Funding in Arrears

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Current Challenges

- Inconsistent treatment of PSUs re: funding

- Late budget adjustments. PSUs do not know their final funding until November/December of the current year. Creates uncertainty when recruiting staff and budgeting.

- Projections have become more uncertain since the increase in school choice and post pandemic, resulting in more adjustments.

- Charter schools are an increasing percentage of the SPSF and has outgrown the current model.

- Administration of the SPSF is complex and burdensome.

S.L. 2023-134 Section 7.20 Changes to Law

- Requires DPI to distribute funds to PSUs based on actual ADM from the prior year in accordance with the model developed

- Requires DPI to provide funds for growth from the ADM contingency

- Eliminates the requirement from SL2007-323
  - to reduce LEAs if they decline
  - to use higher of month 1 and 2 as the basis

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Requirement to Develop a Model S.L. 2023-134 Section 7.20

- To develop a model to fund PSUs whose funding is based on ADM to be based on the actual ADM from the prior school year instead of projections for the upcoming school year.

- To include in the model a method to account for newly formed charter schools to ensure the charter schools receive adequate funding to operate before prior year ADM data is available or representative of the student population.

- To propose technical adjustments for public school funding to the State Board of Education for approval before submitting the model to the Director of the Budget, and the Fiscal Research Division.

Allotted Average Daily Membership (ADM)

Allotted ADM is the backbone of the State Public School Fund and the driver of individual public school unit local, state and federal budget.

It affects the budgeting of everything in the public school - student school assignment, capital projects, the number of teachers, instructional support, teacher assistants and other personnel needed, bus routes and instructional resources.

Current vs Proposed Budgeted Allotted ADM
Calculating sufficient funding for the PSUs

	Current	Proposed

LEAs	Higher of:
	    (i) DPI projected ADM and
	    (ii) Prior year Best 1 of 2
		Sum of:
		    (i) Projected growth of LEAs
		    (ii) Prior year ADM

Charter Schools and Lab Schools	Projected ADM provided by the school administration, capped at percentage growth based on historical growth realization	Sum of: (i) Projected growth of charters/Lab (ii) Prior year ADM
Regional School	ADM is budgeted in the LEAs in which the students reside	No change
Residential Schools	These schools are appropriated funds separately from other PSUs and are not based on ADM	No change

Current vs Proposed Initial Allotted ADM

ADM that is used in the funding formulas to allocate funds when the budget is passed.

	Current	Proposed

LEAs	Higher of:
	    (i) DPI projected ADM and
	    (ii) Prior year Best 1 of 2
		Prior year ADM.
		Growth funding will be provided when it is realized

Charter Schools and Lab Schools	Projected ADM provided by the school administration	Prior year ADM
New Charter Schools and Lab Schools	Projected ADM provided by the school administration	ADM received in the Ready to Open Report and accepted by DPI Office of Charter schools. Lab schools- projection provided by UNC administration
Regional School	By agreement of the 5 participating LEAs	No change

Current vs Proposed Adjustments Due to ADM LEAs

	Current Adjustments	Proposed Adjustments
LEAs	Budget transfers for new and growing charter and lab school	No budget transfers to LEAs for new and growing charter and lab schools
	Budget for total ADM is included in each of the initial allotment categories	Budget for growth for all PSUs is budgeted in an ADM contingency fund
	Reductions for ½ the difference of initial vs actual IF it meets a 2%/100 ADM threshold	No reduction in the current year for a decrease in ADM or for actual ADM being less than the projected
	Increases for the difference of initial vs actual IF the difference meets a 2%/100 ADM threshold	Increases for growth will be provided with no required threshold when the growth is realized

Current vs Proposed Adjustments Due to ADM LEAs

	Current Adjustments	Proposed Adjustments
LEAs	Adjustments for growth are calculated and adjusted by allotment category	Adjustments for growth are provided to the LEAs in one flexible program code. In the following year, the funds will be incorporated into the budget for each allotment category
	In the following year, LEA ADM is reset to a new projection and actual higher of the 1st two months in the prior year	In the following year, LEA ADM is reset to actual prior year
	Adjustments are for approx. 70% of the initial allotments	Adjustments for growth will be provided at a dollars per ADM for all initial allotments

Current vs Proposed Adjustments Due to ADM Charter Schools & Lab Schools

	Current Adjustments	Proposed Adjustments
Charter and Lab Schools	Base funding is calculated based on Month 1 ADM	Base funding is based on the same prior year ADM that is used for LEAs (allotted ADM)
	Reductions if the school has lower actual ADM than in the prior year	No reduction for a decrease in ADM in the current year. The following year, the school is initially funded on the lower ADM
	New charters and Lab schools are funded based on actual Month 1 ADM	New charters and Lab schools are funded on the actual funded ADM

New Challenges in Budgeting Charter Schools SL 2023-107

Previous Law	New Law	Impact on Budgeting
Not low performing charter school - maximum funded ADM without approval was 30% growth	No maximum on ADM, unless defined in their charter agreement	DPI is reliant on the charter school providing an accurate projection to ensure sufficient funding and not requesting funds for growth that does not realize
Low performing charter school - maximum funded ADM without approval was 20% growth or the maximum in the charter agreement	Higher of the 20% growth and the maximum in the charter agreement. May request a material increase	
Not permitted to have a remote academy	Permitted to have a remote academy	ADM is not confined by physical capacity of the building

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Recommendation Excluded Funding

The following allotment categories are not recommended to be included in this discussion:

- Exceptional Children Funds

- Limited English Proficient funds

- Driver Education Funds

- School Technology Funds

- Grants

Class size Compliance

G.S.115C-301 requires LEAs to be in compliance with class size maximums in K through 3rd grade. If the composition of students by grade changes from one year to the next, it is possible that the teacher positions generated based on prior year is not sufficient to meet the K-3 compliance.

DPI will evaluate the change in K-3 ADM and the teacher positions provided from the allotted ADM, and propose an adjustment in the Allotment Policy Manual.

Small County Supplemental Funds

Small County Supplemental Funding is determined by 7 legislated ranges of ADM. The lowest tier is for LEAs with allotted ADM on 2,801 - 3,300 ADM. A LEA may not be eligible for the funds in the prior year (i.e.. They have allotted ADM of more than 3,300), but may decline in the current year.

The recommendation is to base Small County Supplemental funding on the allotted ADM (prior year actual ADM) and in the event the LEA's ADM declines to a level that they are lower than 3,300 ADM, the LEA will not receive an adjustment in the current year, but will be eligible to receive the Small County Supplemental Funding in the following fiscal year.

Notes

The recommendation is defining the ADM used to calculate allotments, it is not a hold harmless on funding

The funding may be less in the current year than in the prior year, depending on legislative actions.

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Explanation of Attachment

The legislation required DPI to provide a report showing the impact of utilizing the current method and the proposed funding in arrears.

The analysis is a "what if" the current model had been used. The negative differences in the report are not budget reductions, and the report does not reflect what would happen in the following year.

The notes to the attachment are an integral part of the report and provide an explanation of the differences.

Explanation of Differences
Funding in Arrears Results in Lower Funding

LEAs (Note 1)

- The LEA was initially funded based on the DPI projection.

- The LEA was significantly less than the DPI projection and above the threshold of 2%/100 ADM.

- Under the current model, the LEA is adjusted for half the difference and keeps the other half.

- In the recommended model, the LEA would not have received the funding of projected growth and would have only receive additional funding if the growth was realized.

- The negative amount represents the funding the LEA got to keep due to the missed projection.

- In both models, the LEA would not continue to receive the funding in the following year.

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Explanation of Differences
Funding in Arrears Results in Lower Funding

LEAs (Note 5)

- The LEA was initially funded based on the DPI projection.

- The LEA's actual ADM was less than the DPI projection, but below the threshold of 2%/100 ADM for a reduction.

- Under the current model, the LEA is not adjusted and keeps the funding.

- In the recommended model, the LEA would not have received the funding of projected growth and would have only receive additional funding if the growth was realized.

- The negative amount represents the amount the LEA kept due to the missed projection.

- In both models, the LEA would not continue to receive the funding in the following year.

Explanation of Differences
Funding in Arrears Results in Lower Funding

Charter School (Note 9)

- Charter is currently funded based on Month 1 actual ADM.

- Under the recommendation Month 2 actual ADM was used for illustrative purposes.

- The charter declined in ADM from Month 1 to Month 2, therefore the model showed less funding.

- Month 2 was used for the purposes of the report. If the higher of Month 1 and 2 had been used (consistent with LEAs), this decrease would not have occurred.

- The difference represents the funding for the ADM difference between Month 1 and Month 2.

- More analysis is needed to define the appropriate definition of allotted ADM.

Explanation of Differences
Funding in Arrears Results in Higher Funding

LEA (Note 4)

- The LEA's actual ADM was higher than the initial allotted ADM, but less than the threshold of 2%/100 ADM.

- Under the current model, the LEA was not eligible to receive additional funding for the additional ADM.

- Under the recommendation, there is no threshold and the LEA receives a dollar per ADM for the additional ADM it grew.

- The difference represents funding for growth of ADM that was below the current threshold and currently not funded.

Explanation of Differences
Funding in Arrears Results in Higher Funding

LEA (Note 2)

- The LEA was initially funded based on prior year ADM as it was projected to decline.
- The actual ADM was more than 2%/100 ADM lower than prior year.
- Under the current model, the LEA is reduced in the current year for half the difference.
- Under the recommendation, the LEA is not reduced in the current year.
- The difference represents the reduction due to a decline in actual ADM that is adjusted currently but not in the recommendation.
- In both models, the LEA will be funded at the lower ADM in the following year under the recommendation.

Explanation of Differences
Funding in Arrears Results in Higher Funding

LEA (Note 3)

- The LEA was initially funded based on prior year ADM.

- The actual ADM was more than 2%/100 ADM higher than prior year.

- Under the current model, the LEA receives funding adjustments in the allotment categories representing 70-75% of the funding.

- Under the recommendation, the LEA would receive the full dollars per ADM for each additional ADM.

- The difference represents the funding in the allotment categories that are not included for growth in the current model.

Explanation of Differences
Funding in Arrears Results in Higher Funding

Charter (Note 7)

- The charter ADM in the current year was less than in the prior year.

- Under the current model, the charter is funded on the actual ADM in the current year even when it is lower.

- Under the recommendation, the charter funding is based on an ADM that is not less than the prior year.

- The difference represents the difference in funding due to the decline from prior year.

- In the following year, the charter's funding will be initially funded on the lower ADM.

Questions