



School Construction/Capital Issue Brief

Background

The Statewide Facility Needs Survey completed in 2015-2016, documented that North Carolina's 115 LEAs had combined five-year construction needs of over \$8.1 billion.¹ This survey underestimates school capital needs not only because it is five years old, but also because the survey has the following deficiencies:

- The estimate predated 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.
- 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.² This reveals that some districts do not have the staff or resources to obtain more accurate facility estimates.

The 2020 Statewide Facility Needs Survey will be completed by the Department of Public Instruction (DPI) in May 2021.

School Spending Responsibility

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”³ 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”.⁴ 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.⁵

Local Capital Funding: From 2010 to 2019, local governments spent \$6.7 billion on school construction, with \$976.1 million spent in fiscal year 2018-2019.⁶ Part of this spending came from local option sales tax revenues (Articles 40 & 42) dedicated for capital outlay purposes. In fiscal year 2018-2019, these dedicated sales taxes provided \$693.4 million for school construction.⁷ Another source of construction funding is from local bond referenda. Eighteen counties raised \$4.55 billion from local bond referenda from 2010 to 2019.⁸ Of the 18 counties that approved school bonds, seven were Economic Tier II counties and eleven were Tier III counties. No Tier I counties, the poorest counties in the State, passed a school bond in the last decade.

Local Current Expense Funding: While the State is supposedly in charge of school current expense funding, the lines of responsibility for school funding have become blurred. For the 2019-2020 school year, counties and city school districts spent \$3.27 billion for education current expense⁹, an amount equal to 23% of the total operating cost of public schools. In the 2019-2020 school year, the local per pupil expenditure for current

¹ Statewide Facility Needs Survey 2015-16, North Carolina Department of Public Instruction, School Planning Section

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

³ N.C. Constitution Article IX, Section 2(1)

⁴ N.C. Constitution Article IX, Section 2(2)

⁵ G.S. 115C-408(b)

⁶ Statistical Profile, Table 28, North Carolina Department of Public Instruction & State Board of Education

⁷ Certification of Amounts Disbursed During the 12-month period ending June 30, 2019, North Carolina Department of Revenue

⁸ Local Bond Issues for Schools Since 1995, North Carolina Department of Public Instruction, School Planning Section

⁹ Statistical Profile, Table 22, North Carolina Department of Public Instruction & State Board of Education

expenses equaled \$2,320.¹⁰ 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.

State School Capital: 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.

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 more than 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 \$3.03 billion in 2020 dollars.¹¹) According to the State Treasurer, the State has the debt capacity for additional borrowing. The State Treasurer's Debt Affordability Advisory Committee estimated in 2020 that the State General Fund has the debt capacity for \$1.1 billion in bonds for each of the next 10 years.¹²

Public School Building Capital Fund: 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. 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. The portion of lottery dollars going to school construction steadily declined to 16.9% by 2016-2017. The flat \$100 million appropriation remains in effect.

Needs-Based Public School Capital Fund: In the 2017 Appropriations Act, the General Assembly declared its intent to raise total lottery revenue dedicated to school construction back to 40% by 2028-2029.¹³ However, the increased lottery funding would not go into the PSBCF but will be granted to economically distressed Tier I and II counties through a new Needs-Based Public School Capital Fund. From fiscal year 2017-2018 to fiscal year 2020-2021, the Superintendent of Public Instruction has awarded \$358.7 million in grants to 31 LEAs. 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.¹⁴ As of January 1, 2021, the 31 LEAs that have received needs-based grants will give up \$14.8 million in PSBCF funding in fiscal year 2021-2022.

NCSBA Position

Having an environment that promotes learning is strongly linked to student outcomes and is a vital part of student achievement. A review of data on school building construction dates from DPI in 2019 found that 48.6% of the State's public schools were over 50 years old.¹⁵ School systems' dire budgetary challenges prevent them from addressing the capital improvements needed for their aging buildings and infrastructure. The State should

¹⁰ Statistical Profile, Table 23, North Carolina Department of Public Instruction & State Board of Education

¹¹ CPI Inflation Calculator, U.S. Department of Labor, Bureau of Labor Statistics

¹² Debt Affordability Study, February 1, 2020, Debt Affordability Advisory Committee, Department of State Treasurer

¹³ S.L. 2017-57, Section 5.3

¹⁴ Public School Building Capital Fund – Monthly Projects Report, Department of Public Instruction, School Planning Section

¹⁵ Fact Check: Just How Old Are the Buildings for North Carolina's Public Schools?, March 5, 2019, Bill McCarthy, Raleigh News and Observer

continue its historical assistance to local governments to address school capital needs. With bond interest rates at historically low levels, now is the time for the State to invest in our children's future.

Statewide Bond Initiative: NCSBA supports a statewide general obligation bond for school construction to be placed on the ballot at the next statewide election. This bond would be distributed to all LEAs based on a formula.

Needs-Based Lottery Funds: NCSBA seeks the repeal of G.S. 115C-546.2(f) to restore annual PSBCF payments to needs-based grant recipients. One-time grants are a great boost to a district's capital program, but the annual maintenance of the physical plant is ongoing.