

WHAT YOU NEED TO KNOW

Financing Education in North Carolina

A BUDGET AND TAX GUIDE

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A Project of
the **Budget & Tax Center**
& the **Education & Law**
Project, part of
the **NC Justice Center**

Understanding Our School Finance System is the First Step



Targeted investments in our North Carolina schools can lead to long-term benefits.

Successful schools for all North Carolina students are possible only with adequate resources. When spending is increased per student, successful student and school-level outcomes increase as well, on average. States that have increased funding for low-income districts have significantly improved student achievement in those districts.¹

Of course, how the money is spent is also important. Targeted investments that reduce class sizes, increase the number of teacher assistants, expand early education opportunities, and improve teacher pay are all associated with positive student outcomes.^{2, 3} These targeted investments have long-term benefits, such as higher graduation rates, higher levels of educational attainment, and higher lifetime earnings, with particularly positive impacts for students from low-income families.⁴

North Carolina has a long tradition of strong state support for public schools. The State Constitution requires a general and uniform system of free public schools providing equal opportunities for all students.⁵ North Carolina citizens who understand our school finance system are uniquely equipped to ensure the state meets its constitutional duties and effect significant improvements in communities throughout the state.

About North Carolina's Education System

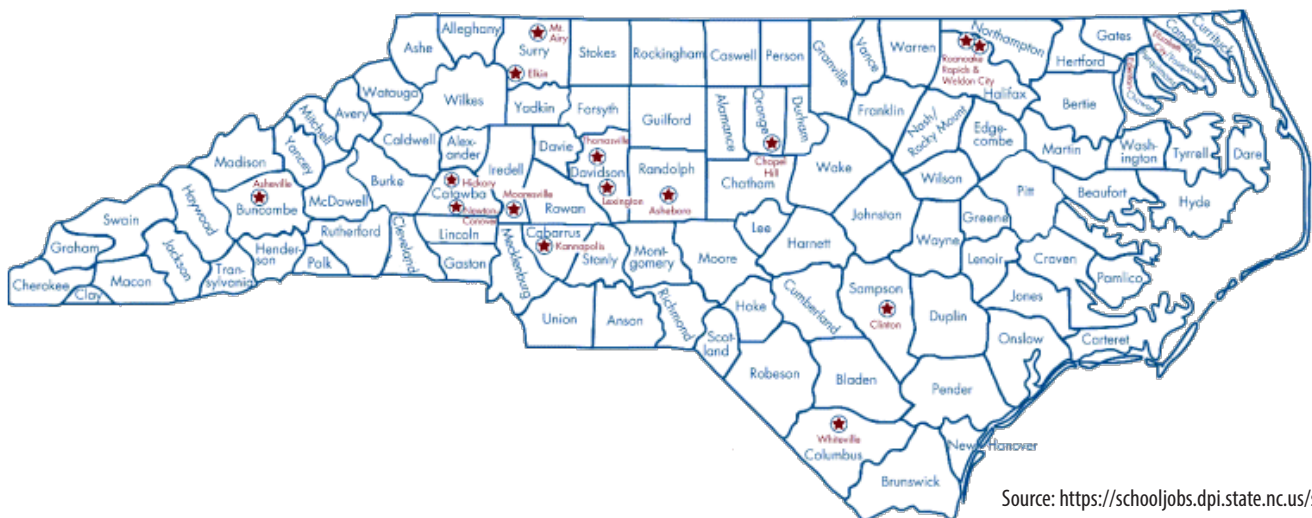
North Carolina has 115 school districts, also referred to as local education agencies (districts). The school district border shares the county border in 89 counties, and there are 11 counties with multiple school districts. There are nearly 2,600 schools in North Carolina, 167 of which are charter schools.⁶

School districts differ greatly in terms of the total number of students served and student characteristics.

KEY HIGHLIGHTS

- North Carolina has 115 school districts.
- School districts differ greatly in size and student characteristics.
- There are more than 1.5 million public school students enrolled in nearly 2,600 public schools.
- Recent enrollment growth has been concentrated in urban districts and charter schools.
- The K-12 system is majority-minority racially, with no single race representing a majority.

FIGURE 1: North Carolina's School Districts



For example, Wake County and Charlotte-Mecklenburg school districts are two of the 20 largest school districts in the country, each enrolling about 150,000 students. By contrast, 40 districts have fewer than 4,000 students. Wake County, the largest district in the state, has about the same number of students as the 54 smallest districts combined.

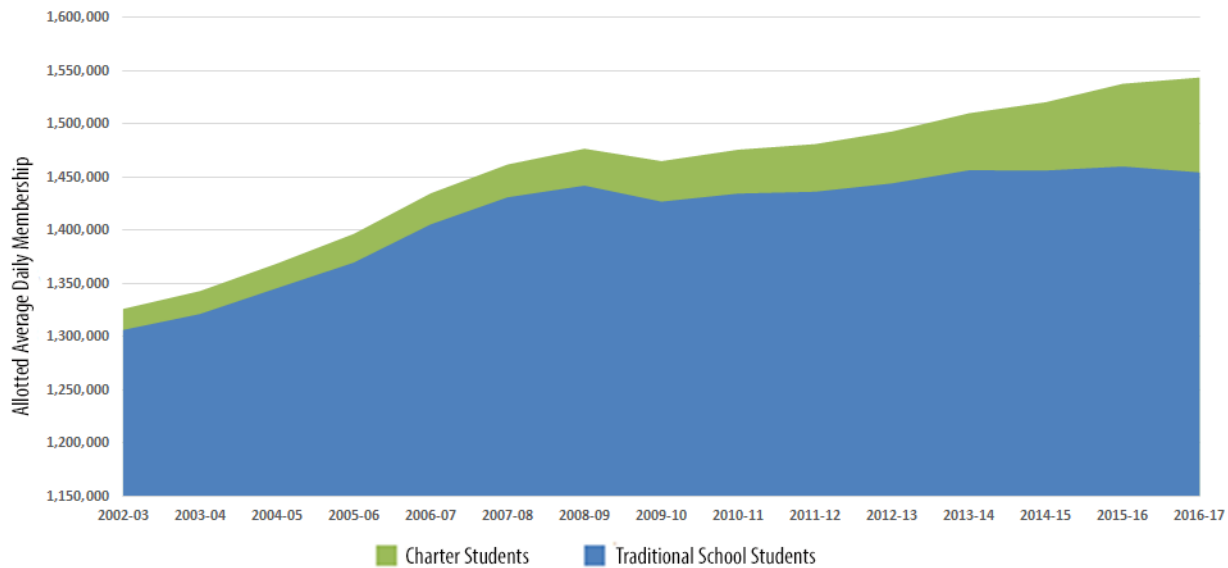
North Carolina's school districts also have distinctly different student demographics.

Nearly 18 percent of Asheville City students speak English as a second language, compared to less than 1 percent of students in Weldon City Schools.

Twenty-eight percent of Chapel Hill-Carrboro students qualify for free or reduced price school lunches, compared to 88 percent of students in Lexington City. In Stokes County, 19 percent of students have an identified disability, compared to 7 percent in Clinton City Schools.

These differences in district characteristics create varying funding needs across North Carolina's school districts.

FIGURE 2: Historic student growth



Enrollment in North Carolina's public school system continues to increase, particularly in charter schools and urban districts. Over the past 15 years, North Carolina's student population has grown by 18.6 percent, or more than 1.1 percent per year. In recent years, growth has been mostly driven by a surge in the number of students enrolled in charter schools. (See Figure 2.)

Enrollment growth has not occurred evenly across the state. In general, North Carolina's urban districts continue to attract students, while most rural districts are losing students. For the 2016-17 school year, only 28 districts increased in size while 87 districts lost students.

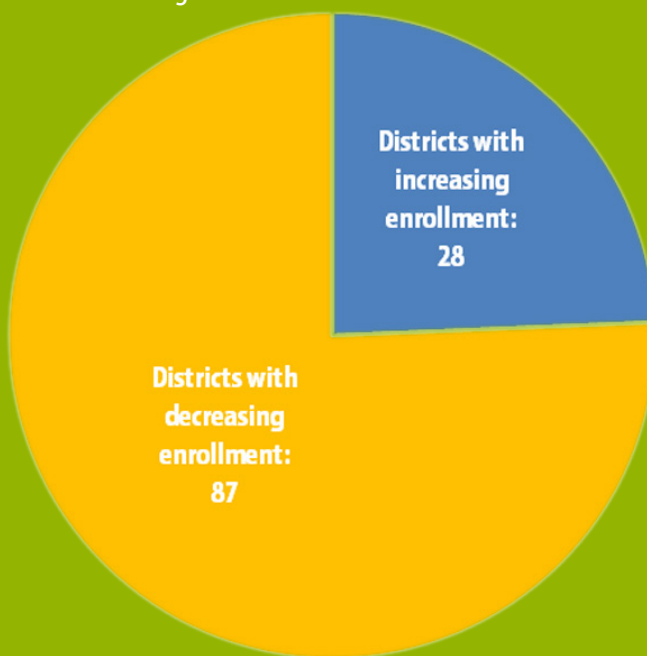
ENROLLMENT CHANGES PLACE PRESSURES ON ALL DISTRICTS

All districts must confront budget pressures. Districts with increasing enrollment, however, face different pressures than districts with decreasing enrollment.

For districts with increasing enrollment, the largest pressures are generally capital costs. Growing enrollment might require construction of new schools, or use of temporary classrooms. Pressures are increased if significant enrollment increases occur after funding levels have been set. For example, an unexpected closure of a charter school located in the district might require the district to quickly secure classroom space and redeploy instructional staff, disrupting existing operations.

Districts with declining enrollment face a number of costs that are fixed in the near-term. The school must be maintained and heated. There must be a principal, and teachers must still be employed, as enrollment declines seldom occur in class-size increments. That means that schools with declining enrollment face an increased cost-per-student, even though per-student funding remains constant. When enrollment declines significantly, districts face extremely difficult questions on whether to close under-utilized schools—buildings that are often vital pieces of a community.

FIGURE 3: An Increasing Number of Districts are Shrinking



Core Principles and Components of School Finance

KEY HIGHLIGHTS

- A well-functioning school finance system should be equitable, adequate, transparent, stable, and flexible.
- Base funding provides a level of resources available to all districts, while additional funding should be provided on the basis of student or district characteristics.
- North Carolina's school finance system is relatively equitable, but adequacy remains a question.

Core Principles

A successful school finance system provides each district with sufficient resources according to each district's level of need. Ultimately, a school finance system should allow all students to succeed. A student's chances for academic success should not depend on where a student is born or how much his or her parents earn.

It is important to define,

specifically, the elements of an ideal school finance system.

EQUITY reflects that districts have varying levels of need, and that school funding should be distributed in relation to that need. For example, districts have varying levels of students with disabilities, who have limited-English proficiency, and who come from low-income families. Additionally, a district's size or local tax base can affect its ability to provide services for its students.

ADEQUACY refers to whether enough funding is available “to allow every school to provide every student an equal opportunity to achieve to state proficiency standards.”⁷ Adequacy tells us what it costs to have high-quality curriculum, taught by effective teachers, utilizing the necessary textbooks and supplies, in a supportive learning environment that would allow all students to graduate from high school ready for college or a career.

In addition to equity and adequacy, policymakers must also consider **TRANSPARENCY**. Transparency allows stakeholders to continually monitor whether a finance system is meeting standards of equity and adequacy.

Policymakers should also be mindful of funding **STABILITY**. From an operational perspective, it is difficult to make major changes to school-level resources after the start of the school year. For example, re-assigning students mid-year can disrupt learning, and it is difficult to find high-quality educators after the beginning of a school year.

Finally, school finance systems differ in terms of their degree of **FLEXIBILITY**. In addition to dictating how resources are distributed between districts, a school finance system may also dictate the allowable uses for how districts spend those funds. Flexibility is a benefit when districts are using it to direct resources to activities that improve student performance. However, flexibility can be counter-productive if a district spends its money inefficiently.

HOW DO WE MEASURE WHAT IS ADEQUATE?

No consensus methodology exists for measuring adequacy. Attempts to measure a state's funding adequacy usually examine multiple models. There are generally four types of adequacy studies:

- **SUCCESSFUL SCHOOLS MODEL:** Examines the spending of schools deemed “successful” according to performance on state tests.
 - **STATISTICAL OR COST-FUNCTION MODELS:** This model uses regression analysis to examine several variables such as poverty, language proficiency, disabilities, and labor costs to determine adequate funding levels given each district's characteristics.
 - **PROFESSIONAL JUDGMENT MODEL:** This method uses surveys of education experts, usually principals and other educators to determine the resources necessary to staff and supply various types of schools.
 - **EVIDENCE-BASED MODEL:** Identifies certain educational strategies or programs that have led to student success in other settings, then estimates the cost of implementing such models elsewhere.
- In each model, the first step is to determine what it would cost for the average student to reach state standards. Consideration is then given to the additional funding needed to achieve success for students with additional needs.

Components of a school finance system

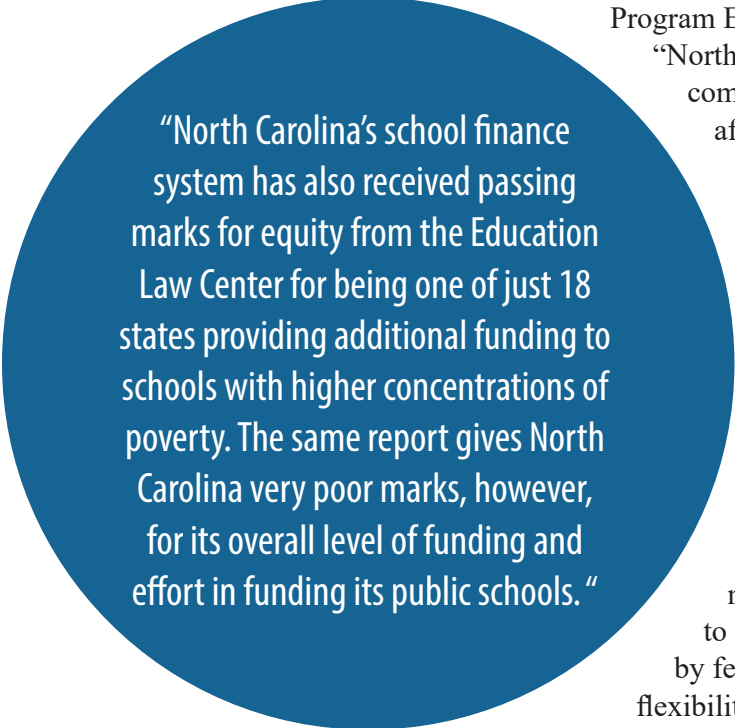
Most school finance systems include funding that falls into three general categories:

- 1. BASE FUNDING** provides a certain level of resources to all students.
- 2. STUDENT CHARACTERISTIC FUNDING** provides additional resources according to each district's population of certain students – such as students with disabilities, low-income students, or English language learners.
- 3. DISTRICT-BASED FUNDING** compensates for district-specific characteristics, such as an inability to generate adequate local revenue, or inability to take advantage of economies of scale.

How does NC's school finance system measure up?

Outside examinations of North Carolina's school finance system tend to give it good marks for equity, but lower marks for adequacy. For example, a 2010 report from education finance consulting firm Augenblick, Palaich & Associates (APA) concluded that North Carolina's school finance system distributes aid in a “highly equitable manner.”⁸ North Carolina's school finance system has also received

passing marks for equity from the Education Law Center for being one of just 18 states providing additional funding to schools with higher concentrations of poverty. The same report gives North Carolina very poor marks, however, for its overall level of funding and effort in funding its public schools.⁹ North Carolina's school finance system has yet to be the subject of a comprehensive school adequacy study.



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A 2016 report from the North Carolina General Assembly's Program Evaluation Division (PED) concluded that

"North Carolina's allotment system is overly complex and has limited transparency."¹⁰ The aforementioned 2010 APA report found that certain specific formulas were "overly complicated and difficult for school district administrators to understand," but that "many of North Carolina's allotments use simple, easily understood allocation procedures."¹¹

North Carolina's school finance system has a considerable degree of flexibility, providing districts with discretion in determining how best to spend state resources. For the most part, districts may move state funding from one allotment category to the other, except where otherwise limited by federal rules.¹² APA noted that the system's flexibility is an "important strength of the system." The

2016 PED report disagreed, however, arguing instead that flexibility hinders the state's ability to target resources for certain

at-risk students.

North Carolina's school finance system contains all of the funding elements one would expect to find in a high-quality school finance system. The state's school finance system includes base funding that provides a certain level of resources to all districts, as well as additional funding distributed on the basis of student and school district characteristics.

History of School Funding in N.C.

In most states, school funding remains largely a local responsibility. Since local wealth (i.e., the ability to generate local tax revenue) can vary significantly between localities, school funding levels also tend to vary accordingly. In North Carolina, however, the state has assumed a greater responsibility for providing resources to public schools. This has allowed for greater funding equality across N.C., as compared to most other states.

KEY HIGHLIGHTS

- North Carolina's history of state responsibility for public schools dates back to the Great Depression.
- North Carolina ranks high in terms of the share of school funding coming from the state because the legal responsibility for funding school operating costs resides with the state.
- The share of total school funding coming from the state does not reflect the adequacy of school funding, or a state's funding effort.

North Carolina's central role in school funding, enshrined in Article IX, Section 2 of the State Constitution, emerged as a product of the Great Depression. At the time, county governments bore the primary responsibility for school funding. With economic conditions hurting many counties' ability to fund their schools, the General Assembly passed the School Machinery Act of 1933. With the help of a new statewide sales tax, this law shifted responsibility for funding the operation of public schools from counties to the state. The state took on the responsibility for providing each school district with money for books, supplies, and teacher salaries, while counties were made responsible for building and maintaining public school facilities.¹³

North Carolina's separation of funding responsibilities has been largely unchanged since that time. The delineation of responsibilities is now laid out in state law.¹⁴ This law requires the state to provide "the instructional expenses for current operations of the public school system," while "the facilities requirements for a public education system will be met by county governments."

The state is responsible for development of statewide policies, distributing state resources, monitoring activities for compliance with state and federal laws, and assisting school districts by providing technical assistance. School districts make resource allocations between schools in the district and oversee day-to-day operations, including personnel decisions.¹⁵

As a result of this legal delineation of responsibilities, North Carolina ranks high among states in the share of funding provided from state funds. Nationwide, state funding averages 46 percent of total school revenue, compared to 62 percent in North Carolina, the 7th highest proportion in the country.¹⁶ North Carolina's high ranking along this measure relative to other states reflects the historical, and largely unique, school funding responsibilities legally placed on the state in North Carolina.

While the state is not responsible for capital funding, the state has occasionally issued bonds to support school construction.¹⁷ Additionally, a portion of revenue from the North Carolina Lottery, currently totaling \$100 million, supports school construction projects. North Carolina's school districts anticipate \$8.1 billion in facility needs over the next 5-year period.¹⁸

STATE RESPONSIBILITIES:

- Development of policies
- Technical Assistance
- Oversight/management of statewide resources

DISTRICT RESPONSIBILITIES:

- Resource allocation between schools
- Day-to-day operations
- Hiring of personnel

Where North Carolina Schools Get Their Funding

KEY HIGHLIGHTS

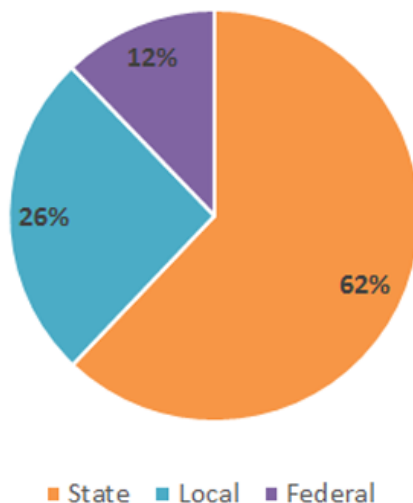
- Schools' primary funding comes from the state via a number of allotments, each with their own purpose, formulas, and spending restrictions.
- Local funding provides much greater flexibility, but differences in local funding levels can create inequities between districts.
- Federal funding only accounts for about 10 percent of funding, and it is driven by federal laws that provide little flexibility for state or local policymakers.

North Carolina's schools receive funding from three sources:

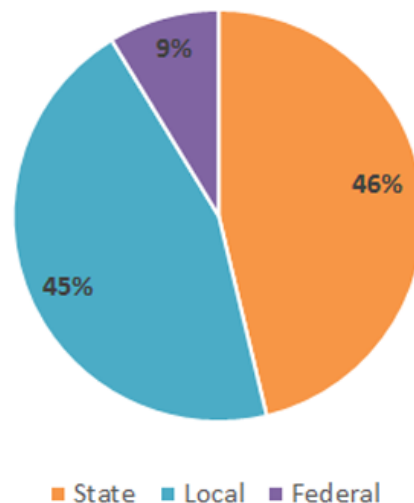
- **STATE FUNDING** is the primary source of funding for schools, historically accounting for about 65 percent of school district funding.
- **LOCAL FUNDING** includes appropriations from county governments, as well as private donations, comprising approximately 25 percent of funding.
- **FEDERAL FUNDING** accounts for about 10 percent of funding.

FIGURE 4: 2013-14 fiscal year revenues by fund source

North Carolina: Public School Revenue by Source of Funds



U.S. Average: Public School Revenue by Source of Funds



Source: U.S. Department of Education. Institute of Education Sciences, National Center for Education Statistics, *Digest of Education Statistics*, Table 235.20

State Funding: Revenues

State public school revenues in North Carolina fall into six categories.

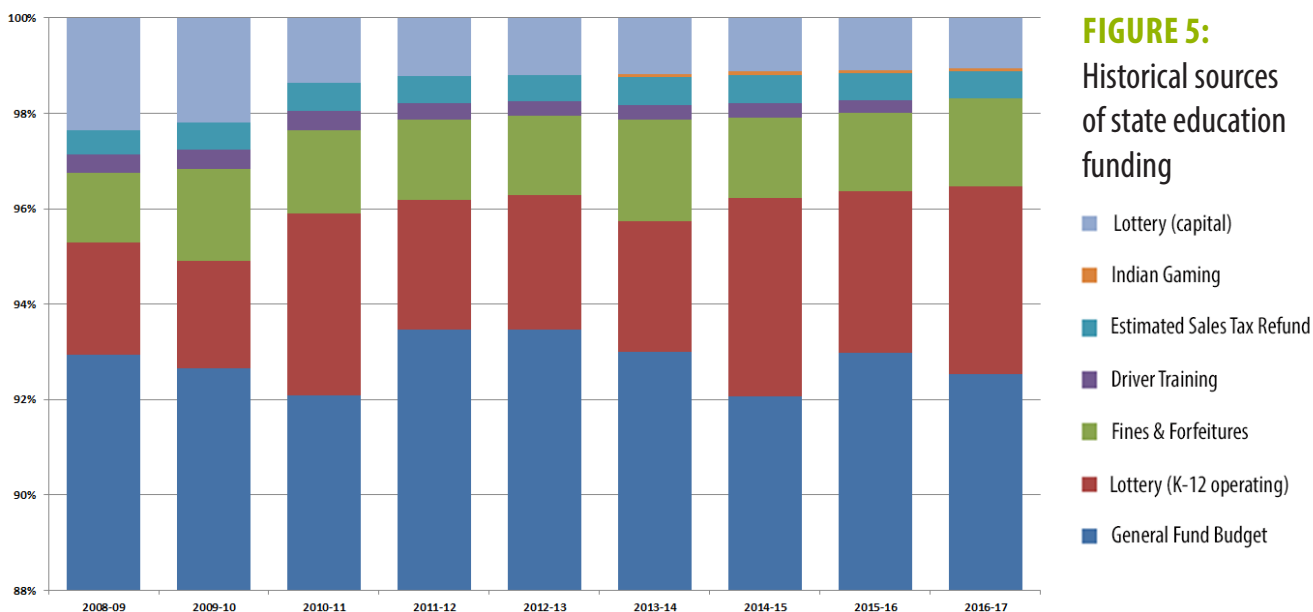
Unless taxes are earmarked for a specific purpose, they go into North Carolina's General Fund. General Funds come from general state tax collections and pay for many key services provided by the state, including K-12 education, colleges and universities, and corrections. For the 2016-17 fiscal year, N.C.'s General Fund comprises 93 percent of the total state support for public schools.

When taxes are earmarked for a specific purpose, they are designated as special funds. In North Carolina, special funds make up approximately 7 percent of the state revenue provided to public schools. Special funds supporting North Carolina's public schools include:

- **THE LOTTERY**, which in the 2016-17 fiscal year supports funding for non-instructional support (janitors, clerical, bus drivers, substitutes, etc.), NC PreK, and school capital, makes up just 5 percent of total state support for public schools
- **FINES AND FORFEITURES** are the proceeds of all civil penalties, civil forfeitures, and civil fines collected by state agencies, and support school technology and general school funding
- **ESTIMATED SALES TAX REFUND** is annually transferred from the Department of Revenue to the public schools budget to compensate for the elimination of the sales tax exemption for school districts.
- **INDIAN GAMING FUND**, established in the 2013-14 fiscal year, supports funding for school textbooks.

Together, state sources of funds provide approximately \$9.4 billion in funding for the 2016-17 fiscal year.

2016-17 state revenues supporting public schools	
General Fund	8,733,375,580
Lottery (operating)	372,266,860
Lottery (capital funding)	100,000,000
Fines & Forfeitures	173,735,408
Estimated Sales Tax Refund	52,853,965
Indian Gaming	6,000,000
Total State Support	9,438,231,813



WASN'T THE LOTTERY SUPPOSED TO FIX EVERYTHING?

The North Carolina Education Lottery generated substantial debate, controversy, and publicity when it was created. The 2005-06 fiscal year budget required that 35 percent of all Lottery revenue support education (including higher education).¹⁹ Of the amount supporting education:

- 50 percent was dedicated to paying for teachers to reduce class sizes and support prekindergarten programs
- 40 percent was directed to support school capital costs
- 10 percent originally funded college scholarships

Since the 2007-08 fiscal year, the Lottery has been allowed to send less than 35 percent of its revenues to education, so long as total revenues for education increase each year. Additionally, the programs and activities supported by Lottery funding have changed from year-to-year.

Lottery funding has had a limited impact on school operations for two reasons:

1. It's a small piece of total revenue: The amount of Lottery funds supporting education has increased from \$325 million to \$592 million over the past 10 years; however Lottery support for public schools is just 5 percent of overall state funding.

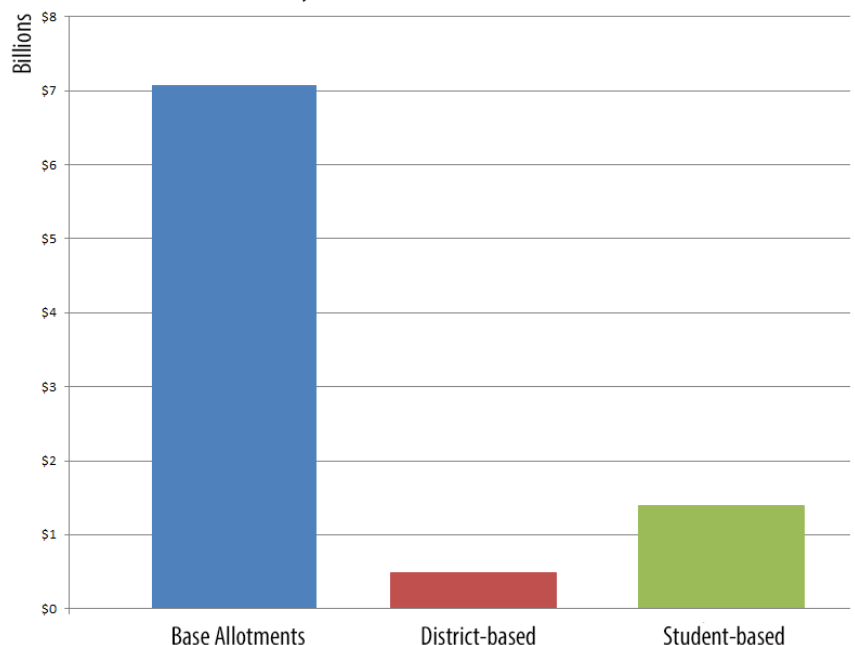
2. Has likely allowed funding to be diverted out of education: Initially, Lottery funds supported new programs (e.g., scholarships) and expanded existing initiatives (e.g., school capital and prekindergarten). However, much of the funding now supports activities that had previously been supported by General Fund spending. While it's impossible to measure precisely, this supplanting of General Fund monies with Lottery funds has allowed the General Assembly to shift General Funding outside of the education budget.

State funding: Types of allotments

North Carolina's school finance system is described as a "resource allocation model" where funding is provided to districts via several allotments. Each allotment has its own formula to distribute funds across districts. These allotments are intended to be used together to provide districts with a pool of resources to distribute across schools. Depending on how you count, there are between 19 and 37 allotments.²⁰

One way to categorize allotments is by function: whether they are providing base level support to all districts, or if they are meant to account for differences in student or district characteristics.

FIGURE 6: Allotments by function



Base Allotments	District-based	Student-based
<ul style="list-style-type: none"> • Provided to all districts equally, based on number of students • Examples: classroom teachers, textbooks 	<ul style="list-style-type: none"> • Provided to districts based on specific characteristics of the district • Examples: small county, low wealth 	<ul style="list-style-type: none"> • Provided to districts on the basis of specific types of students • Examples: limited English proficiency, children with disabilities

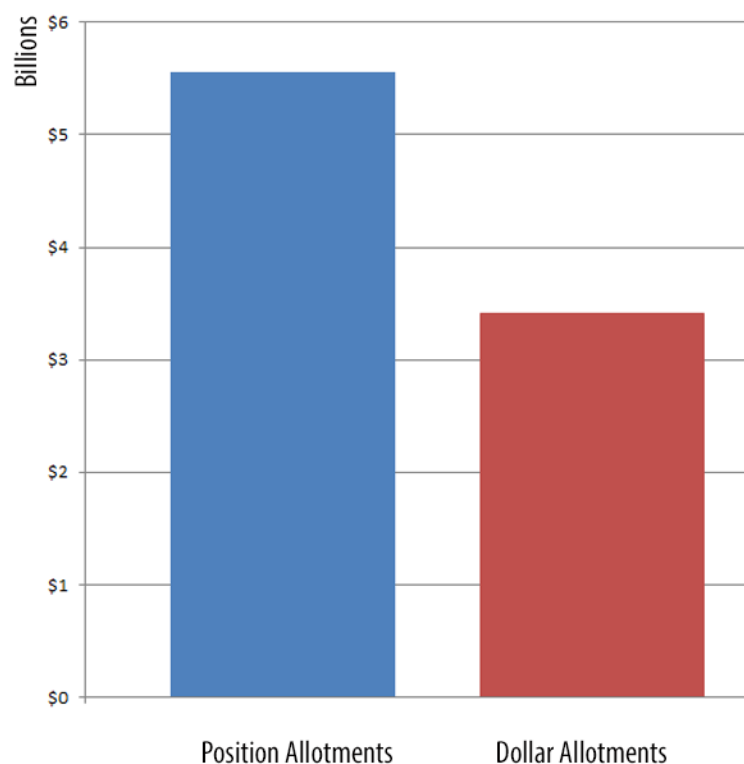
Alternatively, allotments can be categorized based on the manner in which they provide resources to districts. Dollar allotments provide districts a fixed pot of funds from which to spend funds. In contrast, position allotments provide districts with a given number of positions, with the state taking responsibility for paying the appropriate salary for the given position.²¹

Position Allotments	Dollar Allotments
<ul style="list-style-type: none"> • District provided a set number of positions or “months of employment • State guarantees to pay salaries and benefits of position based on state salary schedule • Example: classroom teachers 	<ul style="list-style-type: none"> • District provided a set dollar amount • District must manage budget to keep purchases within allotted funds • Example: teacher assistants

Classroom teachers, instructional support (nurses, librarians, counselors, instructional coaches, etc.), assistant principals, and principals are all provided to North Carolina districts via position allotments. The position allotment allows districts to hire the best candidates for such positions, without having to weigh salary considerations. A district deciding between a new teacher just out of college (state-mandated salary of \$35,000) and a teacher with 25 years of experience and National Board Certification (state-mandated salary of \$57,120) can choose between the two candidates based on their ability, rather than budgetary impact. Position allotments also eliminate barriers for teachers wanting to become National Board Certified. Such teachers receive a salary supplement of 12 percent of their salary. Districts might be reluctant to allow teachers to pursue certification if the additional cost was borne by local budgets.

The argument against position allotments

FIGURE 7: Allotments by type



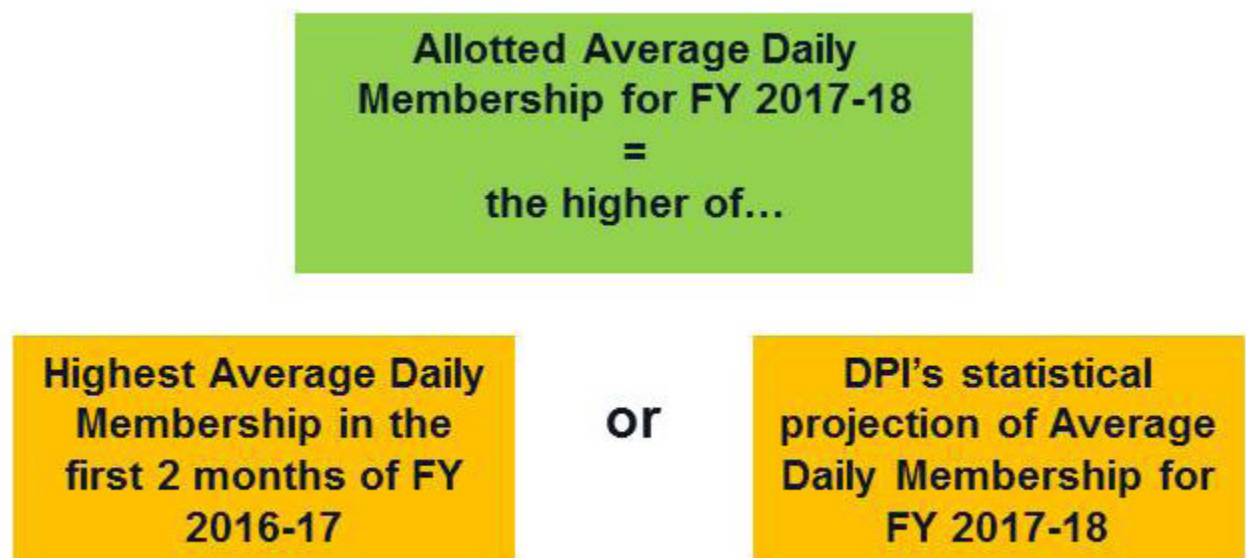
is that it can result in situations where more dollars are allocated to districts with less need. On average, wealthier districts in North Carolina tend to have more experienced teachers. On a dollars-per-student basis, position allotments can be seen as directing more funds to wealthy districts than poorer districts. It is important to note, however, that more experienced teachers are found in wealthy districts even in states that do not have position allotments. It is unclear which system – position allotments or dollar allotments – is optimal for directing high-quality teachers to the areas of greatest need.

For the 2016-17 fiscal year, approximately 62 percent of district funding is provided via position allotments. (See Figure 7 on previous page.)

State funding – average daily membership

In nearly every case, the allotment formulas are based on student headcount. Headcount is measured by average daily membership (ADM). ADM is the number of students enrolled each day divided by the number of days in the month.

A special calculation called allotted ADM is used for the purposes of budgeting. For the 2017-18 fiscal year, allotted ADM is calculated as follows:



Providing districts with a headcount that is the higher of current year or projected headcount helps provide stability, particularly to districts with declining student enrollment.

Major state allotments

The table on the next page summarizes the 10 largest allotments, which make up nearly 90 percent of all state funding distributed to school districts.

FIGURE 8: Summary of major state allotments

Allotments	FY 2016-17 Appropriation	Purpose	Function	Type	Notes
Classroom Teachers	3,197,688,365	Guaranteed funding for 10-month teacher positions	Base	Position	Not all teachers are funded via the classroom teachers allotment. The allotment accounts for about 80% of state-funded teachers and about 75% of all teachers.
Children with Special Needs	830,909,495	Supplemental funding for school-aged students with identified disabilities	Student-based	Dollar	
Transportation	455,273,039	Transportation to and from school: Bus drivers and other personnel, fuel, maintenance, contract transportation	Base	Dollar	
Teacher Assistants	381,005,685	Salary and benefits for teacher assistants	Base	Dollar	Schools can assign TAs to classrooms serving grades K-3.
Noninstructional Support Personnel	378,030,346	Salary and benefits for clerical, janitorial, substitute teachers, and other noninstructional personnel	Base	Dollar	Approximately 68% of state-funded noninstructional personnel and approximately 35% of all noninstructional personnel are funded from the noninstructional allotment
Instructional Support	366,452,787	Counselors, social workers, librarians, and other instructional support personnel	Base	Position	The allotment accounts for about 66% of state-funded institutional support positions, and about 46% of all positions.
Career & Technical Education Teachers	321,893,667	CTE teacher salary and benefits	Base	Position	Accounts for approximately 8% of state-funded teachers and about 7% of total teachers
At Risk Student Services	293,446,615	Supports a wide range of services directed towards at-risk students, including: Alternative instruction; Dropout prevention; School safety officers; summer school; After-school	Student-based	Dollar	
School Building Administration	244,415,646	Supports 12-month positions for principals, and months of employment for assistant principals	Base	Position	The allotment accounts for about 93% of state-funded SBA positions, and about 77% of all SBA positions
Low Wealth Supplemental Funding	220,728,722	Supplemental funding to LEAs located in counties that have below-state-average ability to generate local revenue to support public schools	LEA-based	Dollar	

Federal Funds

Federal funds account for approximately 10 percent of North Carolina's public school revenues. Both the funding formula and allowable uses of funds for these programs are prescribed by the federal government.

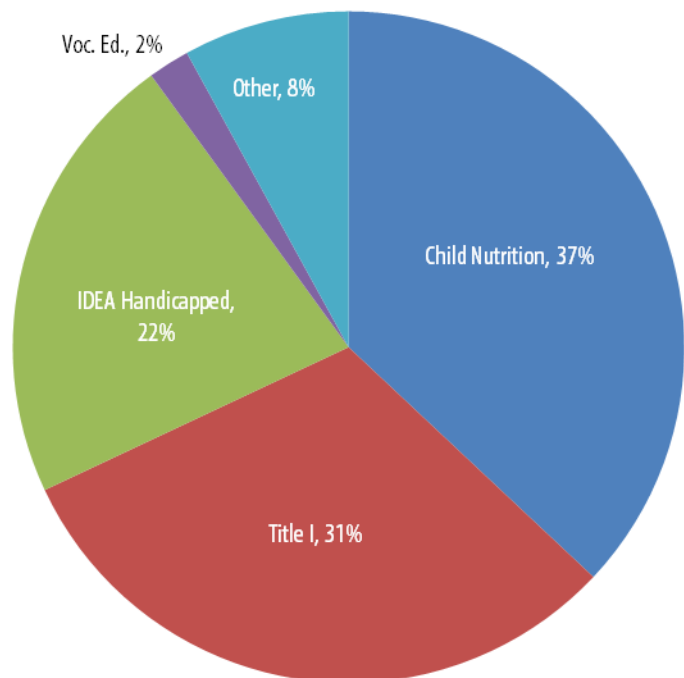
Federal funds include:

- **CHILD NUTRITION:** Funds for Child Nutrition support school breakfast and lunch programs, and are provided to school districts as reimbursements for the actual number of school meals served.

- **TITLE I:** Provides funding to help children from low-income families. Funding is distributed based on the number of children in poverty in each district, with additional amounts provided to districts with high concentrations of students in poverty, significant migrant students, and low-performing schools (via a competitive grant process).

- **IDEA HANDICAPPED:** Provides additional services to students with disabilities from pre-school through 12th grade. The majority of this funding is distributed to districts based on the number of children who are enrolled in public and private elementary and secondary schools, with additional weight given to the number children living in poverty.

FIGURE 9: Federal funds received, 2015-16 fiscal year



Local Funds

Local funds account for approximately 26 percent of total public school funding in North Carolina. Districts have considerable flexibility in how they use their local funds.

Of course, local funding varies dramatically between school districts in both amount and share of funds. In the 2015-16 fiscal year, students in Chapel Hill/Carrboro City Schools benefitted from a local allocation of \$5,710 per pupil. In contrast, Swain County students received only \$415 per student in local funding. Fifty percent of Chapel Hill/Carrboro City Schools' total spending in the 2015-16 fiscal year came from local sources, compared to just 8 percent in Robeson County.

Analysis from the Public School Forum of North Carolina indicates that disparities in local spending have been increasing in recent years, mostly as a result of the variation in property wealth across the state.²² State allotments, such as for low wealth and small counties, attempt to compensate for these differences. North Carolina is one of 18 states with a system that – on average – directs more resources to poor districts than rich districts.²³ Despite these efforts, local wealth allows certain individual districts to supplement their school districts to levels not afforded to most districts.

Charter Schools and Voucher Programs

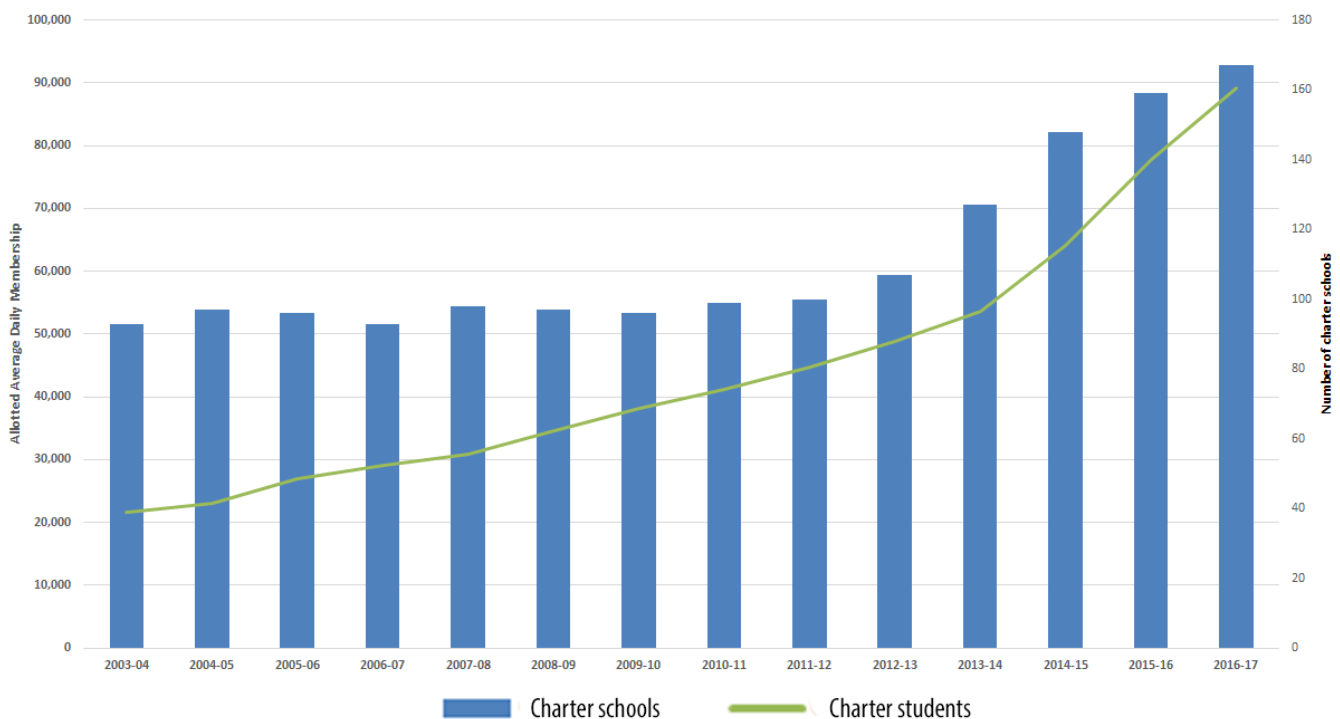
Charter schools

Charter schools have become an increasingly significant piece of North Carolina's public school system. Charter schools are public schools that are granted additional operating flexibility and are overseen by an independent non-profit board of directors, rather than by a locally elected school board.²⁴ For the 2016-17 fiscal year, there are 167 charter schools, enrolling nearly 90,000 students, or nearly 6 percent of all public school students. State funding for charters exceeds \$461 million.

KEY HIGHLIGHTS

- Charter schools receive state, local, and federal funds, largely on the basis of the average dollars budgeted for each student.
- North Carolina has two voucher programs providing eligible students with public funds to attend a private school.

FIGURE 10: Charter school enrollment history



Charter schools receive state, federal and local dollars, based on their ADM. For state funds, established charter schools receive the allotted dollars per student of the district in which the charter school is located, less the allotments for children with disabilities and limited English proficiency.²⁵ Charter schools are eligible to receive funding for children with disabilities and limited English proficiency based on the actual population of such students in their school. State funding for charter schools is provided to each school in one dollar allotment. For local funds, charters are provided the per pupil share of the district's county funding for operations. Charter schools receive federal funds according to the same formulas as school districts.

HOW CHARTER GROWTH IMPACTS DISTRICT FINANCES

Charter schools have an ambiguous impact on school district finances.

For school districts that might otherwise be experiencing rapidly increasing enrollments, charter schools may allow the district to avoid the need to construct new schools. For example, charter schools in the Charlotte-Mecklenburg Schools district enroll approximately 12,000 students. Charter school enrollments have undoubtedly allowed Charlotte-Mecklenburg to avoid substantial capital costs, had charters not existed.

On the other hand, charter schools can have a negative impact on district finances in certain instances, particularly in districts that are experiencing decreasing enrollment levels. Charter schools are essentially funded based on the average cost per student in the district. The district, of course, no longer has to educate a student who enrolls in a charter school, but certain overhead costs remain. In most instances, the lost funding (average cost per student) exceeds the realized savings (the marginal cost per student).

Additionally, districts that contain a number of rapidly growing charter schools often face budget uncertainty at the beginning of the year. Charter schools are funded (and district budgets are decreased) based on the anticipated enrollments in charter schools, as reported by the charter schools. If the charter schools have over-estimated enrollment – a frequent occurrence since many students apply to multiple charter schools – the district starts the school year with a budget that is below what would have otherwise been provided by the state. Subsequent budget adjustments restore the district budget based on actual enrollment levels, but might require the district to make personnel decisions later in the year than is normally optimal.²⁶

Voucher programs

Voucher programs provide state funding to the families of students who attend a private school. There are two voucher programs in North Carolina:

- **THE DISABILITIES GRANT PROGRAM** is available to disabled students, and it provides eligible students up to \$6,000 per year for tuition and other special education related services.
- **THE OPPORTUNITY SCHOLARSHIP PROGRAM** is available to students in families with a household income less than 246.05 percent of the federal poverty level with grants of up to \$4,200 per year for private school tuition.

In the 2016-17 fiscal year, 5,152 students have received an Opportunity Scholarship, while 828 students have received a Disabilities Grant.

Many people assume that voucher programs save the government money because the amount of the voucher is below what would normally be spent on that student in the public school system. Such programs can fail to save money, however, if they offer scholarships to students who would have attended a private school even without the voucher program. North Carolina's voucher programs are both available to early-grade students who may have attended a private school even without a voucher. While it is unclear whether the state is saving money on the Disabilities Grant Program, analysis of the Opportunity Scholarship Program shows that it fails to save any money.²⁷

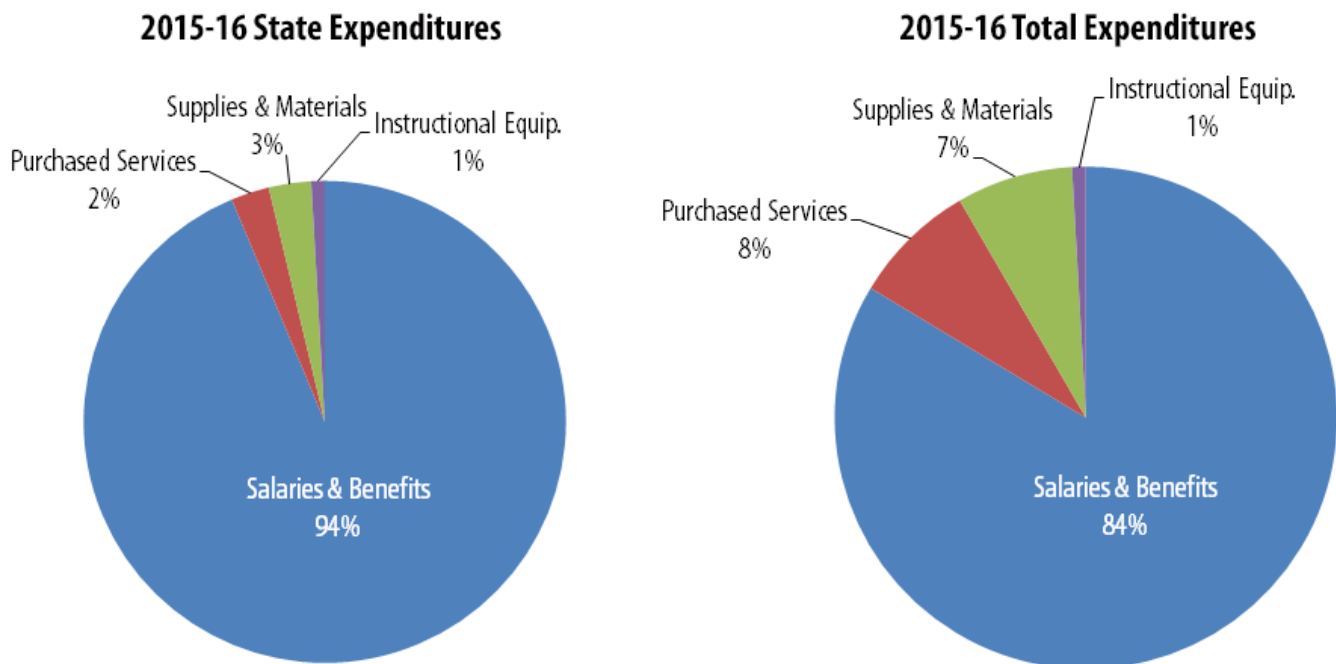
What is the Money Spent On?

Ultimately, what does all this money get spent on? For public schools, the answer is almost entirely one thing: people. Ninety-four percent of state expenditures and 84 percent of total expenditures goes toward salaries and benefits of school employees:

KEY HIGHLIGHTS

- Ninety-four percent of state expenditures goes toward people—salaries and benefits of school employees.

FIGURE 11: Expenditures in 2015-16



There are several implications to the education sector's overwhelming reliance on human labor. First, in times of budget tightening, it is nearly impossible to identify significant budget reductions that don't also result in the loss of jobs. Second, when examining school budgets over time, common measures of inflation such as the Consumer Price Index (CPI) underestimate the actual budget pressures faced by public schools. Traditional inflation indices measure price changes of the goods and services purchased by the average individual. As shown above, schools have different spending patterns, spending most of their money on college-educated professionals, such as teachers and principals. Wages and benefits for college-educated workers tend to rise faster than the cost of goods, which can often become cheaper due to technological advances. As a result, public schools face cost pressures above those reflected by traditional inflation measures.

It is also important to note the share of spending on school administration. For the 2015-16 fiscal year, state appropriations for the Department of Public Instruction (\$45,744,108) account for just 0.5 percent of state support for the public school system.

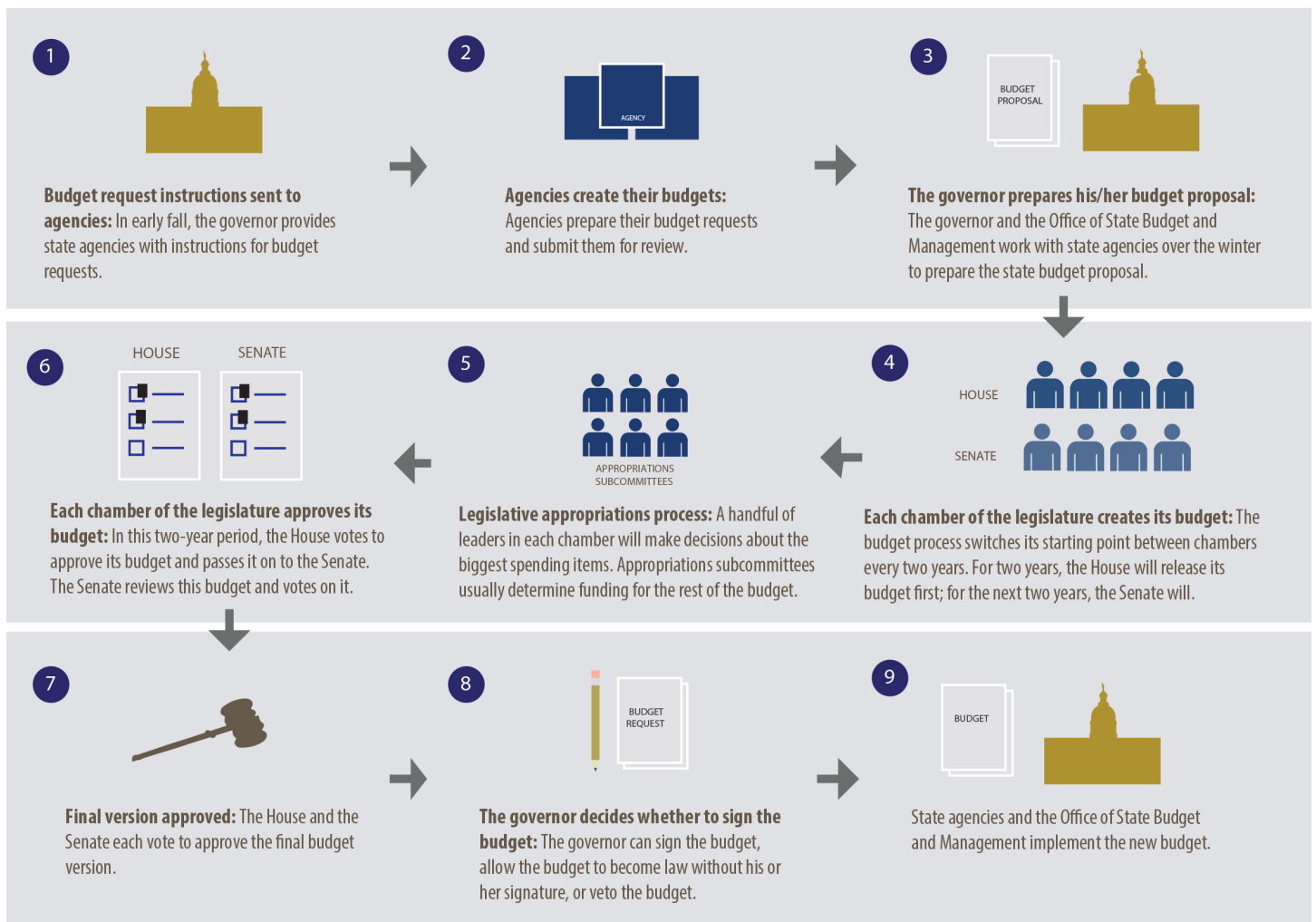
How N.C. Budgets are Created

State budgeting process

The products of each iteration of the budget include two documents:

- **THE BUDGET BILL** provides detailed guidance on how funds must be used, and often includes additional policy changes. Most allotment formulas can be found in budget bills, though not all allotment formulas are included in the budget. For some formulas, the language is re-stated and included in the budget in each two-year period. For other formulas, past budget language governs the formula. For still others, the formula is driven by State Board of Education policy.
- **THE COMMITTEE REPORT**, also referred to as “the money report,” details changes to state General Fund appropriations. Item descriptions, also referred to as “snappies,” arguably have the strength of law in determining how funds are used.

Steps Along North Carolina’s Budget Path



Local budgeting process

In most states, local school boards have taxing authority. In North Carolina, however, the counties are designated as the taxing authorities for districts. County funding supports funding for capital projects and supplements state and federal funding for operations.

The local budgeting process formally begins each year when the district superintendent presents a recommended budget to the district's school board. The superintendent's budget must be presented no later than May 1. The school board may then make changes to the budget. Such changes are generally discussed in public hearings, and must be submitted to the county commissioners by May 15. The county commissioners then must adopt a budget ordinance by July 1.

If the district believes that local funding is insufficient, the school board may sue the county government, triggering a lengthy dispute resolution process that can culminate in a hearing and judgment in court.

Trends in Funding

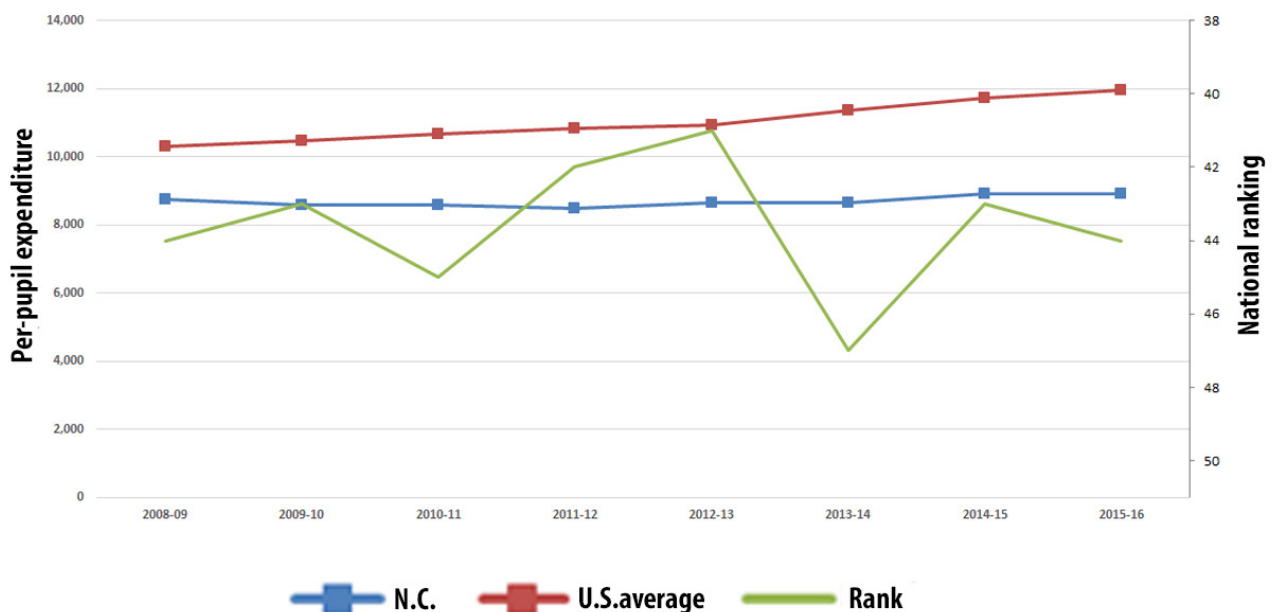
N.C.'s School Funding Trends

North Carolina's school finance system is relatively equitable, stable, and flexible, but is it adequate? That remains an open question, as the state has never conducted a rigorous adequacy study. An examination of recent funding trends, however, would indicate that adequacy most likely remains a problem for North Carolina's public schools.

KEY HIGHLIGHTS

- North Carolina's school funding continues to fall behind other states.
- Resources remain below pre-recession levels, with the number of teachers per student declining since the 2008-09 fiscal year.

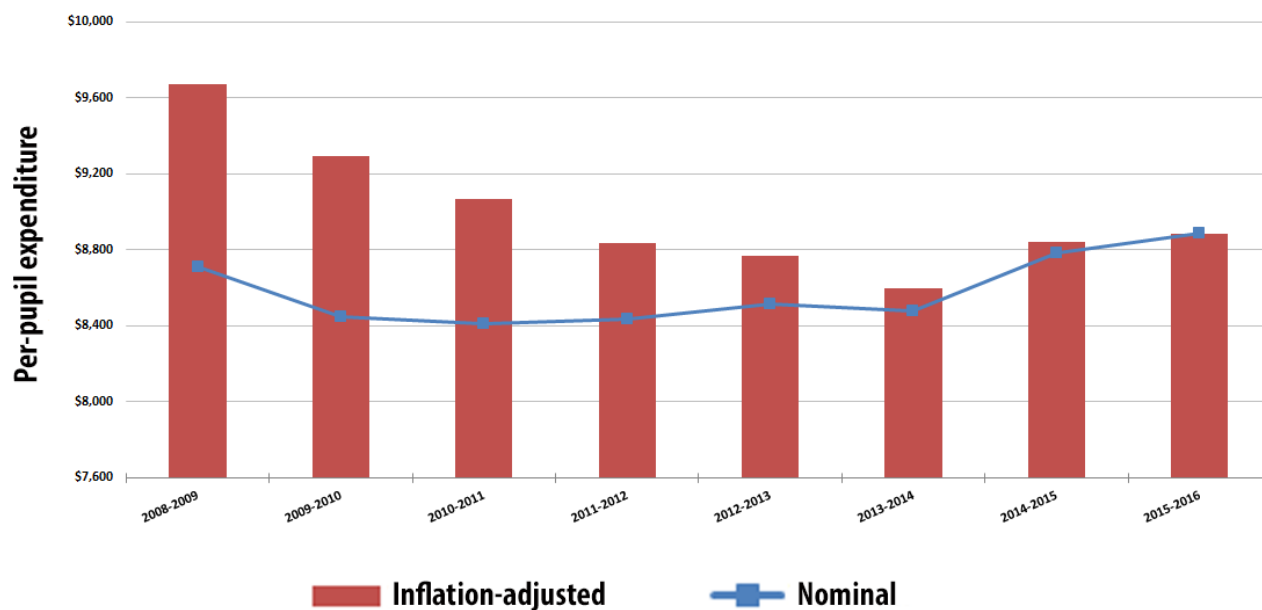
FIGURE 12: Per-pupil expenditure ranking



Before the onset of recession-induced budget cuts (2008-09 fiscal year), North Carolina's per pupil expenditures ranked 43rd in the nation and trailed the national average by \$1,552. According to the most recent national data for the 2015-16 fiscal year, North Carolina's ranking has fallen just one spot to 44th, but now trails the national average by \$3,182.²⁸ (Figure 12 on previous page.)

Since the 2008-09 fiscal year, total per-pupil expenditures have risen just over 2 percent. On an inflation-adjusted basis, however, total per-pupil expenditures are down over 8 percent since 2008-09.

FIGURE 13: Per-pupil expenditures, inflation-adjusted



As explained above, using common measures of inflation tends to understate schools' budget pressures due to schools' reliance on human capital. Figure 13 understates the extent to which public school budgets have been constrained in recent years.

An examination of school staffing trends highlights this point. Since the 2008-09 fiscal year, the number of personnel per student in North Carolina's traditional public schools has fallen 10.4 percent.²⁹ Compared to before the recession, North Carolina's traditional public schools have 6 percent fewer teachers and 31 percent fewer teacher assistants.

What You Can Do to Take Action

Armed with an understanding of North Carolina's school finance system, it is important to understand how citizens can take action to influence school funding decisions.

With most school funding coming from the state, modifications to state funding can have the greatest impact on schools.

- **FIND OUT** who your representatives and senators are. The North Carolina General Assembly website allows citizens to look up their members based on address.³⁰ On the website, you can find contact information for each member. General Assembly members often respond to constituents and are amenable to meeting constituents.

- **MONITOR OR ATTEND** committee meetings. Much of the budgeting process occurs through the House Education Appropriations and Senate Appropriations on Education / Higher Education committees. You can sign up for meeting notices on the North Carolina General Assembly website.^{31, 32} Committee meetings infrequently allow public comment, but members are generally open to being approached before or after a meeting for informal conversations. The most important budget meetings generally take place between April and July of each year.

- **ENGAGE** with major advocacy organizations. A number of advocacy organizations monitor and explain major legislative developments, and frequently organize actions. The NC Justice Center, Public Schools First NC, and the Public School Forum of North Carolina communicate frequently during session via mailing lists and social media.

- **FOLLOW** media outlets. NC Policy Watch, Education NC, the Raleigh News & Observer, and WUNC all cover state politics and frequently report on state education developments.

Locally, citizens can attend local school board meetings. All North Carolina school boards have websites announcing meetings.

Federal funding is the most difficult to influence, but is an important source of funding for schools serving students with disabilities and those from low-income families. Two North Carolina Representatives are members of the House Education & the Workforce committee: Rep. Virginia Foxx (NC-5, also the committee chairwoman) and Rep. Alma Adams (NC-12). On the Senate side, Sen. Richard Burr is a member of the Senate Committee on Health, Education, Labor & Pensions.

Where to Find More Information

- Additional details on allotment funding formulas can be found in the **ALLOTMENT POLICY MANUAL**, found here: <http://www.ncpublicschools.org/fbs/allotments/general/>
- Summaries of past budget bills can be found on the **NORTH CAROLINA GENERAL ASSEMBLY'S FISCAL RESEARCH DIVISION** website here: http://www.ncleg.net/FiscalResearch/budget_summaries/budget_summaries.html
- Links to the past budget legislation can be found on the **NORTH CAROLINA GENERAL ASSEMBLY's** website here: <http://www.ncleg.net/library/Documents/BudgetBillHistory.pdf>
- An annual summary of the North Carolina public schools budget can be found on the **DEPARTMENT OF PUBLIC INSTRUCTION's** website here: <http://www.ncpublicschools.org/fbs/resources/data/>
- Financial data on allotments can be found at the **DEPARTMENT OF PUBLIC INSTRUCTION's** website here: <http://bit.ly/DPIdata>

1. Julien Lafortune, Jesse Rothstein, Diane Whitmore Schanzenbach, "School Finance Reform and the Distribution of Student Achievement," NBER Working Paper No. 22011, February 2016, as found at: <http://www.nber.org/papers/w22011>
2. Baker, Bruce, *Does Money Matter in Education?* Second Edition, 2016, as found at: http://www.shankerinstitute.org/sites/shanker/files/moneymatters_edition2.pdf
3. Clotfelter, Hemelt, and Ladd, "School Personnel and Student Outcomes: The Role of Support Staff In North Carolina's Elementary and Middle Schools," February 2016, as found at: <https://aefpweb.org/sites/default/files/webform/41/CHL%20School%20Support%20Staff%20and%20Student%20Outcomes%202016-02-25.pdf>
4. Jackson, Johnson, and Persico, "The Effects of School Spending on Educational and Economic Outcomes: Evidence from School Finance Reforms," Institute for Policy Research, Northwestern University Working Paper Series, as found at: <http://www.ipr.northwestern.edu/publications/docs/workingpapers/2015/IPR-WP-15-19.pdf>
5. North Carolina State Constitution, Article IX, Section 2.
6. Charter schools are publicly-funded independent schools operating with additional policy flexibilities per the terms of a charter with the State Board of Education.
7. Picus Odden & Associates, as found at: <http://picusodden.com/equity-and-adequacy-definitions-and-measures/>
8. Augbenblick, Palaich & Associates, Inc., *Recommendations to Strengthen North Carolina's School Funding System*, September 2010, as found at: http://www.ncleg.net/documentsites/committees/JLSCPSFF/APA%20Final%20Report/APA_PSSFFFinalReport.pdf
9. Education Law Center, "Is School Funding Fair? A National Report Card, Sixth Edition (January 2017)," as found at: <http://www.schoolfundingfairness.org/is-school-funding-fair/reports>
10. Program Evaluation Division, "Allotment-Specific and System-Level Issues Adversely Affect North Carolina's Distribution of K-12 Resources," Report Number 2016-11, November 23, 2016, as found at: http://www.ncleg.net/PED/Reports/documents/K12/K12_Report.pdf
11. Augbenblick, Palaich & Associates, Inc., *ibid*.
12. The notable exceptions are that districts may not move state money into the central office allotment, and may not move money out of the teacher assistant allotment.
13. Justesen and Matthews, *Encyclopedia of North Carolina*, 2006, as found at: <http://www.ncpedia.org/public-education-part-4-expansion>
14. North Carolina General Statute, Section 115C-408.
15. While the majority of public school personnel are state-funded, they remain employees of the local school district rather than the state.
16. Digest of Education Statistics, Table 235.20. Revenues for public elementary and secondary schools, by source of funds and state or jurisdiction: 2013-14, as found at https://nces.ed.gov/programs/digest/d16/tables/dt16_235.20.asp?current=yes
17. North Carolina passed bonds to fund school capital in 1949, 1953, 1963, 1973, 1986, and 1996.
18. North Carolina Department of Public Instruction, "Statewide Facility Needs Survey 2015-16" as found 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)
19. Section 31.1 of S.L. 2005-276
20. Certain funding streams can be considered together with other streams, or separately. Additionally, certain streams that could also be described as competitive grants may or may not be defined as "allotments."
21. Most public school personnel, including teachers and principals, are paid according to a statewide salary schedule, which prescribes a minimum salary based on years of experience and other credentials.
22. Public School Forum of North Carolina "2016 Local School Finance Study." As found at: https://www.ncforum.org/wp-content/uploads/2016/04/PSF_LocalSchoolFinanceStudy_2016.pdf
23. Education Law Center, "Is School Funding Fair? A National Report Card, Sixth Edition (January 2017)," as found at: <http://www.schoolfundingfairness.org/is-school-funding-fair/reports>
24. Major operational flexibilities for charter schools include not having to pay personnel according to state salary schedules or adhere to class-size limits in grades K-3. Additionally, charter schools have calendar flexibility and only 50 percent of their teachers must be licensed.
25. For new charters, state dollars are based on the district of residence of enrolling students.
26. See, for example, Charlotte Observer, "Charlotte-area charter school enrollment falls well below projections" November 10, 2014, as found at: <http://www.charlotteobserver.com/news/local/education/article9230489.html>
27. Nordstrom, Kristopher, "Senate budget's Section 11A.3's changes to Opportunity Scholarship Program would cost state millions," June 2016, as found at: <http://www.ncjustice.org/?q=education/education-policy-perspectives-senate-budgets-section-11a3s-changes-opportunity-scholarship>
28. National Education Association, *Rankings of States and Estimates of School Statistics*, tables H-9 (FY 08-09 through FY 13-14), H-11 (FY 14-15), and Summary Table K (FY 15-16), as found at: <http://www.nea.org/home/44479.htm>
29. Data only covers traditional public schools, as there is no data on charter school personnel prior to FY 09-10.
30. See: <http://www.ncleg.net/representation/WhoRepresentsMe.aspx>
31. House committee notifications can be found here: <http://www.ncleg.net/gascripts/Committees/Committees.asp?sAction=ViewDLForm&sActionDetails=House%20Standing>
32. Senate Committee notifications can be found here: <http://www.ncleg.net/gascripts/Committees/Committees.asp?sAction=ViewDLForm&sActionDetails=Senate%20Standing>



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