

# North Carolina

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## Summary and Highlights

This snapshot examines the revenue sources and funding equity for district public schools and charter schools in North Carolina and, in particular, Wake County (where Raleigh, the state capital, is located) during FY 2006-07 (Figure 1).<sup>1</sup>

In the following figures, the statewide values show how much per pupil funding districts in the state received compared to how much charter schools received per pupil. The statewide values weighted

for charter enrollment adjust these figures to account for the fact that some districts enroll more charter students than others and the district PPR varies between districts. The weighted values estimate how much more or less per pupil funding charter schools received compared to the funding district schools would have received to educate the same students. (See Methodology for details.)

## Highlights of Our Findings

- North Carolina charter schools received 10.3 percent less funding than district schools: \$8,995 vs. \$8,065 per pupil, a difference of \$930.

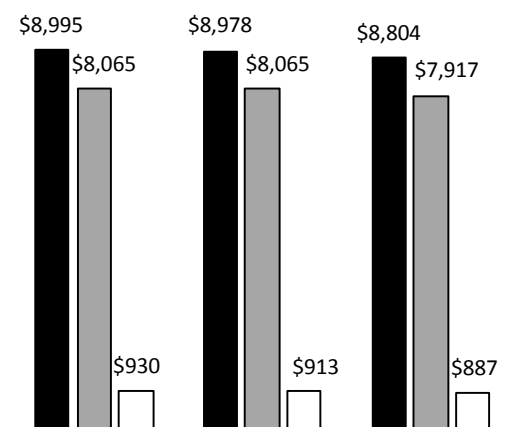
**Figure 1: District and Charter School Revenues and Enrollments**

| North Carolina<br>(2006-07)                                                 | Statewide                 |         | Statewide Weighted for<br>Charter Enrollment |         | Wake County Schools      |         |
|-----------------------------------------------------------------------------|---------------------------|---------|----------------------------------------------|---------|--------------------------|---------|
| Per pupil Revenue                                                           |                           |         |                                              |         |                          |         |
| District                                                                    | \$8,995                   |         | \$8,978                                      |         | \$8,804                  |         |
| Charter                                                                     | \$8,065                   |         | \$8,065                                      |         | \$7,917                  |         |
| Difference                                                                  | (\$930)<br>(10.3%)        |         | (\$913)<br>(10.2%)                           |         | (\$887)<br>(10.1%)       |         |
| Per pupil Revenue by<br>Source                                              | District                  | Charter | District                                     | Charter | District                 | Charter |
| Federal                                                                     | \$844                     | \$577   | \$814                                        | \$577   | \$511                    | \$352   |
| State                                                                       | \$5,367                   | \$5,186 | \$5,324                                      | \$5,186 | \$4,891                  | \$4,871 |
| Local                                                                       | \$2,243                   | \$1,757 | \$2,313                                      | \$1,757 | \$3,029                  | \$1,974 |
| Other                                                                       | \$540                     | \$545   | \$525                                        | \$545   | \$372                    | \$720   |
| Indeterminate                                                               | \$0                       | \$0     | \$0                                          | \$0     | \$0                      | \$0     |
| Total                                                                       | \$8,995                   | \$8,065 | \$8,978                                      | \$8,065 | \$8,804                  | \$7,917 |
| Enrollment                                                                  |                           |         |                                              |         |                          |         |
| District                                                                    | 1,389,305<br>98.0%        |         | N/A<br>N/A                                   |         | 127,460<br>96.3%         |         |
| Charter                                                                     | 28,121<br>2.0%            |         | N/A<br>N/A                                   |         | 4,867<br>3.7%            |         |
| Charter Schools                                                             | 93                        |         | N/A                                          |         | 14                       |         |
| Total Revenue                                                               |                           |         |                                              |         |                          |         |
| District                                                                    | \$12,496,437,720<br>98.2% |         | N/A<br>N/A                                   |         | \$1,122,128,359<br>97.0% |         |
| Charter                                                                     | \$226,789,514<br>1.8%     |         | N/A<br>N/A                                   |         | \$38,530,003<br>3.0%     |         |
| Total                                                                       | \$12,723,227,234          |         | N/A                                          |         | \$1,160,658,362          |         |
| Percentage of Revenue<br>by Source                                          | District                  | Charter | District                                     | Charter | District                 | Charter |
| Federal                                                                     | 9.4%                      | 7.1%    | 9.1%                                         | 7.1%    | 5.8%                     | 4.4%    |
| State                                                                       | 59.7%                     | 64.3%   | 59.3%                                        | 64.3%   | 55.6%                    | 61.5%   |
| Local                                                                       | 24.9%                     | 21.8%   | 25.8%                                        | 21.8%   | 34.4%                    | 24.9%   |
| Other                                                                       | 6.0%                      | 6.8%    | 5.8%                                         | 6.8%    | 4.2%                     | 9.1%    |
| Indeterminate                                                               | 0.0%                      | 0.0%    | 0.0%                                         | 0.0%    | 0.0%                     | 0.0%    |
| Change in district school funding if subjected to charter funding structure |                           |         |                                              |         |                          |         |
|                                                                             | (\$1.3 billion)           |         |                                              |         | (\$1.1 million)          |         |

CHARTER SCHOOL FUNDING: Inequity Persists

- North Carolina charter schools received \$8,065 per pupil, but district schools would have received \$8,978 to educate the same students – a difference of \$913 or 10.2 percent. Weighting the district PPR for charter enrollment therefore decreases the funding disparity by \$17 from the statewide difference above.

**Figure 2: Per Pupil Total Revenue for North Carolina District vs. Charter Schools, FY 2006-07**



- Wake County charters received 10.1 percent less funding than district schools: \$8,804 vs. \$7,917 per pupil, a difference of \$887.

### Primary Reasons for Funding Disparities

- Charter schools lack access to local capital dollars, a critical source of funds for North Carolina districts. In FY 2006-07, capital revenues were estimated at \$813 per district student (capital outlay and debt service).<sup>2</sup>
- In addition to missing out on capital funding, charter schools in Wake County receive less average funding from the state due primarily to a less experienced, and thus, lower paid teacher population working there.<sup>3</sup> Thus, charter schools in Wake County were underfunded when compared to the state charter average.

### How North Carolina Funds Its District Schools<sup>4</sup>

North Carolina law mandates that the state provide funding for the yearly instructional

services of public schools and that local county governments fund school facility requirements. School funding is based on average daily membership (ADM) allotments. Total allotments are determined by taking the higher of the first two months of school ADM counts compared with a statistical projected average for the year.

The resulting ADM figure can be no lower than the previous year's ADM count. North Carolina allocates state funding to districts using three basic allotments: categorical, dollar, and position.

Categorical, or "supplemental", allotments are designed to address specific populations or disparities (e.g., limited English proficiency, students with special needs, academically gifted, transportation, small county supplements, etc.). Categorical funds are allotted to LEAs based on several criteria: headcount, district wealth, and student performance/identified needs). For example, in FY 2006-07, the state allotted \$3,348.47 per student for children with disabilities. Districts may choose to spend categorical revenues as they see fit to meet student educational and program needs.

Dollar and position allotments are base allotments intended to provide foundational education needs: classroom teachers, school leaders, instructional support, and classroom textbooks and supplies. Dollar allotments allow districts to hire employees or purchase services for a specific purpose (e.g., the state provided \$1,031.34 per K-3 ADM for teacher assistants, or \$67 per ADM for textbooks).<sup>5</sup> Position allotments, which comprise the bulk of state funding, are established for classroom teachers and instructional support personnel. No other adjustments or weights are included in the funding formula, aside from the student-to-teacher ratios that differ across grade levels and are built into the position allotment formulas.

North Carolina is one of just a few states that funds districts based on a teacher allocation system.

**Figure 3: State Charter School Policies**

| State Policies                                                                                       | Yes            | No | Partial |
|------------------------------------------------------------------------------------------------------|----------------|----|---------|
| Charter schools receive their funding directly from the state                                        | X <sup>6</sup> |    |         |
| Charter schools are eligible for local funding                                                       | X <sup>7</sup> |    |         |
| Cap on funding a charter school can receive                                                          |                | X  |         |
| District public schools receive differential funding (e.g. more funding for 9-12 vs. K-8 schools)    | X <sup>8</sup> |    |         |
| Charter schools receive differential funding                                                         |                | X  |         |
| State allows district to withhold funding from charter schools for providing administrative services |                | X  |         |
| State "holds harmless" district funding for charter enrollment                                       |                | X  |         |
| School is considered LEA if authorized by non-district organization                                  | X              |    |         |
| School is considered LEA if authorized by district                                                   |                | X  |         |
| Cap on number of charter schools                                                                     | X <sup>9</sup> |    |         |
| Cap on number of charter schools authorized per year                                                 | X              |    |         |
| Cap on number of students attending charter schools                                                  |                | X  |         |
| Charter schools have an open enrollment policy                                                       | X              |    |         |

The position allotments serve as a foundation formula because the number of teaching positions required is statutorily mandated. Teaching positions are based on legislated student-to-teacher ratios for each grade level.<sup>10</sup> Position allotments provide a district with funding for a specific position regardless of whether the teacher/instructional staff is low or high on the state salary schedule (so that districts with more

experienced teachers, and thus higher salaries and benefits, receive more state dollars).

County governments supplement state funds with annual appropriations of operating and capital dollars. Counties also pay debt service on bonds issued for school district construction. Though these debt service payments do not flow to school districts, they are considered revenue in this study because they pay for an essential school district function – providing facilities. If not for these payments, districts would have to reallocate portions of their other revenue sources to debt service.

### How North Carolina Funds Its Charter Schools

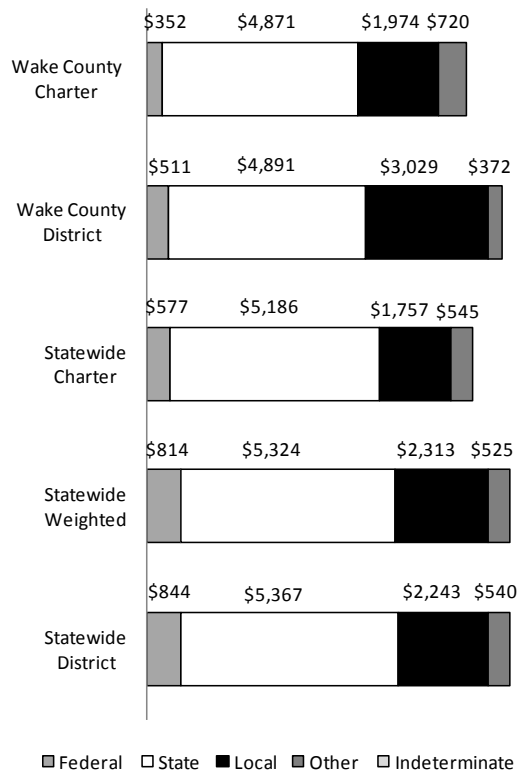
As is the case with districts, state education dollars are the primary funding source for charter schools in North Carolina. Unlike districts, which receive state funding through position allotments, dollar allotments, and categorical allotments, charter schools are funded on the basis of per pupil allotments (not through positions or particular funding codes). Selected categorical allotments are included in charter school funding, but not as many types as are provided to district schools.

State funds are provided to a charter school based on the number of students reported on school enrollment forms.<sup>11</sup> For each student enrolled, the State Board of Education allocates to each charter school the same average per pupil allotment that is given to the local district in which the charter resides. In 2006-07, the state expended an average of \$5,274 per student.<sup>12</sup> This per pupil expenditure, however, ranged from a low of \$4,679 in Cabarrus County to a high of \$11,284 in Hyde County.<sup>13</sup> In addition to the state funding based on dollars per ADM, charter schools may receive funding for children with disabilities, students with limited English proficiency, and improving student accountability if they qualify.

Certain federal categorical dollars such as Title I, Reading First Grants, and the child nutrition (school lunch) program funds follow the child.<sup>14</sup> Planning allotments provided by federal funding

are available for all new schools during their initial planning year.

**Figure 4: Per Pupil Revenue by Source for North Carolina District vs. Charter Schools, FY 2006-07**



Charter schools receive local revenues from the district(s) in which each enrolled student resides. The law states that local administrative units must pay charters the amount of “per pupil local current expense appropriation” for the current fiscal year.<sup>15</sup>

Local capital funding, which provides a substantial amount of funding to district schools, is not available to charter schools. Charter schools must pay for facility leases, renovation, and/or purchase out of their operating funds. (See Figure 3 for a summary of policies that impact charter school funding.)

### Facilities Funding<sup>16</sup>

**Local Capital Funding:** The majority of capital outlay funding for school districts comes from county governments. County governments issue

and repay bonds for district school construction and renovation, but they are prohibited by law from doing so for charter schools.

State law also permits counties to levy two one-half cent additions to the state sales tax. Thirty percent and 60 percent, respectively, goes to schools and can be spent on capital or debt retirement. Revenues are distributed on a per capita basis.

**State Capital Funding:** In FY 2006-07, the state provided school construction aid through three programs: the Public School Building Capital Fund, the Education Lottery, and the Public School Building Bond Act of 1996. Charter schools are not eligible for any state capital funds. The Public School Building Capital Fund (PSBCF) is funded by a portion of the corporate income tax, as well as lottery proceeds. However, lottery funds have different rules and usages and are considered separate. Allotments under PSBCF are based on ADM. Districts may let their funds accrue and once accessed, must match the funds at 1:3.

North Carolina lottery sales began in 2006 with a portion of proceeds dedicated to education. Funds are awarded to LEAs based on county ADM as a percentage of state ADM and each county’s property tax rate as a percentage of the property tax rate statewide. Matching funds are not required for lottery allotments.

The last source of state funds for district capital is the School Building Act of 1996. Allotments to districts hinge on four criteria: ADM, growth rates, low wealth, and small counties.

State statute does provide for limited charter school facility assistance. At the request of a charter school, a district is required to lease any available building or land to a charter school located within its boundaries. A district is exempt, however, if it can demonstrate that the lease is not economically or practically feasible or that it does not have adequate classroom space to meet its enrollment needs. (A local school board may also choose to provide a school facility to a charter

school free of charge, but the charter school is responsible for that facility's maintenance and insurance.) Few districts have leased buildings to charter operators.

The North Carolina Educational Facilities Finance Authority may issue bonds on behalf of charter schools. To date, however, no such bonds have been issued; charter schools generally do not meet the credit standards set by the Authority. A nonprofit organization, Self-Help, provides loans of up to \$5 million for charter school development<sup>17</sup> and charter schools are eligible for tax-exempt facilities financing through the North Carolina Capital Facilities Finance Section (NCCFFA). As of 2007, NCCFFA had completed one bond issue for one charter school at \$4.1 million.<sup>18</sup>

Charter school organizers and advocates have been lobbying for years to receive a portion of state and local capital funds as public schools. A group of seven charter schools filed suit in September 2009 in Mecklenburg County claiming that the state's refusal to allow charter schools access to capital funding that is available to district schools violates the state's constitutional requirement that the Legislature create "a general and uniform system of free public schools".<sup>19</sup> A decision was still pending when this finance study went to print.

### **Primary Revenue Sources for North Carolina's Public Schools**

The primary sources for North Carolina state revenues for public education are generated through income taxes, sales tax, corporate taxes, and other taxes such as the estate tax. A portion of lottery proceeds are also used to support district construction projects.

County governments in North Carolina are responsible for setting school budgets and raising local funds to support programming. Local revenues are raised through the half-cent sales tax permitted by state law, property taxes, fees, and local bond efforts.

The reasons for the funding gap between charter and district schools are most likely attributable to the following disparities in sources of revenue: 1) charter schools' lack of access to capital and debt service funds; and 2) lower receipts of federal funds compared with districts.

### **Local Revenues**

#### **No Access to Capital and Debt Service Revenues:**

North Carolina charter schools have no access to capital and debt service funds for school facilities. School districts statewide earned an average of \$813 per pupil from capital and debt service.<sup>20</sup> If bonds were included this figure jumps to \$1,472 per student. In Wake County, capital and debt service amounted to \$893 per student, but that figure climbs to \$2,725 per student with bonds included.

The difference between local revenue received by districts vs. charter schools comes close to the amount districts earned in capital and debt service revenues (minus bonds, which we excluded from totals). Districts statewide earned \$486 more in local revenues than charter schools (\$2,243 vs. \$1,757), \$327 less than the average earned in capital and debt service statewide. In Wake County, districts generated \$1,055 more per student in local revenues (\$3,029 vs. \$1,974), just \$163 more than Wake County's capital and debt revenue total per pupil.

### **State Revenues**

State education dollars are the primary funding sources for charter and district schools in North Carolina: 59.7% for district schools and 64.3% for charters (Figure 4). Both districts and charters received similar amounts per student in state dollars: \$5,367 for districts and \$5,186 for charter schools, a difference of \$181 per student. For Wake County district schools and charter schools, the difference in state revenues per pupil was only \$20 per student. Wake County charter school state payments likely reflects the lower Wake County level of state revenues that results from the district's less experienced teaching staff.<sup>21</sup> Based on the state's funding formula, state

revenues should reflect nearly equal totals per pupil – and they do.

**Figure 5: School Characteristics<sup>22</sup>**

| North Carolina<br>(2006-07)                                                   | Statewide<br>District | Statewide<br>Charters |
|-------------------------------------------------------------------------------|-----------------------|-----------------------|
| Percentage of students eligible for free or reduced price lunch <sup>23</sup> | 48.5%                 | 55.5%                 |
| Percentage of schools eligible for Title I <sup>24</sup>                      | 36.4%                 | 59.1%                 |
| Percentage of students by school type:                                        |                       |                       |
| Primary (K-5)                                                                 | 54.6%                 | 55.0%                 |
| Middle (6-8)                                                                  | 19.5%                 | 7.0%                  |
| High (9-12)                                                                   | 17.9%                 | 9.0%                  |
| Other (K-12, K-8, etc.) <sup>25</sup>                                         | 5.8%                  | 22.0%                 |

### Federal Sources

Differences In Students Served: As Figure 5 shows, charter schools served higher percentages of free and reduced price lunch eligible students (55.5 percent vs. 48.5 percent) and more charter schools were Title I eligible than district schools (59.1 percent vs. 36.4 percent). The characteristics of students served in charter schools should be cause for increased federal revenues. However, district schools statewide received \$267 more per student than charter schools, on average.

### State Scorecard

We have assigned ratings to each state based on the quality of data available, as well as to the extent charter schools have access to specific streams of revenue (Figure 6).

In Figure 6, we judged “Data Availability” on the ease of access to the information needed for this study and others like it. A rating of “Yes” means that all information was available through web sources or that it was provided upon request by state departments of education. A rating of “Partial” means some but not all of the data for

**Figure 6: State Scorecard**

| Findings           |                                                                                                                                                                              | NC |
|--------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----|
| Federal Funding    | Charters have access to federal funds according to state statutes (Yes = black, No = white)                                                                                  | N  |
|                    | Percentage of federal revenue is <i>greater than</i> (> black), <i>equal to</i> (=; black), or is <i>less than</i> (< white) that of total enrollment for charter schools    | <  |
| State Funding      | Charters have access to state funds according to state statutes (Yes = black, No = white)                                                                                    | Y  |
|                    | Percentage of state revenue is <i>greater than</i> (> black), <i>equal to</i> (=; black), or is <i>less than</i> (< white) that of total enrollment for charter schools      | <  |
| Local Funding      | Charters have access to local funds according to state statutes (Yes = black, No = white)                                                                                    | Y  |
|                    | Percentage of local revenue is <i>greater than</i> (> black), <i>equal to</i> (=; black), or is <i>less than</i> (< white) that of total enrollment for charter schools      | <  |
| Facilities Funding | Charters have access to facilities funds according to state statutes (Yes = black, No = white)                                                                               | N  |
|                    | Percentage of facilities revenue is <i>greater than</i> (> black), <i>equal to</i> (=; black), or is <i>less than</i> (< white) that of total enrollment for charter schools | <  |
| Data Availability  | State provides detailed, public data on federal, state, local, and other revenues for district schools (Yes = black, Partial = grey, No = white)                             | Y  |
|                    | State provides detailed, public data on federal, state, local and other revenues for charter schools (Yes = black, Partial = grey, No = white)                               | P  |
| Funding Formula    | Charters are treated as LEAs for funding purposes (Yes = black, Partial = grey, No = white)                                                                                  | P  |
|                    | State funds student (black) or the LEA (grey)                                                                                                                                | S  |
|                    | State funding formula is fair and equitable (Yes = black, No = white)                                                                                                        | N  |

this study were available either through web sources or through state departments of education. A rating of “No” means the data were not available either through web sources or through state departments of education.

Separately, we judged “Funding Formula” based on whether or not charters were considered Local Education Agencies for purposes of funding. “Yes” means that charters in the state are always considered LEA’s for all forms of funding. “Partial” means that charters are sometimes considered LEA’s for specific streams of funding (such as federal revenue) or that only certain charters are considered to be LEA’s. “No” means charters in the state are never considered an LEA for funding purposes. A state received a rating of fair and equitable funding if charters received fair and equitable revenue in all three revenue streams listed.

The same methods apply to ratings given for federal funding, state funding, local funding and facilities funding.

## Endnotes

<sup>1</sup> Data source for revenues and ADM: (1) The NC DPI provided detailed revenue accounts for all districts statewide from “PGA10RP5 13P 2007”. NC DPI data included capital totals; (2) Debt service payments are made on behalf of school districts by County Boards of government. Statewide and Wake County Debt service payment totals were taken from the North Carolina Department of State Treasurer Financial Information for FY 2006-07, “Report on County Spending on Public School Capital Outlay”: <http://www.nctreasurer.com/lgc/units/unitlistjs.htm>; (3) State revenues 3101 – Bus Replacement – was taken from the Wake County CAFR 2007; (4) The transfer amount to charter schools was taken from “2006-07 Selected Financial Data”, Table 6 p. 11; (5) According to School Business Services, the North Carolina Department of Education does not track Pre-K ADM and Pre-K counts are not included in ADM totals. Identifiable Pre-K

revenues were deducted from revenue totals; (6) All charter school revenue totals were calculated from FY 2006-07 financial audits provided by the North Carolina Department of State Treasurer’s Office; (7) According to the Office of Charter Schools, no charter schools received Pre-K or adult education revenues in FY 2006-07; (8) Federal reimbursements for the national school lunch program were added as revenues to charter school totals; and (9) The following statewide district revenues were excluded from this analysis: Smart Start programs (\$12,335,859); Head Start grants (\$11,679,423); Adult education revenues (\$2,520,813.09); Transfers (\$17,400,580); Bond and note proceeds (\$909,131,764); 1973 Bond Issue (\$2,801,643); Building Bonds (\$7,836,559).

<sup>2</sup> In North Carolina, the county board of commissioners, not the local school board, signs off on the budget and raises the money to support it. Capital totals do not include bond proceeds.

<sup>3</sup> Much of North Carolina’s state funding is based on position allotments, which means a district receives salaries and benefits for specific instructional positions. A district like Wake County Public Schools, with a less experienced teacher population (i.e., with fewer countable years of service as teachers), will typically receive lower state funding. The State Board of Education allocates to each charter school the same average per pupil allotment that is given to the local district in which the charter resides regardless of the charter school’s teaching population.

<sup>4</sup> “School Finance in North Carolina”. Fiscal Research Division, A Staff Agency of the North Carolina General Assembly. December 13, 2007.

<sup>5</sup> *Ibid*, p. 11.

<sup>6</sup> Charter schools that are authorized by the state receive funding directly from the state. Locally authorized charter schools receive pass-through funding from the district.

- <sup>7</sup> Each student's district of residence must forward the amount equal to the expense appropriation per district enrolled student. This does not include capital and debt service funds.
- <sup>8</sup> District schools receive differentiated funding by allotment for categoricals and instructional positions.
- <sup>9</sup> No more than 100 charter schools may operate in the state with a maximum of five charter schools authorized in one district per year.
- <sup>10</sup> In FY 2006-07, the legislated teacher to student ratios were: Grades K – 3 = 1:18; Grades 4 – 6 = 1:22; Grades 7 – 8 = 1:21; Grade 9 = 1:24.5; Grades 10 – 12 = 1:26.64. From "Highlights of the North Carolina Public School Budget" (see below).
- <sup>11</sup> Charter Schools are allotted state funds based on a projection of Average Daily Membership (ADM) until the first month Principals Monthly Report (PMR) is processed. Once the first month ADM is processed, an allotment adjustment is made and the first month ADM becomes the basis for the allotment. The first month ADM remains the basis for the allotment unless the Charter School writes and requests additional funding due to significant growth (10 percent or more) in months two through four.
- <sup>12</sup> Division of School Business Services, Financial Business Services. "2006-07 Selected Financial Data": Table 1, FY 2006-07 Expenditures by Source of Funds. November 2007.
- <sup>13</sup> Ibid. Table 4, Per Pupil Expenditure Ranking.
- <sup>14</sup> *2005 Charter School Application Resource Manual*. Raleigh, NC: NC Department of Public Instruction. Available online at: [http://www.ncpublicschools.org/charter\\_schools/downloads/2005resourceguide.pdf](http://www.ncpublicschools.org/charter_schools/downloads/2005resourceguide.pdf)
- <sup>15</sup> House Bill 955, 115C-238.29H. State and local funds for a charter school.
- <sup>16</sup> "Highlights of the North Carolina Public School Budget". Information Analysis, Division of School Business, NC DPI. February 2007.
- <sup>17</sup> For more details about Self-Help's lending programs, access <http://www.self-help.org/>
- <sup>18</sup> Balboni, Elise and Eva Rainer, Clara Chae, and Kathy Olsen. "2007 Charter School Facility Finance Landscape". The Educational Facilities Financing Center of Local Initiatives Support Corporation, April 2007.
- <sup>19</sup> The Associated Press. "Charter Schools file lawsuit over funding". *State News*, September 23, 2009.
- <sup>20</sup> Includes some small amounts of state funded capital.
- <sup>21</sup> In FY 2006-07, 472 of Wake County's teachers were in their first year of teaching. Data from "North Carolina Public Schools Statistical profile", Table 17, p. 32.
- <sup>22</sup> Student characteristic data taken from NCES for "school type" data. Data otherwise provided by NC DPI as noted.
- <sup>23</sup> Free or reduced price lunch data taken from "Child Nutrition Services Free and Reduced Application Data By Site". NC DPI, 2006-2007.
- <sup>24</sup> "2006-2007 Title I Report". NC DPI.
- <sup>25</sup> Other types of schools include multiple grade levels, such as K-8 or K-12, and nontraditional schools.