



# The North Carolina Public School Partnership: Past, Present, and Opportunities

North Carolina Association of County Commissioners

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[www.ncacc.org](http://www.ncacc.org)



# Other North Carolina Public Education Facts and History

**First inaugural speech to advocate for universal public education?**

- 1901: Governor Charles B. Aycock

**First year the General Assembly appropriated funds for public education?**

- 1901

**When did school attendance become compulsory?**

- 1913

**When did school expand to nine months?**

- 1943

**When was statewide full-day kindergarten established?**

- 1977





# Other North Carolina Public Education Facts and History

**When and where were the first year-round schools established?**

- 1989 in Wake County

**When were the low wealth and small schools funds established to assist financially-challenged school systems?**

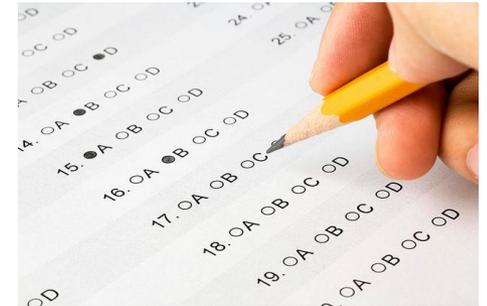
- 1991

**When did the state implement statewide, standardized end-of-grade testing?**

- 1993

**When was the original charter school legislation enacted?**

- 1996



**How many charter schools are there now and in how many counties?**

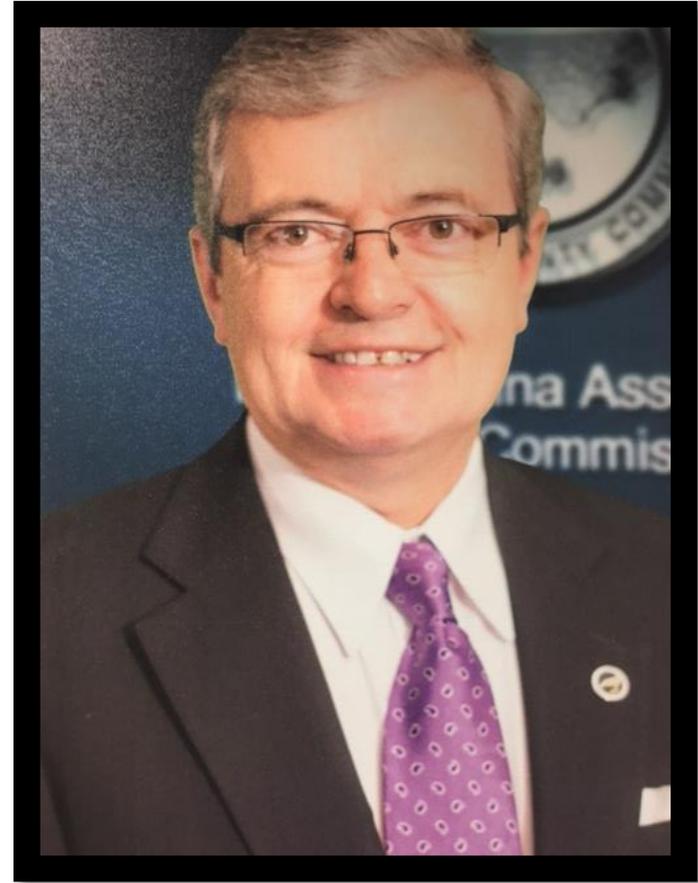
- 167 charter schools in 60 counties (Mecklenburg has the most at 25 schools) in 2016-17

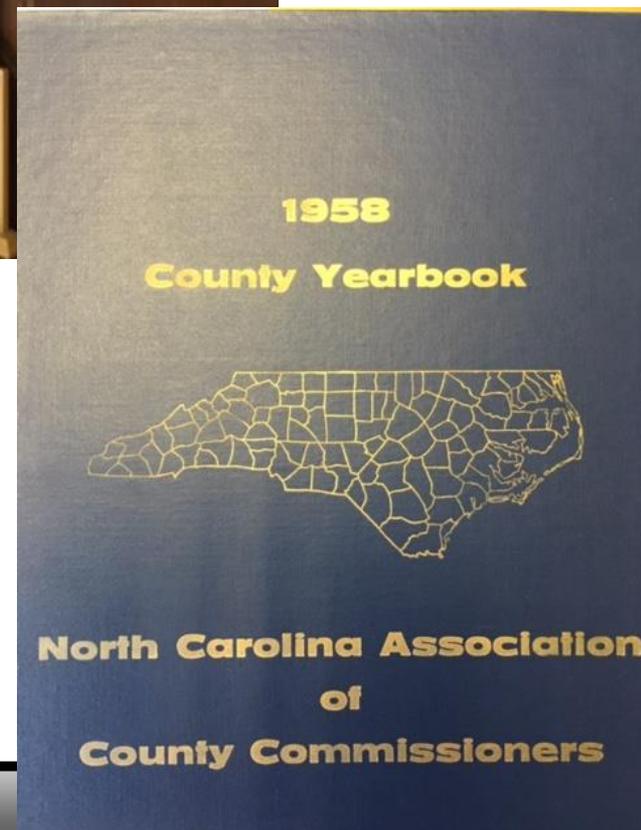
**When was the N.C. Education Lottery established?**

- 2005



The beginning  
of the  
conversation...







# Stat **Statement by the North Carolina Association of County Commissioners** to **Committee for the Study of Public School Finance**

The  
Commissioners has been asked two questions units and districts voting taxes have higher  
by the Committee for the Study of Public School Finance than the majority in  
School Finance: such taxes.

“Current expense has been largely a state responsibility....  
Capital outlay has been largely a county responsibility....”

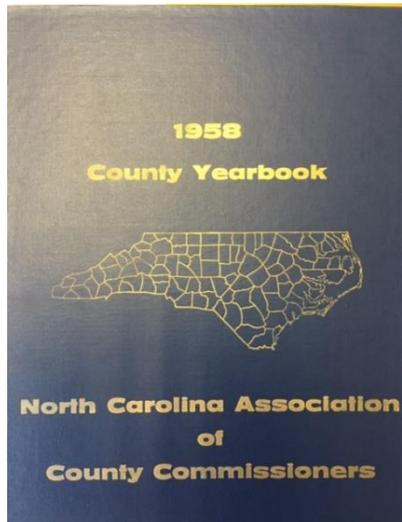
The key  
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this word.

North Carolina is a state of three sections: the East, the Piedmont, and the West. It is a state of 100 counties. And it is a state of four million people. There are differences in attitude and differences in the economy of the three counties in the same differences of opinion same county. With the obvious to say the agreement on what is of adequate school system.

“One thing is crystal clear: school construction needs impose a tremendous burden on all counties.”

Experience seems to bear this out. The people of each administrative unit are authorized to vote school supplement taxes to provide a better educational program than that provided by state and county funds. The people of each school district in a county administration unit are authorized to vote school supplement taxes to provide a higher educational program than that provided by the county unit as a whole. Most cities and a few county units have voted supplement taxes while a few city units and most county units have not. Some school districts in the units have voted such supplement taxes while others have not. The difference between those units and districts that have voted taxes and those that have not is more than can be accounted for by the ability to pay property taxes alone. They suggest differences in opinion as to the adequacy of the public school system provided by state and

“In our opinion, current expense funds provided by the state are inadequate in several respects.”

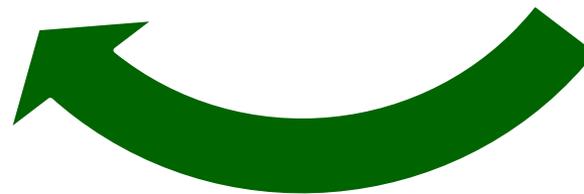
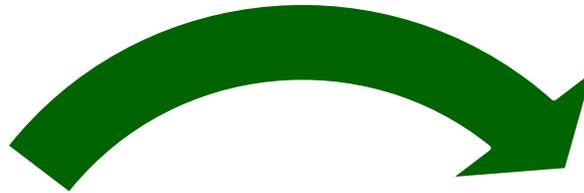






1958

2016





# State – County Partnership



# History of the North Carolina Public School Funding Partnership

**1839**

Original education partnership established:

- \* County-level vote for increased taxation to fund schools (all but 7 approved)
- \* Each \$1 raised locally was matched with \$2 of state funds

**1868**

New NC Constitution provides for "general and uniform system of free public schools"

**1917**

First State bonds issued for education (textbooks)

**1921**

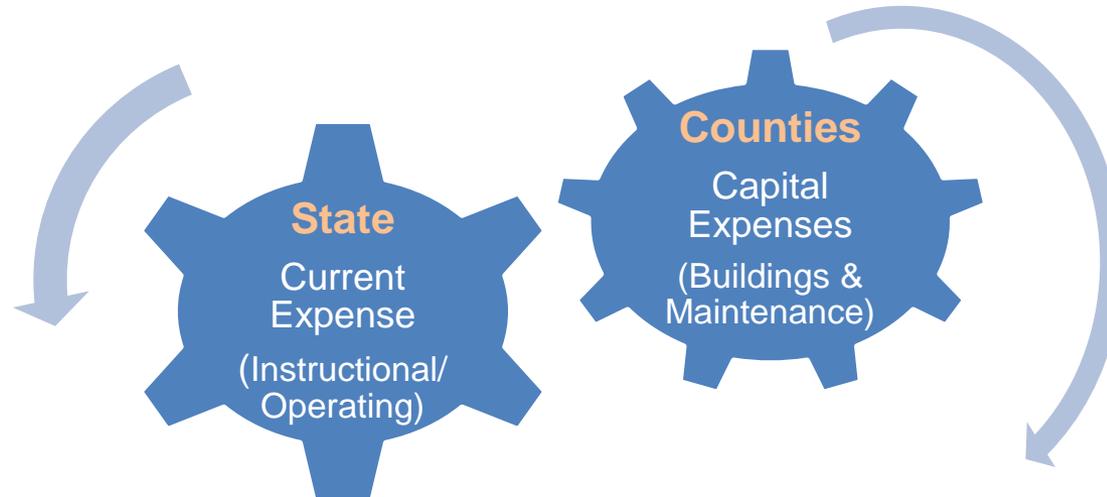
First State bonds issued for school construction

**1931**

Local Government Commission created to provide finance assistance; partnership

**1933**

Current framework created for school funding and management





# School Funding Responsibilities in NC

## Statutory Provisions

- 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. **G.S. 115C-408(b)**

*The funding responsibility is divided between state and county governments.*

- Generally, the state is responsible for operating expenses and counties are responsible for capital expenses. However, the partnership and responsibilities have become blurred, and the state provides some capital funds and counties supplement operating expenses.



# History of African American Schools in North Carolina

- 1903: Legislature firmly establishes separate schools policy
- 1910: First legislative funding for African-American schools
- 1913: Compulsory Education Act required that all children, black and white, attend school 4 months a year
- 1921: Division of Negro Education created
- 1951: U.S. Court of Appeals requires UNC to desegregate
- 1954: *Brown v. Board of Education*: "Separate educational facilities are inherently unequal"
- 1956: Pearsall Plan: State grants to white students to attend private schools (effect was avoiding integrated schools; Plan ultimately found unconstitutional)
- 1971: *Swann v. Charlotte-Mecklenburg BOE*: use "any and all known ways of desegregation, including busing"

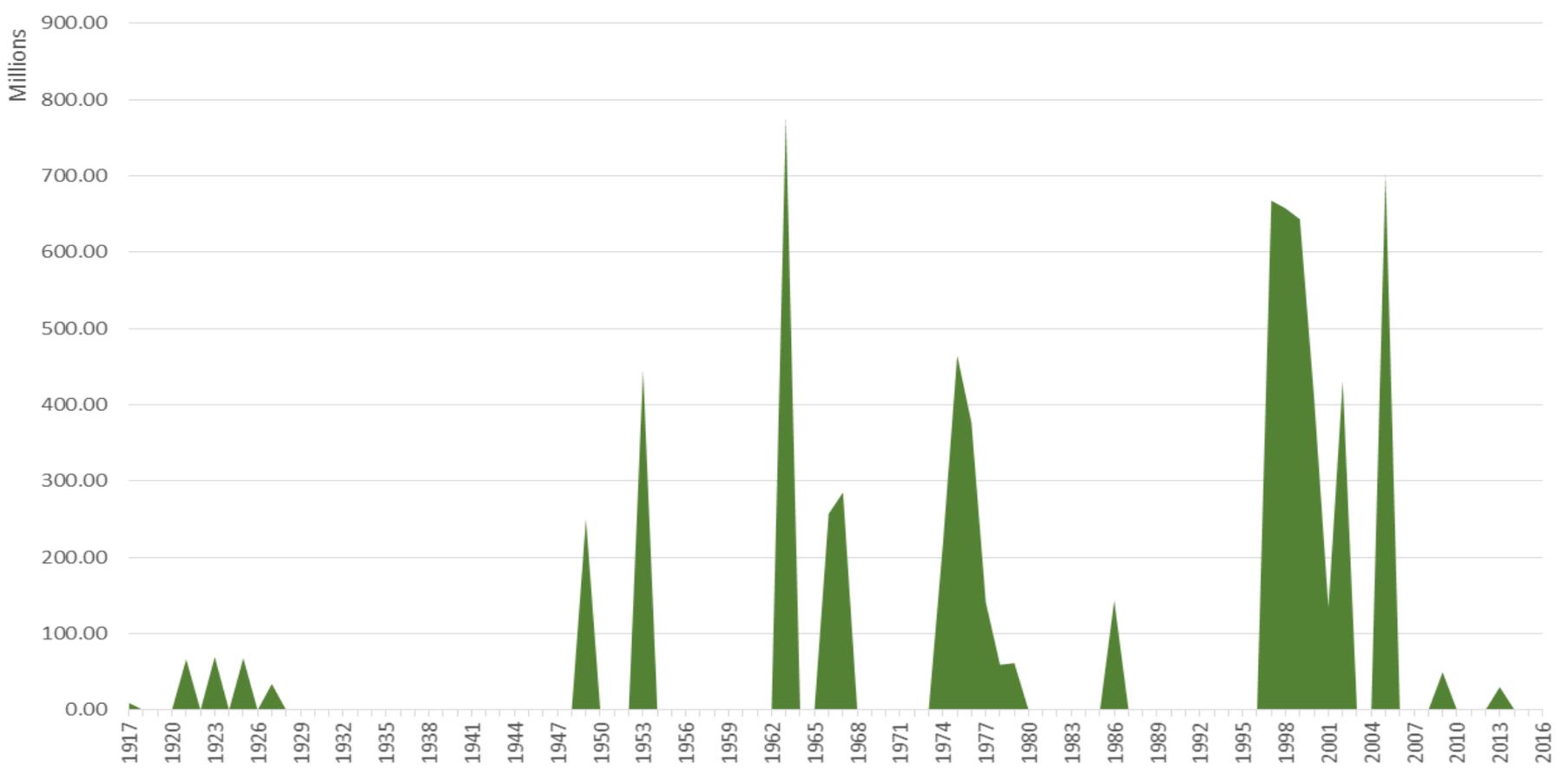




# State Funding for Public School Capital



# State Bonds Issued for Public Education (1917-2016, Adjusted for Inflation)





# State Bonds Issued for Public Education (1958-2016, Adjusted for Inflation)

Statement by the North Carolina Association of County Commissioners to Committee for the Study of Public School Finance

The North Carolina Association of County Commissioners has been asked two questions by the Committee for the Study of Public School Finance:

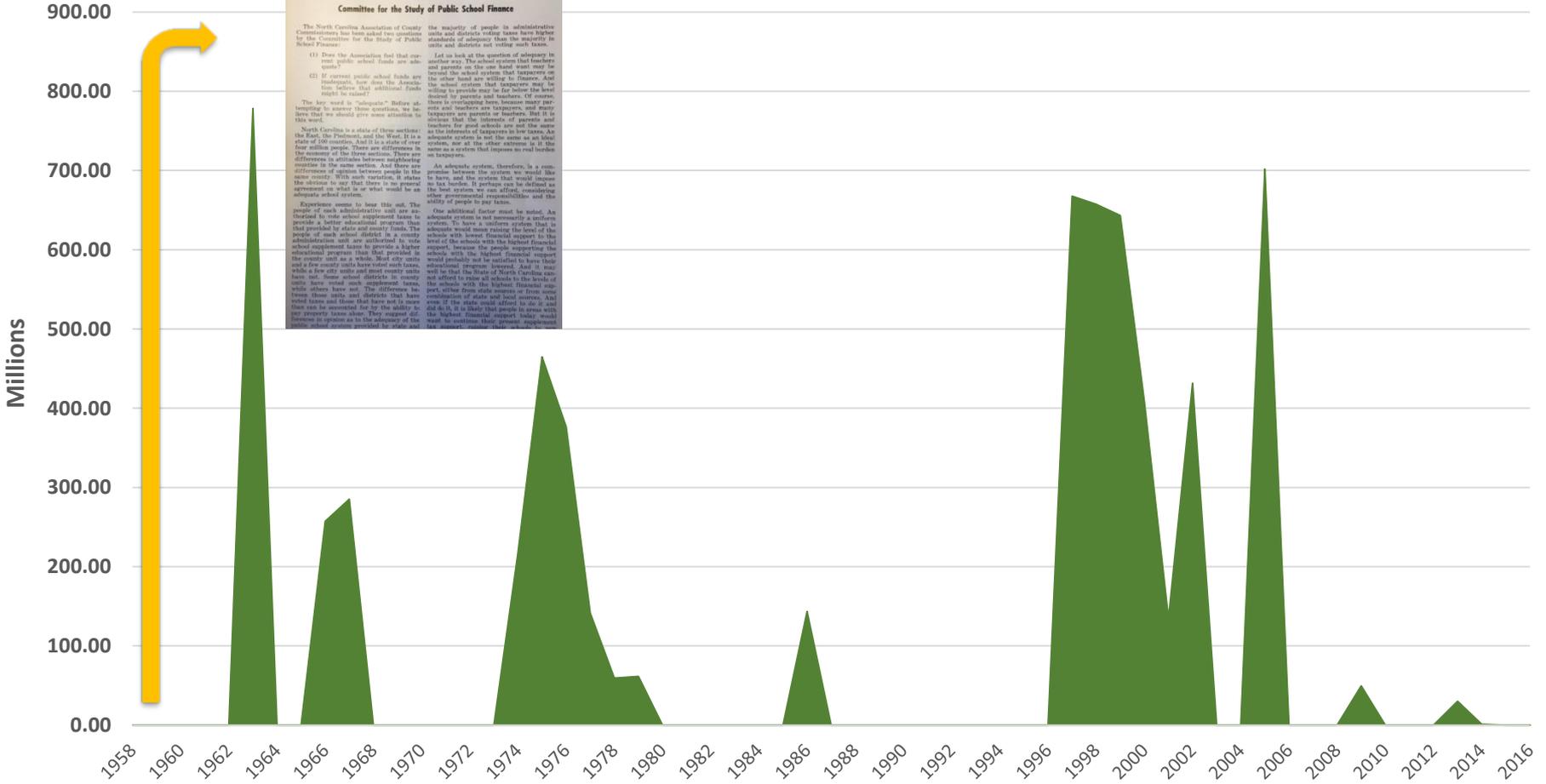
(1) Does the Association feel that current public school funds are adequate?

(2) If current public school funds are inadequate, how does the Association believe that additional funds might be raised?

The key word is "adequate." Before attempting to answer these questions, we believe that we should give some attention to this word.

North Carolina is a state of three sections: the East, the Piedmont, and the West. It is a state of 100 counties. And it is a state of over four million people. There are differences in the economy of the three sections. There are differences in attitudes between neighboring counties in the same section. And there are differences of opinion between people in the same county. With such variations, it states the obvious to say that there is no general agreement on what is, or what would be an adequate school system.

Experiences seem to bear this out. The people of each administrative unit are satisfied by state and county funds. The people of each school district in a county administration unit are satisfied by state and county funds. The people of each school district in a county administration unit are satisfied by state and county funds. The people of each school district in a county administration unit are satisfied by state and county funds. The people of each school district in a county administration unit are satisfied by state and county funds.





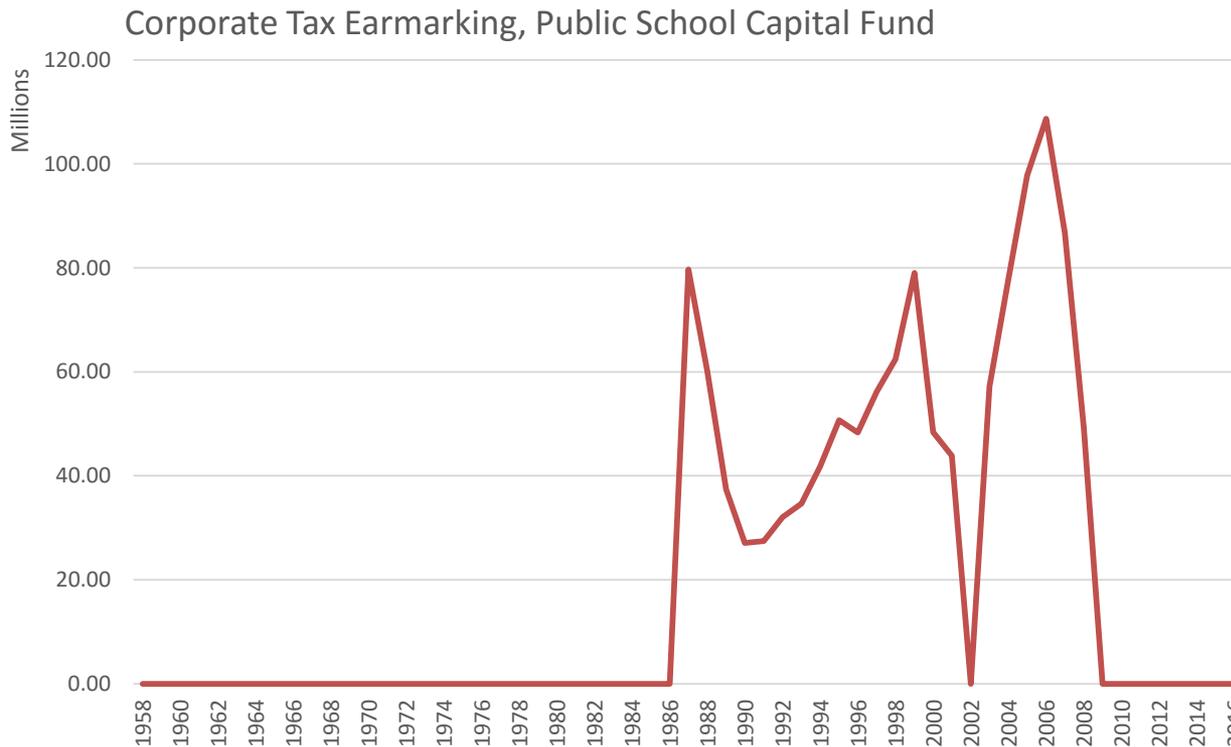
# State – County Partnership for Public School Capital Funding

- NC passed bonds to fund school capital in **1949, 1953, 1963, 1973, 1986, and 1996**
- In 1987, the State enacted the School Facilities Finance Act:
  - Established the **Public School Building Capital Fund** -- funded through corporate income tax rate increase from 6% to 7% (later, 7.25%)
    - 2013 Tax Reform changes eliminated PSBCF corporate income tax funding
  - Established the **Critical School Facility Needs Fund** -- funded through corporate income tax earmarks, \$40 million from state sales tax, and withholding tax
    - Grants from CSFNF based on need and ability to pay (per pupil property tax base and per capita income)
    - CSFNF repealed in 1995 when Public School Building Bond Act passed



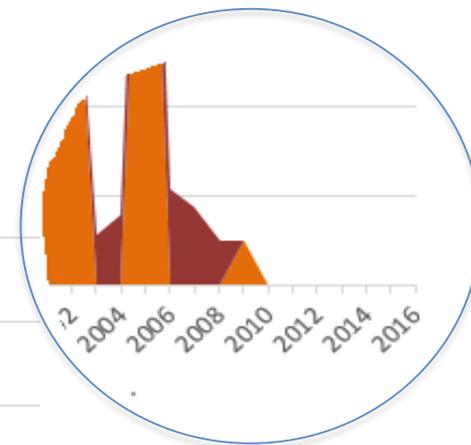
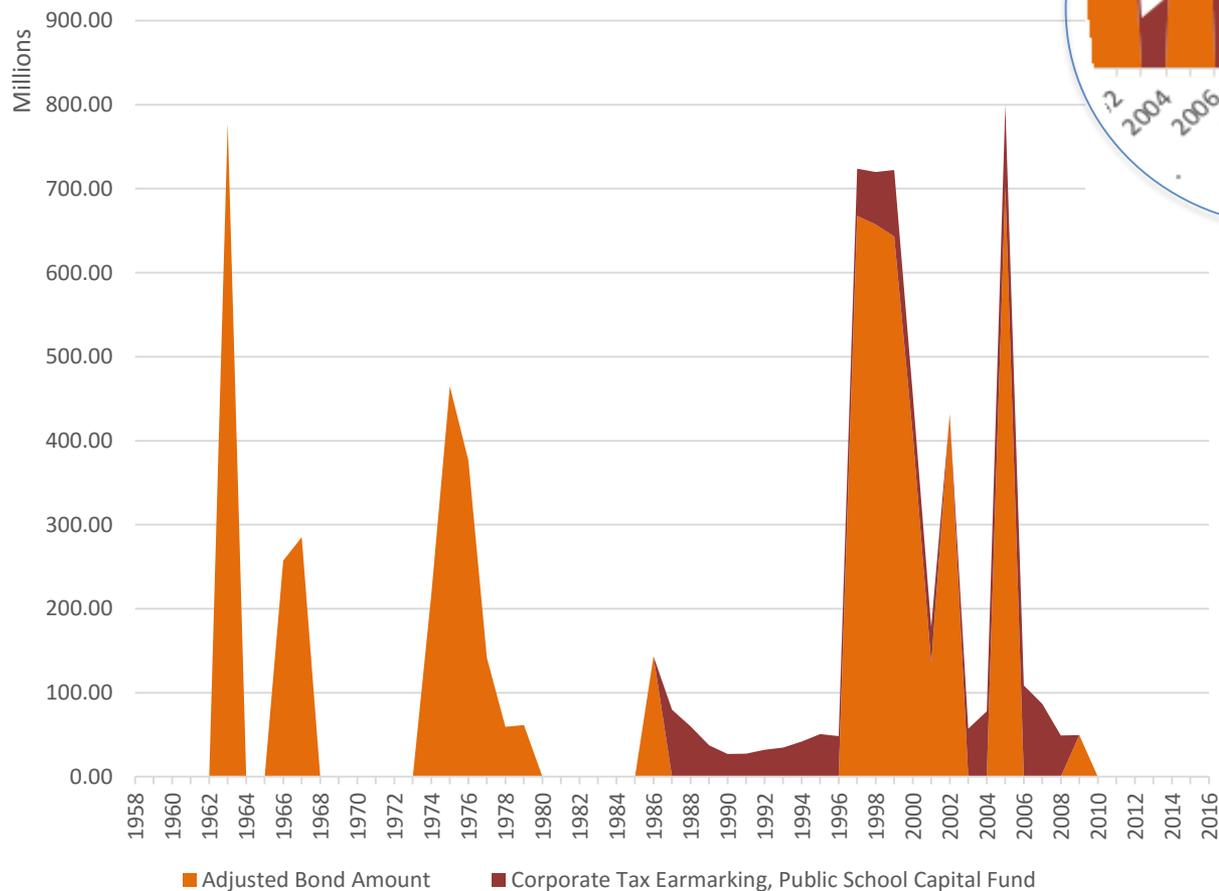
# Corporate Tax Earmarking

- Enacted in 1987
- Set aside 7% (later, 7.25%) of state corporate tax receipts for school construction
- Allocations were determined by ADM





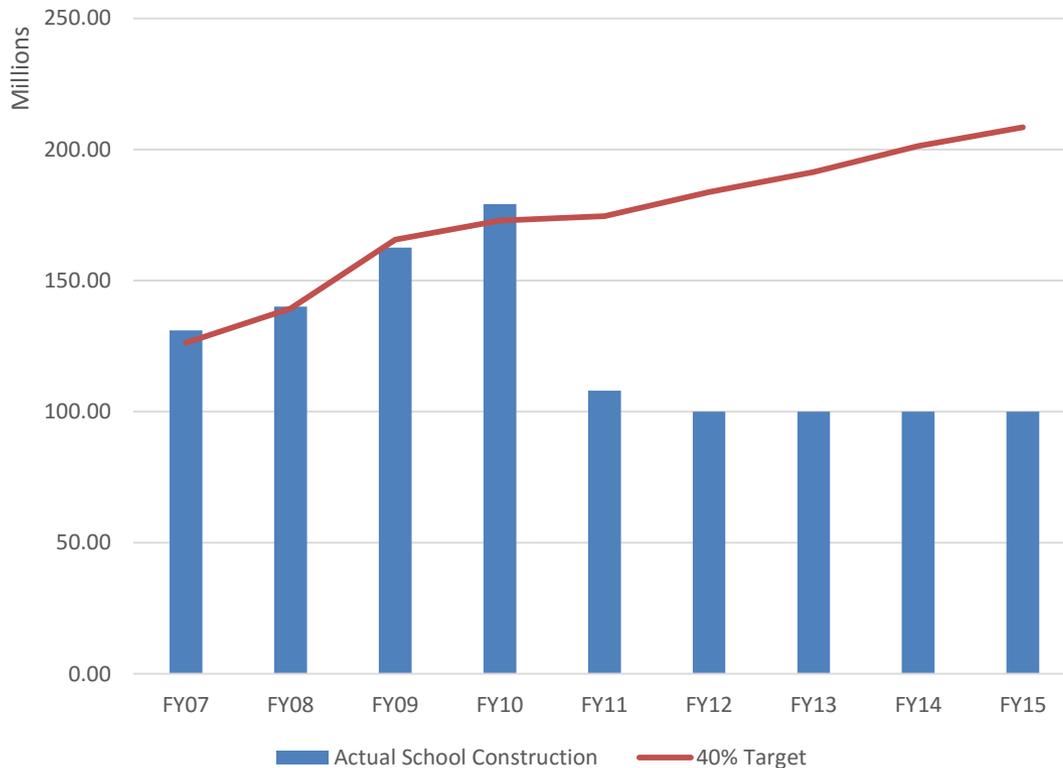
# State Bonds for Education and Corporate Tax Earmarking, Combined





# NC Education Lottery

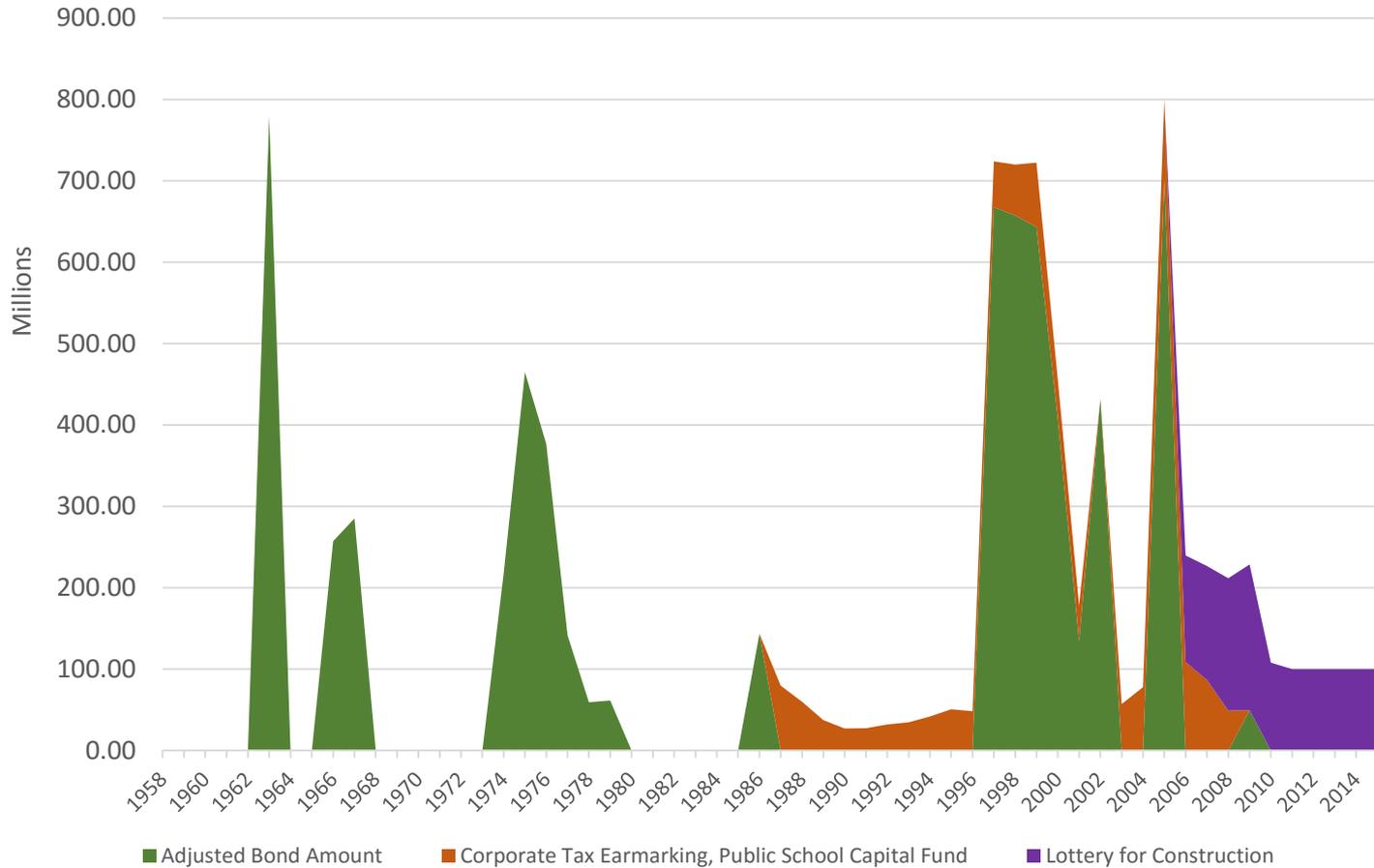
School Construction Lottery Allocation  
Actual v. 40% Target



- Originally, counties received 40% of the lottery proceeds, which were dedicated to education for their school construction needs.
- The legislature now provides a “lump sum” appropriation of \$100 million statewide, a percentage equal to roughly 15% of the lottery proceeds dedicated to education (less than ½ of what would have been distributed).
- 75% of the lottery funds allocated to counties between 2011 and 2015 were spent on debt service rather than new construction.



# State Bonds, Corporate Earmarking and Lottery, Combined





# State Public School Capital Funding: Recent History

## FY 2006-07 to FY 2015-16: State Public School Capital Funding History

Fiscal Year	Lottery K-12 Capital Allocations	ADM Fund Allocations	Total
2006-07	131,006,996	108,675,188	<b>239,682,184</b>
2007-08*	140,004,954	45,551,610	<b>185,556,564</b>
2008-09	162,262,428	49,098,195	<b>211,360,623</b>
2009-10	179,109,129	0	<b>179,109,129</b>
2010-11	108,099,979	0	<b>108,099,979</b>

Fiscal Year	Lottery K-12 Capital Allocations	ADM Fund Allocations	Total
2011-12	100,062,867	0	<b>100,062,867</b>
2012-13	100,000,000	0	<b>100,000,000</b>
2013-14	100,000,000	Eliminated	<b>100,000,000</b>
2014-15	100,000,000	Eliminated	<b>100,000,000</b>
2015-16	100,000,000	Eliminated	<b>100,000,000</b>

Source: NCGA Fiscal Research Division



# How much does it cost to build a school?



\$100  
million

\$19  
million

\$27  
million

\$60  
million



# 2015-2016 Public School Facility Needs Survey

- The State Board of Education just released the most recent facility needs survey, which tracks LEA-reported funding priorities for next five years
- LEAs report significant needs in new school construction and renovations
- The last statewide school bond referendum was held in 1996, and the resulting \$1.8 billion was expended before 2005
- According to calculations in the 2015-16 Needs Survey, state funding (excluding debt service money) over the past five years would have addressed 1.6% of the reported total five-year need of almost \$8.1 billion.

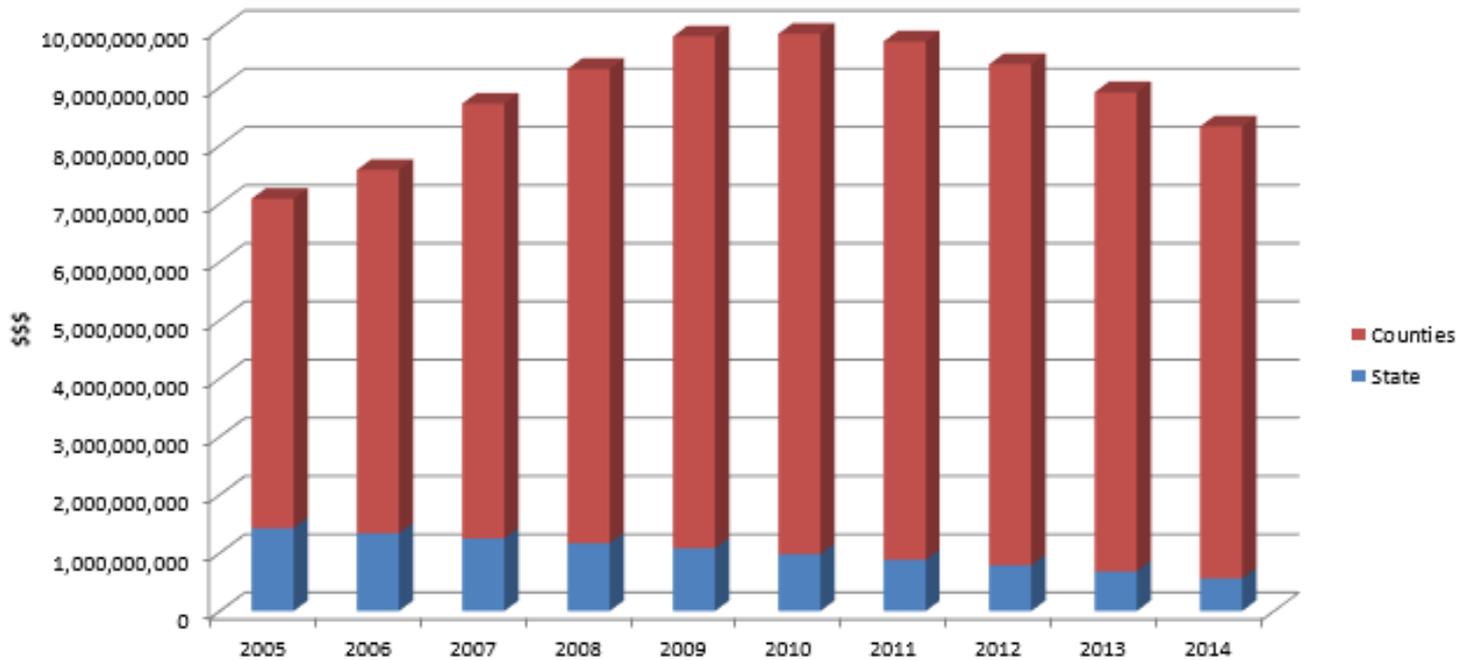
	<b>2005-06 Survey (2005 Dollars)</b>	<b>% of Total</b>	<b>2010-11 Survey (2010 Dollars)</b>	<b>% of Total</b>	<b>2015-16 Survey (2015 Dollars)</b>	<b>% of Total</b>
<b>New Schools</b>	\$4,327,137,980	44.1%	\$2,814,328,286	34.5%	\$2,787,390,899	34.6%
<b>Additions</b>	\$2,256,214,566	23.0%	\$1,684,746,985	20.6%	\$1,632,766,326	20.3%
<b>Renovations</b>	\$2,281,415,049	23.2%	\$3,031,579,800	37.1%	\$3,098,241,811	38.4%
<b>Furnishings/Equipment</b>	\$760,759,206	7.7%	\$526,116,103	6.4%	\$486,474,110	6.0%
<b>Land</b>	\$194,332,411	2.0%	\$112,538,602	1.4%	\$57,883,543	0.7%
<b>TOTAL</b>	<b>\$9,819,859,212</b>	<b>100.0%</b>	<b>\$8,169,309,776</b>	<b>100.0%</b>	<b>\$8,062,756,689</b>	<b>100.0%</b>



# SCHOOL DEBT

- Outstanding debt issued by both the State and Counties for Public School Capital Investment

NC Outstanding School Debt



Source: NC Department of State Treasurer, State & Local Govt. Finance Division



# SCHOOL DEBT



## State of North Carolina Department of State Treasurer

RICHARD H. MOORE  
TREASURER

State and Local Government Finance Division  
and the Local Government Commission

T. VANCE HOLLOWMAN  
DEPUTY TREASURER

TO: County Finance Officers and Their Associates  
FROM: T. Vance Holloman, Deputy Treasurer  
DATE: August 2, 2006  
SUBJECT: General Guidelines for Using Lottery Funds

“A county may use lottery revenues in the PSBCF to pay for school construction projects in local school administrative units and to retire indebtedness incurred for school construction projects on or after January 1, 2003.”

The N. C. General Assembly has adopted legislation (Session Law 2003-107) that allows counties to use the net revenues from the N. C. State Lottery Fund to the Public School Building Capital Fund (PSBCF) to be used for the construction of public schools in the State. The legislation sets the criteria established in the legislation. A county may use lottery revenues in the PSBCF for school construction projects in local school administrative units and to retire indebtedness incurred for school construction projects on or after January 1, 2003 (G.S. 115C-546.2.(d)(4)). This memorandum provides general guidelines to counties regarding the use of lottery funds for public school construction projects, as well as information on how the Local Government Commission will review plans to use such funds for repayment of debt issued for public school construction.

Public school construction projects originally funded from revenue sources other than lottery revenues transferred to the Public School Building Capital Fund must be completed from original revenue sources. If these projects were financed by debt, lottery revenues for debt service payments provided the debt was incurred on or after January 1, 2003. Lottery revenues cannot be used to pay for computers, software, program development, or information technology needs.

For financing new school construction projects using lottery revenues, the Local Government Commission is to conservatively estimate the distribution amount from the PSBCF. This estimate of this new revenue source until sufficient time has passed that the actual distribution and revenue levels expected on an annual basis can be determined. In the interim, the annual allocations to counties is based upon relative effective tax rates for the previous year.

When considering financing applications which use State Lottery funds for debt service, we will require assurance that local units commit to and provide for the possible use of other available secondary revenues to meet debt service requirements in the event that lottery revenues are insufficient. This is the same policy that we follow with other uncertain revenue streams. This policy is critical to protect the strong ratings that local governments across the state have earned.

“When considering financing applications which use State Lottery funds for debt service, we will require assurance that local units commit to and provide for the possible use of other available secondary revenues to meet debt service requirements in the event that lottery revenues are insufficient.”



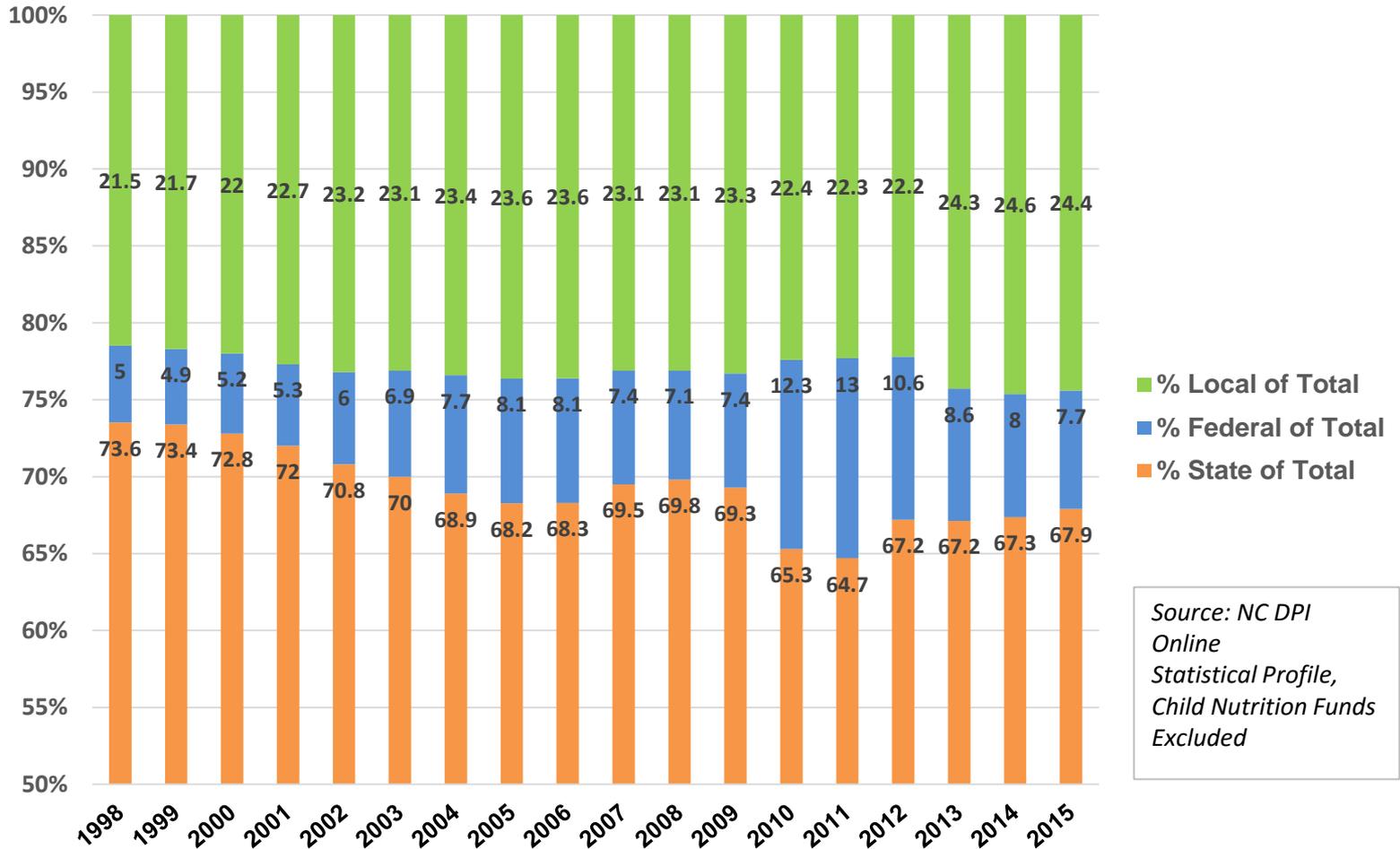
# Current (Operating) Expense



# Current Expense (Operating) Funding

Per Pupil Expenditures, Current Expense

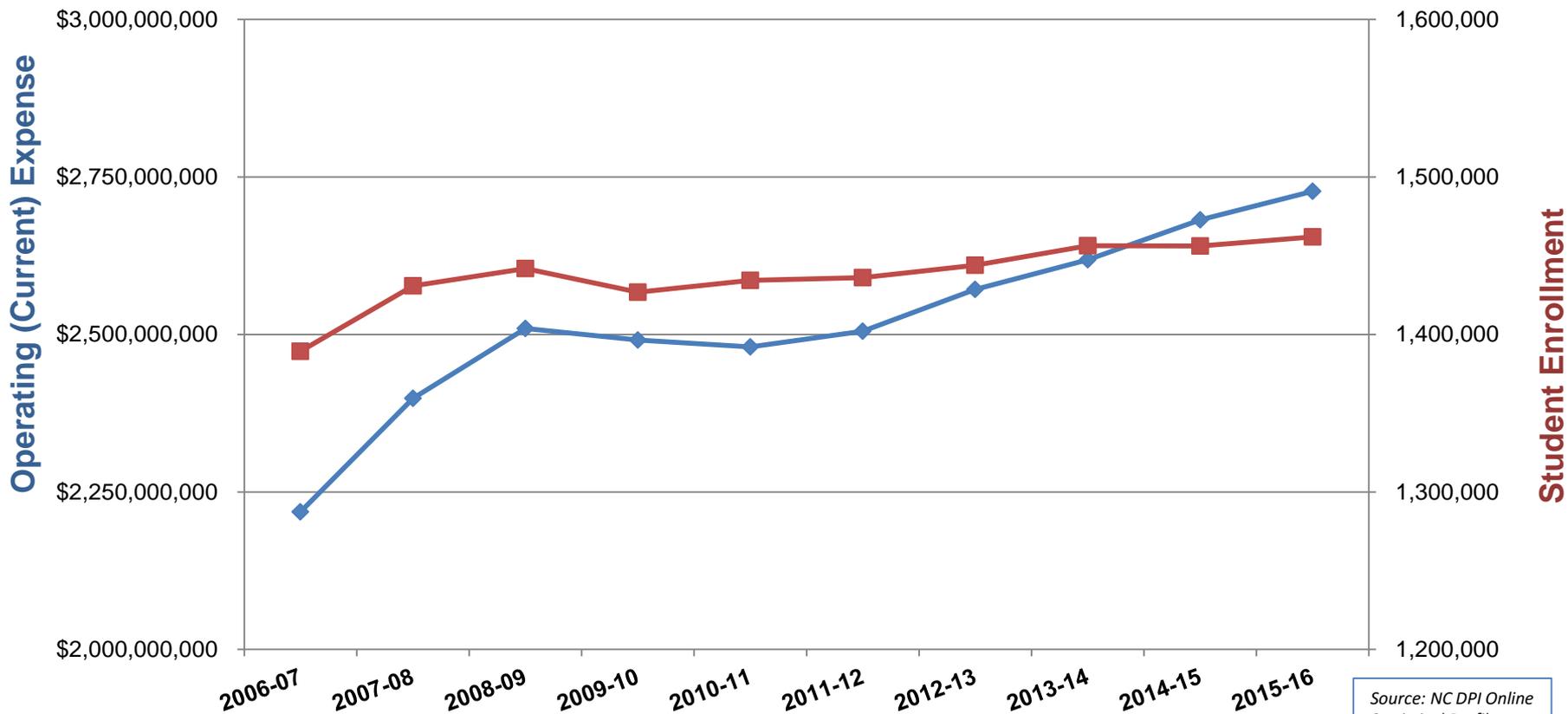
The local share of current expense funding is increasing, while the state proportion is declining on a per pupil basis



Source: NC DPI  
Online  
Statistical Profile,  
Child Nutrition Funds  
Excluded



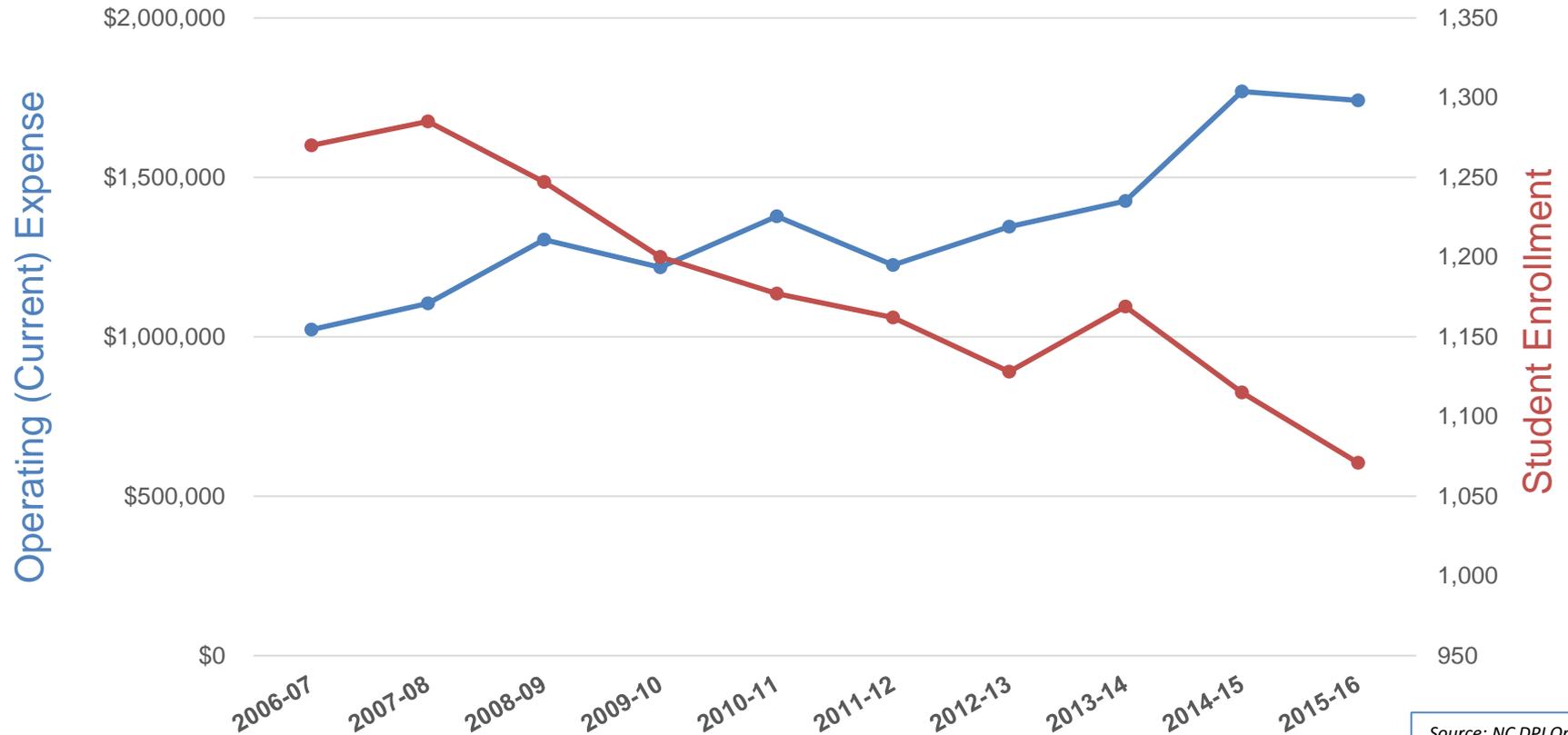
## County Current Expense (Operating) Funding as Compared to Student Enrollment, 2006-07 to 2015-16\*



Source: NC DPI Online Statistical Profile; NCACC Budget & Tax Survey



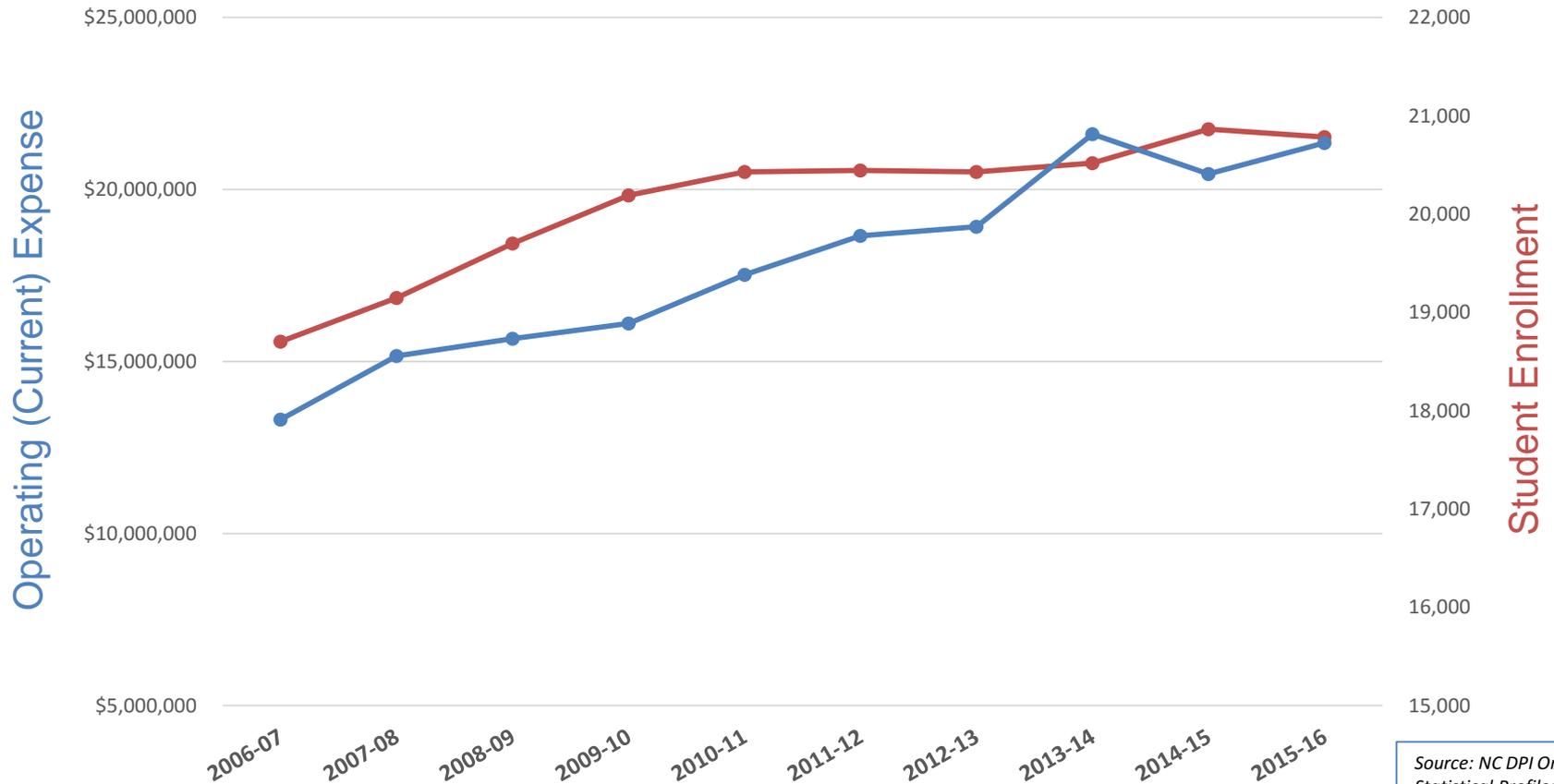
## Jones County, 2006-07 to 2015-16



Source: NC DPI Online  
Statistical Profile;  
NCACC Budget & Tax  
Survey



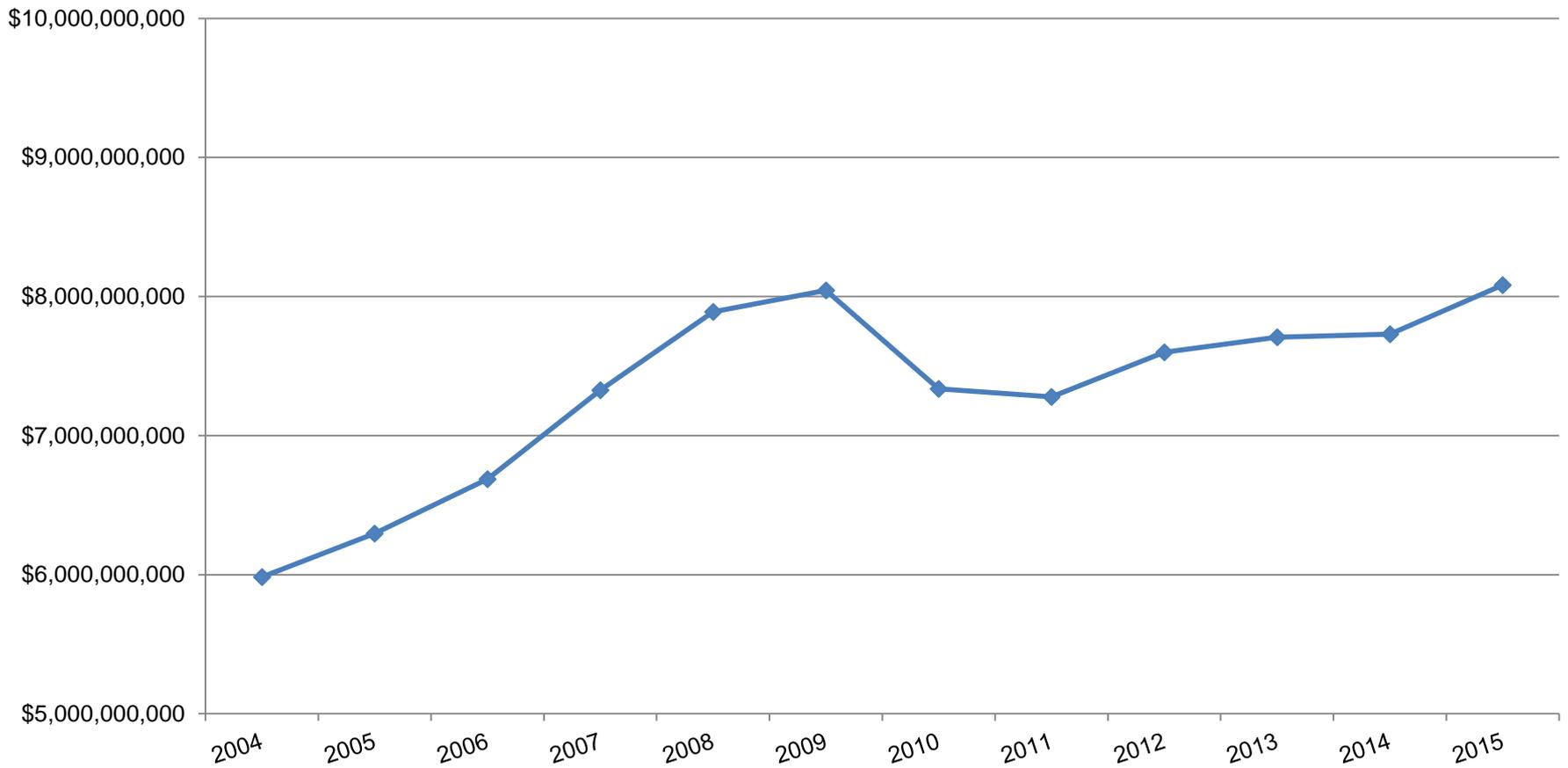
## Harnett County, 2006-07 to 2015-16



Source: NC DPI Online  
Statistical Profile;  
NCACC Budget & Tax  
Survey

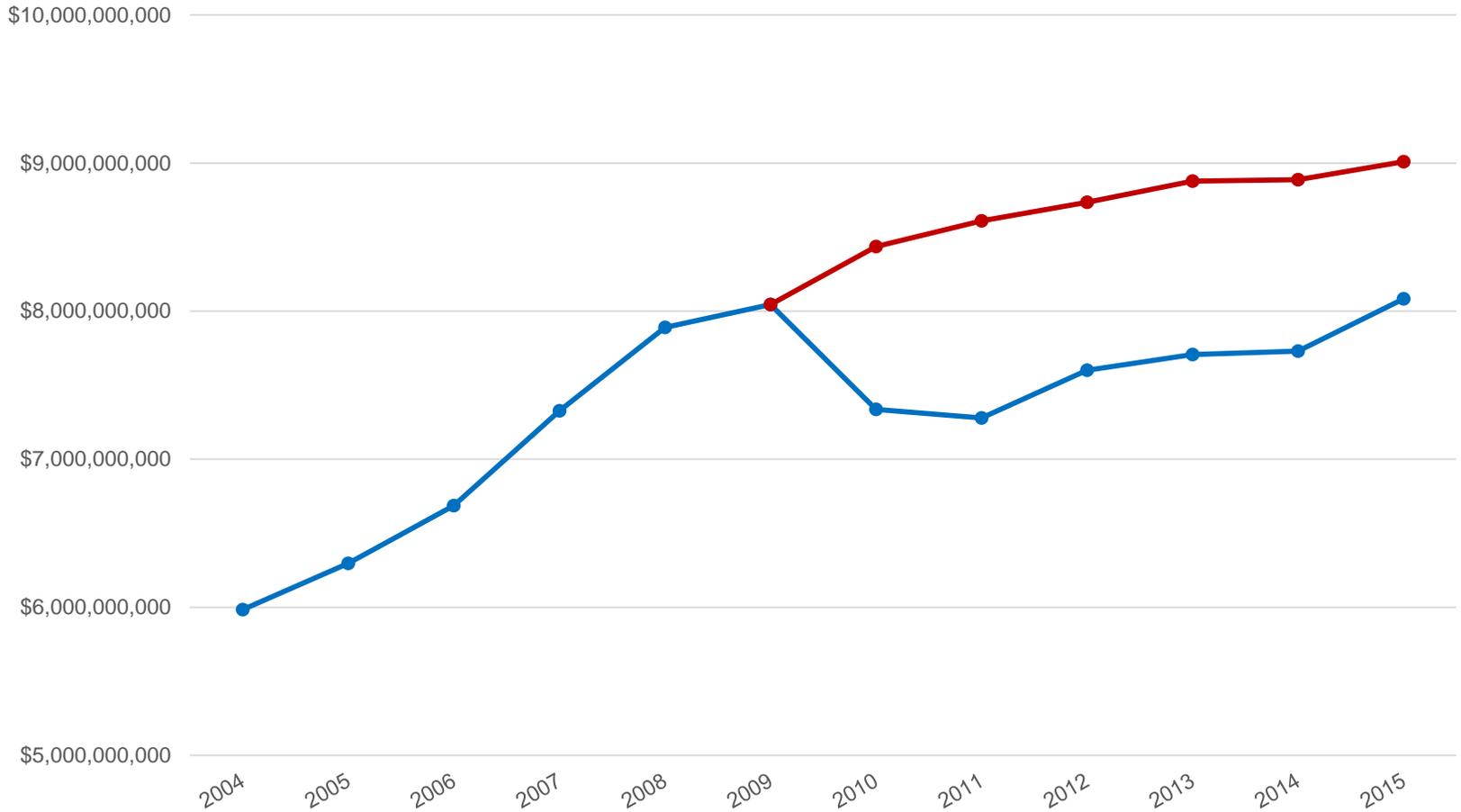


## State Operating (Current Expense) Funding, 2004-2015





## Amount of Funding Adjusted for Inflation, 2009-2015





# Charter Schools

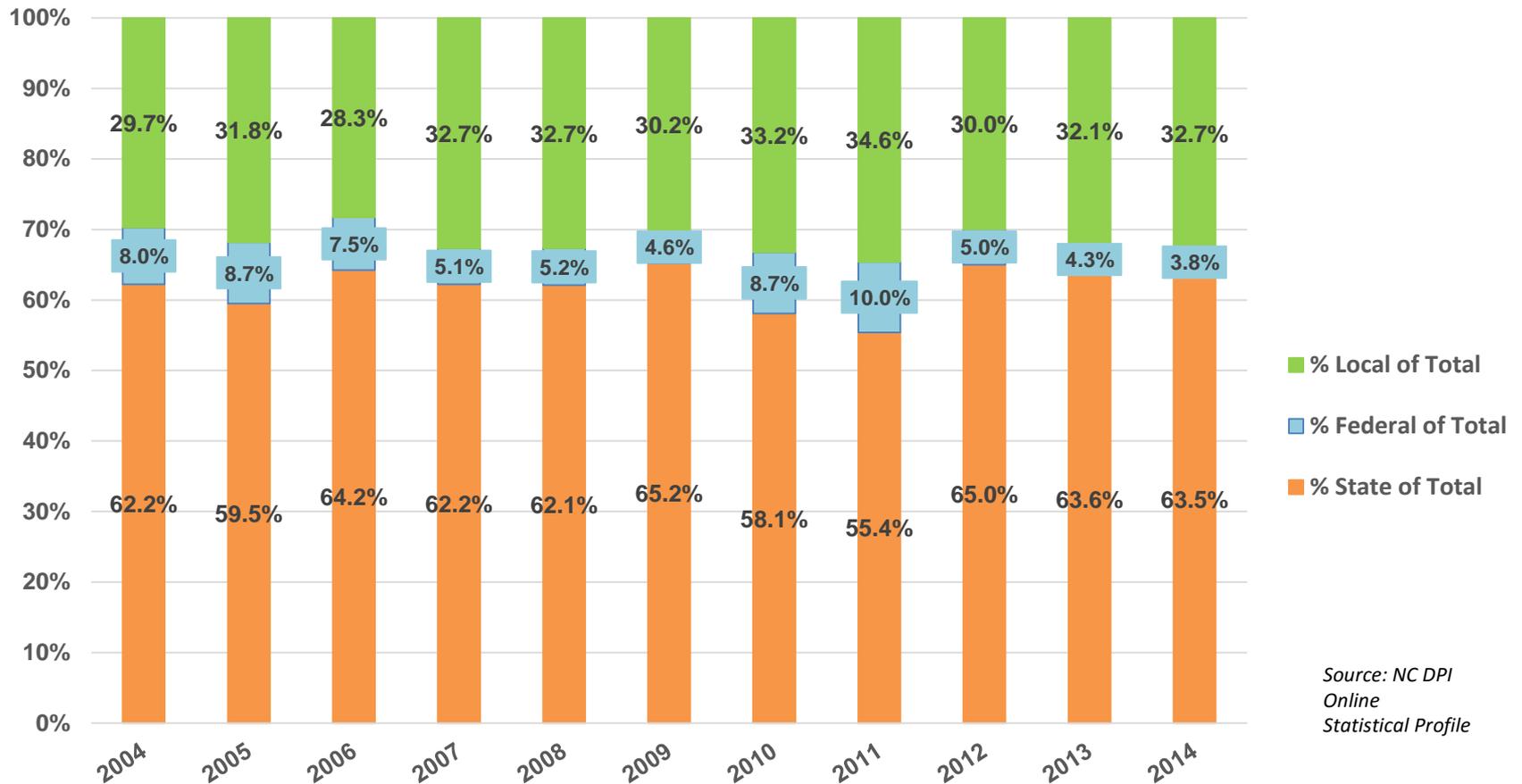


- **1996:** Legislature established charter schools
  - Purpose “is to authorize a system of charter schools to provide opportunities for teachers, parents, pupils, and community members to establish and maintain schools that operate independently of existing schools...”
- Original cap of 100 charter schools was removed in 2011
- 167 charter schools approved for 2016-17
- Charter schools receive funding from:
  - **State funds** (per pupil allocation & amounts for specific student groups)
  - **Federal grants**
  - **Local funds:** county transfers a per pupil share of the local current expense fund to the charter school (based on county of residence)

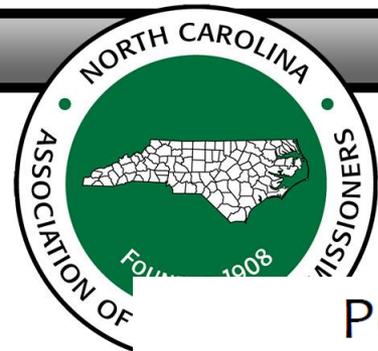


# Charter Schools

Charter School Revenue, % of Funding by Source

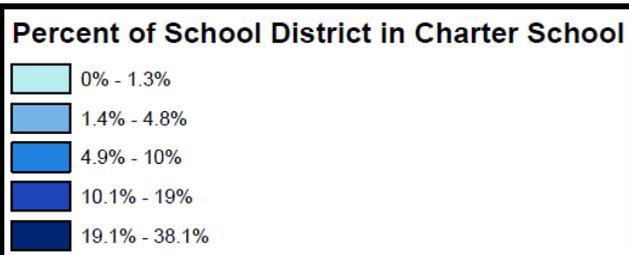
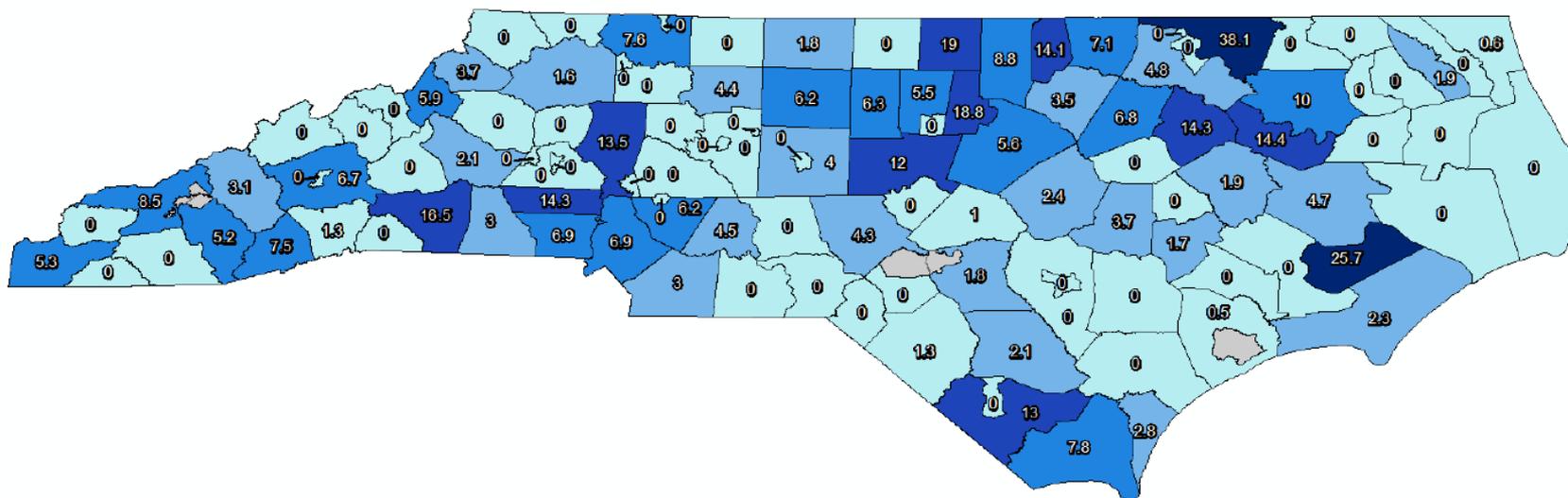


Source: NC DPI  
Online  
Statistical Profile



# Charter Schools

Percent of K-12 Students Enrolled in a Charter School,  
2015—2016



**Note:** These values represent the percent of ALL K-12 district students enrolled in public Charter Schools instead of traditional public or private schools. These values do not include the Camp Lejeune School District (Onslow County), Fort Bragg School District (Cumberland and Hoke Counties), or the Eastern Cherokee Reservation School District (Swain and Jackson Counties).

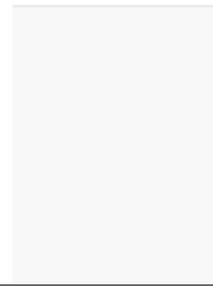
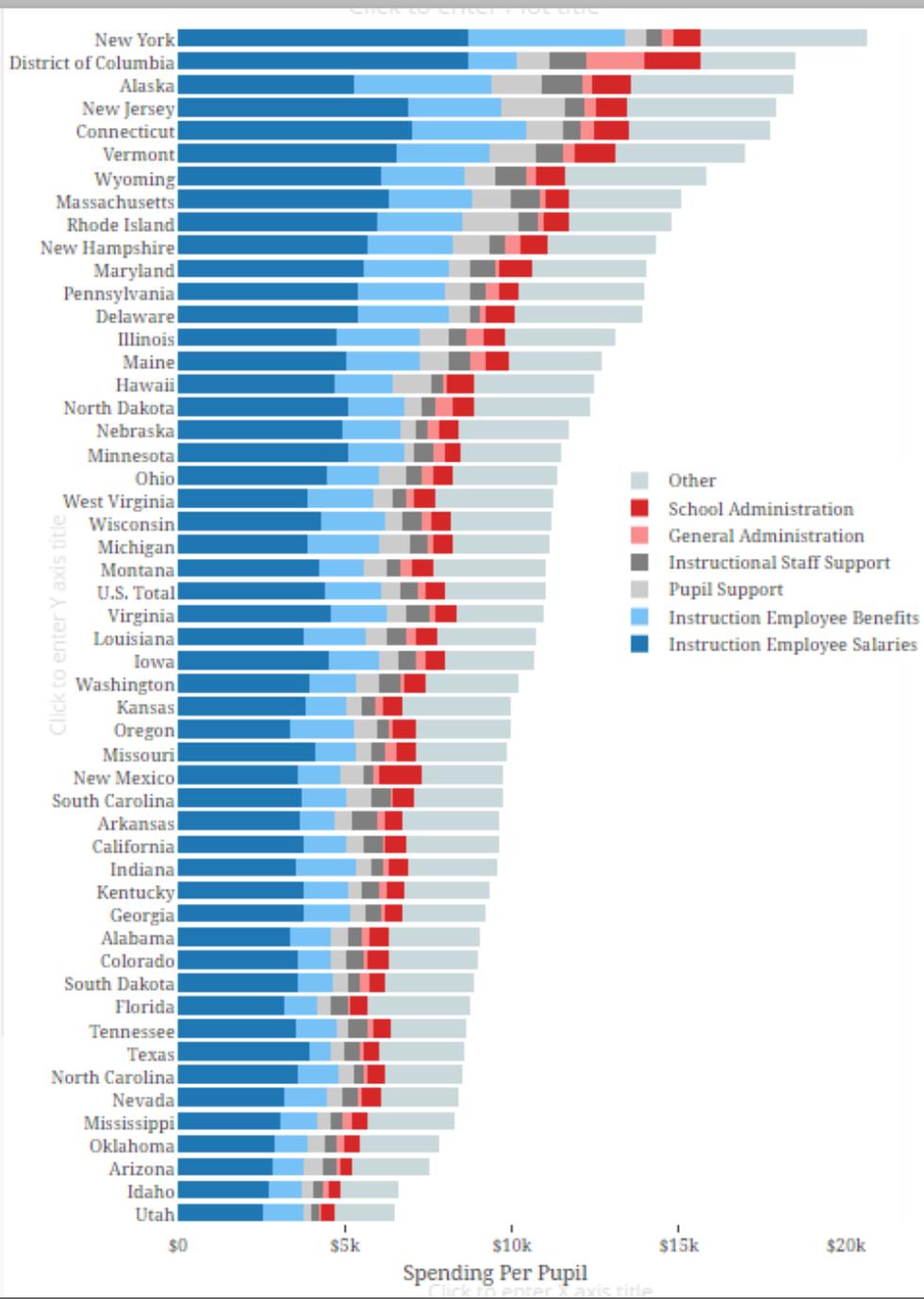
Source: NC Department of Public Instruction



## In Summary ...

- Counties and the State have a long history of partnership on school financing issues.
- *Constitutional provisions and our statutes set out state and county funding responsibilities.*
- On numerous occasions, the State has stepped in to address statewide capital needs.
- *That partnership has eroded significantly over time.*
- A new plan is in order.







109th Annual Conference  
Forsyth County, Winston-Salem, NC



*Counties*

Visualize  
Orchestrate  
Inspire  
**Create**  
Energize

Annual Conference  
Session  
**Friday, 10:30-11:45am**  
**North Main Hall C & D**

**The NC Public School Partnership: Past, Present, and Opportunities**

Speakers: Kevin Leonard, NCACC Executive Director  
Dr. Linda Millsaps, NCACC Research Director