
SCHOOL FINANCE

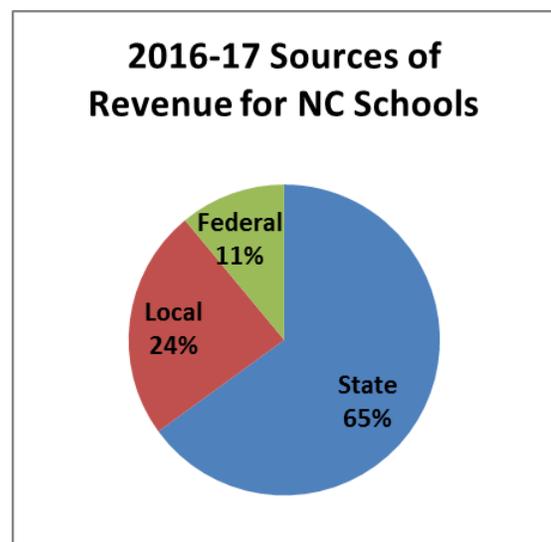
KEY ISSUES

State, federal, and local resources contribute to public education. With the distribution of resources from all three sources changing yearly, schools and districts are continually anticipating shifts in funding so they can appropriately budget for recurring expenses and larger investments.

For 20 years, North Carolina has been involved in legal proceedings regarding the state's constitutional obligation to provide a "general and uniform system of free public schools."¹ The central issues presented in these cases relate to the provision of equitable educational opportunities to all North Carolina students. In 1997, the Supreme Court of North Carolina unanimously held that all children residing in North Carolina have a fundamental right under the state constitution to the "opportunity to receive a sound basic education."²

SOURCES OF FUNDING

Funding for North Carolina's public schools comes from a combination of federal, state, and local resources. According to North Carolina's State Constitution, the North Carolina General Assembly is responsible for providing by taxation and otherwise for a general and uniform system of free public schools. Thus, the state maintains the main responsibility for all current expenses of public education. North Carolina public schools spent \$13 billion in the 2016-17 school year using a combination of state, federal, and local resources, with the majority of that funding coming from the state.³



TYPES OF FUNDING

STATE FUNDING

- Funding for personnel and services necessary for basic instruction.
- Allocations based on student and personnel numbers and district characteristics.
- Supplemental funding to small county school systems and low wealth school systems in an attempt to close the gap between resource-rich and resource-poor districts.

FEDERAL FUNDING

- Federal grants are accessible by competitive grant programs, state plans or applications, or direct appropriation.
- Many federal programs are targeted to low-income students and students with disabilities.
- Child nutrition is federally funded.

¹ North Carolina State Constitution, Article IX, Section 2.

Available at <https://www.ncleg.net/Legislation/constitution/ncconstitution.html>.

² *Leandro v. State*, 488 S.E.2d 249 (N.C. 1997).

Available at <http://www.law.unc.edu/documents/civilrights/briefs/leandrosupremecourtdecisionjuly97.pdf>.

³ NC DPI Statistical Profile, Table 22 – Current Expense Expenditure by Source of Funds.

Available at <http://apps.schools.nc.gov/ords/f?p=145:32:::NO:::>

LOCAL FUNDING

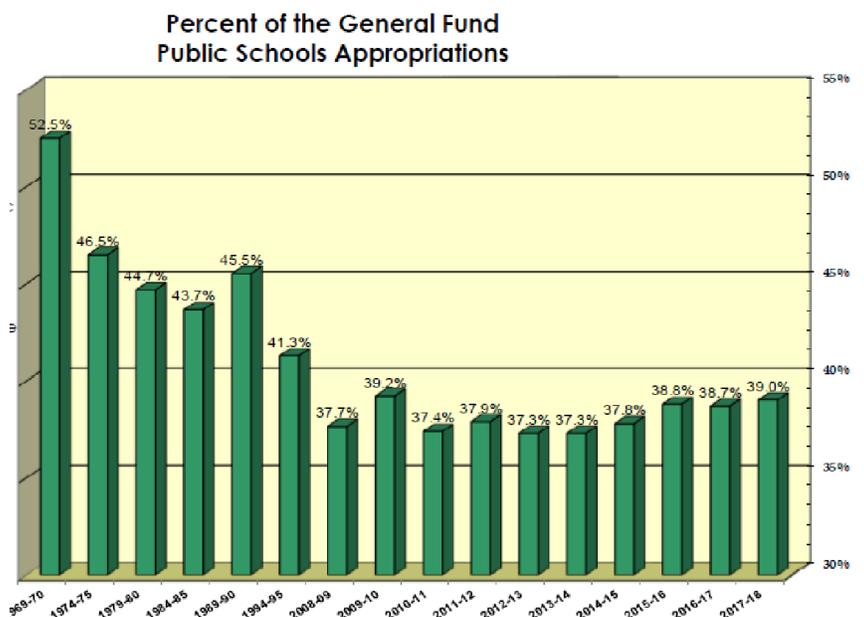
- Provide facilities, arts and language courses, advanced coursework, salary supplements, and additional teachers and staff.
- Local funding varies greatly between districts because it is based on local property tax levels (See the Forum's *2018 North Carolina Local School Finance Study* for a complete analysis of local school finances).⁴
- In 2018, the General Assembly enacted a new local funding statute, G.S. 160A-690 authorizing cities and towns to use their property tax revenues and other unrestricted revenues to supplement funding for public schools, including traditional public schools, charter schools, innovative schools, lab schools and regional schools.⁵

Education remains the single largest budget item in most state budgets. States use income taxes, corporate taxes, sales taxes, and fees to fund a portion of the budgets in elementary and secondary schools.

Nationally in 2017-18, the NEA estimates that 45.8% of school funds came from state governments, 46.4% from local governments, and 7.8% from the federal governments.⁶ In North Carolina, a relatively higher percentage of school funding comes from the state compared to the national average, due in large part to the state's constitution placing responsibility for public education squarely on the state.

CHANGES TO EDUCATION FUNDING

The recession resulted in a major drop in state spending in North Carolina that took seven years to recover, with 2015-16 overall education spending finally eclipsing pre-recession levels. In 2009-2010, state appropriations dropped to \$7.35 billion, down from \$8.19 billion in 2008-2009. This was a national trend and, at least in part, a result of the recession. Overall, funding has increased in North Carolina from \$5.92 billion in 2002-03 to \$8.93 billion in 2017-18, largely in response to a growing student population. While total dollars have increased for education funding since 1970, the share of the General Fund going to public schools has decreased by 13.5%. If public schools were currently funded at the same percentage as in FY 1969-70, an additional \$3 billion would be available for schools.⁷



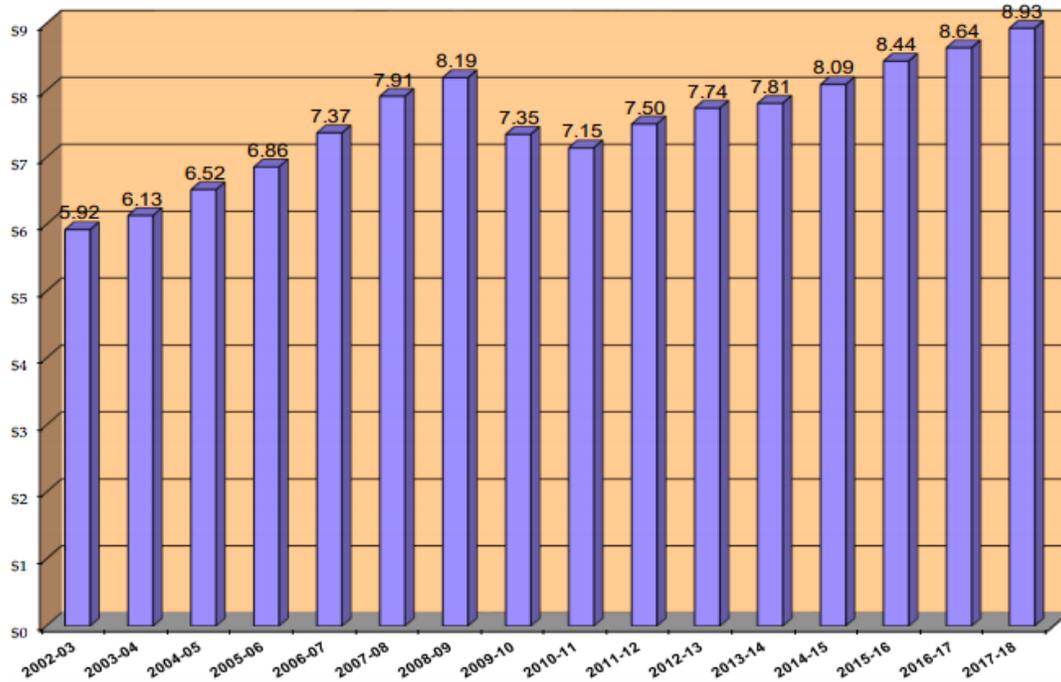
⁴ Public School Forum of North Carolina, *Local School Finance Study*. Available at <https://www.ncforum.org/local-school-finance-study/>.

⁵ Session Law 2018-5, Section 38.8. Available at <https://www.ncleg.net/Sessions/2017/Bills/Senate/PDF/S99v6.pdf>.

⁶ National Education Association, *Rankings of the States 2017 and Estimates of School Statistics 2018*. Available at http://www.nea.org/assets/docs/180413-Rankings_And_Estimates_Report_2018.pdf.

⁷ NC DPI, *Highlights of the North Carolina School Budget, February 2018*. Available at <http://www.dpi.state.nc.us/docs/fbs/resources/data/highlights/2018highlights.pdf>.

Total State Public School General Fund Appropriations
2002-03 to 2017-18 (in Billions)



PER-PUPIL SPENDING

According to 2017-18 NEA estimated data, North Carolina’s per-pupil spending rank has increased to 39th.⁸ The state’s highest rank was 34th in 1994-95. North Carolina is estimated to have spent \$9,528 per student in 2017-18, which is 79.8 percent of the US average of \$11,934. Since funding sources vary widely among states and within states, the total amount of money spent on each school age child in this country ranged from \$6,673 to over \$25,323 for the 2017-18 school year. If North Carolina spent at the national average, schools would have an additional \$2,406 dollars to spend per student.

Expenditures for K-12 Public Schools per Student Enrollment, 2017-18			
STATE	EXPENDITURES	STATE	EXPENDITURES
Washington DC	25,323	Iowa	11,198
New York	23,519	Colorado	11,009
Alaska	22,103	Missouri	11,007
Connecticut	21,731	Kansas	10,898
New Jersey	21,118	New Mexico	10,763
Vermont	19,584	Kentucky	10,693
Massachusetts	18,072	Ohio	10,666
Delaware	17,500	California	10,420
Wyoming	17,127	Michigan	10,211
New Hampshire	16,763	Georgia	10,182
Rhode Island	15,648	Texas	9,800
Pennsylvania	15,338	Arkansas	9,762

⁸ National Education Association, Rankings of the States 2017 and Estimates of School Statistics 2018. Available at <http://www.nea.org/assets/docs/180413-Rankings And Estimates Report 2018.pdf>.

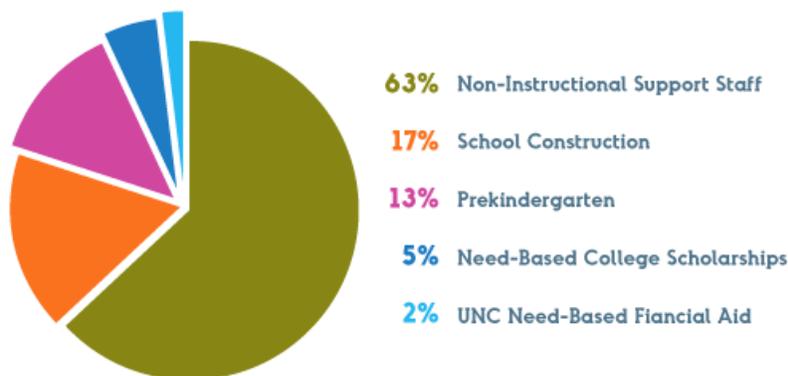
Maryland	14,862	Tennessee	9,547
Illinois	14,321	North Carolina	9,528
West Virginia	13,927	Alabama	9,354
Minnesota	12,652	Florida	9,225
Washington	12,285	Maine	9,035
Hawaii	12,157	South Dakota	9,022
Nebraska	12,125	Mississippi	8,398
Oregon	12,056	Oklahoma	8,327
US AVERAGE	11,934	Nevada	8,177
South Carolina	11,913	North Dakota	8,073
Wisconsin	11,592	Arizona	7,474
Louisiana	11,397	Utah	7,058
Virginia	11,306	Idaho	6,849
Montana	11,212	Indiana	6,673

Source: NEA, Rankings of the States 2017 and Estimates of School Statistics 2018.

NORTH CAROLINA EDUCATION LOTTERY

In August 2005, the General Assembly voted to create the North Carolina Education Lottery. The net proceeds of the lottery go to education expenses, including personnel, academic pre-kindergarten programs, school construction, and scholarships for college and university students with financial need. Lottery revenues have increased each year from 2006 to 2016 with a small dip in 2017. In Fiscal Year 2017, the lottery provided \$622.5 million to education, the second largest payout in North Carolina history, just behind the 2016 payout of \$634.3 million dollars⁹

EDUCATION PROGRAMS RECEIVING LOTTERY FUNDS IN FISCAL YEAR 2017



Source: NC Education Lottery

In Fiscal Year 2017, school systems and charter schools across the state received \$372 million from lottery proceeds for personnel. Across the state, \$100 million was allocated for school construction and repairs. Over \$78 million went to the state Pre-K program. Students who qualify for federal Pell Grants were eligible for the over \$32 million in scholarships made available through lottery funds in 2017, and another \$10.7 million provided grants to students attending a UNC system school.¹⁰

⁹ NC Education Lottery Beneficiary. Available at <https://www.nclottery.com/Education>.

¹⁰ NC Education Lottery History of Lottery Fund Assignments. Available at <https://www.nclottery.com/Content/Docs/History%20of%20Lottery%20Fund%20Assignment%20FY17.pdf>

In Fiscal Year 2016, approximately 26.5 percent of lottery revenue went to education with the remaining revenue going to prize payouts, commissions, and administrative expenses.¹¹ The lottery money breakdown was as follows:

- 62.4 percent (\$1.5 billion) to prize money
- 26.5 percent (\$634 million) to education
- 7 percent (\$168 million) to retailer compensation
- 4.1 percent (\$97 million) to other expenses, including gaming systems, advertising, salaries/benefits, administrative, and DHHS/DOA/ALE

SCHOOL FINANCE LITIGATION IN NORTH CAROLINA – THE LEANDRO CASE

In North Carolina, parents in five low-wealth school districts (Cumberland, Halifax, Hoke, Robeson, and Vance) filed a lawsuit against the state in 1994: *Leandro v. State*. They argued their lower tax bases and smaller populations made it impossible to offer the same educational opportunities offered by public schools in wealthier districts. Wealthier school districts, including Asheville City Schools, Buncombe County Public Schools, Durham Public Schools, Wake County Schools, and Winston-Salem/Forsyth County Public Schools, plus Charlotte Mecklenburg Schools, joined the lawsuit, arguing that the amount that the state pays for public schools did not adequately provide for the extra costs of educating low-wealth and exceptional children.

In July 1997, the North Carolina Supreme Court ruled that North Carolina’s Constitution does not guarantee a right to equal education opportunities in every school district. In its ruling, however, the court held that all children residing in the state have a constitutional right to a “sound basic education.” The court defined the type of education to which students are entitled by listing four components of a sound basic education:¹²

1. Ability to read, write and speak the English language and sufficient knowledge of mathematics and physical science.
2. Sufficient knowledge of geography, history, and basic economic and political systems.
3. Sufficient academic and vocational skills to engage in post-secondary or vocational training.
4. Sufficient academic and vocational skills to enable a student to compete on an equal basis with others in further education or future employment.

Further, a Trial Court and the state Supreme Court later found that the following mandates must be upheld: that a well-trained, competent teacher in every classroom, a well-trained, competent principal in every school and enough resources that every child has an equal opportunity for education.

While the Leandro case mandated a basic level of education for all North Carolina students, its decision allowed counties to help finance their schools based on local property taxes, which has enabled funding disparities between low-wealth and high-wealth counties to persist and even increase.

In an effort to better address the state’s constitutional obligation as it pertains to at-risk students, the North Carolina Department of Public Instruction (NC DPI) developed a Disadvantaged Student Supplemental Fund (DSSF) to provide additional resources to districts. In December 2004, NC DPI revised, and the court endorsed, a new identification model that considers several factors: the percent of public school students living in a single parent family, the percent of population age 5-17 below the poverty line, and the percent of public school students with at least one parent with less than a high school diploma.

¹¹ AskNC: What percentage of lottery money goes to education?
Available at <https://nccppr.org/asknc-percentage-lottery-money-goes-education/>.

¹² Leandro v. State Case Summary.
Available at <http://law.duke.edu/childedlaw/schooldiscipline/attorneys/casesummaries/leandrovstate/>.

From 2004-2014, the Supreme Court afforded the State ten years to use its initiative, discretion, and expertise to develop and implement a *Leandro* remedial plan. While the State took some promising initial steps, its progress was curtailed by the subsequent elimination of most of these initiatives.

On the 20th anniversary of the first *Leandro* Supreme Court decision, in 2017 plaintiffs and state defendants filed a **Joint Motion** asking the Trial Court to appoint “an independent, non-party consultant to develop detailed, comprehensive, written recommendations for specific actions necessary to achieve sustained compliance with the constitutional mandates articulated in this case.” That motion was granted, and the third party is tasked with recommending the specific actions the State must take to provide competent well-trained **principals** and **teachers** in every school and classroom in North Carolina, and to identify the **resources** necessary to ensure that all children in public school, including those at-risk, have an equal opportunity to obtain a sound basic education as defined in *Leandro*.

The Trial Court appointed WestEd, a major national education consulting firm, to serve as the Court’s independent, non-party consultant and to deliver its final report to the Court on or before March 31, 2019.

In 2017, Governor Roy Cooper introduced his own Commission on Access to Sound Basic Education to examine the state’s efforts to comply with the *Leandro* mandates and to “implement comprehensive, interdisciplinary measures that allocate the resources necessary to ensure that the promise of a sound basic education for children in this state is realized.”¹³ The third-party consultant and the Commission are working independently of each other to develop separate reports.

JOINT LEGISLATIVE TASK FORCE ON EDUCATION FINANCE REFORM

In 2017, the General Assembly created the “Joint Legislative Task Force on Education Finance Reform” in the state budget bill.¹⁴ This Task Force’s mission is to study various weighted student formula funding models and develop a new funding model for elementary and secondary public schools based on a weighted student formula. More specifically, the General Assembly has directed the Task Force to do all of the following:

1. Review the State's current public school allotment system and undertake an in-depth study of various types of weighted student formula funding models. In its study, the Task Force is encouraged to consider models used by other states.
2. Determine the base amount of funds that must be distributed on a per student basis to cover the cost of educating a student in the State.
3. Identify the student characteristics eligible for weighted funding and the associated weights for each of these characteristics.
4. Resolve the extent to which the base amount of funds to be distributed would be adjusted based on the characteristics of each local school administrative unit.
5. Decide which funding elements, if any, would remain outside the base of funds to be distributed under a weighted student formula.
6. Study other funding models for elementary and secondary public schools, including public charter schools, in addition to the weighted student funding formula.
7. Study funding models to provide children with disabilities with a free appropriate public education. This shall include a consideration of economies of scale, the advisability and practicality of capping

¹³ Stancill, J. “Long-running debate over NC school funding”. The News and Observer. Available at <https://www.newsobserver.com/news/local/education/article163380363.html>.

¹⁴ Session Law 2017-57, Section 7.23D. Available at https://www.ncleg.net/FiscalResearch/fiscal_briefs/2017_Session_Budget_Fiscal_Briefs/2017_Education_Highlights.pdf.

additional funding for children with disabilities, and additional costs associated with services required for particular disabilities.

8. Study any other issue the Task Force considers relevant.

The Task Force's final report is due to the General Assembly by October 1, 2019. There have been a series of presentations to this Task Force on the magnitude of reforming the state's system of funding public schools. These presentations and Task Force meetings will continue through 2018-19 in order to fulfill the above-referenced directives.

ADDITIONAL RESOURCES FOR SCHOOL FINANCE

Public School Forum of North Carolina's Local Finance Study

<https://www.ncforum.org/local-school-finance-study/>

NC DPI Highlights of the Budget

<http://www.ncpublicschools.org/fbs/budget/>