

ANNUAL REPORT for FY 2020-21

PUBLIC SCHOOL BUILDING CAPITAL FUND and NEEDS-BASED PUBLIC SCHOOL CAPITAL FUND

PUBLIC SCHOOL BUILDING CAPITAL FUND

Introduction

The 1987 Session of the North Carolina General Assembly passed legislation (the School Facilities Finance Act) establishing the Public School Building Capital Fund (PSBCF). The purpose of the PSBCF is to assist county governments in meeting their public school building capital needs as well as equipment needs under their local school technology plans. The PSBCF was administered by the Office of State Budget and Management from 1987 through June 30, 2003. Administration of the PSBCF was then transferred to the NC Department of Public Instruction by legislative action.

ADM Fund

The initial source of revenue for the PSBCF was corporate taxes. That revenue source is referred to as the “ADM Fund” because tax revenue was distributed among counties according to the Average Daily Membership (ADM) of the schools within the counties. The ADM Fund was not funded by the Legislature for FY 2002-03 because of state budget shortfalls. Corporate tax revenue was diverted away from the ADM Fund for the third and fourth quarters of FY 2008-09. Since then, no additional corporate tax revenue has been deposited into the ADM Fund. The Appropriations Act of 2013 (S.L. 2013-360) included a provision that closed-out deposits from corporate tax revenue into the ADM Fund. Interest continues to accrue on unspent revenue and unallocated funds within the ADM Fund. Unallocated funds remain available for project allocation per expenditure guidelines.

A table showing fiscal year totals for tax revenue, interest on tax revenue, interest on disbursing accounts, project allocations and unallocated balances for the ADM Fund is provided at the end of this report. Since 1987, over \$1.34 billion has been allocated from the ADM Fund for use on specific projects (i.e., Project Allocation). At the end of FY 2020-21, the ADM Fund balance to be allocated (i.e., Unallocated Balance) was \$8.1 million.

Lottery Fund

In 2006, the North Carolina Education Lottery became an additional revenue source for educational programs, including the PSBCF. From the beginning of the Lottery through the end of FY 2020-21, approximately thirty percent of Lottery revenue has been divided among educational programs. Original legislation directed forty percent of the educational programs’ share of Lottery funds to the PSBCF for school construction. In FY 2010-11, the General Assembly began appropriating a lump sum of Lottery revenue for the PSBCF each fiscal year. For FY 2020-21, the appropriated amount was \$100 million; \$98.5 million to what is referred to as the “Lottery Fund” and the remaining \$1.5 million to the NC Department of Public Instruction for School Operations.

A table showing fiscal year totals for Lottery revenue, interest on Lottery revenue, interest on disbursing accounts, project allocations and unallocated balances for the Lottery Fund is provided at the end of this report. Since 2006, over \$1.62 billion has been allocated from the Lottery Fund for specific projects. At the end of FY 2020-21, the Lottery Fund Unallocated Balance was \$115.02 million.

NEEDS-BASED PUBLIC SCHOOL CAPITAL FUND

Introduction

In 2017, the North Carolina General Assembly established the Needs-Based Public School Capital Fund (S.L. 2017-57, Sec. 5.3; modified by S.L. 2017-212, Sec. 1.1; modified by S.L. 2018-5, Sec. 5.3). The purpose of this fund is to provide financial assistance to lower-wealth counties (those designated as Development Tier 1 or Tier 2) for construction of new public school buildings. Legislation governing the NBPSCF is subject to annual review and revision by the General Assembly. This report is based upon legislation that governed NBPSCF activity for FY 2020-21.

The North Carolina Education Lottery is the sole source of revenue for the Needs-Based Public School Capital Fund (NBPSCF). Administration of this fund is the responsibility of the NC Department of Public Instruction (DPI). Primary differences between the NBPSCF and the PSBCF include the following:

- a) county eligibility (Tier 1 and Tier 2 counties; ranked by economic factors and facility needs);
- b) the amount of funds available (appropriations are set annually by the General Assembly);
- c) the requirement of matching funds (\$1 of local funds for every \$3 of state funds for Tier 1 counties; \$1 of local funds for every \$1 of state funds for Tier 2 counties); and
- d) the types of projects for which funding can be allocated (new school buildings only).

Additionally, NBPSCF grantees are ineligible to receive Lottery funding from the PSBCF or to receive another NBPSCF grant during a five-year period beginning with the fiscal quarter following grant award.

NBPSCF Grant Awards

For FY 2020-21, a total of \$102,652,319 was appropriated for the Needs-Based Public School Capital Fund. A total of nine (9) NBPSCF grants were awarded to nine (9) different counties; the grant for one of those counties was for a "City" LEA project. In addition to those nine grant awards, a recipient of a FY 2019-20 grant was awarded additional funds to supplement its original grant. Total grant funds awarded amounted to \$115,311,011. Unawarded funds from previous fiscal years (2018-19 and 2019-20) plus accumulation of interest revenue which, as noted below is not awarded to NBPSCF grant recipients, were used to make up the difference between funds appropriated and funds awarded.

A table showing fiscal year totals for Needs-Based Lottery Appropriations, Needs-Based Lottery revenue, interest on Needs-Based Lottery revenue, interest on disbursing accounts, project allocations and unallocated balances for the NBPSCF is provided at the end of this report. Since 2017, over \$106.61 million has been allocated from the NBPSCF for specific construction projects. At the end of FY 2020-21, the NBPSCF Unallocated Balance was \$237.58 million.

Reconciliation

There are differences between the NBPSCF table of this report and the NBPSCF table that was published in the Annual Report for FY 2019-20. One difference is the FY 19-20 amount for Lottery Revenue Granted. The FY 20-21 table reflects a reduction of \$15,000,000, a reduction that is also reflected in the Unallocated Balance column for that fiscal year. The reduction is the result of a FY19-20 grant recipient relinquishing its grant in FY 20-21 without having expended any of the grant funds. Also different is the placement of zero values in the two "Interest" columns of the FY 20-21 table. This is due to a DPI initiated change in reporting methodology for earned interest income.

REVENUE ALLOTMENT

PSBCF - ADM Fund

During the years in which the PSBCF “ADM Fund” was receiving corporate tax revenue, that revenue was allotted to counties on a quarterly basis. As stated previously, corporate taxes are no longer a revenue source for the ADM Fund. Consequently, this Fund receives no revenue other than earned interest income as described below.

PSBCF - Lottery Fund

Revenue from the North Carolina Education Lottery is allotted to the PSBCF four times during a Fiscal Year. These allotments are usually reported to DPI four to six weeks after the end of each FY Quarter. Distribution of PSBCF Lottery revenue among the state’s Local Education Administrations (LEAs) was originally based on both ADM (65 percent of the revenue) and property tax rate (“tax effort”) of the LEA (35 percent of the revenue). In FY 2008-09 and FY 2009-10, supplementary distributions of revenue were made to LEAs that did not participate in the “tax effort” (35 percent share), so that all LEAs received the same amount of revenue per ADM. Since FY 2010-11, distribution of Lottery revenue to LEAs has been made solely on the basis of ADM. If there is a “City” LEA within a county, that LEA receives Lottery revenue separately from the county LEA.

Needs-Based Public School Capital Fund

Revenue from the North Carolina Education Lottery is allotted to the NBPSCF at the same time that revenue is allotted to the PSBCF (i.e., four times each fiscal year). As indicated previously, NBPSCF Lottery revenue is distributed to eligible counties through grant-funded awards. An annual application process is used to determine which counties will receive a grant and the amount of each grant (additional information regarding the NBPSCF application process is provided below). If the total amount of grant awards for a given fiscal year is less than the total amount of revenue allotted to the NBPSCF that fiscal year, then the unawarded funds are accumulated by the NBPSCF to serve as a source of revenue for future grants.

Earned Interest Income - PSBCF

Cash balances (i.e., unallocated balances) in the PSBCF “ADM Fund” and “Lottery Fund,” and monies transferred from these funds into county disbursing accounts, earn monthly interest at the “standard” State interest rate. All earned interest income is deposited into the PSBCF and is allotted to each county/LEA based upon the balance of funds in each applicable account. Interest is not deposited into county disbursing accounts.

Earned Interest Income - NBPSCF

NBPSCF cash (unallocated) balances earn monthly interest income, as do monies transferred from NBPSCF unallocated balances into county disbursing accounts. In accordance with state legislation current as of the date of this report, earned interest income is accumulated by the NBPSCF but is not allotted to the NBPSCF grantees. The accumulated interest income serves as a source of revenue for future grants.

ALLOWABLE TYPES OF CAPITAL OUTLAY PROJECTS & USE OF FUNDS

Public School Building Capital Fund

In general, PSBCF funds may be expended for the following types of projects:

1. Purchase of land for public school buildings
2. Planning/Design fees for public school buildings
3. Construction of public school buildings
4. Renovation of public school buildings
5. Enlargement of / additions to public school buildings
6. Repair of public school buildings (beyond general maintenance)
7. School technology [from corporate tax fund (ADM Fund) allocations only].

Funds from the PSBCF may also be used to retire certain indebtedness incurred by a county for public school facilities, if a county does not need all or part of the funds allotted to it for public school capital outlay projects as listed above (see G.S. 115C-546.2(b)). Charter schools do not have access to funding through the PSBCF.

A table and pie chart that show the dollar value and percentage of each type of project funded through the Public School Building Capital Fund (ADM Fund + Lottery Fund) during FY 2020-21 are provided at the end of this report. Combined, over \$107 million was allocated for use through these funds.

Needs-Based Public School Capital Fund

Only new public school building projects that address critical school facility deficiencies are eligible for NBPSCF grant funding. Grants are awarded to counties for single projects. Charter Schools are not eligible for NBPSCF grants. Over \$51 million was allocated for school building projects in FY 2020-21.

APPLICATION PROCESS

Public School Building Capital Fund

To receive funding from the PSBCF, counties/LEAs must submit a completed application form, specific to ADM or Lottery funding, to the School Planning Section of DPI. The form must be signed by the chairs of the local Board of Education and the County Commissioners. Applications received by the 25th of each month are processed by the end of the month. Funds for approved projects are normally transferred to county disbursing accounts in the Office of State Treasurer by the last business day of the month, making them available by the second or third business day of the upcoming month. Technology funds are transferred to the Technology Trust Fund at DPI and are typically available for drawdown after the next scheduled Allotment Revision in the month following approval.

Needs-Based Public School Capital Fund

Applications for grants through the NBPSCF are processed by DPI once a year. The application deadline is typically set between August 31 and September 15, and awards are typically announced in early October. Grant applications must be signed by the chairs of the local Board of Education and the County Commissioners.

To receive funding from an awarded grant, the county/LEA must submit a completed Distribution Request form to the School Planning section of DPI. The form must be signed by the chairs of the local Board of Education and the County Commissioners. NBPSCF distribution requests are processed

monthly along with PSBCF funding applications. The process for transferring allocated funds to the county disbursing account is the same as that for the PSBCF.

ADDITIONAL INFORMATION

Procedures Manual and Application forms for funding through the Public School Building Capital Fund, Procedures Manual and Application forms for Needs-Based Public School Capital Fund grants, Distribution Request forms for the NBPSCF, and monthly PSBCF and NBPSCF reports are posted to the School Planning section of the DPI website (see website link below) under Capital Funding. Monthly reports show project allocations, interest earned and unallocated balances. In the months that quarterly lottery revenue is distributed, that information is also shown.

Additional lottery revenue information is provided on the website in a report entitled "Lottery Fund Distribution 2020-21." This report shows the revenue generated by the Lottery during FY 20-21, as *reported by the Lottery Commission*, and may therefore differ from the data in this annual report document and from data shown elsewhere on the School Planning web pages. A primary example is that, if the last deposit of revenue for the fourth quarter of a given fiscal year is received after the June activity of that fiscal year was recorded, then that revenue is reflected in the School Planning report for the subsequent fiscal year.

Link to the School Planning section of the NC Department of Public Instruction Website:

<https://www.dpi.nc.gov/districts-schools/district-operations/school-planning>

CONTACT INFORMATION

Questions or comments about this Annual Report, the Public School Building Capital Fund, or the Needs-Based Public School Capital Fund may be directed to:

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TABLES and CHARTS

Public School Building Capital Fund (ADM Fund) – Fiscal Year Totals

Fiscal Year	Tax Revenue	Interest on Tax Revenue	Interest on Disbursing Account	Project Allocation	Unallocated Balance
1987-88	79,711,466.77	2,475,125.99	101,216.34	8,603,813.86	73,683,995.24
1988-89	60,005,342.26	9,028,343.75	1,156,249.21	44,677,884.66	99,196,045.80
1989-90	37,422,143.66	8,831,204.87	2,022,116.86	81,000,952.55	66,470,558.64
1990-91	27,087,077.02	4,955,875.14	3,293,270.75	59,750,680.23	42,056,101.32
1991-92	27,424,644.08	3,191,823.22	1,954,730.19	36,681,753.72	37,945,545.09
1992-93	32,048,197.15	2,693,952.36	1,514,789.63	33,726,233.86	40,476,250.37
1993-94	34,681,537.93	2,875,198.89	1,188,908.83	34,423,458.70	44,798,437.32
1994-95	41,811,028.84	3,538,817.80	1,398,019.52	37,306,768.51	54,239,534.97
1995-96	50,717,766.10	4,736,336.55	1,418,246.78	49,178,619.49	61,933,264.91
1996-97	48,317,423.71	4,882,099.32	1,765,060.30	42,364,730.24	74,533,118.00
1997-98	56,174,376.61	5,932,978.01	1,448,980.88	53,067,568.30	85,021,885.20
1998-99	62,451,346.39	6,033,638.81	1,689,276.11	60,097,863.97	95,098,282.54
1999-00	79,038,850.61	6,601,704.52	2,075,448.04	67,271,838.73	115,542,446.98
2000-01	48,410,798.61	6,527,308.58	2,698,783.15	103,812,864.58	69,366,472.74
2001-02	43,881,577.31	4,148,930.43	2,223,675.10	42,912,257.94	76,708,397.64
2002-03	0.00	2,890,037.39	783,101.83	27,411,212.69	52,970,324.17
2003-04	57,164,133.05	2,355,596.37	596,053.88	38,251,633.60	74,834,473.87
2004-05	77,897,426.15	2,524,368.24	616,845.33	54,866,440.27	101,006,673.32
2005-06	97,732,199.85	4,523,116.56	726,993.08	78,679,602.36	125,309,380.45
2006-07	108,675,188.71	6,193,330.14	1,106,598.12	91,152,590.65	150,131,906.77
2007-08	86,709,100.57	7,869,381.02	1,158,954.22	146,649,859.20	99,219,483.38
2008-09	49,098,195.65	4,253,833.16	702,369.99	91,716,795.56	61,557,086.62
2009-10	0.00	926,011.50	225,866.42	18,355,912.19	44,353,052.35
2010-11	0.00	337,532.41	85,605.20	18,723,899.24	26,052,290.72
2011-12	0.00	194,927.77	28,646.35	6,140,928.61	20,134,936.23
2012-13	0.00	81,976.24	21,429.50	3,230,556.50	17,007,785.47
2013-14	0.00	69,189.91	16,259.15	4,102,740.88	12,990,493.65
2014-15	0.00	61,190.65	15,088.83	726,321.45	12,340,451.68
2015-16	0.00	86,149.46	17,948.76	1,620,595.58	10,823,954.32
2016-17	0.00	113,242.28	25,252.03	768,893.86	10,193,554.77
2017-18	0.00	148,288.53	37,073.07	917,341.35	9,461,575.02
2018-19	0.00	201,850.41	74,174.86	107,900.00	9,629,700.29
2019-20	0.00	187,545.85	63,588.52	1,500,758.12	8,380,076.54
2020-21	0.00	36,753.86	19,761.98	336,339.67	8,100,252.71
TOTALS	1,206,459,821.03	109,507,659.99	32,270,382.81	1,340,137,611.12	

Public School Building Capital Fund (Lottery Fund) - Fiscal Year Totals

Fiscal Year	Lottery Revenue	Interest on Lottery Revenue	Interest on Disbursing Account	Project Allocation	Unallocated Balance
2006-07	102,384,597.00	1,913,370.25	233,909.70	42,299,649.67	62,232,227.28
2007-08	128,887,893.00	5,045,560.83	967,847.54	92,355,256.80	104,778,271.85
2008-09	123,821,061.00	4,988,190.54	954,669.58	139,871,080.32	94,671,112.65
2009-10	209,575,479.00	2,880,644.51	541,131.05	148,982,629.10	158,685,738.11
2010-11	145,805,007.00	1,705,969.62	361,964.22	157,152,512.01	149,406,166.94
2011-12	89,782,097.00	1,149,637.32	186,289.77	103,638,988.54	136,885,202.49
2012-13	96,854,123.00	571,060.84	122,749.33	126,420,178.56	108,012,957.10
2013-14	100,663,529.00	509,774.17	122,502.50	119,948,391.09	89,360,371.68
2014-15	103,993,509.00	511,651.48	94,741.94	102,016,886.55	91,943,387.55
2015-16	98,081,203.00	718,655.25	176,457.63	105,033,891.40	85,885,812.03
2016-17	109,727,895.00	1,035,841.43	224,259.91	90,259,274.52	106,614,533.85
2017-18	98,500,000.00	1,382,148.31	278,785.40	97,242,942.05	109,532,525.51
2018-19	73,262,209.00	2,123,756.45	477,676.47	95,868,703.39	89,527,464.04
2019-20	101,110,188.00	2,301,596.79	450,377.45	91,919,798.66	101,469,827.62
2020-21	120,176,006.00	560,219.23	98,680.24	107,280,773.94	115,023,959.15
TOTALS	1,702,624,796.00	27,398,077.02	5,292,042.73	1,620,290,956.60	

Footnote:

DPI records Lottery Revenue in the month it was actually made available to the LEAs, not the month the revenue was recognized by the Lottery Commission. As a result, FY Totals presented above may not reflect actual Revenue Totals.

Total Lottery Revenue allotted to the PSBCF for FY20-21 was \$98,500,000. The \$120,176,006 amount includes \$25,436,721 from 4th Qtr FY19-20 (distributed July 2020) but does not include \$3,760,715 from 4th Qtr FY20-21 (distributed July 2021).

Needs-Based Public School Capital Fund - Fiscal Year Totals

Fiscal Year	Needs-Based Lottery Revenue Appropriated <i>(see Footnote 1)</i>	Needs-Based Lottery Revenue Granted <i>(see Footnote 2)</i>	Interest on Needs-Based Lottery Revenue <i>(see Footnote 3)</i>	Interest on Needs-Based Disbursing Account <i>(see Footnote 3)</i>	Needs-Based Project Allocation	Needs-Based Unallocated Balance <i>(see Footnote 4)</i>
2017-18	30,000,000.00	30,000,000.00	0.00	0.00	0.00	30,000,000.00
2018-19	146,968,039.00	140,684,581.00	0.00	0.00	19,701,087.85	150,983,493.15
2019-20	75,000,000.00	58,200,000.00	0.00	0.00	35,339,549.64	173,843,943.51
2020-21	102,652,318.87	115,311,011.00	0.00	0.00	51,572,012.97	237,582,941.54
TOTALS	354,620,357.87	344,195,592.00	6,023,130.93	164,993.99	106,612,650.46	

Footnotes:

1. Appropriated Revenue not granted remains available for NBPSCF grants in future fiscal years.
2. Revenue Granted values reflect actual Revenue distributed during the FY, which may not match monthly DPI reports.
3. Per current legislation, earned interest income is not available for expenditure by NBPSCF grantees; it remains available for NBPSCF grants in future fiscal years. The amount of interest accrued since the inception of NBPSCF is given in the TOTALS line.
4. Unallocated Balance values do not include Interest Revenue.

FY 2020-21 PSBCF (ADM Fund & Lottery Fund) - Use of Funds

Project Type	ADM FUND		LOTTERY FUND		TOTALS		
	Count	ADM Allocated	Count	Lottery Allocated	Total Count	Total Allocated	Percent
Building Sys - General	0	-	21	3,447,456.47	21	3,447,456.47	3.20%
Building Sys - HVAC	0	-	37	2,505,703.57	37	2,505,703.57	2.33%
New Construction	0	-	4	985,196.21	4	985,196.21	0.92%
Debt Service	1	168,666.67	120	89,937,240.41	121	90,105,907.08	83.73%
Enlarge - Renovate	0	-	9	5,159,388.68	9	5,159,388.68	4.79%
Land Purchase	0	-	1	(40,584.18)	1	(40,584.18)	0.0%
Planning & Design	0	-	29	1,095,026.88	29	1,095,026.88	1.02%
Repairs - General	0	-	28	795,273.19	28	795,273.19	0.74%
Repairs - Roof	1	156,373.00	17	2,447,411.25	18	2,603,784.25	2.42%
Exterior Upgrades	0	-	13	948,661.46	13	948,661.46	0.88%
Technology	1	11,300.00	0	-	1	11,300.00	0.01%
TOTALS	3	336,339.67	279	107,280,773.94	282	107,617,113.61	100.0%

