

ORANGE COUNTY
BOARD OF EDUCATION

AGENDA ITEM ABSTRACT

Meeting Date: May 2, 2011

AGENDA ITEM No. 11-05-17

ACTION ITEM: (Y/N) N

SUBJECT: County Funding Formula Discussion #2

INFO. CONTACT: G. Patrick Rhodes, Superintendent PHONE: 919-732-8126

ATTACHMENTS:

1. Memo from Clarence Grier, Orange County Financial Services Director, dated March 10, 2011.
2. School Funding Options Task Force (Memo dated May 3, 2001).
3. Pay-As-You-Go Capital Funding Analysis.
4. Orange County Local Government Annual General Fund Budgeted Appropriations for Education.

PURPOSE: The purpose of this agenda item is to provide an opportunity for Board members to review and discuss proposed changes to the county's funding formula.

BACKGROUND: During the April 18, 2011 meeting, the Board of Education discussed proposed changes to the County's funding formula. These proposed changes were presented in a letter from Orange County Finance Director Clarence Grier to the collaboration workgroup as part of its meeting on March 20, 2011. Specifically, the letter recommends changes in the current expense and capital funding formulas for the school systems. A portion of the recommendations follow. Please see the attachment for all proposed changes.

Current Expense Funding for the School Systems

We would recommend that the funding for the current expenses of the school systems be based on a percentage of the General Fund General Governmental Revenues (property taxes and sales taxes). The percentage would be a target of 57 percent of the budgeted property taxes and sales taxes, but not an equal percentage of both revenues (i.e. 65 percent of property taxes, 35 percent of sales). This would keep the funding level at the same for per pupil allocation for both School Systems. More importantly, it would expand the County's ability to obtain additional revenues to address the County's needs without having additional County revenues tied dollar for dollar to the funding for the schools systems. . .

The Board of County Commissioners has received a request from the Chapel Hill-Carrboro school district which would create more debt for county government. Related to this request, at the April 26, 2011 joint meeting, information in the county staff's abstract provided the following warning:

A scheduled reduction in debt service for schools in FY2011-12 (refinancing gains and paying off some debt) actually reduces the County Funding percentage for FY2011-12 from 48.0% in FY 2010-11 to an estimated 47.4%. A NOTE OF CAUTION: This is a temporary reduction from the 48.1% goal. New anticipated debt service for the Chapel Hill-Carrboro Elementary #11 project (expected within a few

years) will substantially increase the County funding allocation to education. That increase in debt service could negatively impact available funding for current expense and operations once the debt is incurred.

On April 27, 2011, the Board of Education's budget subcommittee (Donna Coffey, Eddie Eubanks, Stephen Halkiotis) met to analyze the proposed changes to the BOCC's funding formula. The attached documents show a pay-as-you-go capital funding analysis and a history of general fund appropriations for education.

FINANCIAL IMPACT: At this time, the financial impact is unknown.

RECOMMENDATION: The Superintendent recommends the board subcommittee studying county funding formulas provide a report and lead the full board in a discussion of this topic.

Memo

To: Members of the County/Schools Collaboration Work Group

From: Clarence G. Grier, CPA, CITP, Orange County Financial Services Director

Subject: School Funding Issues

Date: March 10, 2011

Due to recent concerns over the budget, and the method of allocating funds to the two school systems of the County (Chapel Hill – Carrboro City Schools and Orange County Schools), we have analyzed the funding in regards to current expense, long range capital funding, and the allocation of the long range capital funding between Orange County and both school systems. See information provided below and recommendations for discussion.

Current Expense

State law requires that the current expense for school systems be funded based on average daily membership (ADM). Over the past 12 fiscal years, Orange County (County) has funded the Chapel Hill - Carrboro City Schools (CHCCS) and Orange County Schools (OCS) based on ADM, and the allocation has averaged 65/35 percent, respectively, between both school systems.

In providing the total funding for both school systems, the County in 2001, decided to fund each based on a percentage of the General Fund budget. The percentage target determined was 48.1, which was derived based on the previous five fiscal years average of education expenditures, compared to the total General Fund budget. The expenditures that comprise the 48.1 percentage are as follows:

- Current expense
- Recurring capital
- Long range capital
- Debt service
- Fair funding

In analyzing the funding since 2001, the County has funded both school systems at an average percentage of 49.98 percent. The highest percentage funded was the fiscal year ended 2001 at a percentage of 51.94. The concern from the County perspective is that the funding percentage is tied to the total General Fund Budget and not specific General Fund revenues, which does not provide the County the flexibility to address needs through intergovernmental revenues (Federal, State and other sources) without

having to provide additional dollar for dollar funding for the school systems for every additional budgeted revenue.

Long Range Capital

There is no required allocation method for the County to use for the allocation of capital funding in counties where there are multiple school systems. For most counties that have two or more school systems, most use the ADM to keep the allocation proportional among each school system.

The County, historically, since 2001, has allocated available funding for capital expenditures, for both schools systems, based on ADM.

The allocation of long range capital funding between the school systems and the County has been based on a 60/40 percentage, respectively, since 2005. Although this has been the targeted allocation, the true allocation has been based on need and allocated on an approximate average of 58/42 percent since 2005, with the allocation being 73/27 percent over the past three fiscal years.

Recommendations

Current Expense Funding for the School Systems

We would recommend that the funding for the current expenses of the school systems be based on a percentage of the General Fund General Governmental Revenues (property taxes and sales taxes). The percentage would be a target of 57 percent of the budgeted property taxes and sales taxes, but not an equal percentage of both revenues (i.e. 65 percent of property taxes, 35 percent of sales). This would keep the funding level at the same for per pupil allocation for both School Systems. More importantly, it would expand the County's ability to obtain additional revenues to address the County's needs without having additional County revenues tied dollar for dollar to the funding for the school systems.

Additionally, any funds received from the Article 46 ¼ cent Sales Tax would not be included in the calculation of the current expense. These funds would be a special allocation based on a decision by the Board of County Commissioners, and included in a Special Revenue Fund.

Long Range Capital Funding for Schools

We would recommend that any funds available for long range capital continue to be budgeted and funded based on ADM between both school systems.

Long Range Capital Funding for the County and Schools

We would recommend that funds budgeted for long range capital projects in total between the schools systems and County, change to a 55/45 percentage allocation respectively, but reviewed annually, and adjusted as necessary, based on need and projects. The change is due to the additional buildings recently constructed by the County, while trying to maintain the Schools funding close to the same funding levels. Additionally, the funding ratio would match the ratio of the current expense calculation being tied to property taxes and sales taxes.

Orange County
Education Expenditures
For the Fiscal Years Ended June 30,

Exhibit 1

Fiscal Year	Current Expense	Recurring Capital	Long Range Capital	Debt Service	Fair Funding	Total	General Fund Budget	Property Taxes Sales Taxes Fines & Forfeitures (General Fund Gen Revenues)		% of General Fund		% Increase
								Gen Revenues	Gen Revenues	General Fund	General Fund	
2000	34,537,104.00	2,043,675.00	2,595,266.00	8,968,425.00	-	48,144,470.00	100,215,148.00	79,636,158.00	48.04%	60.46%		
2001	38,348,740.00	2,144,913.00	4,297,445.00	11,811,077.00	-	56,602,175.00	108,982,427.00	84,026,729.00	51.94%	67.36%	17.57%	
2002	40,765,632.00	2,222,832.00	1,239,457.00	13,759,888.00	-	58,007,809.00	117,131,808.00	91,374,234.00	49.52%	63.48%	2.48%	
2003	42,293,960.00	1,856,397.00	1,095,790.00	13,829,115.00	-	59,075,262.00	119,187,150.00	94,795,739.00	49.57%	62.32%	1.84%	
2004	44,684,324.00	1,777,284.00	1,834,981.00	14,304,364.00	-	62,600,953.00	128,972,522.00	102,946,744.00	48.54%	60.81%	5.97%	
2005	46,736,614.00	2,015,654.00	2,385,864.00	14,735,839.00	-	65,873,971.00	136,408,768.00	109,079,536.00	48.29%	60.39%	5.23%	
2006	49,981,296.00	2,290,258.00	4,444,072.00	15,228,051.00	-	71,943,677.00	149,856,874.00	122,078,323.00	48.01%	53.69%	9.21%	
2007	53,793,744.00	2,400,000.00	4,155,562.00	17,518,448.00	800,000.00	78,667,754.00	163,473,184.00	133,996,409.00	48.12%	58.71%	9.35%	
2008	56,875,122.00	2,400,000.00	4,073,827.00	18,674,049.00	988,000.00	83,010,998.00	173,624,351.00	142,226,134.00	47.81%	58.37%	5.52%	
2009	60,582,479.00	2,570,635.00	7,818,826.00	19,668,121.00	988,000.00	91,628,061.00	183,005,580.00	146,277,484.00	50.07%	62.64%	10.38%	
2010	58,508,208.00	3,000,000.00	4,311,827.00	18,542,809.00	988,000.00	85,350,844.00	177,589,039.00	148,643,287.00	48.06%	57.42%	-6.85%	
2011	59,371,992.00	3,000,000.00	2,590,117.00	18,182,882.00	988,000.00	84,132,791.00	175,313,920.00	146,510,738.00	48.06%	57.42%	-1.43%	
Total	586,499,215.00	27,721,648.00	40,843,034.00	185,222,868.00	4,752,000.00	845,038,765.00						
Average	48,874,935.00	2,310,137.00	3,403,566.00	15,435,239.00	950,400.00	70,974,297.00			5 year average	58.91%		
10 year /	51,361,337.00	2,353,306.00	3,395,032.00	16,444,337.00	475,200.00	74,029,212.00			10 year average	59.52%		
5 Year a	57,826,309.00	2,674,127.00	4,590,032.00	18,517,222.00	950,400.00	84,558,090.00			Recommended	57.00%		

* Of General Fund General Revenues (Property Taxes, Sales Taxes, Fines and Forfeitures)

Exhibit 2

Orange County
Education Expenditures
For the Fiscal Years Ended June 30,

Year	County Capital	Schools Capital Long Range Capital	Total	County Percentage of Total	Schools Percentage of Total	General Fund Budget
2001	2,580,000.00	4,297,445.00	6,877,445.00	37.51%	62.49%	108,982,427.00
2002	2,473,225.00	1,239,457.00	3,712,682.00	66.62%	33.38%	117,131,808.00
2003	1,432,000.00	1,095,790.00	2,527,790.00	56.65%	43.35%	119,187,150.00
2004	1,252,295.00	1,834,981.00	3,087,276.00	40.56%	59.44%	128,972,522.00
2005	1,944,300.00	2,385,864.00	4,330,164.00	44.90%	55.10%	136,408,768.00
2006	4,165,364.00	4,444,072.00	8,609,436.00	48.38%	51.62%	149,856,874.00
2007	2,770,000.00	4,155,562.00	6,925,562.00	40.00%	60.00%	163,473,184.00
2008	2,715,885.00	4,073,827.00	6,789,712.00	40.00%	60.00%	173,624,351.00
2009	1,887,500.00	7,818,826.00	9,706,326.00	19.45%	80.55%	183,005,580.00
2010	4,350,130.00	4,311,827.00	8,661,957.00	50.22%	49.78%	177,589,039.00
2011	300,000.00	2,590,117.00	2,890,117.00	10.38%	89.62%	175,313,920.00
Total	25,870,699.00	38,247,768.00	64,118,467.00			
Average		3,477,070.00	Average	41.33%	58.67%	
			PasT 3 Fiscal Years	26.68%	73.32%	

School Funding Options Task Force Recommendations to the Board of County Commissioners

Representatives of the Orange County Board of Commissioners and of the Chapel Hill-Carrboro Board of Education and the Orange County Board of Education met twice, on February 15, 2000 and February 28, 2000, to discuss school funding options. These topics were further examined at a joint meeting of the full boards on March 27, 2000.

A previous report, dated March 23, 2000, outlined the nature and scope of the task force discussions, which were frank and constructive. All agreed the County has historically employed "sound reasoning and good judgment" in funding public education, resulting in quality schools of high achievement.

Reflective of that support by the Board of Commissioners, public education in Orange County is annually funded at levels that rank at or near the highest in North Carolina. Of approximately 2,400 positions in the two school systems, one-quarter are locally funded.

The Board of Commissioners remains strongly committed to public education. However, it must balance growing and competing needs for the county funds, all within a relatively narrow range of disruption.

Recent trends in spending provided average annual increases of about six percent for county functions, compared to nearly double that rate for schools, posing certain fiscal and operational difficulties over time. That rate of increase allowed for strong growth in the budgets of both school systems over and above what they define as mandates.

The representatives of the Board of Commissioners find that schools are well-funded in Orange County; that growth in property and sales taxes allows for expansion of funding even within a framework of benchmarks and a targeted percentage of expenditures; and that there is lack of clarity in what the school systems regard as mandates as opposed to imperatives, and in the level of spending by which each responds to the same perceived mandates.

To begin a process whereby the Board achieves some predictability in addressing its multiple fiscal responsibilities, the representatives recommend the County adopt a series of benchmarks to guide spending decisions. We also recommend the Board endorse as a target for the 2001 fiscal year 48.1 percent of the overall County budget for annual spending on both school systems, the most recent five-year average.

We recognize needs vary from year to year, and anticipate the County Manager may respond to school system requests by proposing increases that exceed the target percentage.

Further, we regard these steps as beginning a process of elaboration and collaboration on fiscal matters. To that end, we encourage the continuation of a joint work group to address unresolved issues and concerns regarding co-mingling of capital expenses and operational needs in creating a target percentage; demands of technology improvement; examination of a countywide approach to older school facilities; more clearly defining federal and state mandates as compared to board initiatives and imperatives; and more equitable and flexible means for funding actual versus projected student enrollments.

Moses Carey and Barry Jacobs;

May 3, 2001

Pay-As-You-Go Capital Funding Analysis

The amounts provided in the table below are hypothetical and for comparison purposes only. They are not intended to reflect actual funding.

	A	B	C	D	E	F	G	H
1	Allocation Under Current County Capital Funding Policy - All Entities Share Debt Service							
2	Revenue	Year 1: No New Debt			Year 2: Debt Service Increases by \$4 Million ⁽¹⁾			
3	Property Tax	\$28.0			Property Tax		\$28.0	
4	Sales Tax	\$12.0			Sales Tax		\$12.0	
5	School Construction Impact Fees	\$1.0			School Construction Impact Fees		\$1.0	
6	Total Revenue	\$41.0			Total Revenue		\$41.0	
7	Less Debt Service				Less Debt Service			
8	Pay-As-You-Go Revenue to Distribute Between 3 Entities				Pay-As-You-Go Revenue to Distribute Between 3 Entities			
		\$12.0					\$8.0	
	Distribution of PAYG Revenue							
		County Share (40%)	CHCCS Share (61% of 60% allocated to schools)	OCS (39% of 60% allocated to schools)		County Share (40%)	CHCCS Share (61% of 60% allocated to schools)	OCS (39% of 60% allocated to schools)
10		\$4.8	\$4.4	\$2.8		\$3.2	\$2.9	\$1.9
11	Lottery	\$0.0	\$1.3	\$0.9	Lottery	\$0.0	\$1.3	\$0.9
12	Total PAYG Revenue	\$4.8	\$5.7	\$3.7	Total PAYG Revenue	\$3.2	\$4.2	\$2.8

	A	B	C	D	E	F	G	H
16	Alternative Funding Allocation Based on Each Entity Being Financially Responsible for Their Respective Share of Debt Service							
17	Revenue	Year 1: No New Debt			Year 2: Debt Service Increases by \$4 Million ⁽¹⁾			
18	Property Tax	\$28.0			Property Tax		\$28.0	
19	Sales Tax	\$12.0			Sales Tax		\$12.0	
20	Total Revenue	\$40.0			Total Revenue		\$40.0	
	Distribution of PAYG Revenue							
		County Share (40%)	CHCCS Share (61% of 60% allocated to schools)	OCS (39% of 60% allocated to schools)		County Share (40%)	CHCCS Share (61% of 60% allocated to schools)	OCS (39% of 60% allocated to schools)
22		\$16.0	\$14.6	\$9.4		\$16.0	\$14.6	\$9.4
23	Lottery	\$0.0	\$1.3	0.9	Lottery	\$0.0	\$1.3	0.9
24	School Construction Impact Fees	\$0.0	\$0.5	\$0.5	School Construction Impact Fees		\$0.5	\$0.5
25	Total PAYG Revenue	\$16.0	\$15.9	\$10.3	Total PAYG Revenue	\$16.0	\$15.9	\$10.3
26	Less Debt Service				Less Debt Service			
27	PAYG Revenue Remaining After Debt Service				PAYG Revenue Remaining After Debt Service			
28		\$6.0	\$3.9	\$3.3		\$5.0	\$0.9	\$3.3

⁽¹⁾ Assumes \$1 Million County and \$3 Million CHCCS

Orange County Local Government Annual General Fund Budgeted Appropriations for Education

A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	U	
Fiscal Year Ending	Current Expense Appropriation	Annual % Change	Recurring Capital	Annual % Change	Debt Service	Annual % Change	Long Range Capital	Annual % Change	Capital Reserve	Annual % Change	Fair Funding Reserve	Annual % Change	Total Funding (Sum of columns B, D, F, H, J, L)	% of Original GF Budget (Column N divided by Column U)	General Fund Dedicated to School Health Nurses, School Social Workers & SRO's (1)	Annual % Change	Total Annual Education Funding (Column N plus Column P)	Annual % Increase of Total Education Funding	Total Education % of Total GF Budget (Column R divided by Column U)	Total Original General Fund Budget	
1																					
2	\$11,403,943		\$1,500,000		\$1,792,275		\$3,450,300		\$0		\$0		\$18,146,518	42.70%	\$0		\$18,146,518		42.70%	\$42,494,467	
3	\$13,057,549	14.50%	\$1,500,000	0.00%	\$2,636,842	47.12%	\$2,044,661	-40.74%	\$0		\$0		\$19,239,052	41.51%	\$0		\$19,239,052	6.02%	41.51%	\$46,351,500	
4	\$14,861,157	13.81%	\$1,500,000	0.00%	\$2,963,400	12.38%	\$1,827,627	-10.61%	\$0		\$0		\$21,152,184	41.53%	\$0		\$21,152,184	9.94%	41.53%	\$50,935,148	
5	\$15,713,450	5.74%	\$1,500,000	0.00%	\$2,879,475	-2.83%	\$2,603,953	42.48%	\$0		\$0		\$22,696,878	42.12%	\$0		\$22,696,878	7.30%	42.12%	\$53,887,298	
6	\$17,258,306	9.83%	\$1,500,000	0.00%	\$4,879,002	69.44%	\$2,606,048	0.08%	\$0		\$0		\$26,243,356	43.13%	\$0		\$26,243,356	15.62%	43.13%	\$60,852,952	
7	\$19,098,062	10.65%	\$1,500,000	0.00%	\$5,717,540	17.19%	\$1,408,581	-45.95%	\$0		\$0		\$27,724,183	41.64%	\$0		\$27,724,183	5.60%	41.64%	\$66,381,662	
8	\$21,175,309	10.85%	\$1,500,000	0.00%	\$8,524,408	49.02%	\$3,049,749	118.51%	\$476,048		\$0		\$34,725,514	47.50%	\$0		\$34,725,514	25.25%	47.50%	\$73,099,271	
9	\$24,604,074	16.19%	\$1,624,500	8.30%	\$8,318,118	2.42%	\$4,038,571	33.08%	\$494,442		\$0		\$39,099,705	46.33%	\$0		\$39,099,705	12.60%	46.33%	\$79,259,530	
10	\$27,197,822	10.54%	\$1,856,528	14.25%	\$8,767,660	5.40%	\$1,999,147	-50.74%	\$618,884	23.17%	\$0		\$40,440,041	47.31%	\$0		\$40,440,041	3.42%	47.31%	\$85,483,019	
11	\$30,422,520	11.86%	\$1,949,652	5.02%	\$9,318,087	6.28%	\$2,353,225	17.17%	\$649,884	5.01%	\$0		\$44,693,368	48.22%	\$0		\$44,693,368	10.52%	48.22%	\$92,685,103	
12	\$34,537,104	13.52%	\$2,043,675	4.87%	\$8,968,305	-3.75%	\$2,595,266	10.25%	\$227,075	-65.05%	\$0		\$48,371,425	48.26%	\$0		\$48,371,425	8.23%	48.26%	\$100,241,148	
13	\$38,348,740	11.04%	\$2,144,913	4.95%	\$11,554,060	28.63%	\$1,601,770	-38.38%	\$235,620	3.76%	\$0		\$53,885,103	49.44%	\$0		\$53,885,103	11.40%	49.44%	\$108,982,427	
14	\$40,785,632	6.13%	\$2,222,832	3.63%	\$13,521,025	17.02%	\$943,079	-41.12%	\$0	-100.00%	\$0		\$57,472,568	49.07%	\$115,726		\$57,588,294	6.87%	49.17%	\$117,131,808	
15	\$42,293,960	3.70%	\$1,856,397	-16.85%	\$14,008,972	3.61%	\$1,095,790	16.18%	\$0		\$0		\$59,255,119	49.72%	\$163,215		\$59,418,334	3.18%	49.85%	\$119,187,150	
16	\$44,684,324	5.65%	\$1,777,284	-4.25%	\$14,304,364	2.11%	\$1,834,981	67.46%	\$0		\$0		\$62,600,953	48.54%	\$292,206		\$62,893,159	5.85%	48.76%	\$128,972,522	
17	\$46,736,614	4.59%	\$2,015,654	13.41%	\$14,818,840	3.60%	\$2,385,864	30.02%	\$0		\$0		\$65,956,972	49.35%	\$552,567		\$66,509,539	5.75%	48.76%	\$136,408,768	
18	\$49,981,296	6.94%	\$2,290,258	13.62%	\$14,696,064	-0.83%	\$4,444,072	86.27%	\$0		\$800,000		\$71,411,690	47.65%	\$797,016		\$72,208,706	8.57%	48.19%	\$149,856,874	
19	\$53,793,744	7.63%	\$2,400,000	4.69%	\$17,599,568	19.76%	\$4,155,562	-6.49%	\$0		\$800,000		\$78,748,874	48.17%	\$1,497,519		\$80,246,393	11.34%	49.69%	\$163,473,184	
20	\$56,875,122	5.71%	\$2,400,000	0.00%	\$18,488,002	5.04%	\$4,073,827	-1.97%	\$0		\$988,000	23.50%	\$82,824,951	47.70%	\$1,624,046		\$84,448,997	5.24%	48.64%	\$173,624,351	
21	\$60,582,479	6.52%	\$2,570,635	7.11%	\$19,570,005	5.85%	\$4,818,826	18.25%	\$0		\$988,000	0.00%	\$88,529,945	48.38%	\$1,650,418		\$90,180,363	6.79%	49.28%	\$183,005,580	
22	\$58,508,208	-3.42%	\$3,000,000	16.79%	\$18,616,833	-4.87%	\$4,311,837	-10.52%	\$0		\$988,000	-0.00%	\$85,424,878	48.10%	\$1,689,732		\$87,114,610	-3.40%	49.05%	\$177,589,039	
23	\$59,371,992	1.48%	\$3,000,000	0.00%	\$18,182,682	-2.33%	\$2,590,117	-39.59%	\$0		\$988,000	0.00%	\$84,132,791	47.96%	\$1,784,358		\$85,917,149	-1.37%	49.03%	\$175,319,920	

Average % Allocation Between FY 2000-01 and FY 2010-11 48.46%

(1) Fiscal Year Ending 2007 is the first year that includes funding for School Resource Officers (SROs)