

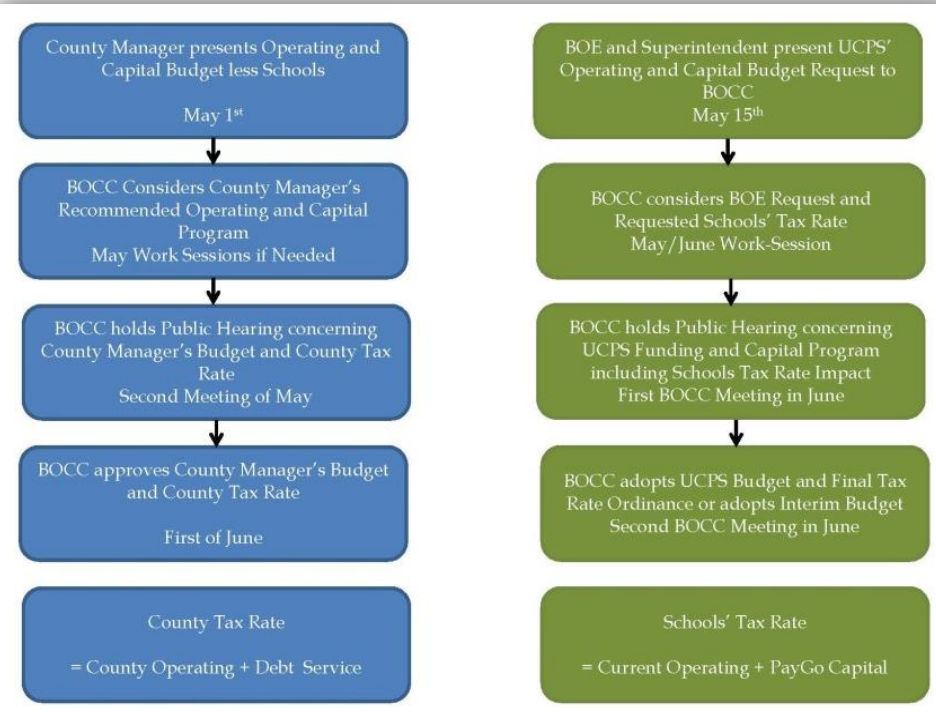
Union County Public Schools

Given the changing environment concerning funding of public schools in Union County, the Board of County Commissioners and Board of Education agreed that a new budget process was needed. At a joint meeting of the Boards held March 26, 2014, County staff laid out a proposed process. This process was discussed and used during the FY 2015 budget development.

The revised budget process focused in on process key principles:

- Foster an Environment of Cooperation
- Foster an Environment of Transparency
- Foster an Environment of Communication and Openness
- Foster an Environment of Trust
- Foster an Environment of Fairness
- Foster a Public Dialogue with the Board of Education Concerning UCPS' Funding
- Foster a Dialogue with the Public Concerning UCPS' Funding

These principles were used to lay a foundation for goals in the revised



process. These goals then guided the process development. The process should:

- Ensure Transparency and Communication
- Ensure Fiscal Sustainability
- Ensure a Public Dialogue Concerning UCPS' Funding
- Ensure County Services' Funding Needs Receive Due Consideration
- Ensure UCPS' Funding Needs Receive Due Consideration
- Ensure the Residents are Heard
- Ensure Adherence to General Statutes
- Ensure Regular Communication Between the Board of Education and the Board of County Commissioners

With these goals in mind, a "bifurcated" process was developed that essentially separated the UCPS funding discussion from the County Services funding discussion. As the graphic indicates, the process will run parallel to the County's process.

Based upon the work sessions and public hearings, the Board of County Commissioners established the tax rate for County Operations. And then, as allowed for in G.S. 153A-149(b)(7), established a separate Schools' Tax Rate "to provide for the County's share of the cost of kindergarten, elementary, secondary, and post-secondary public education."

General Fund Supported School Funding

As mentioned above, the Schools' Tax Rate will fund the current expense and pay-go capital funding. The County funds, in addition, through the General Fund, the UCPS related debt service and maintenance on UCPS' offices located in County facilities.

The debt service, as shown in the tables following, is partially funded through dedicated sales tax and lottery proceeds, with the remaining funding coming from other General Fund sources.

In FY 2015, the estimated debt service is \$45,021,743 and the estimated cost of maintenance is \$284,835. The total estimated revenue for the dedicated local option sales tax is \$6,994,057 and the estimated lottery proceeds are \$2,759,336. The net General Fund Funding from other sources is \$35,553,185.



Legislative Changes to School Funding

During the 2014 Short Session, the General Assembly of North Carolina took up the issue of funding for Public Schools in Union County. The final outcome is reflected in Session Law 2014-9.

Session Law 2014-9 reads as follows:

AN ACT TO MAKE TECHNICAL CHANGES AND CLARIFICATIONS IN AN ACT TO ESTABLISH A MORATORIUM ON FILING OF ACTIONS BY CERTAIN LOCAL BOARDS OF EDUCATION CHALLENGING THE SUFFICIENCY OF LOCAL FUNDS APPROPRIATED TO THE PUBLIC SCHOOLS BY THE BOARD OF COUNTY COMMISSIONERS.

The General Assembly of North Carolina enacts:

SECTION 1. If House Bill 292, 2013 Regular Session, becomes law, then that act is rewritten to read:

SECTION 1.(a) A local board of education shall not file any legal action under G.S. 115C-426, 115C-431, or 115C-432 challenging the sufficiency of the funds appropriated by the Union County Board of Commissioners to the local current expense fund, the capital outlay fund, or both. This subsection expires upon the adoption of the 2016-2017 fiscal year budget by the Union County Board of Commissioners.

SECTION 1.(b) G.S. 115C-429(b) reads as rewritten:

(b) The board of county commissioners shall complete its action on the school budget on or before July 1, or such later date as may be agreeable to the board of education. The commissioners shall ~~determine the amount of county revenues to be appropriated in the county budget ordinance to the local school administrative unit for the budget year. The board of county commissioners may, in its discretion, allocate part or all of its appropriation by purpose, function, or project as defined in the uniform budget format.~~ appropriate moneys as follows for each indicated fiscal year:

- (1) For the 2014-2015 fiscal year, at least eighty-seven million ninety-seven thousand eight hundred eighty-four dollars (\$87,097,884) for the local current expense fund and at least nineteen million five hundred thirty-one thousand five hundred eighty-two dollars (\$19,531,582) for capital outlay.
- (2) For the 2015-2016 fiscal year, at least an amount equal to the local current expense fund appropriation for the 2014-2015 budget year plus (i) an inflationary increase based on the most recent annual consumer price index for all urban workers (CPI-

U) and (ii) any increase in the average daily membership in the local school administrative unit in the first 20 days of the school year from the prior school year, and at least nineteen million seven hundred eighty-six thousand twenty-four dollars (\$19,786,024) for capital outlay.

SECTION 1.(c) On or before August 1, 2014, the Union County Board of Commissioners and the Union County Schools shall jointly establish a working group to develop a multiyear plan to address existing and ongoing capital needs of the Union County Schools. The working group shall consist of up to 14 people, half appointed by each board. The working group shall complete its work and report to the Union County Board of Commissioners and the Union County Schools on or before June 30, 2015.

SECTION 1.(d) This section applies only to Union County.

SECTION 2.(a) G.S. 115C-431 is repealed. This subsection expires upon the adoption of the 2016-2017 fiscal year budget by the appropriate board of county commissioners.

SECTION 2.(b) A local board of education shall not file any legal action under G.S. 115C-426, 115C-431, or 115C-432 challenging the sufficiency of the funds appropriated by the board of county commissioners to the local current expense fund, the capital outlay fund, or both. This subsection expires upon the adoption of the 2016-2017 fiscal year budget by the appropriate board of county commissioners.

SECTION 2.(c) This section applies only to counties of Gaston and Nash.

SECTION 3. If any provision of this act or its application is held invalid, the invalidity does not affect the other provisions or applications of this act that can be given effect without the invalid provisions or applications, and to this end the provisions of this act are severable.

SECTION 4. This act becomes effective June 11, 2014, and shall not affect any action filed prior to that date.

SECTION 2. This act becomes effective June 11, 2014.

As section B.(1) states, the Board of County Commissioners are obligated to fund the UCPS Current Expense at \$87,097,884. The required funding level represents a \$4,076,025 increase or 4.91 percent growth from the Revised FY 2014 budget. The required amount however is \$2,778,517 million less than the \$89,876,401 requested by the Board of Education. The requested funding was an 8.26 percent increase, or \$6,854,542 more than the Revised FY 2014 budget.

As section B.(2) states, the Board of County Commissioners are obligated to fund UCPS Capital Outlay at \$19,531,582. The



required funding level is \$1,595,128 or 8.89 percent more than the revised budget in FY 2014. When combined with the FY 2014 appropriation, the Board of County Commissioners will have funded \$37,468,036 of Capital Outlay for FY 2014 and FY 2015. The Board of Education requested \$97,716,315 of Capital Outlay funding; the requested funding is \$79,779,861 or 445 percent more than the Revised FY 2014 budget.

Status of the Jury Award

During the summer of 2013, following a mediation process, the Board of Education sued the residents of Union County claiming that the funding provided by the Board of County Commissioners was insufficient to provide a system of free public education.

At the conclusion of the proceedings the jury award UCPS \$91,157,139. Of that, \$4,973,134 was awarded for Current Expense and \$86,184,005 was awarded for capital. Since the award, the Board of County Commissioners appropriated \$761,451 additional funding for FY 2014 Current Expense and an additional \$14,936,454 for Capital Outlay, exceeding the original FY 2014 Capital Outlay request by \$9,578,595.

Given the perceived irregularities that arose during the trial and extreme amount of the verdict the Board of County Commissioners resolved to protect the residents of Union County by appealing the verdict to the appellate division of the General Court. During the appeal, the residents do not have to fund the remaining \$71,247,551 for Capital outlay or the remaining \$4,211,684 for Current Expense funding. A decision is expected by early calendar 2015.

Schools' Tax Rates

Current Expense Funding:

As mentioned earlier, Session Law 2014-9 dictates that the Board of County Commissioners appropriate \$87,097,884 to the Union County Public Schools for Current Expense in FY 2015. The FY 2014 Ad Valorem Tax Rate allocated to UCPS was 35.36 cents, which based on growth generates an estimated \$84,223,995. The required additional \$2,873,889 is funded through the additional 1.21 cent tax increase. With this increase the total Schools' Tax Rate for Current is expense is 36.57 cents.

Union County Public Schools Funding Projection				
Fiscal Year	UCPS Current Exp.	UCPS PayGo	Total	Schools' Tax Rate
FY 2014	\$ 83,021,859	17,936,454	100,958,313	35.36
FY 2015	87,097,884	19,531,582	106,629,466	45.50
FY 2016	90,956,320	19,786,024	110,742,344	45.50
FY 2017	94,985,673	20,044,847	115,030,520	47.50
FY 2018	99,193,538	20,308,165	119,501,703	47.50
FY 2019	103,587,812	20,576,093	124,163,905	50.50
FY 2020	108,176,752	20,848,749	129,025,501	50.50

Note: CPI Assumption = 2%, ADM Growth Assumption = 2.43%

In addition to the funding set out for FY 2015, Session Law 2014-9 specifies that the Current Expense funding for FY 2015-16. The law states that UCPS will get the FY 2015 amount plus "(i) an inflationary increase based on the most recent annual consumer price index for all urban workers (CPI-U) and (ii) any increase in the average daily membership in the local school administrative unit in the first 20 days of the school year from the prior school year." Based on initial estimates, recent CPI-U has been about 2 percent and the projected ADM growth for FY 2015 is 2.43 percent. These two growth indicators combined provide for a projected automatic growth rate of 4.43 percent or \$3,858,436.

As mentioned above, the rate needed to provide sufficient funding for Current Expense in FY 2015 is 36.57 cents, the Board of County Commissioners added an additional .73 cents to the rate to provide for the projected funding in FY 2016 without an additional rate increase. This "smoothing" allows the rate to be stable, based on projections, in FY 2016.

In addition to the requirement for FY 2015 and FY 2016, the table above provides a projection of the growth based on the CPI-U and ADM estimates. Using the five year window, the anticipated UCPS Current Expense funding could climb to more than \$108 million by FY 2020. This growth is projected to bring the total Schools' Tax Rate to a projected 50.50 cents. Again this is based on a smoothed rate, versus incremental increases each year.

Although the Session Law striped the BOCC's local control components from the General Statutes, the Board of County Commissioners expressed their desire and expectation that the additional local funding would be used primarily to improve employee compensation. The BOCC recognized the \$500,000 of efficiencies identified by UCPS and requested that the \$4,076,025 or 4.91 percent increase be allocated as follows:



- \$161,654 to provide for the increase in “State” benefits for UCPS employees.
- \$1,923,110 to provide for the increase in Teacher Supplements.
- \$791,261 for estimated local impacts from salary increases included in the state budget.
- \$340,778 to provide for increased Teacher Supplements in high priority schools.
- \$1,097,322 for a 3% merit increase for local employees.
- \$261,900 for estimated utility cost increases.

Capital Funding:

Beyond the required Current Expense funding, Session Law 2014-9 prescribed the level of Capital Outlay funding for UCPS for both FY 2015 and FY 2016. While UCPS originally requested \$97,716,315 for Capital Outlay, the required FY 2015 funding level was \$19,531,582. The Capital Outlay funding is 8.89 percent or \$1,595,128 more than revised FY 2014.

The FY 2015 Ad Valorem, or property tax value of \$19,531,582 is 8.2 cents. This funding level was originally recommended based on the level of general fund debt service added during the past ten years for which the tax rates were not increased. Essentially, this onetime increase resets the tax rate to the necessary funding needed to provide for historical debt service.

The FY 2016 required capital funding is \$19,786,024 and is reflective of anticipated growth in Ad Valorem revenues. As such, the projected portion of the Schools’ Tax rate allocated to Capital Outlay is not anticipated to change in FY 2016.

Although the Session Law has eliminated the BOCC’s ability to ensure specific projects are done with the Capital Outlay funding provided, the Board of County Commissioners expressed their expectation and desire that the local Capital Outlay Funding be used as follows:

- \$821,950 for Student Safety and Security Projects
- \$9,736,880 for Roofing, Structure, and HVAC
- \$584,961 for Structural ADA Improvements
- \$7,504,488 for Other Facilities Projects
- \$84,444 for a Bus
- \$377,359 for Technology
- \$421,500 for Improvements to Athletic Fields and Facilities

In addition to the prescribed funding for capital outlay, the Session Law dictates that “on or before August 1, 2014, the Union County Board of Commissioners and the Union County Schools shall jointly establish a working group to develop a multiyear plan to address existing and ongoing capital needs of the Union County Schools. The working group shall consist of up to 14 people, half appointed by each board. The working group shall complete its work and report to the Union County Board of Commissioners and the Union County Schools on or before June 30, 2015.”

It is anticipated that this working group will provide a recommendation to the Board of County Commissioners for long-term capital planning as well as affordable funding strategies to achieve those plans.

Additional UCPS project detail can be found in the Capital Improvement Plan Section of this document.

Improving Communication and Transparency

In addition to the fiscal aspects of the budget ordinance, the Board of County Commissioners worked to ensure transparency and communication throughout the year. To achieve this the Board exercised its legal rights, in accordance with the General Statutes of the State of North Carolina Chapter 115-429(c), which states that the Board of County Commissioners has the right to request books, records, audit reports, and other information bearing on the financial operations of UCPS.

To ensure communication and transparency, the following information is requested by the BOCC as part of the adopted FY 2015 Operating and Capital Budget Ordinance:

- A monthly report of monthly and cumulative revenues and expenditures, by function code, for all funds by fund. In addition, the original adopted budget and revised or amended budget for revenues and expenditures, by function code. This information is requested within ten business days of the close of each month, beginning with the close of September 2014.
- A monthly report of monthly expenditures, by project for each of the categories outlined in section XXIII and “Attachment C – Capital Projects Ordinance”, including a brief summary of the status of the project.



- A monthly report of monthly expenditures, by project for all other capital projects, including a brief summary of the status of the project.
- A monthly report of transfers between function codes for all funds by fund.
- A monthly personnel count of locally funded employees and state funded employees broken down by function code from which they are paid, furthermore, the Board of County Commissioners requests not to receive the payroll records in response to this request.
- A monthly ADM count.
- A certification by the Board of Education that the funding, as prescribed by Section XXII and Section XXIII, was expended for the prescribed purpose, and if not, where the funding was spent otherwise.

In addition to the information requested, the Board of Education is requested to provide this information in an electronically readable and searchable format, or other medium as agreed upon by the County Manager, to the County Manager for provision to the Board of County Commissioners.

This information will be compiled monthly and published, along with the County's financial information.

THIS SPACE INTENTIONALLY
LEFT BLANK

THIS SPACE INTENTIONALLY
LEFT BLANK



Union County Public Schools

Division Category Summary

Category	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2014 Revised	FY 2015 Adopted	Change	% Change
EDUCATION PLANNING									
EXPENDITURES									
Operating Cost	0	0	0	0	25,578	750,000	0	-750,000	-100.00%
Total EXPENDITURES	0	0	0	0	25,578	750,000	0	-750,000	-100.00%
Total Project Revenue (Over)/Under Expenditures	0	0	0	0	25,578	750,000	0	-750,000	-100.00%
SCHOOL CAPITAL OUTLAY									
REVENUE									
Ad Valorem Taxes	0	0	0	0	0	0	-19,531,582	-19,531,582	0.00%
Local Option Sales Tax	0	0	0	0	0	-6,303,600	-6,994,057	-690,457	10.95%
Restricted Intergovernmental Revenue	-5,590,655	-6,481,591	-3,296,526	-2,500,290	-2,715,280	-2,801,527	-2,759,336	42,191	-1.51%
Investment Income	-268,040	-20,771	-34	0	0	0	0	0	0.00%
Other Revenue	0	0	0	-321,318	0	0	0	0	0.00%
Interfund Transfers	0	0	0	-1,510,656	0	0	0	0	0.00%
Total REVENUE	-5,858,695	-6,502,362	-3,296,560	-4,332,264	-2,715,280	-9,105,127	-29,284,975	-20,179,848	221.63%
EXPENDITURES									
Operating Cost	207,867	192,915	174,881	165,184	245,465	229,481	284,835	55,354	24.12%
Debt Service	46,494,835	47,655,574	46,474,134	48,870,615	47,050,630	46,065,182	45,021,743	-1,043,439	-2.27%
Interfund Transfers	4,625,558	2,344,169	1,303,552	0	0	17,936,454	19,531,582	1,595,128	8.89%
Total EXPENDITURES	51,328,260	50,192,658	47,952,567	49,035,799	47,296,095	64,231,117	64,838,160	607,043	0.95%
Total Project Revenue (Over)/Under Expenditures	45,469,565	43,690,296	44,656,007	44,703,535	44,580,814	55,125,990	35,553,185	-19,572,805	-35.51%
SCHOOL CURRENT EXPENSE									
REVENUE									
Ad Valorem Taxes	0	0	0	0	0	-82,260,394	-88,844,882	-6,584,488	8.00%
Total REVENUE	0	0	0	0	0	-82,260,394	-88,844,882	-6,584,488	8.00%
EXPENDITURES									
Contracts, Grants, and Subsidies	77,296,271	79,504,155	79,504,155	79,304,155	81,504,155	83,021,859	87,097,884	4,076,025	4.91%
Other Budgetary Accounts	0	0	0	0	0	0	1,746,998	1,746,998	0.00%
Total EXPENDITURES	77,296,271	79,504,155	79,504,155	79,304,155	81,504,155	83,021,859	88,844,882	5,823,023	7.01%
Total Project Revenue (Over)/Under Expenditures	77,296,271	79,504,155	79,504,155	79,304,155	81,504,155	761,465	0	-761,465	-100.00%
Total Service Area Revenue (Over)/Under Expenditures	122,765,836	123,194,451	124,160,162	124,007,690	126,110,547	56,637,455	35,553,185	-21,084,270	-37.23%