

ORANGE COUNTY
BOARD OF EDUCATION

AGENDA ITEM ABSTRACT

Meeting Date: April 18, 2011

AGENDA ITEM No. 11-04-(2)-20

ACTION ITEM: (Y/N) N

SUBJECT: County Funding Formula Discussion #1

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

ATTACHMENTS: 1. Memo from Clarence Grier, Orange County Financial Services Director

PURPOSE: The purpose of this agenda item is to provide board members an opportunity to discuss the funding formula used by Orange County to fund the two school districts in the county and the possible implications of proposed changes.

BACKGROUND: During the March 20, 2011, collaboration meeting board of education members and county commissioners received a memo from Orange County Finance Director Clarence Grier. This memo was provided to the board on April 4, 2011.

The memo proposes recommended changes in the current expense and capital funding formulas for the school systems. The recommendations follow:

Current Expense Funding for the School Systems

We would recommend that the funding for the current expenses of the schools 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.

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.

FINANCIAL IMPACT: Unknown at this time.

RECOMMENDATION: The Superintendent recommends the Board of Education establish a subcommittee to evaluate the financial implications of these proposed changes on the school system.

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.