

# **NORTH CAROLINA**

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## **I. GENERAL BACKGROUND**

### **State**

The Public School Fund (PSF) is appropriated from the state General Fund which is derived from sales taxes, as designated by the North Carolina General Statutes and State Board of Education policy. The School Machinery Act of 1933 established a state system of school finance in North Carolina. State funds for public K–12 schools are provided solely through annual appropriations and flat grants. In 1999, 41.2% of the state General Fund was allocated to public schools. Although the total appropriations for public schools continues to increase, public schools are receiving less of the General Fund appropriations. Since 1970, the public school's percentage share of the State's General Fund has decreased by 11.2%. If public schools were still funded at the FY 1969–70 rate, there would be an additional \$1.37 billion dollars in the Public School Fund.

The primary unit of allocation is average daily membership (ADM). ADM figures are established based on the higher of (a) actual ADM from the prior year, or (b) projected ADM for the current year. ADM funding provides the basis for the majority of funding which is allotted as position, dollar, or categorical allotments. Beginning in 1991, adjustments to ADM funding were made based on relative wealth and local tax effort. During the 1998 legislative year, special categorical allotments were established to fund Limited English Proficiency (LEP).

The number of categorical allotments was reduced to 18 categories in 1995–1996 as compared to 62 categories in 1992–1993. The School Improvement and Accountability Act (SIAA) of 1989 provided the first widespread attempt at allowing district flexibility in the movement of funds between line items. In 1992–1993 the North Carolina General Assembly renamed the SIAA the Performance-Based Accountability Program (PBAP). The legislation that created this name change also increased accountability through local school

accountability reports, increased requirements for parental participation and called for greater levels of local school decision making. The Excellent Schools Act of 1997 created additional flexibility and accountability for local school districts.

The 1996–1997 budget was generated from 69.0% state funds, 23.4% local funds, and 7.6% federal funds.

### **Local**

Total local school revenue for school districts includes \$1,919.8 million in property tax revenue in 1998–1999.

There are 117 school districts in North Carolina. This number represents 100 county units plus 17 specially chartered city units. Of these, 115 are fiscally dependent. Two city systems, Mooresville and Roanoke Rapids, have charters that allow the local board of education to set an independent school tax rate based on property valuation within the district without approval from the county or city government.

Property and sales taxes constitute the primary sources of local revenue. The state passed local option sales taxes in 1983 and 1986 that provided for restricted minimum funding at 30% and 60%, respectively, for school construction. Each of these sales tax restrictions was to expire at the end of 10 years. However, in 1993, the North Carolina General Assembly extended the use of each of these sales taxes for school construction for an additional five years. The sunset clause was lifted from both of these local option taxes in 1998 by the General Assembly. In 1998–1999, 12 counties have a special tax levy for support of public education.

County commissioners are charged by state law to provide funding for capital outlay funding. Due to a high rate of growth in student population in various school districts, discussions are underway in some counties to consider impact taxes or transfer taxes as an additional source of revenue.

### Funding Summary 1998–1999

|  |                 |                    |
|--|-----------------|--------------------|
| Total State School Aid (All Programs)                            |                 | \$ 5,111.1 million |
| Grants in Aid  | 4,584.5 Million |                    |
| Teacher Retirement Contributions                                 | 532.6 Million   |                    |
| FICA   | 0 Million       |                    |
| Total Local School Revenue                                       |                 | \$ 1,958.7 million |
| Property Tax   | 1,919.8 Million |                    |
| Other local source tax revenue                                   | 38.9 Million    |                    |
| Local source non-tax revenue                                     | 0 Million       |                    |
| Total Combined State and Local School Revenue                    |                 | \$ 7,075.8 million |
| State Financed Property Tax Credits Attributable to School Taxes |                 | 0                  |

## II. LOCAL SCHOOL REVENUE

No local contribution is required for basic program support. Although none is required for current expenditures, all counties provide some assistance. Each year the North Carolina Public School Forum analyzes the tax effort and tax capacity for local school systems. In the Forum's 1998 study Actual Effort was examined. This measure reflects the actual dollar effort of communities to fund schools without taking into account property wealth. This figure includes 1996–1997 current expense (including supplemental school taxes), a six-year average capital outlay, capital reserves, and interest on debt. The state average for total spending was \$1,515 per ADM. The state average for current expense spending was \$980 per ADM.

### Property Taxes

All real property is assessed at 100% of market value except for agricultural, horticultural, woodland, and historic property. Historic property is assessed at 50% of its face value. Agricultural, horticultural, and woodland property are assessed on the basis of present use value. The legislature sets the discount rate of income for these properties, and it is currently 9%. The present use value of the property is analyzed annually. Local revenues are based primarily on property tax valuation at the rate of one dollar (or percent thereof) per hundred dollar valuation. Most counties experience revaluation every four years. State law

dictates revaluation a maximum of every eight years. However, county commissioners can, by resolution, reassess property at any time. Property taxes generated \$3,405,957,784 dollars during the 1996–1997 school year.

### **Income Taxes**

N/A.

### **Sales Taxes**

N/A.

### **Tax Credits and Exemptions**

N/A.

## **III. TAX AND SPENDING LIMITS**

The state of North Carolina Department of Revenue has established a maximum tax rate of \$1.50 per hundred-dollar valuation. Local boards of education approve local budgets that are submitted to county commissioners for final approval. Commissioners establish the local tax rate based on approved needs. The budgetary process provides for public hearings at the local school district and county level; however, there is not a requirement for voter approval.

The Local Government Commission (LGC) reviews county and local school system budgets. The Balanced Budget Act of North Carolina requires a balanced budget.

There is no minimum fund balance requirement for North Carolina; however, the LGC recommends local boards of education maintain a minimum fund balance of 8 to 13% in operating revenue.

## **IV. STATE/PROVINCIAL EARMARKED TAX REVENUE**

There is no earmarked tax revenue in North Carolina. Public schools funds come from the General Fund and are considered annually by the legislature.

## **V. BASIC SUPPORT PROGRAM**

**Funding in 1998–1999:** Information not reported.

**Percentage of Total School Aid:** N/A.

**Nature of the Program:** Equalized foundation program.

**Allocation Units:** Average daily membership (ADM).

**Local Fiscal Capacity:** Assessed property value.

**How the Formula Operates:** The state of North Carolina provides basic support for school funding with 41.2% of General Fund dollars earmarked for public education. Limits on local supplemental funding for education do not exist in North Carolina other than those established through local legislation.

The primary unit of allocation is average daily membership (ADM). ADM figures are established based on the higher of (a) actual ADM from the prior year, or (b) projected ADM for the current year. ADM funding provides the basis for the majority of funding, which is allotted as position, dollar, or categorical allotments. After the first month of school, a school district can request additional resources due to extraordinary student population growth that results in significant class size overage problems. Special allotments may be made for assignment to small schools of less than 100 ADM, when consolidation is not feasible due to geographic isolation. Funds for instructional materials, supplies, instructional equipment, and testing support are distributed based on \$40.29 per allotted ADM. Funds for each student to take the Preliminary Scholastic Aptitude Test (PSAT) are allotted based on \$2.69 per allotted ADM in grades 8 and 9. Each school district receives funds for textbooks at the rate of \$46.77 per allotted ADM in grades K–12.

The state allots positions to a local school system for a specific purpose. The local school system pays whatever is required to hire certified personnel based on the state salary schedule. These salaries are guaranteed. Guaranteed salaries comprise 63.9% of allotted salary dollars.

Local school systems also can hire employees from dollar and categorical allotments in addition to guaranteed salaries through position allotments. Salaries paid through dollar and categorical allotments must operate within the allotted dollar amount.

The following categories are funded through positional allotments: teachers, instructional support personnel, and school building administration. The state

pays the entire base salary of individuals who occupy these positions. Dollar allotments are utilized in the areas of teacher assistants, central office administration, textbooks, and classroom materials/supplies/equipment. Categorical allotments form the basis for funding in the areas of at-risk student services, exceptional children, non-instructional support personnel, and transportation.

Teachers are allotted based on one per the following number of students (based on allotted ADM) and rounded to the nearest one-half position.

| <u>Grades</u> | <u>Number of Students</u> |
|---------------|---------------------------|
| K-2           | 20                        |
| 3             | 22.23                     |
| 4-6           | 22                        |
| 7-8           | 21                        |
| 9             | 24.5                      |
| 10-12         | 26.64                     |

Each county is entitled to one math/science/computer teacher position. School districts are also allotted one position per 200.10 allotted ADM for instructional support. These positions require certified personnel. Additional resources for teachers can be requested due to extraordinary student population growth.

Teacher assistants are allotted at \$749.64 per allotted ADM in grades K-3. Benefits are included. Funds are allotted on the basis of \$198.78 per allotted ADM for non-instructional support personnel.

Assistant principals are allocated by months of employment. Central office administration is allotted through a base allotment, which is graduated based on allotted ADM. After the base is allotted, the remaining funds are allocated to school districts with ADM greater than 1,500 based on dollars per ADM.

School systems also receive special allocations for at-risk populations. This funding is used to identify students likely to drop out and to provide special alternative instructional programs for these at-risk students. At-risk funds are used to provide summer school instruction and transportation, remediation, alcohol and drug prevention, early intervention, safe schools and preschool screening. It is the intent of the North Carolina General Assembly that each school district has a licensed resource officer at each high school from the at-risk allocation.

In 1991–1992 the General Assembly established low wealth supplemental funding to provide funds in low-wealth counties to allow those counties to enhance the instructional program and student achievement. Eligible school districts are those located in counties in which the county wealth is less than 100% of the state average wealth. Some of the factors used to determine eligibility are county adjusted property tax base, square miles in the county, and per capita income.

In 1991–1992 the General Assembly established small county supplemental funding. School systems that qualify are those with (a) average daily membership (ADM) less than 3,150 and (b) ADM between 3,150 and 4,000 whose county adjusted property tax base per student is below the state average.

In 1995, the General Assembly passed a law that directed the State Board of Education to examine the structure and functions of the state public school system with a view to improving student performance, to increasing local flexibility and control, and to promoting economy and efficiency. In response to that mandate, the State Board of Education developed the ABCs of Public Education. This plan centers on school-based accountability; on basic subjects of reading, writing and mathematics; and more local control.

In 1996, the General Assembly approved a law to give the State Board of Education the authority to implement the ABCs. The ABCs assign more responsibility at the school building level and allow schools flexibility to use funds as they are most needed at the school. Transfers most frequently requested include: transfers between textbooks and instructional supplies, materials, and equipment; transfers between vocational education months of employment and vocational education program support; and position allotments to dollars for supplies, materials, equipment, or for other certified personnel.

During the 1998 legislative year, special allocation formulas were established to fund Limited English Proficiency (LEP) students based on the number of identified LEP students. Eligible school districts/charter schools have at least 20 students with limited English proficiency, or at least 2½% of the ADM of the school district/charter school. Funding is based on the weighted 3-year average headcount and is provided up to 10.6% of ADM.

In February of each year, school districts are notified of their anticipated allotments for planning purposes. These are based on a continuation formula from the prior year and new ADM projections. Within two weeks following the

adjournment of the state legislature, allotments are made to all districts in the form of funds they can draw against.

**State Share:** 100%.

**Local Share:** None.

**Weighting Procedures:** None.

**Districts Off Formula:** None.

## VI. TRANSPORTATION

**Funding in 1998–1999:** \$191.0 million.

**Percentage of Total School Aid:** 3.7%.

**Description:** In 1992–1993 North Carolina established an efficiency formula for funding transportation costs. Each year local transportation costs are analyzed through data collected through the Transportation Information Management System (TIMS). Local school systems are required to maintain a 100% efficiency rating or suffer decreased funding for the upcoming year. The formula is based on a “budget rating” funding formula using the following factors: pupils transported; total eligible operating expenditures (local and state funds); and the number of buses operated. Local school systems are responsible for purchasing their own new and replacement buses without any state aid.

Because of the more frequent periodic fluctuations in ridership, special funds are allocated for the transportation of special education and summer school students based on local determination of need. Local school systems may, but are not required to, supplement driver salaries and fuel cost allocations.

**State & Local Share:** See above.

**Extent of Participation:** Not reported.

## VII. SPECIAL EDUCATION

**Funding in 1998–1999:** \$393.4 million.

**Percentage of Total School Aid:** 8.0%.

**Description:** Caps are established for state funding of exceptional children programs. The current cap rate is 12.5% of ADM. Funds per child within the cap are \$2,346.29.

Allocations for state level funding are based upon a headcount. Headcount is based on a count of children with special needs taken on April 1 of the preceding year. Students must have an individual education plan (IEP), based upon specific criteria, written in order to be included in the headcount.

In addition to exceptional children served in the regular K–12 program, pre-school allocations are also received. Each school district receives a base-funding amount equal to the average salary of a classroom teacher plus benefits. All remaining funds are distributed based on the April 1 headcount of children ages 3, 4, and pre-K-5.

Allotments for group homes are made based on the regular per pupil allocation, state add-on for the handicapped, and EHA VI-B funds. Each district must submit applications for the funds for group homes as well as developmental day care.

State allocations for exceptional children programs have continued to rise. During the last five years, school systems have experienced an increase of 34% in exceptional children funds while regular education funding has risen at an amount of 28.5%.

**Local Share:** Difference between actual costs and state and federal funding.

**Extent of Participation:** Not reported.

## VIII. COMPENSATORY EDUCATION

### Remediation Support/Summer School

**Funding in 1998–1999:** \$131.2 million.

**Percentage of Total School Aid:** 2.5%.

**Description:** Funds for summer school remediation, dropout prevention, alcohol and drug defense, safe schools, and alternative programs/schools have been consolidated into one line item. Each system receives the dollar equivalent of one resource officer or \$37,838 per high school. Of the remaining funds 50% is

distributed based on \$45.53 per ADM and 50% is distributed based on the number of poor children determined by the poverty index (\$261.35 per poor child). Each system receives a minimum of the dollar equivalent of two teachers and two instructional support personnel or \$171,876.

**Local Share:** Difference between state support and actual cost.

**Extent of Participation:** 117 school systems.

### **Willie M. Class**

**Funding in 1998–1999:** \$6.3 million.

**Percentage of Total School Aid:** less than 1%.

**Description:** The state provides funding for programs that provide appropriate educational programs to children under the age of 18 who suffer from emotional, mental, or neurological handicaps accompanied by violent or assaultive behavior. Funding is based on need. School systems must submit requests for funding to the Willie M. Section of Exceptional Children Support Team by May 30.

**Local Share:** None.

**Extent of Participation:** Not reported.

## **IX. GIFTED AND TALENTED EDUCATION**

**Funding in 1998–1999:** \$39.4 million.

**Percentage of Total School Aid:** less than 1%.

**Description:** Allocations are based upon 4% of ADM. Up until the 1998–1999 school year, criteria for gifted and talented education programs in North Carolina were established by the state. However, legislation passed in 1997 gave each local board of education the authority to develop a district plan of service. Allocations for GT services are based upon 4% of allotted ADM.

**Local Share:** N/A.

**Extent of Participation:** Not reported.

## **X. BILINGUAL EDUCATION**

**Funding in 1998–1999:** \$5 million.

**Percentage of Total School Aid:** less than 1%.

**Description:** The 1998 North Carolina legislature approved special funding for students identified as Limited English Proficiency (LEP) through a language proficiency test. Currently five million state dollars are dedicated to LEP funding. Each eligible school system receives a base of half a teacher assistant or \$9,490. School systems also receive an additional 50% of allocated funds based on the number of LEP students and 50% based on a concentration of LEP students. This specialized funding has resulted from a dramatic increase in ESL students over a five-year period. The ESL population in North Carolina has grown 99% in the period from 1994–1997.

**Local Share:** N/A.

**Extent of Participation:** Not reported.

## **XI. EARLY CHILDHOOD EDUCATION**

The only existing funding for early childhood education is through the exceptional children programs.

## **XII. OTHER CATEGORICAL PROGRAMS**

### **Low Wealth Counties and Small Counties**

**Funding in 1998–1999:** \$86.9 million.

**Percentage of Total School Aid:** 1.7%.

**Description:** North Carolina initiated supplemental funding for low-wealth counties and small counties in 1991–1992. Systems that qualify for low wealth supplemental funding are those whose ability to generate revenue per student is below the state average. Some of the factors used to determine eligibility are county adjusted property tax base, square miles in the county, and per capita income. In 1998–1999, 85 school districts received additional aid through this funding mechanism.

Additionally, North Carolina provides supplemental funding to small county school systems. Systems that qualify are those with (a) average daily membership (ADM) less than 3,150, and (b) ADM between 3,150 and 4,000 whose county adjusted property tax base per student is below the state average.

**Local Share:** None.

**Extent of Participation:** 25 counties (small counties) and  
85 LEAs (low wealth).

### **XIII. TEACHER RETIREMENT AND BENEFITS**

**Funding in 1998–1999:** \$532.6 million.

**Percentage of Total School Aid:** 10.4%.

**Description:** Teacher retirement funds are a part of the Teachers' and State Employees' Retirement System of North Carolina. Operations of the State System during the calendar year 1997 resulted in total receipts of \$12,853.2 million and total expenditures of \$1,248.9 million. Based on the latest actuary's report, the General Assembly set the employer contribution rate at 7.78% of covered payroll, effective July 1, 1997, and at 10.10% of covered payroll, effective July 1, 1998.

### **XIV. TECHNOLOGY**

The state of North Carolina began special funding for technology in 1995–1996. As of 1998–1999, \$111.5 million have been dedicated to technology equipment and programs. Local school systems are required to write a Technology Plan which must be approved by the local board of education and submitted to the State Board of Education for final approval before money can be received. Plans must be reviewed annually.

### **XV. CAPITAL OUTLAY AND DEBT SERVICE**

Capital outlay funds are, by state law, the responsibility of local county commissioners. Capital outlay funds for 1998–1999 amounted to \$171.6 million.

The most common source for funding capital outlay projects is general obligation bonds. North Carolina has made a dramatic turn in successful passage of school bonds from the drought of the 1970s and 1980s. The largest school bond package

passed at the local district level in North Carolina history occurred in 1997 when the Charlotte–Mecklenburg voters approved a \$72 million bond. The state passed a \$1.8 billion bond for school construction in 1997.

Currently in North Carolina there are two earmarked sources of revenue for capital outlay. The 1983 and the 1986 one-half cent local option sales taxes were established to support capital outlay needs.

### **Sinking funds**

The Local Government Commission (LGC) of North Carolina works closely with county commissions and local boards of education to monitor fiscal capacity and management. Debt accumulation is allowed only in the area of capital outlay. The maximum allowable debt service is established by the LGC for a given district based on existing assets and liabilities. Bond indebtedness and rationale for established needs are reviewed by the LGC prior to formal approval of local referenda.

## **XVI. STANDARDS/ACCOUNTABILITY MEASURES**

North Carolina passed the School-Based Management and Accountability Program (Senate Bill 139) in 1996 which established the ABCs accountability program. The ABCs stand for Accountability, Basics and Local Control. This accountability model was implemented for elementary and middle schools in 1996–1997 and for high schools in 1997–1998. The ABCs program identified schools among six categories based on the school’s ability to meet the state criteria for expected growth on composite score performance on statewide administration of End-of-Grade (grades 3–8) or End-of-Course (grades 9–12) tests.

## **XVII. REWARDS/SANCTIONS**

Schools that met 100% to 110% expected growth on the ABCs formula were eligible for incentive pay. Each school that met these criteria received \$750 plus benefits for the principal, \$750 plus benefits for each teacher and certified personnel, and \$375 plus benefits for each teacher assistant. Schools that exceeded 110% of expected growth on the ABCs formula were also eligible for incentive pay. Each school that exceeded expectations by at least 10% received \$1,500 plus benefits for the principal, teachers, and other certified personnel and \$500 plus benefits for each teacher assistant. Schools that failed to meet expected

growth standards and had less than 50% of its students performing at or above grade level were assigned state assistance teams for one year.

As a part of the Excellent Schools Act of 1997, principals are eligible to receive an additional 1% bonus if their school designed and implemented successfully a safe schools plan beginning with the 1997–1998 school year.

### **XVIII. FUNDING FOR NON-TRADITIONAL PUBLIC SCHOOLS**

**Funding in 1998–1999:** \$31.9 million.

**Percentage of Total School Aid:** less than 1%.

**Description:** The General Assembly passed legislation in 1996, which created Charter Schools in North Carolina. A Charter School in North Carolina is a public school operated by a group of parents, teachers, and/or community members as a semi-autonomous school of choice within a school district under a charter with the State Board of Education. In 1998–1999, North Carolina had 62 approved Charter Schools. Of those 62, 57 were operating and 5 are scheduled to open in 1999–2000. Charter Schools receive funding based on the average per pupil allocation in the local education agency from which the student came. The federal, state, and local amounts of per pupil current expense funding also travel with the student from the local school system to the charter school. There is no positional, categorical or capital outlay funding to charter schools. Charter Schools received 71.0% state funds, 27.4% local funds and 1.7% federal funds in the 1998–1999 school year.

### **XIX. AID TO PRIVATE SCHOOLS**

As of the 1998–1999 school year, no funding formulas or grants exist for aid to private schools from public school funds.

### **XX. RECENT PENDING LITIGATION**

*Leandro v. State*, 488 S.E.2d 249 (N.C.1997) is the most recent school finance litigation active in North Carolina. In *Leandro* the plaintiffs allege the right to adequate educational opportunities which are being denied them under the current school funding system. The plaintiffs also allege that the North Carolina Constitution not only creates a fundamental right to an education, but it also guarantees that every child, no matter where he or she resides, is entitled to equal educational opportunities.

Plaintiffs allege that children in their poor school districts are not receiving a sufficient education to meet the minimal standard for a constitutionally adequate education. Plaintiffs further allege that children in their districts are denied an equal education because there is a great disparity between the educational opportunities available to children in their districts and those offered in more wealthy districts of the state. The initial plaintiffs, individual families, were joined in their suit by six school districts alleging that the current method of state funding was insufficient to provide an adequate education for students in their districts due to the large demands on resources caused by diversity and complexity of the student population served by the district.

The state Supreme Court concluded that the North Carolina Constitution requires that access to a sound basic education be provided equally in every school district. The court was convinced that the equal opportunities clause does not require substantially equal funding or educational advantages in all school districts. The current state system for funding schools which requires or allows counties to help finance their school systems and which results in unequal funding among the school districts of the state do not violate constitutional principles.

The court defined a “sound basic education” as one that will provide the student with at least: (1) sufficient ability to read, write, and speak the English language and a sufficient knowledge of fundamental mathematics and physical science to enable the student to function in a complex and rapidly changing society; (2) sufficient fundamental knowledge of geography, history, and basic economic and political systems to enable the student to make informed choices with regard to issues that affect the student personally or affect the students’ community, state, and nation; (3) sufficient academic and vocational skills to enable the student to successfully engage in post-secondary education or vocational training; and (4) sufficient academic and vocational skills to enable the student to compete on an equal basis with others in further formal education or gainful employment in contemporary society.

## **XXI. SPECIAL TOPICS**

In 1996, the North Carolina legislature approved a law to give the State Board of Education the authority to implement the ABCs. The ABCs assign more responsibility at the school building level and allow schools flexibility to use funds as they are most needed at the school.

In the 1996–1997 school year 113 school systems transferred state funds from function to function. Transfers most frequently requested included: transfers between textbooks and instructional supplies, materials, and equipment; transfers between vocational education months of employment and vocational education program support; and transfers from position allotments to dollars for supplies, materials, equipment, or for other certified personnel. In 1997–1998 only 12% of the total budget could not be transferred to any other funding.