



## NJ School Choice Alliance

### S-1607 Economic Analysis

#### Executive Summary

**PROBLEM:** The closing of non-public and faith-based schools serving low-income students is both a national and local challenge. When these schools close, not only do neighborhoods or regions lose an important, stabilizing, educational resource, many students return to their local public schools at great expense to taxpayers across the state.

**SOLUTION:** The Urban Enterprise Zone Jobs Scholarship Act (S-1607/A-2897) is a five-year pilot program that will give corporations a 100% tax credit for contributions made to Scholarship Funds that would allow low-income students in several of the State's Urban Enterprise Zones to attend out-of-district public schools, or non-public schools anywhere in the State. Total allowable tax credits are \$24 million in Year I of the pilot, rising \$24 million per year for five years. The five-year total will be \$360 million, which will reduce NJ Corporate Business Tax (CBT) revenue by \$360 million.

If S-1607/A-2897 is not passed, 8,000 non-public school students will return to pilot district public schools, requiring as many as 14 new schools, costing \$654 million, or \$42 million per year:

- \$46 million per school on new school construction, or \$3 million per year, per school on the long-term debt, interest and amortization related to new projects;
- \$86 million dollars in operating costs related to student returns to local public school districts and increased costs linked to teacher hiring.

If S-1607/A-2897 is passed, approximately 13,500 public school children will leave public schools in the pilot districts, relieving the State's need to build up to 22 new schools, costing \$1.027 billion, or \$67 million per year (2006 dollars);

In fact, passing S-1607/A-2897 prevents 8,000 students from returning to pilot district public schools, and allows 13,500 students to leave pilot district public schools for a total construction savings for 21,500 students of \$1.681 billion, or \$109 million per year. This \$109 million is \$11 million less than the \$120 million allowed in the fifth year of the pilot program, but should be more than offset by savings in state aid due to students accepting scholarships and a reduced need for new school construction. All projections are based on 2006 dollars. The School Development Authority projects a 50% increase in school construction costs by 2011.

*NOTE: The recently enacted School Funding Formula (SFF), and its hold harmless provision, will not reduce aid to the pilot districts as children accept scholarships. S-1607, with or without this provision, cannot and does not remove any funding from pilot district public schools. However, student returns from non-public school closings will force the pilot districts to incur per-student expense without increased funding. S-1607 provides indirect savings against the cost of future school closings and student returns to pilot district public schools. S-1607 also provides direct savings to the State in alleviating its need for school construction in the pilot districts.*

## I. School Closings

One hundred parochial schools in New Jersey have closed in the last decade<sup>1</sup>, returning 40,000 children to NJ Public Schools, or 4,000 children per year on average. This trend will continue and accelerate. The steady stream of closings is due not to poor education quality in the non-public sector, but rising costs that have forced these schools to raise their tuition beyond what many low-income families can afford, and decreased subsidies. Non-public school students are, thus, forced to return to their local public schools. What had been zero cost to taxpayers becomes an \$18,000 per pupil expense to the pilot district. The SFF does not allow pilots to recover costs for returning non-public school children until their adjustment aid is depleted.

In the pilot districts approximately eight non-public schools per year are closing. Pilot districts such as Trenton have watched this trend reduce non-public capacity within the city limits from 17 schools to zero, returning significant numbers of children to traditional public schools in that city. Trenton, as with nearly all of the pilot districts, pays approximately 10%<sup>2</sup> of its own school costs. As a result, costs related to increased student returns linked to school closings are a statewide issue, not simply a local one confined to the pilot districts.

When enrollment at a parochial school dips below 225 students, the school is no longer considered financially viable unless it is able to do substantial private fundraising<sup>3</sup>. As we have seen over the last decade, instead of rebounding, these schools, given the nature of their student population and the fundraising environment, continue to lose enrollment until they close. A significant portion, and in some cases all, of their students return to local public schools. Table I assumes eight parochial and non-sectarian schools close in the pilot districts annually. Table I also assumes 200 children per school closing return to pilot district public schools.

**Table I-Students Returning to Public Schools Due to Non-public Closings**

	Year 1	Year 2	Year 3	Year 4	Year 5
# Students	1,600	1,600	1,600	1,600	1,600
		1,600	1,600	1,600	1,600
			1,600	1,600	1,600
				1,600	1,600
					1,600
Total Students	1,600	3,200	4,800	6,400	8,000

Over the length of the pilot period, we estimate 1,600 students per year will return to public schools in and around the pilot districts, totaling 8,000 students during the span of the pilot, at a Pilot District Average Cost Per Pupil of \$18,000<sup>4</sup>. Using the following formula, we can estimate the cost in returning students each year if closures continue at the current rate:

$$(8 \times 200) \times \$18,000 = \text{Annual Cost of Returning Students}$$

As Table II shows, allowing non-public schools in and around the pilot districts to continue their current rate of closure will cost the pilot districts approximately an additional \$28.8 million per cohort per year, or an aggregate of \$432 million in new-student expenses over the life of the pilot program. Though these districts will receive additional aid in the form of Title I from the Federal government (appx. 6%), much of the expense will be borne by local districts until their adjustment aid is depleted, at which time the State's direct contribution must increase.

**Table II-Annual Cost of Returning Students**

Program Year	# Students	
Year 1	1,600	\$28,800,000
Year 2	3,200	\$57,600,000
Year 3	4,800	\$86,400,000
Year 4	6,400	\$115,200,000
Year 5	8,000	\$144,000,000
Total		\$432,000,000

Conversely, and as Table III shows, the amount of corporate tax credits allowed by the Treasury under S-1607 would cost far less over the duration of the pilot and, more importantly, prevent the accelerating collapse of the non-public schools in and around the pilot districts.

**Table III-S-1607 Cost to Treasury**

S-1607 Cost To Treasury	
Year 1	\$24,000,000
Year 2	\$48,000,000
Year 3	\$72,000,000
Year 4	\$96,000,000
Year 5	\$120,000,000
Total	\$360,000,000

As Table IV shows, we estimate that the \$24 million in tax credits per year allowable under the act will save \$4.8 million in new student expense per year, per round of school closings. Over the length of the pilot, S-1607 will cost the district and State \$72 million less than the cost of returning students to public schools if the legislation is not passed.

**Table IV-S-1607 Cost Comparison**

Cost Difference
\$4,800,000
\$9,600,000
\$14,400,000
\$19,200,000
\$24,000,000
\$72,000,000

## II. Hiring of New Teachers

In addition to the direct expense of \$18,000 per pupil associated with increased public school population due to non-public school closings, there are also the additional costs associated with the hiring of new teachers to accommodate these students.

This analysis assumes a class-size ratio of one teacher to every 15 students. The current statewide ratio is 12.5:1. Given the student return data in Table I, we can assume that, if the 15:1 ratio is maintained, as many as 530 new teachers will need to be hired over the length of the pilot program (Table V).

**Table V-Estimated New Teacher Hirings Due to Closings**

	Year 1	Year 2	Year 3	Year 4	Year 5
# Teachers	106	106	106	106	106
		106	106	106	106
			106	106	106
				106	106
					106
Total Teachers	106	212	318	424	530

Teacher salaries as shown in Table VI, which assumes a statewide average of \$59,730<sub>s</sub> per teacher, are included in costs associated with Table II.

**Table VI-Total Salaries of New Teachers**

Program Year	# New Teachers	Total Salaries
Year 1	106	\$6,331,380
Year 2	212	\$12,662,760
Year 3	318	\$18,994,140
Year 4	424	\$25,325,520
Year 5	530	\$31,656,900
Five-Year Total		\$94,970,700

What they do not include, however, are teacher costs that are traditionally borne directly by the State, including retirement health benefits, employer share of FICA, and contributions to employee pensions. If a conservative 15% is used to estimate these additional costs (Table VII), we can see that new teacher hiring as a result of non-public school closings will cost the State approximately \$1 million per round of school closings, or \$14 million dollars over the life of the pilot program.

**Table VII-Estimated State Expense for New Teachers**

Benefits, FICA, Pensions @ 15% Salary
\$949,707
\$1,899,414
\$2,849,121
\$3,798,828
\$4,748,535
\$14,245,605

Therefore the operating savings are \$72 million for direct operating expenses of 8,000 children returning to pilot district public schools, and \$14 million in additional benefit costs to the State, for a total of \$86 million dollars over the five-year duration of the pilot.

### III. School Construction

Any migration of approximately 8,000 students to the pilot districts' public school systems will almost certainly require the building of additional schools. For this analysis, we have reviewed the School Development Authority's list of current projects in the pilot districts, along with their proposed student enrollments and project costs (See Appendix I).

For the 25 projects under way in the pilot districts identified as New Construction or Additions, we applied the following formula to determine the cost of construction, per student, in unadjusted dollars:

$$\text{Cost of New Construction Projects} / \text{Total Proposed Student Enrollment} = \text{Cost Per Student for New Construction}$$

Or

$$\mathbf{\$1,176,000,000 / 14,838 = \$79,255 \text{ Per Student}}$$

To determine how many new schools would need to be built as a result of student returns linked to school closings, we assumed an average of 590 students per new school and found the following:

$$\text{Total Returning Students from Non-Public Schools} / 590 \text{ Average Student Capacity} = \text{New Schools Needed}$$

Or

$$\mathbf{8,000 / 590 = 13.5 \text{ New Schools Needed}}$$

We further reasoned that:

$$\text{Average Student Capacity} \times \text{Cost of Construction Per Student} = \text{Cost Per New School Needed}$$

Or

$$\mathbf{590 \times \$79,255 = \$46,760,450 \text{ Per New School}}$$

If S-1607 is not passed, and in light of the above calculations, we believe that there is the potential approximately 14 new school projects will need to be built in the pilot districts at a cost of \$654 million.

The State currently finances long-term debt such as school construction with bonds amortized over 25 years at approximately 4%. The total annual payment (interest and amortization) on such bonds is approximately 6.5%. Using this information, we can assume the following:

$$\text{Annual Percentage Payment on Interest and Principal} \times \text{Cost Per New School} = \text{Annual Carrying Cost Per School}$$

Or

$$.065 \times \$46,760,450 = \$3,039,429 \text{ Per Year/Per School}$$

A more in-depth look at the carrying cost on new school construction reveals the following:

$$\text{Carrying Cost Per Year/Per School} / \text{Number of Students} = \\ \text{Carrying Cost Per Student/Per Year}$$

Or

$$\$3,039,429 / 590 = \$5,151 \text{ Per Student/Per Year}$$

As you can see, the annual per student carrying cost on long-term debt for new school construction, \$5,151 (2006 dollars), is almost the amount of the scholarships (Avg. \$6,000) awarded under S-1607. What is spent on S-1607 in the short-term will more than be made up by the savings on school construction detailed in this analysis.

#### IV. Requested School Construction

Over the life of the pilot program, approximately 13,500<sup>7</sup> students currently enrolled in the pilot district public schools will accept scholarships that allow them to attend out-of-district public schools, or non-public schools anywhere in the State. These students will also have an important impact on the school construction plans of the pilot districts.

Data obtained from the School Development Authority (See Appendix II—SDA Appendix C) show the pilot districts' school construction requests and organizes them into one of three categories: *Projects with Design Suspended (Table VIII)*, *Projects with Preliminary Predevelopment (Table IX)*, and *Projects Awaiting Development (Table X)*. All of these projects are currently *Outside the Capital Plan*.

Projected capacity for these schools was not available. This analysis consolidates only construction requests that are entirely new, or which are additions, as they will, ostensibly, provide new capacity spurred by, among other factors, overcrowding.

Costs from the SDA are in 2006 dollars, with projections for 2011, which include 7.5% inflation annually on construction, and 15% inflation annually for land<sup>8</sup>.

As Tables VIII through X show, the pilot districts have requested \$6.571 billion dollars in new school construction and additions in 2006 dollars, which, with inflation on construction and land cost, will increase to \$9.96 billion by 2011.

**Table VIII\* New Schools/Additions—*Projects with Design Suspended***

	Tot. Est. Proj Cost Jan. 2006 Dollars	Tot. Est. Proj Cost Escalated 5 Years*
Camden	190.2	274.5
Elizabeth	662.8	984.4
Jersey City	414.3	614.5
Newark	876.4	1330.1
Orange	100	147.8
Paterson	440.9	653.7
Total	2684.6	4005

**Table IX\* New Schools/Additions—*Projects with Preliminary Predevelopment***

	Tot. Est. Proj Cost Jan. 2006 Dollars	Tot. Est. Proj Cost Escalated 5 Years*
Orange	175.8	279.7
Elizabeth	66.5	102.2
Jersey City	662.6	1049.5
Newark	1073.7	1657.5
Trenton	161.3	236.3
Total	2455.2	3791.2

**Table X\* New Schools/Additions—Projects Awaiting Development**

	Tot. Est. Proj Cost Jan. 2006 Dollars	Tot. Est. Proj Cost Escalated 5 Years*
Camden	39.6	56.9
Orange	55.6	81.2
Elizabeth	46.9	67.3
Jersey City	454.8	674.7
Newark	739.9	1147.8
Paterson	49.1	71.8
Total	1431.9	2164.3

*\*Amounts in Millions of Dollars*

**Total All Projects 2006: \$6.571 billion**

**Total All Projects 2011: \$9.96 billion**

**Or a 50% Increase in Total Construction Costs.**

Using the assumptions of the previous section (590 Students Per New School Project) we can reason that, ultimately, 13,500 students who take scholarships under S-1607 should relieve the need to build approximately 22.8 new schools. Certainly this is cost control the State should consider, as, without a shovel in the ground, the cost of 22 of the proposed schools, and the cost per-student on long-term construction debt, in the pilot districts, dwarf the cost of S-1607. And certainly, stopping the in-migration of 8,000 students from non-public schools, and giving another 13,500 students an opportunity to attend non-public schools statewide, should eliminate the need to build as many as 14 to 22 schools.

## V. Additional Savings Not Readily Quantified

Though the previous projections make a more direct argument for the economic benefits of passing the Urban Enterprise Zone Jobs Scholarship Act, there are additional costs that result from issues related to school quality in the pilot districts.

Poor educational outcomes, low graduation rates, and high usage of the Special Review Assessment (SRA)—the State’s often criticized alternate route graduation assessment given to students who fail the standard assessment three times—by students in the pilot districts also have an adverse economic effect on both the students and the State’s economy. It is worth noting that the State Department of Education has identified all of the pilot districts for their overuse of the SRA and their above average dropout rates. The Department has also designated all but one of the pilots as “Districts In Need of Improvement.”<sup>9</sup>

In a soon-to-be released study titled “The High Cost of High School Failure in New Jersey,” Brian Gottlob, a senior fellow at the Friedman Foundation who has performed similar studies on states such as South Carolina, found that:

- There are nearly one-half million working-age adults in New Jersey who do not have a high school diploma;
- 40% of students in Newark dropout;
- Only 50% of African-American students in urban districts graduate;
- 40.7% of dropouts are either unemployed or not in the labor force at all.

When isolating the impacts of educational attainment by controlling for other factors, including age, race/ethnicity and sex, the study found that, in New Jersey, high school graduates earned \$12,044 more on average annually than working high school dropouts.

As a result of their decreased earning power and lower-likelihood of being in the workforce, dropouts decrease New Jersey Tax Revenue by \$704 million annually. Additionally, dropouts are twice as likely to rely on Medicaid, increasing costs in New Jersey by \$351 million annually.

More importantly, to measure the effect of the SRA on how the State’s labor market perceives New Jersey’s high school diploma, the study compared earnings of high school graduates to college graduates, ages 20-29, in all 50 states and in similar, industrial states in the Northeast. Although wages are generally above the national average, New Jersey ranks 40<sup>th</sup> in the nation for wages earned by high school graduates relative to those of college graduates. When compared to similar states, it also shows that, for the same group, the ratio of earnings of those with a high school diploma to those with a bachelors degree is lower in New Jersey, indicating that a high school diploma is valued less highly in comparison to a postsecondary degree than in most states.

These students also have a significant effect on the finances of the Community College system through excessive remediation rates. Many of our Community Colleges spend at a minimum a large part of the first year students are enrolled reviewing high school coursework. Nowhere is this more startling than in the New Jersey STARS program. Thirty percent of this year’s STARS—recipients of scholarships for ostensible high academic achievement—needed remedial courses<sup>10</sup>. Financial aid spent on remediation, effectively re-teaching what students should have

learned in high school, wastes significant direct aid to the County and Community College systems.

In summary, both New Jersey's dropouts, and many who finish high school, in the pilot districts have lower earning potential and will carry a larger social service load per individual due to poor educational outcomes. Their lower level of educational attainment is a prime factor in determining the tax base and taxable income in the pilot districts. And no turnaround of the economic indicators in these districts will be possible without a sustained effort to improve the quality and amount of effective educational choices for the students and families therein. It is worth noting that the high schools students will have access to under S-1607 currently have graduation rates in excess of 90%, and similar rates of college acceptance.

## **Conclusion**

Even without considering the social implications of allowing students who attend highly expensive, largely underperforming public schools in the pilot districts to attend better performing schools, the financial arguments for S-1607 are clear. At a minimum, the return of 8,000 students to the pilot districts will create significant political and social pressure to revisit the school-funding plan recently passed by the legislature and currently before the State Supreme Court for approval.

Supporters of The Urban Enterprise Scholarship Act have argued that it will cost less to pass the legislation than it will to do nothing and allow the continued collapse of the State's non-public school inventory. We hope this analysis shows that, in direct, indirect, and school-construction related costs, the \$24 million in credits in Year I, and the \$120 million in Year V, are money spent well and in the interests of students, parents, and taxpayers.

## **FOOTNOTES**

1. *For Catholic Education, A Test of Faith*, The Star-Ledger, 4/1/08
2. New Jersey Department of Education, School Report Cards
3. New Jersey Catholic Conference
4. Asm. Joseph Cryan, Assembly Budget Committee Hearings
5. NJ Public School Fact Sheet— <http://www.state.nj.us/education/data/fact.htm>
6. Appendix I
7. Assumes 80% of students awarded scholarships at \$6,000, and 20% awarded scholarships @ \$9,000.
8. Appendix II—SDA Appendix C
9. State Department of Education Report to the State Board of Education on SRA Abuse
10. *New Jersey may make students reach higher for STARS*, the Press of Atlantic City, 4/22/08

*This analysis is based on a comprehensive study of enrollment and school closings done by The Grand Institute, Jay Williams, Director.*