

H1031 Working Group Meeting #1  
October 10, 2018

**Attendees**

Working Group Members

- Stephen Britt CFO, Sampson County Schools
- Amy Cannon Cumberland County Manager
- Jeff Hollamon CFO, Onslow County Schools
- Kimberly Honeycutt Finance Officer, Harnett County
- Ricky Lopes Retired School Finance Officer
- Jennifer Mace Catawba County Budget and Management Director
- Pam Satterfield Executive Director, NCASBO
- Nick Sojka In-house Counsel, Cumberland County Schools
- Leanne Winner NC School Boards Association
- Mark Winters CFO, Wake County Public Schools

Facilitators

- David Brown Researcher, UNC School of Government
- Sharon Edmundson Director, Fiscal Management Section, State and Local Finance Division, Department of State Treasurer
- Kara Millonzi Professor of Public Law and Government, UNC School of Government

**Agenda**

- I. Introductions
- II. Purpose of Working Group
- III. Timeline and Deliverables
- IV. Logistics of Additional Meetings
- V. Remaining Questions and Discussion
- VI. Next Steps

## **Introduction and Opening Discussion**

- Introduction and welcome from Mr. Brown and Ms. Millonzi.
- Introduction from Kara with background on the issues.
- Discussion of timeline/deliverable.
- Discussion of meeting mode: group consensus was to continue meeting in person rather than online or by phone.

Ms. Cannon volunteered to chair the county caucus. Ms. Winner proposed that the two school groups caucus as one; Mr. Hollamon volunteered to chair the school system caucus. [Note: Several days after the meeting, Mr. Hollamon and Ms. Satterfield reached out to Ms. Millonzi to let her know that, because of the volume of Mr. Hollamon's workload related to hurricane recovery efforts, Ms. Satterfield is going to serve as the school system's chair.]

## **School System Fund Balances – Discussion Topics**

- There are concerns about putting parameters on the upper limit of a fund balance; a minimum fund balance is also problematic.
- A portion of a school system's total fund balance may be assigned to next year's budget.
- A school system's relative reliance on federal funds will affect the size of its fund balance.
- Some aspects of school budgets are front-loaded – counties may not always be aware of those timing issues.
- Schools don't know any revenue sources until after June 30, but are making important decisions such as hiring by May 15. A fund balance allows the system to make up any gap (increases flexibility). It can allow for the retention of, e.g., teaching assistants if the state stops funding those positions.
- For comparison, counties may need to keep large fund balances because of inconsistent tax uptake.
- Counties are familiar with delays in federal dollars/reimbursements – it's not unusual to receive federal dollars for human services programs 3-4 months after services are delivered.
- Counties, like school systems, need to prep for hurricanes and other disasters.
- School systems have no authority to borrow or levy taxes – they control neither their revenues nor expenses (salaries, insurance, retirement).
- It would be difficult to come up with a specified percentage for fund balances.
- Is it less of a headache for a county for its school system to maintain a large fund balance, or for it to maintain a smaller balance but make emergency requests of counties in the case of shortfalls, disasters, etc.?

- Communication and transparency between school systems and their counties is more important than setting a specific numerical target.
- Should we create a statutory requirement requiring boards of commissioners and boards of education to meet? As long as it doesn't become a showcase for political grandstanding.
- Would it be possible to establish a recommended range for regular operations with a separate emergency fund for catastrophic events?
- Guilford example: significantly greater fund balance after a school fire. So, important to consider local experience.
- Balances that continue to build attract attention and become the target of questions, as do year-over-year reversions.

### **School Capital Budgets – Discussion Topics**

- Counties across the state are in very different circumstances. Some are out of capacity (or soon will be), while others have shrinking populations. Some have older schools while others have newer structures. Some tax bases are growing while others are receding.
- Capital disputes happen relatively infrequently, so we need to be careful about changing the process in a way that actually provokes more disputes.
- Neither the counties nor the school systems thought a capital formula as included in an earlier version of H1031 would be workable. Is there a process that would work better?
  - Keep the process in the courts, but with a bench trial to limit juries' discretion?
  - Limit the number of litigation hours?
  - Require binding arbitration?

### **Data Needs**

- Fund balances, fund balance trends, encumbered and unencumbered
- School cash flow issues
- Percentage of each school system's budget that comes from each source

### **Upcoming Meetings**

- Friday, November 16th 1:00pm-3:00pm to continue discussion of **fund balance** topics
- Friday, December 12th 9:30am-11:30am to focus on **capital budget** topics