



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

Report to the North Carolina General Assembly

Report on Funding in Arrears

Session Law 2023-134 Section 7.20(a)

Date Due: February 15, 2024

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NC DEPARTMENT OF PUBLIC INSTRUCTION

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I. Background

Over 40% of the General Fund is dedicated to funding North Carolina public schools. With the exception of a small percentage of grants and categorical funding, average daily membership (ADM) is the basis of the distribution of appropriated funds to each public school unit (PSU). To ensure that there are sufficient funds to meet the funding formulas, the Department of Public Instruction (DPI) develops a budgeted number of students by public school unit and by grade, for the upcoming year. This budgeted number is developed using actual and projected ADM, and is referred to as the allotted ADM.

In the last ten years, changes in education laws, changes in the demographics of North Carolina and the increase in homeschools has had a significant impact on the population of public school students. In addition to these changes, the global pandemic had an unprecedented impact on the public school student population, which has created even more unexpected fluctuations and uncertainties in the public school populations. These significant changes have an impact on the allotted ADM, and as a result, the public school funding.

S.L. 2023-134 Section 7.20 requires DPI to develop a model to fund PSUs whose funding is based on ADM to be based on the actual ADM from the prior school year instead of projections for the upcoming school year. DPI shall include in the model a method to account for newly formed charter schools to ensure the charter schools receive adequate funding to operate before prior year ADM data is available or representative of the student population. The Department shall propose technical adjustments for public school funding to the State Board of Education for approval before submitting the model to the Director of the Budget, and the Fiscal Research Division.

A. Current Method of Determining Budgeted Average Daily Membership

The following is the current method of developing a budgeted ADM that is used for building the State Public School Fund budget. The method is different for local education agencies and other PSUs.

Local Education Agencies (LEA)

The allotted ADM is determined as the higher of the:

1. Projected ADM for the LEA for the school year
2. Higher of the actual month 1 and 2 ADM for the LEA in the prior year

Charter Schools and Lab Schools

Projecting over 200 individual schools of choice which are at different stages of growth require an understanding of the plans for each school. Therefore, DPI requests charter schools to provide the projected number of students for their school for the next school year. Charter schools may provide a projection up to the maximum number of students allowable for their school per law. Based on experience, DPI has noted that the projection for some schools is not realized and, therefore, reduces the overall projection to minimize requesting State funds for growth that does not materialize. This reduction does not impact the individual charter or lab school and charter schools may modify their January projection in June. This reduced number is the allotted ADM for charter and lab schools.

Regional Schools

There is one regional school in operation with less than 150 students. The allotted ADM is included in the LEAs where the students reside.

Residential Schools

The ADM for the 3 residential schools is not included in the allotted ADM. Funding for these schools is separate from the other PSUs.

The combination of the LEA, charter and lab school allotted ADM is used to build the State Public School Fund budget.

B. Current ADM used to Fund Public School Units

After the Appropriations Bill is enacted, the Department of Public Instruction provides funding authority to the PSUs. The ADM used for funding is different for LEAs and other PSUs.

Local Education Agencies

Initial Funding: LEAs are initially funded utilizing the allotted ADM as the basis of the funding formulas.

Adjustments to Initial Funding

Budget transfers: The ADM for new and high growth charter schools is included in the Allotted ADM of the respective LEAs. Therefore, the funding for new and high growth charter schools is initially included in the LEA's initial funding. The funding is transferred when the actual month 1 charter school ADM is collected. This transfer occurs in early November.

Reductions: In accordance with S.L. 2007-323 Section 7.15, if the higher of the first or second month ADM in a LEA is at least two percent (2%) or 100 students lower than the projected average daily membership used for allotments for the unit, the State Board of Education is required to reduce allotments for the LEA. The reduction is only for half the difference between the actual ADM and the projected. In addition, only certain funding categories are reduced, impacting approximately 75% of the LEAs funding. This reduction occurs in early December.

Note: S.L. 2023-134 Section 7.20(c) repeals S.L. 2007-323 Section 7.15, effective July 1, 2024.

Increases: In the event that the LEAs actual higher of the first or second month ADM is greater than the initial allotted ADM by at least 2% or 100 students, additional funding is provided. Only certain funding categories are increased, impacting approximately 75% of the LEAs funding. This increase occurs in early December.

Charter Schools and Lab Schools

Initial Funding: Charter schools and Lab schools are initially funded based on the final projected ADM provided by the school in June. The schools have access to 34% of the funding based on this projected ADM.

Final Funding: The funding is recalculated based on the actual month 1 ADM⁽¹⁾. This is the average membership for the first 20 instructional days. The schools are provided a dollars per ADM that is the equivalent per pupil base funding provided to the LEA in which the school is located.

(1) There are 3 charter schools that under SBE policy are funded on Month 5 ADM. These schools serve students that are at risk of dropping. Many of the students enroll in the school after month 1.

Regional School

The regional school is currently funded based on the month 1 ADM. The school receives their funding as a DPI administered transfer from the respective LEAs, based on the residency of each student in membership.

Residential Schools

Residential Schools receive an appropriation separate from the other PSUs.

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Recommendation for Funding Based on Prior Year Actual ADM

The following is the recommended model to adopt to fund all PSUs in a consistent manner that allows the PSUs appropriate time to plan and adjust to fluctuations in student populations.

A. Method of Determining Budgeted ADM

The Budgeted ADM will be comprised of two components:

- 1. The actual month 2 ADM of the prior year. (Allotted ADM)
- 2. The ADM of the projected growth above the allotted ADM for the individual PSUs that are projected to increase in ADM from the prior year. (ADM Contingency)
- 3. New charter schools (included in the ADM Contingency)

The ADM Contingency is developed considering the population change in counties, projections related to movement between public schools and nonpublic schools, and charter school population.

The budgeted ADM Contingency Reserve will be the product of the ADM contingency and the county average initial allocation per ADM from the prior year.

B. Recommended ADM to Fund Public School Units

All PSUs

Initial Funding: Allotted ADM used for initial funding for all PSUs is the prior year Month 2 actual ADM.

For a charter that was not in operation in the prior year, the allotted ADM is the ADM provided in the Ready to Open Report, as accepted by the Office of Charter Schools.

For a Lab school that was not in operation in the prior year, the allotted ADM is the projected ADM provided by the UNC system administrator.

Budget transfers: No adjustment is made to the LEA for new and growing charter schools. In effect, the LEA is not reduced in the first year for the impact of students moving to a charter school.

Reductions: No reductions are made to PSUs in the event that current year actual ADM is lower than the allotted ADM.

Charter schools and Lab schools in their first year of operation are funded based on Month 2 actual ADM.

Increases: In the event that the LEA’s actual month 2 ADM is greater than the allotted ADM, the PSU is funded additional funds on a per ADM basis.

Source of funds: The budget for the increase is the ADM Contingency Reserve.

Amount of funds: The funds for increases for all PSUs are calculated as the average per pupil allocation for the LEA, within funds available. This is the same as the base per ADM funding provided to lab and charter schools.

Use of funds: The funds for LEAs are placed in a program report code that has a chart of accounts that includes allowable expenditures for instructional services and noninstructional services. These funds may be transferred to any allotment category into which the LEA has authority to transfer.

The funds for Charter schools and Lab schools are placed in the block grant program report codes, PRC036 and PRC038, respectively.

Charter school and Lab schools in their first year of operation are funded based on Month 2 actual.

Note: Small County Supplemental Funding

Small County Supplemental Funding is currently funded as a flat amount based on the allotted ADM. The recommendation is to base the eligibility on prior year month 2 ADM and no adjustment for current year actual ADM. Note: the per pupil allocation incorporates a per pupil share of small county supplemental funding, which is included in the contingency reserve dollar per student for growth.

C. Funding not Included in the Recommendation above

Funds for Exceptional Children and Multilingual Children (LEP)

These funds are currently budgeted and distributed based on the headcount of the prior year. No change is being recommended. However, recommendations to these funding formulas are ongoing.

Driver Education

Funding is receipt based and not included in the base allocation for charter schools.

School Technology Funds

Funding is receipt based.

Grants

The funds will be distributed based on the Allotment Policy approved by the State Board of Education.

Summary

1. All PSUs are treated in a consistent manner
Currently, there are significant difference in the handling of LEAs vs charter schools regarding the average daily membership used for funding. This recommendation moves all PSUs to be funded on Month 2 ADM, and funding is not calculated on ADM less than Month 2 of the prior year. This will reduce confusion and simplify administration. LEAs will not

- have reductions for new and high growth charters for the first year, allowing them a year to adjust to the impact.
2. All PSUs will know the minimum ADM that funding is calculated on 8 months before the start of the fiscal year. Since the pandemic, the student population has been unpredictable, and will continue to be so with the increase in homeschools, opportunity scholarships and the rebound of birthrates. The PSU will have a year to make any adjustments to their budgets and personnel. This will allow the PSU to have confidence in personnel recruitment, budgeting and requests to county commissioners, without the unknown of the impact of possible budget transfers and reductions half way through the fiscal year. The elimination of midyear budget adjustments not only reduces funding uncertainty, but reduces the funding impact of unusual one year fluctuations in ADM.
 3. Severs the tie between LEA and charter school budgets, and fund each entity without dependency of another. This will facilitate the management of the budget related to PSU funding.
 4. Significantly reduces administration of the funding allocations.

Additional requirements Pending

- Legislation that is required to be modified based on this recommendation
- Impact by PSU