



# Education Subcommittee 2014-15 Fiscal Year Budget Highlights

Fiscal Brief

October 9, 2014

The North Carolina General Assembly House and Senate Appropriations Subcommittees on Education (ED Subcommittees) develop and recommend the budget for the State’s three education systems: Public Schools, the North Carolina Community College System (NCCCS), and the University of North Carolina System (UNC).

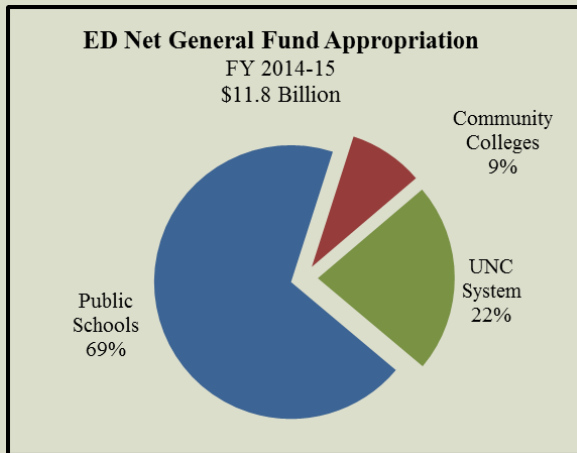
### Actual and Certified Expenditures and Receipts<sup>1</sup>

	<u>Actual FY 2011-12</u>	<u>Actual FY 2012-13</u>	<u>Actual FY 2013-14</u>	<u>Certified FY 2014-15</u>
<b>Expenditures</b>	15,302,551,399	15,519,690,197	15,541,650,219	17,139,203,909
<b>Less: Receipts</b>	4,169,846,913	4,091,556,273	4,185,254,357	5,363,933,093
<b>Net General Fund Appropriations</b>	\$11,132,704,486	\$11,428,133,924	\$11,356,395,862	\$11,775,270,816
<b>Positions (FTE)</b>	39,014.0	36,347.1	36,497.3	36,441.0

<sup>1</sup> Division level budget and FTE information is provided at the end of this budget brief.

### Budget Overview

The certified FY 2014-15 Net General Fund Appropriation for the ED Subcommittee agencies is \$11.8 billion. This is an increase of 1.0% over the previously-enacted FY 2014-15 Certified Budget. The General Fund Appropriation funds 36,499 full-time equivalent positions (FTE).<sup>2</sup> The chart below shows the budget by agency.



<sup>2</sup> Local school district and community college staff are not included in position counts as they are not State employees; additionally, this count does not reflect positions that may be eliminated as part of management flexibility reductions.

S.L. 2014-100, Appropriations Act of 2014 (S.B.744), appropriates \$11.8 billion for the three Education (ED) agencies. Legislative adjustments to the FY 2014-15 budget for ED agencies increased spending by \$112.8 million above the previously-enacted levels and by \$223.0 million above the FY 2013-14 authorized budget. Major actions in the Appropriations Act and accompanying Joint Conference Committee Report include:

- Increasing compensation for employees of the State, UNC System, Community Colleges, and local school districts;
- Changing substantive policies and funding formulas across all three ED agencies;
- Modifying financial aid and tuition policies and funding; and
- Making technical adjustments to the 2013 Appropriations Act.

This Fiscal Brief summarizes these actions and other adjustments in the FY 2014-15 budgets for Education.



**Compensation Increases**

*Public Schools*

The Appropriations Act provides salary increases for State-funded local public school district (LEAs) employees, including teachers and instructional support, school-based administrators, central office personnel, and non-certified personnel. The provisions detailing the salary increases for these employees are in Section 9 of S.L. 2014-100.

Teachers & Instructional Support: S.L. 2014-100 appropriates \$282 million for salary increases and the associated benefits costs for teachers and instructional support personnel (educators) and reforms the statewide minimum teacher salary schedule. The teacher salary schedule sets the base monthly rate of pay of all North Carolina public school educators. The revised salary schedule in Section 9.1(a) continues to pay educators based on years of experience, educational attainment, and credentialing. However, it compresses the previous 37-step schedule into the following six-step schedule:

**FY 2014-15 Teachers “A” Salary Schedule**

<b>Years of Experience</b>	<b>Base Monthly Salary</b>
0 – 4	\$3,300
5 – 9	\$3,650
10 – 14	\$4,000
15 – 19	\$4,350
20 – 24	\$4,650
25+	\$5,000

The new salary schedule increases starting educator monthly pay from \$3,080 to \$3,300 and provides fewer but larger structural salary increases than the old schedule. On average, the FY 2014-15 salary schedule provides an approximately seven percent increase for current educators relative to the FY 2013-14 salary schedule plus longevity payments. This comparison is the historic standard for estimating percentage salary increases for teachers as reflected in the Fiscal Research Division’s “Salary Increase History” ([http://www.ncleg.net/FiscalResearch/Statistics\\_and\\_Data/statistics\\_and\\_data\\_pdfs/salaries\\_benefits/2014-15%20Historical\\_LSI.pdf](http://www.ncleg.net/FiscalResearch/Statistics_and_Data/statistics_and_data_pdfs/salaries_benefits/2014-15%20Historical_LSI.pdf)). Salary increases for individual educators range from 0.3 percent to 18.5 percent.

Section 9.1(e) ensures that no educators will make less in FY 2014-15 than their FY 2013-14 base pay plus longevity. Any educator who would not receive a salary increase under the new schedule will be paid the same salary as in FY 2013-14 and receive a nonrecurring \$1,000 bonus.

School-Based Administrators: Section 9.11 of S.L. 2014-100 appropriates \$6 million for salary increases for principals and assistant principals (School-Based Administrators, or SBAs), providing on average a two percent salary increase. SBAs not receiving a salary increase from the revised salary schedules in Section 9.11 will receive a nonrecurring \$809 bonus.

Central Office and Noncertified School Personnel: Sections 9.12 and 9.13 of S.L. 2014-100 appropriate \$32 million to provide a \$500 salary increase (and associated benefits costs) for all permanent full-time non-certified and central office personnel.

*Higher Education*

Community Colleges: The budget appropriates \$27.4 million for increases to compensation and State retirement system contributions. Full-time NCCCS staff and state-funded employees at community colleges will receive a \$1,000 recurring salary increase and a one-time bonus of five un-expiring annual leave days.

UNC System: The budget appropriates \$28.5 million for increases to compensation and State retirement system contributions. UNC employees subject to the State Human Resources Act will receive a \$1,000 recurring salary increase. The budget also appropriates \$5 million for salary increases for employees who are exempt from the State Human Resources Act and gives the UNC Board of Governors flexibility to determine how to allocate those funds in order to improve employee retention. All permanent full-time employees will receive a one-time bonus of five un-expiring annual leave days.

**Policy and Formula Changes**

S.L. 2014-100 significantly reforms the funding and operation of the State’s education system. The most substantial changes are as follows:



*Public Schools*

- **Classroom Teachers:** The General Assembly acted to lower class sizes in kindergarten through third grade. The FY 2014-15 budget provides an additional \$42 million to decrease class size funding allocations by one student per teacher in kindergarten and grade 1. The Appropriations Act of 2013 had provided an additional \$43 million to reduce grades 2 and 3 class sizes from one teacher per 19 students to one teacher per 18 students, beginning in FY 2014-15. In total, the budget provides 1,474 additional guaranteed k-3 teaching positions in FY 2014-15 as compared to FY 2013-14, at a cost of approximately \$85 million. This table summarizes the changes to class size allocation ratios in kindergarten through third grade:

**Grades K-3 Class Size Allocation Ratios  
(Teacher: Student)**

Grade	FY 2013-14	FY 2014-15
K	1:19	1:18
1	1:18	1:17
2	1:18	1:17
3	1:18	1:17

- **Small County Supplemental Funding:** The budget provides an additional \$3.6 million to fund changes to the Small County Supplemental Funding formula. The revised formula will allocate differentiated funding based on the size of eligible school districts. This increase more than offsets a \$3.2 million reduction that was scheduled for FY 2014-15, as required by S.L. 2013-360, Appropriations Act of 2013 (S.B. 402), and the new formula nullifies other distributional changes called for in S.L. 2013-360 that had not yet been implemented.
- **Teacher Assistants:** The budget provides \$368.3 million for teacher assistants, \$85 million less than was provided in FY 2013-14 and \$105 million less than had initially been budgeted for FY 2014-15. This reduction did not modify the statutory basis for allocating Teacher Assistants funds.

- **Driver Training:** The budget transfers the primary responsibility for funding driver training to LEAs as of FY 2015-16; for FY 2014-15, it appropriates \$26.4 million in nonrecurring Highway Fund dollars for a final year of State support. Section 8.15 of the budget requires local boards of education to “use funds available” to operate driver training programs beginning July 1, 2015, further noting that the program “shall no longer be paid out of the Highway Fund.” The budget authorizes LEAs to charge students a \$65 fee for driver training, a \$10 increase over the FY 2013-14 maximum allowable charge.

*Higher Education*

- The budget appropriates \$15.1 million to NCCCS to establish a fourth tier of courses in the enrollment funding formula. NCCCS uses a tiered formula to allocate funds to colleges based on the total instructional credit hours provided by tier. The new tier will be comprised of courses in areas such as health care and technical education that train students for higher-wage jobs in industries with documented skill gaps. This tier will be funded at a higher rate per credit hour than other tiers, encouraging colleges to offer more of these courses.
- The General Assembly directs UNC General Administration to revise the Enrollment Growth Funding Model for general institutional support. The previous model contained an adjustment factor that buffered campuses from funding cuts when enrollment declined. The revised model will remove that factor, meaning that campus budgets will more readily fluctuate up and down with enrollment changes. Implementing this policy in FY 2014-15 results in a \$5.3 million reduction in State appropriation.

**Financial Aid and Tuition Modifications**

The General Assembly changed financial aid funding by shifting sources, making temporary funds permanent, and increasing total funding. It also took



multiple steps to increase the financial stability of the State's financial aid system infrastructure.

Financial Aid funding changes include:

- **Increased Funding:** Budgets an additional \$50,000 for the National Guard Tuition Assistance Program, bringing this program's appropriation to \$1.9 million.
- **Temporary Funds Made Permanent:** Converts \$4.5 million of non-recurring funds to recurring for the NC Need-Based Grant program for students at private colleges and universities.
- **Program Creation:** Requires UNC and NCCCS to participate in the federal Yellow Ribbon Program, leveraging federal funds to match \$5.9 million in newly-appropriated State dollars to help veterans who are not residents for tuition purposes. The program will reduce the cost of tuition not covered by Post-9/11 G.I. Bill benefits for non-resident veterans.
- **Funding Swap:** For the UNC Need-Based Grant program, the budget replaces \$19.1 million originally appropriated from the Lottery Fund with the same amount from the Escheat Fund. This shift leaves total financial aid funding unchanged.

Financial Aid infrastructure or policy shifts included:

- **Infrastructure Stabilization:** Appropriates \$1 million to the College Foundation of North Carolina (CFNC), a program of the State Education Assistance Authority (SEAA). This funding mitigates a structural budget gap created by federal regulatory changes. The General Assembly also requires CFNC to report to the Fiscal Research Division and Office of State Budget and Management by December 1, 2014, on its long-term financial sustainability.
- **Policy Change:** Requires the SEAA to oversee the long-term financial closeout of the former Teaching Fellows Scholarship Loan program to ensure that former loan recipients repay the State either through service or cash.

The two tuition policy changes were:

- **Community Colleges:** Increases tuition by \$0.50 per credit hour, which will generate an

additional \$2.1 million annually in receipts for NCCCS, and makes a corresponding reduction in General Fund support.

**UNC:** Overrides specific nonresident tuition rate increases scheduled for FY 2014-15. The 2013 Appropriations Act increased nonresident tuition for FY 2014-15 at most UNC institutions and took a corresponding \$27.2 million General Fund reduction; the Joint Conference Committee Report specified the exact increase per institution. The 2014-15 Act allows UNC to self-determine nonresident tuition rates, provided that it generates at least the budgeted \$27.2 million.

### Technical Adjustments

The General Assembly modified several appropriations in the 2014 Appropriations Act due to revised cost estimates or fund source shifts. These changes reduce neither program services nor the number of State-funded positions.

#### *Public Schools*

For technical reasons the budget reduces General Fund support in these areas:

- **Average Daily Membership (ADM):** Reduces allotment funding by \$37.4 million, reflecting 6,286 fewer students than previously projected for the 2014-15 school year.
- **Average Teacher Salary:** Reduces allotment funding by \$64.9 million, reflecting the lower cost of guaranteed State-funded positions using updated December 2013 average salary data.
- **North Carolina Education Lottery:** Budgets additional Lottery receipts for Classroom Teachers (\$33.9 million) and Teacher Assistants (\$113.3 million). The General Assembly makes offsetting General Fund reductions to these allotments, leaving total program funding unchanged.

#### *Higher Education*

- **Enrollment Growth:** The budget cuts \$17.2 million from the NCCCS budget and \$1.8 million from the UNC System budget due to a decline in community college enrollment and slower-than-projected UNC enrollment growth.



- **UNC Building Reserves:** The FY 2013-15 budget funded the overhead operating costs associated with new or renovated UNC buildings that were scheduled to be completed during the biennium. Because some of the project completion dates have shifted past June 30, 2015, S.L. 2014-100 cuts \$1.0 million from these Building Reserves.

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**Actual and Certified Expenditures and Receipts by Agency**

**Public Schools**

	Actual FY 2011-12	Actual FY 2012-13	Actual FY 2013-14	Certified FY 2014-15
Expenditures	9,811,730,350	9,804,398,812	9,826,190,626	11,525,825,496
Less: Receipts	2,232,043,008	2,064,365,645	2,058,512,652	3,420,848,888
Net General Fund Appropriations	\$7,579,687,342	\$7,740,033,167	\$7,767,677,974	\$8,104,976,608
Positions (FTE)	1,327.0	1,339.2	1,342.2	1,288.7

**North Carolina Community College System**

	Actual FY 2011-12	Actual FY 2012-13	Actual FY 2013-14	Certified FY 2014-15
Expenditures	1,408,984,454	1,458,457,154	1,440,356,392	1,457,975,735
Less: Receipts	406,902,845	422,203,748	424,395,744	417,064,464
Net General Fund Appropriations	\$1,002,081,609	\$1,036,253,406	\$1,015,960,648	\$1,040,911,271
Positions (FTE)	194.0	194.1	194.1	194.1

**University of North Carolina**

	Actual FY 2011-12	Actual FY 2012-13	Actual FY 2013-14	Certified FY 2014-15
Expenditures	4,081,836,595	4,256,834,231	4,275,103,201	4,155,402,678
Less: Receipts	1,530,901,060	1,604,986,880	1,702,345,960	1,526,019,741
Net General Fund Appropriations	\$2,550,935,535	\$2,651,847,351	\$2,572,757,241	\$2,629,382,937
Positions (FTE)	37,493.0	34,813.8	34,961.0	34,958.2

**Change in FTE, FY 2014-15<sup>1</sup>**

	Vacant	Filled	Receipts	New	Transfers	Net Change
<b>Education</b>						
Public Schools	(48.5)	(5.0)	-	-	-	(53.5)
Community Colleges	-	-	-	-	-	-
UNC System	(2.8)	-	-	-	-	(2.8)
<b>Total Education</b>	<b>(51.3)</b>	<b>(5.0)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(56.3)</b>

<sup>1</sup> Local school district and community college staff are not included in position counts as they are not State employees.