



Legislative Link

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Changes Proposed For State Health Plan

Legislative leaders unveiled a bill Thursday that seeks to keep the State Health Plan solvent by reducing some benefits, raising premiums for family coverage and forcing smokers and obese people into the 70-30 coverage option that carries the highest deductibles and co-payments that they must pay out-of-pocket.

Dr. Jack Walker, the plan's executive administrator, outlined the proposed changes at a Thursday meeting of the legislative panel that has oversight of the State Health Plan. He said smokers and obese people are the most costly and therefore should shoulder more of the financial burden of the State Health Plan. The average additional cost to the plan for each smoker is \$2,000 a year, he said, while it takes a \$2,360 hit for each employee who weighs 35 percent or more over what is considered fit. Those costs are a major problem for the plan, which covers roughly 660,000 state employees and their dependents.

The plan is free for employees, while insuring a family currently costs an employee \$489 a month. The plan is relatively expensive, and therefore unattractive, for healthy families, but a bargain for the ill. In addition, the average age of individuals covered by the plan is 46 years old, which is roughly 12 years older than the average age of workers covered in private health plans. The higher age of covered plan members typically means that the chronically or catastrophically ill compose half the membership, and Walker said the plan spends nearly 90 percent of its money serving them.

Under the proposed legislative changes to the State Health Plan, smokers would have to quit or join a cessation program by July 1, 2010, to stay on a less expensive 80-20 plan. The seriously overweight would need to get in better shape by July 1, 2012, to stay on that less expensive plan. Those who are overweight could get a waiver if they show they don't fit the standard or they cannot drop their weight for medical reasons. Walker said the plan also needs to attract younger members and their dependents.

In other proposed changes, the legislation would do the following:

- Eliminate effective July 1, 2009, the popular 90-10 coverage option that had the lowest deductibles and co-payments for plan members but cost the state the most to offer;

- End subsidized basic eye exams;
- Increase various co-payments on doctor visits, medical services and prescriptions by \$5 to \$40;
- Increase deductibles to anywhere from \$300 for network providers to \$600 for providers outside the network.
- Increase the family coverage premium from \$489.44 to \$525.11 effective July 1, 2009 and to \$563.44 effective July 1, 2010. This reflects a 7.3 percent increase in each of the next two years.
- Initiate an Extended Retail Pharmacy Network and Mail Order service for dispensing long-term medications at a reduced rate to plan members who use these services.

In addition, the legislation would provide an immediate payment of \$250 million from the state's Rainy Day Fund to allow the plan to keep paying its bills in the current fiscal year. The state would need to provide an additional \$330 million, as well as approve the proposed premium adjustments and benefit reductions Dr. Walker has recommended, to keep the plan afloat over the next two years.

Senate Majority Leader Tony Rand, D-Cumberland and a sponsor of the bill, said the Senate will work on the legislation first and then send it to the House in an effort to get it approved before April 1, the date the State Health Plan has said it would have insufficient funds for paying its bills.

Treasurer Seeks Funds For Retirement System

State Treasurer Janet Cowell wants legislators to increase the contribution to the Teachers and State Employees' Retirement System to make up for a nearly 20-percent market loss on pension investments last year. Cowell said Thursday that the \$60 billion pension fund needs an increase of \$29 million in 2009-2010 and an additional \$329 million in 2010-2011 to keep the pension plan 100 percent fully funded and on schedule to meet future payouts to retirees.

The increase would bring the state's total pension fund contributions to approximately \$686 million, meaning it would exceed employee contributions for the first time since 1999.

During the 1980s and 1990s, the state typically contributed an amount between 8 and 10 percent of total payroll to the fund, while employees contributed 6 percent of pay. But since the budget squeeze of 2001, state contributions have ranged between 0 and 4 percent. The lower contributions were possible because the earlier contributions and solid investment returns in the 1990s left the fund above 100 percent funded, making it one of the top public pension funds in the country.

Cowell said the time has come to push the state's contribution back above 6 percent. She added that, short of a big turnaround in the investment markets, the state will need to continue higher contributions.

The contributions recommended by Cowell were based on an outside actuarial study, and it will be up to the General Assembly to determine if the state can make the requested larger investment in the State Retirement System or risk having credit rating agencies downgrade North Carolina's bond rating and make it more difficult for the state to borrow money for construction projects.

Cowell emphasized that scheduled pension payments to current retirees are not in jeopardy at this time, but an infusion of additional state funds is necessary for the long-term stability of the Retirement System.

Lawmakers Briefed On Public School Funding

Lawmakers attended a briefing on public school spending Wednesday to review the impact the state budget shortfall will have on that funding for the 2009-2011 biennium and to begin determining what costs might be avoided.

North Carolina will save about \$50 million in the upcoming fiscal year because of a new law delaying the enrollment of some kindergartners. The change in the enrollment age of kindergartners means that student enrollment in North Carolina schools is projected to experience a one-year drop, from 1,476,566 students this year to 1,464,914 in the 2009-10 school year. The number of children in

schools has grown steadily since at least 1999. The reason for the drop, said legislative analyst Kristopher Nordstrom, is that the state now requires kindergarten students to be 5 years old on or before August 31. Previously, students could enroll if they turned 5 by Oct. 16. While the kindergarten enrollment changes will result in a one-time savings of \$50 million, Nordstrom and legislative analyst Brian Matteson told lawmakers that other components of public school funding for 2009-2010 will require lawmakers to make tough decisions.

Raising teacher pay an average of 3 percent, as occurred for the current fiscal year, would cost \$110.6 million, while ABC bonuses are estimated to cost another \$94 million.

Nordstrom told legislators that increasing public school class sizes by one student would save the state \$170 million. Teacher-student ratios have been going down since 1985, meaning that an increase in the ratio would reverse a 24-year trend. Former Gov. Mike Easley made reducing class size in lower grades a top priority during his terms in office.

A complete look at the February 18 “Public Education Funding Overview and Update” presented by the Fiscal Research Division is at: <http://www.ncasa.net/displaycommon.cfm?an=1&subarticlenbr=199>, along with other documents that outline possible reduction options for public school funding and information on each school district’s proposed impact for those reduction options.

The Appropriations Subcommittee on Education of both the House and Senate have scheduled joint meetings for next week to begin crafting the education budget proposal for 2009-2011. The meetings will feature a discussion on the federal stimulus package on Tuesday, community college funding on Wednesday and public school funding on Thursday.

Stimulus Estimates Show \$1.9 Billion For N.C. Education

As President Barack Obama signed the American Economic Recovery and Reinvestment Act into law this week, analysts from the N.C. General Assembly, the Governor’s Office and others were combing through the huge document in an effort to determine North Carolina’s share. The \$787 billion stimulus package approved by Congress on Friday would funnel an estimated \$6.1 billion to North Carolina, according to preliminary figures compiled by the state's Washington, D.C., office.

The biggest chunk of funding, roughly \$2.35 billion through 2011, would go toward helping the state provide Medicaid health insurance for low-income residents. North Carolina’s two-year share of the education funding is currently estimated at \$1,903,306,000. The education funding includes the following estimated allocations, all of which are subject to change as official instructions for distributing the funds are released from Congress:

- Federal Stabilization Funding (for education programs) – \$1,181,633,000.
- Head Start – \$16,824,000.
- Special Education – \$333,771,000.
- Education Technology – \$16,041,000.
- Title I Funding (for schools with high numbers of low-income students) – \$338,712,000.
- Vocational Rehabilitation – \$16,325,000.

Governor Bev Perdue and House Speaker Joe Hackney in separate media interviews this week said the state is grateful for all the funds the federal stimulus package will provide to North Carolina, but both were quick to point out that this funding does not erase the state’s expected budget shortfall of \$2.1 billion for the 2009-2010 fiscal year because of several restrictions tied to the federal aid package.

To get the federal stabilization funding earmarked for education, the state would have to spend as much on education as it did in 2005-2006, when the state education budget was 16 percent lower than the current education budget, legislative analysts told lawmakers this week.

That restriction and others tied to various components of the federal funding will ultimately impact the final funding North Carolina will receive.

A copy of the preliminary estimates for North Carolina's share of the federal stimulus package is at: <http://www.ncasa.net/displaycommon.cfm?an=1&subarticlenbr=229>.

School Construction Funds Included In Federal Plan

North Carolina will receive approximately \$553 million in zero-interest bonds to build schools, according to U.S. Rep. Bob Etheridge, who sponsored the school construction plan that was included in the federal stimulus package that Congress approved last week and that President Barack Obama signed into law on Tuesday.

Etheridge, a Democrat from Lillington, held a news conference Monday at Bugg Elementary School in Raleigh to talk about the school construction funding initiative that he has championed since 1998, his first term in the U.S. House of Representatives. Etheridge pushed for, and the stimulus package ultimately included, his legislation to provide roughly \$25 billion in zero-interest construction bonds for schools across the country.

Under the provision, the federal government will provide tax credits to bond holders to replace the interest that state and local governments normally pay on school bonds. State and local governments will have to pay back only the principal on the bonds.

"For every \$1,000 in bonds, school districts will save up to \$500 over the life of the bonds," Etheridge said at his news conference.

In North Carolina, the \$553 million in school financing could create or sustain approximately 11,000 jobs, Etheridge said. Those jobs would include 5,000 support positions, 3,000 positions in construction and 3,000 in specific construction support positions, including those in materials, supplies and transport.

Ben Matthews, Director of the School Support Division of the Department of Public Instruction, also spoke at the press conference and thanked Congressman Etheridge for his efforts to help North Carolina communities build and renovate their schools. He said Local Education Agencies in North Carolina right now have "shovel ready" projects that include \$74 million in renovations, \$12 million in additions and \$159 million in new schools.

Etheridge estimated that North Carolina has roughly 10 percent of the \$200 billion in school construction and renovation needs that currently exist across the country, and he said the new construction aid package will assist with those needs.

"Your tax dollars that you are sending to Washington are now coming home to build schools in North Carolina," Etheridge said. "I believe the best investment we can make is in a child's education."

The school construction funds are included in the tax provisions of the American Economic Recovery and Reinvestment Act and are outlined as follows:

- **\$2.8 billion to extend the Qualified Zone Academy Bonds** to provide no-interest loans for renovation, repairs and technology, distributed to states based on population and within states based on need.
- **\$22 billion in Tax Credit Bonds for new construction.** This is a new school bond program distributed to states based on the Title I formula. Forty percent of these bonds are directed toward the 100 largest school districts by number of children below the poverty line, and the remainder will go to other school districts.

Legislature Gets Involved In K-12 Governance Changes

Two bills introduced in the State House call for a constitutional amendment to make the State Superintendent of Public Instruction a Governor-appointed position. The current State Constitution calls for voters to elect a Superintendent every four years but that could change if the measure passes, putting the change before voters in a November 2010 referendum.

Superintendent June Atkinson won re-election in November and has asked lawmakers to clarify her role in the state public school system. That request came last month after newly elected Gov. Beverly Perdue named Cumberland County Superintendent Bill Harrison as her choice to serve as both Chairman of the State Board of Education and Chief Executive Officer of the Department of Public Instruction.

Rep. Marvin Lucas, a Cumberland Democrat and sponsor of one of the bills, told the media this week he sees no reason to continue maintaining an elected Superintendent. "It's not working. It's obvious that we've got problems there, and something needs to be done," he said Tuesday. "If we're not going to give that position the authority that it needs, then let's abolish it."

In other action affecting the state-level governance of K-12 public schools, the State Senate on Wednesday voted to change the state law that limits membership on the State Board of Education to only one public school employee. This would remove a current barrier to Harrison becoming Chief Executive Officer of the state's public schools. The bill approved would expand it to two positions. The Senate approved the bill by a vote of 49-1, and it is now scheduled for action by the House Education Committee on Tuesday of next week and is expected to clear the full House in time for Harrison to take his new post in March.

House Announces Continued Focus On Dropout Prevention

House Speaker Joe Hackney, D-Orange, held a press conference on Tuesday to announce his chamber's commitment to continuing efforts to reduce the high school dropout rate in North Carolina.

Flanked by approximately 20 House Democrats, the Speaker said the House will review the success of dropout prevention grants that have been awarded by the state over the last two years to evaluate what works well and where additional investments are needed.

"The four-year graduation rate is improving, but it needs much, much greater improvement," Hackney said. Only about 70 percent of the students who entered 9th grade five years ago graduated by 2008. North Carolina is ranked as 12th worst in the nation for high school graduation rates.

The grant program which began in 2007 provided \$15 million to local dropout prevention programs this past year. In that time, the Department of Public Instruction handed out 140 grants to school districts, nonprofit organizations and government agencies. The grants require the recipient to show that they are making good use of the money. The General Assembly will receive a report evaluating the effectiveness of the programs in March.

Also in the House, a bill was filed by Rep. Jimmy Love, D-Lee, to make optional a controversial high school graduation requirement. Many parents and students have argued that the projects required by the State Board of Education are an additional impediment for struggling students to graduate. Critics of the projects also cite additional expenses incurred by school districts as reasons for the proposed change.

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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