

Basics of County Financing for Public Schools

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

- North Carolina 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.
- The State of North Carolina 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 are designated statutorily as the local taxing authorities for independently elected school boards, meaning the Board of County Commissioners is the tax-levying authority on behalf of the local school administrative unit. In most other states and school districts, the school system acts as its own fiscally independent taxing authority.
- NC counties supplement state school operating expenses. G.S. 115C-426(e) provides that the local current expense fund, which includes county operations funding added to the state appropriation, must be “sufficient” to fund the current operating expense of the public school system “within the financial resources and consistent with the fiscal policies of the board of county commissioners.”
- In 2015-16, school expenses—operating, capital, and debt service—consumed, on average, 35% of each county budget.
- Statute expressly permits local education agencies (LEAs) to sue counties over the “sufficiency” of current expense levels, capital funding levels, or both, triggering a lengthy dispute resolution process that can culminate with a hearing and judgment in court. 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.” Municipal 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 Funding for School Capital Needs

- By statute, counties are responsible for public school facilities.
- In 2014-15, NC counties spent \$1.5 billion on school capital projects and debt service to support 94% of public schools' total capital spending.
- 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 through a statewide 5-year facility needs assessment, which is required by statute. Based on the most recent 2015-16 survey, school systems report nearly \$8.1 billion in school construction, renovation, and equipment needs over the next five years.

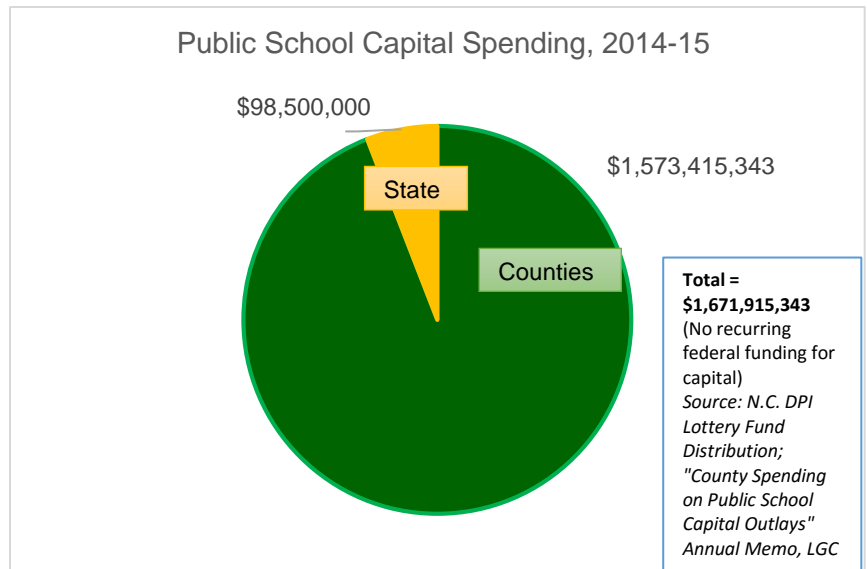
- According to the 2015-16 survey, LEAs will need 118 new schools, with 50 needed immediately and 68 needed in three to five years.

- Counties are required to set aside a portion of county-levied sales taxes, more than \$390 million in 2015, for school capital needs.

- Property tax revenues are also an important source of county funding for school facilities. Counties are increasingly relying on property taxes, though counties differ in their capacity to increase property tax rates and raise revenue through this source.

- The state has contributed significantly to capital funding needs at various times in the past. The state passed bonds to fund public school capital in 1949, 1953, 1963, 1973, 1986, and 1996. And the Public School Building Capital Fund – established in 1987 and funded through a corporate income tax earmark – was eliminated in 2013 as part of the state tax law changes.

- When the NC Education Lottery was established in 2005, counties received 40% of the lottery proceeds, which were dedicated to public school construction needs. Since 2012, the legislature has provided a “lump sum” appropriation of \$100 million statewide, a percentage equal to roughly 17% of the proceeds (less than ½ of what would have been distributed under the original statute). 75% of the lottery funds allocated to counties between 2011 and 2015 were spent on debt service rather than new construction.



County Funding for Current Expense (School Operating)

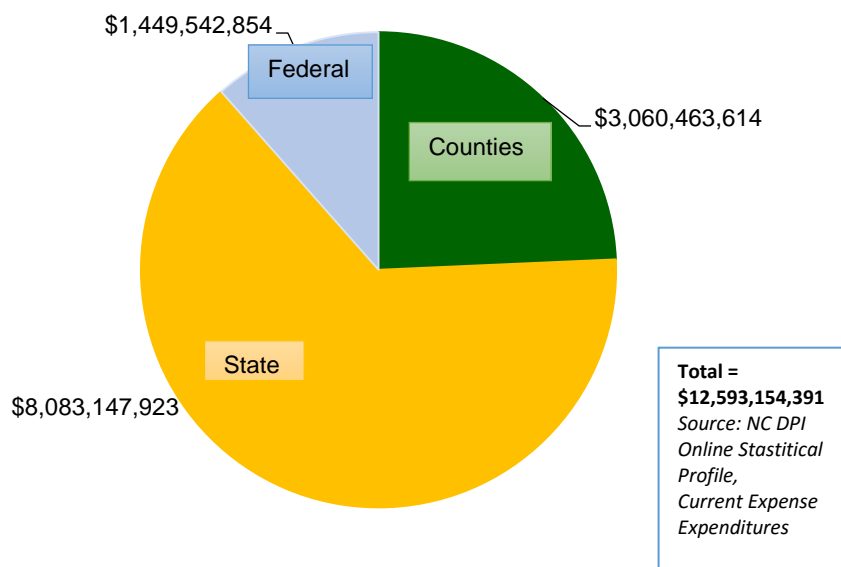
- By statute, the State of North Carolina is responsible for funding, from state revenue sources, the instructional expenses for current operations of the public school system.

- The NC Constitution states that “The governing boards of units of local government with financial responsibility for public education may use local revenues to add to or supplement any public school or post-secondary school program” and many counties have done just that.

- The State must still uphold its statutory responsibility and constitutional duty to provide a “general and uniform system of free public schools...and equal opportunities for all students.”

- In 2014-15, NC counties spent \$3 billion to support 24% of public schools’ total current expense.

Public School Current Expense (Operating) Spending, 2014-15



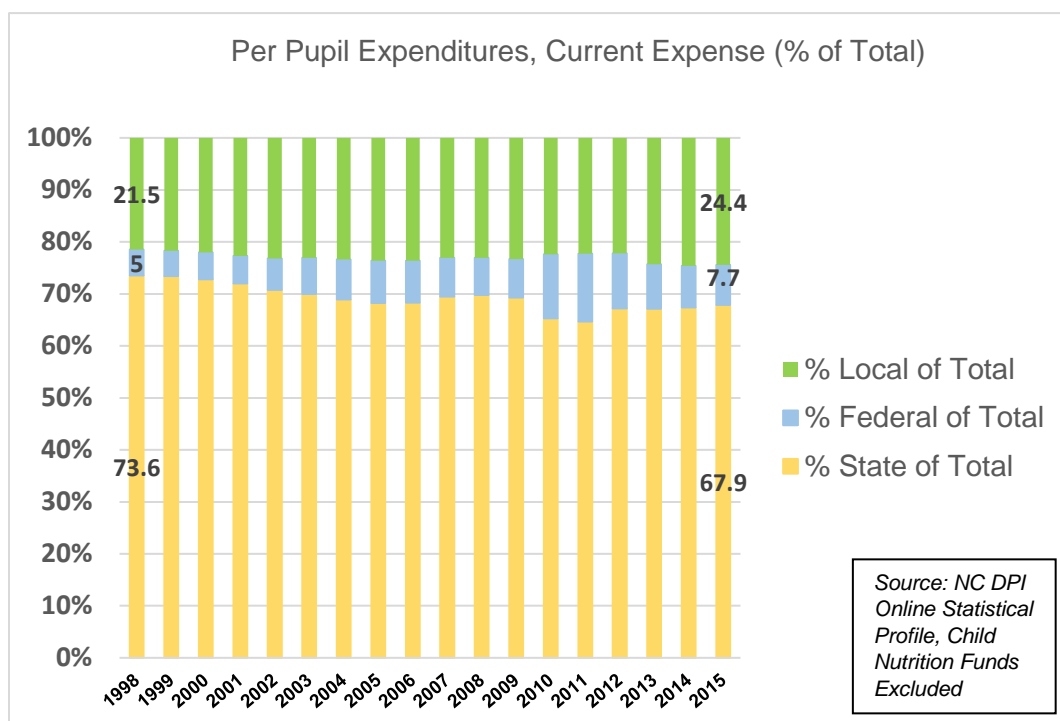
Over time, the proportion of total current expense funding financed by counties has increased. In 1998, counties funded 21.5% of the total current expense spending, compared to 24% in 2015.

Mechanics of County School Funding

Counties and school boards may agree to fund teacher salary supplements, using county funds, to increase the salary of teachers. School boards may also use county funds to supplement the salary of other school personnel.

- In 2015-16, 108 LEAs funded teacher salary supplements, ranging from (average in the county) \$100 to \$6,975 annually, with a state average of \$3,870. The average annual principal supplement across the state was \$12,763.
- State surplus school funds revert to the 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. In 2014-15, LEAs across the state had a total of \$581 million in school fund balance.
- The county allocates funds to the school board(s) in the county, and the school board(s) allocate 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 the per pupil allocation for each charter school student with home residency in the county. County school funding for charter schools follows the student, including those students who attend charter schools outside of the county.



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