













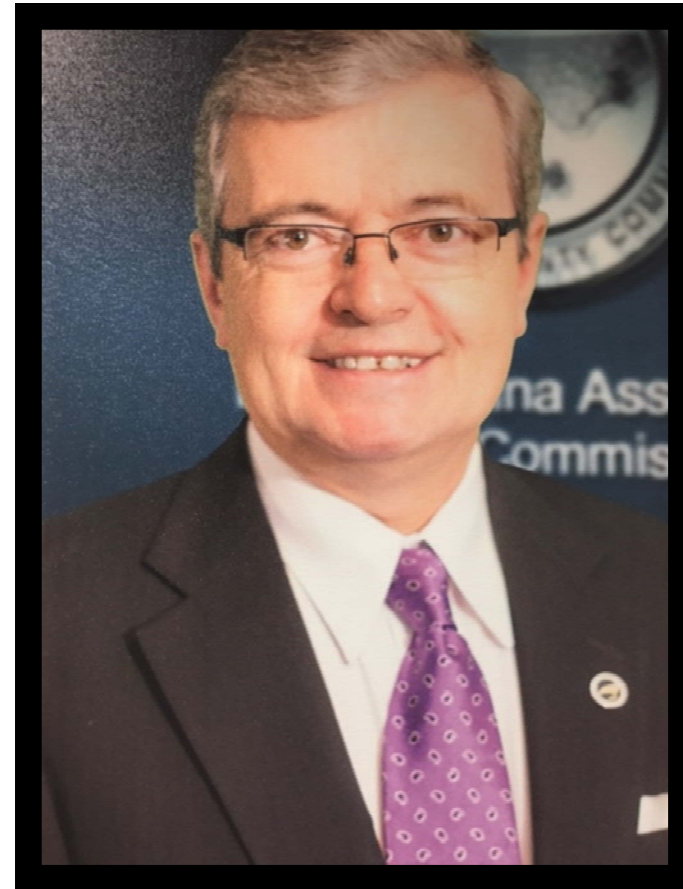
The North Carolina Public School Partnership: Past, Present, and Opportunities

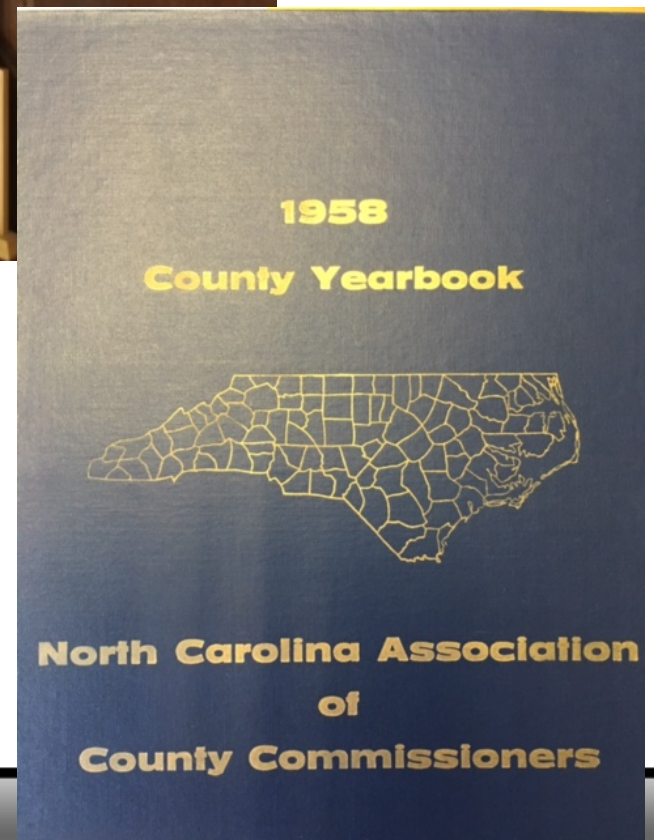
North Carolina Association of County Commissioners

www.ncacc.org

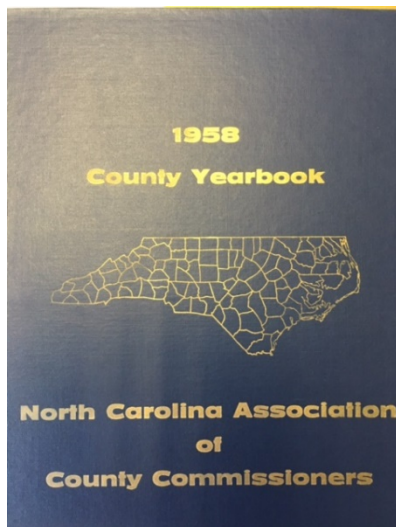


The beginning
of the
conversation...





www.ncacc.org



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 to the answer is in the fact that the parents, and many believe that we should go to the parents for the answer to this word. obvious that the interests of parents and teachers for good schools are not the same as the interests of taxpayers in low taxes. An

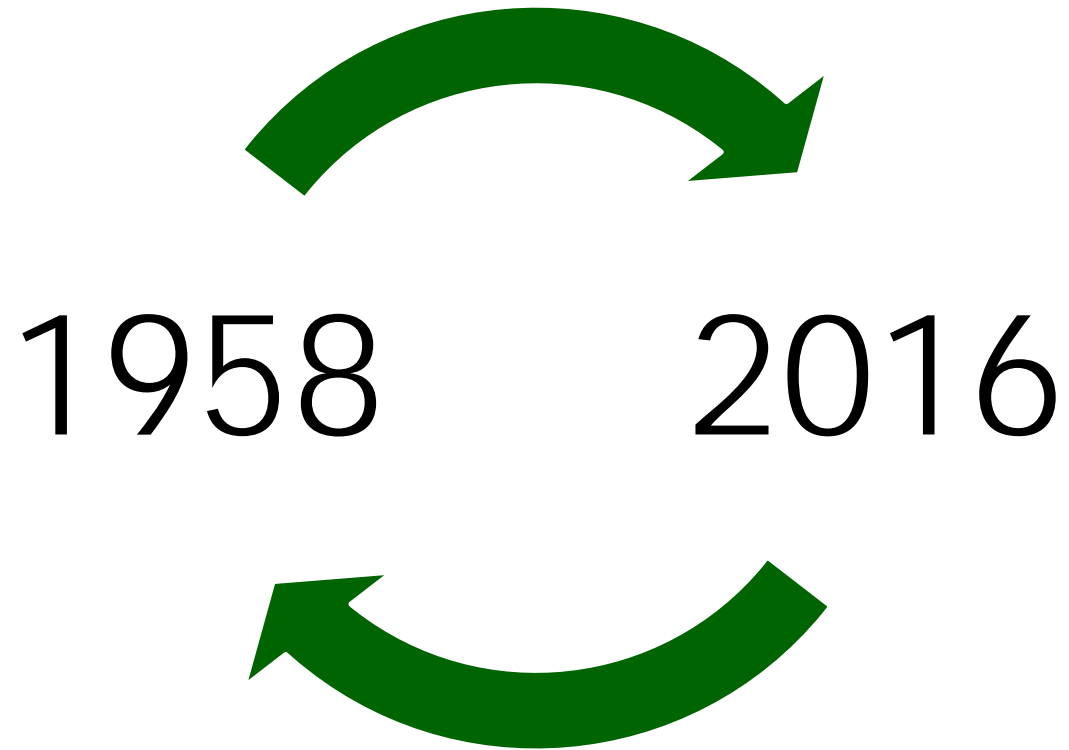
North Carolina is a state of three sections: the East, the Piedmont, and the West. It is a state of 100 counties. And it is a state of four million people. There are differences in attitude and differences in opinion in the same county. With the obvious to say that there is no agreement on what is an 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 such taxes while a few city units and most county units have not. Some school districts in counties 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 county funds. A factor must be noted. An adequate system is not necessarily a uniform system. To have a uniform system that is adequate would mean raising taxes in schools with low taxes and lowering taxes in schools with high taxes. even if the state did do it, it is likely that in areas with the highest financial support today would want to continue their present supplement tax support, raising their schools to new

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





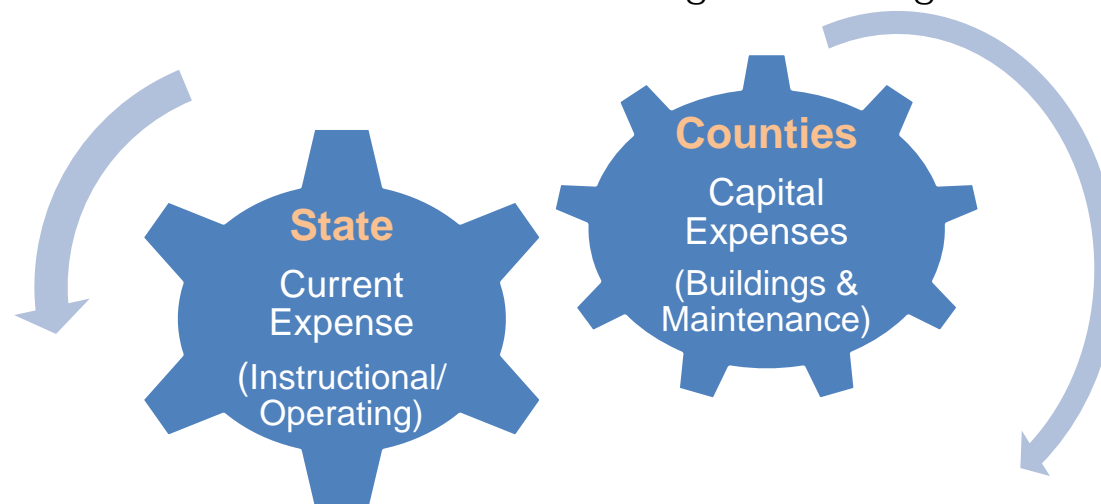


State – County Partnership



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.

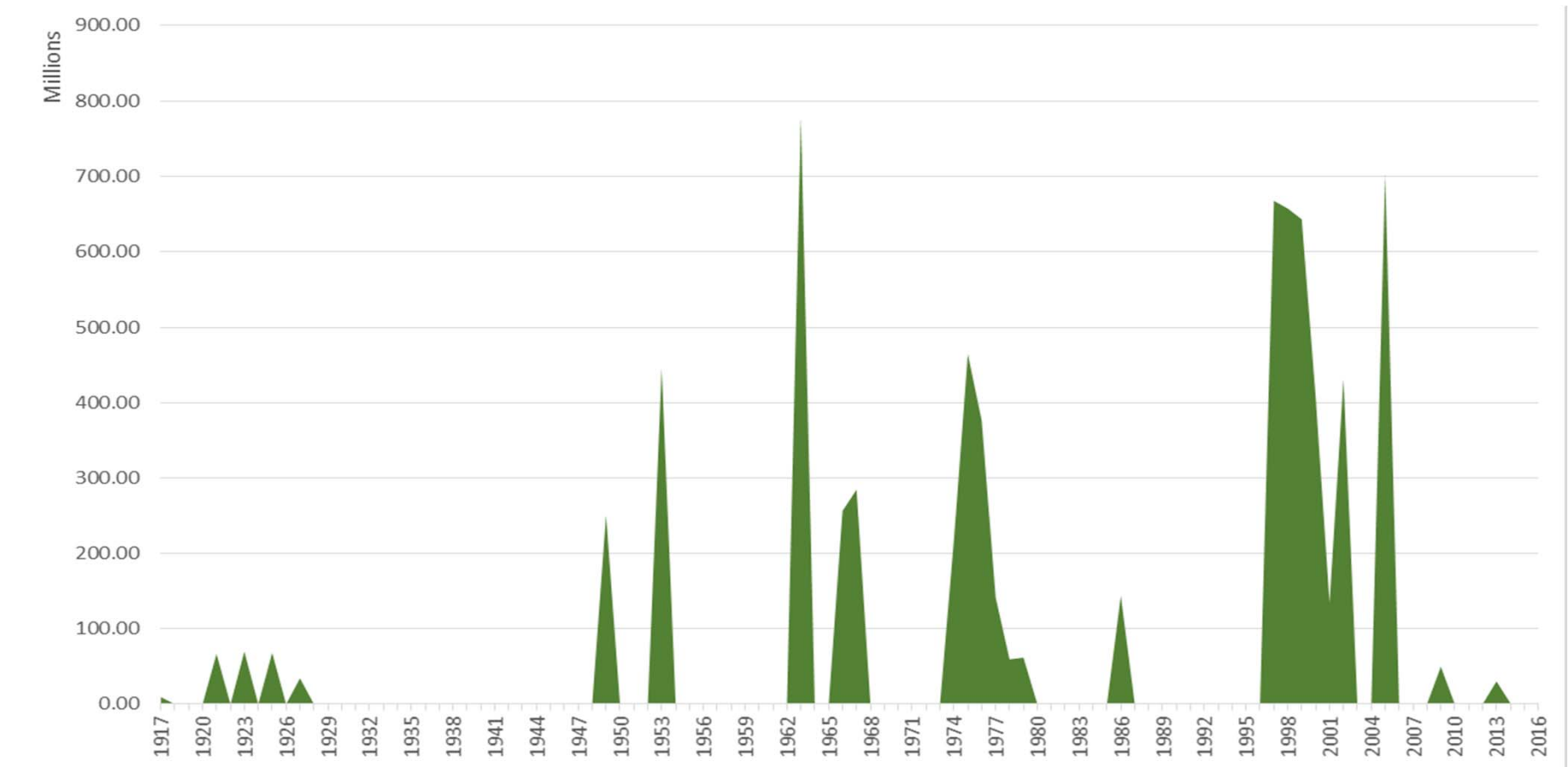
- Generally, the state is responsible for operating expenses and counties are responsible for capital expenses. However, the partnership and responsibilities have become blurred, and the state provides some capital funds and counties supplement operating expenses.



State Funding for Public School Capital

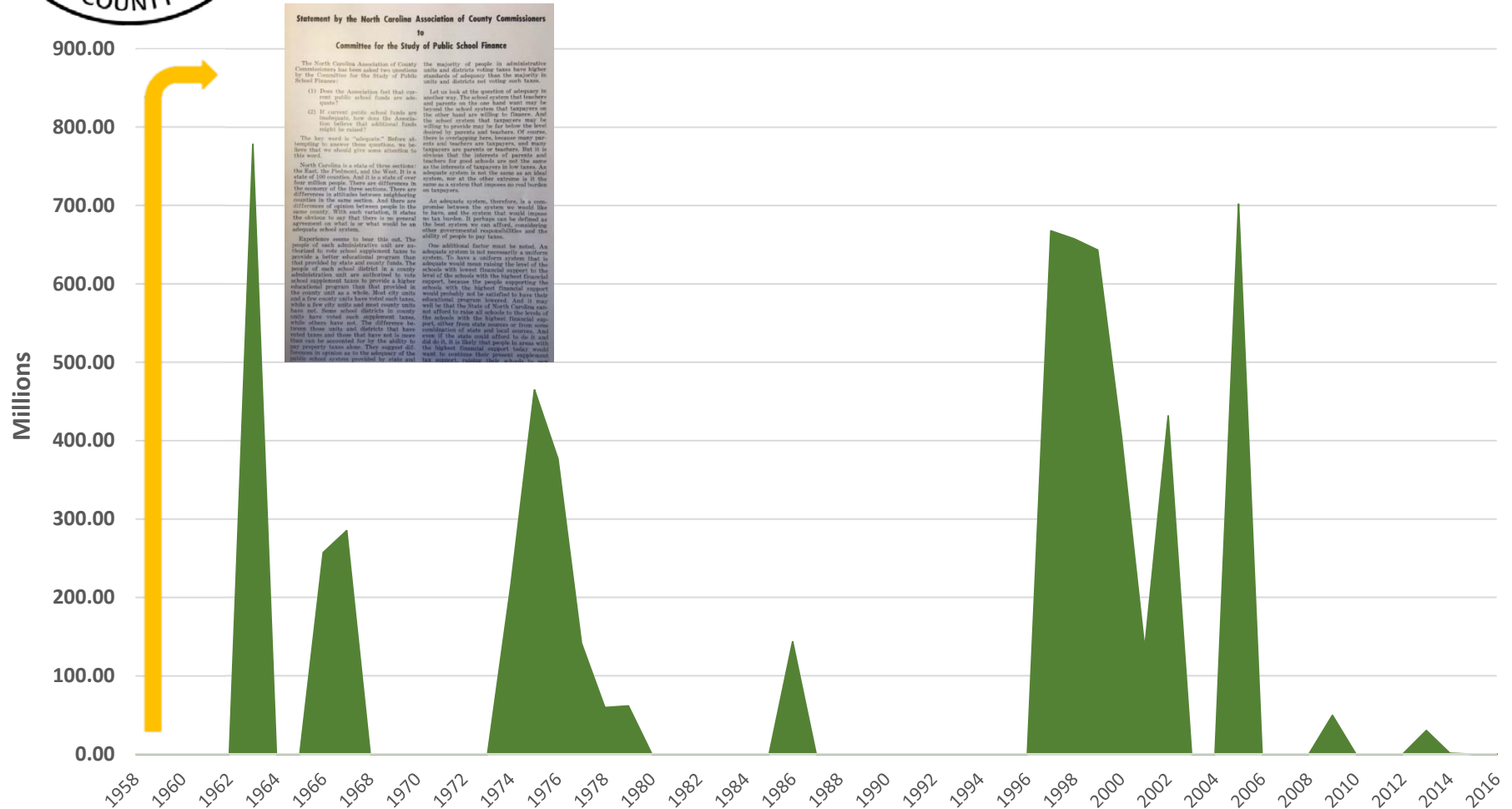


State Bonds Issued for Public Education (1917-2016, Adjusted for Inflation)





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





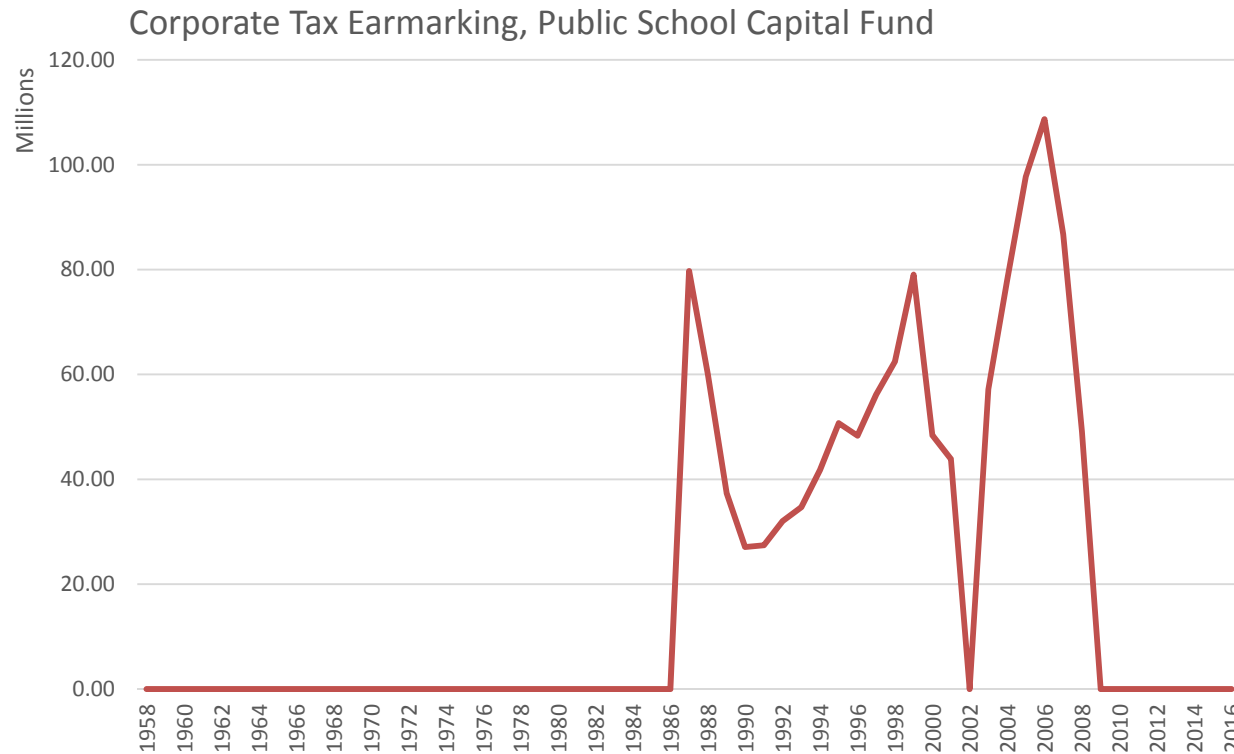
State – County Partnership for Public School Capital Funding

- 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



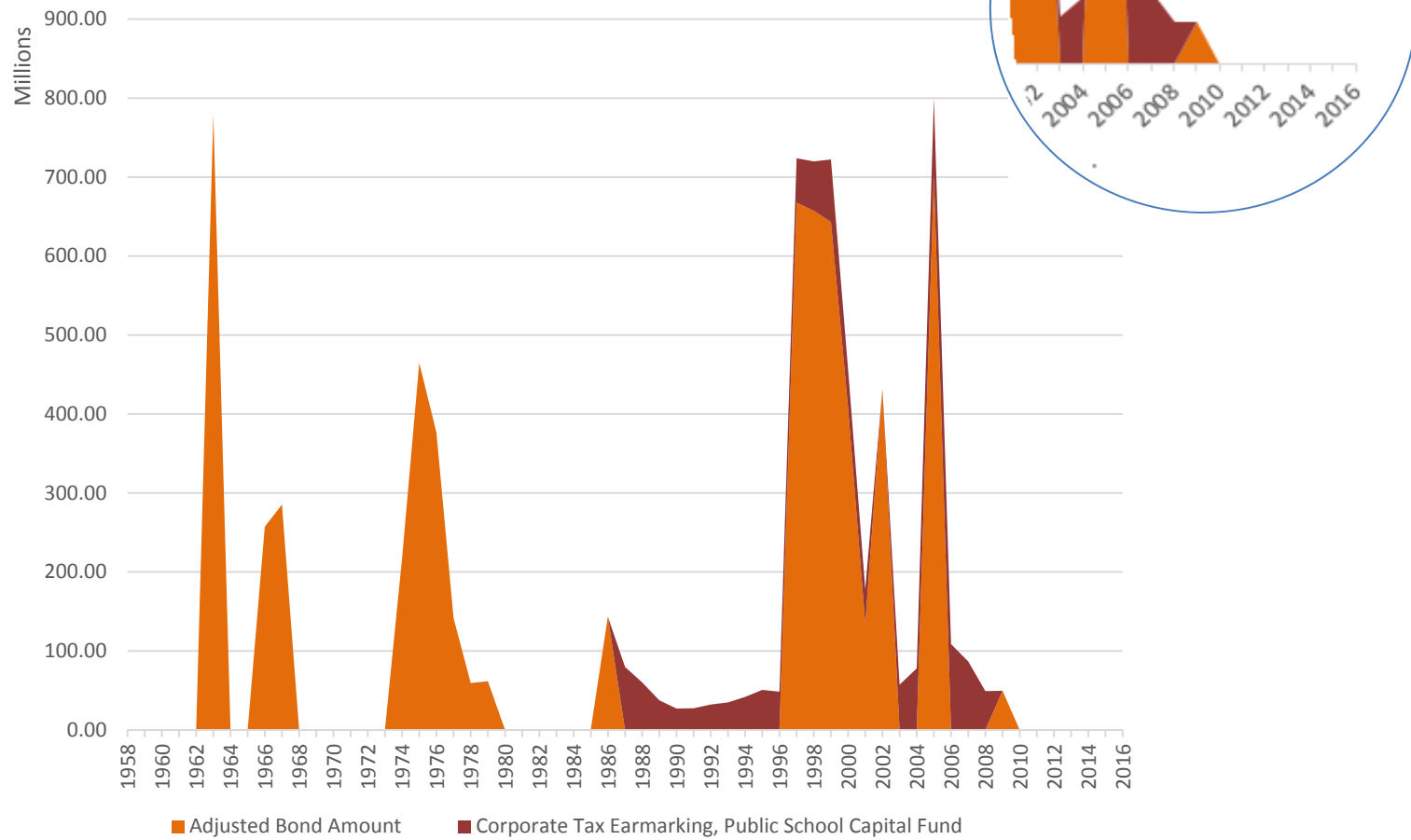
Corporate Tax Earmarking

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





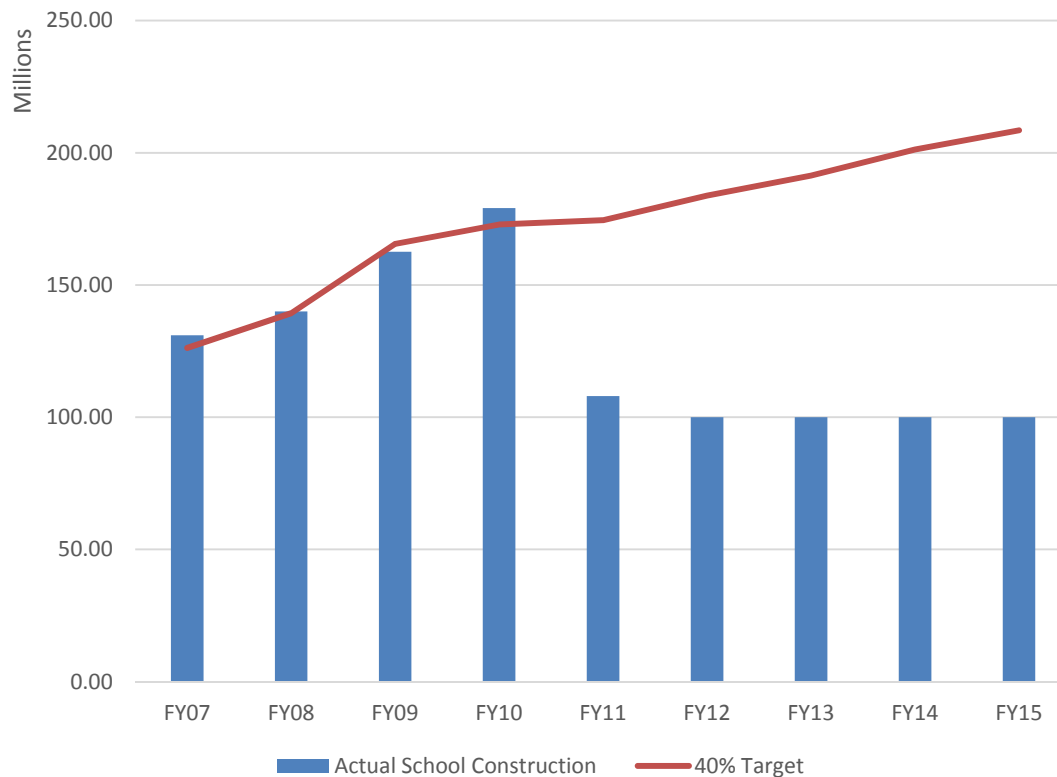
State Bonds for Education and Corporate Tax Earmarking, Combined





NC Education Lottery

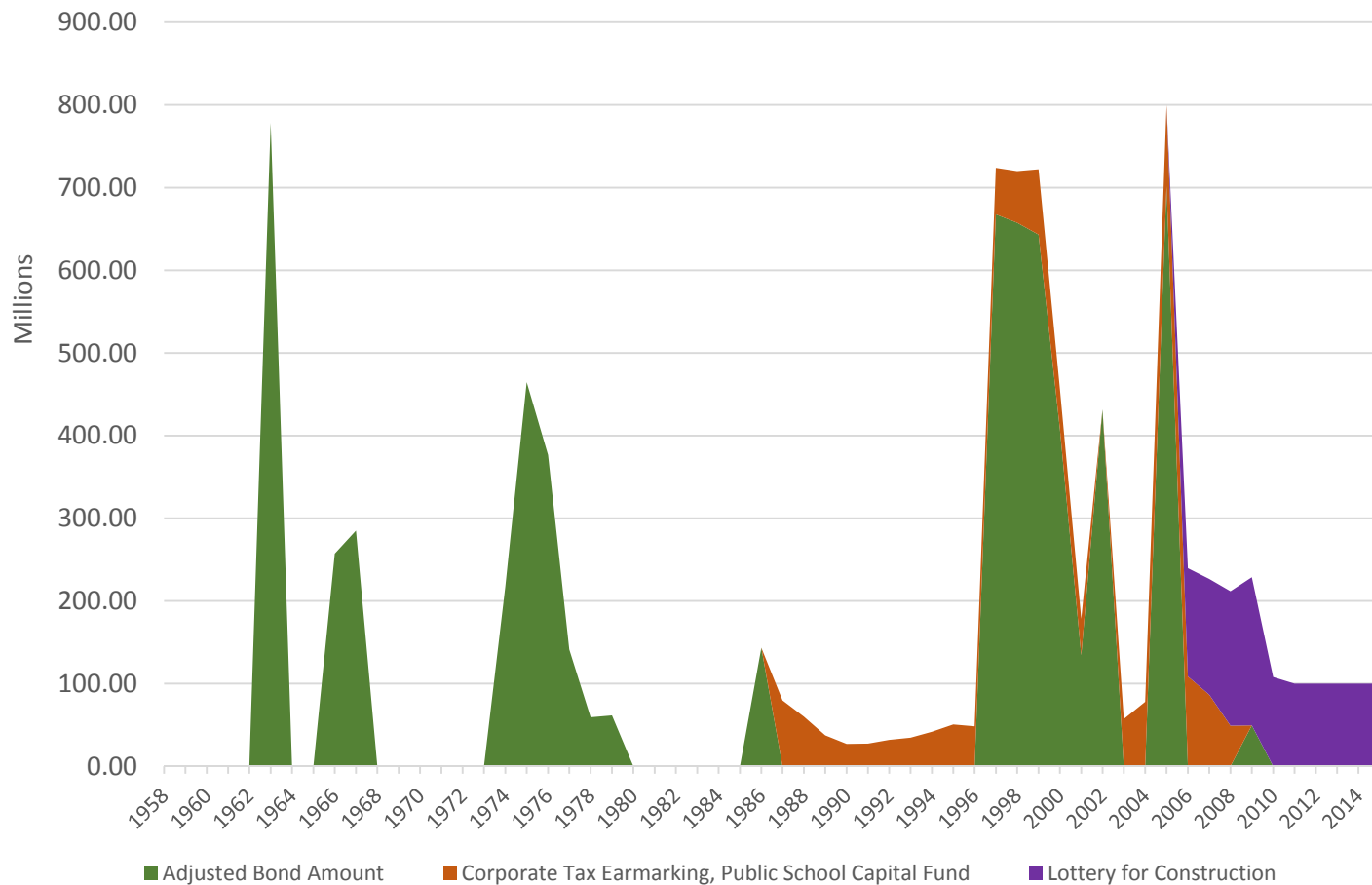
School Construction Lottery Allocation
Actual v. 40% Target



- 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	239,682,184
2007-08*	140,004,954	45,551,610	185,556,564
2008-09	162,262,428	49,098,195	211,360,623
2009-10	179,109,129	0	179,109,129
2010-11	108,099,979	0	108,099,979

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

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

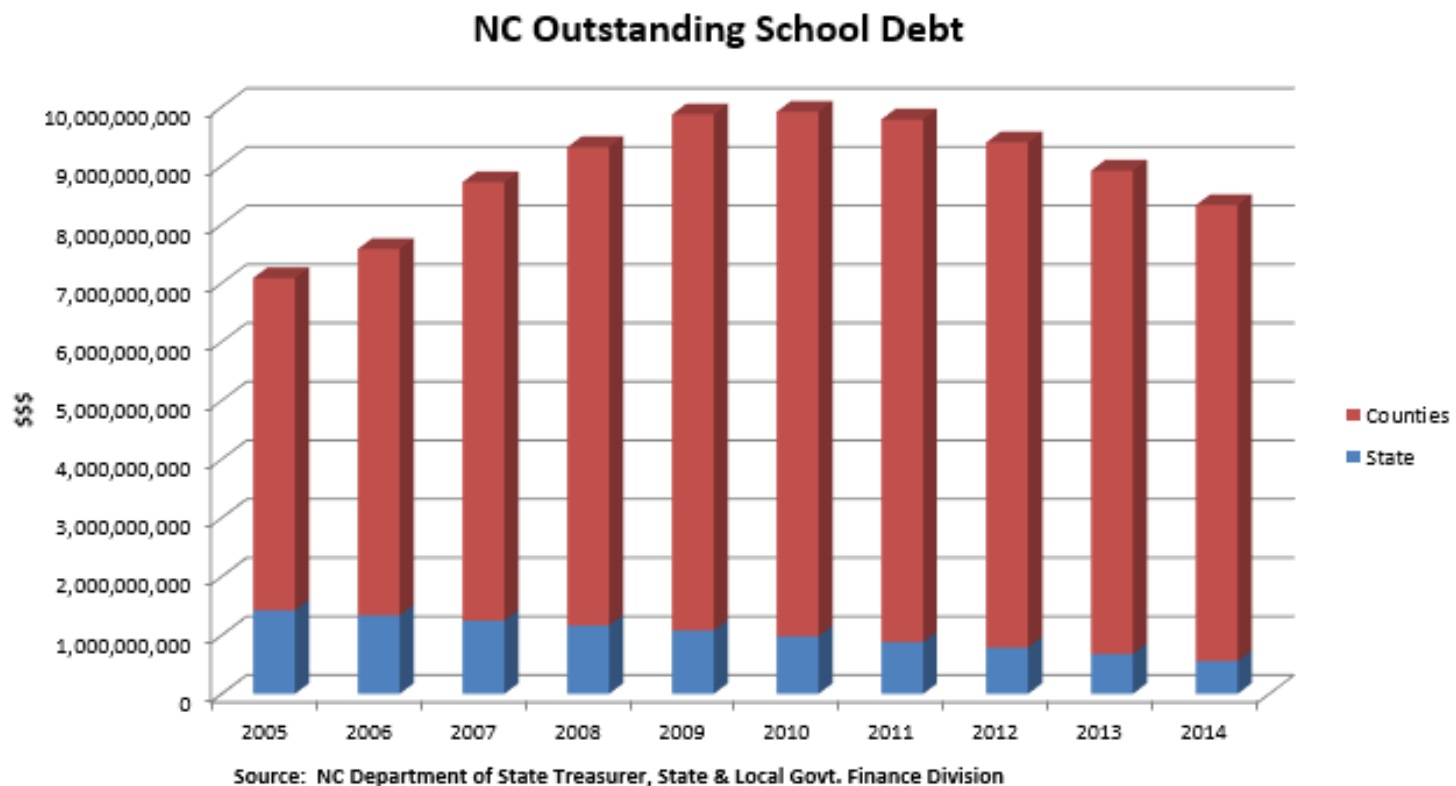
- The State Board of Education just released the most recent facility needs survey, which tracks LEA-reported funding priorities for next five years
- LEAs report significant needs in new school construction and renovations
- The last statewide school bond referendum was held in 1996, and the resulting \$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.

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



SCHOOL DEBT

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





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 HOLLAMAN
DEPUTY TREASURER

Memorandum # 1063

TO: County Finance Officers and Their Auditors
FROM: T. Vance Holloman, Deputy Treasurer
DATE: August 2, 2006
SUBJECT: General Guidelines for Using State Lottery Proceeds for School Construction

The N. C. General Assembly has adopted legislation (Session Law 2003-28) that allows 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 school construction projects in local school administrative units (LSAUs) that meet the criteria established in the legislation. A county may use lottery revenues for school construction projects in local school administrative units (LSAUs) that have incurred for school construction projects on or after January 1, 2003. This memorandum provides general guidelines to county finance officers for reviewing school construction projects, as well as information for reviewing plans to use such funds for repayment of debt.

Public school construction projects originally funded from revenues transferred to the Public School Building Capital Fund from original revenue sources. If these projects were financed by debt, lottery revenues can be used 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, programming, etc. and for school technology needs.

For financing new school construction projects using lottery revenues, the general guidance of the Commission is to conservatively estimate the distribution amounts available for debt service from this new revenue source until sufficient time has passed that a more reliable estimate of the revenue levels expected on an annual basis can be determined. In addition, a portion of the final annual allocations to counties is based upon relative effective tax rates and may vary from year to 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.

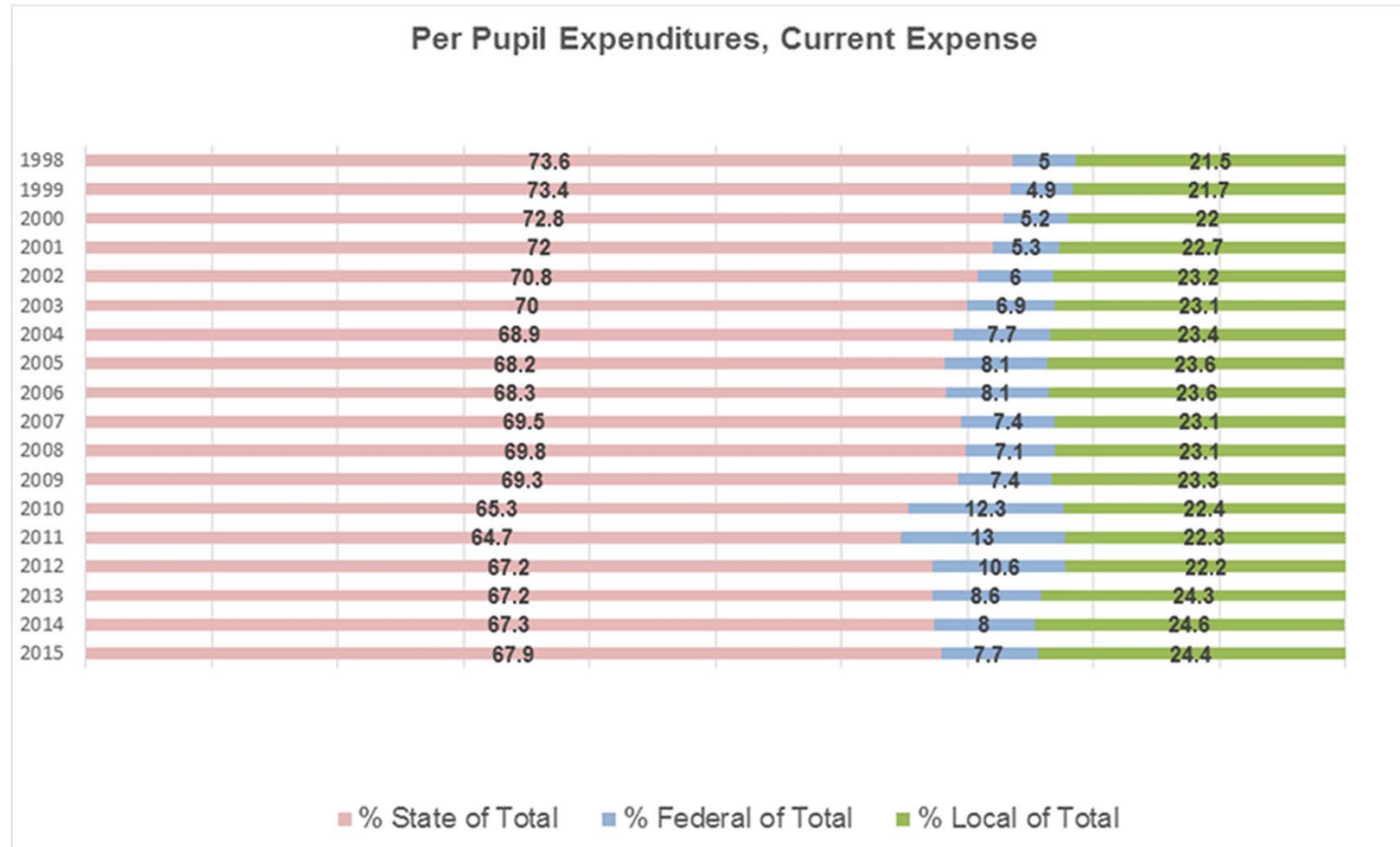
"A county may use lottery revenues in the PSBCF to pay for school construction projects in local school administrative units and to retire indebtedness incurred for school construction projects on or after January 1, 2003."



Current (Operating) Expense

Current Expense (Operating) Funding

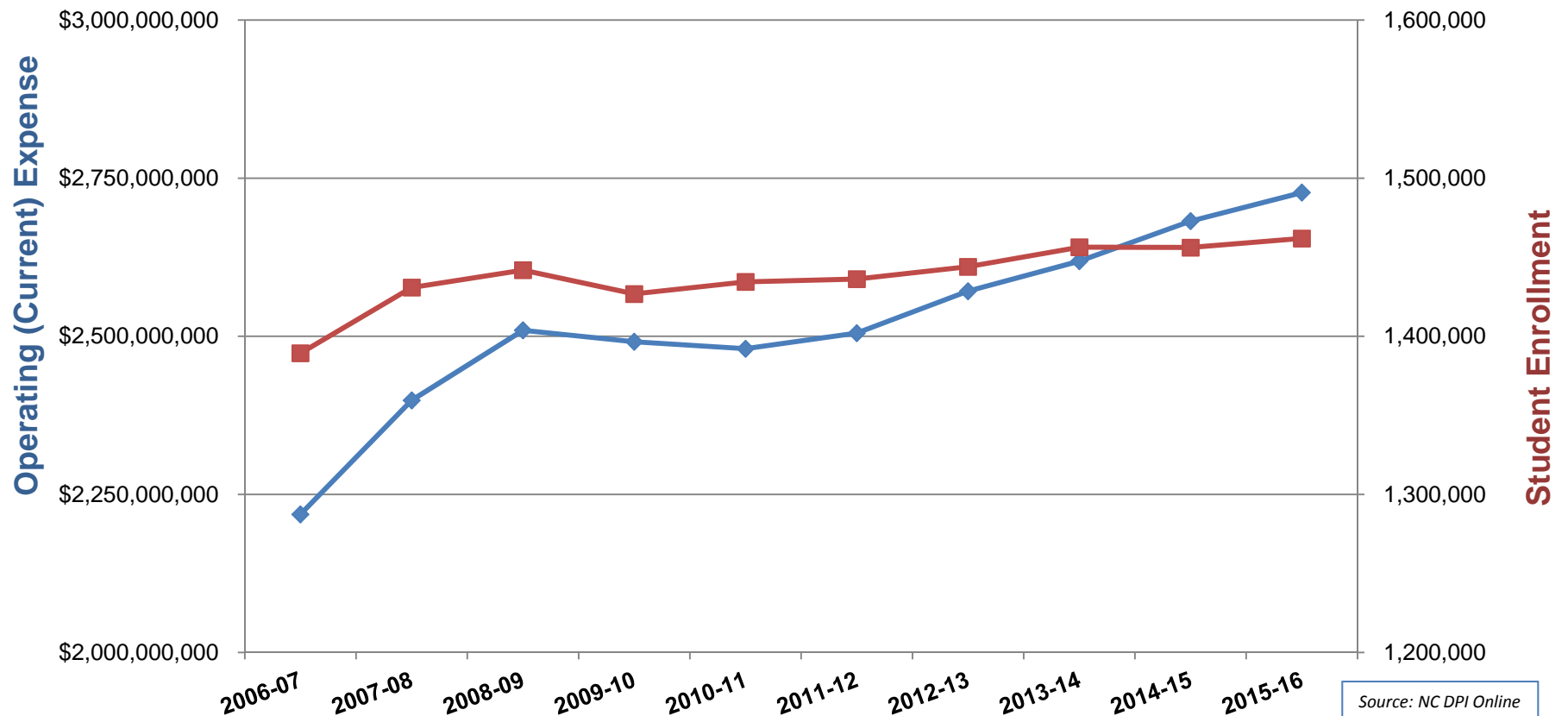
The local share of current expense funding is increasing, while the state proportion is declining on a per pupil basis



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



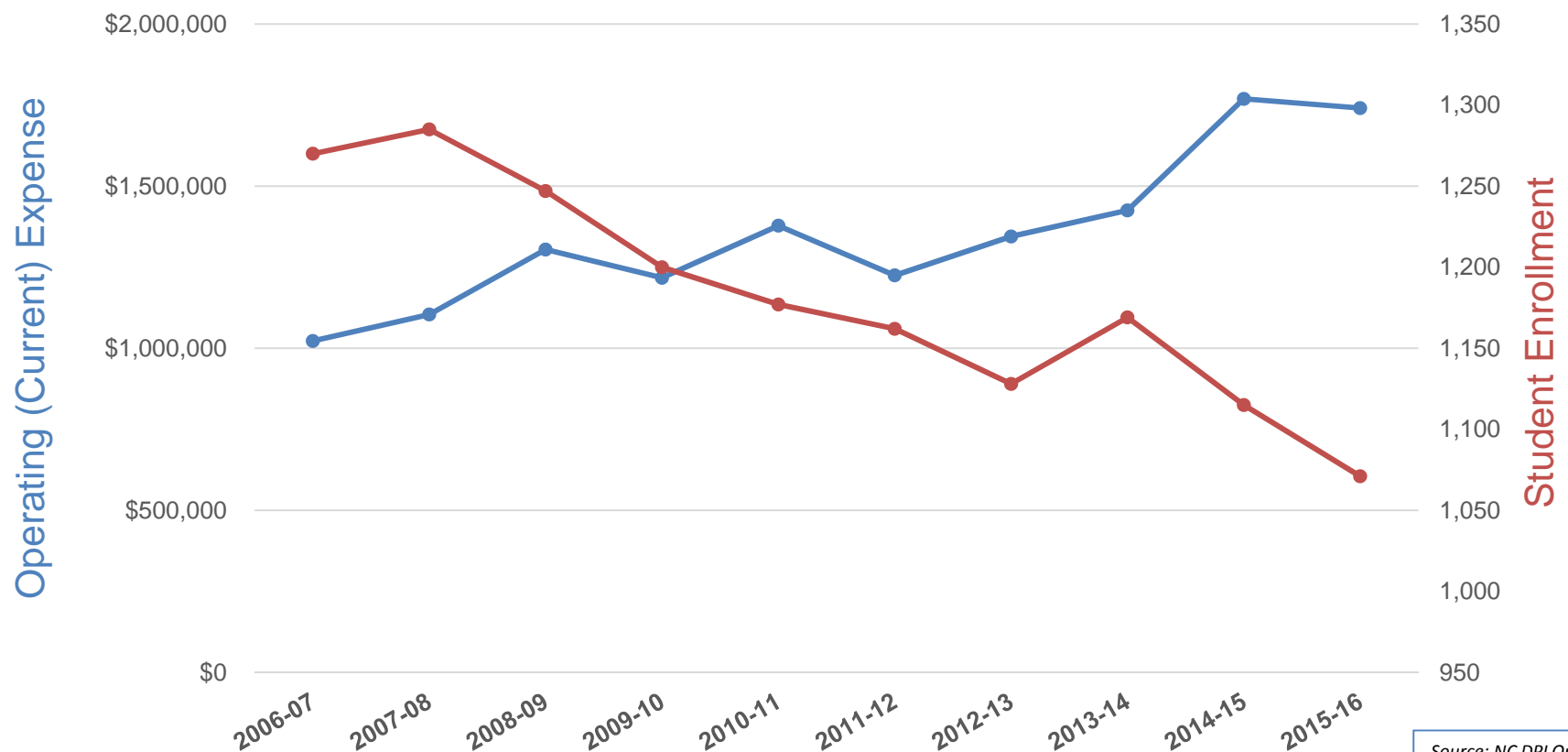
County Current Expense (Operating) Funding as Compared to Student Enrollment, 2006-07 to 2015-16*



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



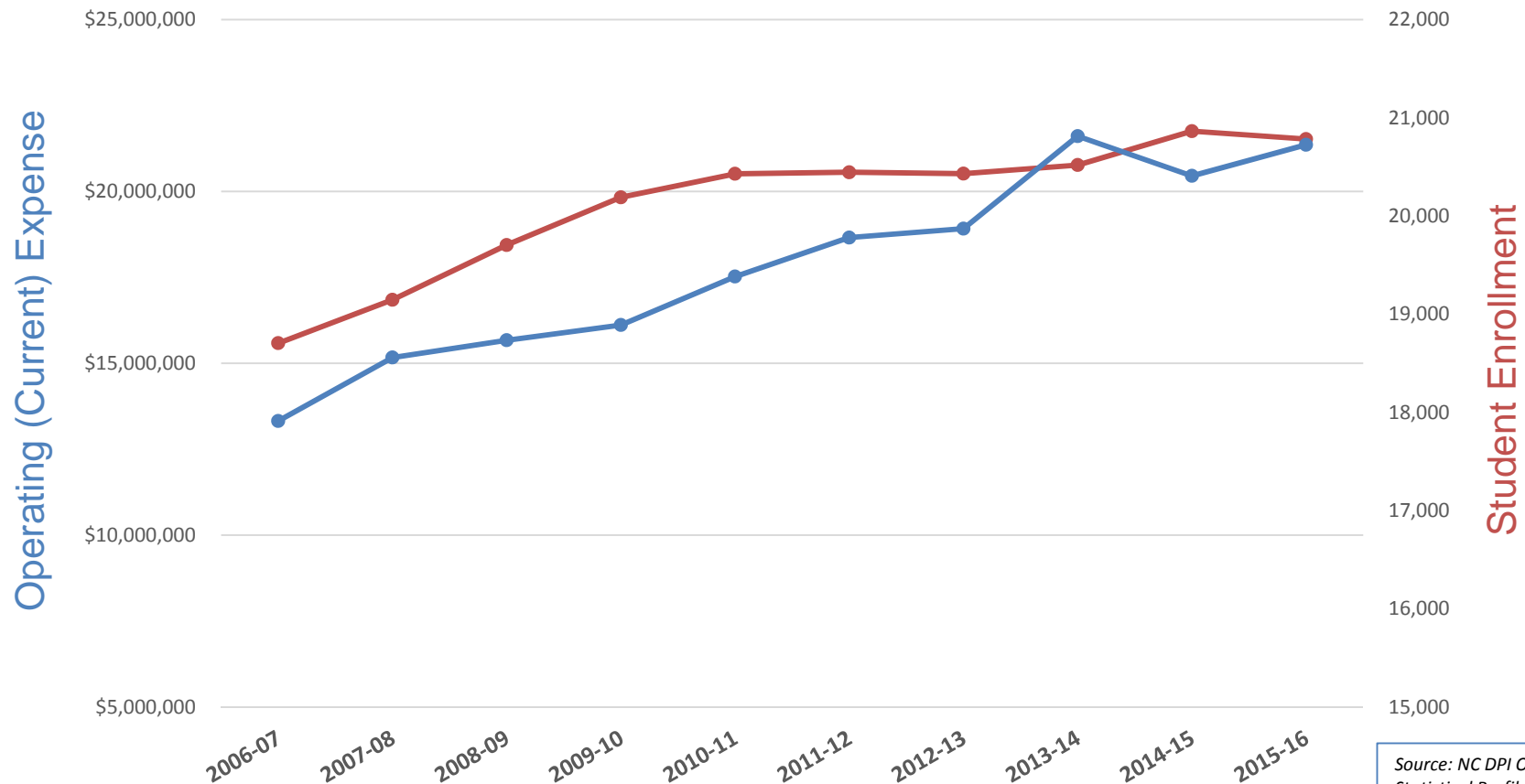
Jones County, 2006-07 to 2015-16



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



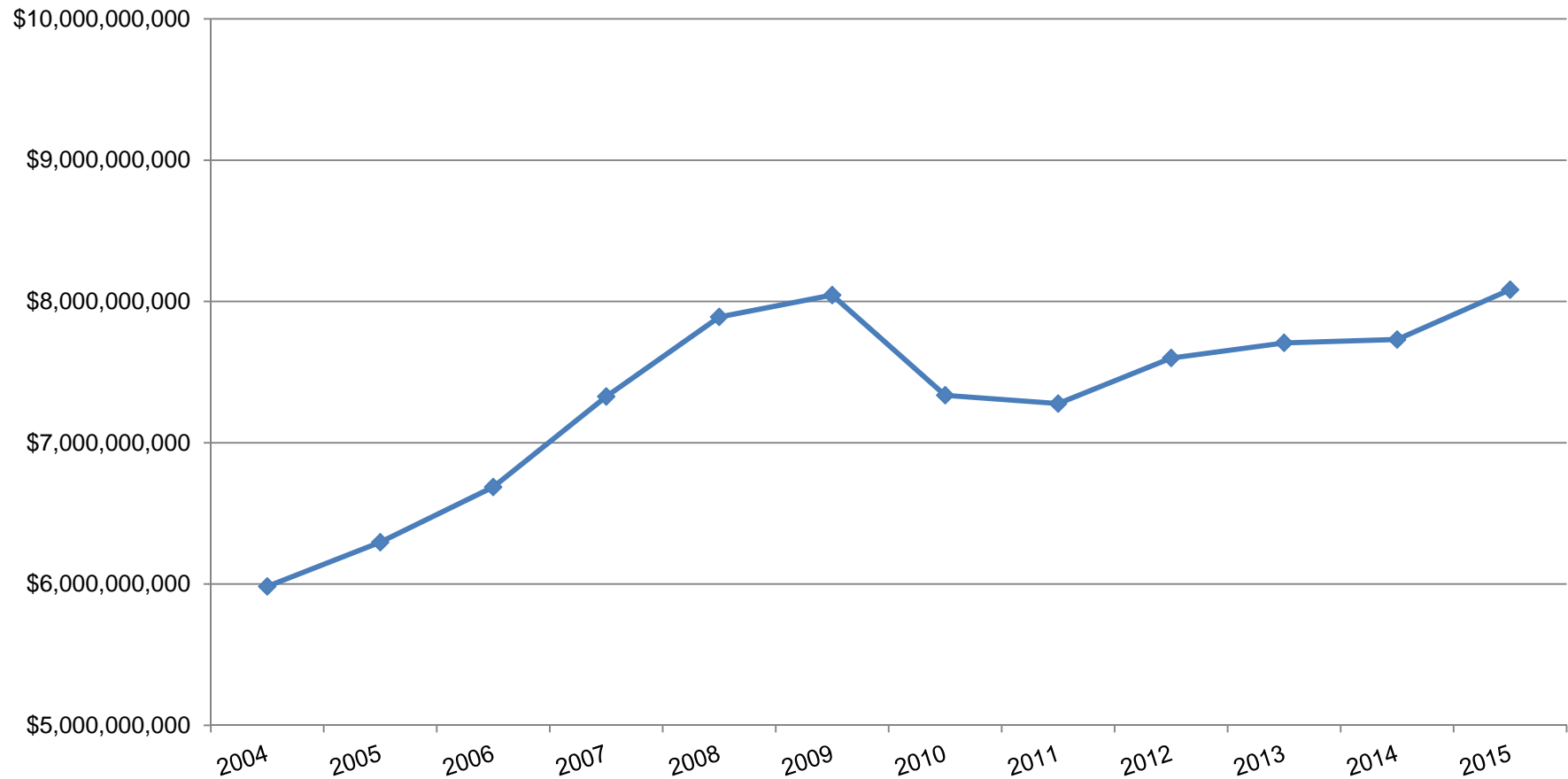
Harnett County, 2006-07 to 2015-16



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

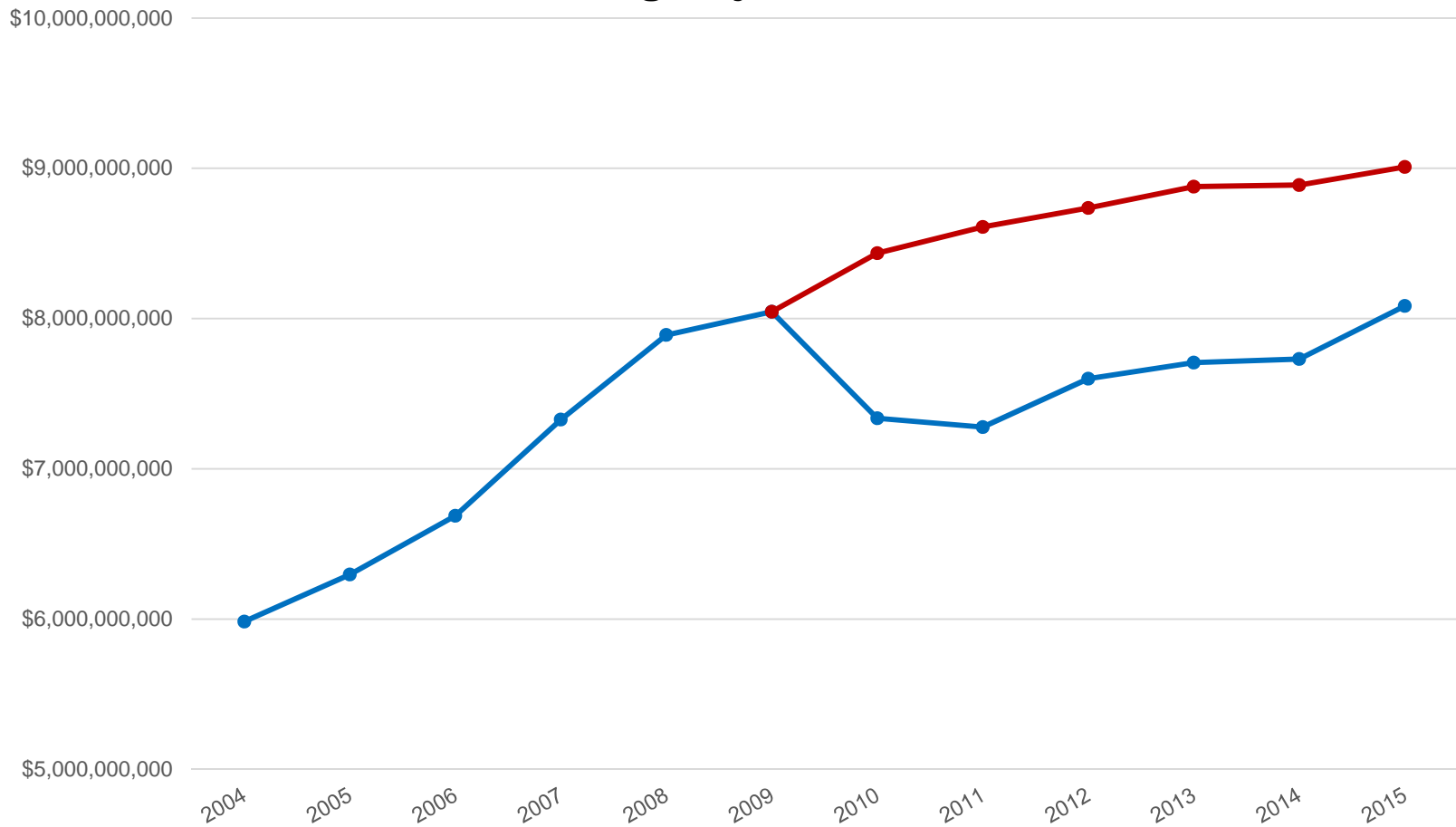


State Operating (Current Expense) Funding, 2004-2015





Amount of Funding Adjusted for Inflation, 2009-2015





Brainstorming Solutions



Please note these are draft proposals, and NCACC is actively seeking input and feedback during the Legislative Goals process. These options could be configured in a variety of ways:

Ideal Funding Model is:
Dedicated Consistent
Stable Sufficient

- **Statewide bond for School Capital Funding**
 - All counties would receive school capital funding from the bond
- **50% of Lottery Revenues Pledged as Ten-Year Bond for School Capital Investment**
 - Funding distributed to certain counties based on recommendation of NC Public School Capital Commission (similar to NC Medical Care Commission model, which allows submission of proposed projects)
 - Commission would include diverse membership, with legislative, gubernatorial, NCACC, and School Board Association appointees
 - Commission would consider [statutory] issues when determining how to distribute funds including property tax valuation (ability to pay), other revenue sources, county effort, age of buildings, and other unique county needs
- **Article 43 Flexibility**
 - Provide all counties the authority to levy Art. 43 sales tax and dedicate revenue for education
- **State investment in operating expenses**
 - Dedicated target or percentage of state appropriations to meet statutory requirement for operating costs; goal seeks to end the dilution of lottery proceeds that reroutes revenue originally intended for discrete, statutorily- defined purposes, but is instead funding the State's operating responsibilities



NCACC Top Legislative Goal

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.



We must avoid the temptation to
point fingers...

Six hands of various skin tones are shown pointing their index fingers towards the center of the slide, where the text is located. The hands are arranged in a circular pattern around the central text.

**N.C. General
Assembly**

**Boards of County
Commissioners**

School Boards



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.





1930

DAVIS-TOWNSEND SCHOOL

ERECTED AND DEDICATED TO THE
CHILDREN OF DAVIDSON COUNTY

COUNTY BOARD OF EDUCATION

O. T. DAVIS, CHM.

H. D. TOWNSEND

C. C. WRENN

DR. M. L. KESLER

R. E. EVANS

S. G. HASTY, SUPT. OF EDUCATION

MARGARET LINKER, SUPERVISOR

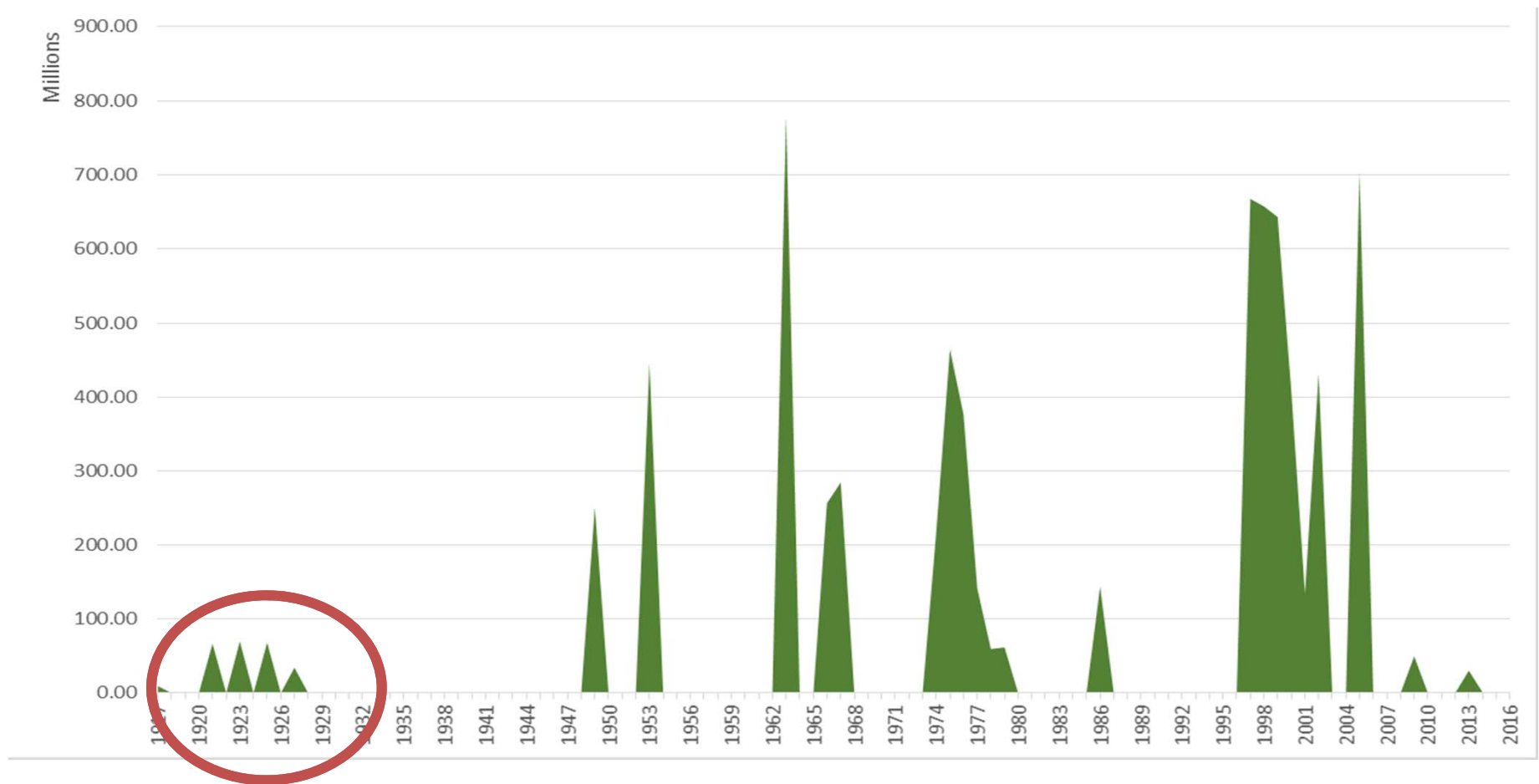
MOSS-MARLOW BUILDING CO., HICKORY, CONTRACTORS

PERCY BLOXAM CO. INC.

ARCHT. AND CON. ENGINEERS

SALISBURY, N. C.

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







Next Steps?

The next chapter of the story...
is up to us, working together.

