WHITEPAPER
Public School Financing in North Carolina
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In North Carolina, public school financing is the responsibility of the state and local governments. In general, the state is responsible for funding public school instructional expenses, while counties are responsible for school capital needs. However, local governments can use local tax money to supplement what the state provides for operational expenses. Additionally, the state funds the costs for school transportation (i.e. maintenance, fuel, drivers and bus replacement). The state uses the following sources to cover public school operational expenses:

1. State Revenue Resources (North Carolina General Statute 115C-408(b)**)** – Covers the instructional expenses (i.e. teacher salaries, curriculum, administrative support, etc.) for current operations of public schools across the state. Allocations to counties are based on the average daily membership and salary schedules for personnel employed in state-allocated positions by the local school board. The state uses an operational efficiency formula to fund pupil transportation expenses.
2. Supplemental– There is a limited state fund allocated to low wealth school districts.
3. Title I Funds – These are federal funds, allocated through the state, to counties for instructional expenses. The allocation is based on the number of economically disadvantaged students.
4. Exceptional Children Funding – These allocations are based on the number of students with special needs in each county. But that number is capped, so usually this funding does not cover 100 percent of the mandated services and must be supplemented with county funding.
5. Education Lottery Fund - These funds support school construction, the reduction in classroom sizes, and academic pre-kindergarten programs. 50% of net state lottery revenues were allocated to schools for purposes other than school construction. Due to budget challenges, the state approved the redirection of a portion of the lottery construction funds to fund teacher positions. This "redirection" applies to the current (2010-2011) fiscal year.

North Carolina General Statute 115C-408(b) indicates that the facility requirements, including construction, maintenance, utilities, and other facility operational costs, for the public education system will be met by county governments. Although school construction and maintenance is the responsibility of local governments by statute, the state also has the ability to issue state general obligation bonds in order to finance school construction needs across the state. However, this does not occur very often. The most recent general obligation bond passed by the state was under the Public School Bond Act of 1996.

Each county in North Carolina has a school administrative unit, commonly referred to as a Local Education Agency (LEA), where its schools are under the general supervision and control of a local board of education. Under North Carolina law, a local board of education does not have the authority to levy taxes and has very limited authority to borrow money. The board of education therefore relies on its respective board of county commissioners to take such financial actions as are necessary to support school facility needs and other capital requirements. The fiscal mechanisms that boards of county commissioners may use to support school facility requirements within their respective counties include:

1. Tax Levying Authority – In accordance with North Carolina General Statute 153A-149(b)(7), counties may levy property taxes to provide the county's share of the cost for kindergarten, elementary and secondary public education. In North Carolina, county commissioners do not have the authority to levy sales taxes or income taxes. That authority is reserved to the state legislature. Raising the property tax rate is the only significant option available to the county boards of commissioners if they need to increase revenue. Property taxes can be used for any lawful purpose, including facility construction. But given that this is the only source of revenue controlled by the county, there is also a lot of competition for those funds to meet other county needs such as law enforcement, health services, and various other programs.
2. Sales and Use Tax–These are implemented and collected by the state and then allocated to each county based on population, (as opposed to point of collection). Counties may use these revenues for school construction.
3. Voter-Approved Supplemental Property Taxes
4. General Obligation Bond Issuance – This option requires voter approval and usually, an additional tax levy.
5. Installment Financing Agreements - Also referred to as a lease purchase agreement, where the borrower secures the loan by the financed asset.
6. Certificates of Participation (COPs) – Another form of installment financing agreement, where the COP entitles bond holders to a share in the periodic payments made by the government under the installment financing agreement. Counties are only allowed to borrow up to a certain percentage of their property tax revenue.
7. Proceeds from the Sale of Capital Assets
8. Cash
9. Qualified School Construction Bonds (QSCB) Program - Established as part of the 2009 American Recovery and Reinvestment Act. QSCBs can be used to finance the construction, rehabilitation or repair of a public school facility or for the acquisition of land where a school will be built.
10. USDA Loans – US Department of Agriculture provides low interest loans for school construction. This is dependent upon application criteria and funding availability.
11. Education Lottery Fund – The state allocates 40% of the net lottery proceeds to support the Public School Capital Building Fund. That fund has an allocation formula that distributes to each county their share of the funding.
12. The State Board of Education also manages the State Literary Fund, which is a small permanent loan fund for local school units. The fund makes loans for 10 years at a rate of interest not to exceed 8% per year.

Any loans that a county wishes to pursue for amounts exceeding $500,000 or loans that are financed for more than 59 months must be approved by the NC Local Government Commission. This state requirement is to ensure that counties do not incur more debt than can be financially supported. Since virtually every option for acquiring additional school facility funding involves loans or other debt obligations that will have to be supported by increased property taxes; it should be noted that the average property tax rate for the counties in the Fort Bragg region is already 22 percent above the state average.