PROCEDURES MANUAL
NEEDS-BASED PUBLIC SCHOOL CAPITAL FUND

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DRAFT

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SCHOOL PLANNING SECTION, DISTRICT SCHOOL OPERATIONS, NCDPI
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NEEDS-BASED PUBLIC SCHOOL CAPITAL FUND

Purpose

This manual provides guidelines and regulations pertaining to the Needs-Based Public School Capital Fund to assist counties with the performance of the following tasks:

(1) Applying for grant-based funds for new public school capital projects as defined in North Carolina  
**S.L. 2017-57, Section 5.3** (modified by **S.L. 2017-212, Sec. 1.2**; modified by **S.L. 2018-5, Sec. 5.3**).
(2) Drawing down awarded funds (fund disbursement).
(3) Reporting how awarded funds are used.

Background

**Article IX, Section 2(1)** of the North Carolina State Constitution provides that the State is responsible for public schools. **Article IX, Section 2(2)** delegates the financial responsibility for public school buildings and grounds to the County. **G.S. 115C-408(b)** reads as follows:

“To insure a quality education for every child in North Carolina, and to assure that the necessary resources are provided, it is the policy of the State of North Carolina to provide from State revenue sources the instruction expenses for current operations of the public school system as defined in the standard course of study.”

“It is the policy of the State of North Carolina that the facilities requirements for a public education system will be met by county governments.”

In 1987, in order to assist county governments in meeting their public school building capital and equipment needs, the North Carolina General Assembly passed legislation (the **School Facilities Finance Act**) establishing the Public School Building Capital Fund (PSBCF). The initial source revenue for the PSBCF was the Corporate Income Tax. In 2006, the General Assembly established the North Carolina Education Lottery (Lottery) as the revenue source. The amount of Lottery revenue allocated to the PSBCF annually varied widely until FY 2010-11, when the General Assembly began appropriating a lump sum of Lottery revenue to the PSBCF each fiscal year. The appropriated lump sum has been set at $100 million since FY 2011-12. $1.5 million of the appropriated lump sum is reserved for School Operations and the remainder is distributed to the 115 counties and local education administrations (LEA’s) across North Carolina based upon their Average Daily Membership (ADM). This method of fund distribution typically provides over 50 percent of the appropriated lump sum to less than 15 percent of the counties/LEA’s.

Additional information about the PSBCF can be found in the **PROCEDURES MANUAL – PUBLIC SCHOOL BUILDING CAPITAL FUND**, which is posted on the Home Page of the NC Department of Public Instruction School Planning website: www.schoolclearinghouse.org.
From 1987 until 2017, the PSBCF was the only source of recurring state funding for the facility needs of the public education system in North Carolina. A state-wide bond issue in 1996 provided additional funding for school construction, but there have been no other state-wide bond issues before or since. In 2017, the General Assembly stated its intent to increase the amount of Lottery revenue dedicated to assist local governments in meeting critical school capital needs to forty percent (40%) of net Lottery revenue collected by no later than FY 2028-29. Through S.L. 2017-57, Section 5.3(d), and as modified by S.L. 2017-212, Section 1.1 and S.L. 2018-5, Section 5.3, the General Assembly established the Needs-Based Public School Capital Fund (NBPSCF).

The NBPSCF, an interest-bearing, non-reverting special fund, provides grant-based funding for counties designated as either Development Tier One or Development Tier Two Areas, as defined by G.S. 143B-437.08. The establishment of the NBPSCF makes more Lottery revenue available to many of the counties/LEA’s that typically receive a low percentage of Lottery revenue provided annually through the PSBCF. The total amount of Lottery revenue allocated to the NBPSCF is set by the General Assembly each fiscal year based upon annual Lottery revenue collections. For FY 2017-18, a total of $30 million was allocated. For FY 2018-19, that amount was increased to over $140 million.

The State Treasurer is the custodian of the NBPSCF and is charged with investing its assets in accordance with provisions of G.S. 147-69.2 and G.S. 147-69.3. It is the responsibility of the State Superintendent of Public Instruction to award grants from the NBPSCF based upon an established set of priorities (see Grant Funds). Administration of the NBPSCF is the responsibility of the School Planning Section of the NC Department of Public Instruction (DPI).

Grant Funds

Applications for grants through the NBPSCF are processed by DPI once a year. The application deadline is typically August 31, and awards are usually announced by September 30. Grant applications must be signed by the chairs of the local Board of Education and the County Commissioners. Each year a copy of the NBPSCF Grant Application is posted on the Home Page of the School Planning website (referenced above). Per S.L. 2017-57, Section 5.3.(d), as modified by S.L. 2018-5, the State Superintendent of Public Instruction is to award grants to counties in accordance with the following priorities:

1. Counties designated as Development Tier One Areas (counties designated as Development Tier Two Areas may also be considered, but Tier One counties are given higher priority).
2. Counties with greater need and less ability to generate sales tax and property tax revenue.
3. Counties with a high debt-to-tax revenue ratio.
4. The extent to which a project will address critical deficiencies in adequately serving the current and future student population.
Other criteria may also be considered, especially if differentiation between equally qualified applicants is needed. Such criteria may include the following:

1. The readiness of a school building project for construction (e.g. planning phase vs. shovel-ready).
2. The number of students that will directly benefit from the new school building project (i.e. percentage of county or LEA ADM that would be served by a proposed new school building).

Per S.L. 2017-57, Section 5.3.(e), as modified by S.L. 2017-212 and S.L. 2018-5, grant funds awarded to a county designated as a Development Tier One Area shall not exceed Fifteen Million Dollars ($15,000,000). Grant funds awarded to a county designated as a Development Tier Two Area shall not exceed Ten Million Dollars ($10,000,000).

Grant funds are not awarded to any county that received an aggregate amount exceeding Eight Million Seven Hundred Fifty Thousand Dollars ($8,750,000) in funds from the Public School Building Capital Fund from FY 2012-13 to FY 2016-17.

No county may receive grant funds under this section more than once every five (5) years. An exception to this restriction, however, can be made for a county that is initially awarded a grant for an amount less than that for which it applied if the county applies for the balance of that funding the following year. Priority for subsequent funding will be given to that county.

Per S.L. 2017-57, Section 5.3.(f), a county that receives a grant fund award from the NBPSCF is ineligible to receive allocations from the PSBCF for a period of five (5) years from the date the grant funds are awarded.

Per S.L. 2018-5, Section 5.3.(e1), a county receiving grant funds must enter into an agreement with DPI detailing the use of the grant funds. The agreement includes the following requirements and provisions:

1. A requirement that the grantee seek planning assistance from and plan review by the School Planning Section of DPI.
2. A progress payment provision governing the disbursements to the county for the duration of the school construction project based upon the construction progress and documentation satisfactory to DPI that the matching requirement, as described above, has been met.
3. A provision requiring periodic reports to DPI on the use of disbursed grant funds and the progress of the school construction project.
4. A requirement that matching funds paid by the county must be derived from non-State and non-Federal funds.

A copy of the Form of Agreement is provided in Appendix 1 of this manual. Information specific to project planning assistance and plan review, disbursement of grant funds and periodic reporting is provided in subsequent sections of this manual.
Matching Requirements

Grant funds awarded under 2017-57, Section 5.3.(e), as modified by S.L. 2017-212 and S.L. 2018-5, are subject to a matching requirement from the recipient county as follows:

1. For a county designated as a Development Tier One Area, the grant shall not exceed Three Dollars ($3.00) in grant funds for every one dollar ($1.00) provided by the county.
2. For a county designated as a Development Tier Two Area, the grant shall not exceed One Dollar ($1.00) in grant funds for every one dollar ($1.00) provided by the county.

Matching funds, as noted above, must be derived from non-State and non-Federal funds. They must be expended along with grant funds as the project for which grant funds are awarded progresses.

Grant Fund Distribution

Grant funds are placed into NBPSCF accounts that are created by DPI for the LEA’s to which funds have been awarded. Since Lottery revenue is distributed by the State quarterly, grant funds are typically distributed to the NBPSCF accounts (hereinafter referred to as cash balance or unallocated balance) in four installments. It is typically one to one-and-a-half months after the end of a quarter before the amount of Lottery revenue made available for distribution to the NBPSCF for that quarter is reported to DPI. Once the amount has been reported, then distribution of revenue among the LEA’s can be calculated. As a result, the first installment of grant funds into the LEA’s unallocated balances (from first quarter Lottery revenue) is usually made in mid-November. Three subsequent installments are made, usually on a once-every-three-month basis. The amount distributed to each LEA will equal the full amount of grant funds awarded by the end of the fiscal year or shortly thereafter, depending on when the State makes fourth quarter Lottery revenue available for distribution.

Interest Income – Unallocated Balances

Once funds are placed into unallocated balances, they earn interest monthly at the “standard” State interest rate. That interest rate may vary from month to month. Interest earned is allocated to the LEA’s based on individual LEA cash balances and is added to the balance in each LEA’s NBPSCF unallocated balance account.

Grant Fund Disbursement

Per S.L. 2018-5, Section 5.3.(e), grant funds can be disbursed from an LEA’s unallocated balance in a series of payments based upon the progress of the project for which funds have been allocated. To obtain a payment, the grantee (county/LEA) must submit a request for payment (Distribution Request form) to DPI, along with documentation of the expenditures for which the
payment is requested and evidence that the matching requirement has been met. A copy of the Distribution Request form is provided in Appendix 1. A county that has entered into a lease agreement is to be periodically reimbursed per S.L. 2018-5, Section 5.3.(e2), Item (4), (see also Expenditure Guidelines).

The School Planning Section of DPI reviews payment requests from LEA’s on a monthly basis. The requests must comply with the Expenditure Guidelines established for the NBPSFC (see Expenditure Guidelines). DPI transfers funds from an LEA’s unallocated balance into the county’s disbursing account in the State Treasurer’s Office at the end of the month during which a payment to that LEA has been approved.

After funds have been transferred to the county’s disbursing account, they are available for immediate expenditure. The appropriate county finance officer will write warrants (i.e. checks) against the account to a terminal payee to pay expenses for the school building project for which grant funds were awarded. Specifications for the warrants are typically provided to the county finance officer by the State Treasurer’s Office. The county finance officer must not transfer funds into another account.

The office of the State Treasurer requires the county finance officer to reconcile disbursing account activity each month and to report agreement via a ‘check box’ on the Core Banking System website. Each quarter the Disbursing Account Services Supervisor of the State Treasurer will generate a report that shows the accounts that have been reconciled and those that have not. This report is sent to each county’s auditor. The NC Administrative Code (20 NCAC 1C.0402) requires each agency to reconcile its bank statement on the Core Banking System website within fifteen (15) days of when the statement was generated.

Interest Income – Disbursing Accounts

Funds that are transferred from an LEA’s unallocated balance into a county’s disbursing account also earn monthly interest at the “standard” State interest rate. The disbursing account established for each county by the State Treasurer’s Office to handle funding activity generated through the PSBCF is also used for funding activity generated through the NBPSFC. However, interest earned on funds in the disbursing account for each LEA is distributed monthly to both PSBCF and NBPSFC unallocated balances of that LEA based upon the project allocation (i.e. fund disbursement) activity of both Funds.

Account Statements

The School Planning Section of DPI publishes monthly reports that show revenue distributions to the LEA’s unallocated balances as well as interest earnings and project allocations (fund disbursements). These reports are posted on the School Planning website (referenced above).
Expenditure Guidelines

Grant funds awarded under *S.L. 2017-57, Section 5.3.(e)*, as modified by *S.L. 2017-212* and *S.L. 2018-5*, are to be used for the construction of new public school buildings only. The definition of public school buildings per *G.S. 115C-546.2(b)* is as follows:

“...only includes facilities for individual schools that are used for instructional and related purposes and does not include centralized administration, maintenance, or other facilities.”

Grant funds may be used for architectural and engineering fees directly associated with the planning and design of the public school building for which those funds are allocated. Grant funds may also be used for land surveys, subsurface investigation, wetlands determination, and similar investigative services required for design preparation.

Neither grant funds nor the required local matching funds may be used for any of the following expenditures:

1. Mobile or modular classroom installation.
2. Real property acquisition.
3. Acquisition of Leadership in Energy and Environmental Design (LEED) certification.

Per *S.L. 2018-5, Section 5.3.(e2)*, notwithstanding the new construction requirements of *Section 5.3.(e)*, a county may utilize grant funds for a lease agreement if all the following criteria are met:

1. Ownership of the subject property on which the leased school is constructed shall be retained by the county.
2. The lease agreement shall include a repairs and maintenance provision that requires the landlord to bear the entire expense of all repairs, maintenance, alterations, or improvement to the basic structure, fixtures, appurtenances and grounds of the subject property for the term of the lease.
3. The lease agreement shall be for a term of at least 15 years and no more than 25 years.
4. The county shall provide a copy of the lease agreement to the Department of Public Instruction and shall be periodically reimbursed upon submission of documentation satisfactory to the Department that the matching requirement of this section has been met.

The term “lease agreement” includes any ancillary agreements or predevelopment agreements entered in anticipation of or in accordance with a lease. Additional provisions regarding lease agreements are included in *S.L. 2018-5, Section 5.3.(e2).*

Unspent Funds - County Disbursing Accounts

Upon completion of a school building project, all grant funds awarded for that project are supposed to have been spent. If, however, there are unspent funds in a county’s disbursing account that were disbursed from the LEA’s NBPSCF unallocated balance, those funds must be
transferred back into the unallocated balance. The county/LEA must submit a “Final Report” (see also Reporting Requirements) to DPI, which will initiate the transfer. DPI will perform a “negative allocation” to transfer the funds from the county disbursing account back into the LEA’s NBPS CF unallocated balance.

Unallocated Funds

Each LEA that is awarded grant funds through the NBPS CF will ultimately receive more revenue than the amount of the award due to earned interest income. Earned interest income (and possibly unspent funds as described above) will remain in the LEA’s unallocated balance after completion of the school building project. Currently there is no legislation governing the use of those unallocated funds. Disbursement of those funds must be approved by the School Planning Section of NCDPI.

Reporting Requirements

Per S.L. 2017-57, Section 5.3.(g), on or before April 1 of each year a grant fund recipient must submit to the State Superintendent of Public Instruction an “Annual Report” for the preceding year that describes the progress of the project for which the grant fund was received. The grant fund recipient must also submit a “Final Report” to the State Superintendent of Public Instruction no later than 90 days after the completion of the project. An Annual Report form and a Final Report form are provided in Appendix 1.

The County and the LEA bear joint responsibility for submitting the Annual and Final Reports. Signatures of the chairpersons of both the Board of County Commissioners and the Local Board of Education are required on each report. As such, the two Boards should work together to prepare the reports.

Project Planning and DPI Plan (Design) Review

As noted above, a county/LEA that receives grant funds from the Needs-Based Public School Capital Fund must seek planning assistance for and plan review of their school building project. These services are provided by the School Planning Section of DPI. A primary planning/design tool used by School Planning is the State Board of Education’s North Carolina Public Schools Facilities Guidelines, which provides recommendations for school building elements and spaces. A copy of this publication can be found on the School Planning website (referenced above). Instructions for accessing this publication are provided below. Other planning/design tools used by School Planning include computer programs that calculate needed spaces with school facilities and the sizes of those spaces (based upon anticipated capacity), and accumulated construction cost data.
Plan (design) review by School Planning helps to ensure that proposed school facilities properly accommodate and facilitate educational programs. Comments made as part of a School Planning review will typically stress safety, longevity, durability, flexibility, economy, and efficiency of building construction systems. Design review and comments will take into consideration local program flexibility while providing accountability with respect to the North Carolina Public Schools Facilities Guidelines.

Plan review is typically conducted as each primary design phase of a project is completed – Schematic Design (SD) Phase, Design Development (DD) Phase, and Construction Document (CD) Phase. Drawings and specifications submitted for CD Phase review should be no less than 95% complete. Designers are asked to provide a completed Transmittal Form with each plan review submittal. A copy of the DPI Project Transmittal Sheet is provided in Appendix 1.

School Planning Website Information

To access the School Planning website, open an internet browser and input https://www.schoolclearinghouse.org/. The Home Page of the website will open.

In the center of the Home Page is a link for Needs-Based Public School Capital Fund Grant Application. If this link is selected, the application form can be downloaded from the window that opens.

In the left margin of the Home Page is a link for Needs-Based Public School Capital Fund. Select this link and the window that opens will display a list of NBPSCF reports and related documents. Select the link to the document(s) with desired information.

Also in the left margin of the Home Page is a link for Publications and Guides. Selecting this link will open a page that has additional links for Publications, Forms & Funds, and Other Information. Selecting the link for School Planning: Facilities Guidelines, Publications, Planning Guides, Space Profiles will open a page that has links to various School Planning Publications. The link to NC Public Schools Facilities Guidelines can be found under the heading “FACILITY GUIDELINES and PLANNER.”

It should be noted that guidelines for planning and design of public school facilities, as well as requirements and provisions associated with the NBPSCF, are subject to periodic updates and revisions. LEA’s and Designers should always check with the School Planning Section of DPI for current editions of all publications and information posted on the School Planning website. Contact information for personnel responsible for administration of the NBPSCF and related funding activities (current as of the publication date of this manual) is provided in Appendix 2.

END OF PROCEDURES MANUAL