

MINUTES OF MECKLENBURG COUNTY BOARD OF COMMISSIONERS

JANUARY 11, 2008

12:00 P.M.

NORTH CAROLINA MECKLENBURG COUNTY

The Board of Commissioners of Mecklenburg County, North Carolina, met in Special Budget/Public Policy Session in Conference Center Room 267 of the Charlotte-Mecklenburg Government Center located at 600 East Fourth Street at 12:00 p.m. on Friday, January 11, 2008.

ATTENDANCE

Present: Chairman Jennifer Roberts and Commissioners
Karen Bentley, J. Daniel Bishop, Dumont Clarke
H. Parks Helms, Bill James, Norman A. Mitchell, Sr.
Dan Ramirez and Valerie C. Woodard
County Manager Harry L. Jones, Sr.
County Attorney Marvin A. Bethune
Clerk to the Board Janice S. Paige

Absent: None

Commissioner Ramirez was absent when the meeting was called to order and until noted in the minutes.

The meeting was called to order by Chairman Roberts. It was noted that this was a joint meeting with the Charlotte-Mecklenburg Board of Education (BOE).

Opening remarks were made by Chairman Roberts and Board of Education Chairman Joe White.

County Manager Jones and School Superintendent Peter Gorman also made opening remarks.

Commissioner Ramirez entered the meeting.

County Manager Jones introduced Ann Udall with The Lee Institute, who facilitated the meeting.

Ms. Udall reviewed the topics on the agenda and the process for conducting discussion of these matters. The topics were:

- FY2009 Charlotte-Mecklenburg Schools Funding Evaluation Guidelines
- Use Of Lottery Proceeds
- Public/Private Partnerships

It was noted that any matters raised not associated with the main topics of discussion would be listed ("parking lot" list) and followed up on at a later date.

Comments:

BOE member George Dunlap asked if discussion was needed regarding whose responsibility it is to decide which schools will be placed on school bond projects list, the Board of Education or the County Commission. Mr. Dunlap said it's his understanding that the County Commission provides funding and the Board of Education decides which schools will go on a projects list. *The response was that this was a matter to be placed on the 'parking lot' list.*

BOE member Vilma Leake asked about the status of bond funds and why hasn't Charlotte-Mecklenburg Schools (CMS) received bond funds that they were to receive. *The response was*

that this was a matter to be placed on the 'parking lot' list.

(1) FY2009 CHARLOTTE-MECKLENBURG SCHOOLS FUNDING EVALUATION GUIDELINES

Budget/Management Director Hyong Yi addressed the FY2009 Charlotte-Mecklenburg Schools Funding Evaluation Guidelines.

The following was covered in the presentation:

- Purpose of the Funding Evaluation Guidelines
 - To provide a tool for the Board of County Commissioners to evaluate CMS operating funding requests based on per pupil funding changes and changes in student enrollment and composition.
 - It does not obligate the Board to fund at a certain dollar amount.
 - If CMS request is not consistent with funding guideline, it gives the Board a basis for assessing the request.
 - It was developed in 2004 and refined since.
- The Operating Guideline Premise
- Guideline Components
- Per Pupil Calculation
- The Methodology
- FY2008 Application
- Reflections and Next Steps

A copy of the presentation is on file with the Clerk to the Board.

Comments:

Commissioner James commented on the history of the Funding Evaluation Guidelines.

Commissioner James asked the BOE to comment on the County's Funding Evaluation Guidelines. Also, on whether the BOE accepts the guidelines as a "starting point" and if so, would they be willing to incorporate it in their budget process. Commissioner James said he believes CMS staff does this already, but he's uncertain about the BOE's stance.

BOE member Dunlap also commented on the history of the Funding Evaluation Guidelines. He said he feels it's something that the BOE could "live with," but before he could "sign off on it", he would want to verify the data used by the County for CMS to make sure the percentages were accurate and agreeable. Mr. Dunlap said it's not the framework that's the concern but the data used in the framework. He cited an example, if CMS has an overage and the County then informs CMS that it's not entitled to that money and needs to give it back, that's okay, but if CMS over enroll what it projected then CMS would expect additional funds. He said the County and CMS need to agree on a process for handling this type of situation and stick that agreement.

Dr. Gorman clarified that CMS staff has never said it accepts the Funding Evaluation Guidelines as a "starting point." He said it's a tool staff uses in the budgeting process and part of the discussion CMS staff has with County staff, but it's not a "starting point" for CMS.

Commissioner James said he'd like to know if the factors in the Funding Evaluation Guidelines are agreeable to the BOE.

Commissioner Clarke said the Board of Commissioners have always said the Funding Evaluation Guidelines was a "tool" it uses, but it's never been voted on to be a "starting point."

Director Yi clarified that the Funding Evaluation Guidelines is only a "starting point" for County staff and the County Manager.

BOE member Tom Tate said this was his first time actually seeing something about the Funding Evaluation Guidelines. He said he's heard of it, but it hasn't been discussed by the BOE during

his tenure. Mr. Tate said for him it's not about how much money per pupil he thinks CMS will need, but rather, what are the educational programs CMS needs to be providing for all students and then figuring out what those programs are going to cost.

BOE member Dunlap asked at what "rate" does the County tax the citizens of Mecklenburg County for educational purposes, operational and debt service. Mr. Dunlap said he wants to know because it would be unfair to the taxpayers to charge them more and give the Schools less. *The response was that staff would have to get back with an answer.*

Commissioner Bishop said there's no "tax" assessed for education.

BOE member Dunlap said there's no "tax" assessed, but it has been said the taxpayers are paying for education.

Commissioner Bishop noted the proposal Commissioner Ramirez has brought forth in the past with respect to allocating a specific percentage of the tax revenue for schools.

BOE member Trent Merchant said it makes sense to have a framework because you have to compare it with something, but that it should be used as a tool or measuring stick and not as a "do or die number."

Mr. Merchant said he agreed with Mr. Tate, that the BOE needs to determine what programs are effective and needed and which are not.

Further, he would like to better understand the reaction of Commissioners when they receive CMS' budget. He noted that there's a category for continuing operations and for new initiatives that would appear to be outside of the Funding Evaluation Guidelines. He would like to know how this is evaluated.

BOE member Molly Griffin said she doesn't have a problem with the Commission using the Funding Evaluation Guidelines because it was developed for their use. However, she doesn't think the BOE needs to use it in developing its budget because their budget takes more factors into account.

BOE member Larry Gauvreau said he thought the Funding Evaluation Guidelines was developed for compromise purposes. He said he's never been in favor of the Funding Evaluation Guidelines. He said it doesn't force change in the school district.

Commissioner Ramirez noted that he has proposed in the past that a certain percentage of the County's revenue be dedicated for CMS. Commissioner Ramirez said this would eliminate the political discussion that takes place every year.

Commissioner Helms said to him it doesn't matter how the Board of Education feels about the Funding Evaluation Guidelines, but what matters is for the Board of Education to know that the County Commission uses it as a guide. He said it's a "sound fiscal management process."

BOE member Ken Gjertsen said he doesn't feel the BOE needs to use the Funding Evaluation Guidelines in its budgeting process, because it would be doing the same thing year after year. He said it has a built in increase for the school system. He said there is no incentive for CMS to save money. He posed the question of what happens if CMS saves "x" amount of dollars in a given year. Could CMS come back the next year and say it's going to use those savings for something else; how would CMS know that its allocation wouldn't be reduced by that amount of savings? He said there's no "certainty" in the financing. He said there needs to be some certainty in the process.

BOE member Leake said the BOE looks at the needs versus sometimes beyond what money is allocated for CMS to use. Ms. Leake said she remembers when the County would set aside a supplement for increases for teachers, but now no longer does. Ms. Leake said she would like to see this put back in the budgeting process for retention of teachers and others in the district. She's also concerned about the amount of spending on education versus on incarceration.

BOE Chairman White commented on the history of the Funding Evaluation Guidelines. He said he understands how the County uses it, but that for the BOE it doesn't work and he's not sure how they could fine tune it. He doesn't have a problem with the County using it as a "starting point."

Chairman Roberts acknowledged there are different perspectives on the Funding Evaluation Guidelines. She noted that there are a number of measures used, not just per pupil spending where we are low in the nation, including teacher salaries.

Chairman Roberts said from her perspective the County probably is underfunding some aspects of CMS and achievements are challenged because of that.

Chairman Roberts said she was not supportive of Commissioner Ramirez's proposal because of other needs that may come up. She said if you commit to a certain percentage of tax revenue annually, there's no flexibility for addressing changing needs and factors in the community that you have no control over.

Commissioner Helms asked for clarification regarding the per pupil cost, which was addressed by Dir. Yi.

Chairman Roberts said it may be good to have a comparison study from a national organization regarding per pupil spending.

BOE member Merchant said he wasn't interested in a comparison of per pupil cost because there are no school districts the size of CMS that are doing a good job.

Commissioner Woodard left the meeting and was absent until noted in the minutes.

Commissioner Mitchell said perhaps the Board needs to see the BOE budgeting process.

Student Enrollment

Scott McCulley with CMS addressed 2007-2008 Student Enrollment.

The presentation addressed Enrollment numbers and Methodology.

Commissioner James left the meeting and was absent for the remainder of the meeting.

Mr. McCulley said CMS is still trying to determine why they missed their enrollment projections.

A copy of the presentation is on file with the Clerk to the Board.

Comments:

BOE member Dunlap asked, with respect to enrollment projects, if staff takes into account the mortality rate and persons who may have been born in Mecklenburg County but moved prior to entering school. *The response was that CMS takes into consideration the "survival ratio," which is not so much from an infant mortality standpoint but from the standpoint of students staying in the system. It was stated that when you look at the births and the kindergarten class and you create that ratio, which then is the multiplier that determines basically how many students will be staying in the school system.*

Commissioner Clarke asked about enrollment trends. *The response was that CMS is looking at this. However, one of the factors is economics overall, locally and nationally. It was also pointed out that persons relocating to Mecklenburg County aren't bringing their children right away because they're having trouble selling their existing home.*

Commissioner Bentley asked if CMS looks beyond Mecklenburg County when considering private and charter school growth and/or expansion. *The response was that they only look inside of Mecklenburg County. It was acknowledged that there are factors that occur outside of the borders of Mecklenburg County that could have an impact on enrollment projections.*

Commissioner Bentley suggested CMS takes into consideration what's occurring in surrounding counties.

Commissioner Mitchell asked whether CMS tracks student that leave the system and go to private or charter schools. *The response was that they look at some broad information. They have some specifics to a certain degree, but the reliability of that information is something CMS has to continually work on.*

Commissioner Mitchell asked if money is returned for those students that leave and come back to CMS. *The response was not after a certain date.*

BOE member Leake said there are a number of students that do return, but she hasn't seen those numbers.

Commissioner Bentley asked, with respect to business cycles and economic trends on the state level, how far back is CMS looking. *The response was about five years.*

Commissioner Bentley suggested CMS looks back further, in order to get a more accurate view, especially when it comes to enrollment. She said historically if you look at business cycles on the state level and if you go back about ten years you'll see there's usually a blip.

The Board recessed at 2:37 p.m. and reconvened at 3:03 p.m.

(2) LOTTERY PROCEEDS AND ADM FUNDS

Finance Director Dena Diorio addressed Lottery Proceeds and ADM Funds.

The presentation addressed:

- Background with respect to ADM Funds and Lottery Proceeds
- Program Elements
- Revenue Distribution and Use of Funds

A copy of the presentation is on file with the Clerk to the Board.

Note: Attorney Bethune left the meeting and was absent for the remainder of the meeting.

Comments:

BOE member Dunlap asked were lottery funds sent to the County and then transferred to CMS or vice versa. *The response was that the County draws the funds down, but the form is signed by both entities.*

Mr. Dunlap asked if Director Diorio considers this supplanting, since the lottery funds are to be directed to the schools but end up being used by the County for debt service. Mr. Dunlap said it was his understanding that monies derived from the lottery should not supplant monies that the County would appropriate for school construction. *The response was that school debt service is a permissible use of the lottery funds. Therefore, using it for debt service would not be considered supplanting.*

Mr. Dunlap asked who makes the decision with respect to how the funds will be used. *The response was that the County Manager recommended they be used for debt service and the Board of County Commissioners approved it.*

Mr. Dunlap said he wants to know legally, who has the authority, the Board of County Commissioners or the Board of Education.

County Manager Jones said it's his understanding that the decision is that of the Board of County Commissioners, but an official answer will be obtained.

Commissioner Clarke asked about the \$4 million balance in lottery funding. *The response was that a decision has not been made to date regarding the use of those funds.*

Commissioner Clarke asked if it could be given to CMS. *The response was yes, but it has to be for a specific project if it's not used for debt service.*

Commissioner Clarke asked was it correct that if the lottery funds aren't used to pay for debt service, then the County would have to do one of the following: a) increase property taxes more in order to pay debt service for school buildings, b) reduce appropriations to the schools for other operating budget needs they have, or c) reduce County spending in other areas such as mental health or other county departments. *The response was yes.*

BOE member Tate asked for clarification with respect to debt service and the use lottery funds for that purpose, which was addressed.

Chairman Roberts said she doesn't feel the County is supplanting because the County has a huge debt service burden.

Commissioner Bentley asked was County staff tracking to see if the County was hitting its projections with respect to the amount of lottery funds to be received. *The response was that it was too early to tell because the County has only received one payment.*

Commissioner Mitchell asked Director Diorio to comment on the amount of the County's debt service. *The response was that the total debt service for this fiscal year is \$243 million, and \$141.7 million of that is for schools. Debt service increase for schools was \$16 million.*

BOE member Dunlap said his concern is who has the legal authority to say how the funds are to be used. His contention is that the BOE had no say in how the lottery funds would be used. He said the BOE could have very well made the same decision, but the fact that they had no say so is what concerns him.

Commissioner Woodard returned to the meeting.

BOE member Trent Merchant said he was not concerned about the issue because if the County is funding CMS by some \$323 million annually he doesn't think the BOE should get bogged down about \$22 million. He said they'll lose sight of the issue and in light of the numbers to him it's "a drop in the bucket" whether it goes to debt service or operating.

County Manager Jones said using lottery proceeds to pay for debt service is funding school construction.

BOE member Gjertsen said he wants the Board to make a commitment to the BOE on what's going to be allocated annually. He said CMS could get some real economies of scale in school construction if they knew what was going to be received annually and taking into consideration inflation.

BOE member Leake posed the question of how do you educate the community on the lottery funds and how they can be used. She said she feels the lottery funds really aren't for education.

Facilitator Udall said per the discussion regarding lottery proceeds, the following questions were raised:

- Supplant versus supplement
- What defines education?
- Who has the legal authority to decide how lottery proceeds are to be used?

- How do you educate the public on lottery proceeds?

BOE Chairman White said the issue he feels is that the public doesn't understand that schools don't get all of the proceeds.

(3) PUBLIC/PRIVATE PARTNERSHIPS

Guy Chamberlain with CMS addressed Public/Private Partnerships, Place Properties and CMS.

The presentation addressed:

- The Background
- The Public/Private Partnership Structure
- The "Tests"
- Added Value
- Conclusions and Recommendations
- Timetable

A copy of the presentation is on file with the Clerk to the Board.

Comments:

Commissioner Helms commented on the statement made that it would be CMS' debt and not the County's. He asked was it not correct that it's not the CMS debt but rather CMS' obligation to service or pay the lease payments, that the debt is Place Properties. *Mr. Chamberlain said Commissioner Helms was correct.*

Director Diorio, with respect to what the transaction would look like, said the official statement that goes out to the investors will say CMS. It's CMS' obligation to repay the debt, so although it will be issued by a private developer, it is considered debt of CMS.

Noted also was that the County would make an appropriation to CMS for lease payments. The County is under no obligation to repay the debt.

Chairman Roberts also asked about debt on behalf of the schools and the rating. *The response was that it should be rated lower than County COPs.*

Director Diorio said it was overlapping debt to the County but not direct debt.

Commissioner Ramirez asked was CMS protected if the developer is not on time. *The response was that CMS intends to put in some type of liquidated damages in the development agreement so that there will be a penalty if delivery is late.*

BOE member Dunlap said he feels CMS should monitor the project. *The response was that CMS staff will monitor but not on the level it normally would.*

Commissioner Ramirez left the meeting and was absent for the remainder of the meeting.

BOE member Merchant said he would like to see a formal agreement to understand how this process will work. *The response was that it was being drafted with respect to how these funds would flow.*

Commissioner Bentley left the meeting and was absent for the remainder of the meeting.

BOE member Griffin asked if it really makes economic sense to do this. She said she thought it was going to be an expense/effective saving device, but it doesn't appear to be.

BOE Chairman White said he needs to be convinced that this is worth doing.

Chairman Roberts said she likes having the ability to do faster construction. She also likes the debt capacity piece for the County.

BOE member Dunlap said the deciding factor, although it may not be the greatest solution, is that it does allow the County to deal with more debt service. He said if CMS had to fund these projects the way it has done traditionally, it would mean more debt service on the County.

Commissioner Clarke said it doesn't save a huge amount but it doesn't cost a huge amount either. He said it'll show the public "we're trying."

Dr. Gorman commented on the need for legislative change so that the Public/Private Partnership delivery method is more of a cost savings.

BOE member Griffin asked was it necessary to have further discussion at a later date regarding the Public/Private Partnership delivery method, prior to each entity voting on it.

Chairman Roberts said she felt if responses can be e-mailed regarding the questions raised during the discussion that would be suffice and may add to everyone's perspective. She said she feels it's something that should be tried. She also likes the idea of both entities placing this issue on its legislative agenda, ways to make it even more effective and efficient in order to get things done faster.

BOE member Dunlap said it was his understanding that the agreement was that if it doesn't work the County has to provide COPs to do it. He said it should at least be tried because if not then CMS "doesn't stand a chance of getting the COPs."

This concluded the discussion on Public/Private Partnerships.

Facilitator Udall suggested that the Chairmen, County Manager, and Superintendent follow-up on the issues noted in the parking lot, which were

- Educate the County Commission on how CMS develops its budget
- How are bonds being spent
- Verify that it's CMS' responsibility to decide the specifics of bond projects
- Charter and Private school enrollment gages
- Legal opinion with respect to who has local authority regarding how lottery proceeds can be used.

BOE member Leake asked would future joint meetings of this nature be held.

Chairman Roberts said she thought today's meeting was very helpful and that perhaps future meetings should be held before there's a major project or issue change that both entities would be voting on. Also, perhaps once during the budget season if there are specific questions about programs or about new innovations.

BOE member Griffin said she doesn't want to meet just to be meeting. Her preference is to meet if there's an important issue to be dealt with.

BOE Chairman White suggested if future meetings are held, that they should be at a time like this when you're "in an informational mode, because if you wait two or three months down the road when you're in the decision-making mode, then everyone is a little more emotional and uptight about their issue."

This concluded the discussion.

No action was taken or required.

The above is not inclusive of every comment but is a summary.

ADJOURNMENT

There being no further business to come before the Board that the meeting was declared adjourned at 4:15 p.m.

Janice S. Paige, Clerk

Jennifer Roberts, Chairman