

Joint Board of County Commissioners and Board of Education Committee Meeting
September 20, 2018
9:00am
Chowan County Public Safety Center
305 West Freemason Street

Minutes

A Joint committee consisting of three Chowan County Board of Commissioners and three members of the Edenton Chowan Board of Education met on Monday, September 20, 2018 at 9:00 am at the Chowan County Public Safety Center, 305 West Freemason St. Edenton, NC 27932.

Attendees:

County Commissioners/Staff

Chairman Jeff Smith
Commissioner Ron Cummings
Commissioner Don Faircloth
Mr. Kevin Howard, County Manager
Susanne Stallings, Board Clerk

Board of Education/Staff

Chairman Gene Jordan
Mr. Ricky Browder
Mr. Paul Clifton
Dr. Rob Jackson, Supt.
Sarah Hare, Board Clerk

Chairman Gene Jordan of the Board of Education and Chairman Jeff Smith of the County Commissioners called the meeting to order and welcomed all in attendance.

County Manager Kevin Howard turned the meeting over to Neil Emory with the North Carolina Association of County Commissioners to provide a PowerPoint presentation on School Capital Funding. A copy of the PowerPoint is attached to these minutes.

County Manager Kevin Howard provided the committee with a PowerPoint presentation that reviews payment projections for a loan for school construction. A copy of that PowerPoint is attached to these minutes.

Mr. Emory discussed some things that should be considered with cost estimate projections for new construction and/or renovation:

- Site development
- Environmental issues
- Utilities (Sewer ect)
- DOT requirements
- Fire Suppression

The Committee discussed items to consider such as:

- Potential to obtain Tier I monies (\$13.3 Million approximate project must ready for construction)
- If Tier 1 monies are used, the County will forgo lottery monies for a period of time

- Board members should encourage representatives to support a statewide bond for school construction, the earliest this would be on a ballot is 2020.
- The project cost needs to be determined, estimates for new construction or renovation around \$40,000,000
- Construction of the high school would put the County near its limit for debt. There are lingering needs at Middle School and Jail.
- There were discussions for potential tax base growth if projects planned in the County are developed.

The committee discussed the next meeting date. The Manager and Superintendent will meet to determine the meeting date/location.

The next meeting the committee will discuss the processes for:

- Public input, when and how to hold public meetings
- Development of a timeline for the committee to work under

Being no further business, the meeting was adjourned.



Chowan County Capital Funding for Schools

North Carolina Association of County Commissioners

www.ncacc.org



State – County Partnership



School Funding Responsibilities in NC

Statutory Provisions

- To insure a quality education for every child in North Carolina, and to assure that the necessary resources are provided, it is the policy of the State of North Carolina to provide from State revenue sources the instructional expenses for current operations of the public school system as defined in the standard course of study.
- It is the policy of the State of North Carolina that the facilities requirements for a public education system will be met by county governments. **G.S. 115C-408(b)**

The funding responsibility is divided between state and county governments.

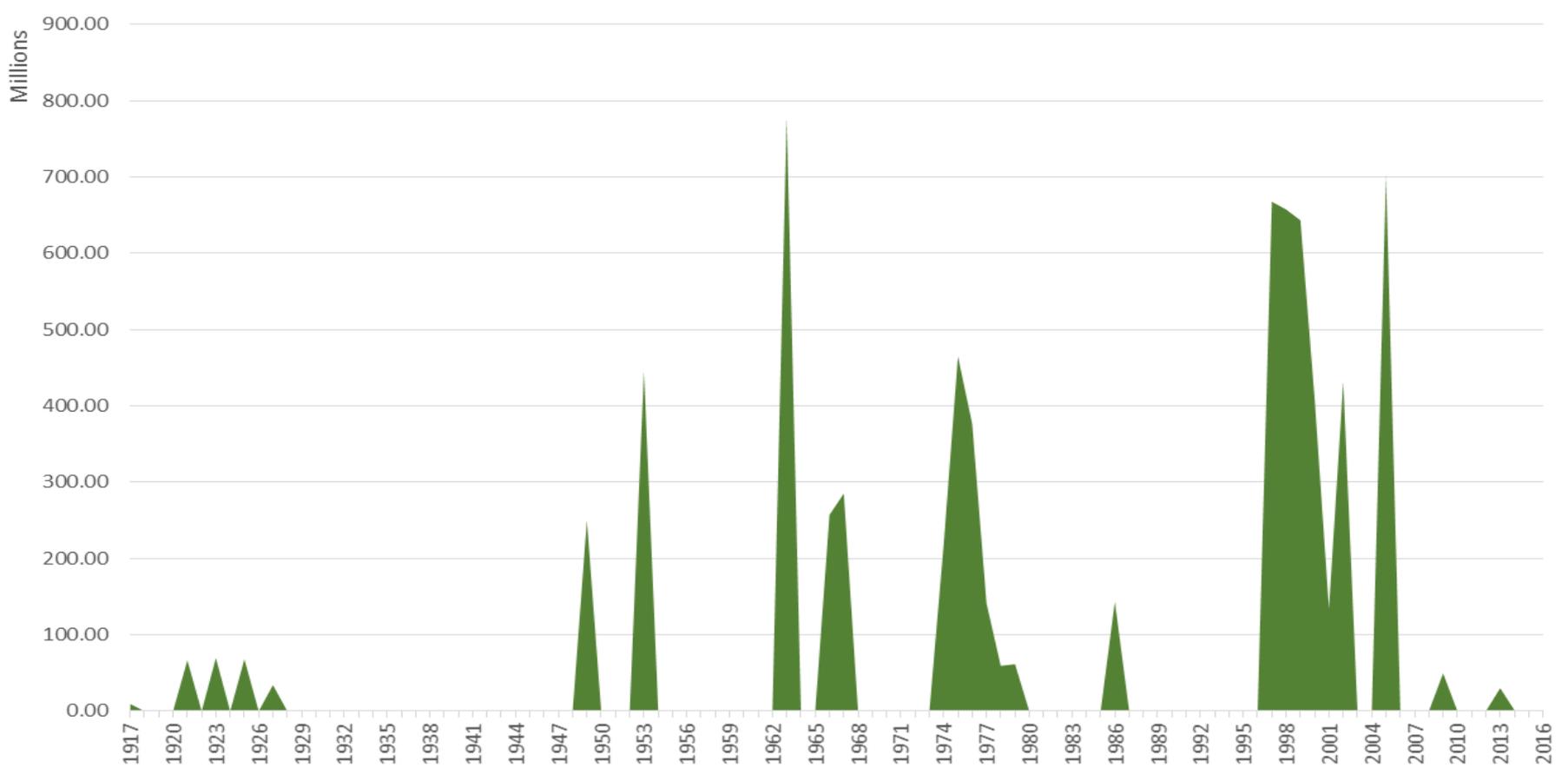
- Generally, the state is responsible for operating expenses and counties are responsible for capital expenses. However, the partnership and responsibilities have become blurred, and the state provides some capital funds and counties supplement operating expenses.



State Funding for Public School Capital



State Bonds Issued for Public Education (1917-2016, Adjusted for Inflation)





State Bonds Issued for Public Education (1958-2016, Adjusted for Inflation)

Statement by the North Carolina Association of County Commissioners to Committee for the Study of Public School Finance

The North Carolina Association of County Commissioners has been asked two questions by the Committee for the Study of Public School Finance:

(1) Does the Association feel that current public school funds are adequate?

(2) If current public school funds are inadequate, how does the Association believe that additional funds might be raised?

The key word is "adequate." Before attempting to answer these questions, we believe that we should give some attention to this word.

North Carolina is a state of three sections: the East, the Piedmont, and the West. It is a state of 100 counties. And it is a state of over four million people. There are differences in the economy of the three sections. There are differences in attitudes between neighboring counties in the same section. And there are differences of opinion between people in the same county. With such variation, it states the obvious to say that there is no general agreement on what is, or what would be an adequate school system.

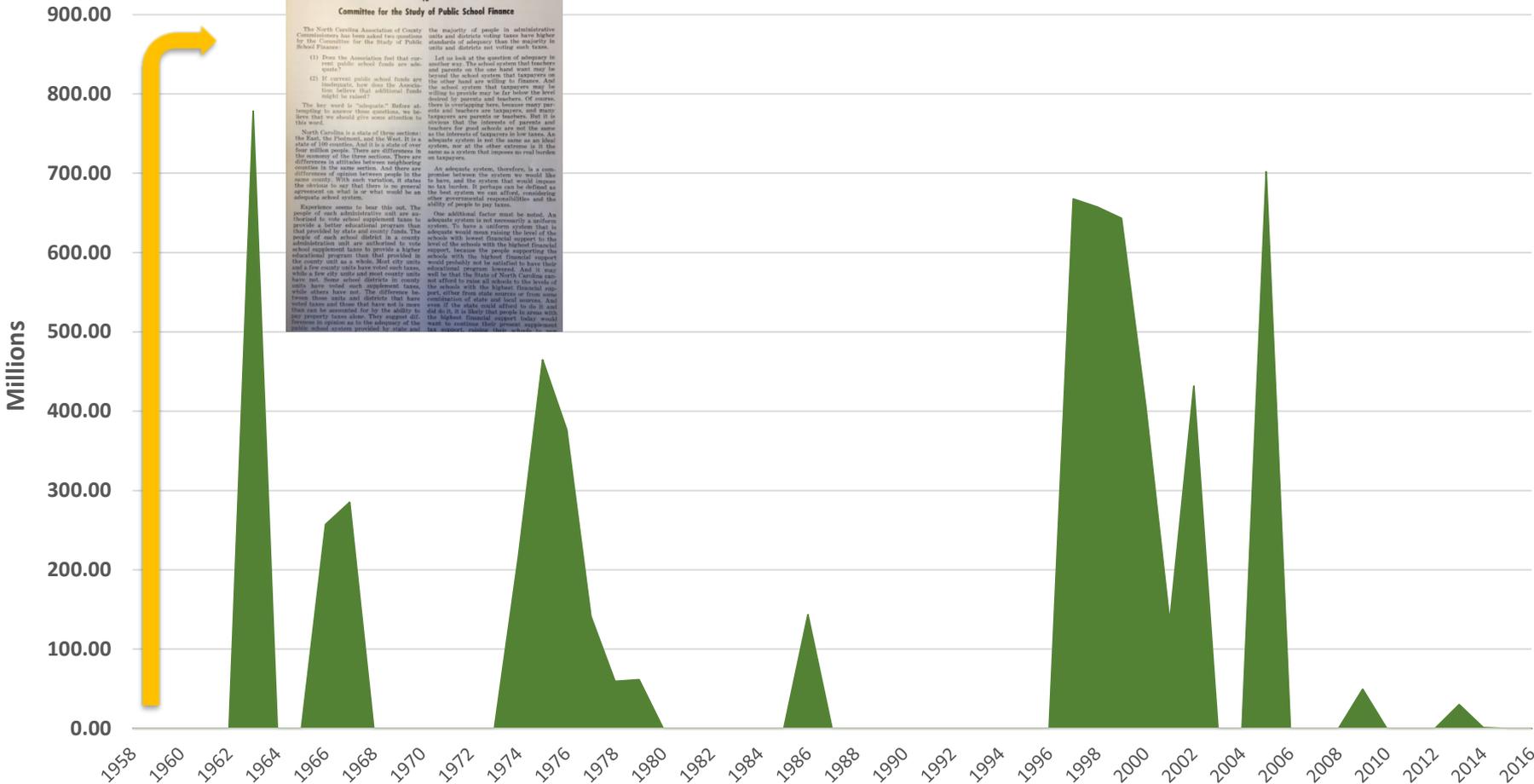
Experience seems to bear this out. The people of each administrative unit are authorized to vote school support taxes to provide a better educational program than that provided by state and county funds. The people of each school district in a county administration unit are authorized to vote school support taxes to provide a better educational program than that provided in the county unit as a whole. Most city units and a few county units have voted such taxes, while a few city units and most county units have not. Some school districts in county units have voted such support taxes, while others have not. The differences between these units and districts that have taxes and those that have not is more than can be stated in detail. The ability to do one thing is not always the result of a desire in opinion as to the adequacy of the public school system provided in each unit.

the majority of people in administrative units and districts voting taxes have higher standards of adequacy than the majority in units and districts not voting such taxes.

Let us look at the question of adequacy in another way. The school system that teachers and parents on the one hand want may be beyond the school system that taxpayers on the other hand are willing to finance. And the same district that desires that the system to provide may be far below the level desired by parents and teachers. Of course, there is overlapping here, because many parents and teachers are taxpayers, and many taxpayers are parents or teachers. But it is obvious that the interests of parents and teachers for good schools are not the same as the interests of taxpayers in low taxes. An adequate system is not the same as an ideal system, nor at the other extreme is it the same as a system that imposes no real burden on taxpayers.

An adequate system, therefore, is a compromise between the system we would like to have, and the system that would impose no tax burden. It perhaps can be defined as the best system we can afford, considering other governmental responsibilities and the ability of people to pay taxes.

One additional factor must be noted. An adequate system is not necessarily a uniform system. To have a uniform system that is adequate would mean raising the level of the schools with lowest financial support to the level of the schools with the highest financial support, because the people supporting the school would not be satisfied to have their school support tax levied at the level of the school with the highest financial support. And it would not be that the State of North Carolina could not afford to raise all schools to the levels of the schools with the highest financial support, either from state sources or from some combination of state and local sources, and even if the state could afford to do it and did do it, it is likely that people in areas with the highest financial support today would want to continue their present requirement.





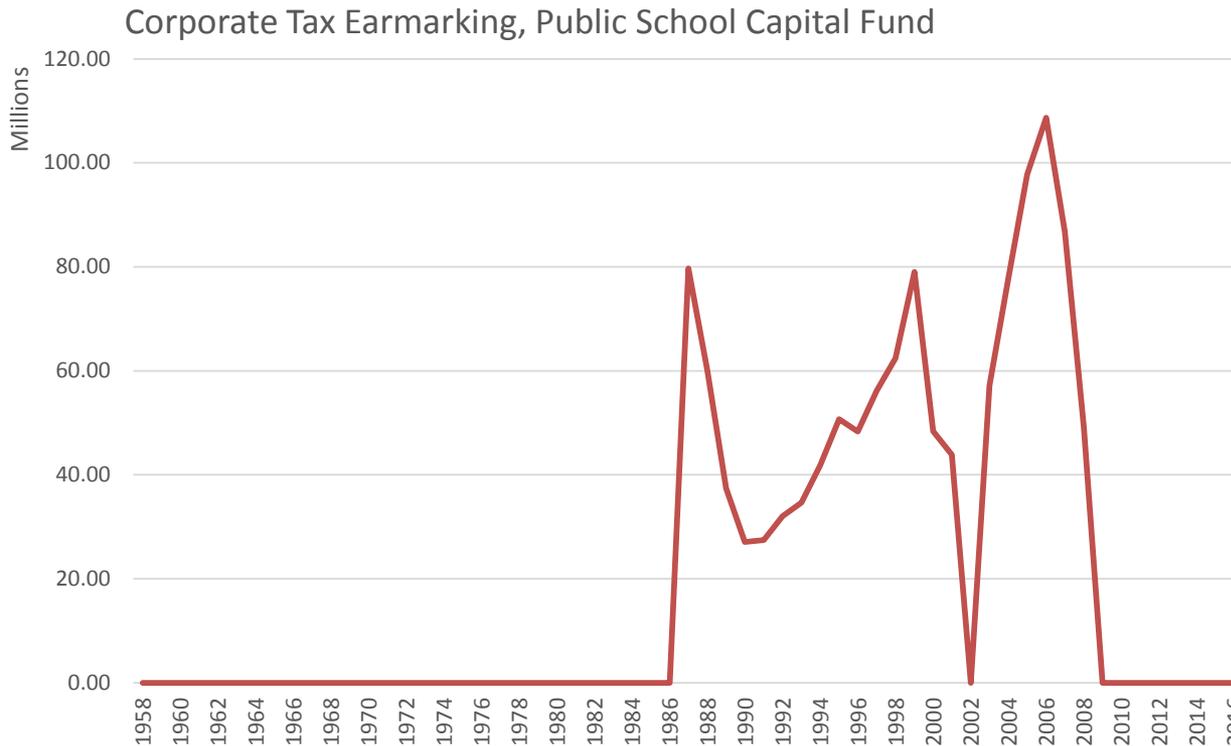
State – County Partnership for Public School Capital Funding

- NC passed bonds to fund school capital in **1949, 1953, 1963, 1973, 1986, and 1996**
- In 1987, the State enacted the School Facilities Finance Act:
 - Established the **Public School Building Capital Fund** -- funded through corporate income tax rate increase from 6% to 7% (later, 7.25%)
 - 2013 Tax Reform changes eliminated PSBCF corporate income tax funding
 - Established the **Critical School Facility Needs Fund** -- funded through corporate income tax earmarks, \$40 million from state sales tax, and withholding tax
 - Grants from CSFNF based on need and ability to pay (per pupil property tax base and per capita income)
 - CSFNF repealed in 1995 when Public School Building Bond Act passed



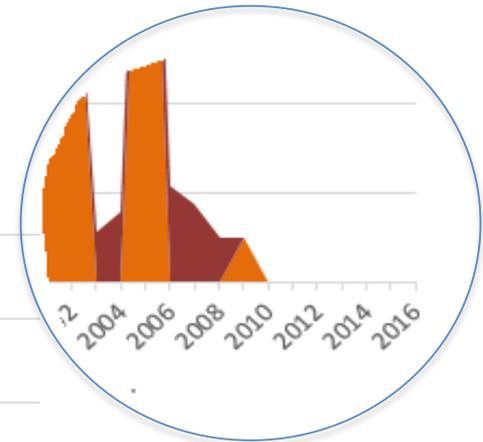
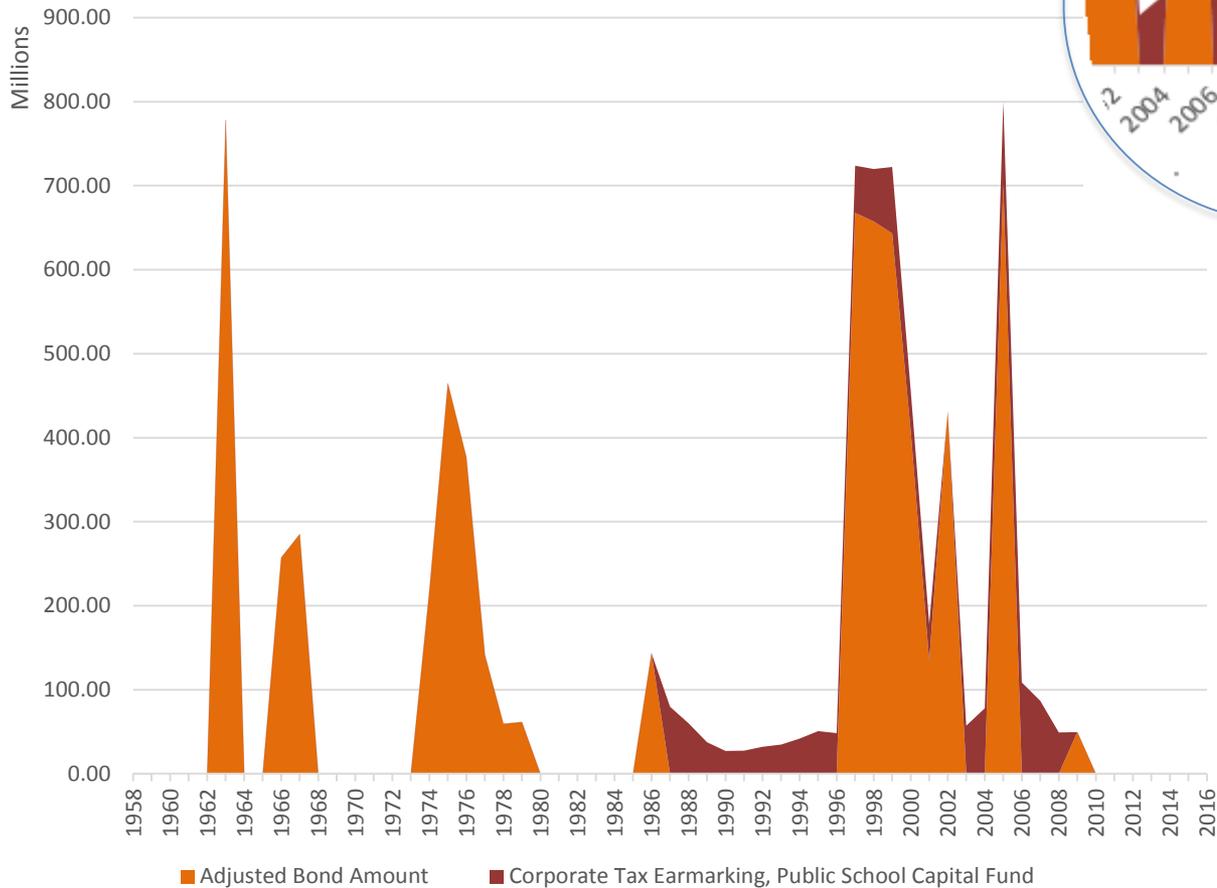
Corporate Tax Earmarking

- Enacted in 1987
- Set aside 7% (later, 7.25%) of state corporate tax receipts for school construction
- Allocations were determined by ADM





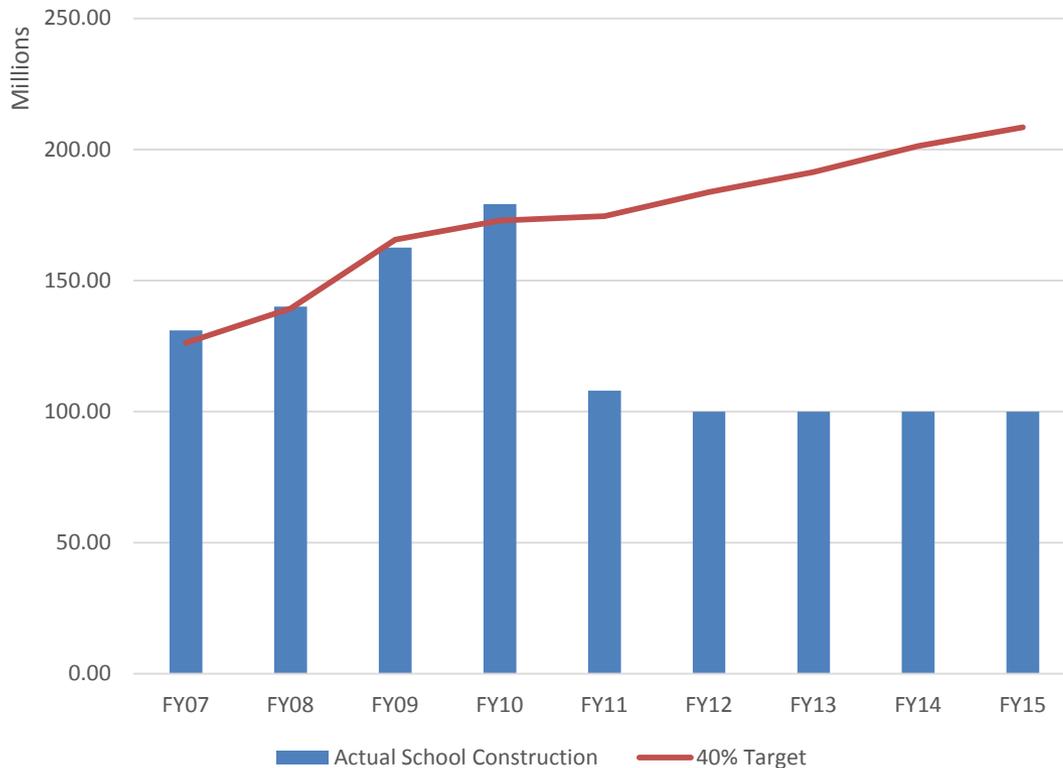
State Bonds for Education and Corporate Tax Earmarking, Combined





NC Education Lottery

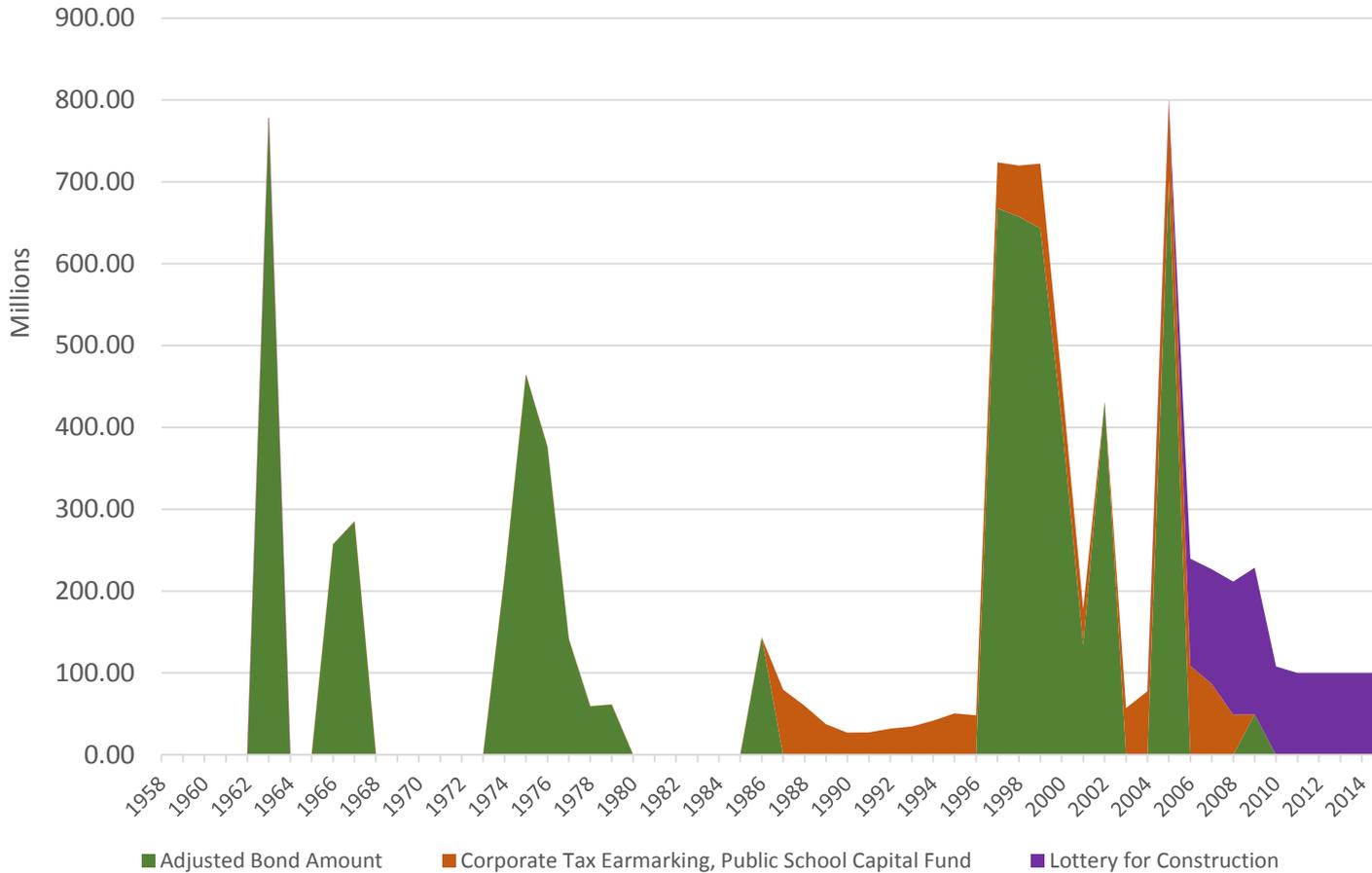
School Construction Lottery Allocation
Actual v. 40% Target



- Originally, counties received 40% of the lottery proceeds, which were dedicated to education for their school construction needs.
- The legislature now provides a “lump sum” appropriation of \$100 million statewide, a percentage equal to roughly 15% of the lottery proceeds dedicated to education (less than ½ of what would have been distributed).
- 75% of the lottery funds allocated to counties between 2011 and 2015 were spent on debt service rather than new construction.



State Bonds, Corporate Earmarking and Lottery, Combined





State Public School Capital Funding: Recent History

FY 2006-07 to FY 2015-16: State Public School Capital Funding History

Fiscal Year	Lottery K-12 Capital Allocations	ADM Fund Allocations	Total
2006-07	131,006,996	108,675,188	239,682,184
2007-08*	140,004,954	45,551,610	185,556,564
2008-09	162,262,428	49,098,195	211,360,623
2009-10	179,109,129	0	179,109,129
2010-11	108,099,979	0	108,099,979

Fiscal Year	Lottery K-12 Capital Allocations	ADM Fund Allocations	Total
2011-12	100,062,867	0	100,062,867
2012-13	100,000,000	0	100,000,000
2013-14	100,000,000	Eliminated	100,000,000
2014-15	100,000,000	Eliminated	100,000,000
2015-16	100,000,000	Eliminated	100,000,000

Source: NCGA Fiscal Research Division



How much does it cost to build a school?



\$100
million

\$19
million

\$27
million

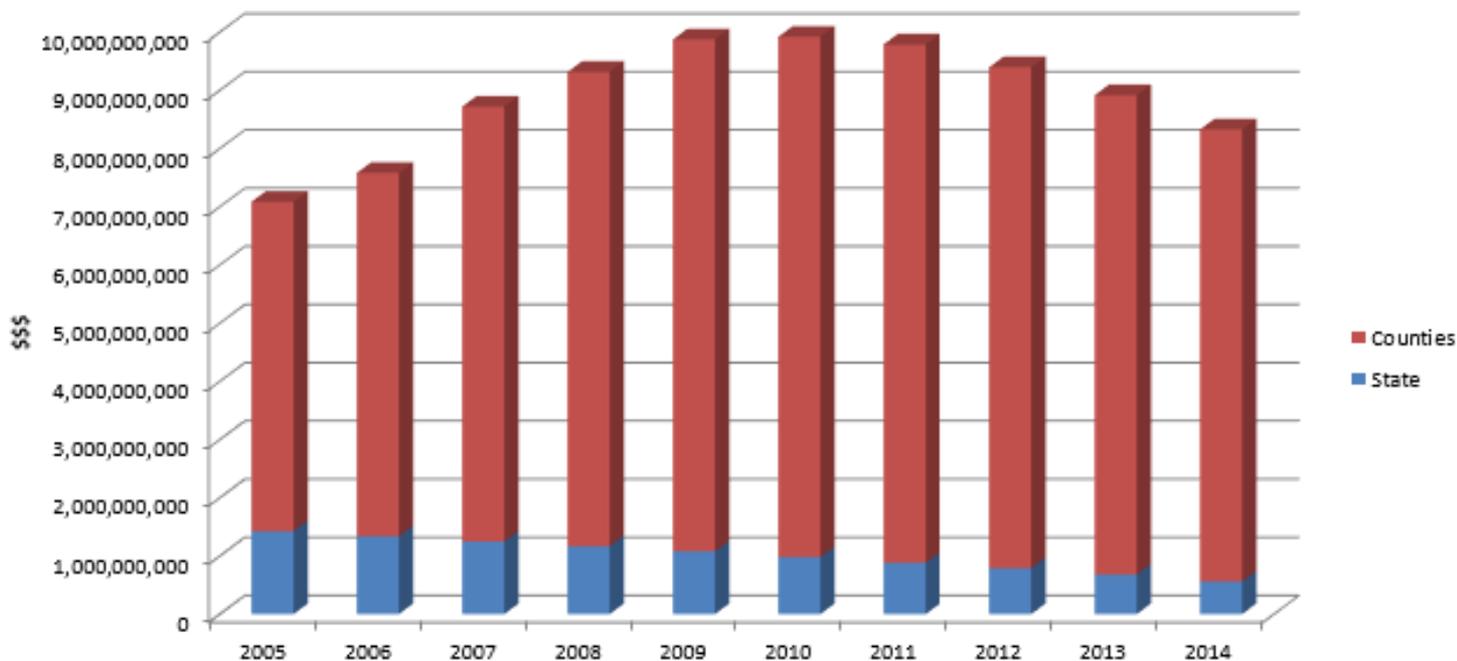
\$60
million



SCHOOL DEBT

- Outstanding debt issued by both the State and Counties for Public School Capital Investment

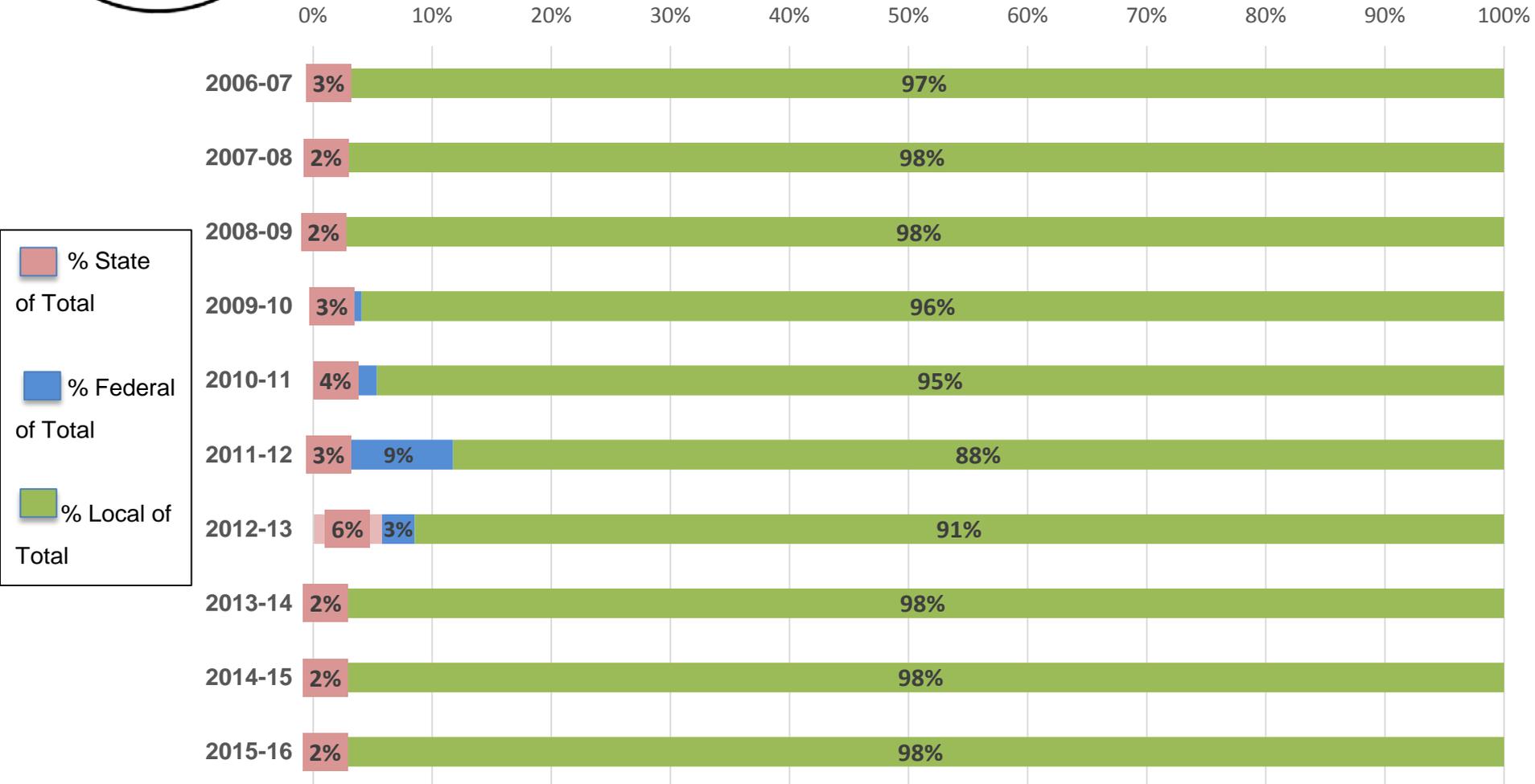
NC Outstanding School Debt



Source: NC Department of State Treasurer, State & Local Govt. Finance Division



Capital Expenditures



Local Financing Methods

- Debt
 - General obligation bonds
 - Installment debt (public & private)
 - “Innovative” strategies
- Pay-as-you-go
 - Capital reserves
 - Annual revenues
 - Fund balance
 - State Bond Proceeds
 - Grants

Best Practices

- Establish **and follow** policies for:
 - Debt: how much, when, how
 - Fund balance maintained and usage
- **Forecast financial condition** and ensure CIP funding is sustainable (including operating)
- Balance debt and pay-as-you-go
- **Leverage partnerships** with other governments and the private sector
- Improve bond ratings

Jack Vogt: Capital Budgeting—Responding to Infrastructure Needs & Implementing Strategic Goals

Traditional Financing

General Obligation (GO) Bonds

- Security is **full faith and credit** (taxing power)
- **Voter approval** is required; can only be held during a primary or general election
- Interest rates and issuance costs are lower
- Max term 20 years

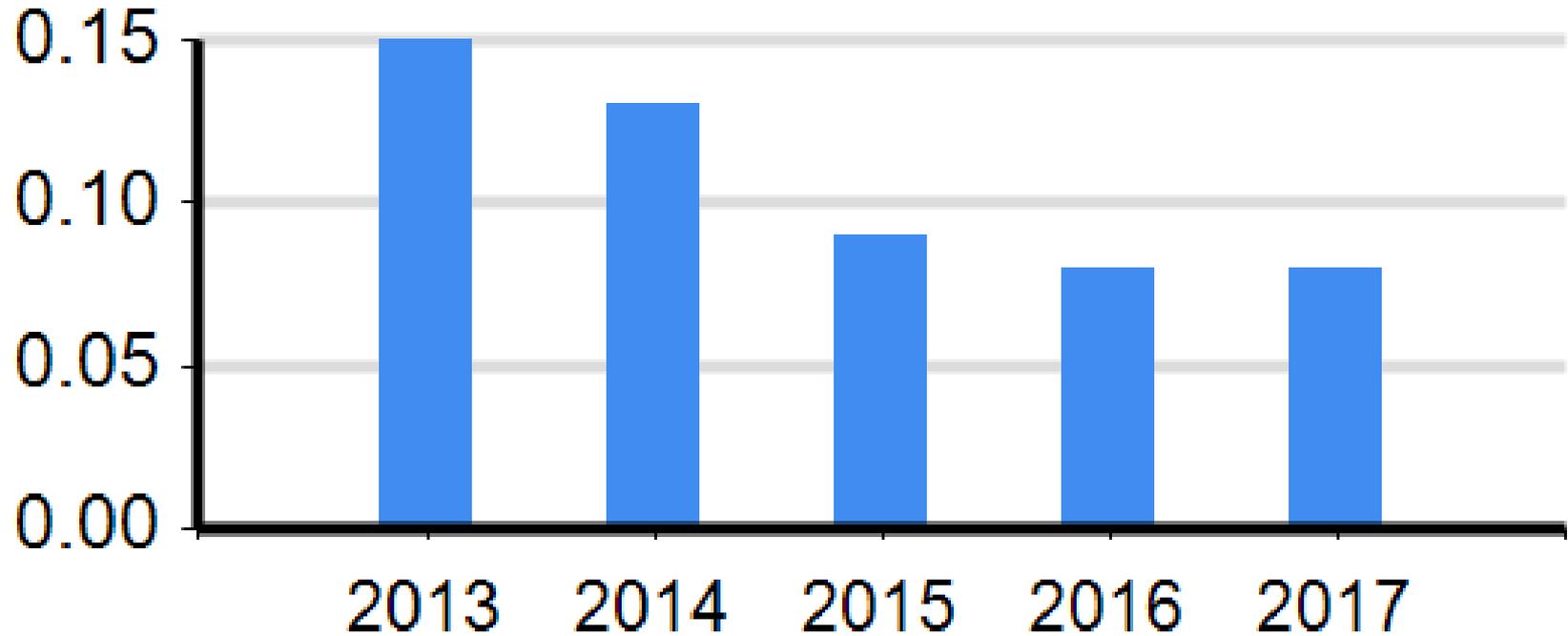
Other Options

- Installment debt (public & private)
- Higher Interest Rate
- Provides for a more strategic capital plan
- Permits mandatory projects to proceed

Chowan County Debt

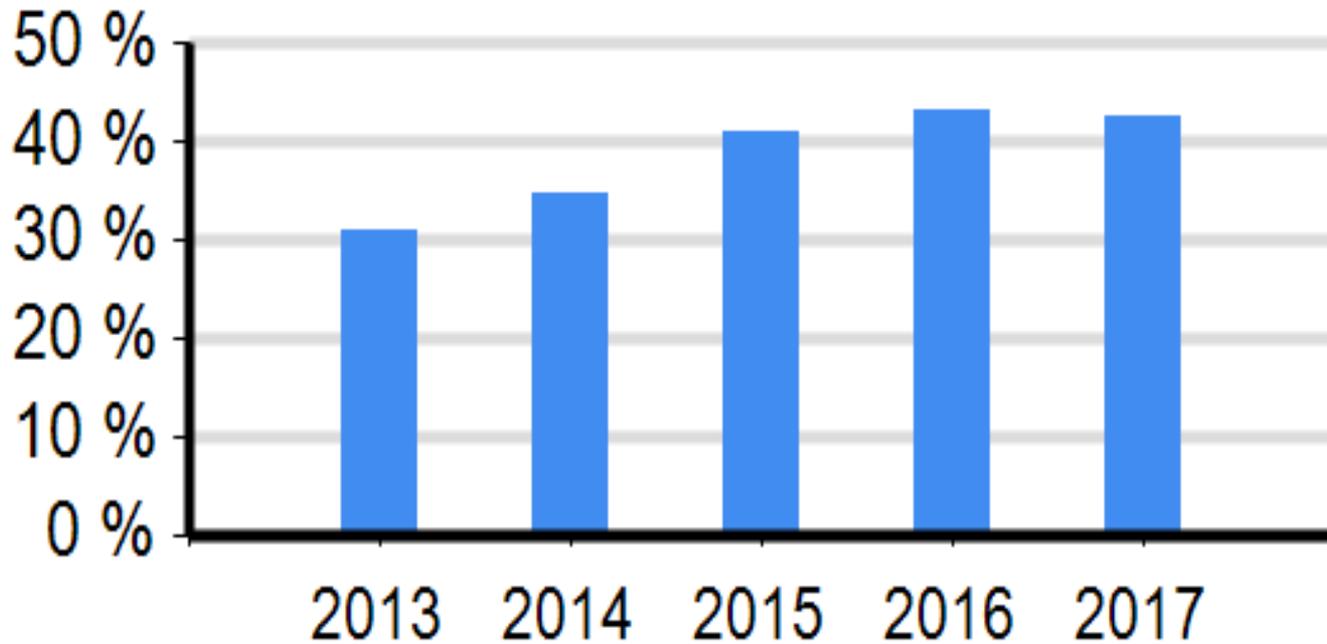
CHOWAN COUNTY NON GENERAL OBLIGATION				2018-19	
UNIT				Fiscal Year	
DATE OF ISSUE	DESCRIPTION	Outstanding at July 1	DUE	PRINCIPAL	INTEREST
09/01/2000	SCHOOLS	\$ 1,143,497.00	03/15/19	\$ 571,743.00	\$ 21,040.34
05/31/2001	COUNTY BUILDINGS	559,970.00	05/31/19	186,656.00	10,975.41
07/19/2005	SCHOOLS, QZAB	757,124.00	07/20/18	103,573.00	-
10/16/2012	COUNTY BUILDING	5,545,000.00	11/01/18	888,000.00	121,990.00
10/16/2012	EQUIPMENT	71,000.00	02/01/19	48,000.00	1,306.40
01/08/2013	LIBRARY REFUNDING	344,000.00	02/01/19	89,000.00	6,742.40
01/08/2013	LIBRARY REFUNDING	1,062,000.00	02/01/19	102,000.00	23,364.00
01/08/2013	PUBLIC SAFETY REFUNDING	460,000.00	02/01/19	112,000.00	9,016.00

Debt Service Ratio



CHOWAN COUNTY = 0.08, Benchmark = 0.00

Fund Balance



CHOWAN COUNTY = 42.39 %, Benchmark = 0.00 %

Chowan County Data

- Ad Valorem Revenue Generated by \$.01 on the County tax rate: \$142,181.00
- Debt Payment on \$10 mil of capital funding financed for 20 years: \$700,000.
- Tax levy required: \$.05
- Current Capital Needs: \$44 mil
- Payment: \$3 mil
- Tax levy required: \$.215

20 Year Loan@ 4%

Principal	Interest	Total Loan Amount	Payment
\$ 20,000,000	\$ 9,432,700	\$ 29,432,700	\$ 1,471,635
\$ 30,000,000	\$ 14,149,050	\$ 44,149,050	\$ 2,207,453
\$ 40,000,000	\$ 18,865,400	\$ 58,865,400	\$ 2,943,270
\$ 50,000,000	\$ 23,581,750	\$ 73,581,750	\$ 3,679,088

30 Year Loan at 4%

Principal	Interest	Total	Payment
\$ 20,000,000	\$ 14,698,059	\$ 34,698,059	\$ 1,156,602
\$ 30,000,000	\$ 22,047,089	\$ 52,047,089	\$ 1,734,903
\$ 40,000,000	\$ 29,396,119	\$ 69,396,119	\$ 2,313,204
\$ 50,000,000	\$ 36,745,148	\$ 86,745,148	\$ 2,891,505

County Debt Service Pay Off Schedule

	2019/20	2020/21	2021/22	2022/23	2023/24
PSC	\$ 1,009,454.00	\$ 1,009,800.00	\$ 1,008,988.00	\$ 1,009,736.00	
Library	\$ 91,988.00	\$ 88,292.80	\$ 84,626.80		
library	\$ 137,120.00	\$ 110,568.00	\$ 186,544.00	\$ 393,870.00	\$ 208,488.00
EOC	\$ 120,820.08	\$ 120,586.40	\$ 120,312.80		
NCCC	\$ 193,972.95	\$ 190,316.50			
DF Walker	\$ 582,274.27				
High School	\$ 103,573.00	\$ 103,573.00			
Total	\$ 2,239,202.30	\$ 1,623,136.70	\$ 1,400,471.60	\$ 1,403,606.00	\$ 208,488.00
Amount paid Off		\$ 616,065.60	\$ 222,665.10	\$ (3,134.40)	\$ 1,195,118.00
Amount Available			\$ 838,730.70	\$ 835,596.30	\$ 2,030,714.30

County Borrowing Capacity

Debt Limit (8% of Assessed Value)

	Assessed Value	Total Debt	% of Assessed Value	8%
July 1, 2018	\$1,306,871,418	\$9,942,591	.76	\$104,549,971
Projected (5% growth)	\$1,372,214,988	\$40,000,000.00	2.9	\$109,777,199
Projected (5% growth)	\$1,372,214,988	\$50,000,000.00	3.6	\$109,777,199

Payment Limit (15% of Budget) Based on 20 Year Loan

	Total Budget	Payment	% of Budget	15%
July 1, 2018	\$17,454,344	\$2,239,202	12.82	\$2,618,152
Projected	\$20,346,205	\$2,943,270	14.46	\$3,051,931
Projected	\$21,082,023	\$3,679,088	17.45	\$3,162,303

County Borrowing Capacity

Payment Limit (15% of Budget) Based on 30 Year Loan

	Total Budget	Payment	% of Budget	15%
July 1, 2018	\$17,454,344	\$2,239,202	12.82	\$2,618,152
Projected	\$19,716,139	\$2,313,204	11.73	\$2,957,421
Projected	\$20,294,440	\$2,891,505	14.24	\$3,044,166

County Borrowing Capacity

Affect on Tax Rate Based on 30 Year Loan

	Assessed Value	Payment	Tax to Cover	Tax Increase Needed
July 1, 2018	\$1,306,871,418	\$2,239,202	15.8	
Projected	\$1,372,214,988	\$2,313,204	15.54	-.46
Projected	\$1,372,214,988	\$2,891,505	19.43	3.63

Affect on Tax Rate Based on 20 Year Loan

	Assessed Value	Payment	Tax to Cover	Tax Increase Needed
July 1, 2018	\$1,306,871,418	\$2,239,202	15.8	
Projected	\$1,372,214,988	\$2,943,270	19.72	3.92
Projected	\$1,372,214,988	\$3,679,088	24.72	8.92