
Coates' Canons Blog: Top Ten Questions about the Local Public School Budgeting Process

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UPDATE August 2013: For updated information on the public school funding dispute resolution process, click [here](#).

In my last **post**, I reviewed the constitutional and statutory framework for county funding of local school administrative units (public schools). As I explained in that **post**, the contours of a county's legal responsibilities for funding public schools is not entirely clear. What is clear, however, is that counties expend a significant portion of their budgets on public schools—on average over 30 percent. And, in the aggregate, counties fund approximately 32 percent of public schools' operating expenses and approximately 93 percent of public schools' capital outlay. But, how does a county appropriate funds to its local school administrative unit(s)? What control does a county have over the expenditure of the appropriated funds? And, what recourse, if any, does a local school board have if it does not agree with a county's yearly appropriations? The following addresses these and other frequently asked questions about the local budgeting process for public schools.

1. What is the County Budgeting Process for Funding Public Schools?

Step 1: Communication Between Boards

The board of county commissioners and the local board of education should engage in ongoing discussions during the fiscal year, and leading up to the annual budget process, about the educational policies and fiscal needs of the local school administrative unit and the fiscal policies and fiscal resources of the county. **G.S. 115C-462.2.**

Step 2: Superintendent's Budget Proposal

By May 1, the public school superintendent must submit a budget and budget message to the local board of education (superintendent's budget). **G.S. 115C-427.**

A copy of the superintendent's budget must be filed in the superintendent's office and made available for public inspection. The superintendent may, but is not required to, publish notice that the superintendent's budget has been submitted to the local board of education. **G.S. 115C-428.**

Step 3: Local School Board Considers Superintendent's Budget

The local board of education may, but is not required to, hold a public hearing on the superintendent's budget. **G.S. 115C-428.**

The local board of education may make changes to the superintendent's budget in developing its proposed budget.

Step 4: Local School Board Submits Budget to County

By May 15, the local board of education must submit its entire proposed budget to the board of county commissioners. The entire budget includes portions that will be funded by non-local revenue sources, such as the State and the federal government. **G.S. 115C-429.**

The board of county commissioners may request further information from the local school administrative unit about its proposed budget request. **G.S. 115C-429.** (See Question 2.)

Step 5: County Makes Appropriations to Local School Administrative Unit

The board of county commissioners makes its appropriations for capital and operating expenditures to the local school administrative unit in the county's annual budget ordinance. **G.S. 115C-429.** (See Questions 3, 4, and 5.)

Step 6 (optional): Dispute Resolution Process

If the local board of education determines that the amount of money appropriated to the local school administrative unit by the board of county commissioners is not sufficient to support a system of free public schools it may initiate a dispute resolution process. **G.S. 115C-431.** (See Question 8.)

Step 7: Local Board of Education Adopts Budget

The local board of education adopts a budget resolution. **G.S. 115C-432.**

The budget resolution is entered into the minutes of the local board of education. Within 5 days of its adoption, copies of the budget are filed with the public school superintendent, school finance officer, and county finance officer.

2. What Information May a Board of County Commissioners Request from its Public Schools During the Budgeting Process?

The board of county commissioners may request and obtain from the local board of education "all books, records, audit reports, and other information bearing on the financial operation of the local school administrative unit." **G.S. 115C-429.** It also may specify the format in which the information is presented.

3. May a Board of County Commissioners appropriate Funds by Line-item to its Public Schools for Operating Expenses?

No. A board of county commissioners, acting in its own discretion, may not appropriate funds for operating expenses to its local school administrative unit(s) on a line-item basis.

A county, however, is authorized to allocate part or all of its appropriation for operating expenses within the local current expense fund by purpose or function, as defined in the uniform budget format. **G.S. 115C-429.** The uniform budget format (now uniform chart of accounts) defines purpose code to include the activities or actions which are performed to accomplish the objectives of the school unit. The function codes are the first level subdivisions of purpose codes. Function codes represent the greatest level of specificity to which a county may allocate funds for operating expenses. Click [here](#) for a list of the purpose and function codes to which county appropriations may be allocated.

4. May a Board of County Commissioners Prohibit Certain Specified Expenditures of County Funds within a Purpose or Function Category?

No. If a board of county commissioners allocates funds to a particular purpose or function code, the local board of education has full discretion to appropriate those funds to any item of expenditure with a purpose or function code.

Note, however, a board of county commissioners is not prohibited from requesting that the local board of education refrain from using county appropriations for certain items of expenditure. However, any agreement reached by the two boards that is not reflected in the county's appropriations is not legally binding.

5. May A Board of County Commissioners appropriate Funds to its Public Schools for Specific Capital Projects?

Yes. According to the uniform budget format (now uniform chart of accounts) there are three categories of expenditures to which a county may appropriate capital funds to its public school(s). A county may appropriate moneys for Category I expenditures for a specific capital project or projects. Moneys appropriated for Categories II and III expenditures, however, are allocated to the entire category, not to individual expenditure items.

Category I: Acquisition of real property and acquisition, construction, reconstruction, enlargement, renovation or replacement of buildings and other structures for school purposes.

Category II: Acquisition or replacement of furnishings and equipment.

Category III: Acquisition of school buses, activity buses, and other motor vehicles.

6. If a Board of County Commissioners Allocates Funds to its Public Schools by Purpose, Function, or Project, Must the Local School Board Spend the Funds According to the Allocations?

Generally yes. If a county allocates funds to its local school administrative unit(s) by purpose, function, or project, the school budget resolution must conform to the allocations. **G.S. 115C-432.**

The local school board, however, may modify up to 25 percent of an allocation for operating expenses. The board of county commissioners may reduce the local school board's discretion to modify allocations if it so specifies in the county budget ordinance, but not to less than 10 percent. **G.S. 115C-433.**

If the board of county commissioners allocates part or all of its capital appropriations by project, the local school board must obtain approval from the county for any changes in the allocation for specific Category I expenditures—acquisitions of real property for school purposes, and acquisitions, construction, reconstruction, enlargement, renovations, or replacement of buildings and other structures. **G.S. 115C-433.** However, a local board of education has full discretion to reallocate funds within Categories II and III.

7. May a Local Board of Education Use County Funds Appropriated for Capital Outlay to Cover Operating Expenses, or Use County Funds Appropriated for Operating Expenses to Cover Capital Outlay?

Yes, but only under limited circumstances—specifically, if (1) the funds are needed to cover emergency expenditures that were both “unforeseen and unforeseeable” when the school budget resolution was adopted; (2) the local board of education receives approval from the county board of commissioners; and (3) the local board of education follows certain procedural requirements. **G.S. 115C-433(d).**

A local board of education may initiate a transfer between its capital outlay and current expense funds by adopting a resolution that states: (1) the amount of the proposed transfer; (2) the nature of the emergency; (3) why the emergency was unforeseen and could not have been foreseen; (4) what objects of expenditure will be added or increased; and (5) what objects of expenditure will be reduced or eliminated.

The local board of education must send copies of the resolution to the board of county commissioners and any other local school administrative units in the county. The board of county commissioners must allow any other local boards of education in the county to comment on the proposed transfer. The board of county commissioners must then approve or deny the request within 30 days. If the board of county commissioners does not act within the 30-day period, its approval is presumed, unless the local board of education that submitted the request explicitly agrees to an extension of the deadline. The board of county commissioners must notify the requesting local board of education and any other local boards of education in the county of its decision.

*Note that if a board of county commissioners and local board of education seek to use the local sales and use tax proceeds that are specifically earmarked by state statute for capital outlay expenses to fund operating expenses, the county also must seek approval from the Local Government Commission according to the procedures set forth in **G.S. 105-487** (Article 40 local sales and use tax) and **G.S. 105-502** (Article 42 local sales and use tax).*

8. May a Local Board of Education Challenge its Annual Budget Appropriation from the County?

Yes. If the local school board “determines that the amount of money appropriated to the local current expense fund, [for operating expenses] or the capital outlay fund [for capital expenses], or both, . . . is not sufficient to support a system of free public schools” it may initiate a dispute resolution process with the board of county commissioners to challenge the appropriation (dispute resolution process). **G.S. 115C-431**. Click [here](#) for description of the dispute resolution process.

9. How does a Board of County Commissioners Determine that its Appropriations are Properly Spent by its Public Schools?

The board of county commissioners has broad discretion to request information from the local school board relating to the expenditure of school funds. Pursuant to the annual budget process, the board of county commissioners is authorized to inspect “all books, records, audit reports, and other information bearing on the financial operation of the local school administrative unit.” **G.S. 115C-429**. The board of county commissioners also may request, in writing, that the school finance officer make periodic reports about the financial condition of the local school administrative unit. **G.S. 115C-436**.

Additionally, the board of county commissioners automatically receives a copy of the annual audit report for the local school administrative unit. **G.S. 115C-447**.

Finally, the board of county commissioners and local board of education are authorized and encouraged to “conduct periodic joint meetings during each fiscal year” to discuss both the implementation of the current public school budget and assess future capital and operating needs. **G.S. 115C-426.2**.

10. May a Board of County Commissioners Reduce its Appropriation to its Public Schools During the Fiscal Year (After the County Budget Ordinance is Adopted)?

Yes, but only under limited circumstances. The board of county commissioners may reduce its appropriations for capital outlay or operating expenses after it adopts the county budget ordinance if (1) the local board of education consents to the reduction; or (2) it is pursuant to a general reduction in county expenditures due to prevailing economic conditions. **G.S. 159-13(b)(9)**. If the board of county commissioners reduces its appropriations its local school administrative unit(s) pursuant to a general reduction in county expenditures, it must first hold a public meeting and afford the local school board an opportunity to present information on the impact of the reduction and then take a “public vote” (a vote in an open session of a public meeting) on the decision to reduce the appropriations.

Links

- canons.sog.unc.edu/?p=7213
- www.ncga.state.nc.us/EnactedLegislation/Statutes/HTML/BySection/Chapter_115C/GS_115C-426.2.html
- www.ncga.state.nc.us/EnactedLegislation/Statutes/HTML/BySection/Chapter_115C/GS_115C-427.html
- www.ncga.state.nc.us/EnactedLegislation/Statutes/HTML/BySection/Chapter_115C/GS_115C-428.html
- www.ncga.state.nc.us/EnactedLegislation/Statutes/HTML/BySection/Chapter_115C/GS_115C-429.html
- www.ncga.state.nc.us/EnactedLegislation/Statutes/HTML/BySection/Chapter_115C/GS_115C-431.html
- www.ncga.state.nc.us/EnactedLegislation/Statutes/HTML/BySection/Chapter_115C/GS_115C-432.html
- www.ncga.state.nc.us/EnactedLegislation/Statutes/HTML/BySection/Chapter_115C/GS_115C-433.html
- www.ncga.state.nc.us/EnactedLegislation/Statutes/HTML/BySection/Chapter_105/GS_105-487.html
- www.ncga.state.nc.us/EnactedLegislation/Statutes/HTML/BySection/Chapter_105/GS_105-502.html
- www.ncga.state.nc.us/EnactedLegislation/Statutes/HTML/BySection/Chapter_115C/GS_115C-436.html
- www.ncga.state.nc.us/EnactedLegislation/Statutes/HTML/BySection/Chapter_115C/GS_115C-447.html



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- www.ncga.state.nc.us/EnactedLegislation/Statutes/HTML/BySection/Chapter_159/GS_159-13.html