LEGISLATIVE FISCAL ESTIMATE

SENATE, No. 3421

STATE OF NEW JERSEY
221st LEGISLATURE

DATED: JULY 1, 2024

SUMMARY

Synopsis:	Revises certain sections of law concerning financing mechanisms for school facilities projects of regular operating districts.
Type of Impact:	Local school district expenditure increase. County expenditure decrease. Local school district revenue decrease. Municipal payment in lieu of taxes revenue increase.
Agencies Affected:	Local school districts. Counties. County Improvement Authorities.

Office of Legislative Services Estimate

Fiscal Impact	**Annual**
Local School District Expenditure Increase	Indeterminate
County Expenditure Decrease	Indeterminate
Local School District Revenue Decrease	Indeterminate
Municipal PILOT Revenue Increase	Indeterminate

- The Office of Legislative Services (OLS) concludes that this bill will lead to an indeterminate increase in debt service expenditures for regular operating school districts that enter into agreements with county improvement authorities to construct and finance a school facilities project on the district's behalf. The increase in school district expenditures would coincide with a decrease in county debt service expenditures.

- The OLS also determines that the bill will lead to an indeterminate decrease in revenue for regular operating districts that enter into agreements with municipalities in which the municipality remits payments in lieu of taxes to the districts to pay for debt service on school facilities project bonds. This decrease in revenue for regular operating districts would lead to municipalities being able to retain more revenue than is the case pursuant to current law, leading to a municipal payments in lieu of taxes revenue increase.

- Given that the sections of law authorizing regular operating districts to enter into agreements with county improvement authorities for the financing and construction of school facilities projects and to enter into agreements with municipalities for the remittance of payments in lieu of taxes were only recently codified into State law, the extent to which these financing mechanisms are currently utilized across the State remains unclear.

BILL DESCRIPTION

This bill modifies certain sections of law concerning financing mechanisms for school facilities projects that are constructed by districts other than Schools Development Authority districts. These districts are often referred to as "regular operating districts."

Pursuant to current State law, a regular operating district may enter into an agreement with a county improvement authority to construct a school facilities project and to issue bonds to finance the project. In this case, the county improvement authority is required to lease the school facilities project to the county, which then leases it for nominal consideration to the school district for as long as the county improvement authority bonds are outstanding. The law stipulates that a county is not authorized to require a district to bear any portion of the cost of the bonds issued by a county improvement authority to fund the school facilities project. County lease payments made to the county improvement authority are to be sufficient to pay debt service on the county improvement bonds that remains after the application of State debt service aid. This bill modifies this section of law to remove the language that prohibits a county from requiring a district to bear any portion of the debt service costs on county improvement authority bonds. The bill additionally requires that district lease payments pursuant to the bill are to be sufficient to pay all debt service on county improvement authority bonds that remain after the application of State debt service aid. The district lease payments are not subject to any cap on appropriations or on spending or to any tax levy cap.

Current State law also permits a regular operating district to raise bonds for a school facilities project without the approval of the voters of the district if: 1) 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 2) the amounts remitted from the municipality to the school district are used for the full repayment of the bonds raised for the school facilities project. This bill modifies the law to provide that municipal remittances to school districts are to be sufficient to cover only the portion of bond proceeds that are not supported by debt service aid provided by the State. The bill further clarifies that the total amount of bonds, which are supported by municipal remittances of payments in lieu of taxes to a school district for a school facilities project, are eligible for State debt service aid.

FISCAL ANALYSIS

EXECUTIVE BRANCH

None received.

OFFICE OF LEGISLATIVE SERVICES

The OLS concludes that this bill will lead to an indeterminate increase in debt service expenditures for school districts that enter into agreements with county improvement authorities to construct and finance school facilities projects on the districts' behalves. The increase in school district expenditures would coincide with a decrease in county debt service expenditures.

Recently enacted law, P.L.2023, c.311, provides that school districts entering into the agreements with county improvement authorities are not required to bear any portion of the cost of debt service on the county improvement authority bonds issued to fund the school facilities project. Following the lease of the school facilities project from the county improvement authority to the county, the county is responsible for providing lease payments to the county improvement authority. Lease payments provided by the county to the county improvement authority are required to be sufficient to pay debt service on the amount of bonds that remains after the application of State debt service aid. State debt service aid permits a regular operating district to receive State support for a minimum of 40 percent of approved school facilities project costs.

This bill, however, requires regular operating districts (rather than counties) to pay all debt service on the county improvement authority bonds that remains after the application of State debt service aid. This proposed change would lead to an increase in spending for these school districts compared to current law and a concurrent decrease in spending for counties. Given that authorization for school districts to enter into these agreements with county improvement authorities was only recently codified into State law, the extent to which this financing mechanism is currently utilized across the State remains unclear.

The OLS also determines that this bill will lead to an indeterminate decrease in revenue for regular operating districts that enter into agreements with municipalities in which the municipality remits payments in lieu of taxes to regular operating districts to pay for debt service on school facilities project bonds. This decrease in revenue for regular operating districts would lead to municipalities being able to retain more revenue than is the case pursuant to current law, leading to a municipal payments in lieu of taxes revenue increase.

Pursuant to current law regarding these agreements, municipalities are required to provide enough funds for the full repayment of the school facilities project bonds. This bill, however, provides that the payment in lieu of taxes remittances from municipalities are to be sufficient to pay for the amount of debt service that remains after the application of State debt service aid. This would lead to municipalities having to remit a reduced amount of revenue to the school districts with which they enter into agreements. Given that authorization for school districts to enter into these agreements with municipalities was only recently codified into State law pursuant to P.L.2023, c.311, the extent to which this financing mechanism is currently utilized across the State remains unclear. The OLS notes that it is likely that this provision would not have widespread applicability across the State as approximately 46.1 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 2023.

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.).