

Funding of Local Education Agencies (LEA) in NC

1. Operating Funding

- a. Funding from the State of NC
 - i. Largest source of revenue
 - ii. Highly restricted
 - iii. Funding is based on ADM (Average Daily Membership)
- b. County government
 - i. Second largest source of revenue
 - ii. Generally have no restrictions
 - iii. Originate from county property taxes
 - iv. The LEA must share a per pupil amount of this revenue with Charter Schools attended by students that are residents of the county in which the LEA is located, regardless of the location of the Charter School
- c. Federal funding
 - i. Third largest source of revenue
 - ii. Highly restricted
- d. Other grants -- Vary from LEA to LEA, vary in size and restrictions

2. Capital Funding

- a. County government
 - i. GS 115C-408 states, "It is the policy of the State of North Carolina that the facilities requirements for a public education system will be met by county governments."
 - ii. Sources of county funds
 1. Sales tax revenue restricted for public school capital needs or to retire any indebtedness incurred by the county for these purposes
 - a. 30% of the ½% sales tax revenue received under Article 40
 - b. 60% of the ½% sales tax revenue received under Article 42
 - c. County may expend the taxes in the year received, or place them in a capital reserve fund
 2. Debt
 - a. County can enter into debt to fund school construction and renovation projects.
 - b. The school facility asset reverts to the LEA's ownership while the liability remains with the county.
 - c. An LEA is prohibited from entering into debt agreements except in very limited situations
 3. Property taxes
- b. Lottery Funding
 - i. Can be spent for public school capital needs or to retire any indebtedness incurred by the county for these purposes
 - ii. Expenditure must be approved by the Board of Education, the Board of County Commissioners, and the State of NC
- c. Other Restricted Grants
 - i. From time to time an LEA will receive a grant from an outside organization
 - ii. not common

SUBCHAPTER VII. FISCAL AFFAIRS.

Article 30

Financial Powers of the State Board of Education.

§ 115C-408. Funds under control of the State Board of Education.

(a) It is the policy of the State of North Carolina to create a public school system that graduates good citizens with the skills demanded in the marketplace, and the skills necessary to cope with contemporary society, using State, local and other funds in the most cost-effective manner. The Board shall have general supervision and administration of the educational funds provided by the State and federal governments, except those mentioned in Section 7 of Article IX of the State Constitution, and also excepting such local funds as may be provided by a county, city, or district.

(b) To insure a quality education for every child in North Carolina, and to assure that the necessary resources are provided, it is the policy of the State of North Carolina to provide from State revenue sources the instructional expenses for current operations of the public school system as defined in the standard course of study.

It is the policy of the State of North Carolina that the facilities requirements for a public education system will be met by county governments.

It is the intent of the 1983 General Assembly to further clarify and delineate the specific financial responsibilities for the public schools to be borne by State and local governments. (1955, c. 1372, art. 2, s. 2; 1957, c. 541, s. 11; 1961, c. 969; 1963, c. 448, ss. 24, 27; c. 688, ss. 1, 2; c. 1223, s. 1; 1965, c. 1185, s. 2; 1967, c. 643, s. 1; 1969, c. 517, s. 1; 1971, c. 704, s. 4; c. 745; 1973, c. 476, s. 138; c. 675; 1975, c. 699, s. 2; c. 975; 1979, c. 300, s. 1; c. 935; 1981, c. 423, s. 1; 1983 (Reg. Sess., 1984), c. 1103, s. 12.)

Article 40 sale tax (1/2%)

§ 105-487. Use of additional tax revenue by counties.

(a) Except as provided in subsection (c), forty percent (40%) of the revenue received by a county from additional one-half percent (1/2%) sales and use taxes levied under this Article during the first five fiscal years in which the additional taxes are in effect in the county and thirty percent (30%) of the revenue received by a county from these taxes after the first five fiscal years in which the taxes are in effect in the county may be used by the county only for public school capital outlay purposes as defined in G.S. 115C-426(f) or to retire any indebtedness incurred by the county for these purposes.

(b) Repealed by Session Laws 1998-98, s. 31, effective August 14, 1998.

(c) The Local Government Commission may, upon petition by a county, authorize the county to use part or all its tax revenue, otherwise required by subsection (a) of this section to be used for public school capital needs, for any lawful purpose. The petition shall be in the form of a resolution adopted by the Board of County Commissioners and transmitted to the Local Government Commission. The petition shall demonstrate that the county can provide for its public school capital needs without restricting the use of part or all of the designated amount of the additional one-half percent (1/2%) sales and use tax revenue for that purpose.

In making its decision, the Local Government Commission shall consider information contained in the petition concerning not only the public school capital needs, but also the other capital needs of the petitioning county. The Commission may also consider information from sources other than the petition. The Commission shall issue a written decision on each petition stating the findings of the Commission concerning the public school capital needs of the petitioning county and the percentage of revenue otherwise restricted by subsection (a) of this section that may be used by the petitioning county for any lawful purpose.

Decisions of the Commission allowing counties to use a percentage of their tax revenue that would otherwise be restricted under subsection (a) of this section for any lawful purpose are final and shall continue in effect until the restrictions imposed by that subsection expire. A county whose petition is denied, in whole or in part, by the Commission may subsequently submit a new petition to the Commission.

(d) For purposes of determining the number of fiscal years in which one-half percent (1/2%) sales and use taxes levied under this Article have been in effect in a county, these taxes are considered to be in effect only from the effective date of the levy of these taxes and are considered to be in effect for a full fiscal year during the first year in which these taxes were in effect, regardless of the number of months in that year in which the taxes were actually in effect.

(e) A county may expend part or all of the revenue restricted for public school capital needs pursuant to subsection (a) of this section in the fiscal year in which the revenue is received, or the county may place part or all of this revenue in a capital reserve fund and shall specifically identify this revenue in accordance with Chapter 159 of the General Statutes. (1983, c. 908, s. 1; 1993, c. 255, ss. 1, 3; 1998-98, s. 31; 1998-186, s. 1; 2009-395, s. 1.)

§ 105-502. Use of additional tax revenue by counties.

(a) Restriction. - The county must use sixty percent (60%) of the amount of revenue specified in this subsection for public school capital outlay purposes as defined in G.S. 115C-426(f) or to retire any indebtedness incurred by the county for these purposes during the period beginning five years prior to the date the taxes took effect:

- (1) The amount of revenue the county receives under this Article.
- (2) If the amount allocated to the county under G.S. 105-486 is greater than the amount allocated to the county under G.S. 105-501(a), the difference between the two amounts.

(b) Exception. - The Local Government Commission may, upon petition by a county, authorize a county to use part or all of the revenue, otherwise required by subsection (a) to be used for public school capital outlay purposes, for any lawful purpose. The petition must be in the form of a resolution adopted by the Board of County Commissioners and transmitted to the Local Government Commission. The petition must demonstrate that the county can provide for its public school capital needs without restricting the use of part or all of the specified revenue for these purposes.

In making its decision, the Local Government Commission must consider information in the petition concerning not only the public school capital needs but also the other capital needs of the petitioning county. The Commission may consider information from sources other than the petition. The Commission must issue a written decision on each petition stating the findings of the Commission concerning the public school capital needs of the petitioning county and the percentage of revenue otherwise restricted by subsection (a) that may be used by the petitioning county for any lawful purpose.

Decisions of the Commission allowing counties to use a percentage of the revenue that would otherwise be restricted under subsection (a) for any lawful purpose are final and continue in effect until the restrictions expire. A county whose petition is denied, in whole or in part, by the Commission may subsequently submit a new petition to the Commission.

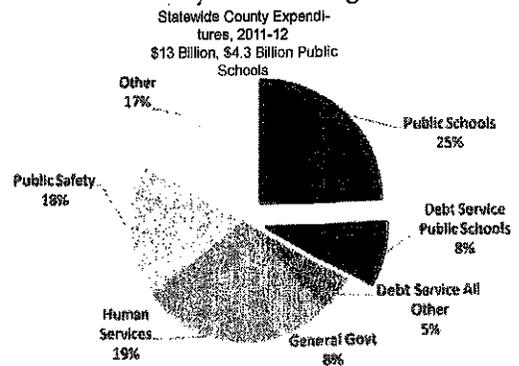
(c) Reserve Fund. - A county may expend part or all of the revenue restricted for public school capital needs pursuant to subsection (a) in the fiscal year in which the revenue is received, or the county may place part or all of this revenue in a capital reserve fund. A county must specifically identify revenue placed in a reserve fund in accordance with Chapter 159 of the General Statutes.

(d) Taxes in Effect. - For purposes of this section in determining the number of fiscal years in which one-half percent (1/2%) sales and use taxes levied under this Article have been in effect in a county, these taxes are considered to be in effect only from the effective date of the levy of these taxes and are considered to be in effect for a full fiscal year during the first year in which these taxes were in effect, regardless of the number of months in that year in which the taxes were actually in effect. (1985 (Reg. Sess., 1986), c. 906, s. 1; 1987, c. 622, s. 11; 1993, c. 255, ss. 2, 4; 1998-186, s. 2; 2008-134, s. 13 (a); 2009-395, s. 2.)

Basics of County Financing of Public Schools

North Carolina's Unique Financing & Governance Structure for Public Education

- NC counties are charged with building, equipping and maintaining school facilities; G.S. 115C-408(b) stipulates that public school facilities requirements will be met by county governments.
- NC counties are recognized statutorily as the local taxing authorities for independently elected school boards; in most other states, the school system acts as its own taxing authority.
- The State of NC is charged with funding school operations, known as current expense; G.S. 115C-408(b) stipulates that the state, from state revenues, will fund public school operating instructional expense as defined in the standard course of study.
- NC counties supplement state school operating expenses. G.S. 115C-426(e) stipulates that local current expense funding, largely meaning county funding of school operations, is "sufficient" when added to state resources, "within financial resources and consistent with the fiscal policies of the board of county commissioners."
- School expenses—operating, capital and debt service—consume nearly 35% of total county annual budgets.
- State statutes expressly permit LEAs to sue counties over "sufficiency" of current expense or capital funding levels, leaving courts to decide sufficiency. School boards are not expressly permitted to sue the state or federal governments for lack of sufficient funding, and no other entity is specifically granted this power to sue a taxing authority over funding sufficiency.
- Some counties have multiple school districts within county boundaries, typically referred to as "city districts"; NC city governments have no authority and do not finance school operations or capital; counties fund city districts by allocating school operating dollars proportionately based on per pupil allotment.

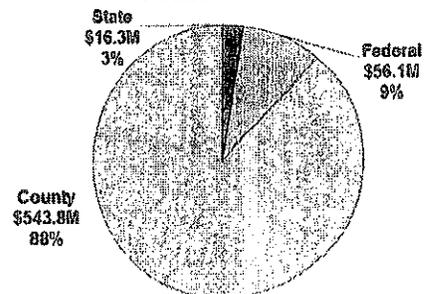


County Spending

County Funding of School Capital Needs

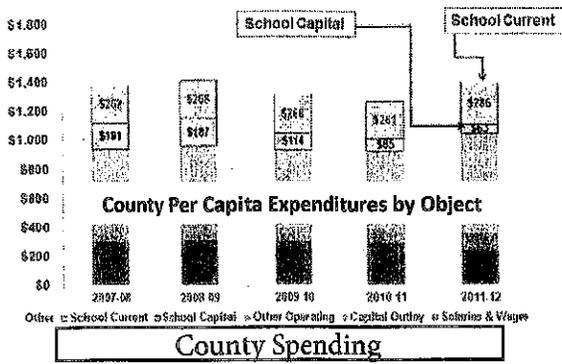
- County appropriations for school capital projects are usually project-specific.
- As local taxing authority, counties issue debt for school construction and renovation projects. The school facility asset reverts to the school board's ownership while the liability remains with the county.
- School districts must report school capital needs per a statewide 5-year survey. Based on the most recent survey, school systems report nearly \$8.2 billion in school construction and renovation needs.
- Counties are required to set aside a portion of county-levied sales taxes for school capital needs, 45% of one penny tax levy or roughly \$350 million in 2013.
- Property tax revenues are also an important source of county funding for school facilities. Counties are increasingly relying on property taxes as state-shared sources of revenue, such as corporate tax (ADM Fund) and lottery proceeds, dry up.

Total Public School Capital Funding by Source, \$616M 2011-12



School Spending

County School Capital Funding Drops in Recession, Per Capita

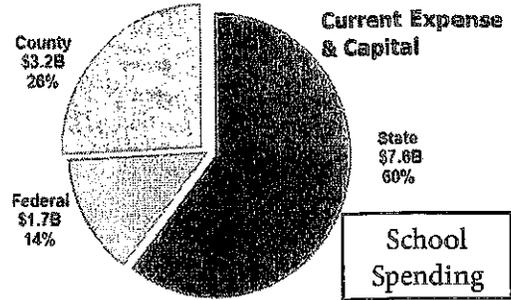


- During the recession, counties sacrificed school capital investments to maintain classroom operations support. Between 2008 and 2012, county school capital investment plummeted from \$1.4 billion in 2008 to \$545 million in 2012.

County Funding of Current Expense (School Operating)

- NC counties fund \$3.2 billion to support 26% of public schools' total spending.
- Counties spend over \$2.5 billion to augment state school operating dollars.

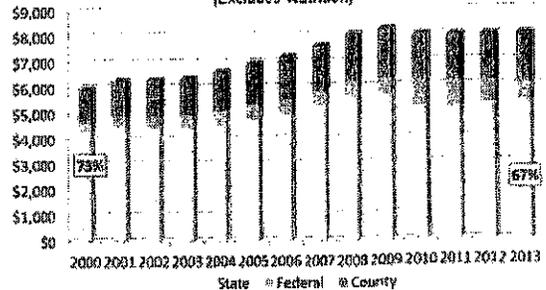
Total Public School Funding by Source, \$12.5B 2011-12



Trends in County School Funding

- County funding of current expense has been growing over time; federal funds have been substituted for state funds over time.

Sources of Per Pupil Funding, CE (Excludes Nutrition)



Mechanics of County School Funding

- Counties generally provide school current expense funds in a lump sum appropriation, allocating 1/12 of the total appropriation each month; school systems may use county current expense dollars on any allowable expenditure, including additional school personnel (see chart). School districts largely use county dollars for non-certified and administrator positions.
- Counties and school boards may agree to fund teacher salary supplements, using county funds, to increase the state school personnel salary schedule. School boards may use county funds to supplement other school personnel through supplements. In 2012-13, 106 LEAs funded teacher salary supplements, ranging from \$147 to \$6,031 annually, with a weighted state average of \$3,478. 108 have principal supplements, ranging from \$175 to \$28,673 annually, with a weighted state average of \$11,338. Total county costs for all supplements, including teachers, principals, coaches, band leaders, and superintendents, exceed \$430 million annually.
- State surplus school funds revert to state at close of fiscal year while county surplus funds remain in the school district's fund balance under the control of the school board. From 2008 to 2012, school fund balances increased 79% to \$664.7 million.
- The school board allocates county funds to individual schools—counties cannot allocate funds directly to schools.
- Each school district must share its county current expense funds, but not capital funds, with charter schools based on per pupil allocation for each charter school student whose home residency is in the county. County school funding for charter schools follows the student, including those students who attend charter schools outside of the county.

County Funding of School Personnel, 2013

