



HOUSE BILL 1031: Local Ed. Funding Dispute Process.

2017-2018 General Assembly

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| Committee: | Senate Rules and Operations of the Senate | Date: | June 15, 2018 |
| Introduced by: | Reps. Horn, Hurley, Lucas | Prepared by: | Kara McCraw |
| Analysis of: | Third Edition | | Staff Attorney |

OVERVIEW: *HB 1031 would eliminate actions in superior court for disputes over appropriations to the local school administrative unit's local current expense fund by county commissioners, and replace those actions with a statutory formula to determine the annual appropriation to be made.*

CURRENT LAW: Local boards of education (LBEs) are required to operate under an annual balanced budget resolution, and local appropriations for current expense and capital are made by the board of county commissioners (BCCs).

If there is a dispute over the amount appropriated, G.S. 115C-431 governs the procedure for resolution of that dispute. If the dispute is unresolved after a joint board meeting, the parties must start mediation. If the mediation is unsuccessful, an action may be filed in superior court. The court must find the facts as to the amount of money necessary to maintain a system of free public schools and the amount of money needed from the county to make up the total. When the facts have been found, the court must enter judgment ordering the BCCs to appropriate a sum to the LBEs and to levy property taxes that may be necessary to make up the sum when added to other available revenues.

BILL ANALYSIS: Sections 1 and 2 of HB 1031 would eliminate actions in superior court when there is a dispute between the LBE and a BCC as to the necessary appropriation for local current expenses. Instead, if the parties are unable to reach an agreement through mediation, the amount to be appropriated by the BCC to the local current expense fund would be determined by a formula as follows:

Year 1 Appropriation

Prior year's funding multiplied by (1 + cost index) = Base amount.

Base amount multiplied by ADM = Year 1 appropriation.

For the purposes of the equation above, terms have the following meaning:

- Average daily membership (ADM) - average daily membership of the students in that school unit (LEA) that attend that LEA or another public school to which funding is transferred.
- Prior year's funding - The amount of money appropriated by the BCC to the local current expense fund that is either expended by the LBE or transferred to another type of public school required by law divided by the ADM.
- Cost Index: the twelve month percent change in the 2Q Employment Cost Index for elementary and secondary school workers, as reported by the Federal Bureau of Labor Statistics.

If mediation does not resolve the disagreement a second consecutive year, the formula used as for the Year 1 appropriation is used again for the Year 2 appropriation.

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If mediation does not resolve the disagreement a third consecutive year, the following formula is used as for the Year 3 appropriation.

Prior year's funding multiplied by $(1 + \text{cost index increased by } 3\%) = \text{Base amount.}$

Base amount multiplied by ADM = Year 3 appropriation.

Local boards of education could continue to file an action in superior court when no agreement is reached on the amount of money to be appropriated for the capital outlay fund by the mediator. The judge or jury would be required to find the amount of money legally necessary from the BCCs to provide the LEA with suitably equipped buildings in order to maintain a system of free public schools.

Section 3 of HB 1031 would require the Local Government Commission and the School of Government at the University of North Carolina at Chapel Hill to convene a working group to develop and recommend statutory parameters for fund balances maintained by LBEs and for disputes related to the capital outlay fund. The working group must include at least one representative from each of the following groups: the North Carolina Association of County Commissioners, the North Carolina School Boards Association, and the North Carolina Association of School Business Officers. The working group must report no later than March 30, 2019, to the Joint Legislative Education Oversight Committee.

EFFECTIVE DATE: HB 1031 would become effective when it becomes law. Sections 1 and 2 would apply beginning with budget ordinances adopted on or after that date.

BACKGROUND: HB 1031, as introduced, was a recommendation of the Joint Legislative Program Evaluation Oversight Committee.