



## School Construction/Capital Issue Brief

### Background

According to the Statewide Facility Needs Survey 2015-16<sup>1</sup>, North Carolina's 115 LEAs had combined five-year needs of over \$8.1 billion. The report noted that every LEA had at least \$1 million in facility needs and that eleven LEAs each had facility needs in excess of \$200 million. However, this survey underestimates school capital needs for the following reasons:

- An analysis of the capital needs of nine LEAs by MGT of America Consulting, LLC found that the actual cost to construct or renovate school facilities is 2.2 times the amount reported in the Facility Needs Survey.<sup>2</sup>
- The estimate predates the changes made in 2016 to K-3 class sizes (revised in 2018) that will require some LEAs to build additional classrooms to conform with the law.
- Eight LEAs did not respond to the survey and two reported no capital needs<sup>3</sup>

The North Carolina Constitution states that “the General Assembly shall provide by taxation and otherwise for a general and uniform system of free public schools”<sup>4</sup> and that the “governing boards of units of local government with financial responsibility for public education may use local revenues to add to or supplement any public school or post-secondary school program”.<sup>5</sup> The General Assembly assigned the State primary responsibility for “the instructional expenses for current operations of the public school system” while localities were made responsible for school capital needs.<sup>6</sup> While this statute sets the general policy, the lines of responsibility for school funding have become blurred. For the 2017-18 school year, counties appropriated \$3,044,836,739 for education current expense<sup>7</sup>, an amount equal to 26% of the total operating cost of public schools.<sup>8</sup> Despite the statutory language, the State has provided various types of support to localities for school capital needs.

**Statewide Bonds:** Five statewide bonds for school construction were approved between 1949 and 1996: 1949 (\$25 million, plus a \$25 million appropriation); 1953 (\$50 million); 1963 (\$100 million); 1973 (\$300 million); and 1996 (\$1.8 billion). It has now been two decades since a statewide bond has been approved to assist counties with school capital needs. The \$1.8 billion bond in 1996 is worth \$2.86 billion in 2018 dollars.<sup>9</sup>

**Public School Building Capital Fund (PSBCF):** In 1987, as rapid population growth and sluggish economic growth put new financial pressures on counties, the General Assembly created the Public School Building Capital Fund (PSBCF) to provide State assistance for school capital. Funds for the PSBCF came primarily from a portion of North Carolina corporate income tax revenues. Approximately 7% (later, 7.25%) of corporate income tax revenues received by the State were transferred to the PSBCF. These funds were then allotted to the counties for projects based on average daily membership (ADM) numbers with a required local match. This corporate income tax diversion secured \$40 - \$80 million per year. This tax earmark ended in 2009 when the General Assembly began searching for additional revenue during the Great Recession.

**Education Lottery:** The North Carolina Education Lottery provided a new revenue stream for public school construction needs when it first started operating in 2006. Initially 40% of the lottery proceeds for education were dedicated to the PSBCF (with the rest going to K-3 class size reduction, More at Four, and university scholarships). In 2010, the General Assembly began carving out exceptions to the statutory lottery allocation requirements, diverting lottery funds away from

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<sup>1</sup> Statewide Facility Needs Survey 2015-16, North Carolina Department of Public Instruction & State Board of Education

<sup>2</sup> Public School Construction Needs Survey and Recommendations for Funding Options for Selected Districts, Final Report April 2017, MGT of America Consulting, LLC

<sup>3</sup> Statewide Facility Needs Survey 2015-16, North Carolina Department of Public Instruction & State Board of Education

<sup>4</sup> N.C. Constitution Article IX, Section 2(1)

<sup>5</sup> N.C. Constitution Article IX, Section 2(2)

<sup>6</sup> G.S. 115C-408(b)

<sup>7</sup> Statistical Profile, Table 30; North Carolina Department of Public Instruction & State Board of Education

<sup>8</sup> Highlights of the NC Public School Budget, NC Department of Public Instruction

<sup>9</sup> CPI Inflation Calculator, U.S. Department of Labor, Bureau of Labor Statistics

the PSBCF to supplant other areas of the budget. This was done by setting a flat \$100 million appropriation from the lottery for school capital, even as total available lottery proceeds increased. The portion of lottery dollars going to school construction steadily declined to 16.9% by 2016-17.

In the 2017 Appropriations Act, the General Assembly declared its intent to raise total lottery revenue dedicated to school construction back to 40% by 2028-29.<sup>10</sup> The increased lottery funding would be granted to economically distressed Tier I and II counties through a new Needs-Based Public School Capital Fund. The Superintendent of Public Instruction awarded \$30 million in grants in 2017-18 and \$141.5 million in 2018-19. The \$100 million in lottery capital funding distributed to all counties has not changed.

**Local Options:** The General Assembly has also provided localities with some discretionary tax options for generating additional revenue to support local school building capital needs. Counties were given the authority in 1983, subject to approval through a local ballot initiative, to levy an additional ½ percent sales and use tax, with 30% of the resulting proceeds directed to fund local school construction (Article 40 local option sales tax).<sup>11</sup> In 1986, the Article 42 local option sales tax was enacted to authorize those counties who already had approved a local option sales tax to levy an another ½ percent sales and use tax with the stipulation that 60% of those resulting proceeds go towards local school construction.<sup>12</sup> In 2007, an additional ¼ percent local option sales tax was enacted (Article 46) with the restriction that a county must have approved the Article 39 (original 1 percent local sales tax), 40, and 42 local sales taxes before it could put this tax on the ballot.<sup>13</sup> As of November 2018, all counties had approved Article 39, 40, and 42 sales taxes, but only 41 counties have approved Article 46 sales taxes.<sup>14</sup>

## **NCSBA Position**

Having an environment that promotes learning is strongly linked to student outcomes and is a vital part of student achievement. However, school systems continue to have dire budgetary challenges in making capital improvements for buildings and infrastructure. While the NCSBA thanks the General Assembly for its commitment to restoring the lottery capital funding to 40%, the legislature needs to develop additional methods to assist school districts in handling the staggering construction backlog.

NCSBA believes the best way to help districts is through a two-pronged approach:

- A significant one-time infusion of dollars in the form of a statewide bond.
- A dedicated funding stream for school construction from local option sales taxes.

**Statewide Bond Initiative:** NCSBA supports a statewide general obligation bond for school construction to be placed on the ballot no later than March 2020 (presidential primary). This bond would be distributed to all LEAs based on a formula.

**Local Option Sales Taxes:** NCSBA also supports enactment of additional local option sales taxes in which the proceeds would be dedicated to school construction. This would facilitate strong discussion within the community regarding local public school facility needs and allow local governments to tailor a solution to the community's needs and circumstances.

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<sup>10</sup> S.L. 2017-57, Section 5.3

<sup>11</sup> G.S. 105-487

<sup>12</sup> G.S. 105-502

<sup>13</sup> G.S. 105-537

<sup>14</sup> Fiscal Research Division, NC General Assembly ([www.ncleg.gov/FiscalResearch/statistics\\_and\\_data](http://www.ncleg.gov/FiscalResearch/statistics_and_data))