires, while many others raise more than the formula requires. According to the Education Law Center, in FY25, 367 districts collectively raised \$1.8 billion more than their LFS requirements in FY25 and 207 others raised \$1.7 billion less than their local fair share.¹⁰ This means that statewide general fund property tax collections were about \$100 million more than the total statewide LFS recommendation, although individual districts vary widely in the share of their local funds that contribute to the SFRA as opposed to adding on top of it.

2. SFRA Formula Cost Assumptions

As outlined in the previous subsection, the base amount and weight values assigned to students in the SFRA formula are relatively transparent. However, the cost assumptions underlying these calculations are not transparent and there’s good reason to doubt them.

The overall scaffolding of the formula is built on cost studies conducted in 2006 (“Report on the Cost of Education”) and 2007 (“A Formula for Success”) by the New Jersey Department of Education.¹¹ In short, these reports make assumptions about the input costs needed for school districts to achieve acceptable outcomes for students, including staffing ratios and expenses such as salaries, employee benefits, technology, professional development programs, and other related items.

While this report does not impugn the quality of these studies, it highlights that the studies do not transparently explain their many input cost assumptions. Additionally, the studies relied on a panel of experts to estimate the adequate level of resources needed for a school district to run effectively. But that approach has received considerable criticism from school finance researchers across the political spectrum for failing to link recommended spending to improved student outcomes, not accounting for inefficiencies, overstating needs, and not aligning with actual school spending practices.¹² The base formula amount is typically adjusted for inflation from year to year, and the weights have been occasionally updated since the SFRA’s adoption in 2008.

The non-transparent, proprietary nature of the studies undergirding the funding formula, along with the general criticisms of their methodology, pose problems for New Jersey’s school funding system. These inputs still largely drive and inform today’s SFRA formula, marshaling billions of dollars. It is also apparent that the cost demands imposed on the SFRA by these studies have been substantial for taxpayers, since K-12 funding increases in New Jersey have well outpaced the national average since the reform’s adoption.

8 Charles Muller, “Understanding New Jersey School State Aid Funding,” New Jersey School Boards Association, July 1 2024. <https://www.njsba.org/school-leader/school-leader-summer-2024/understanding-new-jersey-school-state-aid-funding/> (10 June 2025)

9 “2024-25 State Aid Summaries,” New Jersey Department of Education

10 “SFRA State Summary,” Education Law Center, 2025

11 “Report on the Cost of Education,” New Jersey Department of Education, *NJ.gov/education*, 11 December 2006. <https://www.nj.gov/education/stateaid/docs/AllChildrenAllCommunities.pdf> (9 June 2025). “A Formula for Success: All Children, All Communities,” New Jersey Department of Education, *NJ.gov/education*, 18 December 2007. <https://www.nj.gov/education/stateaid/docs/AllChildrenAllCommunities.pdf> (9 June 2025).

12 Bruce Baker, “New Jersey’s School Funding Reform Act at 10 Years,” New Jersey Policy Perspective, 2018, <https://www.njpp.org/wp-content/uploads/2019/03/NJPP-Bruce-Baker-School-Funding-Reform-Act-at-10-Years-Full-Report.pdf> (9 June 2025) Eric Hanushek, “Education Sector – Money Matters: An interview with Eric Hanushek,” Stanford University, 2006, <https://hanushek.stanford.edu/opinions/education-sector-money-matters-interview-eric-hanushek>, (9 June 2025)

3. The Unpredictability of Annual State Aid Decisions

Over the last 20 years, New Jersey governors and legislators have often put their thumbs on the scales in how the formula allocates state aid, generally in service of striking a compromise between available revenue, enrollment changes, and meeting adequacy targets. These alterations to the SFRA formula usually take the form of caps on losses or increases in state aid. They also often involve complex manipulations of the Local Fair Share (LFS) measurement parameters, which determine the share of formula costs that local property taxpayers should cover in each district.¹³ Frequently, modifications to formula calculations are made in response to pressure from various districts facing declining enrollment or others that have understandable concerns about the formula's volatility.

Because it's difficult to predict how the scales will fall, school district leaders wait eagerly for state aid notices each year as they prepare their budgets. This arrangement makes it difficult for district leaders to plan, leaving them wondering why state aid changes don't track with enrollment or with their current local tax base.

These changes are neither transparent nor reflective of actual enrollment trends. District leaders can't anticipate how the state will change local assumptions or prioritize state aid. Moreover, state aid notices are typically released in late February, while district officials must submit final budgets in late March, leaving them little time to adjust to the state aid decisions.

The consequences of these decisions for per-student funding disparities will be explored further in the next section. Nonetheless, the outcomes and consequences of these annual negotiations, like caps on state aid changes and modifications to Local Fair Share assumptions, are often not made transparent to district officials or local stakeholders.

¹³ Analysis of the New Jersey Budget," New Jersey Department of Education, *NJ.gov/education*, April 2025. https://pub.njleg.state.nj.us/publications/budget/governors-budget/2026/doe_analysis_2026.pdf (10 June 2025).

II. Student-Level Funding Disparities

New Jersey’s K-12 finance system is intended to deliver more overall funding to school districts with higher individual student needs. This section spotlights the following problems: (1) per-student funding disparities exist that aren’t related to student needs, and (2) state aid is volatile from year to year and often doesn’t accurately reflect enrollment changes.

1. Analysis of Funding Patterns

Because of the SFRA’s emphasis on devoting more dollars to lower-wealth, higher-need school districts, those districts receive far more state funding. Figure 1 displays all New Jersey school districts with 5,000 or more students.¹⁴

FIGURE 1: K-12 STATE REVENUE PER STUDENT AND POVERTY, FY25

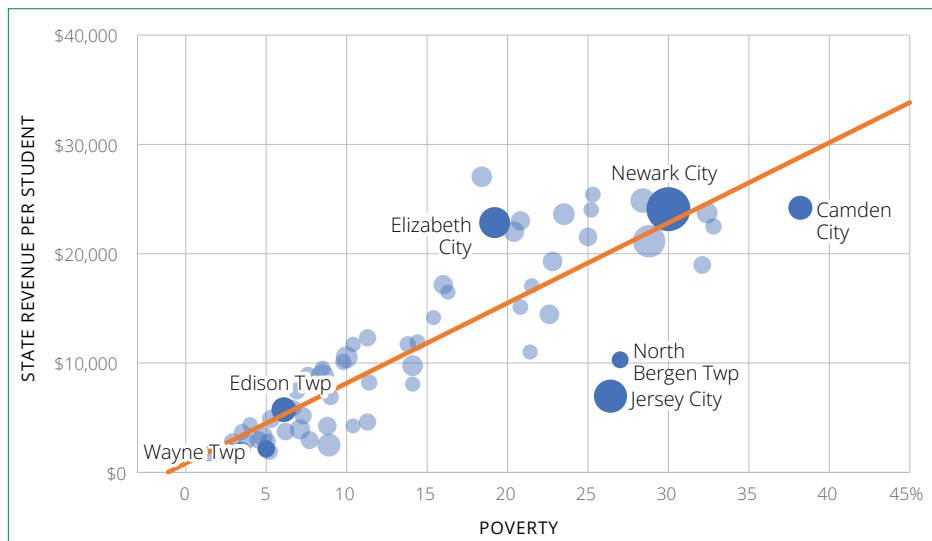


Figure 1 shows a strong relationship between district poverty and total state aid. Lower-poverty districts like Edison and Wayne receive less than \$6,000 in state aid per student. Meanwhile, high-poverty districts such as Newark and Camden receive more than \$25,000 in state aid per student. Notice further the clustering of lower-poverty districts (10% poverty or less) at or below \$10,000 per student

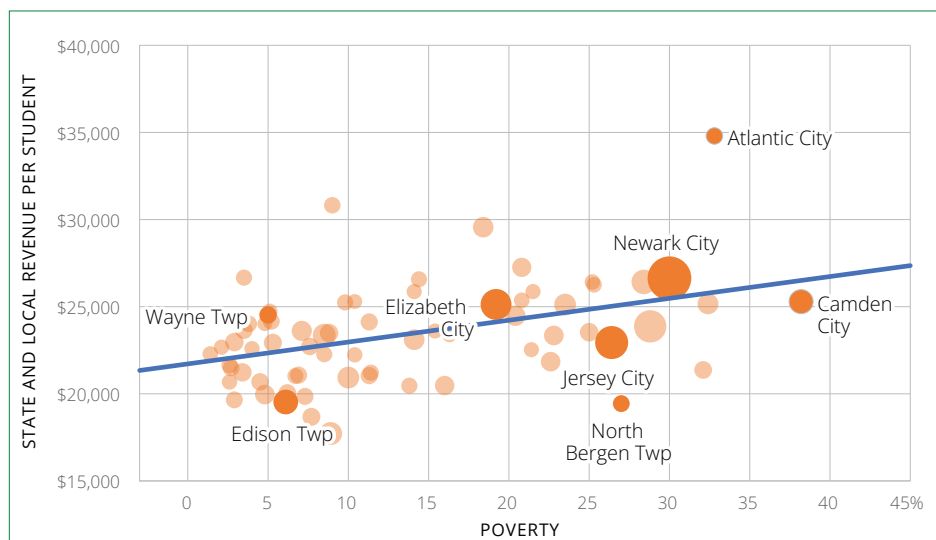
14 “2024-25 User-Friendly Budgets,” New Jersey Department of Education.
“2024-25 User-Friendly Budgets, Advertised Enrollments” New Jersey Department of Education.
“SAIPE School District Estimates for 2023,” U.S. Census Bureau, *census.gov*, December 2024. <https://www.census.gov/data/datasets/2023/demo/saipe/2023-school-districts.html> (12 June 2025).

in state aid and the relatively fewer, large districts in the higher-poverty range (20% or higher).

This pattern illustrates a key tension in New Jersey’s school finance system: Affluent and middle-income suburban districts receive far less state aid per student than schools in the state’s urban centers.

But state aid doesn’t tell the whole story. There are substantial variations in local tax base across New Jersey’s school districts, and lower-poverty districts are often able to raise more funds locally (see Figure 2).

FIGURE 2: K-12 STATE & LOCAL REVENUE PER STUDENT AND POVERTY, FY25



As Figure 2 demonstrates, incorporating local revenue yields a picture where lower-poverty districts receive similar amounts of per-student funding in comparison to their higher-poverty peers. However, the higher-poverty districts can have strong local tax bases, and lower-poverty districts can have weak local tax bases. Moreover, differences in local wealth, income, property tax growth conditions, and state aid decisions can lead to substantial funding disparities between districts with similar poverty rates. Still, per-student funding disparities exist that aren’t based on student needs and that aren’t corrected by differences in local tax bases.

For example, North Bergen Township, Newark City, and Jersey City are each higher-poverty school districts (between 26% and 30%) that receive varying amounts of state aid (Figure 1). And yet, after incorporating local revenue, Jersey City receives \$3,505 more per student than North Bergen, and Newark receives \$3,690 more than Jersey City (Figure 2). Similar examples can be found in low-poverty districts, such as Edison and Wayne townships.

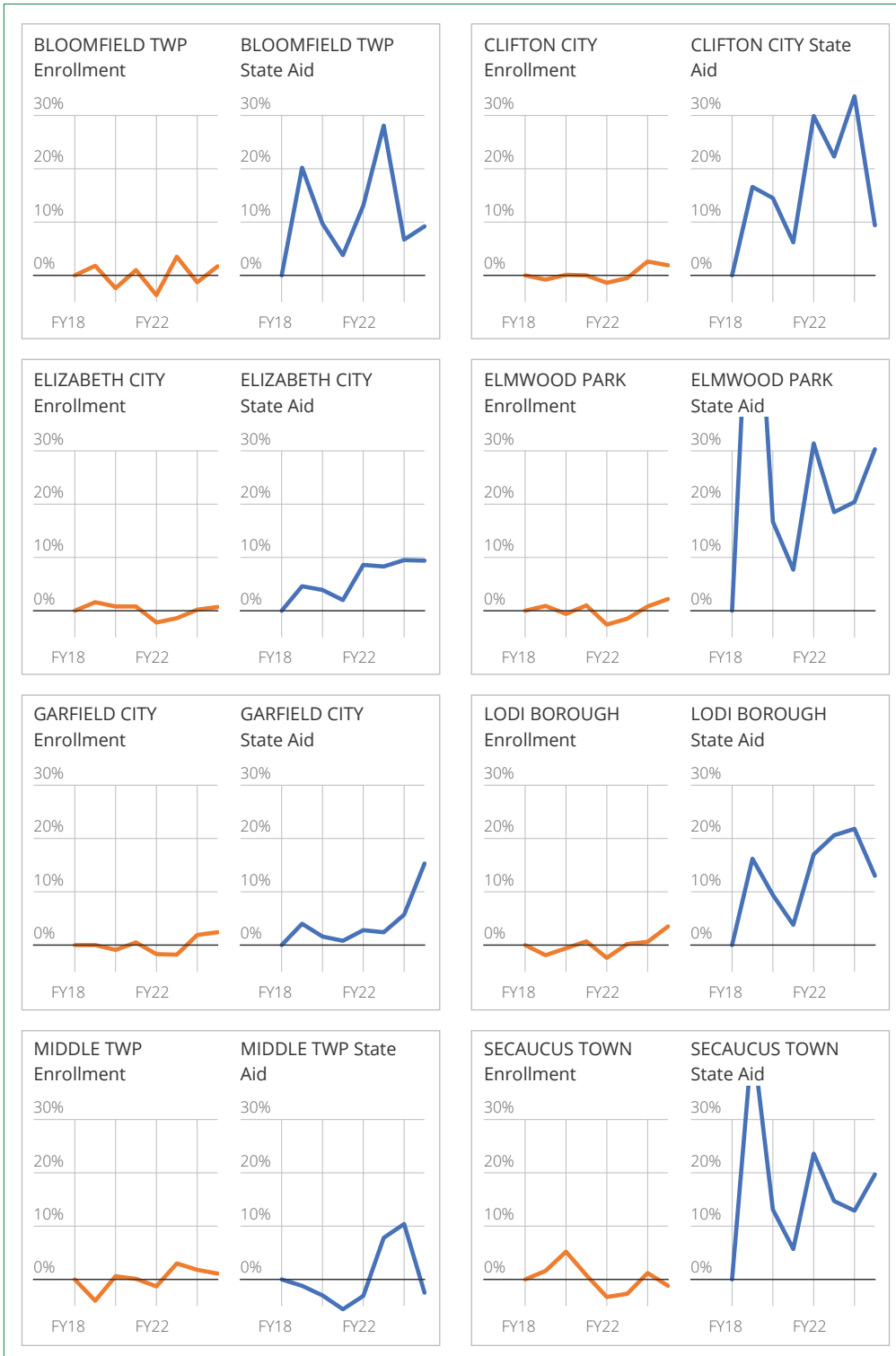
While New Jersey’s funding appears progressive on average, there are still ample cases of funding disparities that aren’t explained by student need differences or corrected by differences in local tax bases.

2. State Aid Volatility: Aid Change Caps and Adequacy Target Gaps

A key problem leading to student-level funding disparities, especially with how the state allocates new revenues annually, is volatility in state aid changes and legislative decisions that depart from SFRA formula calculations. For examples of what this volatility can look like for individual school districts, Figure 3 displays year-over-year percentage changes in state aid and enrollment for nine

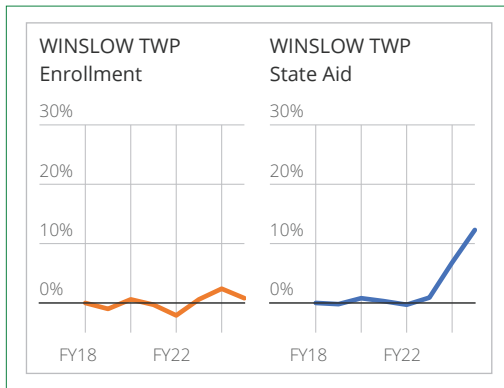
school districts from FY18 to FY25.¹⁵ These school districts are similar: each has enrollments exceeding 2,000 students, poverty rates ranging from 10% to 20%, and cumulative enrollment increases of no more than 2% and no less than 0% over the same period.

FIGURE 3: TOTAL YEAR-OVER-YEAR CHANGE IN STATE AID AND ENROLLMENT, FY18 - FY25



15 The author used state aid and enrollment projection data provided by the New Jersey Department of Education to Jeff Bennett.

FIGURE 3: TOTAL YEAR-OVER-YEAR CHANGE IN STATE AID AND ENROLLMENT, FY18 – FY25



As Figure 3 illustrates, New Jersey school districts would be hard-pressed to predict future changes in state aid based on enrollment patterns. Garfield City and Lodi Borough, for example, have had similarly stable enrollments. At the same time, Lodi Borough has generally seen larger—albeit highly variable—state aid increases from year to year.

There are many reasons for this state aid volatility. One reason is how the state makes changes to Local Fair Share (LFS) assumptions each year based on available revenues and the adequacy targets. LFS is the share of local property tax funds that a district is expected, although not required or necessarily able, to raise locally. When the state lacks sufficient revenues to fund the formula fully, it adjusts its LFS parameters so that it doesn't need to send as much aid to some school districts (see the next section on taxpayer burdens for more information).

Some of the patterns displayed in Figure 3 are a result of the state compensating some districts for past underpayments in state aid. That's because New Jersey has frequently capped increases or decreases in state aid for individual districts. The practical result of these caps, especially when they are used repeatedly over years, is that many districts receive either more or less state aid than they are entitled to under the formula based on their current student enrollment. This practice undermines the student-centered emphasis of the formula

III. Taxpayer Burdens

Due in no small part to its expensive public school system, New Jersey has the highest per capita property tax collections in the country. This is especially remarkable considering that the state instituted a 2% year-over-year property tax collection growth cap a decade and a half ago.¹⁶ The growth cap has shielded local residents from unsustainable increases in property tax collections, resulting in a meaningful slowing of property tax increases and inflation-adjusted decreases in overall property tax levies between FY20 and FY25 for the majority of school districts.¹⁷

Nonetheless, local revenues still accounted for 60% of all state and local K-12 funding in FY25.¹⁸ This section spotlights three ways in which New Jersey’s funding system burdens taxpayers: (1) SFRA formula local share assumptions don’t align with what school districts can actually collect locally, (2) there’s no uniformity or stability in local tax rates expected under the SFRA, and (3) state aid is overly concentrated in high-need school districts, leading to disproportionately high property taxes in middle-wealth school districts.

1. Unachievable Local Fair Share (LFS) Expectations

For K-12 funding, limiting local revenue growth has necessitated increased state involvement in meeting the formula’s adequacy target demands. But the SFRA formula also gives the state latitude to measure local property wealth differently from year to year, as described in the previous section. To recap, each district’s local share is determined through a combination of aggregate local property valuations and local aggregate income. Importantly, the weights placed on income and property wealth are changed annually, with the aggregate income weight seeing larger swings from year to year.¹⁹

These frequent changes to the local share parameters are made by a separate, complex formula based on available state resources.²⁰ Figure 4 provides a clearer illustration of how local share and state aid interact with each other.

16 Michael Kaelber, “New Jersey School Finance 2024 – Property Tax Caps and State Aid – A Look at the Numbers,” New Jersey Principals and Supervisors Association, December 5 2024. <https://njpsa.org/new-jersey-school-finance-2024-property-tax-caps-and-state-aid-a-look-at-the-numbers/> (11 June 2025).

17 Author’s calculation based on estimated tax rate information from User-Friendly Budgets published by the New Jersey Department of Education from FY20 to FY25. Annualized inflation figures were applied from CPIAUCSL monthly values reported by the U.S. Bureau of Labor Statistics and the Federal Reserve Bank of St. Louis.

18 “2024-25 User-Friendly Budgets,” New Jersey Department of Education

19 Danielle Farrie, “A Roadmap for Improving New Jersey’s Funding Formula: Modifying the Property Tax Cap,” Education Law Center, October 2024. <https://edlawcenter.org/wp-content/uploads/2024/10/Modifying-the-Property-Tax-Cap.pdf> (10 June 2025).

20 “Analysis of the New Jersey Budget,” New Jersey Department of Education, April 2025

FIGURE 4: YEAR-OVER-YEAR NOMINAL CHANGES IN TOTAL STATE AID AND TOTAL LOCAL FAIR SHARE, FY18 – FY26



Figure 4 illustrates year-over-year percentage changes in state aid and local share assumptions for the SFRA formula (not adjusted for inflation).²¹ There is a clear inverse relationship between the two. In leaner state budget years, like FY19 through FY21, the formula assumes steeper local property tax increases. By artificially assuming a greater local ability to cover formula costs during that period, the state can distribute commensurately smaller increases in state aid. In stronger budget years, such as FY22 through FY24, the state artificially slows local property tax increase assumptions, thereby awarding larger state aid increases.

As outlined in Figure 3 and the previous section on student-level funding disparities, the practical effects of these manipulations to local share parameters are volatile and unpredictable annual state aid changes.

It's important to stress that, because local share assumptions aren't required taxes, frequent changes don't always lead to property tax increases for New Jersey residents. But they still have unequal results for different groups of local taxpayers. A large share of the state's wealthier suburban districts don't qualify for equalization aid in the first place. For them, changes in local share are often irrelevant. For low-wealth districts, changes to local share assumptions don't generally put more pressure on local taxpayers because they mostly rely on state aid anyway. But in middle-income districts that are meaningfully reliant on both property taxes and state equalization aid, sudden increases in local share assumptions can lead to property tax increases because decreases in state aid often accompany them. Moreover, as Dr. Danielle Farrie of the Education Law Center points out, assumed local share increases have exceeded the 2% property tax growth cap limit in nearly all school districts in recent years.²² That's an unsustainable tension. In response to changing state budget conditions, the state can assume sudden increases in local tax bases—that leaders know aren't actually attainable.

Changes to local formula share assumptions also send perverse messages to local taxpayers. Tax levies that supplement state aid one year may suddenly lead to decreases in state aid in the next.

21 The author used state aid and local fair share assumption data provided by the New Jersey Department of Education and published by Jeff Bennett.

22 Danielle Farrie, "A Roadmap for Improving New Jersey's Funding Formula," Education Law Center, October 2024.

2. Lack of Uniformity & Predictability in Local Tax Effort

New Jersey's approach to calculating local contributions to its funding formula is an outlier nationally. Many other states assume or require a more uniform or flat local tax rate that contributes to the state formula.²³ While imperfect, this approach makes state aid decisions and property tax obligations far more predictable and transparent. By contrast, New Jersey's approach to calculating local share leads to significant variations in the rates expected to contribute to the funding formula, both from district to district and year to year (see Figure 5).

FIGURE 5: ASSUMED LOCAL FAIR SHARE TAX RATES AND LOCAL PROPERTY VALUATIONS, FY25

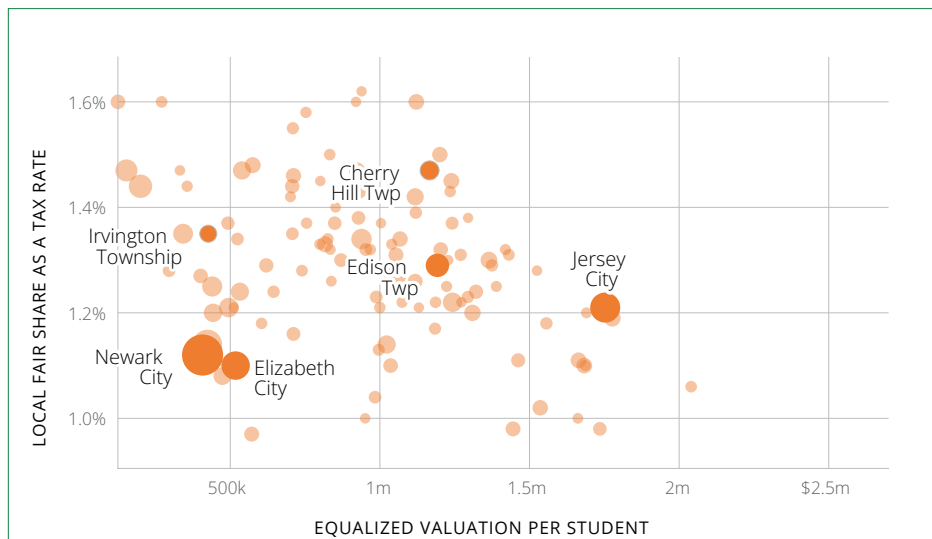


Figure 5 compares local fair share as a tax rate (proportion of local equalized valuations) and local equalized valuations per student. It only includes New Jersey school districts with 2,000 or more students that receive equalization aid from the state.

Far from assuming a uniform tax rate across all districts, Figure 5 shows that New Jersey assumes different local share tax rates across its districts, which also change from year to year. These rates aren't always closely related to local property valuations. Instead, districts with relatively high local rates compared to their local property valuations tend to have higher aggregate incomes. That dynamic explains the rate gaps between districts like Newark and Irvington or Edison and Cherry Hill. In both cases, the pairs of districts have similar equalized valuations per student but different local income levels.

3. Over-Concentration of State Aid in a Small Group of School Districts

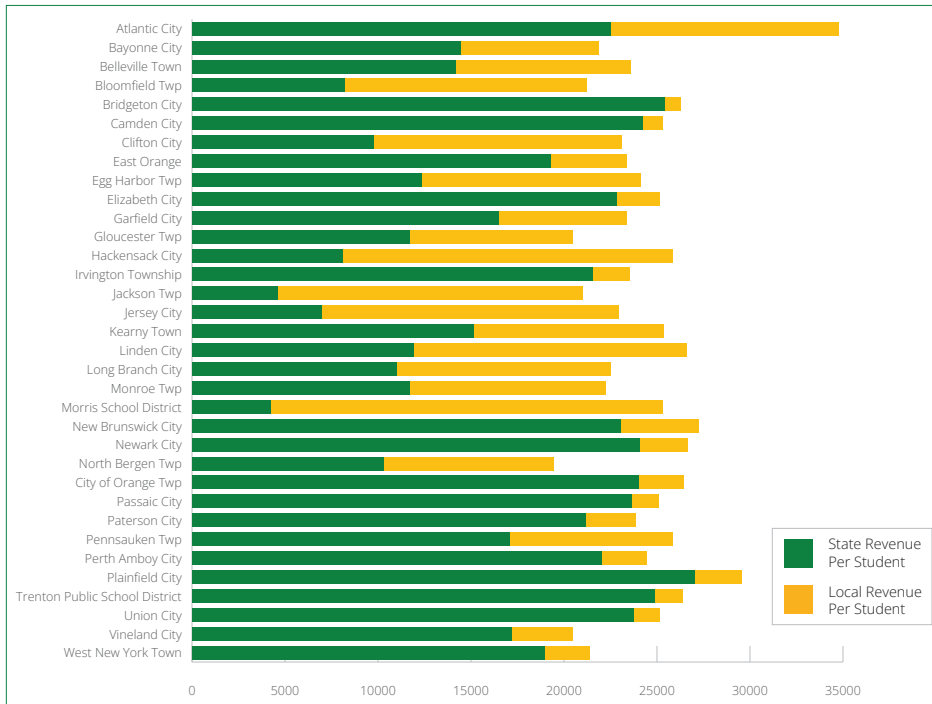
The inclusion of local income in measuring local share largely explains why state aid is heavily concentrated in a small subset of large urban districts. These districts have both low property wealth and low incomes. Consequently, just over 50% of all state funding goes to only 22 school districts, which collectively serve 26.7% of the state's public school population.²⁴ Figure 6 illustrates this aid

²³ "50-State Comparison: K-12 Funding 2024," Education Commission of the States, *ecs.org*, March 2024. <https://reports.ecs.org/comparisons/k-12-funding-2024-01> (12 June 2025).

²⁴ Author's calculation based on user-friendly budget and fall enrollment report data from FY25

concentration. It displays all New Jersey school districts with 5,000 or more students and with poverty rates at 10% or more.

FIGURE 6: STATE AND LOCAL REVENUE PER STUDENT FOR KEY DISTRICTS, FY25



Notice from Figure 6 the sharp drop in state aid amounts per student below Irvington Township. For this group of large districts, there’s a clear gap between districts that rely on state aid for 80% or more of their state and local K-12 funding and districts that depend on state aid for less than 50% of their budget.

While it’s appropriate for more state aid to flow to school districts that are less able to cover their SFRA formula costs locally, current local share calculation methods are likely an over-correction for that problem. Below low-income/high-need districts (New Brunswick, Camden), which receive a large majority of their funding from state aid, are many middle-income districts (North Bergen, Jackson) that receive much less state aid. Middle-income districts (Bloomfield, Egg Harbor) often exhibit higher tax effort than their low-income peers (see Figure 7).

FIGURE 7: TAX EFFORT AND DISTRICT DEPENDENCE ON LFS FOR FORMULA FUNDING, FY25

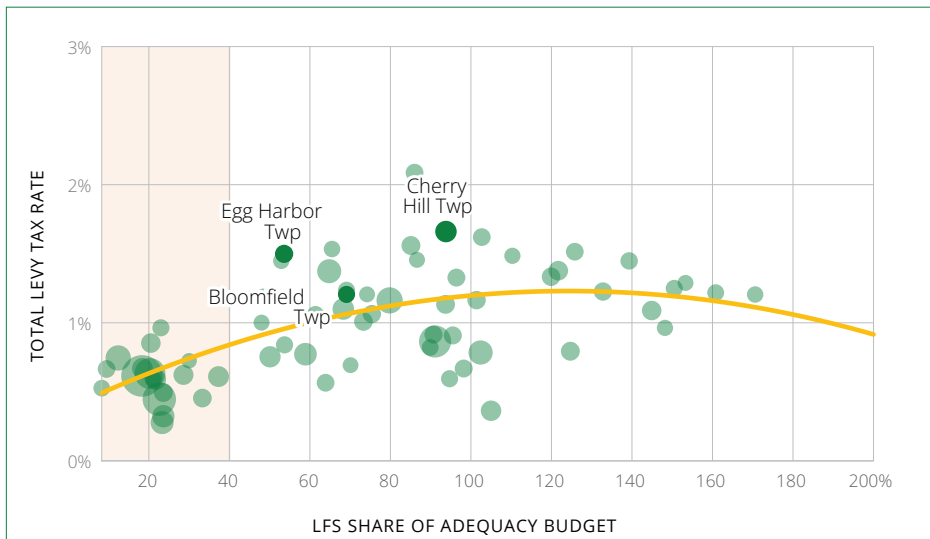


Figure 7 displays total levy tax rates (as a percentage share of equalized valuations) on the vertical axis and the local share (LFS) of adequacy budgets on the horizontal axis. It only includes districts with 5,000 or more students. Note that districts with an LFS share greater than 100% of their adequacy budgets receive no equalization aid from the SFRA formula, although they receive some state aid through the categorical grants. As Figure 7 illustrates, most districts receiving 40% or less of their adequacy budget tax well under 1% for their local levy. By contrast, many districts that depend on local property taxes for between 40% and 80% (e.g., Bloomfield, Egg Harbor) often tax at rates well above 1%. To be sure, there’s ample variation in tax effort among the middle-income districts.

Taxpayers in these middle-income districts are squeezed more often when LFS is increased, leading to higher overall tax effort relative to the highest and lowest-need districts. For example, during the 2025 school budget cycle, many middle-class districts in Ocean and Monmouth counties that receive only small shares of state aid were considering adopting large one-time tax increases that exceeded the 2% municipal tax cap.²⁵ Because of the SFRA formula’s heavy prioritization of state aid for the highest-need districts, middle-income districts that still have their own needs are forced to weigh program cuts or school closures against double-digit property tax increases.

²⁵ Amanda Oglesby, “New Jersey school taxes to rise dramatically in many Ocean and Monmouth school districts,” Asbury Park Press, 21 April 2025. <https://www.app.com/story/news/education/2025/04/21/nj-schools-incentive-raise-taxes-or-face-deep-cuts-ocean-monmouth-middletown-lacey/83101661007/>

IV. Policy Recommendations

This analysis has highlighted the trade-offs New Jersey faces between three competing priorities: expensive SFRA adequacy targets (especially for a small subset of large districts), district-level enrollment changes, and available resources (both state and local). Of these three, perhaps the most important constraint is the cost of SFRA adequacy targets. Despite being one of the wealthiest, highest-taxed states, New Jersey’s state and local taxpayers often lack the resources to fund expensive SFRA adequacy budgets fully. Most of the negative consequences highlighted in this paper—such as some districts not receiving their full state aid entitlement, volatility in state aid and LFS assumptions, caps on increases or decreases in state aid—come from this core problem. By containing SFRA cost growth, available resources should be sufficient to fund the formula fully, and none of these tradeoffs will be needed.

Like New Jersey, most other states have used some form of input cost measurement method to build their funding formulas. But the growth in cost input assumptions in other states has been more modest. It also hasn’t necessarily come at the cost of student academic improvement, particularly for low-income students. States like Mississippi, Florida, and Georgia have seen less K-12 cost growth than New Jersey, yet they have simultaneously experienced growth in national test scores that rivals New Jersey.²⁶ These counterexamples challenge the assumption that keeping up with current SFRA cost growth demands is necessary to achieve further student progress.

Recommendation #1: Stabilize and Slow the Growth in Funding Formula Cost Demands

New Jersey policymakers should slow the growth in state funding formula costs by re-evaluating the original cost assumptions that informed its development prior to 2008. This should include simplifying the cost assumptions that inform the base amount, formula weights, and categorical aid streams. State leaders should also cap annual growth in the formula base amount after adjusting for inflation.

Recommendation #2: Simplify Local Fair Share Measurement

Regular, unrealistic changes to the share of formula costs districts are expected to cover with local property taxes are a primary cause of the volatility in state aid and unfair burdens on local taxpayers. State policymakers should simplify and stabilize local share assumptions. Some potential reform options include decreasing the local share calculation’s emphasis on local income and cap-

²⁶ Smith, Campbell, Barnard, “Public Education at a Crossroads: A Comprehensive Look at K-12 Resources and Outcomes,” Reason Foundation, 2024.

ping local share growth assumptions to match the 2% property tax growth cap. Limiting local share growth in this manner would put more pressure on the state to control formula cost growth and would place less pressure on local taxpayers in middle-income districts.

Recommendation #3: Preserve the 2% Property Tax Cap

Since its adoption in 2010, the 2% property tax cap has shielded local taxpayers, especially those in low- and middle-income areas, from bearing a disproportionate share of the funding formula cost increases. Although this policy is often at odds with the school funding formula's local share assumptions, the solution to that tension is to reform local share measurement rather than weakening the 2% cap or eliminating it.

Recommendation #4: Limit Use of Caps on Increases and Decreases in State Aid

Caps on state aid changes are intended to help decrease aid volatility resulting from changes to LFS assumptions each year. But when the legislature takes these measures year after year, they create another problem by allocating more or less state aid to districts than they are entitled to based on their current student populations. Volatility in state aid should instead be dealt with through reforms like those highlighted in recommendations 1 and 2—not through hard caps.

Recommendation #5: Improve Transparency in Funding Formula Calculations and State Aid Decisions

The hidden unfairness of artificial changes to the local share and state aid decisions that depart from funding formula calculations needs to be communicated to district officials and residents. Specifically, districts should be given public notice at least 60 days before their final budget deadline. These public notices should include:

- » The district's state equalization aid and state categorical grant amounts, in both total and per student terms.
- » An explanation of how much and why the district's state aid has increased or decreased. The explanation should include a clear disclosure about whether the district is receiving state aid in accordance with its calculated adequacy target under the SFRA. If state aid isn't equal to SFRA formula calculations, the notice should include an explanation for the discrepancy.
- » An explanation of how state LFS assumptions were increased or decreased, and what the new LFS amount and tax rate assumption are for the district.
- » The impact of SFRA calculations on local property tax rates, should they be adhered to by the district.

New Jersey lawmakers should also audit the cost assumptions underlying the state funding formula. The facts that spending increases have well outpaced inflation over the past decade and that New Jersey has the highest per-capita property tax collections in the country—even after a decade and a half of the 2% property tax cap—is a clear indicator that the growth spending requirements of the SFRA funding formula are unsustainable.

Conclusion

New Jersey's K-12 funding system already has some student-centered funding elements. However, poor transparency, high costs, and the constant balancing act between limited resources and competing priorities create disparities for some groups of taxpayers and students.

The state's K-12 funding formula does not fund students with similar needs equally across school districts. Some districts can rely nearly exclusively on state aid to fund services for their high-need students, while many others cannot cover the same costs for their high-need students because their local tax bases can't compensate for the absence of state aid. Additionally, state aid changes too often fail to reflect shifts in student enrollment.

For local taxpayers, the state funding formula's volatility can lead to sudden increases in property tax expectations. The formula's overall cost demands can also lead to unattainable, burdensome property taxes in middle-income districts.

New Jersey should maintain fidelity to the state funding formula's student-centered elements while addressing the problems that undermine them. First, the state needs to adopt more fiscal restraint and instead prioritize stability and predictability. Additionally, local property tax share assumptions should match the reality of what districts can actually raise. This step would also make state aid more predictable and decrease the need for caps on increases or decreases in state aid. Finally, New Jersey lawmakers should improve formula transparency so that school districts can plan more effectively and the public understands the current formula's costs. Altogether, these reforms will deliver a funding system that families and taxpayers can trust and understand.

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