



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

---

# Report to the North Carolina General Assembly

---

Report on Supplanting Low Wealth  
Supplement Funds and Small School  
System Supplemental Funds

*Session Law 2015-241, Section 8.3(j) and  
8.4(e)*

---

**Date Due: May 15, 2016**

Report # 51 & 52

DPI Chronological Schedule, 2015-2016

## **STATE BOARD OF EDUCATION**

**SBE VISION:** Every public school student will graduate ready for post-secondary education and work, prepared to be a globally engaged and productive citizen.

**SBE MISSION:** The State Board of Education has the constitutional authority to lead and uphold the system of public education in North Carolina.

### **WILLIAM COBEY**

Chair :: Chapel Hill

### **BECKY TAYLOR**

Greenville

### **WAYNE MCDEVITT**

Asheville

### **A.L. COLLINS**

Vice Chair :: Kernersville

### **REGINALD KENAN**

Rose Hill

### **ERIC DAVIS**

Charlotte

### **DAN FOREST**

Lieutenant Governor :: Raleigh

### **KEVIN D. HOWELL**

Raleigh

### **PATRICIA N. WILLOUGHBY**

Raleigh

### **JANET COWELL**

State Treasurer :: Raleigh

### **GREG ALCORN**

Salisbury

### **JUNE ST. CLAIR ATKINSON**

Secretary to the Board :: Raleigh

### **OLIVIA OXENDINE**

Lumberton

## **NC DEPARTMENT OF PUBLIC INSTRUCTION**

**June St. Clair Atkinson, Ed.D., State Superintendent**

**301 N. Wilmington Street :: Raleigh, North Carolina 27601-2825**

In compliance with federal law, the NC Department of Public Instruction administers all state-operated educational programs, employment activities and admissions without discrimination because of race, religion, national or ethnic origin, color, age, military service, disability, or gender, except where exemption is appropriate and allowed by law.

### **Inquiries or complaints regarding discrimination issues should be directed to:**

Dr. Rebecca Garland, Deputy State Superintendent

6368 Mail Service Center, Raleigh, NC 27699-6368 :: Telephone: (919) 807-3200 :: Fax: (919) 807-3388

**Visit us on the Web :: [www.ncpublicschools.org](http://www.ncpublicschools.org)**

## **Executive Summary**

**Legislated Requirement:** Session Law 2015-241, Sections 8.3(j) and 7.4(e) require the State Board of Education to report to the Fiscal Research Division of the General Assembly prior to May 15, 2016, 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 of the Division of School Business conducted the analysis for the fiscal year ended June 30, 2015 to determine if the current expense appropriation per student of the county for the 2014-15 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 one local education agency (LEA) receiving Small School Systems and/or Low-Wealth Supplemental funding supplanted funds.

**Action Taken:** Session Law 2015-241 Sections 8.3 (g)(2) and 8.4(d)(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 small county system or low-wealth supplemental funds.

**Conclusion:** Bertie County has been requested to present documentation that supports that they will remedy the supplanting prior to July 1, 2016, thereby remaining eligible for the 2016-17 allotment for low wealth and small system supplemental funding.

## **Overview of Low Wealth Counties Supplemental Funding**

*Statutory Reference: Session Law 2015-241 Section 8.3*

The following is a brief overview of the low wealth supplemental funding. The full legislation can be found in Appendix A.

### **Purpose of the Allotment**

To provide supplemental funds in counties that do not have the ability to generate revenue to support public schools (per a legislated formula) at the state average level.

### **Eligibility**

Eligible LEAs are those located in counties in which the calculated county wealth is less than 100% of the state average wealth.

Assessing wealth includes the following criteria:

- Anticipated Total County Revenue
- Tax Base per Square Mile (Density)
- Per Capita Income

### **Allotment per Local Education Agency**

The total allotment is calculated by multiplying the difference between the county's appropriation per student and State average local appropriation (including supplemental taxes) per student by the county's average daily membership.

To receive full funding counties must meet a minimum “effort” to generate revenue or fund public schools as compared to a state average effort in order to receive the full allotment.

A county must either tax their local property at the State average or contribute more local dollars to public schools than the State average local contribution. If the county does not meet the minimum effort, their allotment is prorated based on the effort they are maintaining.

### **Use of Funds**

Funds allotted for a Low Wealth Supplement must be expended only for:

- Instructional positions (eg. teachers)
- Substitutes
- Instructional support positions
- Teacher assistant positions
- Clerical positions
- Overtime pay
- Textbooks, instructional supplies, equipment and materials
- Staff development

Funds may be transferred with no restrictions

## **Overview of Small School System Supplemental Funding**

*Statutory Reference: Session Law 2015-241 Section 8.4*

### **Purpose of the Allotment**

To provide supplemental funds in counties that do not have sufficient student population to generate sufficient funding to support public schools.

### **Eligibility**

Eligible LEAs are those that have an allotted average daily membership of 3,200 or less. LEAs who have become ineligible may receive partial funding per the phase out provision.

### **Allotment per Local Education Agency**

Allocations are based on the table in the legislation 2015-241 Section 8.4(a). The full legislation can be found in Appendix B

### **Use of Funds**

Funds allotted for a Small School System may be expended on any purpose except central office and capital. Funds may be transferred with no restrictions

## Non Supplant

Low-Wealth funds and Small School System Funds are to supplement and counties shall not supplant local current expense funds, therefore they may not use low-wealth and/or small school system funds in place of local current appropriations. The county has supplanted if the current expense appropriation per student of the county for the current year is less than 95% of the average of the local current expense appropriations per student for the three prior fiscal years.

If the amount is less than 95%, the county may:

1. Remedy the deficiency by providing the adequate funding to the local education agency.
2. Appeal to the State Board of Education that extraordinary circumstance caused the county to supplant local current expense funds.

If neither of these options is taken, the LEA is not eligible for the low wealth supplemental funds and/or the small county school system supplemental funds.

## Counties Supplanted Local Current Expense

One local education agency, Bertie County Schools, was notified in March of 2016 that they have supplanted local current expense funds.

Following is the deficiency:

	<b>Bertie County Schools</b>
Per Pupil Required	\$ 1,016.62
Per Pupil Funded	\$ 838.81
Total Deficiency <sup>(1)</sup>	\$ 530,594
<b>Estimated loss of State Funding</b>	
Est. Low wealth	\$ 1,216,757
Est Small County	\$ 1,470,000
<b>Est Total State</b>	<b>\$ 2,686,757</b>

(1) Total Deficiency is for one year only, additional funds may be required to remedy subsequent years.

## County Response

At a meeting of officials from the Department of Public Instruction, Bertie County Commissioners, Bertie County Schools and Bertie Board of Education on April 26<sup>th</sup>, 2016, Bertie County stated that they intend to remedy the deficiency using the flexibility in their current year appropriations. The county commissioners have not formally approved this approach. The vote and the reallocation of appropriations must be resolved by the allocation of initial allotments to ensure the school district remains eligible for the funds.

## USE OF SUPPLEMENTAL FUNDING IN LOW-WEALTH COUNTIES

**SECTION 8.3.(a) Use of Funds for Supplemental Funding.** – All funds received pursuant to this section shall be used only (i) to provide instructional positions, instructional support positions, teacher assistant positions, clerical positions, school computer technicians, instructional supplies and equipment, staff development, and textbooks and digital resources and (ii) for salary supplements for instructional personnel and instructional support personnel.

Local boards of education are encouraged to use at least twenty-five percent (25%) of the funds received pursuant to this section to improve the academic performance of children who are performing at Level I or II on either reading or mathematics end-of-grade tests in grades three through eight.

**SECTION 8.3.(b) Definitions.** – As used in this section, the following definitions apply:

- (1) "Anticipated county property tax revenue availability" means the county-adjusted property tax base multiplied by the effective State average tax rate.
- (2) "Anticipated total county revenue availability" means the sum of the following:
  - a. Anticipated county property tax revenue availability.
  - b. Local sales and use taxes received by the county that are levied under Chapter 1096 of the 1967 Session Laws or under Subchapter VIII of Chapter 105 of the General Statutes.
  - c. Fines and forfeitures deposited in the county school fund for the most recent year for which data are available.
- (3) "Anticipated total county revenue availability per student" means the anticipated total county revenue availability for the county divided by the average daily membership of the county.
- (4) "Anticipated State average revenue availability per student" means the sum of all anticipated total county revenue availability divided by the average daily membership for the State.
- (5) "Average daily membership" means average daily membership as defined in the North Carolina Public Schools Allotment Policy Manual adopted by the State Board of Education. If a county contains only part of a local school administrative unit, the average daily membership of that county includes all students who reside within the county and attend that local school administrative unit.
- (6) "County-adjusted property tax base" shall be computed as follows:
  - a. Subtract the present-use value of agricultural land, horticultural land, and forestland in the county, as defined in G.S. 105-277.2, from the total assessed real property valuation of the county.
  - b. Adjust the resulting amount by multiplying by a weighted average of the three most recent annual sales assessment ratio studies.

- c. Add to the resulting amount the following:
  - 1. Present-use value of agricultural land, horticultural land, and forestland, as defined in G.S. 105-277.2.
  - 2. Value of property of public service companies, determined in accordance with Article 23 of Chapter 105 of the General Statutes.
  - 3. Personal property value for the county.
- (7) "County-adjusted property tax base per square mile" means the county-adjusted property tax base divided by the number of square miles of land area in the county.
- (8) "County wealth as a percentage of State average wealth" shall be computed as follows:
  - a. Compute the percentage that the county per capita income is of the State per capita income and weight the resulting percentage by a factor of five-tenths.
  - b. Compute the percentage that the anticipated total county revenue availability per student is of the anticipated State average revenue availability per student and weight the resulting percentage by a factor of four-tenths.
  - c. Compute the percentage that the county-adjusted property tax base per square mile is of the State-adjusted property tax base per square mile and weight the resulting percentage by a factor of one-tenth.
  - d. Add the three weighted percentages to derive the county wealth as a percentage of the State average wealth.
- (9) "Effective county tax rate" means the actual county tax rate multiplied by a weighted average of the three most recent annual sales assessment ratio studies.
- (10) "Effective State average tax rate" means the average of effective county tax rates for all counties.
- (11) "Local current expense funds" means the most recent county current expense appropriations to public schools, as reported by local boards of education in the audit report filed with the Secretary of the Local Government Commission pursuant to G.S. 115C-447.
- (12) "Per capita income" means the average for the most recent three years for which data are available of the per capita income according to the most recent report of the United States Department of Commerce, Bureau of Economic Analysis, including any reported modifications for prior years as outlined in the most recent report.
- (13) "Sales assessment ratio studies" means sales assessment ratio studies performed by the Department of Revenue under G.S. 105-289(h).
- (14) "State average current expense appropriations per student" means the most recent State total of county current expense appropriations to public schools, as reported by local boards of education in the audit report filed with the Secretary of the Local Government Commission pursuant to G.S. 115C-447.



- (15) "State average adjusted property tax base per square mile" means the sum of the county-adjusted property tax bases for all counties divided by the number of square miles of land area in the State.
- (16) "Supplant" means to decrease local per student current expense appropriations from one fiscal year to the next fiscal year.
- (17) "Weighted average of the three most recent annual sales assessment ratio studies" means the weighted average of the three most recent annual sales assessment ratio studies in the most recent years for which county current expense appropriations and adjusted property tax valuations are available. If real property in a county has been revalued one year prior to the most recent sales assessment ratio study, a weighted average of the two most recent sales assessment ratios shall be used. If property has been revalued the year of the most recent sales assessment ratio study, the sales assessment ratio for the year of revaluation shall be used.

**SECTION 8.3.(c) Eligibility for Funds.** – Except as provided in subsection (g) of this section, the State Board of Education shall allocate these funds to local school administrative units located in whole or in part in counties in which the county wealth as a percentage of the State average wealth is less than one hundred percent (100%).

**SECTION 8.3.(d) Allocation of Funds.** – Except as provided in subsection (f) of this section, the amount 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's 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 8.3.(e) 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 8.3.(f) Minimum Effort Required.** – A county that (i) maintains an effective county tax rate that is at least one hundred percent (100%) of the effective State average tax rate in the most recent year for which data are available or (ii) maintains a county appropriation per student to the school local current expense fund of at least one hundred percent (100%) of the current expense appropriations per student to the school local current expense fund that the county could

provide given the county's wealth and an average effort to fund public schools shall receive full funding under this section. A county that maintains a county appropriation per student to the school local current expense fund of less than one hundred percent (100%) of the current expense appropriations per student to the school local current expense fund that the county could provide given the county's wealth and an average effort to fund public schools shall receive funding under this section at the same percentage that the county's appropriation per student to the school local current expense fund is of the current expense appropriations per student to the school local current expense fund that the county could provide given the county's wealth and an average effort to fund public schools.

**SECTION 8.3.(g) 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 2015-2017 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 all of the following criteria apply:

- (1) The current expense appropriations per student of the county for the current year is less than ninety-five percent (95%) of the average of local current expense appropriations per student for the three prior fiscal years.
- (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 the requirements of this subsection.

**SECTION 8.3.(h) Counties Containing a Base of the Armed Forces.** –

Notwithstanding any other provision of this section, for the 2015-2017 fiscal biennium, counties containing a base of the Armed Forces of the United States that have an average daily membership of more than 23,000 students shall receive the same amount of supplemental funding for low-wealth counties as received in the 2012-2013 fiscal year.

**SECTION 8.3.(i) Funds for EVAAS Data.** – Notwithstanding the requirements of subsection (a) of this section, local school administrative units may utilize funds allocated under this section to purchase services that allow for extraction of data from the Education Value-Added Assessment System (EVAAS).

**SECTION 8.3.(j) Reports.** – For the 2015-2017 fiscal biennium, the State Board of Education shall report to the Fiscal Research Division prior to May 15 of each year if it determines that counties have supplanted funds.

**SECTION 8.3.(k) 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 8.4.(a) Allotment Schedule for the 2015-2017 Fiscal Biennium. –**

Except as otherwise provided in subsection (d) of this section, each eligible county school administrative unit shall receive a dollar allotment according to the following schedule:

Allotted ADM	Small County Allotment
0-600	\$1,710,000
601-1,300	\$1,820,000
1,301-1,700	\$1,548,700
1,701-2,000	\$1,600,000
2,001-2,300	\$1,560,000
2,301-2,600	\$1,470,000
2,601-2,800	\$1,498,000
2,801-3,200	\$1,548,000

**SECTION 8.4.(b) Phase-Out Provision for the 2015-2016 Fiscal Year. –** If a local school administrative unit becomes ineligible for funding under the schedule in subsection (a) of this section in the 2015-2016 fiscal year, funding for that unit shall be phased out over a five-year period. Funding for such local school administrative units shall be reduced in equal increments in each of the five years after the unit becomes ineligible. Funding shall be eliminated in the fifth fiscal year after the local school administrative unit becomes ineligible.

Allotments for eligible local school administrative units under this subsection shall not be reduced by more than twenty percent (20%) of the amount received in fiscal year 2014-2015 in any fiscal year.

**SECTION 8.4.(c) Phase-Out Provision for the 2016-2017 Fiscal Year. –** If a local school administrative unit becomes ineligible for funding under the schedule in subsection (a) of this section in the 2016-2017 fiscal year, funding for that unit shall be phased out over a five-year period. Funding for such local school administrative units shall be reduced in equal increments in each of the five years after the unit becomes ineligible. Funding shall be eliminated in the fifth fiscal year after the local administrative unit becomes ineligible.

Allotments for eligible local school administrative units under this subsection shall not be reduced by more than twenty percent (20%) of the amount received in fiscal year 2015-2016 in any fiscal year.

**SECTION 8.4.(d) Nonsupplant Requirement for the 2015-2017 Fiscal Biennium. –**

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 2015-2017 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 all of the following criteria apply:

- (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 local current expense appropriation per student for the three prior fiscal years.
- (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 the requirements of this subsection.

**SECTION 8.4.(e) Reports.** – For the 2015-2017 fiscal biennium, the State Board of Education shall report to the Fiscal Research Division prior to May 15 of each fiscal year if it determines that counties have supplanted funds.

**SECTION 8.4.(f) Use of Funds.** – Local boards of education are encouraged to use at least twenty percent (20%) of the funds they receive pursuant to this section to improve the academic performance of children who are performing at Level I or II on either reading or mathematics end-of-grade tests in grades three through eight.

Local school administrative units may also utilize funds allocated under this section to purchase services that allow for extraction of data from the Education Value-Added Assessment System (EVAAS).