



Enhance the State Capital Investment in North Carolina's Public Schools

NCACC Advocacy Brief

Seek additional revenue sources to address statewide public school and community college capital needs and ensure methods used to distribute school capital funding considers the needs of both low-wealth and growing counties. Revisions to the Needs-Based Public School Capital Fund that will allow for more access to counties and allow for faster school construction to include allowing projects that have not previously been awarded a grant to commence and remain eligible for future grant application periods.

Issue At-A-Glance

- Counties fund over 97% of public school capital expenses, while the state has provided financing and direct funding for school capital primarily through the NC Education Lottery.
- Counties contribute roughly 26% of public school operating revenue, providing over \$3 billion to supplement school operations funding for the 2019-2020 school year.
- The latest Statewide Facility Needs survey documented a \$12.8 billion need for public school construction.
- While counties and the state have distinct responsibilities to build and operate schools, they partner to share these responsibilities.
- Since 2017 the General Assembly has supplemented lottery funding through the Needs-Based Public School Capital Fund. Although an increasing amount of funds continue to flow through the Fund, and changes were made last biennium to provide more access and use, not all counties and school districts have been able to access this fund.

Issue Background

From 1946 to 1996 the state regularly issued bonds to assist counties with school capital funding. When the NC Education Lottery was enacted in 2005, 40% of the annual net proceeds were directed to the Public-School Building Capital Fund to replace bonds and financing with a sustainable source of revenue. A school bond has not been issued since 1996.

In 2010, the General Assembly reduced lottery funds for school construction to a flat \$100 million for all 100 counties. Over time, the percentage of proceeds from the lottery directed to the Public-School Building Capital Fund decreased significantly, reaching a low of just 17% in 2017. In 2017, the General Assembly stated its intention to increase lottery proceeds to assist local governments in meeting local school capital needs to 40% of net lottery profits collected by the 2028-2029 fiscal year. To assist in this goal, that same year the General Assembly created the Needs-Based Public School Capital Fund.

Since 2017 the General Assembly has supplemented the lottery funding provided to all counties via the Public School Building Capital fund through the Needs-Based

School Capital Fund for Tier 1 and 2 counties. As increased lottery funds flow through this Fund, the percentage of net proceeds from the lottery for public school capital projects has reached the 40% threshold goal ahead of the 2028-2029 goal. Additionally, during the 2021-2022 legislative biennium the General Assembly revised the Needs-Based Public School Capital Fund to allow more counties to take advantage of grants from the Fund. Counties applaud this progress and ask the General Assembly to continue to maintain or increase the Lottery distributions provided.

Although great strides have been made, not all counties are able to access grants from the Needs-Based School Capital Fund. Some counties are experiencing rapid growth and are unable to keep up with the need to build more schools but are either ineligible for grants from the Fund or are very unlikely to be awarded a grant based on the priorities established in statute. While the Fund is providing badly needed resources for more rural and economically distressed counties, more must be done to help these high growth, high need counties.

County Recommendation

Counties seek to maintain and grow current lottery distribution levels, as well as seeking additional revenue sources, to address statewide public school and community college capital needs and ensure distribution of school capital funding considers the needs of both low-wealth and growing counties. Revisions to the Needs-Based Public School Capital Fund that will allow for more access to counties and allow for faster school construction to include allowing projects that have not previously been awarded a grant to commence and remain eligible for future grant application periods.

