

**Oceanport Board of Education
December 10, 2019 Referendum**

Debt Service Aid Explanation

DEBT SERVICE AID IS A SOMEWHAT COMPLEX YET BENEFICIAL FACTOR TO THE DISTRICT'S REFERENDUM. THESE QUESTIONS AND ANSWERS ARE INTENDED TO HELP THE PUBLIC UNDERSTAND WHAT DEBT SERVICE AID IS, THE STATE'S HISTORY OF FUNDING AND THE DISTRICT'S ANTICIPATION OF ITS IMPACT ON THE REFERENDUM.

What is debt service aid?

Debt service aid is a type of aid provided by the state for school district capital projects that are approved at referendum and bonded. Debt service aid is provided annually and represents a portion of the debt service payment (loan payment), including both principal and interest. For example, if in a specific year, a school district is receiving 34% debt service aid and has a \$1,000,000 bond payment (principal and interest), the state would provide \$340,000 to the district and the district would be responsible for the remaining \$660,000 to meet its 66% share of the bond payment.

What is the history and track record of the NJ DOE debt service aid program?

The state has provided debt service aid to school districts for at least 30 years. Prior to the year 2000, debt service aid was provided to school districts based upon "need" as measured by socioeconomics of the school district. The poorer the district, the more debt service aid received for capital projects.

In 2000, the law was changed to provide that "Abbott" districts' capital projects would be fully paid for by the state through the School Development Authority (SDA). The law provided that projects of all other school districts would be given debt service aid based not on the socioeconomics of the district, but on the type of project (educational or facilities needs). This is the law that we are currently operating under now.

Under this law, the state commits to pay 40% of the eligible project costs. From 2000-2008, the State was fully funding the debt service aid. If a district received a commitment for 40%, it received 40%.

Since about 2009 on, the state has not been fully funding debt service aid. Instead the state has been funding its commitment at 85%. As a result, eligible projects now get debt service aid of 34% of eligible costs (calculated as 85% of 40%).

Is the 40% state debt service aid guaranteed? In the most recent budget cycle how much did the state DOE fund?

The 40% debt service aid for eligible costs is not “guaranteed.” The state has committed to the 40% in its official letter to the Oceanport school district. However, over the last 10-11 years, the state has funded debt service aid at 85% of the 40% (which comes to 34%).

What percentage of state debt service aid did we build into our plan? How did we arrive at this amount?

The Board of Education has a letter from the State which indicates that the project is eligible for 40% aid on eligible costs. The BOE, in its financial plan, is only assuming that the state will pay 34% which is the amount that the State has paid consistently over the past 11 years.

Can the BOE provide a “worst case scenario?” Would the state ever completely renege on its commitment and provide zero in debt service aid?

It is not reasonable to assume that the State would not fund debt service. The state has never funded its debt service aid commitment at 0%. Were we to calculate the total costs with zero from the state, the tax impact would be overstated. The tax impact analysis in the current plan was calculated based on the history of the debt service aid program.

Even prior to the year 2000, when the state DOE was burdened with providing debt service aid to all districts statewide (including the poorest/“Abbott” districts), the lowest percentage of expected funding for debt service aid was about 68% as opposed to the current 85% funding . There is no precedent for the state funding their commitment at a percentage lower than this.