GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2013

Legislative Fiscal Note

BILL NUMBER: House Bill 726 (First Edition)

SHORT TITLE: No School Funding Loss/Tier 1 & 2 Counties.

SPONSOR(S): Representatives Elmore, Burr, and Hollo

FISCAL IMPACT

($ in millions)

☑ **Yes** ☐ **No** ☐ **No Estimate Available**

State Impact	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
General Fund Revenues:	0.0 to 0.0	0.0 to 0.0	0.0 to 0.0	0.0 to 0.0	0.0 to 0.0
General Fund Expenditures:	0.0 to 8.2	0.0 to 0.0	0.0 to 0.0	0.0 to 0.0	0.0 to 0.0
NET STATE IMPACT	**$0.0 to ($8.2)**	**$0.0 to $0.0**	**$0.0 to $0.0**	**$0.0 to $0.0**	**$0.0 to $0.0**

County Impact					
Revenues:	0.0 to 0.0	0.0 to 0.0	0.0 to 0.0	0.0 to 0.0	0.0 to 0.0
Expenditures:	Likely Decrease in County Expenditures on Public Schools				
NET LOCAL IMPACT	**Likely budget savings. See Assumptions & Methodology section for additional detail.**				

PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED:
Department of Public Instruction, Local Education Agencies.

EFFECTIVE DATE: July 1, 2013

TECHNICAL CONSIDERATIONS:
None

BILL SUMMARY:
Under current law (S.L. 2011-145, Section 7.4.(g)), the State Board of Education (SBE) may not allocate funds in the Low Wealth Counties Supplemental Funding allotment (Low Wealth) to a county found to have used these funds to supplant local per student current expense funds. The SBE determines that a county has supplanted local current expense funds if:

1. 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; 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.

Under this bill, the non-supplant requirement described above would not apply to counties designated as Tier 1 or 2 by the N.C. Department of Commerce for the 2013-14 fiscal year.

Beginning with the 2014-15 fiscal year, the Low Wealth non-supplant language would again apply to all counties in the State. However, the threshold for determining whether or not supplanting of local current expense funds has occurred would change from *95%* of the average of the local current expense appropriations per student for the three prior fiscal years to *85%* of the average of the local current expense appropriations per student for the three prior fiscal years.

Section 3 requires the Joint Legislative Education Oversight Committee to study the formulas for the Low Wealth allotment and lottery funds for school construction projects, and report to the 2013 General Assembly when it reconvenes in 2014.

ASSUMPTIONS AND METHODOLOGY:
Based on the State Board's existing criteria for determining whether or not supplanting has occurred, there are three counties (Hoke, Montgomery, and Wilkes) that could lose their Low Wealth allotment in FY 2013-14 unless they remedy the local funding deficiency, or demonstrate that the reduction in local funding was due to extraordinary circumstances. These three counties are all designated as Tier 1 counties by the N.C. Department of Commerce.

In order to understand the potential fiscal impact of this bill, we must first examine how existing Low Wealth non-supplant language might impact these three counties in FY 2013-14.

Under current law, the three counties at risk of losing their Low Wealth allotment due to supplanting could result in one of three outcomes:

1. **Remedy:** It is possible that the three counties in question will increase local expenditures in order to maintain their Low Wealth funding from the State. Under this scenario, local expenditures for public schools would increase $2,663,552 for FY 2012-13[1] while State expenditures over the next five years would remain unchanged.
2. **Appeal:** These counties could also appeal to the SBE, demonstrate that the reduction in local funding was due to extraordinary circumstances, and thereby maintain their Low Wealth funding from the State. While the SBE has some leeway in determining what qualifies as "extraordinary circumstances," it is unlikely the definition would apply for the four counties in FY 2013-14. SBE staff indicate that they interpret the language as applying only to significant events such as natural or man-made disasters that would create issues unique to that county – none of which apply to the four counties in question. Due to the unlikelihood of this scenario, successful appeal is not considered in this analysis.
3. **Loss of State funds:** The three counties at risk of losing their Low Wealth allotment could choose to not remedy, and therefore lose their Low Wealth funding from the State. Under this scenario, local expenditures would remain unchanged, and State expenditures would decrease by $8,221,696.

[1] The local funding deficiency must be remedied prior to the issuance of FY 2013-14 State allotments.

If this bill were to become law, and the three counties in question had chosen to remedy their local funding deficiencies, this bill would have no fiscal impact on State expenditures in FY 13-14. Going forward, changing the threshold for determining whether or not supplanting of local current expense funds has occurred from 95% to 85% is unlikely to change the level of State expenditures. It is possible that the new threshold might allow some counties to maintain Low Wealth eligibility in future years. However, over the 22-year history of this allotment, counties have always chosen to meet the non-supplant requirement, rather than lose eligibility for Low Wealth funding.

If this bill were to become law, and the three counties in question had chosen *not* to remedy their local funding deficiencies, then State expenditures would by $8.2 million higher in FY 2013-14 than would have otherwise been expected. Going forward, State funds would likely be unchanged, as explained in the preceding paragraph.

Under either of the scenarios considered, this bill would likely lead to a decrease in local expenditures on public schools. As stated above, over the 22-year history of Low Wealth, counties have always provided a sufficient level of local funding for public schools in order to maintain Low Wealth eligibility. It is unclear, however, the number of counties that are likely to provide the minimum required amount of local funding. On one hand, Low Wealth eligibility is one consideration among many that county commissioners consider when deciding upon funding levels for public schools. On the other hand, there have been many counties that have been in danger of violating the Low Wealth non-supplant requirements over the years. This indicates that the non-supplant requirement has been successful in creating a baseline level of local funding in a certain number of counties. As a result, lowering that threshold is likely to lead to some lower (but unknown) level of local funding for public schools.

SOURCES OF DATA: Department of Public Instruction

TECHNICAL CONSIDERATIONS: None

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