

WINTER 2017

The Story of North Carolina Counties

# CountyQUARTERLY

MAGAZINE



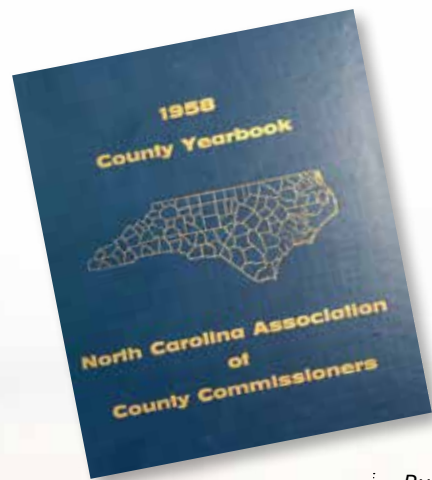
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## The More Things Change, the More They Stay the Same

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# The More Things Change, the More They Stay the Same



## History of NC Public Education Funding and Charting a Productive Path Forward

By Kevin Leonard | NCACC Executive Director

Built in Davidson County in 1930, Yadkin Valley Career Academy was once known as Davis-Townsend School. The school has since transformed into an innovative high school that prepares students for careers in advanced manufacturing, business and computer technologies, global logistics and health sciences.



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

*Excerpt from June 1958 NCACC statement submitted to the Committee for the Study of Public School Finance*

**It was a typical day late last spring at the Association when something remarkable happened.** We didn’t know at the time, but it would prove to be a turning point in an important conversation many of us have been engaging in for some time.

Surry County Commissioner Larry Phillips, now the Association’s First Vice President, was in town and came by my office at the Albert Coates Local Government Center to catch up. He noticed the collection of Association yearbooks dating back to 1933 on my bookshelf. Pre-digital memorialization of Association events, the yearbooks chronicle the key moments of the year and continue to give us perspective into the county story dating back decades.

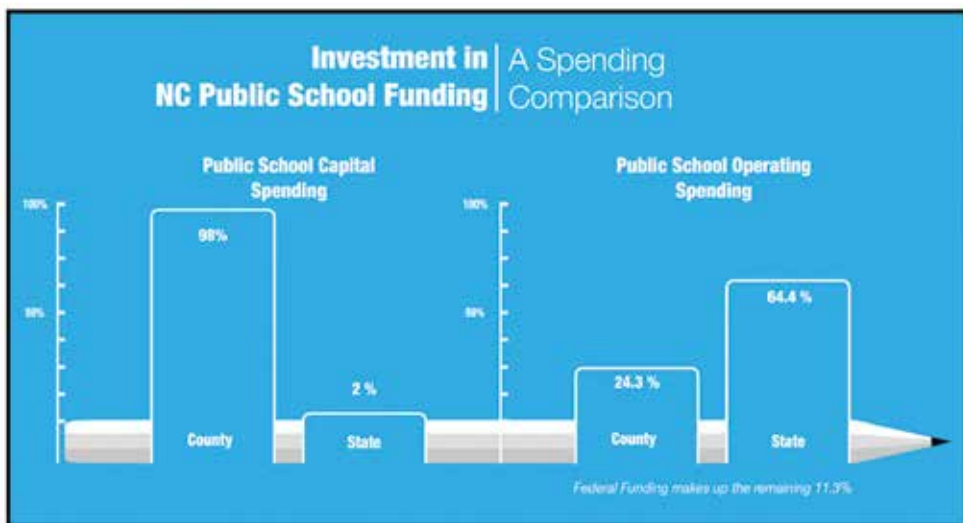
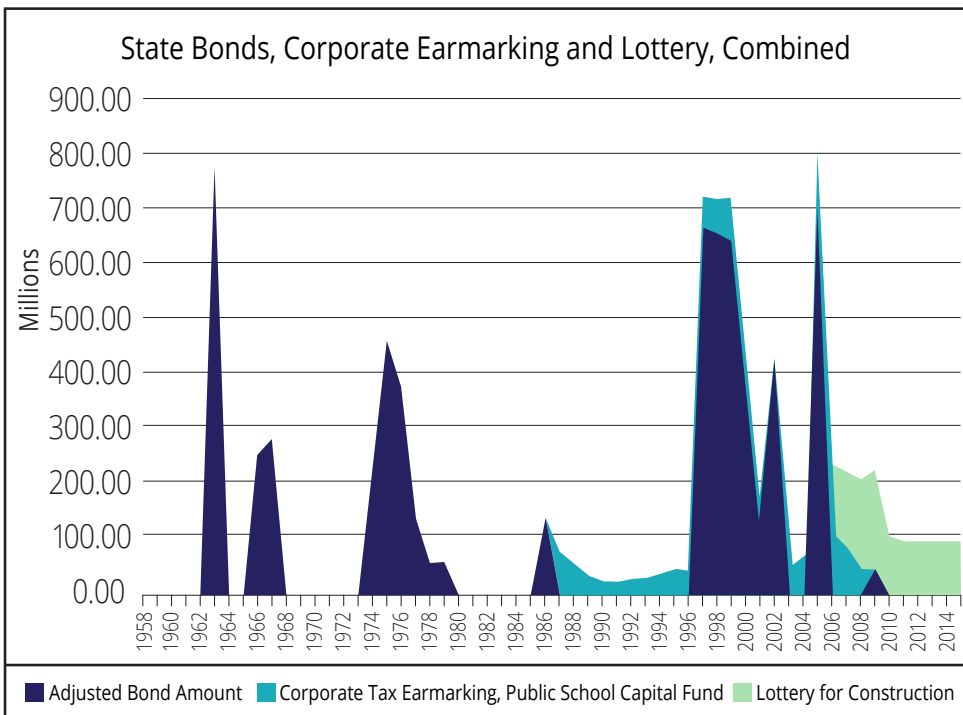
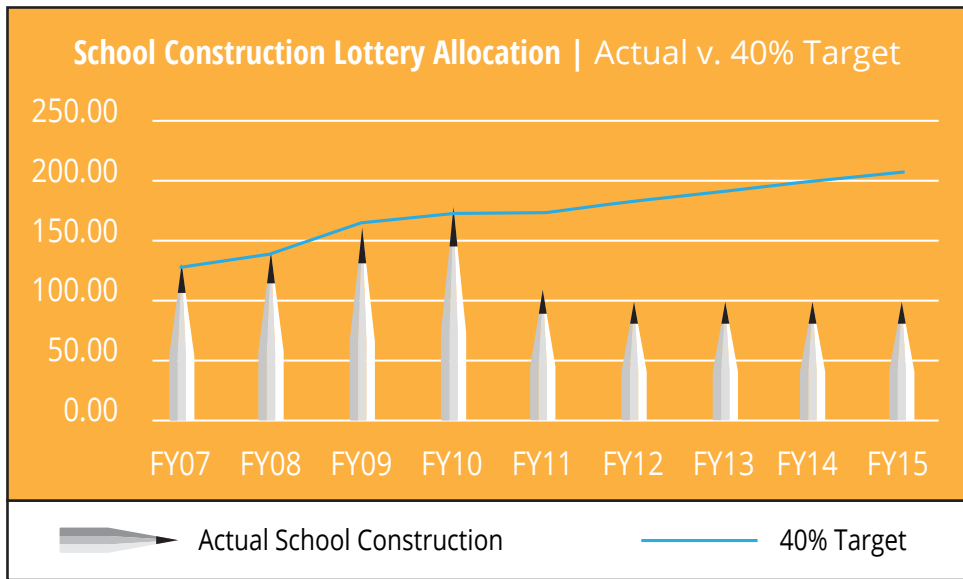
As Commissioner Phillips and I chatted, he picked up the 1958 Association yearbook – the year he was

born – and as he flipped through the pages, chuckled at the advertisements of yesteryear... A&P, The Surry County Loan & Trust Company and Monroe Calculating Machine Company, Inc.

Something caught his eye in Section I of the yearbook. The section covered the affairs of the North Carolina Association of County Commissioners June 1957- June 1958, and there was an entry titled, “Statement Submitted to the Committee for the Study of Public School Finance.” It was of interest because as far as we could both recall, public school finance has been a topic of conversation, and a source of great challenge, for North Carolina counties.

As Commissioner Phillips pored over the statement dated June 22, 1958, he read aloud quotes that struck him –

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



Sources: (Operating) NC DPI Online Statistical Profile, Current Expense Expenditures; (Capital) NC DPI Lottery Fund Distribution; "County Spending on Public School Capital Outlays" Annual Memo, Local Government Commission, 2016

## “Seek legislation to establish a new state-county partnership to address statewide public school capital challenges...”

Excerpt from 2017-18 NCACC Legislative Priority Goal

been largely a county responsibility...”

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

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

Our eyes locked as he finished reading. Without saying a word, we both realized at that moment that the more things change, the more they stay the same. Here we are well into the 21st century, and still grappling with how to adequately fund public education in North Carolina.

That day I vowed to dig into this issue and gain as much historical perspective as possible in hopes it would shed light on how we can truly address the age-old question of how we can meet the demand when the supply of funds falls woefully short.

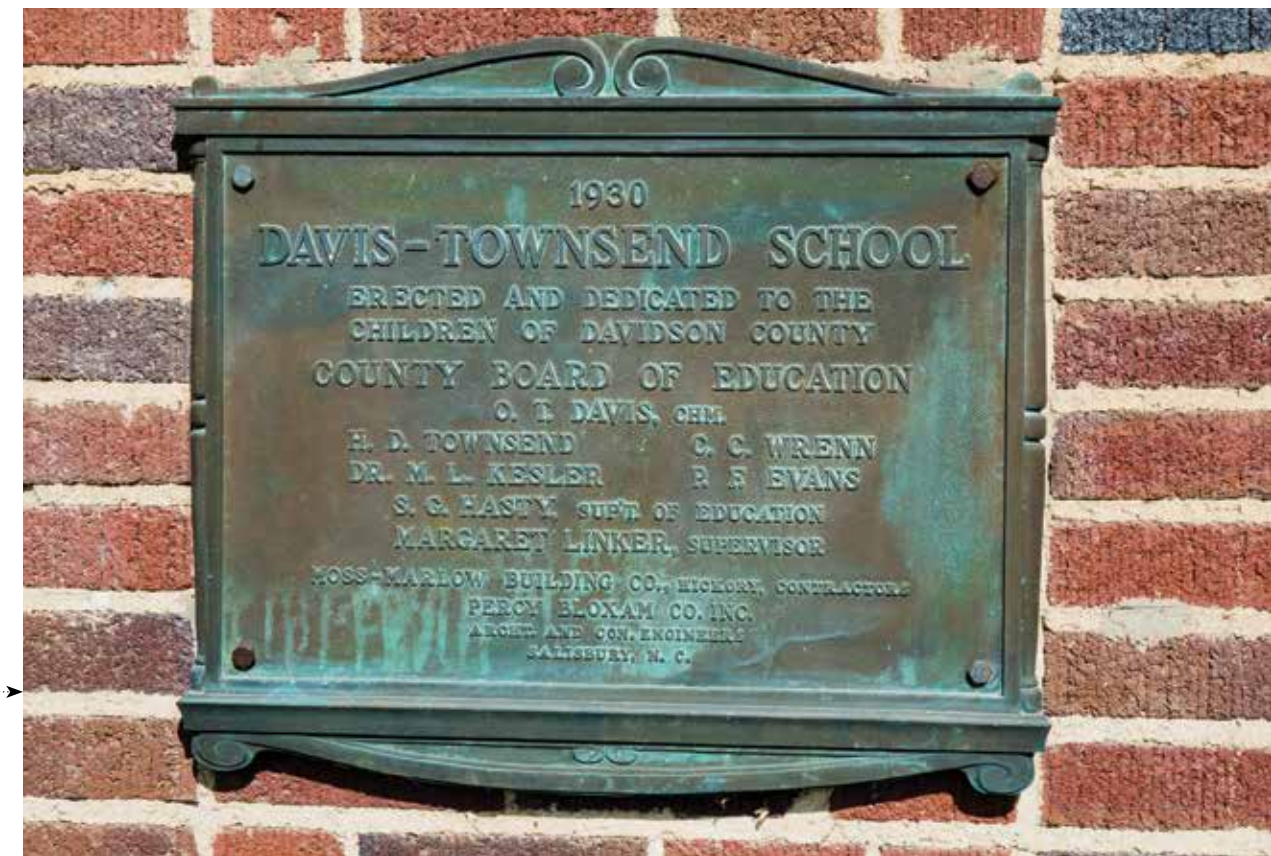
I turned to the Association’s Center

for County Research to uncover the story of public school financing in North Carolina.

First things first – the basics of North Carolina public school funding

North Carolina’s general statutes delineate who is responsible for funding the building of schools (capital spending) and who is responsible for funding the operating of schools (operating spending, also known as current expense). Generally, counties are charged with building, equipping, and maintaining school facilities while the State is charged with funding school operations. However, these responsibilities have varied over the years, with the State previously contributing to some capital expenses and counties supplementing more current expense funding each year.

Historic marker on what is now Yadkin Valley Career Academy located in Davidson County.



### *Sources of funding & who picks up what*

Counties are primarily allowed to raise money two ways – levy sales taxes and levy property taxes. 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 also help pay for funding of school facilities, and while counties are increasingly relying on property taxes to cover these costs, they differ in their capacity to increase property tax rates and raise revenue through this source. However, there is a limit on how much sales and property tax counties can levy, and the revenue they see from those levies varies greatly. This wide variation in the ability to generate revenue by raising the property tax rate has a direct impact on a county's capability to increase local funding for schools, regardless of the county commission's desire to dedicate more of its budget to education funding.

While the NC General Statutes clearly spell out public school funding responsibilities, reality is much more complex. Counties are responsible for capital spending, but picked up 24.3% of operating spending last year. The State is responsible for operating spending, but picked up 2% of capital spending. The need is vast, and both counties and the State have, over the years, contributed to each other's responsibilities in hopes of meeting the need. Unfortunately, that strong partnership has diminished and the catch is -- the need is far from being met.

School districts must report school capital needs through a statewide five-year facility needs assessment. Based on the 2015-16 survey, school systems

report more than \$8 billion in school construction, renovation, and equipment needs over the next five years. This figure far exceeds what counties and the State can provide given the current model. In fact, the Local Government Commission (LGC) reports that counties and the State (but mostly counties) already have \$8 billion in outstanding school-related debt. So the amount of money we owe on what we have already built is almost the same as how much more it would take to address our existing needs.

### A historical perspective on the state-local public school partnership

North Carolina has a history of commitment to public education, going back to 1776 and made official by a written commitment in 1839. At that time, a State-local partnership was established whereby there was a county-level vote for increased taxation to fund schools (all but seven voluntarily approved), and each \$1 raised locally was matched with \$2 of state funds. The partnership proved so successful that within seven years of the statewide vote, every county had at least one publicly funded school.

As a part of Reconstruction, North Carolina affirmed and expanded its public education commitment by incorporating a statement in its new State Constitution of 1868 requiring a "general and uniform system of free public schools." Indeed in 1917 and 1921, the State issued the first bonds dedicated to local school investment, part of which funded capital needs.

In 1931, the LGC was established



*Schools built in the early part of the 20th century require extensive repairs and renovation to be suitable for operating today.*

Growth in urban areas is out-pacing capacity in existing schools. Construction on Garner High School located in Wake County is an example of how population growth near an urban center impacts the need for more schools.



to assist local governments and public authorities in North Carolina with fiscal management. Staffed by the Department of the State Treasurer, the LGC has responsibility for approving all local debt. And finally in 1933, the current framework for school funding and management was created and at that time, the State took on the responsibility for covering current expense.

The State again issued a bond to fund capital needs in 1949 and another in 1953. Then there was a lapse and it was during this time that the Association offered the June 22, 1958 statement to the Committee for the Study of Public School Finance regarding the inadequacy of public school funds.

**Issues noted in 1958 included:**

- Counties struggled to attract teachers due to low state determined teacher salaries
- State funding did not keep pace with costs associated with current operating expenses
- Substantial investment of local property tax dollars had been invested, and yet...
  - Some schools were operating on double shifts and using temporary classrooms

- Many schools were “unsatisfactory”
- Unmet need for new and improved classrooms and facilities continued to grow

Sound familiar?

Following the funding dry spell post-1953, you’ll start to see a pattern develop. About every decade thereafter, the State issued bonds – in 1963, 1973, 1986 and 1996. And in 1987, the business community voiced its support of public education and due in part to that support, the Public School Building Capital Fund (PSBCF) and Critical School Facility Needs Fund (CSFNF) were established and funded through corporate income tax earmarks. The CSFNF was repealed in 1995 when the Public School Building Bond Act passed, and the PSBCF was eliminated in 2013 when tax reform changes went into effect.

After decades of investment, there have been no State bonds or corporate income tax earmarks dedicated to public school capital funding. WHY?

The NC Education Lottery was established in 2005 as a new, permanent source of State funding for school capital and promised to be a dedicated, consistent, stable and sufficient funding

stream. By statute, 40% of lottery proceeds were to be allocated to county school construction needs. As a stable source of revenue, counties were allowed (by both bond houses and the LGC) to pledge future lottery revenues for local school bonds. Many counties supported the lottery because of this statutory requirement and the assurance that lottery dollars could go toward bonds.

What did counties do as a result of this commitment? They got to work building schools, taking on debt to meet the demand for new and renovated schools.

So what changed? Why are we revisiting this conversation today? In 2011, the North Carolina General Assembly reduced the lottery allocation for school construction funding and put that lottery money toward increasing teacher salaries. And then in 2012-2013, the General Assembly eliminated the 40% lottery proceeds statutory directive and replaced it with an annual appropriation of \$100 million – which amounts to about 15% of lottery proceeds today. This change hit counties hard as it means that 75% of the lottery funding they receive is being spent on debt service to pay off earlier commitments – not on building new schools and renovating outdated and dilapidated schools.

**Taking action to see a more promising future**

Based on approximations over the past three years, we know that it costs about \$19 million, on average, to build an elementary school in North Carolina, \$27 million to build a middle school and \$60 million to build a high school. With just

\$100 million for all counties across the state to share, that leaves very little room for progress.

It is time we take a fresh look at the State-county partnership that is in place to fund our public schools. It is a partnership – a give and take, a dialogue, a two-way street – that leads to a productive path. This issue is complex, no doubt, but it’s not beyond solving. There are many factors and stakeholders we’ll have to include in the conversation as we undertake exploring solutions – population shifts, teacher salaries, per pupil expenditures, legislators, school boards, the lists goes on. But we must start somewhere.

The Association has three public education goals for the 2017-18 biennium. The number one priority legislative goal for all 100 counties is to, “Seek legislation to establish a new state-county partnership to address statewide public school capital challenges-- including but not limited to maintenance, renovation, construction and debt-- through a dedicated, stable funding stream that is consistent from county to county and sufficient to meet the school facility needs of all 100 counties.”

Let’s gather and expand this dialogue. Let’s chart a path to progress. Let’s imagine and realize a time when we are the nation’s model for how to fund public education. You can read the 1958 “Statement by the North Carolina Association of County Commissioners to Committee for the Study of Public School Finance” and view other school finance-related resources at [www.ncacc.org/schoolfinance](http://www.ncacc.org/schoolfinance). ■

# DIRECTOR'S CUT



**KEVIN LEONARD**  
Executive Director

The new year gives all of us an opportunity to reinvent... take a step back, assess and chart a fresh path. I suppose this looks a little different for everyone but chances are, you took a moment to at least think about making a change or two, and maybe even made a plan to implement that change. I found myself rearranging my office after the holidays, gaining a new perspective from my desk and changing the flow of the room. Why do we feel compelled to do these things?

I think we do these things because we have an innate need to do better, to do more, to be more. It is in that spirit that your Association approaches the year excited about the possibilities it holds. We kicked off the year with the "Leading Your County Governing Board" and "Essentials of County Government" training events where new and veteran commissioners gathered to learn how to be effective as county commissioners.

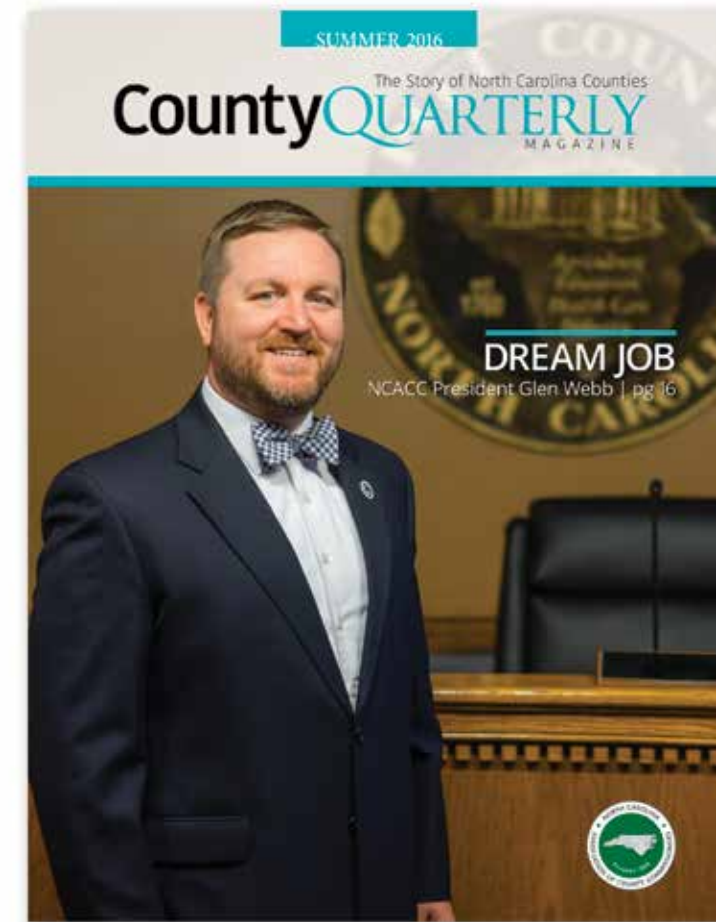
We then quickly turned our attention to our Legislative Goals Conference where more than 200 county leaders gathered in Wake County to set the county legislative agenda for the next biennium. It is through this goals setting and advocacy process that we are able to do better, to do more, to be more.

As the weeks and months go by, remember that the Association is here for all North Carolina counties. Our official vision, "Empowering 100 counties to work together for the betterment of one state," says it all. We are here to help you realize the change you seek as you start this new year. Keep in touch.

Sincerely,

## NCACC Mission Statement

*Support and promote the well-being of all North Carolina counties through advocacy, education, research, and member services.*



CountyQuarterly is distributed Spring, Summer, Fall and Winter to county commissioners, managers and clerks, legislators and public libraries, as well as others interested in the county story. The magazine seeks to bring the county story to life with a focus on the leaders that make county government tick, innovative programs that improve services to citizens, and county history.

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