

LEGISLATIVE FISCAL ESTIMATE
ASSEMBLY COMMITTEE SUBSTITUTE FOR
ASSEMBLY, No. 4496
STATE OF NEW JERSEY
220th LEGISLATURE

DATED: MARCH 2, 2023

SUMMARY

Synopsis:	Revises various provisions of law governing construction of school facilities projects and operations of New Jersey Schools Development Authority.
Type of Impact:	State expenditure increase. Revenue increase for charter school and renaissance school projects located in SDA districts. Revenue increase for local school districts. Revenue decrease for certain municipalities.
Agencies Affected:	New Jersey Schools Development Authority. Department of Education. New Jersey Economic Development Authority. Local school districts. Charter schools and renaissance school projects located in SDA districts. Certain municipalities. County improvement authorities.

Office of Legislative Services Estimate

Fiscal Impact	<u>Annual</u>
State Cost Increase	Minimum of \$15 million, with likelihood for higher costs
Charter School and Renaissance School Project Revenue Increase	Indeterminate
Local School District Revenue Increase	Indeterminate
Municipal PILOT Revenue Decrease	Indeterminate

- The Office of Legislative Services (OLS) finds that this bill will primarily lead to an increase in State expenditures due to several notable provisions included in the bill.
- The OLS finds that expenditures related to providing State appropriations for the administrative, insurance, operating, and other expenses of the New Jersey Schools Development Authority will lead to an increase in State expenditures of at least \$15 million. This figure is a minimum estimate of cost based on the authority’s budgeted amounts and expenditures on salaries and benefits charged to school facilities projects in recent years.

- Perhaps the largest cost driver of the bill would be provisions that establish a process for the approval of, and a mechanism for, the State financing of 100 percent of the eligible costs of school facilities projects of charter schools and renaissance school projects physically located in Schools Development Authority districts. While the OLS does not have access to information to definitively project costs stemming from these provisions, a school needs assessment survey conducted by the New Jersey Charter Schools Association and JerseyCAN estimates that school facilities needs over the next decade in charter schools and renaissance school projects located in the six largest authority districts total approximately \$820 million.
- The OLS notes that indeterminate State debt service aid cost increases will occur as a result of providing State aid incentives for non-Schools Development Authority districts (also known as “regular operating districts”) to undertake school facilities projects that adhere to the “model school design program” established under the bill or that implement energy efficiency features.

BILL DESCRIPTION

This bill provides various changes to the laws governing the construction of school facilities projects and the operations of the Schools Development Authority. The notable provisions of the bill that will affect State expenditures are as follows:

- providing for 100 percent State financing of school facilities projects of charter schools and renaissance school projects physically located in Schools Development Authority districts;
- newly appropriating State funds for the administrative, insurance, operating, and other expenses of the Schools Development Authority and the New Jersey Economic Development Authority in carrying out the operation and the financing of the school construction program;
- providing for State aid incentives to regular operating districts undertaking school facilities projects that adhere to the “model school design program” established under the bill or that implement energy efficiency features;
- allowing a school district to raise bonds for a school facilities project without the approval of the voters of the district if the school district enters into a contract with one or more municipalities under which the municipality remits a portion of the payments in lieu of taxes received from one or more designated properties, and the district pledges those monies to the repayment of the bonds; and
- codifying the “Emergent Condition Remediation Program” for certain projects in Schools Development Authority districts.

FISCAL ANALYSIS

EXECUTIVE BRANCH

None received.

OFFICE OF LEGISLATIVE SERVICES

The OLS finds that this bill will primarily lead to an increase in State expenditures. As discussed in more detail below, the OLS estimates that the minimum increase in annual State costs would be \$15 million, solely to cover the salaries and benefits charged to school facilities projects undertaken by the Schools Development Authority. Other provisions of the bill will likely cause State costs to be significantly higher. As discussed further below, perhaps the largest cost driver in the bill is the provision that requires 100 percent State support for certain school facilities projects of charter schools and renaissance school projects physically located in authority districts.

Providing State Funding for Charter and Renaissance School Facilities Projects in SDA Districts

The bill provides a process for the approval of, and a mechanism for, the 100 percent State financing of school facilities projects of charter schools and renaissance school projects physically located in Schools Development Authority districts. The OLS notes that this provision would result in a State expenditure increase and a concurrent revenue increase for charter schools and renaissance school projects in authority districts. The OLS does not have the information to definitively project the costs of funding these school facilities projects. However, publicly available materials may provide a sense of the potential magnitude of cost to the State as a result of the enactment of this provision of the bill. The OLS shares these figures purely for illustrative purposes and cannot independently verify the information that is shared.

The OLS notes that a survey conducted by the New Jersey Public Charter School Association and JerseyCAN, the results of which were released in February of 2020, found that construction, renovation, and capital improvement needs among all charter schools and renaissance school projects will total \$942 million over the next decade. The report notes that approximately \$820 million of “unfunded facilities needs” are from charter schools and renaissance school projects located in the largest six Schools Development Authority districts, namely Newark, Camden, Paterson, Jersey City, Trenton, and Plainfield. This cost includes an estimated \$687 million for new construction and an estimated \$255 million for renovation, maintenance, and capital improvements. The OLS notes that, of the charter schools listed in the New Jersey Department of Education’s School Performance Reports for the 2020-2021 school year, approximately 54 percent are located in the six largest Schools Development Authority districts identified. More broadly, approximately 71.6 percent of all charter schools across the State are located in authority districts. The office further notes that it cannot independently verify the extent to which the school facilities needs estimates include final eligible costs that would be 100 percent funded by the State.

As further points of information and illustration, the OLS notes that court documents filed by the New Jersey Public Charter Schools Association in December 2021 provide some examples of the costs associated with individual school facilities needs in charter schools located in Schools Development Authority districts. The documents provide the following examples: 1) a \$175,000 project to update the heating, ventilation, and air conditioning systems at the Paterson Charter School for Science and Technology; 2) a project costing between \$750,000 and \$900,000 to replace all of the windows at the Queen City Academy Charter School in Plainfield; and 3) a project costing between \$1.4 million and \$1.6 million to replace the roof at the Learning Community Charter School in Jersey City.

The OLS assumes that the source of any funds made available for the final eligible costs of school facilities projects of charter schools and renaissance school projects under the bill would be State appropriations. While appropriations have been made in recent years for the direct funding of school facilities projects through the annual appropriations act or from the “New Jersey Debt Defeasance and Prevention Fund,” current law provides that the primary mechanism for funding

school facilities projects is the proceeds of bonds as authorized in statute for Schools Development Authority districts and other school districts. However, these statutory bond authorization amounts do not include funds for the facilities needs of charter schools and renaissance school projects.

Providing State Appropriations for the Operating Expenses of the School Construction Program

This bill generally provides that the State will appropriate funds for the administrative, insurance, operating, and other expenses of the Schools Development Authority and the New Jersey Economic Development Authority in carrying out the operation and the financing of the school construction program. The OLS projects that this portion of the bill will annually cost at least \$15 million, which is based on the Schools Development Authority's budgeted amounts and expenditures on salaries and benefits charged to school facilities projects in recent years.

Under current law, the Schools Development Authority undertakes, and the Economic Development Authority provides for the financing of, the school facilities projects of the 31 Schools Development Authority (former Abbott) districts. The Economic Development Authority also issues bonds for the financing of school facilities projects in non-Schools Development Authority districts and county vocational school districts.

The State currently provides 100 percent of the funding of final eligible costs for school facilities projects in the Schools Development Authority districts. In undertaking the school facilities projects, the Schools Development Authority is generally responsible for the planning, design, construction management, acquisition, construction, and completion of school facilities projects in the authority districts. The authority is responsible for: 1) capital projects, which are new schools, major renovations, and rehabilitation projects in Schools Development Authority districts; and 2) emergent projects, which are projects deemed necessary in those districts due to potential health and safety issues. In financing the school facilities projects, the Economic Development Authority issues bonds on behalf of the Schools Development Authority to fund school facilities projects. The aggregate amounts of the bonds authorized in statute totals \$12.5 billion, of which \$8.9 billion is dedicated for authority districts. In addition to this amount, current law authorizes bond issuances up to an aggregate amount of \$3.45 billion for the State share of the costs of school facilities projects in non-Schools Development Authority districts (also known as "regular operating districts") and \$150 million for the State share of costs of school facilities projects in county vocational school districts.

The bill would shift the source of funds for the Schools Development Authority's administrative, insurance, operating, and other expenses to undertake school facilities projects from bond proceeds to State appropriations. To fund this requirement of the bill, the OLS estimates an increase in State expenditures of at least \$15 million. This estimate is based on figures noted in public budget documents included in Schools Development Authority board meeting agenda materials, which detail the amounts dedicated for employee salary and benefit costs charged to school facilities projects. In addition to figures on salary and benefit costs charged to school facilities projects, the materials indicate that the authority's remaining operating expenses, which are not charged to school facilities projects, have averaged approximately \$17.18 million since calendar year 2019. It is possible that a portion of these costs would also be covered by State appropriations, but the OLS is uncertain of the extent to which these other operating costs would be funded by the State as a result of the bill. The OLS further notes that the amount also likely does not completely account for potential costs to the Schools Development Authority in establishing an Office of Contracting Accountability, as required by the bill, and the cost of additional administrative and regulatory functions the authority would undertake as a result of other provisions in the bill.

The OLS also notes that the bill requires that the administrative, insurance, operating, and other expenses of the Economic Development Authority to undertake the financing of school facilities projects would be funded through State appropriations. The costs of funding the authority's operations in this regard are indeterminate.

Providing State Aid Incentives to Regular Operating Districts

The bill provides State aid incentives for regular operating districts undertaking school facilities projects that adhere to the "model school design program" established under the bill or that implement energy efficiency features. The OLS is unable to quantify the increase in State costs as a result of these provisions of the bill, as the extent to which regular operating districts will adhere to these standards in future school facilities projects is unclear. The OLS notes that, in order to provide these incentives, the State would experience an increase in the appropriation for School Construction Debt Service Aid ("debt service aid"), the appropriation of which totaled \$120.3 million in FY 2023. Any increase in the State's expenditures for debt service aid would result in a concurrent increase for school districts qualifying for the enhanced aid amounts.

While the bill will result in cost increases for debt service aid, the OLS also notes that the bill amends the section of law establishing one-time grants for the State share of school facilities projects of regular operating school districts. The program established under this section of law, often referred to as the "ROD Grant Program," is amended under the bill to provide the same State aid incentives provided under debt service aid. Providing these State aid incentives under the ROD Grant Program would not in and of itself increase State costs, primarily because statutory funding under the program is now nearly exhausted. The State has separately appropriated \$350 million for the ROD Grant Program from the "New Jersey Debt Defeasance and Prevention Fund." In the event that these State aid incentives are applied to districts receiving grants under this appropriation, those districts may receive a larger grant than would otherwise be the case; however, it would not affect the amount of the total appropriation.

Other Cost Considerations

Other cost considerations under the bill are as follows:

- **Municipal remittances of PILOTs to boards of education for school facilities projects.** The bill allows a school district to raise bonds for a school facilities project without the approval of the voters of the district if the school district enters into a contract with one or more municipalities, wherein the municipality provides the district with not less than 60 percent of the payments in lieu of taxes received from one or more designated properties, and the district pledges those monies to the repayment of the bonds. The OLS notes that it is likely that this provision would not have widespread applicability across the State as approximately 43.2 percent of municipalities have payment in lieu of taxes agreements according to data included in the Department of Community Affairs' PILOT Database and Viewer for calendar year 2021.
- **Codifying the "Emergent Condition Remediation Program."** The bill would codify an existing Emergent Program, for which the Schools Development Authority currently provides funding to authority districts for projects that address conditions deemed necessary by the Department of Education due to potential health and safety concerns. This provision of the bill does not necessarily impose costs to the State. In the event that currently available funds are depleted for this program, however, the OLS notes that the Schools Development Authority's most recent biannual report from June 2022 indicates

that it is “currently managing 17 emergent projects that represent a greater than \$44 million State investment.”

Section: Revenue, Finance, and Appropriations
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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.).