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S&P: Governor's Veto Keeps New Jersey School Districts' Budgets Crunched

New Jersey (NJ) Bill S-4289, sponsored by the senate president, would have allowed certain school districts to raise property taxes above the 2% state-mandated levy limit to make up for sharp state aid reductions without seeking voter approval; however, the governor vetoed the bill on Jan. 13, 2020, citing the state's already high local property taxes, and presenting another challenge to school districts. New Jersey school districts are constrained by a state-imposed tax levy limit and aid reductions, and despite the difficult funding environment, have generally maintained steady credit quality and fiscal stability. In the past two years, New Jersey school district ratings have also remained stable: of the 309 districts rated by S&P Global Ratings, only 30 experienced a rating or outlook change. Although our analysis has not assumed school districts would be afforded the flexibility provided in this bill, we still believe the veto could ultimately have negative implications for district operations and finances.

The current state aid disputes trace back to New Jersey's fiscal 2018 budget, which included a state aid realignment that would increase aid for approximately two-thirds of school districts, but would eventually decrease it for nearly one-third of them over the course of seven years. That one-third is now trying to present balanced budgets, and several have implemented or are considering layoffs, program cuts, and school closures to achieve this.

State aid reductions had ratings implications for several New Jersey school districts in the past three years. The majority of affected districts have maintained structural balance either through cost-cutting measures or the modest use of reserves. However, since the aid reductions have been implemented, we have made six negative outlook revisions or downgrades to our rated portfolio. Those include outlook changes to negative from stable for Brick Township Board Of Education (BOE) and Weehawken Township BOE, and downgrades to Freehold Regional High School District, Plumsted Township BOE, and Flemington-Raritan Regional school district. We also lowered our rating on Vernon Township BOE and assigned a negative outlook.

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