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RESEARCH BRIEF

ARE SOUTH JERSEY SCHOOL DISTRICTS PREPARED FOR THE NEXT RECESSION?

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Beginning in March 2020, state governments across the country implemented restrictions on many forms of economic activity to prevent the spread of the COVID-19 disease. These necessary decisions for public health have caused declines in the economy, reductions in state revenues, and state budgetary shortfalls. State governments often reduce school aid when balancing their budgets during economic recessions. A significant reduction in state aid is problematic for New Jersey school districts because many districts depend on federal and state revenues to fund schools. To help the state distribute cuts fairly, and to help school districts plan for the future, it is vital that state and local policymakers in South Jersey are aware of the most financially vulnerable school districts in the region.

This study provides actionable and pertinent school district funding information by examining the current financial status of the largest school districts in South Jersey and identifies the school districts that are most financially vulnerable to a potential reduction in school aid.

The study offers three main findings:

- First, **17 of the 25 largest school districts in South Jersey are at risk of financial troubles** if the economic downturn results in a sizeable reduction in school aid. To sustain current revenue levels, these 17 "more at risk" school districts would need to raise local property taxes by at least 5% if there was a 10% reduction in school aid.
- Second, **at least eight of the "more at risk" school districts face significant obstacles in raising local property taxes** in response to a reduction in school aid because the residents in these school districts already face higher than average local tax burdens and higher than average levels of economic distress. It could be argued that all NJ school districts will face at least some obstacles in raising local property taxes, especially since NJ has the highest per capita property taxes in the country.
- Lastly, **at least ten of the "more at risk" school districts do not have adequate levels of short-term financial resources** (e.g., cash and cash equivalents) to cover their short-term financial obligations (e.g., accounts payable). A sizeable reduction in state aid may cause greater liquidity troubles for these school districts. For example, if a school district has valuable property assets but does not have cash on hand, a delay or shortage of cash influx from the state could make it impossible for this school district to pay its bills.

The basic financial indicators are explained in Table 1, using Vineland City as an example. The four indicators include the risk exposure factor, the local tax burden, the current ratio, and the local unemployment rate. For example, this table shows that Vineland has a higher than average risk exposure factor (REF) of 5.82, which implies that it would need to raise local property taxes by 58.2% if there was a 10% reduction in school aid in order to maintain needed funding levels. Vineland would be financially vulnerable if there is a reduction in school aid because the rule of thumb is to have a REF below 0.5.

Table 2 reports these indicators for the 25 largest school districts in South Jersey. This table shows that 17 of the 25 school districts would be financially vulnerable if there was a 10% reduction in school aid. These 17 school districts are identified as 'more at risk' school districts and they are shown here in yellow or red, with red indicating more financial vulnerability. The technical report contains complete information about how these financial indicators are measured.

Table 1. A Summary of the Financial Indicators for Vineland City School District

INDICATOR	SCORE	INTERPRETATION
Risk Exposure Factor	5.82	A 10% reduction in school aid would require a 58.2% increase in local property taxes.
Local Tax Burden	7.50	7.5% of personal income goes towards paying all property taxes.
Current Ratio	1.20	For every $1 in short-term liabilities, the school district has $1.20 in short-term assets.
Unemployment Rate	13.30	13.3% of residents were unemployed in 2016.

Table 2. Financial indicators for 25 of the largest school districts in South Jersey

SCHOOL DISTRICT	COUNTY	REF SCORE	LOCAL TAX BURDEN	CURRENT RATIO	UNEMPLOYMENT RATE
Camden City	Camden	45.44	1.30	0.95	10.10
Bridgeton City	Cumberland	24.46	2.30	1.24	8.80
Pleasantville City	Atlantic	6.85	3.90	0.85	11.60
Pemberton Twp	Burlington	5.91	2.10	1.28	6.50
Vineland City	Cumberland	5.82	7.50	1.20	13.30
Millville City	Cumberland	5.58	4.90	1.44	8.80
Pennsauken Twp	Camden	1.33	4.90	4.75	5.40
Atlantic City	Atlantic	1.17	14.30	4.27	7.70
Gloucester Twp	Camden	1.11	6.20	2.95	5.00
Black Horse Pike	Camden	1.06	5.90	2.29	5.30
Winslow Twp	Camden	0.93	3.40	1.30	6.10
Deptford Twp	Gloucester	0.86	5.70	0.88	5.10
Toms River Regional	Ocean	0.83	7.50	0.26	5.60
Monroe Twp	Gloucester	0.73	5.00	2.04	5.70
Washington Twp	Gloucester	0.60	6.30	2.01	4.30
Egg Harbor Twp	Atlantic	0.60	6.50	2.78	8.70
Jackson Twp	Ocean	0.57	5.40	0.70	4.80
Burlington Twp	Burlington	0.49	5.1	0.71	5.2
Lacey Twp	Ocean	0.45	5.7	0.40	5.1
Brick Twp	Ocean	0.35	5.7	1.23	5.2
Lenape Regional	Burlington	0.28	5.9	1.16	5.4
Evesham Twp	Burlington	0.27	5.7	1.18	3.6
Moorestown Twp	Burlington	0.14	8.8	1.01	3.3
Cherry Hill Twp	Camden	0.14	8.5	4.81	3.7
Mount Laurel Twp	Burlington	0.12	6.7	1.66	3.7

Typically, schools raise property taxes when they don't receive enough aid from the state to cover expenses. Unfortunately, many 'more at risk' school districts will not reasonably be able to raise property taxes because they already have higher than average local tax burdens. The local tax burden is defined as the percent of residential income that goes towards paying local property taxes.
To help us understand whether school districts would be able to make up lost revenue by raising property taxes, we calculate local tax burdens for each school district, which are reported in Table 2. For example, Pleasantville City has a local tax burden of 3.9, which suggests that the typical resident uses 3.9% of their income to pay local property taxes. Holding all other factors constant, a higher value for the local tax burden suggests the school district has less capacity to increase property taxes. Atlantic City has the highest local tax burden at 14.3, which suggests it will have the hardest ability to raise additional tax revenue.

Among the "more at risk" school districts (i.e., yellow or red values for REF), there is significant variation in local tax burdens. Some school districts have high REF values, but relatively low local tax burdens. These districts include Bridgeton City, Camden City, and Pemberton Township. In theory, because they have lower local tax burdens, these school districts could be better able to raise revenues in response to reduction in school aid than those with higher property tax burdens. However, other factors, like high poverty rates, may prevent these districts from significantly increasing local property taxes.

In contrast, the "most-at-risk" school districts have both higher than average REF scores and higher than average local tax burdens (red/yellow in the first two columns in Table 2). Vineland City is in this position. This suggests that Vineland is arguably the most vulnerable school district in the sample if there is a reduction in school aid. The full report provides more details on at least seven other school districts in a similar position.

One way to alleviate these budgetary shortfalls is to use short-term, financial capital (e.g., cash and cash equivalents) to pay for short-term obligations like employee payrolls and supplies. This report examines a school district's ability to address short-term budget shortfalls by calculating the current ratio. The current ratio compares short-term assets to short-term liabilities, which are the already existing obligations for those short-term assets. For example, if you have 1,000 in the bank, but you owe 750, you only have 250 available to use. The rule of thumb is to have a current ratio above 2, which implies that the school district has $2 in short-term assets for every $1 in short-term liabilities. A majority (10 of 17) of the "more at risk" school districts have an insufficient level of liquidity to pay for short-term obligations because they have a current ratio below 2 (See Table 2). Worse yet, five of the "more at risk" school districts have a current ratio below 1 (Camden City, Deptford Township, Pleasantville City, Jackson Township, and Toms River Regional), which means they have more short-term liabilities than short-term assets.

CONCLUSION

In conclusion, many of the largest South Jersey school districts are financially vulnerable if there is a sizable reduction in school aid as a result of the recent economic downturn. Fortunately, there are ways in which state and local policymakers can help mitigate school districts from the negative effects of economic downturns. These ways include relaxing the local property tax levy limit, providing financial incentives to encourage local "rainy-day" funds, targeting state aid reductions in a fair way, and pressuring our federal policymakers for financial aid to state and local governments. A full version of this report, including the complete analysis and a full description of the policy recommendations, is available at rand.camden.rutgers.edu. For additional questions, contact study author Michael Hayes, Ph.D. at michael.hayes@rutgers.edu.

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