

ORANGE COUNTY
BOARD OF EDUCATION

AGENDA ITEM ABSTRACT

Meeting Date: February 20, 2012

AGENDA ITEM No. 12-02-(2)-16

ACTION ITEM: (Y/N) N

SUBJECT: Collaboration Meeting Report

INFO. CONTACT: Donna Coffey / Patrick Rhodes PHONE: 919-732-8126

ATTACHMENTS: 1. Proposed Meeting Plan for the County/Schools Collaboration Work Group.
2. Facilitator's Draft Notes.

PURPOSE: The purpose of this item is for the meeting attendees to provide a report to the board on the February 9, 2012 collaboration meeting.

BACKGROUND: Board Chair Donna Coffey, Board Vice Chair Stephen Halkiotis and Superintendent Rhodes attended the quarterly collaboration meeting. A copy of the Proposed Meeting Plan for the County/Schools Collaboration Work Group for the February 9, 2012 meeting is attached along with the Facilitator's Draft Notes. Attendees will provide a report on collaboration meeting items discussed.

FINANCIAL IMPACT: None.

RECOMMENDATION: The Superintendent recommends the Board of Education hear the report and discuss the collaboration agenda topics as needed.

Proposed Meeting Plan for the County/Schools Collaboration Work Group

Thursday, February 9, 2012

3:00 – 5:00 PM

John Link, Jr. Government Services Center, Hillsborough.

Expected Attendees (15): Work Group Members (9): Michelle Brownstein, Mia Burroughs, Frank Clifton, Donna Coffey, Tom Forcella, Pam Hemminger, Steve Halkiotis, Bernadette Pelissier, Patrick Rhodes. Staff (6): Clarence Grier, Todd LoFrese, George McFarley, Jr., Michael Talbert, Greg Wilder, Andy Sachs (facilitator).

Proposed Agenda

3:00 Convene

- Introductions, as needed
- Welcome to new Work Group members
- Review proposed Desired Outcomes and Agenda for today's meeting.

3:45 Equitable Funding

Update #1: Dr. McFarley was to request an assessment by DPI of the age-related physical condition of each district's facilities. The two districts' staffs then were to develop an "apples to apples" approach for comparing age-related conditions across the two districts.

Update #2: Mr. LoFrese, Mr. Grier, and Dr. McFarley were to take the lead on developing alternative funding scenarios based on the presentations and discussion from the December Work Group meeting, so that the Work Group could better understand the principles to be applied and implications of changing the formulas.

Discussion/Decision: What next steps will lead to better understanding each jurisdiction's needs on this issue, and/or developing options for better meeting those needs?

4:50 Wrap Up

- Proposal to consider evening times for future meetings.
- Agenda items and date(s) for any next Work Group meeting.

5:00 Adjourn

Work Group Ground Rules (adopted 1/27/04, amended 4/9/07)

- One speaker at a time.
- Stick to task and topic.
- Listen attentively to the speaker.
- Share the floor.
- It is OK to disagree...please do so respectfully.
- Raise and discuss new ideas, doubts and differences with the group before going public.
- Decisions will be made within this group by unanimous consent among group members (although not necessarily with equal levels of enthusiasm).
- Items will appear on Work Group final meeting agenda only by group decision. Each Work Group meeting will begin with a review by the group of the meeting's proposed agenda.

February 10, 2012

Facilitator's Draft Notes
County/Schools Collaboration Work Group Meeting
Thursday, February 9, 2012

John M. Link, Jr. County Government Services Center, Hillsborough

Attendees: Work Group Members present: Michelle Brownstein, Mia Burroughs, Frank Clifton, Donna Coffey, Tom Forcella, Pam Hemminger, Bernadette Pelissier, Patrick Rhodes. Staff present: Clarence Grier, Paul Laughton, Todd LoFrese, George McFarley, Jr., Michael Talbert, Greg Wilder, Andy Sachs (facilitator).

Convening

The group adopted the proposed agenda that had been distributed in advance.

Equitable Funding

Facilities

Dr. McFarley reported that he had contacted Dr. Ben Matthews, Director of School Support, NC Department of Public Instruction, to inquire about DPI conducting an assessment of the physical condition of the school districts' facilities. He said that DPI could conduct the assessment no sooner than early to mid-March. DPI conducted a facilities assessment for the Duplin County school district in August 2011, he said, and could make that report available to the Work Group to show what such an assessment entails.

Mr. LoFrese said that he is not sure a DPI assessment would meet CHCCS's needs. There will be costs involved in making staff and facilities available to DPI during the assessment and so those investments have to be worthwhile. If the assessment will be thorough then it would be worthwhile, he said. Dr. McFarley suggested that in March he, Mr. LoFrese and Dr. Matthews clarify what the assessment would entail so that CHCCS can make a better judgment about the value of the assessment.

CHCCS has allocated funding to doing its own facilities assessment. Dr. Halkiotis asked how the County and school districts together could get a useful picture of the state of the community's school facilities if CHCCS conducts its own assessment with a paid consultant. Ms. Burroughs said that like the County and OCS, CHCCS is interested in an assessment that makes a fair comparison of the school facilities across both districts. Maybe the DPI assessment will be fabulous, she said, but maybe we can get a more thorough analysis by hiring a consultant. Commissioner Pelissier said that she did not want two studies done two different ways; we have to find a way to generate a consistent assessment across the two districts. Ms. Brownstein said that CHCCS wants a high-

quality study; we should define the key elements of an assessment. Let's see what was done for Duplin County, she added, and then have the staff evaluate whether the DPI approach will meet our respective needs. Ms. Coffey said that OCS adopted its Capital Investment Plan earlier in the week. We do not have the funding for an assessment, she said.

Funding Formula

Mr. Grier distributed "Education Funding and Expenditures Less Debt Service, Orange County and Chapel Hill – Carrboro City Schools, for the Fiscal Years Ended June 30," developed after meeting with Ruby Pittman, CHCCS Budget and Finance Executive Director, and Donna Brinkley, OCS Finance Director. He said that the County's annual education funding target (48.1 percent of the overall County budget) works well as long as the County budget is expanding from year to year, but not in times when the County budget constricts. The table presented by Mr. Grier showed a reduction of about \$1.2 million from education funding in the coming year if the 48.1% target continued to be used, based on an estimated \$2.5 million reduction in the County's 2012-13 budget. Rather than pegging education funding to a percentage of the County budget, he suggested using property tax revenues as the basis for education funding. We have more control over property tax revenues than we do over the General Fund, he said.

Ms. Burroughs said that she is not in favor of doing away with the 48.1% target. The County has control over sales tax revenues too, she said. She noted that the table Mr. Grier presented assumes that property taxes will not be raised.

Mr. Clifton said that County staff is not hearing interest by the Board of County Commissioners in raising taxes. But the County budget is not going to grow, so if 48.1% remains the basis for education funding then that funding is not going to increase in the next budget, he said.

The County will do a revaluation on January 1, 2013, he added. It's likely that the County will need to raise the tax rate in order to keep property tax revenue neutral, he said, because valuations are likely to be down. This may cause some consternation among some property owners, because they are going to see their valuations reduced but their tax bills raised. The idea we're exploring with respect to disengaging from the 48.1% education funding target is our effort to find a more stable basis for education funding in a time when the General Fund is more volatile. We think we have more control over property tax revenues and so we think that would provide a more stable basis for education funding.

Ms. Burroughs said that CHCCS has already cut millions of dollars from its budget. Our kids are going to feel any further losses, she said. The parents will feel it. If BOCC

needs to raise taxes in order to protect our children then I will be right behind them. It's been three years since they've done that; and it looks like it's time to do it.

Dr. Halkiotis said that in the past OCS has not been as willing to support tax increases to fund education as CHCCS has been, but the current Board is more aligned than it has ever been in support of our children. We need to have an open discussion of all possibilities and then develop a budget to give to the BOCC, before the General Assembly convenes in May. There will be a lot of uncertainty about what the State is going to do. OCS and CHCCS is locked hand-in-hand on this. I'm open to looking at any ideas to improve the funding situation. We might have to accommodate two students coming out of prison into our district, and we don't have the funding to support the infrastructure we'll need to do that. I'd like to see more information about what Clarence is proposing.

Commissioner Pelissier said that the BOCC has a long history of supporting education. We want to make that support more certain, not less. Even if we set aside the question of taxes, we would still have the volatility of the General Fund. What if the federal government gave us \$6 million as pass-through funds for child support? With the target of 48.1% are we obligated to increase education funding because the General Fund would then increase? Or what if they cut \$6 million; would it be right to cut education funding commensurately? The target puts us in a box.

Commissioner Hemminger said that the County budget is under many competing forces: we just passed the economic development/education sales tax, and now we're being asked to pass a transit sales tax. There are enormous economic pressures in our community right now. We expect the school boards to advocate for the children. We don't expect you to propose budgets with items that you do not need. So let's try to hit your budget numbers, and not be tied to a percentage amount of the overall County budget. Next year will be the most difficult budget year we have ever seen.

Ms. Brownstein said that the school boards have come to see the connection between economic development and education funding. We're on board now with the goal of diversifying the tax base. We get it. So, it's illogical for us to be talking now about pining education funding to residential property tax revenues. I'd rather advocate for connecting school funding to a diverse tax base.

Mr. Clifton said that the approach he's suggesting would remove debt service from the base upon which the 48.1% is applied. That's \$18 million set aside from this discussion. Our most important expenses are current expense and recurring capital. In the old formula, classroom funding suffered when debt increased. Debt is an albatross that won't go away. Removing debt service allows for flexibility. We're open to alternatives. But note that 2012-13 won't even be as bad as 2013-14 will be. Unless we see a huge

commercial or industrial investment, like a Honda plant or a big box store, revaluation is going to have a significant impact on the County's revenues.

Commissioner Pelissier said that the formula is not the school districts' guarantee of adequate funding. Who would say that we would not support education in the absence of a formula? I think about the real needs of our children, and make my decisions based on that. Not on a formula. We have the commitment to education in Orange County. We'll meet with you early in the budget process and tell you what is happening in our thinking. We have a history of cooperation. Let's make good decisions that balance out all the needs in our community. We have tremendous needs in Emergency Services, for example. I'm open to other approaches, but I don't need a formula to ensure my commitment to education.

Ms. Burroughs said that a consensus is emerging in Chapel Hill around the need to increase sales tax revenues. CHCCS is with BOCC on the goal of promoting economic development. And BOCC has done its best to meet the needs of our children. So, we either keep the target and you meet our needs, or we do away with the target and you still meet our needs. The target helps because it's familiar to our constituents. Change would cause them angst in very uncertain times. I don't see the benefit to making the change right now. I see on Mr. Grier's handout today the line for "potential education reduction," and already I'm concerned about what is going to happen. I understand that BOCC has not seen this, that it is a draft. But the passion is going to come.

In reply to a question from Ms. Burroughs, Mr. Clifton said that any uptick in home sales in one year would not have a significant impact on the revaluations, because the revaluations take place over a four year cycle. He said that he will have projections about the impact of revaluation for the BOCC on March 1.

Dr. Halkiotis expressed his appreciation to the BOCC and County staff for their support for education in the past. I know you guys care about the schools, he said. You've been our safety net while the people in Raleigh have been cutting us and cutting us. The people of Orange County expect you to take care of the schools like you have always done. Please keep us apprised of what is happening in your budget deliberations, he said. Keep us in the loop on the revaluation process, for example. I appreciate what you are trying to do, and I need to continue understanding what you are doing. Because Raleigh is snatching money from us. Raleigh is going backward. And as you get a better sense of how much we are all going to be down, please let us know.

Ms. Brownstein said that the State's revenue picture is going to be very bad. Acting proactively is the responsible thing to do, but it puts the Board in the position of being accused of crying wolf. We still need to be proactive with parents and constituents so they will understand that a worse situation is coming for 2013-2014. A change in the funding target would be more change they will have to adjust to. Remember also that our

capital budget is going to be taking a big hit. It's a perfect storm, because we have maintenance issues in our schools as well as classroom needs.

Ms. Coffey expressed appreciation for BOCC's and the County staff's support for education. I'm not opposed to a change in the target, she said, but it has to be well thought out and well-vetted. There is a lot of uncertainty around this table and in the community. There is a lot of angst. It seems premature to make a change, given all the uncertainty. Let's slow this down. The climate is not right for a change. If economic development improves, then the picture could change and we can revisit this. And let's remember that 48.1% is not a policy, it is a target.

Mr. Clifton said that he could live with the target remaining in place. I just want you all to be well informed, he said. I wonder if you are prepared to live with changes in education funding if the County's budget goes down. Or if you're prepared to give the schools another \$1.4 million when we give Emergency Services \$3 million, or give more the schools when we give more the Libraries. No other county in North Carolina has this kind of formula. If you have to have a formula, then I would like you to base it on something we can control. But if we cannot do that right now, then we will have to be flexible in how we apply it.

Mr. Clifton added that if we are ever doing to borrow more money then this is the time to do it. Interest rates are very low, and are not projected to increase until at least 2014. We'll carry a bigger fund balance to support the opportunities we're pursuing. We're trying to gain greater stability and security.

Commissioner Pelissier noted that we are going into budget season and we do not have an agreement on the formula. So, let's not focus on the formula. We're not intending to cut education. If we have to raise property taxes to get the schools adequate funding for their needs, and that gets you more than 48.1% of the General Fund, then I hope that does not anchor you at that higher percentage in future years.

Ms. Burroughs said that the group appears to be agreeing on focusing on needs, and not necessarily on the formula. Will I trust every change the County might propose? No, I'll always need to understand the basis for any proposed changes. We have a good history of being able to explain things to our constituents. Let's continue working together at describing the needs. Let's work together at meeting needs instead of fighting over a formula. The formula will tangle us up in the weeds. I don't want to go there.

Dr. Halkiotis said that Mr. Rhodes will be delivering his budget to OCS on March 5. It's too late to change the formula now anyway, he said. We won't complain about the formula this year, he said. We won't quibble about it. We know you care about education.

Mr. Grier explained that his intention has never been to reduce funding for education. I've tried to keep the schools whole all along the way, he said. The "potential education reduction" on my handout today is based on what we know today. I just wanted you to see this earlier rather than later, he said, so you will be able to make well-informed decisions. Just remember that we could lose education funding when times get bad if we stick with the formula. My mother was a school teacher for 30 years, so you can be sure she would not let me reduce funding for education. That was never my intention.

Commissioner Hemminger said that when she was on the CHCCS Board of Education she had to look at a lot of different iterations of funding statistics. We established the target to make it easier for us to track the status of our funding over the years. But now that I am a County Commissioner, I see the limitations of the target. No one else has a target. Social Services doesn't have a target. The formula puts us in a box, but I don't have anything else to offer you to give you more certainty about our commitment to funding the schools. Constituents know the 48.1%, and so they'll advocate for it. It used to be the per pupil funding. Now it's the formula. We just have to be able to make this work for the schools and for the County. I look at all the needs. I wouldn't want to change the formula now, but I would like to find something better.

In reply to a question from Ms. Coffey, Mr. Clifton said that a start time for any change in the target had never been identified.

Ms. Burroughs said that there always will be a tension between BOCC, which has the taxing authority, and the school boards. Constituents can be educated to advocate for something other than the 48.1%, she said. I will focus on needs, not a formula. Needs probably will bring out more people to advocate for the children than a formula.

The box we're in, she added, is because of taxes. I could support BOCC in raising taxes if that's what is needed to meet the needs of our children.

Ms. Brownstein said that she has heard about the 48.1% for years. It crystalizes the County's commitment, she said. It represents the County's commitment in good times and in bad times. Without it, we need another way to communicate what is going on. We would need another way to hold people accountable to education if another group of people were elected to the BOCC. If BOCC needs to focus on Emergency Services this year, then I see an opportunity for all of us to find new ways to communicate about the County's ongoing commitment to education, that its commitment is not diminishing. We have to help each other meet our respective needs.

Mr. Clifton said that the County will do everything it can to manage reductions in debt. Will we have to raise taxes to cover debt? We'll see, he said.

Wrap Up

Ms. Brownstein explained that day time meetings are a barrier to many people with jobs serving on elected boards in general, and asked for the Work Group to consider alternative meeting times. Other Work Group members said that they already have many evening meetings to attend, and would prefer for Work Group meetings not to be held in the evenings. Early mornings also did not appear to work for the group. It was agreed that when the facilitator canvasses for meeting times, there should be ample late-afternoon options (4PM, 5PM start times).

The facilitator was instructed to canvass a little before the April 26 Joint Boards meeting for the next Work Group meeting, to be held in early to mid-May. The facilities study was identified as an agenda item for the next meeting.