

**ORANGE COUNTY
BOARD OF COMMISSIONERS**

ACTION AGENDA ITEM ABSTRACT

Meeting Date: April 28, 2009

SUBJECT: Presentation of Orange County and Chapel Hill Carrboro City Boards of Education Approved FY 2009-10 Operating and Prioritized Capital Budgets

DEPARTMENT: County Manager and Budget

PUBLIC HEARING: (Y/N)

No

ATTACHMENT(S):

INFORMATION CONTACT:

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PURPOSE: To receive the Orange County and Chapel Hill Carrboro City Boards of Education approved FY 2009-10 operating and prioritized capital budgets.

BACKGROUND: At their March 24, 2009 budget work session, the Board of County Commissioners decided the funding target for schools for FY 2009-10 would be 48.1% of County General Fund revenues. The target is exclusive of the County's share of Durham Technical Community College funding and is consistent with the school funding target endorsed by Commissioners in May 2000. The following school related components are included in calculation of the target percentage:

- **Local Current Expense** - supplements State and Federal funds received by each district for the day-to-day operation of schools. Examples of expenses paid from these funds include salaries and benefits for locally paid teachers and utilities. North Carolina statutes mandate boards of county commissioners provide local current expense monies to school districts. Counties having more than one school administrative unit, as is the case in Orange County, are required to provide equal per pupil appropriations to each system. The funding level, however, is discretionary and varies from county to county.
- **Recurring Capital** – pays for facility improvements, equipment, furnishings, and vehicle and bus purchases. State statutes mandate counties to fund recurring capital. However, the amount of money counties allocate to this function is discretionary and varies from county to county. Equal per pupil allocations required by law for current expense appropriations are not applicable to this category of local school funding.
 - Per the April 2007 Commissioner approved County Capital Funding Policy, it is the intent of the Board of County Commissioners to dedicate the equivalent of four cents on the annual ad valorem property tax to funding recurring capital expenditures – 3 cents for

school projects and 1 cent for county projects. The Policy further states, “However, there will be times when the County will be bound fiscally and unable to achieve full funding. During those times, Commissioners may find it necessary to depart from the Policy.”

- To date, Commissioners have funded the equivalent of 2 cents for schools recurring capital and no monies for County recurring capital.
- **Long-Range Capital** – supports school capital projects through the County’s Capital Investment Plan (CIP). Capital projects are funded through a combination of State and local bonds, non-bond financing and pay-as-you-go funding sources. Pay-as-you-go funding includes dedicated half-cent sales tax revenues and property tax earmarked under the Board’s April 2007 Capital Funding Policy. The Capital Policy also allows for North Carolina Public School Building Capital funds and School Construction Impact Fees to offset School related debt service. Similar to Local Current Expense funding, the amount of money counties allocate to long-range capital expenditures is discretionary and varies from county to county.
- **School Related Debt Service** – repayment of principal and interest on School related debt including general obligation bonds and private placement loans. North Carolina statutes require counties to pay for school related capital items such as acquisition and construction of facilities. In instances where counties borrow monies to pay for such items, the State mandates counties to repay the debt. The amount of money counties borrow for school related projects is discretionary and varies from county to county.
- **Fair Funding** – monies, split equally between the two school districts, to offset costs of safety and health services such as School Resource Officers and School Social Workers. The State does not mandate counties to provide funding for these resources.

It is important to note, the 48.1% target only includes funding for the items identified above – current expense, recurring capital, long-range capital, school related debt service and fair funding. It does not include additional non-mandated County financial support Orange County Commissioners commits to schools. Examples of such appropriations include supplementing state funding for school health nurses in order to staff each school with at least one school health nurse. Funding for this contractual agreement between the County Health Department and each school district is approximately \$600,000 per year. (This agreement/contract has been in place since 2001.) In addition, County departments provide a number of services and programs to each school district. An example of such a program is the Tobacco Cessation program operated through the Orange County Health Department. The County also financially supports non-profit agencies such as Communities in Schools that provide after school programs for middle school students.

During tonight’s work session, the Boards of Education will present their approved FY 2009-10 operating budget to the Board of County Commissioners.

FY 2009-10 Prioritized School Capital Budget

During fall 2008, the County Budget Director developed the FY 2009-19 CIP revenue projections based on the assumption that Public School Building Fund and NC Education Lottery monies would be in place for FY 2009-10. At that time, this assumption appeared to be solid. However, in February 2009 Governor Perdue implemented emergency budgetary and financial actions in order for the State to have sufficient funds to pay its bills. This action included the State seizing Public School Building and NC Education Lottery funds due to counties. While State officials have indicated this is a temporary measure, the General Assembly is still in session and has not balanced the State budget. It is important to note, in past years, the State has balanced its budget by withholding monies to which counties are entitled, such as Public School Building Fund monies.

There is still much uncertainty surrounding the State budget for next fiscal year. Given this uncertainty, County staff advises caution in relying on these two large revenue sources – Public School Building Funds, \$1 to \$1.5 million and NC Education Lottery proceeds, \$2.1 million – for FY 2009-10 until the General Assembly has adopted a final budget.

During early April 2009, the County Manager advised both School Superintendents of the uncertainty of these monies. Each superintendent agreed to review their district's FY 2009-10 capital funding proposal to (1) determine which projects to fund with pay-as-you-go funding beginning July 1, 2009, and (2) which projects to postpone until the State has finalized its budget. This approach would ensure the County does not count on State revenues that ultimately do not transpire. During tonight's presentation, each system will share their prioritized list of FY 2009-10 capital projects with the Board of County Commissioners.

FINANCIAL IMPACT: Preliminary FY 2009-10 revenue projections anticipate the County's General Fund revenues would be \$174.6 million, a reduction of \$8.7 million from the FY 2008-09 General Fund revenues. Staff has assumed no receipt of Public School Building Fund monies in this projection for the County's General Fund. (Note: NC Education Lottery proceeds are revenues budgeted in individual capital projects and not considered General Fund Revenue.)

Assuming the Board's funding target of 48.1% of County General Fund revenues, the County's total allocation to schools for current expense, recurring and long-range capital, debt service and fair funding would be \$83.84 million in FY 2009-10, a reduction of \$4.69 million. The chart below outlines revenue available for appropriation to school related functions.

Allocation of Anticipated FY 2009-10 General Fund Revenue Available for Appropriation Between County and Schools

	Schools	County
	48.1%	51.9%
In Millions of Dollars	\$83.84	\$90.46

Schools - For FY 2009-10 assumes 48.1% of total anticipated General Fund revenue available for appropriation (County Target Percentage Does Not Include Funding for Durham Tech in Calculation of 48.1% Target)

In Millions of \$

	FY 2008-09	FY 2009-10	Difference
Total School Funding ⁽¹⁾	\$88.53	\$83.84	(\$4.69)
School Related Debt Service (Mandated Appropriation; No Dollar Discretion)	\$19.57	\$18.60	(\$0.97)
Recurring Capital (Mandated Appropriation, Discretionary Dollars)	\$2.57	\$3.00	\$0.43
Long Range Capital (Mandated Appropriation, Discretionary Dollars)	\$4.82	\$4.30	(\$0.52)
Fair Funding (Non Mandated Appropriation)	\$0.99	\$0.99	\$0.00
Current Expense (Mandated Appropriation, Discretionary Dollars)	\$60.58	\$56.95	(\$3.63)
Total School Funding	\$88.53	\$83.84	(\$4.69)
% of County General Fund	48.4%	48.1%	

⁽¹⁾ Does not include additional County funding for School Health Nursing Initiative, School Social Workers, School Resource Officers). Total Education appropriation % for FY 2008-09 including these components totaled 49.3%.

Calculation of Current Expense/Per Pupil Appropriation			
	FY 2008-09	FY 2009-10	Difference
Projected # of Students	18,932	18,898	(34)
Projected Per Pupil Allocation	\$3,200	\$3,014	(\$186)

County - Assumes 51.9% of Total Anticipated General Fund Revenue Available for Appropriation

In Millions of \$

	FY 2008-09	FY 2009-10	Difference
Revenue Available for County Operations (For FY 2009-10, assumes 51.9% of Total Anticipated General Fund Revenue)	\$94.47	\$90.46	(\$4.01)
% of County General Fund	51.6%	51.9%	

RECOMMENDATION (S): The Manager recommends the Boards discuss the issues noted and provide direction to staff, as appropriate.