NORTH CAROLINA

Overall Market Rating: Funding Constrained; opportunities exist for school growth but network development would be very challenging.

Market Overview:

North Carolina is a relatively young private school choice market (enacted in 2013 and launched in 2014), and while conditions are relatively favorable, funding is too low for most network operators to be sustainable in either program. There are planned increases of $10 million per year for the next few years for the Opportunity Scholarship program, and this year an additional $3 million was allocated for the Special Needs Program. Unfortunately, these increases are intended to meet demand not increase the per pupil payment. Demand has already outpaced the available Special Needs Scholarships and there is a waiting list of several hundred families. The increase to the program will create approximately 375 new scholarships, but will not meet all of the existing demand in this program, and all available scholarships will likely be depleted immediately.

The North Carolina Legislature added a new education savings account program (the Personal Education Savings Account) over the objections of the Democratic Governor. It takes effect this year and will allow some students with qualifying disabilities to take advantage of an additional $9,000 in addition to other programs. The program originally required students to have previously attended a public school, but legislative changes removed that requirement and now allows all qualified students to be eligible immediately.

The regulatory climate is fairly flexible, and while there are some limits and requirements on private schools, they do not appear to be inhibitive to school autonomy or school expansion or growth. Schools also have flexibility to adopt a variety of standards and assessments, and while they must report results, they do so in a way that informs parents as opposed to within the structure of a broader accountability system.

Summary Statement: North Carolina remains too challenging for most network operators at this time due to funding constraints but may be amenable for new schools that plan a blend of mixed-income students.
Demographic Analysis:

Enrollment Figures by Sector

<table>
<thead>
<tr>
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<th>North Carolina (15-16)</th>
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<tbody>
<tr>
<td>Total Public School Enrollment (including Charter Schools)</td>
<td>1,544,677</td>
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<tr>
<td>K-12 Private School Enrollment</td>
<td>82,455</td>
</tr>
<tr>
<td>Charter School Enrollment</td>
<td>82,521</td>
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Eligibility by Program (numbers may be duplicative)

<table>
<thead>
<tr>
<th>Program</th>
<th>% Eligible Students</th>
<th>Current Enrollment (2017-18)</th>
<th>Eligibility Requirements</th>
</tr>
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</table>
| Opportunity Scholarship  | 45% of families statewide | 7,344 students 405 schools | • Household income at or below 133% F&RPL  
• Entering Kindergarten or 1st grade or attended a public school the previous semester  
• Children in foster care or adopted are also eligible immediately |
| Special Needs Scholarship | 11% of families statewide | 1,111 students 209 schools | • Students with an IEP, and  
• Enrolled in a public school the previous semester, or  
• Entering Kindergarten or 1st grade, or  
• Receiving SPED services in pre-school, or  
• Enrolled in the program the year before |

The income limits on the Opportunity Scholarship limit the pool of available students, and there is a requirement that students be “switchers” after Kindergarten or 1st grade. There is a large population of special needs students eligible for the special needs program, and
it is unclear whether or not the additional funding will adequately meet the existing demand already in the market.

**Funding:**

**Assessment:** Prohibitively low.

**Assets:**
- Overall program funding for OSP is increasing in each of the next two years, increasing the number of available scholarships.
- Payments are made to schools directly two times each year, requiring parent endorsement.
- A new program for students with some special needs may qualify for additional funding.

**Considerations:**
- Funding increases will not increase voucher amount, just the number of students who can be enrolled in the programs.

**Opportunity Scholarship**

<table>
<thead>
<tr>
<th>Maximum</th>
<th>Average</th>
<th>Cap</th>
<th>Disbursement</th>
</tr>
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<tbody>
<tr>
<td>$4,200 if household income at or below F&amp;RPL</td>
<td>At or below F&amp;RPL: $4,050</td>
<td>$34.8 million in 2017-18</td>
<td>Payments are made directly to schools in two installments – one per semester.</td>
</tr>
<tr>
<td>90% of tuition and fees if household income is 100-133% of F&amp;RPL</td>
<td>Up to 133% of F&amp;RPL: $3,839</td>
<td>$44.8 million in 2018-19</td>
<td></td>
</tr>
</tbody>
</table>

**Trend:** Overall program funding will increase by roughly $10 million annually, but this increases available scholarships as opposed to the voucher amount. It is a good signal that there is a commitment to funding the program at a sustainable, consistent level.

**Special Needs Scholarship**

<table>
<thead>
<tr>
<th>Maximum</th>
<th>Average</th>
<th>Cap</th>
<th>Disbursement</th>
</tr>
</thead>
<tbody>
<tr>
<td>$4,000/semester $8,000/school year</td>
<td>$6,810</td>
<td>Program capped at about $7M</td>
<td>Payments made to schools in two installments, require parent endorsement</td>
</tr>
</tbody>
</table>

**Trend:** There were approximately 400-500 students on the wait list before the funding increase. An additional $3M in funding was made available this year, but it will still likely
not meet the existing demand in the market and funding will be immediately exhausted by the students already waiting.

**Personal Education Savings (PES) Account**
- Enacted in 2017 and began providing funding to students in the 2018–19 school year.
- Serves some students with special needs and can be used in conjunction with the state’s two voucher programs in certain circumstances.
- Maximum Value of $9,000 per student.
- About 10% of students are eligible statewide.
- Eligible students will have one of the following:
  - Autism,
  - Developmental disability
  - Hearing impairment
  - Moderate or severe intellectual disability
  - Multiple, permanent orthopedic impairments
  - Visual impairment

**Policy & Regulatory Environment:**
**Assessment**: Acceptable.

**Assets:**
- Accreditation is optional and not required to receive scholarship funds.
- Schools are not required to confirm family eligibility.
- School eligibility requirements are clear and easily executable.

**Considerations:**
- Schools must operate for a school term of at least nine calendar months on a regular schedule excluding reasonable holidays and vacations. (Preferably, 180 school days at least 5 1/2 hours in length, and typical class periods for grade 9-12 students of 50 minutes each.)

**Summary**: The policy and regulatory climate in North Carolina is quite good. Private schools that participate in choice programs are treated the same as private schools that do not, with the exception of some financial reporting requirements. There are no restrictions on talent, and flexibility on testing, but there is a requirement for a standardized state “graduation” test in 11th grade.

There is some ambiguity around the accreditation requirement, the letter of the law indicates that accreditation is required to receive any public funds, but scholarship funds are not deemed public under this section, so many schools opt not to pursue accreditation. Given this, it does not seem to be a barrier to new entrants.
**Human Capital:**

**Assessment:** Acceptable.

**Assets:**
- Schools have total discretion on hiring of teachers and staff.
- Only the most senior decision-maker must be background checked.
- There is a large TFA alumni contingent in North Carolina.

**Considerations:**
- North Carolina is an emerging market for talent in the charter sector as well, there is not enough great talent in the region, and schools are competing for people.

**Summary:** Schools have a great deal of flexibility to staff North Carolina schools. As in most markets, private school choice advocates and stakeholders are not thinking about or engaged in conversations about talent strategies.

**Local Champions & Climate:**

**Assessment:** Consistent.

**Assets:**
- There are multiple groups and constituencies engaged in support of choice.
- Political and legislative support for choice programs continues.
- Parent organizing work occurs regularly, although more coordination is necessary.

**Considerations:**
- Litigation strategy is possible to curtail the expansion of private school choice.
- Traditional district leaders are vocally opposed to these programs.

**Summary:** Private school choice advocacy has been relatively successful in North Carolina, but according to those on the ground, advocacy groups do not always share information and resources well. There are consistent efforts to engage parents by several organizations, but more coordination would make those efforts more impactful. There is concern, although not acute, that there will be continued challenges to these programs by supporters of traditional districts.

**Facilities:**

**Assessment:** Acceptable, but under-developed.

**Assets:**
- Facilities are relatively affordable, operators report spending 6-8% on school facilities.
- The zoning process across most jurisdictions is straightforward, and typically requires administrative permits as opposed to discretionary approvals by local government.
• Local advocates and The Carolina Small Business Development Fund entered into a partnership to make $5 million available to support building school capacity in the state's rural and underserved areas, as well as additional community facilities projects. Will be available to both charter and private schools.

Considerations:
• There are no public resources available to private schools for facilities.
• There is no organized initiative to improve the private school facility climate in North Carolina.

Summary: Facilities acquisition and development is affordable and does not require significant zoning approvals. There is emerging discussion of school facilities in some areas.