

**ORANGE COUNTY
BOARD OF COMMISSIONERS**

ACTION AGENDA ITEM ABSTRACT

Meeting Date: June 21, 2011

**Action Agenda
Item No.** 8-f

SUBJECT: Resolution to Further Clarify the Intent of the Orange County Board of County Commissioners Regarding the Uses of Funds Generated by the Article 46 One-Quarter (1/4) Cent Optional Sales and Use Tax if Approved by Voters in November 2011

DEPARTMENT: County Manager

PUBLIC HEARING: (Y/N)

ATTACHMENT(S):

1. 4/5/11 Resolution Calling For A November 8, 2011 Special Advisory Referendum Concerning The Levy of A One-Quarter-Cent County Sales and Use Tax
2. 4/19/11 Resolution Regarding Uses of Potential Revenues from a One-Quarter Cent (1/4) County Sales and Use Tax
3. 5/18/11 Letter from the Orange County Schools Board of Education
4. 6/21/11 Draft Resolution Regarding Uses of Potential Revenues from a One-Quarter Cent (1/4) County Sales and Use Tax
5. Proposed Economic Development Uses of Sales Tax Proceeds

INFORMATION CONTACT:

Frank Clifton, 919-245-2300
Michael Talbert, 919-245-2153

PURPOSE: To consider a resolution to more clearly and firmly establish a commitment by the Board of County Commissioners to authorize the use of funding generated by the Article 46 one-quarter (1/4) cent optional sales and use tax if approved by voters in the manner and for the purposes stated herein in accordance with guidelines established and approved by the Board of Commissioners.

BACKGROUND:

(A) Since the Board of County Commissioners decided to move forward with a fall referendum on the Article 46 1/4 cent sales and use tax via resolution adopted April 5, 2011 (Attachment 1), the Orange County Schools Board of Education has requested further clarification of two points highlighted in its letter dated May 18, 2011 (Attachment 3).

The first issue is the distribution methodology of that portion of sales tax revenues dedicated to educational use between the two school systems. (Basically, define "equitable".)

The second issue relates to a clarification and commitment that these new revenues not be used to supplant existing county revenues for similar purposes. (Board of Commissioners to decide?)

On April 19, 2011 the Board adopted A Resolution Regarding Uses of Potential Revenues from a One-Quarter Cent ($\frac{1}{4}$) County Sales and Use Tax (Attachment 2). The resolution established a ten-year commitment to allocate 50% of the funding to the County's two school systems and 50% of the funding to Economic Development initiatives.

The Board requested that each school system furnish the Board of Commissioners with a detail list of prioritized projects that could be completed with anticipated funding over the next ten years. As of this date, the detailed list from each school system has not yet been received.

(B) It may also be helpful to further educate voters on how the one-quarter ($\frac{1}{4}$) cent sales tax revenues will be allocated and to further explain the County's efforts related to Economic Development.

The Manager recommended the following allocation of funds for Economic Development initiatives. The Board may want to further outline its priorities from some outlined below:

1. 60% of the funding would be allocated utility infrastructure;
2. 20% of the funding would be allocated to recruit and locate new businesses in Orange County;
3. 10% of the funding would be allocated to small business loans to help existing businesses expand; and
4. 10% of the funding would be allocated annually to Economic Development initiatives approved by the Board, including but not limited to innovation centers to provide space for new start-up businesses, funding support for the County's agricultural businesses, and Business Investment Grants.

Attachment 4 is an updated Draft Resolution Regarding Uses of Potential Revenues from a One-Quarter ($\frac{1}{4}$) Cent County Sales and Use Tax. The Draft Resolution addresses the questions raised by the Orange County Schools Board of Education and provides greater detail related to funding for Economic Development initiatives. Updates are noted in **bold**.

Economic Development Director Gary Shope has provided alternative uses and focus areas regarding the potential uses from a One-Quarter ($\frac{1}{4}$) Cent County Sales and Use Tax outlined in Attachment 5. This information is furnished to allow the Board to consider all available options as to how best utilize possible funds from a One-Quarter ($\frac{1}{4}$) Cent County Sales and Use Tax to support economic development in Orange County.

FINANCIAL IMPACT: There is no direct financial impact from these the decisions. It is important that voters favorably consider the one-quarter ($\frac{1}{4}$) cent sales tax if the issues discussed previously are to be pursued.

RECOMMENDATION(S): The Manager recommends that the Board consider the draft resolution to clarify questions from the Orange County Schools Board of Education and define priorities if new funds become available to support economic development. If the Board approves a resolution, authorize the Chair to sign the resolution as amended and approved. The Manager further recommends that the Board direct the Clerk to the Board to send a copy of the final resolution to the Orange County Board of Education.

ORANGE COUNTY BOARD OF COMMISSIONERS

RESOLUTION CALLING FOR A NOVEMBER 8, 2011 SPECIAL ADVISORY REFERENDUM CONCERNING THE LEVY OF A ONE-QUARTER CENT (1/4¢) COUNTY SALES AND USE TAX

WHEREAS, the North Carolina General Assembly has enacted the "One-Quarter Cent (1/4¢) County Sales and Use Tax Act," Article 46 of Chapter 105 of the North Carolina General Statutes (Session Law 2007-323), which authorizes counties to levy a local sales and use tax; and

WHEREAS, in order to levy the local sales and use tax, the County of Orange must conduct an advisory referendum in accordance with the provisions of the North Carolina General Statutes Section 163-287;

NOW, THEREFORE, BE IT RESOLVED by the Orange County Board of Commissioners that:

Section 1: In accordance with the North Carolina General Statutes, a special advisory referendum is hereby called to be held between the normal time the polls are open on Tuesday, November 8, 2011, at which there shall be submitted to the qualified voters of the County of Orange the question set forth in Section 3 of this Resolution.

Section 2: The Orange County Board of Elections shall conduct said Referendum.

Section 3: The ballot question shall be in the following form:

FOR AGAINST

Local sales and use tax at the rate of one-quarter percent (0.25%) in addition to all other State and local sales and use taxes.

Section 4: The Clerk to the Board of Commissioners is authorized and directed to transmit a certified copy of this Resolution to the Orange County Board of Elections within three (3) days after the passage hereof.

Section 5: The Board of Elections shall publish legal notice of the special advisory referendum in accordance with North Carolina General Statutes Section 163-287.

Section 6: This Resolution shall take effect upon its passage.

ADOPTED this the 5th day of April, 2011.

ORANGE COUNTY BOARD OF COMMISSIONERS

A Resolution Regarding Uses of Potential Revenues from a One-Quarter Cent (1/4¢) County Sales and Use Tax

WHEREAS, there are significant pressing infrastructure, economic development, school, and other County capital needs that are precipitated by growth pressures and the new economic reality facing Orange County; and

WHEREAS, it is important to provide Orange County taxpayers with alternatives to the pressure to raise property taxes to address these and other County needs; and

WHEREAS, the levy of a Article 46 one-quarter cent (1/4¢) County sales and use tax would provide a new County revenue source and would generate approximately \$2,500,000 annually for the County; and

WHEREAS, it is important for Orange County to plan for future economic development that will enable the County to recruit, retain, grow, and generate businesses and jobs that are desirable; and

WHEREAS, it is important that Orange County expand collaboration and cooperation of economic development efforts and decisions between Orange County and the towns of Chapel Hill, Carrboro and Hillsborough and the cities of Mebane and Durham; and

WHEREAS, it is important for Orange County to meet public school needs; and

WHEREAS, the Board of Commissioners establishes a ten-year commitment to allocate Article 46 one-quarter cent (1/4¢) County sales and use tax proceeds as follows:

- a. 50% of the funding will be allocated in an equitable manner between the County's two school systems for the dedicated purpose of funding capital projects, including but not limited to facility improvements at 'older' schools and the procurement of technology. The Board requests that each school system furnish the Board of Commissioners with a detailed list of prioritized projects that could be completed with anticipated funding over the next ten years. The Board will evaluate the projects and approve a ten-year plan which will be incorporated into the County's Capital Investment Plan. As part of the Capital Investment Plan annual review, progress will be evaluated annually and adjustments made according to needs agreed upon by the School Boards and Board of County Commissioners;
- b. 50% of the funding will be allocated to Economic Development initiatives including but not limited to: funding utility infrastructure needed to recruit and locate new businesses, small business loans to help existing businesses expand, innovation centers to provide space for new start-up businesses, funding support for the County's agricultural businesses, and Business Investment Grants. The Board of Commissioners will approve a ten-year Economic Development Plan as part of the County's Capital Investment Plan; and

WHEREAS, if additional funding does not come from the one-quarter cent (1/4¢) County sales and use tax, the property tax will be the primary funding source available for schools and economic development initiatives; and

WHEREAS, to distinguish and separate the revenues produced through this ¼ cent sales tax, if approved by Orange County voters, a Special Revenue Fund will be established to receive and account for the sales tax revenue. These funds will remain separate from the County's general fund to allow for more accurate tracking of revenues and expenditures in accordance with initial ten-year allocation plan established as part of this resolution;

NOW, THEREFORE, BE IT RESOLVED THAT the Orange County Board of Commissioners hereby states its intent to use the revenues from the Article 46 one-quarter cent (1/4¢) County sales and use tax, if approved by the voters of Orange County, for currently unfunded or underfunded economic development and public school capital needs for a period of ten years, with a scheduled implementation date of April 1, 2012.

BE IT FURTHER RESOLVED THAT proceeds from the one-quarter cent (1/4¢) County sales and use tax in later years will be used to address priorities as established by the Board of Commissioners in the County's Capital Investment Plan.

This the 19th day of April, 2011.



Bernadette Pelissier, Chair
Orange County Board of Commissioners

Orange County Board of Education

Board Members:

Tony M. McKnight, Chair
Donna Coffey, Vice Chair
Eddie M. Eubanks
Stephen H. Halkiotis
Anne Medenblik
Deborah A. Piscitelli
Brenda Stephens

G. Patrick Rhodes
Superintendent

200 East King Street
Hillsborough, NC 27278
Telephone: 919-732-8126
FAX: 919-732-8120



May 18, 2011

Orange County Board of Commissioners
P.O. Box 8181
Hillsborough, NC 27278

RE: Request for Clarification Regarding One-Quarter Cent Sales Tax and
Other School Funding Questions

Dear County Commissioners:

During its May 16, 2011 meeting, the Orange County Board of Education discussed a number of topics related to the BOCC's funding of the county school system. These same topics were also discussed at the May 3, 2011 collaboration workgroup meeting attended by commissioner leadership, school board members and county and school system staff.

Quarter-Cent Sales Tax (Article 46) Referendum

Our board recognizes the County's need for additional revenues and appreciates Commissioners' willingness to make a ten-year commitment to splitting anticipated proceeds from the proposed Article 46 sales tax revenue equally between the county and local school districts. We also commend the County for recognizing how a stronger public education campaign would benefit the process. Two unanswered questions, however, emerged during our Board's discussion.

1. The County's "Resolution Regarding Uses of the Potential Revenues from a One-Quarter Cent County Sales and Use Tax" allows for "50% of the funding...allocated in an equitable manner between the county's two school systems..." The Resolution does not include a definition of the term "equitable", and our Board would like to know how Commissioners plan to distribute the Article 46 revenues between the two school systems.
2. Would the County use revenues generated by the proposed Article 46 one-quarter cent sales tax to supplant any current revenues available to the schools? In other words, would the County consider new revenue from the tax as part of the its current 48.1% school funding target?

The Board of Education respectfully requests a written response from the Board of County Commissioners and the County Manager to clarify these questions.

BOCC School Funding, Debt Service, and Alternatives to the Current 48.1% Funding Goals

For several months now, the Collaboration Workgroup has discussed the Commissioners' school funding target to determine whether there would be a more stable and sustainable alternative to the existing 48.1% goal. For Example, should

school funding be tied to specific county revenue sources such as property taxes?

Needless to say, the Workgroup has not been able to find an alternative that members, collectively, felt would work better for all partners. Given all of the present and future uncertainties surrounding federal and state funding for K-12 education, it seems premature to make changes to a local guiding principle that all parties understand and one that has served all parties well over the last decade.

Along with the dire negative impact of federal and state funding reductions we anticipate, our Board is also deeply concerned about shrinking local capital revenues and the effect of increased debt service on our District's already limited local resources. Our concern deepened as we heard the County Manager's message of caution during the April 26, 2011 joint meeting with Commissioners.

A scheduled reduction in debt service for schools in FY 2011-12 (refinancing gains and paying off some debt) actually reduces the County Funding percentage for FY2011-12 from 48.0% in FY 2010-11 to an estimated 47.4%. A NOTE OF CAUTION: This is a temporary reduction from the 48.1% goal. New anticipated debt service for the Chapel Hill-Carrboro Elementary #11 project (expected within a few years) will substantially increase the County Funding allocation to education. That increase in debt service could negatively impact available funding for current expense and operations once the debt is incurred.

With his statement in mind, our Board would encourage the Workgroup to look at funding formulas that would offer stability as well as flexibility. Examples of questions and observations our Board would ask the Workgroup to explore include:

1. Would the funding formula/target (48.1%) be a floor or a ceiling (i.e. the minimum or the maximum)?
2. What specific elements would be included in the funding formula? For example, the existing 48.1% target includes current expense monies, recurring and long-range capital, debt service and fair funding. Would a new formula incorporate other elements?
3. Would it be possible for the formula to decouple capital funding from day-to-day operations expenses (such as current expense).
4. As currently written, the County's current capital funding policy allows the three entities to share, equally, in the repayment of debt, regardless of which entity receives the borrowed monies. Our Board has analyzed an alternative formula whereby each entity would be responsible for its own debt. Would this be an alternative formula to explore?
5. Would it be possible for CHCCS to dedicate a portion of its district tax to fund debt service related to new school construction thereby lessening some of the burden on the County's General Fund?

FY 2011-12 County Manager Recommended Funding for K-12 Education

The Orange County Commissioners' long-standing dedication to K-12 education funding is a legacy across the state. Because of your commitment, our schools are among the best in the State. We have implemented programs that keep our students in school and learning. Our district has one of the lowest dropout rates in the state, and we are proud of the fact that our graduates are prepared to either enter the global workforce or further their education at post-secondary schools.

For the last decade, you have solidified your dedication to funding K-12 education by allocating, at minimum, 48% of the County's revenues to OCS and CHCCS. It is clear that State legislators intend to make substantial reductions to traditional K-12 public education funding, and both school districts face massive declines in federal revenues due to stimulus monies going away. We would like to think that the County's overall funding level for K-12 services and programs would remain stable and not decrease. In accordance with Commissioners' County Capital Funding Policy (i.e. the 60/40 split) in years past, when debt service has decreased, funding for capital and/or operations has increased, and likewise in years when debt service increased, capital and/or operations remained either stagnant or decreased. Instead, as we face the worst year, financially, that our district has encountered in our lifetime, the County Manager has recommended an overall funding reduction.

As a Board, we ask you, our County Commissioners, to fully support the children in our county by keeping the level of *funding for current expense, capital, debt service and fair funding* at your 48.1% target that has served all of us so well over the years. Without your continued strong support as we face State and federal funding reductions of epic proportion, the children of the Orange County School District are in dangerous peril.

Our Board appreciates your time and consideration of these matters, and we optimistically look forward to receiving your response.

Sincerely,



Tony McKnight, Chair Donna Coffey, Vice Chair

/pmc

cc: Orange County Board of Education
Patrick Rhodes, OCS Superintendent
OCS PTA Council

ORANGE COUNTY BOARD OF COMMISSIONERS

A Resolution Regarding Uses of Potential Revenues from a One-Quarter Cent (1/4¢) County Sales and Use Tax

WHEREAS, there are significant pressing infrastructure, economic development, school, and other County capital needs that are precipitated by growth pressures and the new economic reality facing Orange County; and

WHEREAS, it is important to provide Orange County taxpayers with alternatives to the pressure to raise property taxes to address these and other County needs; and

WHEREAS, the levy of a Article 46 one-quarter cent (1/4¢) County sales and use tax would provide a new County revenue source and would generate approximately \$2,500,000 annually for the County; and

WHEREAS, it is important for Orange County to plan for future economic development that will enable the County to recruit, retain, grow, and generate businesses and jobs that are desirable; and

WHEREAS, it is important that Orange County expand collaboration and cooperation of economic development efforts and decisions between Orange County and the towns of Chapel Hill, Carrboro and Hillsborough and the cities of Mebane and Durham; and

WHEREAS, it is important for Orange County to meet public school needs; and

WHEREAS, the Board of Commissioners establishes a ten-year commitment to allocate Article 46 one-quarter cent (1/4¢) County sales and use tax proceeds as follows:

- a. 50% of the funding will be allocated in an equitable manner between the County's two school systems, based on the **Average Daily Membership of each school system**, for the dedicated purpose of funding capital projects, including but not limited to facility improvements at 'older' schools and the procurement of technology. The Board requests that each school system furnish the Board of Commissioners with a detailed list of prioritized projects that could be completed with anticipated funding over the next ten years. The Board will evaluate the projects and approve a ten-year plan which will be incorporated into the County's Capital Investment Plan. As part of the Capital Investment Plan annual review, progress will be evaluated annually and adjustments made according to needs agreed upon by the School Boards and Board of County Commissioners;
- b. 50% of the funding will be allocated to Economic Development initiatives as follows:
 1. **60% of the funding will be allocated utility infrastructure**
 2. **20% of the funding will be allocated to recruit and locate new businesses in Orange County**
 3. **10% of the funding will be allocated to small business loans to help existing businesses expand**

4. **10% of the funding will be allocated annually to Economic Development initiatives as approved by the Board, including but not limited to innovation centers to provide space for new start-up businesses, funding support for the County's agricultural businesses, and Business Investment Grants.**

The Board of Commissioners will approve a ten-year Economic Development Plan as part of the County's Capital Investment Plan; and

WHEREAS, if additional funding does not come from the one-quarter cent (1/4¢) County sales and use tax, the property tax will be the primary funding source available for schools and economic development initiatives; and

WHEREAS, to distinguish and separate the revenues produced through this ¼ cent sales tax, if approved by Orange County voters, a Special Revenue Fund will be established to receive and account for the sales tax revenue. **These funds will not supplant funding for the Board's endorsed funding target of 48.1% for annual spending on both school systems.** The funds will remain separate from the County's general fund to allow for more accurate tracking of revenues and expenditures in accordance with initial ten-year allocation plan established as part of this resolution;

NOW, THEREFORE, BE IT RESOLVED THAT the Orange County Board of Commissioners hereby states its intent to use the revenues from the Article 46 one-quarter cent (1/4¢) County sales and use tax, if approved by the voters of Orange County, for currently unfunded or underfunded economic development and public school capital needs for a period of ten years, with a scheduled implementation date of April 1, 2012.

BE IT FURTHER RESOLVED THAT proceeds from the one-quarter cent (1/4¢) County sales and use tax in later years will be used to address priorities as established by the Board of Commissioners in the County's Capital Investment Plan.

This the 21st day of June, 2011.

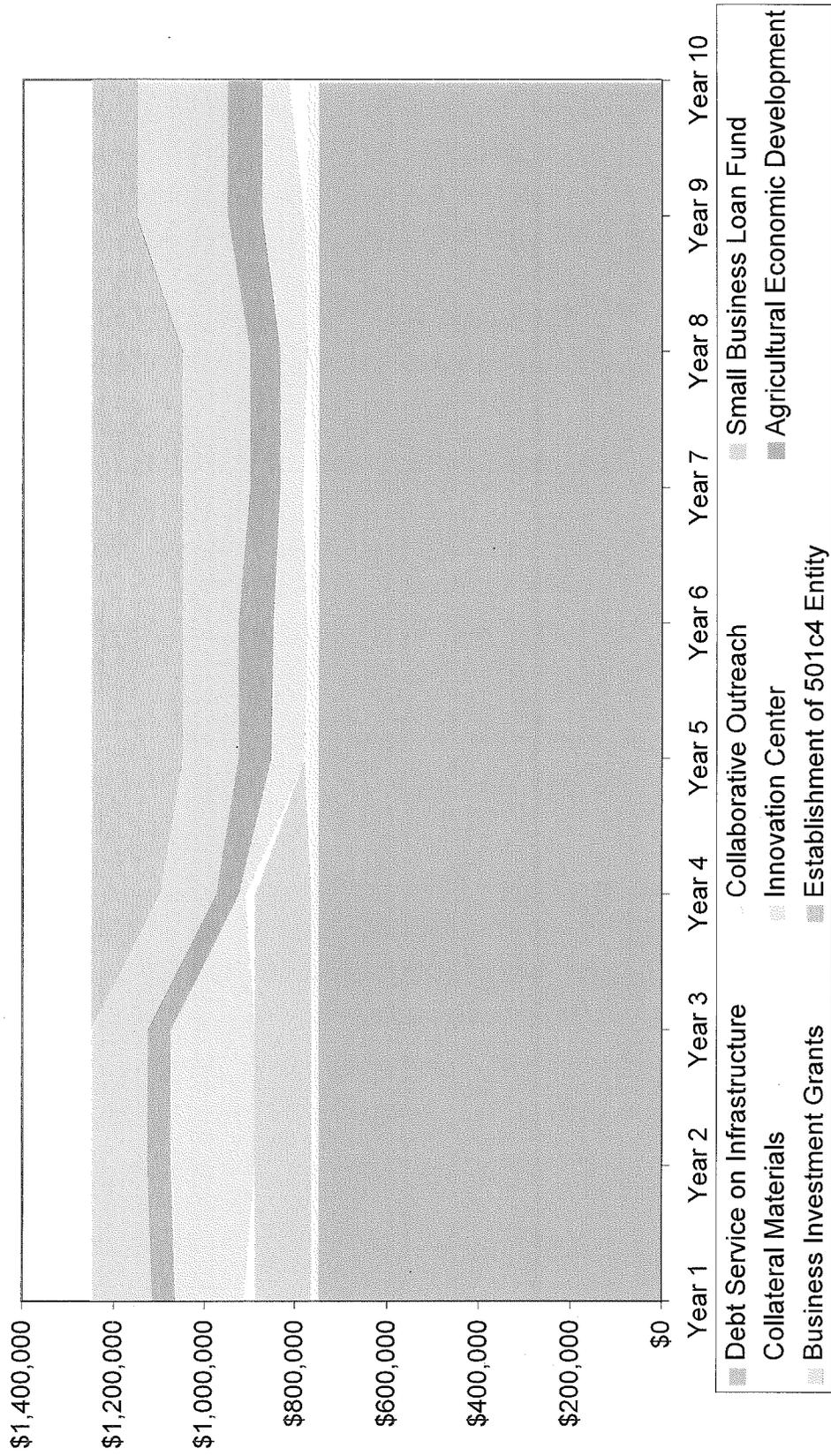
Bernadette Pelissier, Chair
Orange County Board of Commissioners

PROPOSED ECONOMIC DEVELOPMENT USES OF SALES TAX PROCEEDS

Focus Area	Percentage of Funds ¹	Estimated Annual Expenditures	Example Activities	Frequency
Debt Service on Infrastructure	60%	\$750,000	<ul style="list-style-type: none"> Installation of water and sewer infrastructure in EDDs 	Annually for 10 years
Collaborative Outreach	1.5%	\$15,000 - \$20,000	<ul style="list-style-type: none"> Trade shows targeted to specific industry clusters Industry Appreciation events businesses Local "Economic Health" Summit 	Annually for 10 years; amount of funding will vary
Collateral Materials	1.5%	\$20,000	<ul style="list-style-type: none"> Updated Internet interface Utilization of appropriate social media tools Development of informative brochures 	Funding only required every 2 to 3 years
Innovation Space	5 - 10%	\$75,000 - \$125,000	<ul style="list-style-type: none"> Up fit of a county-owned innovation space Rent subsidies and/or leasehold improvements on privately owned leasable space 	Funding will vary with site improvement requirements
Agricultural Economic Development	2 - 20%	\$25,000 - \$250,000	<ul style="list-style-type: none"> Focused counseling for food-based businesses graduating from PFAP Creation of a 'culinary kitchen' facility to provide facilities for PFAP graduates 	10 years, but funding will vary with program requirements
Business Investment Grants	8%	\$100,000	<ul style="list-style-type: none"> Advanced site preparation Relocation assistance 	10 years, but funding will vary with project
Small Business Loan Program	0% - 16%	Up to \$200,000 for next few years	<ul style="list-style-type: none"> Start-up capital and expansion funds for Orange County small businesses 	After several years, program will be self sufficient
Establishment of 501c (4) entity	12 - 16%	Up to \$200,000 for several years	<ul style="list-style-type: none"> Develop public-private stand alone economic develop entity 	Expenditures in Years 2 - 5 for start up funding

¹ Reflects the percentage of economic development funds, rather than overall funds

Proposed Uses Over 10 Year Tax Period, Economic Development Uses of 1/4 Cent Tax Proceeds



**Total Estimated Proceeds
from 1/4 cent Sales Tax,
Annually (~\$2,500,000)**

**Proposed Uses of
Economic Development Portion
of 1/4 cent Sales Tax Proceeds, Annually
(~\$1,250,000)**

