



Public Schools of North Carolina  
State Board of Education  
Department of Public Instruction

---

# Report to the Joint Legislative Education Oversight Committee

---

Non-Supplant Report on Small School  
Systems and Low-Wealth Counties

*SL 2003-284, sec. 7.6(i) & 7.7(e)*  
*House Bill 397*

**Date Due May 1, 2004**  
Report #43 & 44 in 2003-2004  
DPI Chronological Schedule

# State Board of Education

Howard N. Lee  
Chairman  
Raleigh

Jane P. Norwood  
Vice Chair  
Charlotte

Kathy A. Taft  
Greenville

Michelle Howard-Vital  
Wilmington

Edgar D. Murphy  
Durham

Evelyn B. Monroe  
West End

Maria T. Palmer  
Chapel Hill

Ronald E. Deal  
Hickory

Wayne McDevitt  
Asheville

John Tate III  
Charlotte

Patricia Nickens Willoughby  
Raleigh

Beverly Perdue  
Lieutenant Governor  
New Bern

Richard Moore  
State Treasurer  
Kittrell

## NC Department of Public Instruction

Michael E. Ward, State Superintendent



Public Schools of North Carolina  
State Board of Education  
Department of Public Instruction

## Executive Summary

**Legislated Requirement:** Session Law 2003-284, Sections 7.6(i) and 7.7(e) (House Bill 397), require the State Board of Education to report to the Joint Legislative Education Oversight Committee prior to May 1, 2004, if it determines that counties have supplanted local current expense funds with funds appropriated for Small School Systems or Low-Wealth counties.

**Study Process:** The staff conducted the analysis for the fiscal year ended June 30, 2002 to determine if the current expense appropriation per student of the county for the 2001-2002 year was less than 95% of the average of the local current expense appropriations per student for the three prior fiscal years.

**Finding:** The staff determined that no county receiving Small School Systems funding supplanted funds. The staff found that one county receiving Low-Wealth funding did supplant funds. It was determined that Columbus County's local current expense appropriation per student was less than 95% of the average of the local current expense appropriations per student for the three prior fiscal years.

**Action Taken:** Session Law 2003-284, Sections 7.6(h)(2) allows the county to show that it has remedied the deficiency in funding or that extraordinary circumstances caused the county to supplant local current expense funds with the low-wealth supplemental funds. Therefore, upon notification of the Columbus County Board of Commissioners on June 18, 2003 by the Department of Public Instruction, the Board of Commissioners immediately met and remedied this deficiency by allocating additional funding to both Columbus County Public Schools and Whiteville City Schools. Therefore, based on this action, staff's final analyses indicate that no county receiving Low-Wealth Supplemental funding supplanted funds.

received per average daily membership for a county shall be the difference between the State average current expense appropriations per student and the current expense appropriations per student that the county could provide given the county's wealth and an average effort to fund public schools. (To derive the current expense appropriations per student that the county could be able to provide given the county's wealth and an average effort to fund public schools, multiply the county wealth as a percentage of State average wealth by the State average current expense appropriations per student.)

The funds for the local school administrative units located in whole or in part in the county shall be allocated to each local school administrative unit located in whole or in part in the county based on the average daily membership of the county's students in the school units.

If the funds appropriated for supplemental funding are not adequate to fund the formula fully, each local school administrative unit shall receive a pro rata share of the funds appropriated for supplemental funding.

**SECTION 7.6. (f) Formula for Distribution of Supplemental Funding Pursuant to This Section Only.** - The formula in this section is solely a basis for distribution of supplemental funding for low-wealth counties and is not intended to reflect any measure of the adequacy of the educational program or funding for public schools. The formula is also not intended to reflect any commitment by the General Assembly to appropriate any additional supplemental funds for low-wealth counties.

**SECTION 7.6. (g) Minimum Effort Required.** - Counties that had effective tax rates in the 1996-1997 fiscal year that were above the State average effective tax rate but that had effective rates below the State average in the 1997-1998 fiscal year or thereafter shall receive reduced funding under this section. This reduction in funding shall be determined by subtracting the amount that the county would have received pursuant to Section 17.1(g) of Chapter 507 of the 1995 Session Laws from the amount that the county would have received if qualified for full funding and multiplying the difference by ten percent (10%). This method of calculating reduced funding shall apply one time only.

This method of calculating reduced funding shall not apply in cases in which the effective tax rate fell below the statewide average effective tax rate as a result of a reduction in the actual property tax rate. In these cases, the minimum effort required shall be calculated in accordance with Section 17.1(g) of Chapter 507 of the 1995 Session Laws.

If the county documents that it has increased the per student appropriation to the school current expense fund in the current fiscal year, the State Board of Education shall include this additional per pupil appropriation when calculating minimum effort pursuant to Section 17.1(g) of Chapter 507 of the 1995 Session Laws.

**SECTION 7.6. (h) Nonsupplant Requirement.** - A county in which a local school administrative unit receives funds under this section shall use the funds to supplement local current expense funds and shall not supplant local current expense funds. For the 2003-2005 fiscal biennium, the State Board of Education shall not allocate funds under this section to a county found to have used these funds to supplant local per student current expense funds. The State Board of Education shall make a finding that a county has used these funds to supplant local current expense funds in the prior year, or the year for which the most recent data are available, if:

- (1) The current expense appropriation per student of the county for the current year is less than ninety-five percent (95%) of the average of the local current expense appropriations per student for the three prior fiscal years; and
- (2) The county cannot show: (i) that it has remedied the deficiency in funding or (ii) that extraordinary circumstances caused the county to supplant local current expense funds with funds allocated under this section.

The State Board of Education shall adopt rules to implement this section.

**SECTION 7.6.(i) Reports.** - The State Board of Education shall report to the Joint Legislative Education Oversight Committee prior to May 1, 2004, if it determines that counties have supplanted funds.

**SECTION 7.6.(j) Department of Revenue Reports.** - The Department of Revenue shall provide to the Department of Public Instruction a preliminary report for the current fiscal year of the assessed value of the property tax base for each county prior to March 1 of each year and a final report prior to May 1 of each year. The reports shall include for each county the annual sales assessment ratio and the taxable values of (i) total real property, (ii) the portion of total real property represented by the present-use value of agricultural land, horticultural land, and forestland as defined in G.S. 105-277.2, (iii) property of public service companies determined in accordance with Article 23 of Chapter 105 of the General Statutes, and (iv) personal property.

#### **SMALL SCHOOL SYSTEM SUPPLEMENTAL FUNDING**

**SECTION 7.7.(a) Funds for Small School Systems.** - Except as provided in subsection (b) of this section, the State Board of Education shall allocate funds appropriated for small school system supplemental funding (i) to each county school administrative unit with an average daily membership of fewer than 3,175 students and (ii) to each county school administrative unit with an average daily membership from 3,175 to 4,000 students if the county in which the local school administrative unit is located has a county-adjusted property tax base per student that is below the State-adjusted property tax base per student and if the total average daily membership of all local school administrative units located within the county is from 3,175 to 4,000 students. The allocation formula shall:

- (1) Round all fractions of positions to the next whole position.
- (2) Provide five and one-half additional regular classroom teachers in counties in which the average daily membership per square mile is greater than four, and seven additional regular classroom teachers in counties in which the average daily membership per square mile is four or fewer.
- (3) Provide additional program enhancement teachers adequate to offer the standard course of study.
- (4) Change the duty-free period allocation to one teacher assistant per 400 average daily membership.
- (5) Provide a base for the consolidated funds allotment of at least six hundred fourteen thousand one hundred forty-eight dollars (\$614,148), excluding textbooks for the 2003-2004 fiscal year and a base of six hundred forty-seven thousand four hundred eighty-one dollars (\$647,481) for the 2004-2005 fiscal year.

- (6) Allot vocational education funds for grade 6 as well as for grades 7-12.

If funds appropriated for each fiscal year for small school system supplemental funding are not adequate to fully fund the program, the State Board of Education shall reduce the amount allocated to each county school administrative unit on a pro rata basis. This formula is solely a basis for distribution of supplemental funding for certain county school administrative units and is not intended to reflect any measure of the adequacy of the educational program or funding for public schools. The formula is also not intended to reflect any commitment by the General Assembly to appropriate any additional supplemental funds for such county administrative units.

**SECTION 7.7. (b) Nonsupplant Requirement.** - A county in which a local school administrative unit receives funds under this section shall use the funds to supplement local current expense funds and shall not supplant local current expense funds. For the 2003-2005 fiscal biennium, the State Board of Education shall not allocate funds under this section to a county found to have used these funds to supplant local per student current expense funds. The State Board of Education shall make a finding that a county has used these funds to supplant local current expense funds in the prior year, or the year for which the most recent data are available, if:

- (1) The current expense appropriation per student of the county for the current year is less than ninety-five percent (95%) of the average of the local current expense appropriations per student for the three prior fiscal years; and
- (2) The county cannot show: (i) that it has remedied the deficiency in funding or (ii) that extraordinary circumstances caused the county to supplant local current expense funds with funds allocated under this section.

The State Board of Education shall adopt rules to implement this section.

**SECTION 7.7. (c) Phase-Out Provisions.** - If a local school administrative unit becomes ineligible for funding under this formula solely because of an increase in the county-adjusted property tax base per student of the county in which the local school administrative unit is located, funding for that unit shall be phased out over a two-year period. For the first year of ineligibility, the unit shall receive the same amount it received for the prior fiscal year. For the second year of ineligibility, it shall receive one-half of that amount.

If a local school administrative unit becomes ineligible for funding under this formula solely because of an increase in the population of the county in which the local school administrative unit is located, funding for that unit shall be continued for five years after the unit becomes ineligible.

**SECTION 7.7. (d) Definitions.** - As used in this section:

- (1) "Average daily membership" means within two percent (2%) of the average daily membership as defined in the North Carolina Public Schools Allotment Policy Manual, adopted by the State Board of Education.
- (2) "County-adjusted property tax base per student" means the total assessed property valuation for each county, adjusted using a weighted average of the three most recent annual sales assessment ratio studies, divided by the total number of students in average daily membership who reside within the county.
- (2a) "Local current expense funds" means the most recent