

**Digest:**

**Allotment-Specific and System-Level Issues  
Adversely Affect North Carolina's Distribution of  
K-12 Resources**



**Report Number 2016-11**

**November 16, 2016**

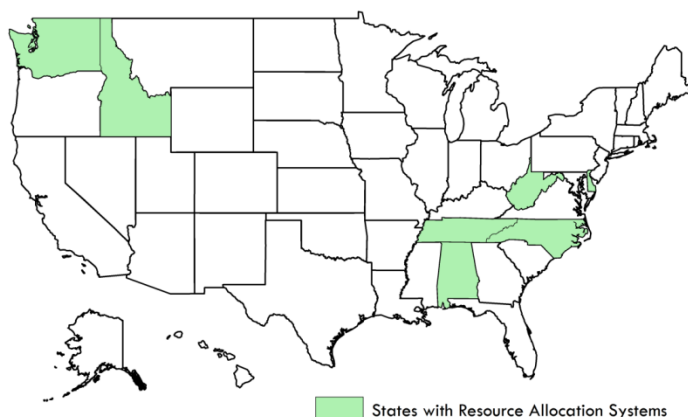


## Digest: Allotment-Specific and System-Level Issues Adversely Affect North Carolina's Distribution of K-12 Resources

As directed by the Joint Legislative Program Evaluation Oversight Committee, this report examines the State's system for allotting resources to local education agencies (LEAs) and charter schools for the operation of K-12 public schools. State funding for the K-12 public education system represents the largest single portion of North Carolina's General Fund budget. In Fiscal Year 2014–15, K-12 allotments totaled \$8.4 billion.

**North Carolina uses a resource allocation model as the basis for distributing state funds, wherein 37 different allotments represent individual components of the education delivery model.** An allotment is a specific amount of resources, determined using a formula or rules that is allocated by the State to an LEA or charter school to be spent on a purpose consistent with law, policy, and the state curriculum. For example, there are allotments for classroom teachers, textbooks, central office administration, and transportation.

### Seven States Use a Resource Allocation Model for Funding K-12 Education



**DPI distributes two types of resources through allotments – dollars and positions.** Dollar allotments provide a specific amount of money to LEAs, whereas position allotments provide a specified number of positions. The cost of position allotments (salaries and benefits) varies by LEA depending on how each LEA's staff is distributed according to the different statewide salary schedules. Position allotments accounted for nearly 60% of the resources DPI distributed in Fiscal Year 2014–15. Allotments are not equivalent with expenditures because the categories to which DPI

allots resources may not reflect how LEAs actually expend funds. Though DPI provides LEAs with both position and dollar allotments, LEAs use both types of allotments to pay personnel; LEAs expend 94% of all state allotments on salaries and benefits.

This report contains 12 findings that are grouped into 2 sections: Section I identifies issues with individual allotments. Section II discusses system-level issues that are beyond the scope of a single allotment and pose challenges that would require changes to the overall system.

### Section I: Allotment-Specific Issues

**Finding 1: The structure of the Classroom Teacher allotment results in a distribution of resources across LEAs that favors wealthy counties (pages 14–20).** The Classroom Teacher allotment is the single largest allotment the State provides to LEAs. In Fiscal Year 2014–15, this allotment cost the State \$3.8 billion, or 45% of all state-allotted funds. The Classroom Teacher allotment is a position allotment, meaning LEAs do not receive dollars from the State to pay teachers, but instead receive positions against which they can charge the State. As a result, LEA business officers try to pay their costliest teachers from this position allotment, thereby maximizing the amount of state resources that LEAs receive.

The State pays teachers according to a statewide teacher salary schedule that is based upon credentials—experience, education level, and board certification. Teachers with strong credentials are not evenly represented across LEAs. Because teacher credentials drive how much LEAs receive in resources through the position allotment, certain LEAs with higher concentrations of teachers with strong credentials will receive more money through the position allotment. The LEAs that receive more funding through the Classroom Teacher Allotment tend to be wealthier LEAs that have higher property tax bases per student. Converting classroom teacher funding from a position allotment to a dollar allotment and restructuring the State’s teacher compensation model has the potential to ensure a more equitable distribution of resources for teachers across LEAs.

**Finding 2. The Children with Disabilities allotment fails to differentiate funding based on the instructional arrangements or setting required and contains a funding cap that results in disproportionately fewer resources going to LEAs with the most students to serve (pages 21–26).** The primary allotment for children with disabilities does not distinguish among very different categories of disability, levels of severity, or costs of providing services. Instead, the Children with Disabilities allotment provides a flat amount per student. By contrast, Texas uses a model that promotes varying levels of funding depending on instructional arrangements or setting. By basing funding on the services or setting a student needs, this model has the potential to provide a more precise amount of funding compared to the flat amount North Carolina provides per student.

Another issue with the Children with Disabilities allotment is that it contains a funding cap that skews the amount provided to serve similar student populations. The allotment cap stipulates that if the percentage of children with disabilities in an LEA is greater than 12.5%, the LEA does not receive funding for those students above the cap, despite a requirement to serve those students. In Fiscal Year 2014–15, the percentage of children with disabilities in 62 LEAs exceeded the 12.5% funding cap. The cap harms LEAs with higher concentrations of children with disabilities, who are not evenly distributed across the state. Lifting the Children with Disabilities cap entirely or providing partial funding above the cap would ensure that LEAs with higher concentrations of children with disabilities receive some funding for the additional students they must serve.

**Finding 3. The allotment for Limited English Proficiency (LEP) contradicts the principles of economies of scale and contains a minimum funding threshold that results in some LEAs serving LEP students without funding (pages 26–30).** The purpose of the LEP allotment is to provide additional funding to LEAs and charter schools for students with limited proficiency in English. Part of the LEP formula provides funding based on the concentration of LEP students within an LEA, with higher concentrations receiving greater funding. This concentration factor contradicts the principles of economies of scale because LEAs with higher concentrations of LEP students should actually be able to serve students at a lower cost. For example, the cost of an LEP teacher is not likely to vary much regardless of whether the teacher has 10 or 25 students in a self-contained classroom. Thus, there is a misplaced rationale for schools with higher concentrations of LEP students to receive more funding per student.

The LEP allotment also contains a minimum threshold—in order to be eligible for LEP funding, an LEA/charter school must have at least 20 students, or at least 2.5% of average daily membership (ADM), with limited English proficiency. Thus, LEAs and charter schools with a very low prevalence and concentration of LEP students do not receive any LEP funding. In 2014–15, 6 LEAs and 71 charter schools had LEP students but received no funding because they fell below the minimum threshold. Paradoxically, these students are likely among the most expensive LEP students to serve because their associated LEAs and charter schools cannot benefit from economies of scale in providing LEP education.

**Finding 4. The allotment for small counties is duplicative and not tied to evidence regarding costs of operating small districts (pages 28–31).** North Carolina provides county LEAs with lower than 3,200 average daily membership (ADM) with supplemental funds to address inefficiencies resulting from operating smaller districts. The amounts allotted to small county LEAs are unsubstantiated by any formal cost analysis. There are five other allotments that provide disproportionately greater amounts of funding to smaller LEAs, resulting in duplication of allotments to subsidize small LEAs. Much of the available literature reveals that while small districts have high costs per student, cost per student begins to level off as districts approach 2,000 students. Most states that provide a subsidy or adjustment for district size only do so for districts with fewer than 2,000 ADM, while North Carolina sets the threshold at 3,200.

**Finding 5. The Low Wealth allotment formula relies on a factor that does not accurately assess a county's ability to generate local funding (pages 31–36).** Low Wealth Supplemental Funding provides funding to LEAs and charter schools based on their county's ability to generate adequate local revenue to support public schools at the state average level. The Low Wealth allotment is among the most complex state allotments to determine and relies on a calculation of a county's wealth as a percentage of the state average. One of the weighted factors used in the calculation is adjusted property tax base per square mile as a percentage of the state average. Using a county's adjusted property tax base per square mile is an inaccurate way to assess a county's ability to generate sufficient funding for public schools because it does not incorporate any measure of the student population that property taxes are supporting. Some counties with a high adjusted property tax base per square mile may have a difficult time generating sufficient local funding for education because they have large numbers of students per square mile. Eliminating the use of adjusted property tax base per square mile as a factor would be a more accurate way to calculate an LEA's ability to generate local funding.

**Finding 6. The allotment for disadvantaged students provides disproportionate funding across LEAs (pages 36–38).** The purpose of the Disadvantaged Student Supplemental Funding (DSSF) allotment is to address the capacity of LEAs to meet the needs of disadvantaged students. DSSF funding was established in 2004 as a pilot program with 16 school districts. When the General Assembly expanded the DSSF allotment to include all LEAs in 2006–07, the LEAs that did not participate in the original pilot were funded based on a different formula. In Fiscal Year 2014–15, the 16 pilot LEAs received an average of \$989 per disadvantaged student, while all other LEAs receive an average of \$210 per disadvantaged student. The pilot LEAs are held harmless against reductions in funding that would result from using the current formula that determines funding for all other LEAs. Funding all LEAs based on the current formula would free up an estimated \$18 million in DSSF resources that could be redistributed across all LEAs and charter schools.

**Finding 7. Funding for central office administration has been decoupled from changes in student membership, creating an imbalance in the distribution of funds (pages 38–40).** This allotment pays for personnel in an LEA's central office including superintendents, assistant superintendents, finance officers, athletic trainers, and other types of director, supervisor, or coordinator positions. The Central Office Administration allotment is decoupled from changes to LEAs' average daily membership (ADM) that have taken place since Fiscal Year 2001–02. Allotment amounts are no longer calculated each year based on an LEA's current ADM, but are increased or decreased based on the prior year's allotment amount. As a result, allotment dollars are maldistributed among LEAs. LEAs that have declined in size continue to receive funds based on their former, larger size whereas growing LEAs have not received additional resources to operate larger central offices.

---

## **Section II: System-Level Issues**

**Finding 8. North Carolina's allotment system is opaque, overly complex, and difficult to comprehend, resulting in limited transparency (pages 41–45).** The allotment system, with 37 distinct allotments, is overly complex. Many of the allotments contain formulas that require multiple steps to calculate, as well as specific rules or conditions, hold-harmless provisions, and exceptions. The allotment system is also opaque because of interrelating factors that make it challenging to discern why any given LEA receives a particular amount of funding. LEA staff are responsible for navigating this complex system, which requires time to learn and sometimes necessitates the support of consultants.

An LEA's ability to navigate the allotment system can determine how much the LEA receives in state resources. Strategic use of position allotments, dollar allotments, and transfers allows LEAs to maximize the use of position allotments and ultimately employ more teachers than would otherwise be possible. Conversely, failure to navigate the allotment system's complexity can cost LEAs in the form of unrealized state resources.

The complexity of North Carolina's allotment system results in limited transparency. One way to view the transparency of the allotment system is to look at the system's accessibility. Several LEA business officers interviewed by the Program Evaluation Division stated that few individuals within their respective LEAs had a thorough understanding of the system. The Program Evaluation Division also found that some LEA business officers themselves have gaps in their understanding of the system.

**Finding 9. Problems with complexity and transparency are exacerbated by a patchwork of laws and documented policies and procedures that seek to explain the system (pages 45–47).** The allotment system is not codified in statute; the system’s framework is based on piecemeal changes made through budgetary provisions, session laws, and agency policy. The Department of Public Instruction (DPI) does not produce a comprehensive document outlining all allotment policies and procedures. The document that DPI produces that most closely resembles a comprehensive policies and procedures document is the Allotment Policy Manual, which has some shortcomings. The Allotment Policy Manual is only available retrospectively, does not comprehensively cover all allotments, and lacks procedural details. The absence of procedural detail creates challenges because the allotment process takes place throughout the year, including revisions, new allotments, and transfers. After distributing initial allotments, DPI made 50 revisions during Fiscal Year 2014–15 totaling over \$1.6 billion in net changes.

**Finding 10. Allotment transfers—a system feature intended to promote LEA flexibility—hinder accountability for resources targeted at disadvantaged, at-risk, and limited English proficiency students (pages 47–51).** Transfers among allotments provide flexibility to LEAs by ensuring resources can be redirected and expended as needed. However, this flexibility can create issues when funds are diverted away from targeted groups. In Fiscal Year 2014-15, LEAs transferred \$11.3 million away from at-risk, disadvantaged, and LEP students into the allotment for non-instructional support (clerical assistants, custodians, duty free period, liability insurance, and substitutes). As a result, LEAs procured personnel whose duties may only be peripherally related, if at all, to serving the needs of disadvantaged, at-risk, or LEP students. These funds were originally allotted by the State to serve special populations, and this function is hindered by fund transfers. Furthermore, the Limited English Proficiency and Disadvantaged Student Supplemental Funding allotments contain restrictions regarding how the funds can be used, but LEAs do not have to adhere to those requirements for funds that are transferred.

**Finding 11. Translating the allotment system for funding LEAs into a method for providing per-pupil funding to charter schools creates several challenges (pages 51–56).** The resource allocation model that North Carolina uses to distribute funds to LEAs is not designed or calculated on a per-pupil basis, complicating the distribution of funds to charter schools, which are allotted funds on a per-pupil basis. Several allotments translate poorly to per-pupil amounts because they are not reflective of charter school operations or populations. For example, the Small County Supplemental Funding allotment is designed to address challenges associated with economies of scale based on LEA size. Charter schools receive a portion of this allotment based on whether the LEA they are located within receives the allotment, not based on the size of the charter school itself.

Another challenge arises because average daily membership (ADM) is funded differently between LEAs and charter schools. Part of how DPI determines funded ADM for charter schools is based on a calculation of ADM for the first 20 days of a charter school’s year. Because a student is not in membership until after the student attends school for the first time in a new school year, charter schools can receive funding for fewer students than are in membership at the end of a month. This method for determining funded ADM uniquely affects charter schools.

**Finding 12. Using a weighted student formula is feasible and offers some advantages over the present allotment system, but implementation would require time and careful deliberation (pages 56–63).** A weighted student formula represents an approach to student-based school finance that uses individual students as the building blocks for developing a state’s education budget. Recall that North Carolina uses a resource allocation system instead of a weighted student formula. Under a weighted student formula, a base dollar amount is provided for each student that is intended to cover the cost of educating a general student. Weighted categories provide additional funding for certain students such as special education, limited English proficiency (LEP), or disadvantaged students. The weighted student count is then multiplied by the base amount per student to determine total funding. Funding is then distributed to districts or charter schools in the form of dollars rather than as positions. A common emphasis of a weighted student formula is increased local control and local autonomy.

Transitioning to a weighted student formula is feasible and would provide a number of potential benefits to North Carolina. These benefits include increased K-12 finance system adaptability, efficiency, and transparency. However, a weighted student formula would not address other problems with North Carolina’s school finance

system that can create a maldistribution of resources, such as caps on funding for special populations or policies that hold LEAs harmless from losing funding under a formula. In addition, there is no one way to implement a weighted student formula, so the General Assembly and stakeholders would have to design and implement a formula that fits the needs of North Carolina.

#### **Recommendations:**

**Given the current state of the allotment system, the General Assembly has two broad options:**

- 1) overhaul the model for how resources are distributed by developing a plan to implement a weighted student funding model, or**
- 2) reform the current allotment system.**

Recommendation 1 provides direction on the first option, whereas Recommendations 2, 3, and 4 provide direction for the second option. Recommendation 5 should be considered independent of the other recommendations.

**Recommendation 1: Establish a Joint Taskforce on Education Finance Reform to work in coordination with the State Board of Education and the Department of Public Instruction to develop a model that uses a weighted student formula to fund the K-12 public education system.** If the General Assembly determines it is in the State's interest to simplify the funding system and distribute resources on a per-student basis, it should establish a taskforce charged with overhauling the allotment system. The taskforce should be charged with designing a system that uses the weighted student formula model as the basis for distributing resources for K-12 public education. The Joint Taskforce should consist of 18 members—9 from the House and 9 from the Senate. The Joint Taskforce should begin meeting no later than October 1, 2017, and should report to the Joint Legislative Education Oversight Committee no later than July 1, 2018.

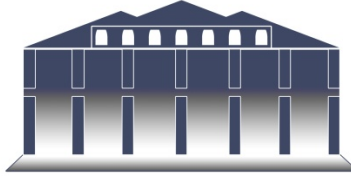
**Recommendation 2. The General Assembly should codify the state allotment system in statute and direct DPI to maintain and make publicly available a comprehensive, relevant, and up-to-date set of policies and procedures that document the entire allotment system.**

**Recommendation 3. The General Assembly should address the individual allotment deficiencies identified in Findings 1-7 of this report:**

- **Classroom Teachers.** Improve the equitable distribution of resources for classroom teachers by allotting dollars instead of positions and broadening the teacher compensation model.
- **Children with Disabilities.** Direct DPI to establish a framework that differentiates funding based on service setting and consider eliminating or restructuring the funding cap.
- **Limited English Proficiency (LEP).** Eliminate the minimum funding threshold and cap and provide a graduated per-headcount amount for LEP students that observes economies of scale.
- **Small County Supplemental Funding.** Change the funding thresholds to be more consistent with evidentiary education cost function literature and eliminate the use of base funding from other allotments.
- **Low Wealth Supplemental Funding.** Eliminate the use of the density factor and provide equal weighting for a county's anticipated revenue per ADM and the county's average per capita income.  
**Disadvantaged Student Supplemental Funding.** Eliminate the hold-harmless provision and redistribute the dollars across all LEAs and charter schools.
- **Central Office Administration.** Distribute Central Office Administration dollars based on ADM.

**Recommendation 4. The General Assembly should prohibit the use of transfers from allotments that serve special populations into the Non-Instructional Support allotment.**

**Recommendation 5. Direct DPI to consider additional student membership data when determining the funded ADM for charter schools.**



Program Evaluation Division  
North Carolina General Assembly  
Legislative Office Building, Suite 100  
300 North Salisbury Street  
Raleigh, NC 27603-5925  
919-301-1404  
[www.ncleg.net/PED](http://www.ncleg.net/PED)

75 copies of this public document were printed at a cost of \$6.90 or \$0.92 per copy.

A limited number of copies are available for distribution through the Legislative Library:

Rooms 2126, 2226  
State Legislative Building  
Raleigh, NC 27601  
919-733-7778

Room 500  
Legislative Office Building  
Raleigh, NC 27603  
919-733-9390

The report is also available online at [www.ncleg.net/PED](http://www.ncleg.net/PED).