



Legislative Link

A Publication for the Members of the N.C. Association of School Administrators

April 23, 2009

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Tax Plan Would Eliminate School Construction Funds

The Senate Finance Committee Co-Chairs unveiled a major tax reform proposal Wednesday that calls for **permanently eliminating the current 0.5% corporate income tax revenue designation that now goes to school construction.**

The current funding policy originally came about as part of a deal in the mid-1980s, when the General Assembly repealed the inventory tax that went to local governments. In return for this lost revenue, a portion of corporate income tax revenue was specifically designated for school construction.

This plan would make permanent the Senate budget's proposed one-time cuts to the Public School Building Capital Fund of \$60.5 million in 2009-10 and \$64.5 million in 2010-11. In addition the loss of corporate income tax funds designated for school construction would grow to \$72.9 million in 2011-12.

Senate finance leaders are calling for cutting this funding for public school construction as part of a major rewrite of the state's tax laws that is intended to provide sufficient revenues to balance the state budget for 2009-2010. As you may recall from earlier reports from the North Carolina Association of School Administrators (NCASA), the state budget proposal approved by the Senate April 9 did not include a revenue package, and the plan unveiled Wednesday is intended to fill in that funding gap.

The Senate tax proposal includes the following key components:

- **TAXING ADJUSTED GROSS INCOME:** The state income tax would be based on adjusted gross income, or AGI, instead of federal taxable income. AGI is higher because expenses such as mortgage interest and health care have not been taken out.
- **RATES DIP:** Tax rates based on income would go from 6, 7 and 7.75 percent to 5.25, 6.5 and 7.5 percent; those who are married, filing jointly and making \$10,000 or less, would pay nothing.
- **TAX CREDITS:** Homeowners could get 6 percent of mortgage interest payments back in a tax credit, up to \$600. Also, 6 percent of medical expenses, beyond the current threshold for a federal tax deduction, could be taken as a tax credit.
- **LOWER TAXES BUT MORE TAXES:** The state share of sales tax, scheduled to be 4.75 percent next fall, would instead go down to 4 percent. (Localities add their own.) But the tax would be expanded to apply to currently tax-free services such as: warranties, installations and repairs to personal property, such as cars. The tax would be added to movie and concert tickets; and moving, storage and building repairs, such as painting a house. Digital products, such as software or music, would be taxed if the consumer could have bought them in a store.

- **REDUCTION IN CORPORATE INCOME TAX:** The state's corporate income tax would drop from 6.9 percent to 4.5 percent, and the 0.5 percent that now goes to school construction would be part of the cut.
- **SIN TAXES:** Cigarette taxes would go up by 15 cents per pack. Alcohol tax would go up and would be based on alcohol content instead of volume.

The proposed plan would raise an additional \$580 million for the state next year, which is roughly the same increase in revenue as proposed by Gov. Beverly Perdue in her budget plan. But the Senate Finance Co-Chairs acknowledged that many different interest groups are likely to attack portions of the plan, and it is likely to face several changes before ultimately gaining Senate approval and then moving on for House consideration.

All NCASA members who are concerned about the proposed permanent elimination of the corporate income tax designation for public school construction should contact your Senators now to raise objections. In addition, administrators are urged to work with your local school board and county commissioners in making contacts with Senators on this proposal. Senate contact information is available at: <http://www.ncleg.net/Senate/SenateReports.html>.

NCASA will provide additional updates on this issue as more details become available. Documents highlighting the current details of the Senate tax proposal and estimates on the funding it would generate are at: <http://www.ncasa.net/displaycommon.cfm?an=1&subarticlenbr=199>.

House, Senate Compromise On State Health Plan Changes

On Wednesday the state Legislature approved a bill that aims to keep the State Health Plan solvent for at least two more years. The House approved Senate Bill 287 in a close 60 to 56 vote. The Senate followed suit and passed the measure 29 to 18. The House and Senate considered aspects from competing bills before ultimately adopting the compromise plan for State Health Plan changes.

The bill provides \$250 million to keep the plan afloat this year and calls for the state to spend approximately \$408 million from the General Fund over the next two years to cover the medical bills for the 667,000 state employees, school personnel and retirees covered by the plan.

Sponsors of the bill emphasized that the compromise reached is meant to be a short-term fix while long-term solutions are considered. However, many legislators voiced concerns about the higher costs that will be passed on to employees and retirees July 1 under this legislation and the absence of new measures, such as converting the plan to a calendar year, to help the plan attract younger and healthier individuals to bring the plan's overall costs down in the long run.

The bill reduces health benefits through increased co-payments and deductibles that will equate to roughly \$600 more per year on average in out-of-pocket costs. Premiums for dependant coverage will increase to 8.9 percent, down from the proposed 10 percent increase that had been in the earlier House version of the bill. Free eye exams will be eliminated, and smokers will be moved to the most expensive 70-30 plan on July 1, 2010. The seriously overweight will also be moved to the 70-30 plan on July 1, 2011. A new co-payment tier will be established for chiropractors, mental health and substance abuse providers, and physical, occupational and speech therapy services, with the 70-30 plan calling for a \$55 co-payment and the 80-20 plan calling for a \$45 cost. A blue ribbon commission will be created to administer an independent audit requiring plan contractors to provide details on billing, transactional data and administrative costs.

A copy of the ratified Senate Bill 287, which now awaits the Governor's signature before it can become law, may be accessed at <http://www.ncasa.net/displaycommon.cfm?an=1&subarticlenbr=231>.

School Calendar Change Approved By Education Committee

The House Education Committee on Tuesday approved House Bill 593 that would permit school districts to start classes on the second Monday in August. The committee revisited the issue of school

starting dates because of concerns from school administrators, school boards and teachers who say the 2004 calendar law is not benefiting schools or students.

The current law requires schools in all 115 districts to begin the school year no sooner than Aug. 25 and end by June 10 — with exceptions for year-round schools and a few districts that receive a waiver because they experience inclement winter weather conditions.

The late start date extends the fall semester for high school students into mid-January and results in end-of-course exams in challenging subjects being taken after winter vacation. Bill sponsors have also noted that the current calendar law limits the ability of high school students to enroll in community college courses because the second semester of college starts two weeks before high school exams are completed in late January.

The approved bill was referred to the House Commerce Committee, where it will face continued debate and stronger opposition from tourism industry lobbyists who say this proposed calendar change will cost the state millions of dollars in tourism revenue through lost summer vacation time.

NCASA members are encouraged to contact all House Commerce Committee members before April 29 to urge them to support House Bill 593. Contact information is available at: <http://www.ncasa.net/displaycommon.cfm?an=1&subarticlenbr=241>.

Stimulus Funding Rules Say Senate Cut K-12 Budget Too Much

The General Assembly Fiscal Research Division this week presented information that indicates that the Senate budget failed to meet some of the federal stimulus funding guidelines by cutting too deeply into public school funding for 2009-2010 while expanding the budgets of the state’s universities and community colleges.

Analyst Kristopher Nordstrom, who presented to the House Education Subcommittee on Education, said that U.S. Education Department (USED) guidelines released on April 1 for use of the Education Stabilization Fund “prohibit expanding one sector above the fully funded level while cutting the other.” A chart he presented to the committee (which is duplicated below) indicates that the Senate budget violates this rule by expanding higher education funding for 2009-10 while leaving public schools more than \$1 billion below the fully funded level as defined in the federal guidelines.

	2007-08 Expended Appropriation	Revised 2008-09 Budget	Senate 2009-10 Budget*	Senate 2009-10 Use of Education Stabilization Fund**	Senate 2009-10 State Support	Senate 2009-10 vs. “Full Funding”
Public Schools	8,197,121,797	8,330,448,993	7,695,157,991	406,108,147	7,289,049,844	(1,041,399,149)
Community Colleges	980,870,382	964,660,271	1,059,888,269	47,027,044	1,012,861,225	31,990,843
Universities	2,713,732,194	2,622,178,453	2,991,037,716	127,830,809	2,863,206,907	149,474,713
Total	11,891,724,373	11,917,287,717	11,746,083,976	580,966,000	11,165,117,976	

* Adds in \$65.4 million to public schools for step increased for teachers and principals.

** Assumes ESF was applied proportionally based on relative proportions in Revised 08-09 Budget.

Nordstrom told the committee that the Senate education budget already was rolling through that chamber’s committee process before the federal guidelines were released. In addition, those guidelines continue to change and ultimately could have an additional impact on funding levels that House budget writers will need to follow in crafting their own education budget proposal for 2009-10.

The information was shared as an overview of the American Recovery and Reinvestment Act (ARRA) Education Stabilization Fund (ESF) and the Senate budget, which House budget writers will use in beginning their own budget work.

Nordstrom reviewed the General Assembly’s authority to appropriate all Stabilization Funds and their position to recommend, but not mandate, uses. Due to the lack of USED guidance provided earlier this year, the Governor’s budget and the Senate budget both included ESF as an adjustment to the

overall General Fund availability and did not show where the ESF money is to be used in the state education budget. And, as indicated above, the Senate budget shifted funding to higher education while not meeting adequate funding levels for public schools. Nordstrom told the committee that, based on the recent federal guidance, more than \$975 million may be needed in 2009-10 from the ARRA Educational Stabilization Fund to help the state meet the federal full funding requirements for public schools.

In addition to the Education Stabilization Fund, there are several other competitive funds that are available to all states for which ARRA guidance is expected this summer. The State Incentive Fund of \$4.35 billion is available to states with strategies to help struggling students close the achievement gap. The Innovation Fund of \$650 million is available for LEAs or schools that are closing the achievement gap. The Teacher Incentive Fund of \$200 million is available to states and LEAs with innovative principal and teacher compensation models. There also is \$250 million in Statewide Data Systems grants to help states develop statewide longitudinal data systems.

According to Nordstrom, North Carolina should try to position itself favorably for these competitive funds. USED Secretary Arne Duncan has encouraged states to advance the following policy goals: achieve equity in teacher distribution, improve collection and use of data, enhance the quality of standards and assessments, and support struggling schools. Secretary Duncan will also consider whether North Carolina and other states are effectively using other ARRA funds and have reduced the proportion of total state revenues spent on education. North Carolina has trended towards reducing its total education budget as a percentage of the General Fund over the past 20 years.

Additional Categorical Funds are also available for FY 2009-10 and 2010-11 with the federal intent to implement innovative educational strategies and serve more students. Approximately \$340 million is allotted for Title I-LEA and School Improvement grants, IDEA, Educational Technology, and Homeless Assistance. This funding expands existing Title I funding by 44 percent and more than doubles Educational Technology funding for 2009-10. Nordstrom emphasized that these funds are to be used to supplement and not supplant other funding sources. The USED has provided little guidance thus far for the Categorical Funds.

Current guidance, fact sheets, and announcements are available from the U.S. Education Department website at: <http://www.ed.gov/policy/gen/leg/recovery/index.html>.

Other information on state budget proposals from the Governor and Senate is available at: <http://www.ncasa.net/displaycommon.cfm?an=1&subarticlenbr=199>.

Summary Of This Week's Action On Bills Affecting Public Schools

For a complete summary of this week's legislative actions on legislation affecting public schools and their personnel, please see this week's "Weekly Bill Action Summary" at: <http://www.ncasa.net/displaycommon.cfm?an=1&subarticlenbr=227>. The same site offers a status report on all bills NCASA is tracking for our members during the 2009 legislative session, and that information is arranged in categories to make it easier to locate specific legislation of interest.

*For additional information on these or other legislative issues, contact
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