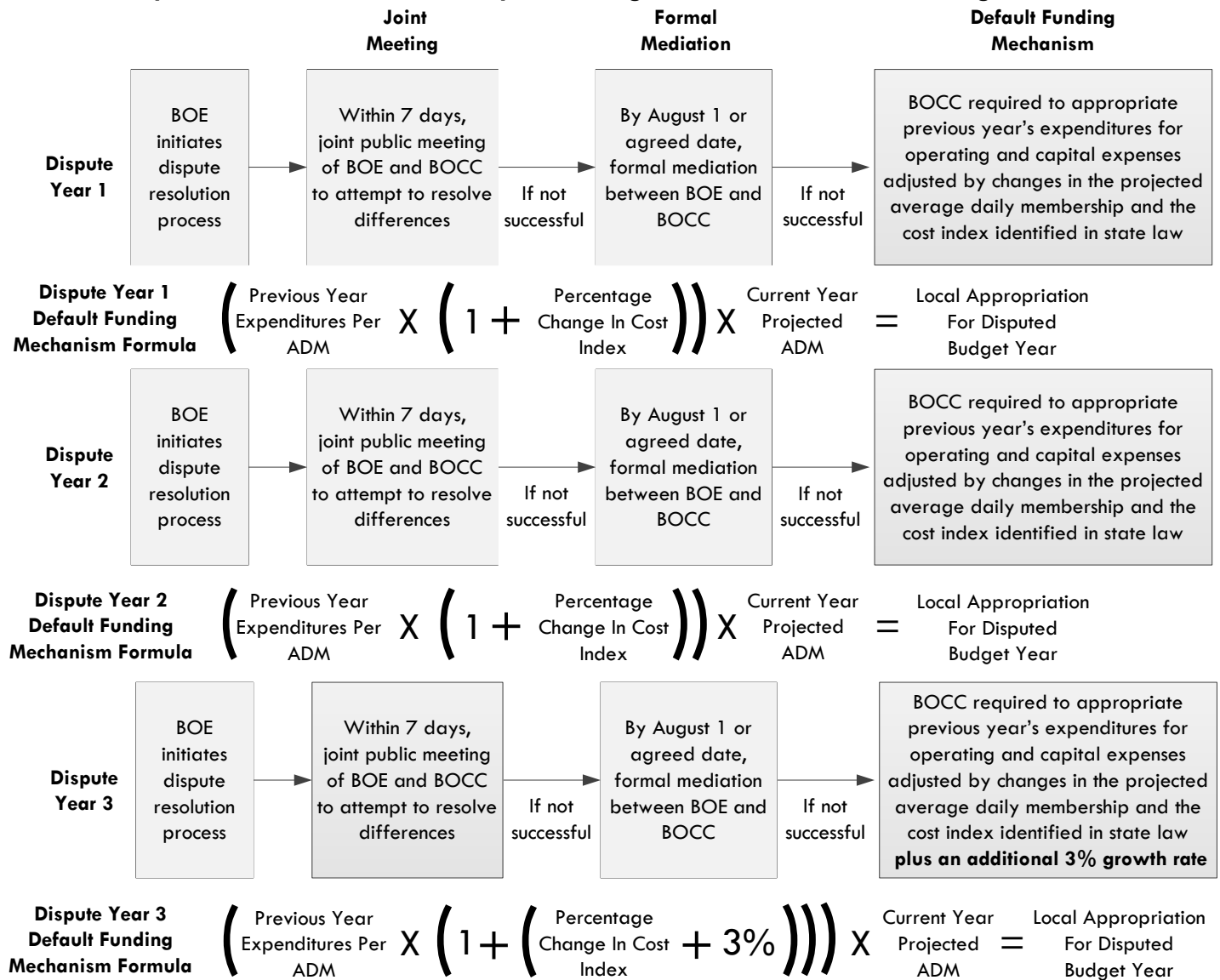


Local Boards of Education Do Not Have the Operational Needs that Would Require Maintaining Large Unencumbered Fund Balances

Operational Need for Maintaining Large Unencumbered Fund Balance	Local Board of Education Has Operational Need	Rationale Regarding Existence of Operational Need or Not
Meeting cash flow needs	●	The majority of operational funding comes from state allotments, and resources become available as expended. Furthermore, because N.C. Gen. Stat. § 159-27(a) dictates that school revenue that comes from the collection of local taxes is distributed on at least a monthly basis, cash flow needs are limited.
Avoiding challenges of the tax collection cycle	○	Local boards of education are non-tax collection units of government. Furthermore, school revenue that comes from the collection of local taxes by counties is distributed monthly per N.C. Gen. Stat. § 159-27(a) and is not subject to the challenges of the tax collection cycle.
Maintaining reserves for emergencies and other unforeseen events	●	LEAs are subject to emergencies and other unforeseen events. Fund balances are useful in offsetting cuts in state funding. However, given that counties are charged with the statutory authority for appropriating local resources for K-12 public education, it is reasonable to assume counties serve as the source of reserves for LEA emergencies. Nevertheless, a local board of education's reliance on its county for reserves to address emergencies and other unforeseen events could be challenged by poor working relationships.
Increasing investment income	○	Local board of education investment authority is limited to the instruments described in N.C. Gen. Stat. § 115C-443 and capital.
Protecting credit ratings	○	Local boards of education do not have the authority to issue debt and, as a result, do not need reserves to preserve credit ratings.
<p style="text-align: center;"> No Operational Need Exists = ○ Some Operational Need Exists = ● Operational Need Exists = ● </p>		

Source: Program Evaluation Division based on review of statute, literature, and interviews with Local Government Commission staff.

Revised Dispute Resolution Process Replaces Litigation with a Default Funding Mechanism



Hypothetical Example	Base Year	Dispute Year 1	Dispute Year 2	Dispute Year 3
	Fiscal Year 2013-14	Fiscal Year 2013-14	Fiscal Year 2013-14	Fiscal Year 2013-14
Projected Average Daily Membership (ADM)	1,000	1,013	1,042	1,071
Cost Index Percentage Change	N/A	0.95%	1.89%	1.52% + 3.0%
Local Operational Expenditures per ADM	\$ 100	\$ 100.95	\$ 102.86	\$ 107.51
Total Local Expenditures	\$ 100,000	\$ 102,266	\$ 107,180	\$ 115,138

Notes: BOCC stands for board of county commissioners. BOE stands for local board of education. For the hypothetical example, the Program Evaluation Division used the Bureau of Labor Statistics' Employment Cost Index for elementary and secondary school workers for calendar years 2012 through 2016 (Series Id: CIU3026100000001). This cost index is reported quarterly for a calendar year, and second quarter data would be the most recent data available during the local education funding dispute resolution process. To calculate the Cost Index Percentage Change for each disputed budget year, the second quarter cost index data from the previous calendar year was compared to the second quarter data for the current year.

Source: Program Evaluation Division.