

**IREDELL COUNTY BOARD OF COMMISSIONERS
SPECIAL MEETING – JUNE 30, 2004
9:00 A.M. (Continuation of June 22, 2004 Meeting)**

The Iredell County Board of Commissioners met on Wednesday, June 30, 2004, at 9:00 a.m., in the Agricultural Resource Center, 444 Bristol Drive, Statesville, NC. The special meeting was held due to a legal proceeding initiated by the Iredell-Statesville School System.

Commissioners present were:

Chairman Steve D. Johnson
Vice Chairman Godfrey Williams
Doug Madison
Marvin Norman
Sara Haire Tice

Staff present: County Manager Joel Mashburn, Finance Director Susan Blumenstein, Clerk to the Board Jean Moore, and Attorney Neil Yarborough.

Iredell-Statesville Board of Education Members Present were:

Dr. David Cash, Chairman – Board of Education
Tara Cashion, Vice Chairman, Board of Education
Dr. Mary Bruce Serene, Member, Board of Education
Keith Williams, Member, Board of Education
David Parker, Member, Board of Education
Dr. Kenneth Wilson, Member, Board of Education
Jim Head, Member, Board of Education

Staff present: Dr. Terry Holliday, Superintendent, Dr. Steve Lane, Assistant Superintendent, Finance Director Terry Haas, Attorney Ann Majestic, and numerous other staff members including principals and teachers.

CALL TO ORDER: Mediator Dick Tyndall said the June 30 meeting had been continued from the June 22, 2004 meeting and that both boards were still in open session. He said the purpose of the June 30 meeting was to obtain a better understanding of the dispute.

CLOSED SESSIONS FOR BOTH BOARDS TO CONSULT WITH THEIR RESPECTIVE ATTORNEYS: MOTION by Commissioner Madison, at 9:05 a.m., to enter into closed session pursuant to G.S. 143-318.11 (a) (3) – Attorney/Client.

VOTING: Ayes – 5; Nays – 0.

MOTION by Dr. Cash, with a second to the motion, to enter into closed session pursuant to G.S. 143-318.11(a) (3)-Attorney/Client.

VOTING: Ayes – 7; Nays – 0.

(RETURN TO OPEN SESSION AT 9:20 A.M.)

PRESENTATION BY ATTORNEY ANN MAJESTIC ON BEHALF OF THE IREDELL-STATESVILLE SCHOOL BOARD: Majestic mentioned the 1997 Leandro lawsuit and the Supreme Court's ruling that stipulated there was a Constitutional right to an education in North Carolina of "qualitative content," and that the schools had to provide a "sound basic education." She said the trial court judge who handled the Leandro case had determined that to provide a sound education, the public school systems had to provide competent and certified well-trained teachers, well-trained principals, and the resources necessary to support the effective instruction of the North Carolina Standard Course of Study. Majestic said the state had added another requirement, and this was the ABC Accountability Standards. She said that on top of this, there were federal requirements (No Child Left Behind and the Individuals with Disabilities Education Act).

Superintendent Holliday said the school system's mission was aligned with the Leandro ruling. (The mission is: "We will rigorously challenge all students to achieve their academic

potential and to lead productive lives. We will achieve this mission with the support of parents, staff and the community.”)

Holliday said the Baldrige method was being used to evaluate the feedback from the principals, parents, and the communities in an effort to find out what was needed to help the children achieve at high levels. He said the priorities of the system were:

- High student performance
- Healthy, safe, orderly and caring schools
- Quality teachers, administration and staff
- Strong family, community and business support
- Effective and efficient operations

Next, Holliday shared the district’s goals that are as follows:

High Student Performance	Safe, Orderly, Caring	Quality Staff	Partnerships	Effective/Efficient
NCLB Graduation Rate	Stakeholder Satisfaction	Turnover rate	Business Partnerships	% Tax \$ for Instruction
100% Growth	Incidents of Crime	Local Supplement	% Parent Conferences	Child Nutrition Profit Margin
100%AYP	Internet Computers	National Board Teachers		Prime Time Regulations
	Attendance %	100% Licensed		Stakeholder Satisfaction
	Class Size	Training Hours		Financial Audit
				Transportation Rating

Holliday continued by saying the school system had seen steady improvement in meeting its goals, but more work was needed. He said reducing the system’s budget would slow down the improvements. Dr. Holliday offered the following as examples of the 2003-04 improvements:

- African-American achievement gap closed by 37%
- Percentage of annual yearly progress goals met increased from 56% to 90%
- Reading % proficient has improved from 69% (1997) to 87%
- Math % proficient has improved from 71% (1997) to 91%
- Pace of improvement increased significantly last 3 years

ISS Teacher Turnover	
2002-03	11.50%
2003-04	6.52%
5 year average	11.56%

Holliday said retaining quality teachers was an extremely important issue. He said the teachers had advised that they wanted (1) a supplement of at least eight percent, (2) money for supplies and materials, and (3) assurance that plans were being made to address the facilities. Dr. Holliday said the teachers also just wanted someone to listen to them. He said that historically, for 12 years, funding of five percent plus growth had been appropriated by the county, and the schools had stayed within this budget. Dr. Holliday said the system could have presented a budget request over the five percent, but this did not occur. He said the Baldrige management philosophy had been utilized to implement:

1. Zero-based budgeting
2. Strategic budgeting
3. Reduced central office costs to the lowest ratio in the State of North Carolina
4. Cost conservation in the energy management program
5. Independent audit with 0 reportable findings
6. Established a capital outlay fund balance for current and future capital needs

He said the Baldrige method was “championed” by the North Carolina Extension Service, and it was being used in Wake County. Holliday said the system was in a “belt-tightening” mode, and it would save \$1.2 million by not replacing a chief academic officer, a planning office/officer, an assistant superintendent for personnel, and other office professionals. He said that also, \$400,000 in contingency was eliminated, along with training budgets at the central staff level, and that the materials/supplies budgets at the central office were reduced.

Dr. Holliday said the system needed the five percent to fund the following expenses:

Hospital Insurance	\$ 42,025
Retirement	\$ 225,904
COLAs	\$ 177,199
Local Supplement	\$ 828,017
Recruitment	\$ 170,130
Woodland Heights	\$ 100,000 (principal/SIMS Op./secretary)
Cost of Business (energy, fuel, insurance, charters)	\$1,006,416
Redirections (For FY 04 over \$600,000)	<u>(\$ 630,481)</u>
Total	<u>\$1,919,210</u>

Source: Proposed House Project

(Note: Holliday said the figures were different from the numbers given to the county manager in April, due to using the North Carolina House & Senate's most recent budgetary figures.)

Dr. Holliday said the system had already reduced its budget by \$630,000 to stay within the five percent stated goal. He said the difference between the expected five percent and the county's appropriated two percent was \$700,651. Holliday said the \$700,651 deficit would mean the system would either have to cut the cost of business, the local supplement, or transfer the shortage to something else. He said in addition, there were the state conversions, and that the senate conferees were saying the House budget would probably be approved requiring not only the \$700,000 reversion from last year, but also an additional \$300,000. Holliday said the money was being used to help fund Governor Easley's requirement for class size reductions in the third grade. He said the system was looking at having to return \$1 million out of a \$76 million budget. (The following chart was included in the system's handouts to explain the reductions.)

Difference between 5% county increase and 2% county increase: \$700,651

- State revenue loss due to discretionary reductions: \$1,032,894
- Total Operating Revenue reductions: \$1,733,545
- Total Capital Outlay revenue reductions: \$367,388

Attorney Majestic said the county had explained that the lower tax projections were due to a drop in personal property (equipment owned by businesses). Majestic said the county staff in January, February, March and April were all quoting a five percent increase in property tax revenues, but for some reason in May, it was cut to 2.5% with a rise to 3% in June. She said generally speaking, the county knew what was on the tax rolls in January. Ms. Majestic then discussed a tax survey from the North Carolina Association of County Commissioners. She said the tax information revealed the following:

- Iredell ranked 14th statewide in valuation per capita
- Iredell ranked 25th in per pupil expenditure in total capital spending but 7th in growth
- Iredell ranked 29th in per pupil expenditure in current expense
- Iredell ranked 87th in the property tax rate in the state and this was more than 15 cents below the statewide average.

Majestic said that along with the availability of the property tax to fund the schools, the county could use sales taxes, and the county manager had projected a five percent increase in these revenues. She said five percent was a conservative projection in a high growth area, and the state was using an overall 5.5% projection. Majestic said the North Carolina Association of County Commissioners had estimated a two percent increase in beer and wine taxes.

Attorney Majestic said the school system wanted to mediate and didn't want to take the county to court. She said the system wanted a solution that would offer a multi-year-budget plan so there would be future funding predictability.

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PRESENTATION BY ATTORNEY NEIL YARBOROUGH ON BEHALF OF THE IREDELL COUNTY BOARD OF COMMISSIONERS: Mr. Yarborough said he would be referencing some of the same laws Ms. Majestic had referred to because the dispute was a legal proceeding. He said the public policy phase regarding the school funding had already occurred, and this was prior to the county's adoption of the budget. Yarborough said he was from Hoke County, the "poster child" for the Leandro case. He said the lawsuit showed how badly certain counties were disadvantaged, and it related to bringing poor counties half way up to the funding that was being given to Iredell's schools. Yarborough said Hoke County spent \$674 for per pupil expenditures compared to Iredell's \$1,766l. Attorney Yarborough said the Leandro case involved a Hoke County student who sued the State of North Carolina on the basis that the State was not meeting its constitutional duty to the people to provide a general and uniform system of free public schools. He said counties, such as Iredell, lived of "the fatted calf," while counties such as Hoke were (1) using teachers who were not certified as teachers, (2) using teachers not certified in their disciplines, and (3) using second-hand furniture that had been donated from other school systems.

Mr. Yarborough then highlighted and briefed the attendees on the following laws.

State Constitution Article IX

Sec. 2. Uniform system of schools

(1) *General and uniform system.* The General Assembly shall provide by taxation and otherwise for **a general and uniform system of free public schools**, which shall be maintained at least nine months in every year, and wherein equal opportunities shall be provided for all students.

Sec. 2. Uniform system of schools (cont'd.)

(2) *Local responsibility.* The General Assembly may assign to units of local government such responsibility for the financial support of the free public schools as it may deem appropriate. The governing boards of units of local government with financial responsibility for public education **may use local revenues to add to or supplement any public school or post-secondary school program.**

State Constitution Article IX

The uniformity required by the state constitutional provision requiring the General Assembly to provide for **general and uniform system of free public schools** is system uniformity, and thus the provision is not violated on the ground that the quality of the education programs and amount of funding vary substantially between poor school districts and wealthy school districts or on the ground that the educational financing system fails to take into account greater educational and resource needs of students in urban districts.

Board of Commissioners to direct fiscal policy of county

The board of commissioners has and shall exercise the responsibility of developing and directing the fiscal policy of the county government. NCGS §153A-101

Board of Commissioners to direct fiscal policy of county

The legislature has vested county boards of commissioners with **broad** discretion to direct fiscal policy for the county. *Leete v. County of Warren*

Board of Commissioners to direct fiscal policy of county

It is the policy of the General Assembly that the counties of this State should have adequate authority to exercise the powers, rights, duties, functions, privileges, and immunities conferred upon them by law. NCGS §153A-4

Board of Commissioners to direct fiscal policy of county

The county commissioners have the right to consider budget requests submitted by the board of education on a line by line basis even where requests by the board of education, if granted, would require no additional tax levy. *Wilson County Board of Education v. Wilson County Board of Commissioners*

Yarborough said there was no equivalent statutory law that allowed the school board the same rights.

NCGS §115C-426. Uniform budget format

(e) The local current expense fund shall include appropriations sufficient, when added to appropriations from the State Public School Fund, for the current operating expense of the public school system in conformity with the educational goals and policies of the State and the local board of education, within the financial resources and **consistent with the fiscal policies of the board of county commissioners.**

NCGS §115C-429. Approval of budget; submission to county commissioners; commissioners' action on budget

(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.*

NCGS §115C-429. Approval of budget; submission to county commissioners; commissioners' action on budget (cont'd.)

(c) *The board of county commissioners shall have full authority to call for, and the board of education shall have the duty to make available to the board of county commissioners, upon request, all books, records, audit reports, and other information bearing on the financial operation of the local school administrative unit.*

Yarborough said the people of North Carolina never set up boards of education and boards of commissioners to be business partners. He said, instead, the boards of commissioners were to be a funding source for the boards of education. He emphasized that the commissioners were not the primary funding source because the State of North Carolina had this responsibility. Yarborough said the Constitution of North Carolina dictated there would be a uniform system of education, and the only mechanism for establishing that type of system was through a statewide program of education. He said what had happened across the state, however, was that “not this year, not last year, not ten years, but historically, the State of North Carolina had failed in its obligation to this board of education, to the Wake County Board of Education, to the Moore County Board of Education, to the Hoke County Board of Education, and to the other counties, to fund the programs that they say we should have and the people need.” Yarborough said that to fill the gap or shortfall created by the state, many counties had resorted to absorbing the costs. He said, “Teacher supplements, unfortunately, are a necessary evil due to the state refusing to pay the teachers, and they are state teachers, enough to attract teachers to North Carolina.” Attorney Yarborough said that since the state wasn’t adequately funding the salaries for the teachers and principals, the counties started “bumping up” their funding, and the situation had become an “arms race.” He said the Leandro case pointed out that if a uniform system were implemented, it would cut out the unfair competition between the poor counties and the wealthier ones.

NCGS §115C-429. Approval of budget; submission to county commissioners; commissioners' action on budget (cont'd.)

d) *Nothing in this Article shall be construed to place a duty on the board of commissioners to fund a deficit incurred by a local school administrative unit through failure of the unit to comply with the provisions of this Article or rules and regulations issued pursuant hereto, or to provide moneys lost through misapplication of moneys by a bonded officer, employee or agent of the local school administrative unit when the amount of the fidelity bond required by the board of education was manifestly insufficient.*

Yarborough said he felt certain the Iredell commissioners had a deep felt concern for the county’s children and their educations, but they also had other obligations to help in achieving the educations. He said the schools and communities where the children lived had to be patrolled by the sheriff’s department. He said the children had to have access to public health services along with social services programs to keep them free from abuse and neglect. Mr. Yarborough said there were many other governmental responsibilities that aided the children in obtaining an education. He said these were some of the requirements or responsibilities the commissioners had to attend to outside the school budget. Yarborough emphasized, however, that it was the school system’s budget that needed to be discussed -- not the county’s.

NCGS §115C-431. Procedure for resolution of dispute between board of education and board of county commissioners

(a) *If the board of education determines that the amount of money appropriated to the local current expense fund, or the capital outlay fund, or both, by the board of county commissioners is not sufficient to support a system of free public schools, the chairman of the board of education and the chairman of the board of county commissioners shall arrange a joint meeting of the two boards to be held within seven days after the day of the county commissioners' decision on the school appropriations.*

NCGS §115C-431. Procedure for resolution of dispute between board of education and board of county commissioners (cont'd.)

At the joint meeting, the entire school budget shall be considered carefully and judiciously, and the two boards shall make a good-faith attempt to resolve the differences that have arisen between them.

County commissioners have the right to consider budget requests submitted by the board of education on a line-by-line basis even where requests of the board of education, if granted, would require no additional tax levy. - Wilson County Board of Education v. Wilson County Board of Commissioners

NCGS §115C-431. Procedure for resolution of dispute between board of education and board of county commissioners (cont'd.)

(c) Within five days after an announcement of no agreement by the mediator, the local board of education may file an action in the Superior Court division of the General Court of Justice. The court shall find the facts as to the amount of money necessary to maintain a system of free public schools, and the amount of money needed from the county to make up this total. Either board has the right to have the issues of fact tried by a jury.

Yarborough said the last time he tried a case under G.S. 115C-431, the county had cut the school system's budget. He said that in Iredell's case, the board of education was just dissatisfied with what was appropriated, even though there was an increase.

NCGS §115C-431. Procedure for resolution of dispute between board of education and board of county commissioners (cont'd.)

(d) If an appeal is taken to the appellate division of the General Court of Justice, and if such an appeal would result in a delay beyond a reasonable time for levying taxes for the year, the judge shall order the board of county commissioners to appropriate to the local school administrative unit for deposit in the local current expense fund a sum of money sufficient when added to all other moneys available to that fund to equal the amount of this fund for the previous year.

Yarborough said that due to the Iredell-Statesville education budget not being cut, and in fact it was increased, this statute would indicate the dispute was baseless. He said the budget may not have been increased as much as the board of education members would have liked, but the funding was within the discretion of the county commissioners.

NCGS §115C-431. Procedure for resolution of dispute between board of education and board of county commissioners (cont'd.)

(e) If, in an action filed under this section, the final judgment of the General Court of Justice is rendered after the due date prescribed by law for property taxes, the board of county commissioners is authorized to levy such supplementary taxes as may be required by the judgment, notwithstanding any other provisions of law with respect to the time for doing acts necessary to a property tax levy. Upon making a supplementary levy under this subsection, the board of county commissioners shall designate the person who is to compute and prepare the supplementary tax receipts and records for all such taxes.

NCGS §115C-431. Procedure for resolution of dispute between board of education and board of county commissioners (cont'd.)

On appeal of dispute between the county board of commissioners and the county board of education concerning an item submitted in the board of education budget and disapproved by the county commissioners, the trial court was required to find whether the item requested was necessary for maintenance of the schools. - Wilson County Board of Education v. Wilson County Board of Commissioners

Yarborough stressed that it was the Iredell-Statesville School Board that initiated the legal proceedings and not the Iredell commissioners. He said that if the dispute were taken to court, the trial court would be charged to find that the item requested was necessary for maintenance of the schools -- not necessary to meet certain goals of the system. He said the children of Swain County were graduating from high school where the funding was at \$632 per pupil compared to Iredell's \$1,766, and by this, it would appear that if money had anything to do with the quality of education, then the children of Iredell were receiving superior educations. He said it was really unfortunate, that the location of where a child was born in North Carolina, dictated his or her quality of education, and this was the premise of the Leandro case.

NCGS §115C-501. Purposes for which elections may be called

(a) To Vote a Supplemental Tax -- Elections may be called by the local tax-levying authority to ascertain the will of the voters as to whether there shall be levied and collected a special tax in the several local school administrative units, districts, and other school areas, including districts formed from contiguous counties, to supplement the funds from State and county allotments and thereby operate schools of a higher standard by supplementing any item of expenditure in the school budget.

Yarborough said Attorney Majestic and Supt. Holliday wanted to operate a “superior” educational system at a higher level than was afforded across the state. He said the school system already had a method to achieve a different level, and this could be pursued by using state law (G.S. 115C-501). Yarborough said the local board of education could petition the board of commissioners for a supplemental tax election. Yarborough said that when someone talked about suing another party because the level of funding was not as high as they would like, they needed to exhaust the electoral process. He said that if the people of Iredell County wanted to operate at a “higher standard,” the issue needed to go before them and not the courts. He said, “If they want a Cadillac, let them vote for a Cadillac.”

NCGS §115C-503. Who may petition for election

Local boards of education may petition the board of county commissioners for an election in their respective local school administrative units or for any school areas therein

Yarborough said Chief Justice Bobbitt had previously made the following ruling, but it summed up the points he was trying to make. The ruling is as follows:

Supreme Court of North Carolina

“We appreciate the desire of the County Superintendent and of the Board of Education to provide for the operation of the schools of the county according to standards higher than is possible by the use of State funds alone for current expenses in the conduct of the school program. If the qualified voters share this desire, the procedure is provided whereby supplemental funds may be authorized for such purpose and provided through county ad valorem taxation.” (Board of Education of Onslow County v. Board of County Commissioners of Onslow County)

Yarborough then shared the following charts that were compiled by the North Carolina Association of County Commissioners. (The charts show the 2003-2004 county appropriations to the school units across the state.)

	County	Current Expense	Capital Expense	Total Expense
10	Swain	537,582	\$648,065	\$632
99	Hoke	3,200,248	\$1,041,171	\$674
98	Robeson	11,966,184	\$5,294,539	\$721
97	Graham	501,000	\$397,935	\$755
96	Bertie	2,034,340	\$572,500	\$773
95	Cleveland	9,599,895	\$4,474,035	\$801
94	Jones	836,756	\$267,600	\$804
93	Greene	1,801,069	\$785,649	\$819
92	Columbus	5,624,264	\$2,687,130	\$859
91	Richmond	5,350,000	\$1,735,000	\$861
90	Sampson	6,618,015	\$3,155,400	\$898
89	Mitchell	2,091,192	\$0	\$898
88	Duplin	5,597,646	\$2,240,975	\$900
87	Edgecombe	8,500,127	\$1,450,025	\$927
86	Washington	1,468,000	\$534,500	\$935
85	Tyrrell	500,020	\$115,350	\$965
84	Madison	1,860,469	\$622,703	\$965
83	Lenoir	8,862,415	\$1,775,000	\$1,033
82	Yancey	1,954,461	\$675,000	\$1,041
81	Warren	2,180,900	\$1,206,008	\$1,052
80	Anson	3,310,557	\$1,314,045	\$1,056
79	Caswell	2,158,300	\$1,446,138	\$1,063
78	Yadkin	5,105,738	\$1,317,261	\$1,069
77	Wayne	15,258,474	\$5,406,833	\$1,075
76	Alexander	4,500,000	\$1,516,320	\$1,078

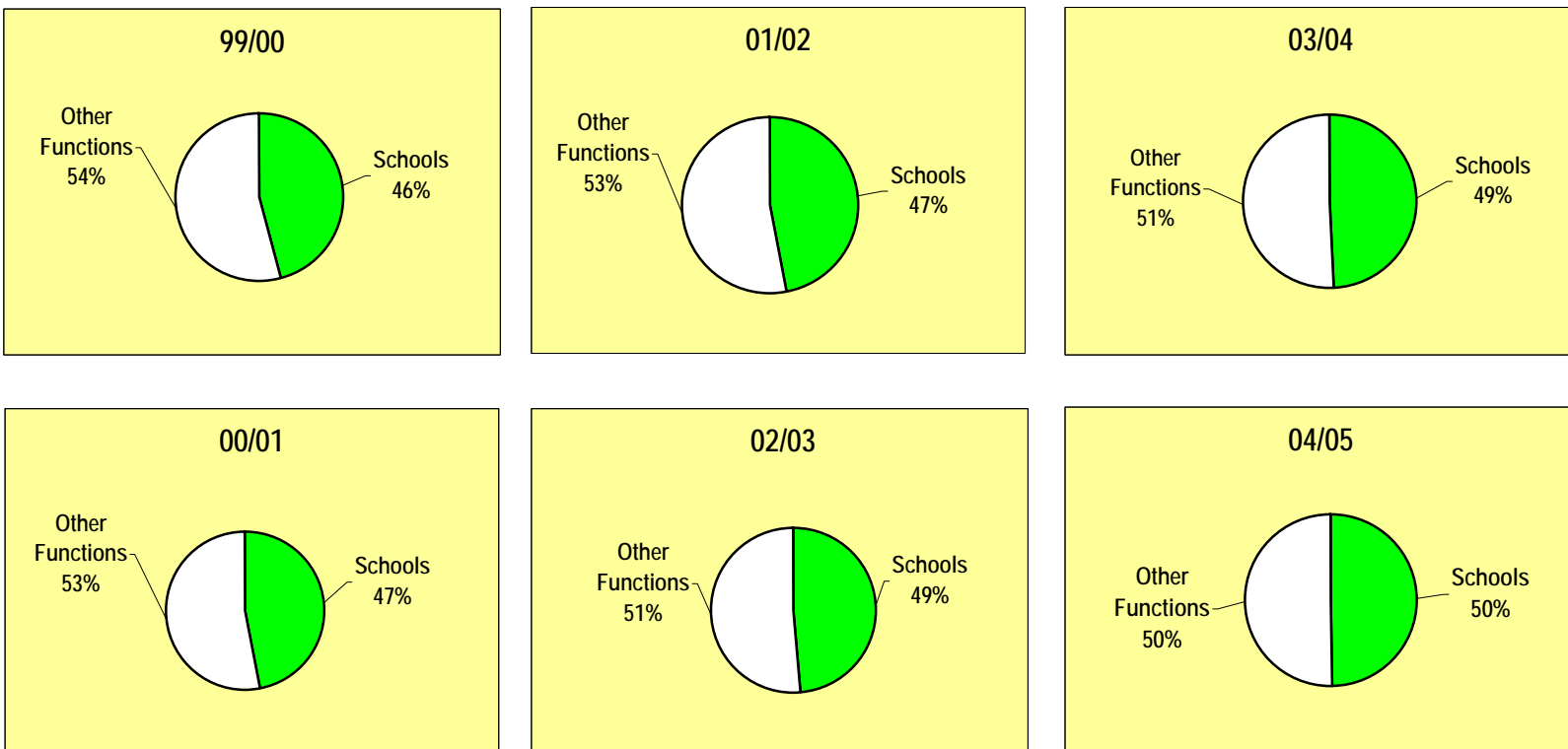
	County	Current Expense	Capital Expense	Total Expense Per Pupil
75	Halifax	5,590,671	\$4,753,508	\$1,095
74	Davidson	23,511,216	\$4,060,382	\$1,098
73	Hertford	2,921,983	\$1,064,000	\$1,114
72	Vance	7,770,000	\$1,790,428	\$1,130
71	Harnett	12,508,720	\$6,992,103	\$1,166
70	Bladen	4,209,216	\$2,452,514	\$1,171
69	Caldwell	11,816,978	\$3,356,040	\$1,181
68	Randolph	15,283,554	\$11,265,560	\$1,184
67	Craven	13,253,940	\$4,015,000	\$1,200
66	Rockingham	13,926,690	\$3,884,775	\$1,211
65	Montgomery	4,707,720	\$728,280	\$1,222
64	McDowell	5,649,500	\$2,321,450	\$1,235
63	Pamlico	2,000,947	\$611,245	\$1,252
62	Northampton	3,180,500	\$1,103,803	\$1,253
61	Surry	10,787,250	\$3,999,221	\$1,254
60	Nash**	16,960,650	\$2,873,782	\$1,259
59	Granville	8,354,551	\$2,606,716	\$1,267
58	Burke	12,363,795	\$6,367,000	\$1,281
57	Onslow	20,150,000	\$7,654,658	\$1,289
56	Martin	4,816,172	\$960,000	\$1,296
55	Gaston	32,188,890	\$8,547,740	\$1,305
54	Perquimans	1,543,269	\$702,682	\$1,311
53	Beaufort	8,018,383	\$1,745,665	\$1,319
52	Stanly	9,272,530	\$3,973,425	\$1,325
51	Lee	9,127,384	\$3,080,528	\$1,350

	County	Current Expense	Capital Expense	Total Expense Per Pupil
50	Clay	642,170	\$1,059,377	\$1,354
49	Alamance	\$25,474,939	\$4,801,210	\$1,373
48	Cherokee	3,126,711	\$2,082,425	\$1,390
47	Rutherford	9,504,147	\$4,852,894	\$1,402
46	Camden	940,576	\$1,293,313	\$1,420
45	Wilkes	11,740,188	\$2,829,188	\$1,427
44	Wilson	13,273,073	\$5,467,256	\$1,447
43	Gates	2,100,000	\$694,100	\$1,451
42	Cumberland	58,775,000	\$17,301,010	\$1,457
41	Scotland	8,781,018	\$1,894,279	\$1,518
40	Union	22,808,030	\$18,592,164	\$1,527
39	Davie	6,763,680	\$2,518,850	\$1,542
38	Rowan***	26,961,132	\$7,175,814	\$1,562
37	Franklin	8,164,500	\$4,456,087	\$1,588
36	Person	6,661,200	\$3,064,958	\$1,602
35	Lincoln	11,597,011	\$7,200,348	\$1,608
34	Pitt	26,337,249	\$7,974,198	\$1,625
33	Stokes	7,866,821	\$4,198,723	\$1,631
32	Catawba	26,544,798	\$12,639,786	\$1,637
31	Pender	7,984,558	\$3,850,251	\$1,707
30	Pasquotank	7,402,822	\$2,597,228	\$1,709
29	Iredell	27,735,777	\$14,211,400	\$1,766
28	Hvde	1,003,971	\$200,000	\$1,816
27	Havwood	11,238,350	\$3,328,460	\$1,848
26	Henderson	15,452,217	\$7,314,544	\$1,850

	County	Current Expense	Capital Expense	Total Expense Per Pupil
25	Polk	2,558,212	\$1,908,305	\$1,867
24	Cabarrus	29,721,718	\$17,016,515	\$1,871
23	Macon	4,412,122	\$3,464,184	\$1,915
22	Buncombe	38,806,083	\$18,833,393	\$1,971
21	Moore	17,876,880	\$5,602,874	\$1,973
20	Chowan	3,103,846	\$1,906,127	\$2,011
19	Johnston	32,486,770	\$19,734,990	\$2,112
18	Alleghany	1,577,964	\$1,494,410	\$2,120
17	Forsyth	84,290,032	\$21,319,014	\$2,178
16	Avery	3,129,000	\$2,442,345	\$2,292
15	Jackson	5,414,459	\$3,373,355	\$2,324
14	Guilford	125,665,521	\$28,983,075	\$2,326
13	Ashe	2,822,240	\$4,610,979	\$2,346
12	Watauga	7,892,000	\$3,047,033	\$2,348
11	Transylvania	5,962,099	\$3,956,818	\$2,496
10	Chatham	16,145,932	\$3,388,918	\$2,546
9	Brunswick	21,003,440	\$8,217,383	\$2,660
8	Currituck	6,550,964	\$3,295,803	\$2,690
7	Carteret	16,537,403	\$6,592,177	\$2,755
6	Wake	219,111,514	\$103,068,916	\$2,877
5	Durham	73,649,932	\$18,960,818	\$2,911
4	New Hanover	49,834,066	\$18,848,586	\$3,058
3	Mecklenburg	264,988,951	\$89,108,685	\$3,089
2	Orange	44,684,324	\$17,916,629	\$3,618
1	Dare	12,639,870	\$9,212,982	\$4,582

Yarborough said Iredell County ranked 13th in North Carolina for current expense funding, and it ranked at number 3 in the state for capital outlay. He said that with Iredell County being in the top third, it could be seen that the obligations to provide for a uniform system of free public schools had been met.

Proportion of Educational Funding



Yarborough said the above charts (Iredell County budgets from 1999-2000 through present) showed that the Iredell-Statesville School System had not been shortchanged.

Iredell-Statesville Schools Unreserved, Undesignated Fund Balance

<u>6/30/2002</u>	<u>6/30/2003</u>	<u>6/30/2004</u>
\$58,407	\$3,537,085	?*

Yarborough said he had read local newspaper articles about the school system's \$124 million funding request. He noted that General Obligation Bonds (GOBs) were always the cheaper route for this type of debt. He said Certificates of Participation (COPs) were sometimes used, but this was generally when the project(s) would not be approved by the public in the form of GOBs. He mentioned that if a \$124 million bond package were submitted to the people, and it came time for the rating agencies and the insurers to review the project, they would not be looking at the school system's fund balance, they would be looking at the fund balance of the county. He said the county's fund balance was critical in achieving efficient cost effective financing for long-term-capital projects. Yarborough said that if the school board had no fund balance, it could apply to the county for more money, but if the commissioners were out of money, they could not apply to the school board.

Mr. Yarborough said the reason for the question mark in the above figures* was because the county did not have a current estimate on what the school system had in its fund balance.

Iredell-Statesville Schools Fund Balance General Fund (current expense)

	Audited 6/30/2003	Reported 02/17/04
Unreserved, undesignated Fund balance	\$ 3,537,085	\$3,080,026
Transfer to Capital Outlay Approved 2/17/04	<u>(583,448)</u>	<u>(583,448)</u>
	<u>\$ 2,953,637</u>	<u>\$2,496,578</u>

Pertaining to the above figures on the school system's fund balance, Yarborough said the audited amount was \$2,953,637. He said the county's records reflected only one budget transfer out of fund balance, and this was for \$583,448 leaving \$2,496,578. Mr. Yarborough questioned what happened to the \$457,059. He said the county had asked what the school system had in its current fund balance, but nothing had been submitted.

Yarborough said that in regards to Ms. Majestic's usage of charts showing the county property rates in nearby counties, these were difficult to gauge statistically, because of revaluations. He said the state's 100 counties were divided into eight groups, and an octennial revaluation schedule had been established for them.

Attorney Yarborough said the school superintendent had previously indicated that the system had cut \$1.2 million from its budget. Yarborough said the system was still providing a basic uniform level of education.

Yarborough said only a few people would be making money if the dispute went to the court, and he preferred for the matter to be settled outside the trial courts. He said, "It's better to take things into consideration than to take them into court." He ended his remarks by using the adage, "Never go to law: If you win you lose, and if you lose you are lost."

He requested that the board of education members withdraw their case.

-----END OF YARBOROUGH'S REMARKS-----

Mediator Tyndall asked Ms. Majestic if she had any further remarks. She replied no.

School Board Comments

Board of Education Member David Parker then made the following remarks.

1. The economic forecast for this area is high. In local retail sales there is a 10 to 14% projected annual growth. High growth is also expected in the school population; however, the county predicts low growth, both in property and sales taxes.
2. The Hoke County residents have a willingness to pay for their schools, since the tax rate is 74¢ (effective tax rate of 67¢).
3. The two attorneys involved in the proceeding are from out-of-county. (Parker said he resented having to pay the fees, especially for out-of-county attorneys.)
4. The pie charts showing the appropriations to the schools are misleading, because "the problem is not with the size of the bite, it's the size of the apple that is the problem."
5. The commissioners and school board should have a joint or shared vision. (There should be a facilities plan to show what was needed and how to get there financially.)

Mr. Parker said the parties had an opportunity to save additional attorney fees by not taking the dispute to court.

Dr. Cash referred to G.S. 115-426 and mentioned there was a phrase that said the county would appropriate funding to schools within its financial resources and within the fiscal policies drawn up by the commissioners for the schools. He said the statistics showed that the county was 14th in the state, as far as county resources, and the fiscal policy over the past few years was to provide for growth plus five percent. Cash said that only in April or May did the school system learn the five percent would not occur during the upcoming year. He said the school board had made a modest and conservative budget request. Dr. Cash said, "We have made many requests in the past to have joint meetings with the commissioners because we need a long-term plan."

Dr. Brucie Serene said Attorney Yarborough's presentation showed many county comparisons regarding school funding. She said the comparisons seemed to say that Iredell should set its goals on the status of poorer counties. Serene said Iredell County was far from being poor, and the citizens needed a school system that reflected a higher status.

Commissioner Comments

Commissioner Madison said he and Commissioner Tice had been on the board of commissioners for many years, and in 1990 a goal was set -- not as a policy or a commitment -- to advance the current expense fund by five percent to try to achieve the state average. Madison said, "We have greatly exceeded the state average." He stressed this was a goal -- not a policy -- and further, that the commissioners did not have the power to commit future boards of commissioners to any particular action. He said the county budget could only be approved for one year at a time. In regards to Dr. Serene's comments, he said "She is not advocating for the children, or for the citizens, she is suing the county. This is a precursor to a lawsuit." Madison said he cut out an article that appeared in the Record and Landmark over 25 years ago that was recently reprinted. He said the article read: "A tentative tax rate of 49.9 per \$100 valuation was reached last night by the county commissioners after more than a month of meetings, emotional discussions, and hard examinations. The increase from last year's 39¢ tax rate was due to funding for capital outlay requested from the county school system, limited to \$1.1 million, and the renovation cost of the Department of Social Services Building." Madison said that within the next four years, the commissioners who voted for the 10¢ increase had left office and this was not by choice. Mr. Madison said the voters of Iredell County would not stand for a higher tax rate. He said, "Mr. Parker, it seems you need to be on this board instead of the school board."

Parker said, "I tried."

Madison said that through the years, candidates had said time after time that they would increase taxes, and these same people were not elected to office. He said Attorney Yarborough had pointed out an option the school system had to obtain more money. Madison said, however, "I'm not suggesting that we do that (supplemental tax), but the option is available."

Chairman Johnson said the school officials had indicated they did not know the county's revenue projections until May, and this was not true. He said in February of 2004, when Dr. Holliday presented his \$124 million plan, that an advisory session had just been held with the county's financial director. He said after the school system's presentation, Dr. Holliday and his staff were warned that the sales tax and property tax revenues were lower than what had been seen in the past. Johnson said he had also previously stated in a joint meeting with the school board that the 2000 census indicated that 20% of the homes built in Iredell County had been constructed since 1995. He said the overwhelming majority of the homes were built in the southern townships. Johnson said this was growth in the tax base, but it was not the type that paid for the schools. He said it took in excess of \$400,000.00 of tax base to fund one child in the Iredell-Statesville School District, and if a person looked at the per pupil funding of \$1,766.00, it didn't take long to understand the shortage. He said that if most of growth in the southern end was residential, then clearly, residential growth was not supporting the schools. Johnson said references had been made about new revenue that would be generated from the Lowe's facility in Mount Mourne, and the aircraft at the Statesville Airport, but there appeared to be a lack of understanding on how economic incentives worked. He said it would be years before the benefits were reaped. Johnson said, "I'm not crazy about economic incentives, but pragmatically, they're necessary to locate industry." He said that pertaining to the Lowe's aircraft, it would be a number of years before any appreciable amount of revenue was recognized because the county was working with the city on the runway extension. Johnson said another problem was the loss of personal property due to depreciation, and the lack of capital investments. He said the *Wall Street Journal*, *Business Week*, *Carolina Business Week*, and the *Charlotte Observer*, in the past few weeks, had published articles stating that what had driven the economy, up to this point, was consumer spending, but there still remained a significant lack of capital investment. Mr. Johnson said the Bush administration had taken this under consideration when the last tax package was formed, and they had accelerated depreciation in an attempt to increase capital investment. He said there were some signs of improvement, but he wanted to emphasize that what paid the bills was capital investment -- not residential. Johnson continued by saying the recessions in Iredell County in the past were more shallow and shorter than in other areas, but this one was unusual -- it was deeper and longer. He said the only reason he could come up with to explain the problem was the state's economic incentive system. Johnson said other states had better packages, and the industries were not only avoiding Iredell County, they were also choosing to avoid the entire state. He said a person could see why there was a

loss in the personal property taxes when they looked at depreciation, along with the equipment that moved out of the county and nothing replaced it. Johnson said Yarborough's comparisons to Hoke County were not an attempt to tell the people that we should aspire to the levels of Hoke County, but merely to demonstrate that by the statutory guidelines, Iredell County far exceeded what was required by state law.

* * * * *

CLOSED SESSIONS: Mediator Tyndall then allowed the two boards to enter into closed session.

MOTION by Chairman Johnson at 11:20 a.m., to enter into closed session pursuant to G.S. 143-318.11 (a) (3) – Attorney-Client privilege.

VOTING: Ayes – 5; Nays – 0.

MOTION by Dr. Cash, with a second to the motion, to enter into closed session pursuant to G.S.143-318.11 (a) (3) – Attorney-Client privilege.

VOTING: Ayes – 7; Nays – 0.

(RETURN FROM CLOSED SESSION AT 11:55 A.M.)

Mediator Tyndall asked the attorneys if an agreement had been reached. Both attorneys said no. He asked if either board required formal mediation.

Attorney Majestic said the school board requested formal mediation.

Mediator Tyndall announced that the mediation would be closed to the public, and the participants would be the chair of each board, or the chairman's designee, the superintendent and county manager, or their designees, the finance officer for each board, and the two attorneys.

LUNCH BREAK: Mediator Tyndall adjourned the meeting for a lunch break from 12 o'clock noon through 1:30 p.m.

1:30 P.M. (OPEN SESSION MEETING BY BOARD OF COMMISSIONERS)

REQUEST FOR THE ASSIGNMENT OF LANDFILL GAS RIGHTS: This item was postponed from the June 15, 2004 regular meeting of the board of commissioners.

MOTION by Commissioner Madison to approve the assignment of the Iredell landfill gas rights.

VOTING: Ayes – 5; Nays – 0.

ADOPTION OF A RESOLUTION IN SUPPORT OF SHERIFF PHIL REDMOND AND CLERK OF COURT RENA TURNER IN THEIR STANCE REGARDING JUDGE JAMES HONEYCUTT'S ACTION TO DELETE RELIGIOUS REFERENCES FROM COURTROOM ANNOUNCEMENTS AND OATHS: **MOTION** by Commissioner Madison to approve the following resolution that was presented by Commissioner Williams.

VOTING: Ayes – 5; Nays – 0.

RESOLUTION

WHEREAS, the founders of America were overwhelmingly Christian; and

WHEREAS, on many occasions, our founders stated that human law must be based upon God's Law; and

WHEREAS, the mention of God in courts of law and oaths were prescribed to remind those who appeared of the temporal and eternal consequences of false testimony; and

WHEREAS, our judicial system's integrity is based upon truth and God is the source of all truth; and

WHEREAS, the laws of the State of North Carolina state the above mentioned truths and are the practical application of God's Law; and

WHEREAS, Sheriff Phillip H. Redmond and Clerk of Court Rena W. Turner have demonstrated reverence for God's Law and respect of the laws of our Great State; and

WHEREAS, judges increasingly attempt to play the role of legislators by making law rather than enforcing the law.

NOW, THEREFORE, be it resolved that the Iredell County Board of Commissioners unanimously adopts this resolution celebrating our Christian heritage, supporting the rule of law, and honoring two great patriots, Phillip H. Redmond and Rena W. Turner.

* * * * *

DISTRIBUTION OF INFORMATION REGARDING THE SUMMER CONFERENCE OF THE NORTH CAROLINA ASSOCIATION OF COUNTY COMMISSIONERS: Materials on the Annual NCACC Conference to be held August 19-22, 2004 in Asheville, NC were distributed.

1:40 P.M. – FORMAL MEDIATION BEGINS

The mediation process then began with the aforementioned participants. (The four other commissioners and clerk were requested to be on a "stand-by basis.")

6:15 P.M. - CONTINUATION OF THE MEDIATION: Mediator Tyndall continued the mediation to Tuesday, July 6, 2004 beginning at 4:00 p.m., at the Iredell County Government Center, 200 South Center Street, Statesville, NC.

Approved: _____

Clerk to the Board

