



Issue Brief: School Capital **(New Construction, Additions, Repairs & Renovations)**

Studies show that having an environment that promotes learning is strongly linked to student outcomes and is a vital part of student achievement. **DPI's most recent five-year K-12 school construction report found that capital needs among North Carolina's school districts ballooned to nearly \$13B, a 53% increase from the previous report.**¹ Over the past five years the State has provided roughly 16% of the needed capital funds identified in the most recent report. The fact is that most counties don't have the tax base to fund a local school construction bond.

NCSBA Position & Recommendations

The General Assembly assigned the State the primary responsibility of “instructional expenses for current operations of the public school system” while counties were made responsible for school capital needs. While the State is supposedly in charge of school current expense funding, the lines of responsibility for school funding have become blurred. For the 2023-2024 school year, counties and city school districts spent \$4.171 billion for education current expense expenditures, an amount equal to 23% of the total operating cost of public schools. In the school year, the local per pupil expenditure for current expenses equaled \$3,057. If LEAs did not need to supplement State appropriations for current operating needs, this funding could be used to reduce the backlog of capital needs. **NCSBA recommends that the General Assembly continue to increase funding for new school construction, additions, and repairs and renovations.**

Background

The Statewide Facility Needs Survey, completed in 2021, documented that North Carolina's 115 LEAs had combined five-year construction needs of over \$13 billion. Notably, compared to the Facility Needs Survey of 2015-16, there was an increase of 73% in the need for *new schools* in the most recent survey. Yet, this survey still underestimates school capital needs not only because it is now four years old, but also because an analysis of the capital needs of nine LEAs by MGT of America Consulting in 2017 found that the actual cost to construct or renovate school

¹ Five-Year K-12 Facility Needs Report, 2020-21 Facility Needs Survey, Department of Public Instruction, September 1, 2021.

facilities is 2.2 times the amount reported in the past Facility Needs Survey.² This reveals that the actual estimated cost to fund current school capital needs is likely higher than recorded and some districts do not have the staff or resources to obtain more accurate facility estimates.

Local Capital Funding: From 2013 to 2023, local governments spent \$10.9 billion on school construction, with \$1.5 billion spent in 2022-2023. Part of this spending came from local option sales tax revenues dedicated for capital outlay purposes. Another source of construction funding is from local bond referenda. In 2022, 7 NC counties approved \$3.08 billion in local bond referenda to fund new K-12 public school construction and improvements to existing facilities. Of the 7 counties that approved school bonds, they were all Economic Tier III counties. No Tier I counties, the poorest counties in the State, have passed a school bond in the last decade.

Public School Building Capital Fund: In 1987, as rapid population growth and slow 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. From 1987 to 2009, the PSBCF was funded primarily from a portion of North Carolina corporate income tax revenues. With the creation of the North Carolina Education Lottery in 2006, the PSBCF transitioned to this new funding source. 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 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. This \$100 million appropriation remains in place today.

Needs-Based Public School Capital Fund: Despite the statutory language stating that school capital is a local responsibility, the State has provided various types of support to localities for school capital needs. In the 2017 Appropriations Act, the General Assembly declared its intent to raise total lottery revenue dedicated to school construction back to 40% by 2028-2029. In fiscal year 2023-24 the actual percentage of lottery revenue that went to education funding was 20.3%, totaling just over \$1 billion.³ Even if the State were to reach its 40% funding goal, the majority

² Public School Construction Needs Survey and Recommendations for Funding Options for Selected Districts, MGT of America Consulting, LLC, April 2017.

³ State of North Carolina Financial Highlights, FY 2023-2024, North Carolina Office of the State Controller (OSC).

of those funds would not go into the PSBCF but would be granted to economically distressed Tier I and II counties through the Needs-Based Public School Capital Fund. In 2024, the Department of Public Instruction received 122 applications totaling \$1.78 billion in requested NBPSC funding, and the Superintendent of Public Instruction announced that they awarded \$368 million in grants to 7 LEAs.⁴ This additional funding for selected districts is a huge boost for their capital programs, but it comes at a cost. If a district accepts a needs-based grant, it must give up its annual allotment from the PSBCF for five years. These funds have been used for debt service payments and capital improvements such as roof replacements, ADA compliance projects, and HVAC replacements. Notably, in a 2024 report to the General Assembly on carbon monoxide and radon gas testing in schools, the Department of Public Instruction found that most classrooms in existing surveyed school buildings do not contain carbon monoxide alarms or radon gas systems. The estimated cost to address systems and testing statewide would be nearly \$53 million.⁵

⁴ “\$368 Million Awarded in Needs-Based School Construction Grants,” Department of Public Instruction Press Release, October 9, 2024.

⁵ Carbon Monoxide Alarm Systems and Radon Gas Testing in Schools, FY 2023-2024 Statewide Survey, Department of Public Instruction, January 31, 2025.