

ORANGE COUNTY  
BOARD OF EDUCATION

AGENDA ITEM ABSTRACT

Meeting Date: March 21, 2011

AGENDA ITEM No. 11-03-(2)-17

ACTION ITEM: (Y/N) N

SUBJECT: Collaboration Meeting Update

INFO. CONTACT: Donna Coffey, Vice Chair PHONE: 919-732-8126

ATTACHMENTS: 1. Draft Meeting Notes.  
2. School Funding Issues MEMO dated March 10, 2011.

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**PURPOSE:** The purpose of this agenda item is to provide an opportunity for the board vice chair to lead a discussion of the March 10, 2011 collaboration meeting.

**BACKGROUND:** Board Vice Chair Donna Coffey and Superintendent Rhodes attended the quarterly collaboration meeting. Board Member Stephen Halkiotis also attended for Chairman McKnight. A copy of the draft meeting notes is attached.

**FINANCIAL IMPACT:** None.

**RECOMMENDATION:** The Superintendent recommends the board hear a report from Ms. Coffey and Dr. Halkiotis and discuss, as needed.

**Has not been reviewed or approved by the meeting participants**

**Draft Meeting Notes  
County/Schools Collaboration Work Group  
Thursday, March 10, 2011  
Lincoln Center, Chapel Hill**

**Attendees:** Work Group Members: Jamezetta Bedford, Mia Burroughs, Frank Clifton, Donna Coffey, Steve Halkiotis (for Tony McKnight), Neil Pedersen, Bernadette Pelissier, Patrick Rhodes, Steve Yuhasz. Staff: Clarence Grier, Todd LoFrese, Greg Wilder. Andy Sachs (facilitator).

**Convening**

At Ms. Coffey's request, the group decided to shorten the last agenda item on the revised (3/7/11) draft meeting plan (Alternatives to Two Current Funding Targets) and to adjourn 30 minutes earlier than had been planned. Ms. Bedford asked to add the City Schools Board request for funding for Elementary School #11 to the "Local Challenges" agenda item.

**Updates**

Ms. Burroughs reported that the General Assembly is considering a bill that would allow State funding for only one local school superintendent per county. Ms. Coffey distributed a copy of the bill, HB 131. Dr. Pedersen said that the statewide consortium of city schools has studied the financial implications of the bill. He will distribute that analysis to the Work Group as follow-up to today's meeting. It is not clear, he said, if the bill would require counties to fund the single district at the higher level of the merged systems. He noted that the bill would not actually require merger; only that State funds not be used for the superintendent of a city school district.

**Local Challenges and Strategies for Responding to the Budget Situation**

County perspective on state budget picture Mr. Clifton reported that the situation is not as bad as might be indicated by the Governor's proposed budget, because that proposal is not expected to move forward in the General Assembly. The County's budget picture has stabilized, he said. We know what we have to deal with regarding collections, property values, revenue expectations, fees, etc. We're OK, pending what the Legislature decides to do. Mr. Clifton's understanding of the Legislature's interests is that its focus will be cutting State government operations, not local funding. Programs such as More@Four, Smart Start, and the Tobacco Trust Fund are all vulnerable. We'll know more when the House's budget is released, he said.

Elementary #11 Ms. Bedford distributed a memo from the City Schools Board to the Board of County Commissioners dated March 9, 2011 requesting funding for Elementary School #11. Mr. Clifton said that the County is still at its 15% level of debt service. Ms. Coffey asked if there has been any accounting for increased class sizes. Mr. Clifton said that class size considerations are contingent upon what the legislature decides in the budget process. Ms. Burroughs asked if the timeline in the memo is realistic. Mr. Clifton said that it is. Dr. Halkiotis was impressed that the City Schools construction cost estimate for Elementary #11 is \$10 million less than originally expected (down from \$30 million). Mr. LoFrese said that the economy is depressing construction costs.

Sales tax referendum Commissioner Pelissier said that the BOCC has had an informal

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discussion during a work session on this matter. The Board does not want to raise the property tax rate this year, and wants to encourage economic development in the western and eastern ends of the county off of Interstate 40. We need to invest in water and sewer infrastructure if that is to happen, she said. In addition, she said, there are so many questions about how the schools are going to be treated in the state budget this year.

Commissioner Yuhasz said that he would like to see a ten year commitment if the BOCC places a 1/4 cent sales tax referendum on the ballot this November. Our economic development projects have that kind of timeframe, he said.

Mr. Clifton said that the County's revenue stream essentially is composed of property tax and sales tax. The sales tax part is the only one over which the County has any control, he said. The per capita revenue generated within Orange County from sale tax is very low. Thirty percent of the sales tax in Orange County is from food sales. WalMart generates 6% of the County's retail sales. Costco would represent 14% of the retail sales tax if it opened a store in Orange County. There are opportunities for capturing additional retail sales tax revenue from traffic on I-85 and County residents, but we need to provide the infrastructure. BOCC has authorized the County administration to do the engineering work. We need an \$8-10 million investment in utilities to make properties in the corridor viable for retail. If a 1/4 cent sales tax passes in November it would generate \$2.5 million. There would need to be strong local support for the referendum if it is to pass.

Ms. Bedford said that the City Schools Board would support the tax, especially for a ten year period. It would be critical to have Chamber of Commerce support, she said, and the support of the Democratic Party. Ms. Pelissier said that the County learned from the failure of the tax to pass the last time it was on the ballot. There may be some urgency for passing the sales tax this year, as the General Assembly could take away the County's authority to put the tax in place. The legislature is considering revoking the Land Transfer tax, for example.

School districts' budget strategies Mr. Rhodes distributed two handouts: "Orange County Schools 2011-12 Recommended Budget at a Glance/OCS Budget Fast Facts 2011-2012" and "Superintendent's Recommended Local Budget 2011-2012, The Collaboration Meeting, March 10, 2011." He called the group's attention to the state and federal funding reductions underlying the district's projected budget deficit of \$6.4 million for the 2011-12 school year, which in total represents a 10% reduction in overall funding. He noted that OCS projects an increase of 80 students. His recommendation for offsetting the state reductions is that OCS use \$1.4 million of its fund balance, about \$1.2 million in operating budget reductions, and \$571,000 from lottery proceeds.

Dr. Halkiotis said that it is "dangerous" to expect lottery funds this year, as the General Assembly could raid those funds for Medicaid. He reminded the group that the lottery was sold to the state's citizens as an "education" lottery, not a "Medicaid" lottery. Mr. Rhodes called the group's attention to p. 9 in his second handout, which compares lottery funding for 2006-07 with 2009-10; the education fund's slice of the pie has gone from 37% to 29%.

Ms. Coffey said that the Superintendent's budget does not factor in any additional losses to charter

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schools that the General Assembly might mandate. She noted that the school districts share “fair funding” monies with charters even though the charters do not provide the services – school resource officers, school nurses – associated with those funds. She asked if creative ways might be found to provide for school-based public safety and public health without the charters taking advantage, for example an MOU that moves those positions under the County. Mr. Clifton said that the County needs to adhere to State provisions with respect to charter school funding. After explaining that charter schools also receive a portion of the parking fees that OCS raises, Mr. Rhodes said that his and Ms. Coffey’s concerns are a matter of fairness; they are not against charter schools. Ms. Bedford asked if anyone in the room has any familiarity with what federal law says about charter schools receiving federal funds while not providing Free and Reduced Lunch, limited English proficiency programs, and Head Start or other early childhood programs. Commissioner Pelissier said that the North Carolina Association of County Commissioners has a lobbying position with respect to this matter. The group learned that both school districts have passed resolutions on this matter as well; each will share the resolutions with the BOCC and each other as follow-up to this meeting.

Dr. Halkiotis lauded Mr. Rhodes for being transparent with respect to the OCS fund balance, and called the group’s attention to p.11 in the second handout where the OCS total fund balance is presented for the seven school years 2003-2010.

Dr. Pedersen distributed a handout, “2011-2012 Budget Outlook, March 7, 2011.” We tried to balance the budget exclusive of the State reductions, he explained. We made no projections with respect to State reductions. He called the group’s attention to the City Schools’ continuation budget (\$1.2 million) and to a “small” expansion budget request (\$512,268). The local budget revenue shortfall would be about \$1.7 million. The shortfall would be balanced by budget reductions, reallocations and savings of about \$1.2 million, and a fund balance appropriation of \$515,379. Dr. Pedersen then showed a list of potential reductions totaling \$3 million to address the State budget reductions. We would draw from this list as we need to, he said. CHCCS used federal EduJobs funds to support positions that had been funded locally, and so banked those local funds as a contingency. The City Schools Board has indicated a willingness to be aggressive in tapping the fund balance, he said, and is operating in this budget cycle according to four key strategies: secure the same level of local funding, draw down the fund balance, be less conservative in our budgeting practices, and have a plan for dealing with state budget shortfalls.

Dr. Pedersen added that he is concerned about potential loss of funds from pending charter school legislation, and Worker Compensation changes. These could lead to significant additional cuts. There is also a possibility that local districts will lose bus replacement funds, which across the two school districts could impact the County by about \$1 million.

Commissioner Pelissier asked Dr. Pedersen what the CHCCS’s current fund balance is. Dr. Pedersen said that he is projecting it to be \$6 million above the 5.5% level the district maintains. We’re struggling with how much of that to spend on ongoing costs, he said. Ms. Bedford said that the Board has consensus to draw down no more than 40% of what is available in the first year, 30-40% in the second year, and 20-30% in the third year.

In reply to a question from Dr. Halkiotis, Dr. Pedersen said that the City Schools would have to

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make up about \$350,000 if the district is not funded at the same per pupil level this year as it was funded last year.

**Alternatives to Two Current Funding Targets**

Mr. Grier, County Financial Services Director, distributed a memorandum dated March 10, 2011 with the subject of “school funding issues.” Ms. Coffey noted that the three jurisdictions’ finance staffs did not collaborate on the analysis in the memorandum, and asked that in-depth discussion be postponed until after Work Group members from the school districts had time to consider it.

Mr. Grier reviewed the highlights of the memo within the few minutes left for the meeting. In general, he is recommending that:

- The schools current expenses funding be targeted at 65% of property tax revenue plus 35% of sales tax revenue, excluding the ¼ cent sales tax currently under consideration.
- Long-range capital funds be based on ADM between the two schools,
- Funds budgeted for long range capital projects in total between the schools and County be allocated on a 55/45 basis.

In response to a question from Mr. Rhodes, Mr. Grier said that his recommendations would not have a long range negative impact on OCS funding. Commissioner Yuhasz added that the key to the recommendations is to tie the distribution of funds to factors that can be controlled locally, while providing long range funding security to the schools and being able to communicate the basis of the decisions clearly to the public. Dr. Pedersen said that the Manager and Superintendents would review the memorandum as follow up to this meeting.

**Wrap Up**

The Work Group directed the facilitator to canvass members for a date to meet in May. Proposed agenda items are to be: (1) updates on the State budget process, (2) discussion of Mr. Grier’s memorandum, and (3) update on the sales tax referendum.

## 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

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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.