

GENERAL ASSEMBLY OF NORTH CAROLINA  
SESSION 2017

**H.B. 1031**  
**May 29, 2018**  
**HOUSE PRINCIPAL CLERK**

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HOUSE BILL DRH30459-MTz-146\*

Short Title: Local Ed. Funding Dispute Process. (Public)

Sponsors: Representatives Horn, Hurley, and Lucas (Primary Sponsors).

Referred to:

1 A BILL TO BE ENTITLED  
2 AN ACT REPEALING THE STATUTORY AUTHORITY FOR A LOCAL BOARD OF  
3 EDUCATION TO FILE A LEGAL ACTION CHALLENGING THE SUFFICIENCY OF  
4 THE FUNDS APPROPRIATED BY THE BOARD OF COUNTY COMMISSIONERS,  
5 PROVIDING A FORMULA FOR DETERMINING THE AMOUNT OF FUNDS TO BE  
6 APPROPRIATED IN THE EVENT A BUDGET DISPUTE CANNOT BE RESOLVED BY  
7 MEDIATION, AND ESTABLISHING A WORKING GROUP TO ADDRESS FUND  
8 BALANCES MAINTAINED BY LOCAL BOARDS OF EDUCATION, AS  
9 RECOMMENDED BY THE JOINT LEGISLATIVE PROGRAM EVALUATION  
10 OVERSIGHT COMMITTEE.

11 The General Assembly of North Carolina enacts:

12 SECTION 1. G.S. 115C-431 reads as rewritten:  
13 "§ 115C-431. Procedure for resolution of dispute between board of education and board of  
14 county commissioners.

15 (a) If the board of education determines that the amount of money appropriated to the  
16 local current expense fund, or the capital outlay fund, or both, by the board of county  
17 commissioners is not sufficient to support a system of free public schools, the chairman of the  
18 board of education and the chairman of the board of county commissioners shall arrange a joint  
19 meeting of the two boards to be held within seven days after the day of the county commissioners'  
20 decision on the school appropriations.

21 Prior to the joint meeting, the Senior Resident Superior Court Judge shall appoint a mediator  
22 unless the boards agree to jointly select a mediator. The mediator shall preside at the joint meeting  
23 and shall act as a neutral facilitator of disclosures of factual information, statements of positions  
24 and contentions, and efforts to negotiate an agreement settling the boards' differences.

25 At the joint meeting, the entire school budget shall be considered carefully and judiciously,  
26 and the two boards shall make a good-faith attempt to resolve the differences that have arisen  
27 between them.

28 (b) If no agreement is reached at the joint meeting of the two boards, the mediator shall,  
29 at the request of either board, commence a mediation immediately or within a reasonable period  
30 of time. The mediation shall be held in accordance with rules and standards of conduct adopted  
31 under Chapter 7A of the General Statutes governing mediated settlement conferences but  
32 modified as appropriate and suitable to the resolution of the particular issues in disagreement.

33 Unless otherwise agreed upon by both boards, the following individuals shall constitute the  
34 two working groups empowered to represent their respective boards during the mediation:

- 35 (1) The chair of each board or the chair's designee;



- 1 (2) The superintendent of the local school administrative unit and the county
- 2 manager or either's designee;
- 3 (3) The finance officer of each board; and
- 4 (4) The attorney for each board.

5 Members of both boards, their chairs, and representatives shall cooperate with and respond to all  
6 reasonable requests of the mediator to participate in the mediation. Notwithstanding Article 33C  
7 of Chapter 143 of the General Statutes, the mediation proceedings involving the two working  
8 groups shall be conducted in private. Evidence of statements made and conduct occurring in a  
9 mediation are not subject to discovery and are inadmissible in any court action. However, no  
10 evidence otherwise discoverable is inadmissible merely because it is presented or discussed in a  
11 mediation. The mediator shall not be compelled to testify or produce evidence concerning  
12 statements made and conduct occurring in a mediation in any civil proceeding for any purpose,  
13 except disciplinary hearings before the State Bar or any agency established to enforce standards  
14 of conduct for mediators. Reports by members of either working group to their respective boards  
15 shall be made in compliance with Article 33C of Chapter 143 of the General Statutes.

16 Unless both boards agree otherwise, or unless the boards have already resolved their dispute,  
17 the mediation shall end no later than August 1. The mediator shall have the authority to determine  
18 that an impasse exists and to discontinue the mediation. The mediation may continue beyond  
19 August 1 provided both boards agree. If both boards agree to continue the mediation beyond  
20 August 1, the board of county commissioners shall appropriate to the local school administrative  
21 unit for deposit in the local current expense fund a sum of money sufficient to equal the local  
22 contribution to this fund for the previous year.

23 If the working groups reach a proposed agreement, the terms and conditions must be  
24 approved by each board. If no agreement is reached, the mediator shall announce that fact to the  
25 chairs of both boards, the Senior Resident Superior Court Judge, and the public. The mediator  
26 shall not disclose any other information about the mediation. The mediator shall not make any  
27 recommendations or public statement of findings or conclusions.

28 The local board of education and the board of county commissioners shall share equally the  
29 mediator's compensation and expenses. The mediator's compensation shall be determined  
30 according to rules adopted under Chapter 7A of the General Statutes.

31 ~~(c) Within five days after an announcement of no agreement by the mediator, the local~~  
32 ~~board of education may file an action in the superior court division of the General Court of~~  
33 ~~Justice. Either board has the right to have the issues of fact tried by a jury. When a jury trial is~~  
34 ~~demand, the cause shall be set for the first succeeding term of the superior court in the county,~~  
35 ~~and shall take precedence over all other business of the court. However, if the judge presiding~~  
36 ~~certifies to the Chief Justice of the Supreme Court, either before or during the term, that because~~  
37 ~~of the accumulation of other business, the public interest will be best served by not trying the~~  
38 ~~cause at the term next succeeding the filing of the action, the Chief Justice shall immediately call~~  
39 ~~a special term of the superior court for the county, to convene as soon as possible, and assign a~~  
40 ~~judge of the superior court or an emergency judge to hold the court, and the cause shall be tried~~  
41 ~~at this special term. The judge shall find, or if the issue is submitted to the jury, the jury shall find~~  
42 ~~the facts as to the following in order to maintain a system of free public schools as defined by~~  
43 ~~State law and State Board of Education policy: (i) the amount of money legally necessary from~~  
44 ~~all sources and (ii) the amount of money legally necessary from the board of county~~  
45 ~~commissioners. In making the finding, the judge or the jury shall consider the educational goals~~  
46 ~~and policies of the State and the local board of education, the budgetary request of the local board~~  
47 ~~of education, the financial resources of the county and the local board of education, and the fiscal~~  
48 ~~policies of the board of county commissioners and the local board of education.~~

49 ~~All findings of fact in the superior court, whether found by the judge or a jury, shall be~~  
50 ~~conclusive. When the facts have been found, the court shall give judgment ordering the board of~~  
51 ~~county commissioners to appropriate a sum certain to the local school administrative unit, and to~~

1 ~~levy such taxes on property as may be necessary to make up this sum when added to other~~  
2 ~~revenues available for the purpose.~~

3 ~~(d) An appeal may be taken to the appellate division of the General Court of Justice, and~~  
4 ~~notice of appeal shall be given in writing within 10 days after entry of the judgment. All papers~~  
5 ~~and records relating to the case shall be considered a part of the record on appeal. The conclusion~~  
6 ~~of the school or fiscal year shall not be deemed to resolve the question in controversy between~~  
7 ~~the parties while an appeal is still pending. Any final judgment shall be legally binding on the~~  
8 ~~parties at the conclusion of the appellate process. The payment of any final judgment by the~~  
9 ~~county in favor of the local school administrative unit shall not be considered, or used in any~~  
10 ~~manner, to deny or reduce appropriations to the local school administrative unit by the county in~~  
11 ~~fiscal years subsequent to the one at issue to offset such payment of a final judgment.~~

12 ~~(e) If, in an action filed under this section, the final judgment of the General Court of~~  
13 ~~Justice is rendered after the due date prescribed by law for property taxes, the board of county~~  
14 ~~commissioners is authorized to levy such supplementary taxes as may be required by the~~  
15 ~~judgment, notwithstanding any other provisions of law with respect to the time for doing acts~~  
16 ~~necessary to a property tax levy. Upon making a supplementary levy under this subsection, the~~  
17 ~~board of county commissioners shall designate the person who is to compute and prepare the~~  
18 ~~supplementary tax receipts and records for all such taxes. Upon delivering the supplementary tax~~  
19 ~~receipts to the tax collector, the board of county commissioners shall proceed as provided in G.S.~~  
20 ~~105-321.~~

21 ~~The due date of supplementary taxes levied under this subsection is the date of the levy, and~~  
22 ~~the taxes may be paid at par or face amount at any time before the one hundred and twentieth day~~  
23 ~~after the due date. On or after the one hundred and twentieth day and before the one hundred and~~  
24 ~~fiftieth day from the due date there shall be added to the taxes interest at the rate of two percent~~  
25 ~~(2%). On or after the one hundred and fiftieth day from the due date, there shall be added to the~~  
26 ~~taxes, in addition to the two percent (2%) provided above, interest at the rate of three fourths of~~  
27 ~~one percent (3/4 of 1%) per 30 days or fraction thereof until the taxes plus interest have been~~  
28 ~~paid. No discounts for prepayment of supplementary taxes levied under this subsection shall be~~  
29 ~~allowed.~~

30 ~~(f) If agreement is not reached in mediation, and the amount to be appropriated has not~~  
31 ~~been calculated pursuant to this subsection for longer than the prior year, the sum to be~~  
32 ~~appropriated for the budget year in dispute shall be calculated as follows:~~

33 ~~(1) The amount expended in the prior fiscal year by the local school~~  
34 ~~administrative unit from moneys appropriated to the local current expense~~  
35 ~~fund and the capital outlay fund by the board of county commissioners in the~~  
36 ~~prior fiscal year shall be divided by the average daily membership of the prior~~  
37 ~~school year.~~

38 ~~(2) The sum from subdivision (1) of this subsection, rounded to the nearest penny,~~  
39 ~~shall then be multiplied by the sum of one plus the percent change in the~~  
40 ~~second quarter Employment Cost Index for elementary and secondary school~~  
41 ~~workers as reported by the federal Bureau of Labor Statistics.~~

42 ~~(3) The sum from subdivision (2) of this subsection, rounded to the nearest penny,~~  
43 ~~shall then be multiplied by the projected average daily membership for the~~  
44 ~~school year for the budget year in dispute.~~

45 ~~The board of county commissioners shall appropriate the sum from subdivision (3) of this~~  
46 ~~subsection, rounded to the nearest penny, to the local board of education for the budget year in~~  
47 ~~dispute.~~

48 ~~(g) If agreement is not reached in mediation, and the amount to be appropriated has been~~  
49 ~~calculated pursuant to subsection (f) of this section for the prior two years, the sum to be~~  
50 ~~appropriated for the budget year in dispute shall be calculated as follows:~~

- 1           (1) The amount expended in the prior fiscal year by the local school  
 2 administrative unit from moneys appropriated to the local current expense  
 3 fund and the capital outlay fund by the board of county commissioners in the  
 4 prior fiscal year shall be divided by the average daily membership of the prior  
 5 school year.
- 6           (2) The percent change in the second quarter Employment Cost Index for  
 7 elementary and secondary school workers as reported by the federal Bureau  
 8 of Labor Statistics shall be increased by three percent (3%).
- 9           (3) The sum from subdivision (1) of this subsection, rounded to the nearest penny,  
 10 shall then be multiplied by the sum of one plus the sum from subdivision (2)  
 11 of this subsection, rounded to the nearest penny.
- 12           (4) The sum from subdivision (3) of this subsection shall then be multiplied by  
 13 the projected average daily membership for the school year for the budget year  
 14 in dispute.

15           The board of county commissioners shall appropriate the sum from subdivision (4) of this  
 16 subsection, rounded to the nearest penny, to the local board of education for the budget year in  
 17 dispute.

18           (h) Neither the local board of education nor the board of county commissioners shall file  
 19 any legal action challenging the determination as to the funds to be appropriated by the board of  
 20 county commissioners to the local current expense fund, the capital outlay fund, or both in  
 21 accordance with the formulas found in subsections (f) and (g) of this section."

22           **SECTION 2.** G.S. 115C-432(a) reads as rewritten:

23           "(a) After the board of county commissioners has made its appropriations to the local  
 24 school administrative unit, or after the ~~appeal~~-procedure set out in G.S. 115C-431 has been  
 25 concluded, the board of education shall adopt a budget resolution making appropriations for the  
 26 budget year in such sums as the board may deem sufficient and proper. The budget resolution  
 27 shall conform to the uniform budget format established by the State Board of Education."

28           **SECTION 3.(a)** The Local Government Commission and the School of Government  
 29 at the University of North Carolina at Chapel Hill shall convene a working group to develop and  
 30 recommend statutory parameters for fund balances maintained by local boards of education. The  
 31 working group shall include at least one representative from each of the following groups: the  
 32 North Carolina Association of County Commissioners, the North Carolina School Boards  
 33 Association, and the North Carolina Association of School Business Officers. The working group  
 34 shall produce findings and recommendations on the following issues relating to fund balances  
 35 maintained by local boards of education:

- 36           (1) Minimum and maximum fund balances, with a focus on unencumbered funds.  
 37           (2) Appropriate uses of fund balances.  
 38           (3) Annual reporting requirements for fund balances.  
 39           (4) A process for factoring fund balances into annual local education budgets.  
 40           (5) The role of boards of county commissioners, if any, in determining the use of  
 41 fund balances.

42           **SECTION 3.(b)** No later than March 30, 2019, the working group shall report its  
 43 findings and recommendations, including statutory parameters and any proposed legislation, to  
 44 the Joint Legislative Education Oversight Committee.

45           **SECTION 4.** This act is effective when it becomes law. Sections 1 and 2 apply  
 46 beginning with budget ordinances adopted on or after that date.