



PROGRAM EVALUATION DIVISION

NORTH CAROLINA GENERAL ASSEMBLY

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Local Education Funding Dispute Resolution Process Is Effective and Economical, but Litigation Could Be Eliminated

Summary

In North Carolina, local education agencies and local boards of education are fiscally dependent on county commissioners for local appropriations to support capital and operations for public K-12 education. This fiscal dependence plays out each year through a budgeting process wherein local education budgets are presented to county commissioners for appropriations determinations. If in any given year local boards of education and boards of county commissioners cannot reach a budget resolution, state law sets out a procedure for resolving local education funding disputes that is structured into two phases: pre-litigation and litigation.

Concerns have been raised regarding the use and cost of the dispute resolution process. Session Law 2016-116 directed the Program Evaluation Division to evaluate the process for resolving education funding disputes between local boards of education and boards of county commissioners.

North Carolina's dispute resolution process is effective and economical, but the litigation phase could be eliminated. The dispute resolution process is used infrequently and seldom reaches the litigation phase; when the process has been used the outcomes have not historically favored either party and may serve to improve future budgeting efforts. The cost of the process represents a fraction of total county funding for local boards of education, but litigation is costly and time-consuming. North Carolina and Tennessee are the only states with elected school boards that are fiscally dependent on county commissioners; whereas North Carolina has a dispute resolution process that can involve litigation, Tennessee uses a default funding mechanism to avoid litigation.

In addition, local boards of education maintain unencumbered fund balances that are relatively large and unnecessary because their operational needs are different from county government and because the majority of their operational funding comes from state appropriations.

As a result, the General Assembly should consider:

- If it wants to eliminate litigation from the local education funding dispute process, the General Assembly should revise state law for settling local education funding disputes to preserve the benefits of the pre-litigation phase while replacing the litigation process with a default funding mechanism.
- The General Assembly should direct the Local Government Commission and 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 local boards of education.