

# SCHOOL FINANCE

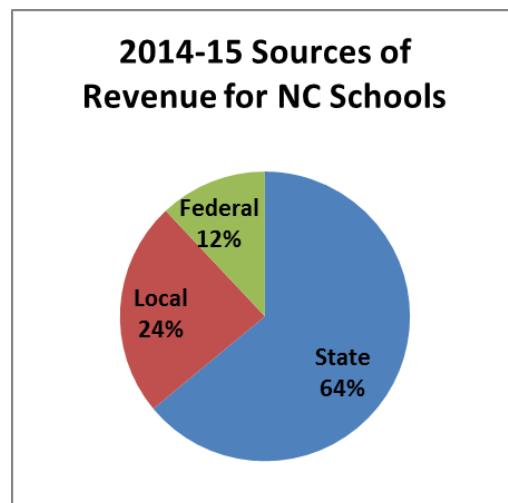
## KEY ISSUES

State, federal, and local resources contribute to public education. With resources from all three sources changing yearly, schools and districts are continually working to anticipate 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."<sup>1</sup> 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."<sup>2</sup>

## 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 over \$12.6 billion in the 2014-15 school year using a combination of state, federal, and local resources, with the majority of that funding coming from the state.<sup>3</sup>



## 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.

<sup>1</sup> North Carolina State Constitution, Article IX, Section 2.

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

<sup>3</sup> NC DPI Statistical Profile, Table 22 - Current Expense Expenditure by Source of Funds. Available at <http://apps.schools.nc.gov/pls/apex/f?p=1:1:0>.

## LOCAL FUNDING

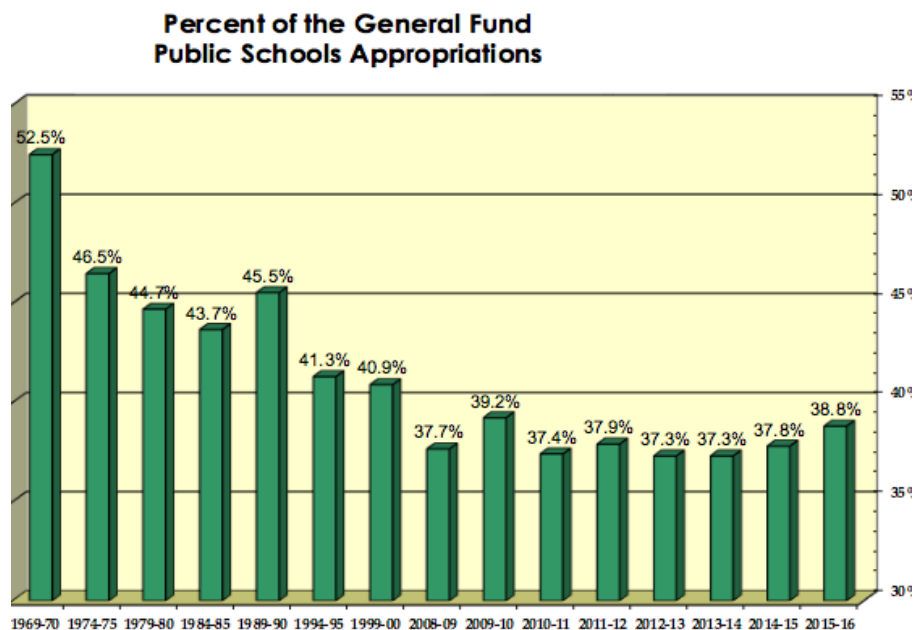
- Provide facilities, arts and language courses, advanced coursework, salary supplements, and additional teachers and staff.
- Local funding varies greatly between districts because it is based on local property tax levels (See the Forum's *2016 North Carolina Local School Finance Study* for a complete analysis of local school finances).<sup>4</sup>

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 2014-15, 46.3% of school funds came from state governments, 44.1% from local governments, and 9.6% from the federal governments.<sup>5</sup> 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

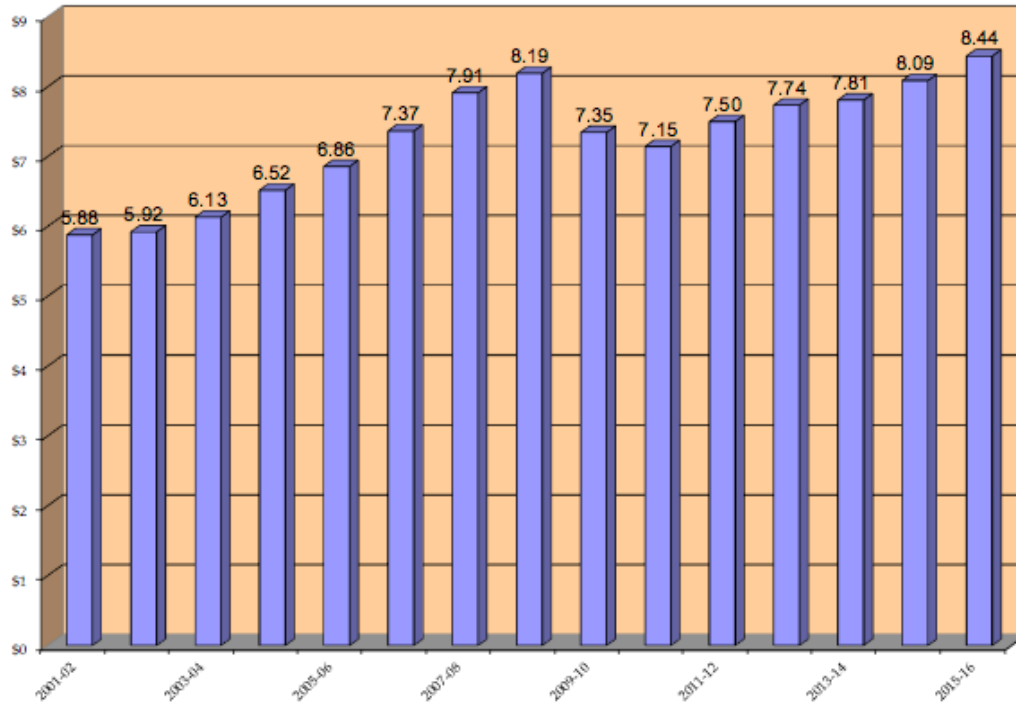
The recession resulted in a major drop in state spending in North Carolina that took seven years to recover, with last year's overall education spending finally eclipsing pre-recession levels. In 2009-2010, state appropriations dropped to \$7.35 billion, down from \$8.19 billion in 2008-2009. This was a national trend and, at least in part, a result of the recession. Overall, funding has increased in North Carolina from \$5.88 billion in 2001-02 to \$8.44 billion in 2015-16, 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 13.7 percent. If public schools were currently funded at the same percentage as in FY 1969-70, an additional \$3 billion would be available for schools.



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

<sup>5</sup> National Education Association, *Rankings of the States 2014 and Estimates of School Statistics 2015*. Available at [http://www.nea.org/assets/docs/NEA\\_Rankings\\_And\\_Estimates-2015-03-11a.pdf](http://www.nea.org/assets/docs/NEA_Rankings_And_Estimates-2015-03-11a.pdf).

**Total State Public School General Fund Appropriations  
2001-02 to 2015-16 (in Billions)**



**PER-PUPIL SPENDING**

According to 2014-2015 estimated data, North Carolina’s per-pupil spending rank has dropped to 46<sup>th</sup>, down from 38<sup>th</sup> in 2007-08.<sup>6</sup> The state’s highest rank was 34<sup>th</sup> in 1994-95. North Carolina spent \$8,620 per student in 2014-2015, which is 73.4 percent of the US average of \$11,732. The state ranks ahead of only five other states: Arizona, Indiana, North Dakota, Oklahoma and Utah. North Carolina currently ranks the lowest in the Southeast region in per-pupil expenditure. 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 \$7,461 to over \$23,149 for the 2014-2015 school year. If North Carolina spent at the national average, schools would have an additional \$3,112 dollars to spend per student.

| <b>Expenditures for K-12 Public Schools per Student Enrollment, 2014-15</b> |              |                |              |
|---|--------------|----------------|--------------|
| STATE   | EXPENDITURES | STATE          | EXPENDITURES |
| VERMONT   | 23,149       | MISSOURI       | 10,755       |
| NEW YORK  | 21,366       | NEW MEXICO     | 10,633       |
| NEW JERSEY  | 20,925       | IOWA           | 10,613       |
| ALASKA  | 20,117       | LOUISIANA      | 10,511       |
| RHODE ISLAND  | 19,676       | WASHINGTON     | 10,055       |
| CONNECTICUT   | 17,759       | NEBRASKA       | 10,012       |
| NEW HAMPSHIRE   | 17,115       | SOUTH CAROLINA | 10,005       |
| MASSACHUSETTS   | 16,678       | KANSAS         | 9,822        |
| WYOMING   | 16,127       | KENTUCKY       | 9,635        |
| DELAWARE  | 15,858       | ARKANSAS       | 9,573        |

<sup>6</sup> National Education Association, Rankings of the States 2014 and Estimates of School Statistics 2015. Available at [http://www.nea.org/assets/docs/NEA\\_Rankings\\_And\\_Estimates-2015-03-11a.pdf](http://www.nea.org/assets/docs/NEA_Rankings_And_Estimates-2015-03-11a.pdf).

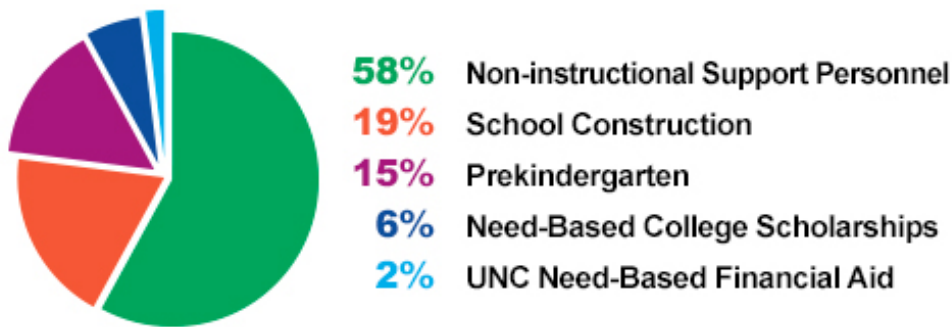
|                     |               |                       |              |
|---------------------|---------------|-----------------------|--------------|
| PENNSYLVANIA        | 15,691        | FLORIDA               | 9,223        |
| MICHIGAN            | 15,175        | GEORGIA               | 9,291        |
| WASHINGTON D.C.     | 14,779        | TENNESSEE             | 9,105        |
| MARYLAND            | 14,249        | SOUTH DAKOTA          | 8,989        |
| ILLINOIS            | 13,870        | TEXAS                 | 8,962        |
| WEST VIRGINIA       | 12,859        | IDAHO                 | 8,928        |
| MINNESOTA           | 12,180        | MAINE                 | 8,957        |
| HAWAII              | 12,014        | NEVADA                | 8,956        |
| <b>U.S. AVERAGE</b> | <b>11,732</b> | ALABAMA               | 8,797        |
| OHIO                | 11,530        | MISSISSIPPI           | 8,779        |
| WISCONSIN           | 11,424        | <b>NORTH CAROLINA</b> | <b>8,620</b> |
| CALIFORNIA          | 11,145        | NORTH DAKOTA          | 8,518        |
| OREGON              | 11,127        | INDIANA               | 8,034        |
| VIRGINIA            | 10,980        | OKLAHOMA              | 7,977        |
| COLORADO            | 10,899        | UTAH                  | 7,711        |
| MONTANA             | 10,859        | ARIZONA               | 7,461        |

Source: NEA, Rankings of the States 2014 and Estimates of School Statistics 2015.

## 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 since the lottery began in North Carolina in 2007. In Fiscal Year 2015, the lottery provided \$521.2 million to education, the largest payout in North Carolina history.<sup>7</sup>

### EDUCATION PROGRAMS RECEIVING LOTTERY FUNDS IN 2015



Source: NC Education Lottery

School systems and charter schools across the state received \$320 million from lottery proceeds for personnel, including teachers and teacher assistants in grades K-3. Each county also received a share of almost \$100 million allocated for school construction and repairs. About \$78 million went to the state Pre-K program. Students who qualify for federal Pell Grants were eligible for the \$31 million in scholarships made available through lottery funds in 2015, and another \$10.4 million provided grants to students attending a UNC system school.

About 26 percent of lottery revenue goes to education with the remaining revenue going to prize payouts, commissions, and administrative expenses.

<sup>7</sup> NC Education Lottery Beneficiary. Available at <http://www.nc-educationlottery.org/beneficiary.aspx>.



Source: NC Education Lottery

## 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 suit against the state in 1994. 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:<sup>8</sup>

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.

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.

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<sup>8</sup> Leandro v. State Case Summary.  
Available at <http://law.duke.edu/childdedlaw/schooldiscipline/attorneys/casesummaries/leandrovstate/>.

## FINANCING SCHOOL FACILITIES

Since the 1930s, school facilities have officially been the responsibility of local districts, while operating costs rested with the state. In 1993, NC DPI released a study on school facilities needs throughout the state. Surveying school districts across the state, NC DPI found a projected capital need of \$5.5 billion over the next ten years.

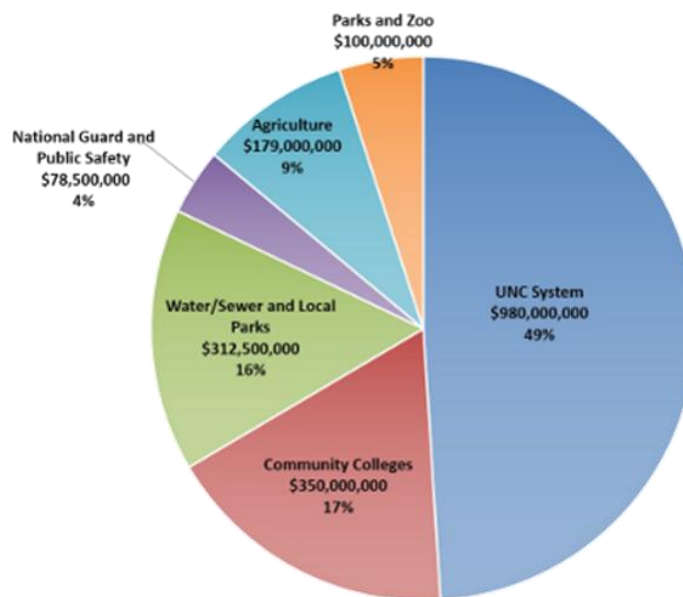
Two years later, in the 1995 legislative session, many groups, including the Low-Wealth Schools Consortium, began urging the General Assembly to consider ways to help fund school construction. The General Assembly requested that NC DPI complete another facilities survey and to include county commissioners in the capital projections. The 1996 study concluded that facility need costs had swelled to \$6.2 billion over a five-year period due to increasing student populations.

The 1996 study helped prompt the General Assembly to pass the Public School Building Bond Act of 1996, at a cost of \$1.8 billion dollars. The school bond money was distributed in four different ways. A certain portion of the funds were earmarked for:

- 1) Low-wealth systems based on level of wealth (poorer school systems receive more)
- 2) High-growth systems (primarily urban and suburban areas)
- 3) Small school systems (under 3,150 students)
- 4) All systems on a per capita basis

The first bonds were sold on March 17, 1997. By December 1998, 107 school districts had submitted their capital expenditure plans to the Planning Section at NC DPI for approval to build new schools or make additions or renovations. All \$1.8 billion of the funds were committed by 2006. Counties and local school districts are also making an effort to meet the facility needs of their schools.

In March 2016, the \$2 billion Connect NC Bond Referendum passed in the primary election.<sup>9</sup> This bond primarily supported the UNC System and Community Colleges, along with parks, water/sewer, agriculture, and the National Guard/public safety. No funds were earmarked for K-12 education.

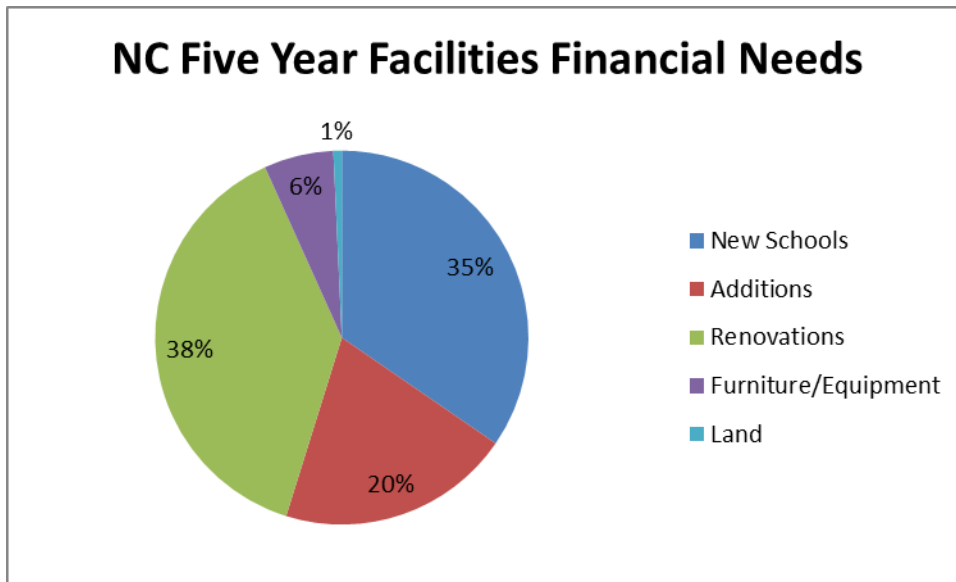


Source: Connect NC

<sup>9</sup> Connect NC. Available at <http://connect.nc.gov/>.

## FACILITY NEEDS SURVEY

The 2015-16 NC DPI Facilities Needs Survey estimates that \$8.1 billion is needed for new schools, additions, renovations, furniture and equipment, and land.<sup>10</sup> A breakdown of the facilities needs can be seen below.



Source: NC DPI 2015-16 Facility Needs Survey

## 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/>

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<sup>10</sup> NC DPI 2015-16 Facilities Needs Survey. Available at [http://www.schoolclearinghouse.org/otherinf/FacilityNeedsSurvey/2015%20Facility%20Needs%20Survey%20\(SBE\).pdf](http://www.schoolclearinghouse.org/otherinf/FacilityNeedsSurvey/2015%20Facility%20Needs%20Survey%20(SBE).pdf).