

CUMBERLAND COUNTY FINANCE COMMITTEE
APRIL 2, 1998, 2:00 PM

Members Present: Commissioner H. Mac Tyson II
Commissioner Ed Melvin
Commissioner Rollin Shaw

Others Present: Cliff Strassenburg, County Manager
James Martin, Deputy County Manager
Juanita Pilgrim, Assistant County Manager
Amy Cannon, Finance Director
Neil Yarborough, County Attorney
Howard Abner, Finance Department
Tonya Harris-Council, Public Information Officer
Rhonda R. Davis, Deputy Clerk
Press

Commissioner Melvin opened the meeting with an Invocation.

1. Approval of Minutes: January 22, 1998

MOTION: Commissioner Shaw offered a motion to approve the January 22, 1998 Finance Committee meeting minutes.
SECOND: Commissioner Melvin
VOTE: UNANIMOUS

2. Financial Update with Regard to the FY 99 Budget.

Mr. Strassenburg presented a Status of FY1999 General Fund Budget. He noted the budget is still "under construction" and what is being presented is not a budget. The information presented is only what we know for certain. The information shows the requests made by departments for the next budget, but management has done nothing with the requests as of yet. Mr. Strassenburg then reviewed the handout which is incorporated into these minutes and labeled "Exhibit A". He noted the new pay plan will have an impact on the budget as it will have to be annualized for the next year. This includes the new positions and benefits added during FY1998.

The 73 positions requested are mostly new library positions and law enforcement officers should the decision be made to take over the SRO responsibilities if the City of Fayetteville decides to pull out of this program.

Commissioner Tyson asked what would happen if the City pulled out of the SRO program in the schools.

Mr. Strassenburg advised it would mean if the County chose to pick up the program in the City schools, an additional 15 officers would need to be added to the Sheriff's Office staff. The cost would be a little over one million. The cost would be less the following year, as you would only be paying salaries as equipment would not need to be purchased each year.

Commissioner Tyson asked what the cost would be to place SRO officers in the new schools.

Mr. Strassenburg advised the SRO officers are in the high and middle schools. If the County were to pick up this program from the City of Fayetteville, the costs would depend on the schools to be built. The Board of Education does match the funds for SRO officers.

Commissioner Tyson asked about the amounts indicated to purchase vehicles. He asked if it would be cheaper to do a lease-purchase on these vehicles.

Mr. Strassenburg advised the cost shown on the handout is to purchase the vehicles, not to lease them. The County actually pays more if it leases cars rather than purchasing them.

Mr. Strassenburg noted the new debt shows the actual debt service the County is to pay. In reference to the amount being requested from outside agencies; over one half of the total amount has been requested by one agency. That agency is S.C.A.T. (Seniors Call to Action Team). Under the Education heading, the technology money for the schools is included in the amount shown. He noted the County has not given FTCC any money for capital outlay in two or three years.

Mr. Strassenburg then reviewed the changes in revenue. The unrestricted revenue is decreasing because of the City Police Department's move out of the Law Enforcement Center. The county won't be getting the rent in the amount of \$170,000.

Mr. Strassenburg stressed that what has been presented cannot be looked at as a County budget because the final figures will have to change. This is merely the requests received.

Commissioner Tyson asked how much departmental budgets will be reduced.

Commissioner Shaw stated each year the budget has been done to keep from raising taxes and that has gotten us where we are now.

Ms. Cannon advised many departments have held the line on their requests.

Mr. Strassenburg advised the debt service of \$8.2 million cannot be "pruned" or reduced and nothing can be done about the new positions for the new libraries.

Commissioner Shaw noted the Board has been warned for years about this situation.

Commissioner Tyson mentioned the article in the paper which quoted a school board member as saying "no County official will keep us from getting what we want and need". He noted his disagreement with Cumberland County being compared with Greensboro. A big chunk of the budget deficit is the additional \$8 million being requested by the schools. It has been stated that Cumberland County is below the state average in spending per child. He asked what it would take for Cumberland County to meet the state average for funding per child.

Mr. Martin noted that every time you meet the state average for child spending, your increase bumps up the state average.

Mr. Strassenburg noted the County's per pupil state funding is down.

Commissioner Shaw stated Cumberland County is 119th out of 119 with regard to state money for our children.

Mr. Strassenburg advised a good part of the problem with our per pupil spending is the state money, not local money. He also noted that the school system received the largest increase in funding over any other County agency last year.

Commissioner Tyson stated he would like the County to get at or above the state and or local funding for schools.

Commissioner Melvin stated that since the School Board is threatening to sue the County for the funding they want, the money from the hospital should be given to the school system.

Commissioner Tyson stated he would like Mr. Strassenburg to determine what is the true measure of the average funding per student in the state and how much the county is below that average and what it will take to get the County at or above the state and local average. We need to get it to the Legislature that we need help in this area.

Commissioner Shaw noted she has spoken with Rick Glazier and the formula for determining these averages is biased or skewed to rural or small counties. This is due to the demographics of the General Assembly.

No other questions were asked about the report.

Commissioner Melvin asked staff to go back and begin "pruning" the budget requests.

Commissioner Tyson expressed his appreciation for the report and it's thoroughness. He appreciates the staff's hard work.

It was the consensus of the Committee to have management along with Mr. Strassenburg to get a report and the numbers on how to bring the amount of per capita spending for students in Cumberland County up to the State average.

3. Report on the Cape Fear Valley Hospital System Lease.

Mr. Yarborough presented a memorandum and draft lease to the committee. (The revised draft of the lease is attached hereto and made a part of these minutes and labeled "Exhibit B"). He noted the real changes are in paragraphs 1, 2 and 12. He reviewed paragraph one and noted the best time for the County to receive the lease payment is on July 1, 1998.

Commissioner Tyson asked about the tax value of property acquired by the hospital. Why would the amounts never change?

Mr. Yarborough explained that property purchased by the hospital would have a set tax value. The County would receive taxes on what the value was that would ordinarily be lost. The county does not have a system for appraising hospital equipment. He advised they could go to a system that relates the value of the rent of the hospital to the value of the hospital. Three million is a close approximation to the value of the hospital.

Commissioner Melvin stated that if a property valued at \$80,000 is purchased by the hospital and is improved to be worth \$1 million, the hospital should pay taxes on \$1 million. If the value goes to \$10,000, it should be taxed at \$10,000, just as the ordinary citizen is taxed.

Commissioner Tyson stated the hospital is gobbling up properties and the citizens are having to service the hospital with property taxes to pay for properties they have purchased.

Commissioner Shaw stated that is Commissioner Tyson's vision of what is happening. She does not feel the hospital is gobbling up property and not serving the citizens. If you have a hospital system that cannot have facilities where physicians can serve in a state of the art facility, it will become an albatross or white elephant.

Commissioner Tyson stated the citizens of the County have to pay taxes and the hospital should be no better. The hospital can afford to pay the same taxes as everybody else.

Commissioner Shaw stated Churches are costing the County money too. The hospital must run like a business, but it is not a business. We need to be careful not to confuse the hospital as the enemy of the taxpayer. Her problem is with a property that would come off the tax rolls at a certain value and would probably stay at that value if not purchased by the hospital. If the hospital acquires and improves a property for the citizens and we tax them for what the property becomes when it may never have been at a higher tax value unless it was purchased by the hospital.

Commissioner Tyson stated he does not worship the hospital. Churches are different from hospitals. His understanding is that the hospital would become like the poorest taxpayer who improves their property. That taxpayer would pay taxes on the improvement. The same thing happens with the private hospitals in the County.

Commissioner Shaw noted the people making the decisions for private hospitals don't have political entities on the Board. Those in private hospitals must make hard-nosed business decisions.

Commissioner Tyson stated Highsmith-Rainey must come before the Commissioners for all their decisions.

Commissioner Shaw stated a private hospital is not the equivalent of a public hospital.

Commissioner Melvin stated his motion made during the Commissioners' meeting concerning the hospital lease has been changed. His intention was that if any piece of property comes off the tax books because of purchase by the hospital, the hospital would pay for the property as if it was not tax exempt.

Mr. Yarborough noted he will make the appropriate changes to reflect Mr. Melvin's intent. He advised his thought was that the board was trying to make sure the County wasn't losing money in a hospital purchase of real property.

Commissioner Shaw stated she thought the point was not to lose dollars when the hospital purchased a piece of property. We are now equating a public and private entity.

Commissioner Tyson stated that to keep the value the same would be difficult for the tax offices to keep record of. There would in essence be one value for the citizens and one for the hospital.

Mr. Yarborough then reviewed paragraph two which dealt with the terms of the lease.

Commissioner Shaw stated that for planning purposes, it would be better to have a three year lease. It now is, in fact a one year lease.

Commissioner Melvin stated it has always been a one year lease.

Commissioner Shaw noted the County has never taken money from the hospital before. The hospital could better do their financial planning if the lease was for three years. The whole purpose was to have a stable lease. A private business would do the same type of planning.

Commissioner Tyson stated new wine does not fit in old goat skins. To not milk a prize milk cow is to go without milk. He noted Mrs. Shaw says she is for education. He then mentioned the lavish trips for hospital trustee members, money spent on the hospital attorney and on advertising with the Fayetteville Observer. He stated the hospital planning and whole way of doing things is year to year. The hospital has a year to year budget. The lease has a 365 day notice. If anyone thinks the County is going to go close to bankruptcy and have a County palace that is exempt from taxes, they need to think again. The hospital needs to serve the citizens. The basic concept is whether or not the hospital should serve the citizens. Should the hospital serve the citizens or be a monarchy which is what it is. A three year lease would put the hospital beyond the touch of the citizens for three years. The only thing he sees as close to being a king in the County is Cape Fear Valley Hospital System.

Mr. Yarborough asked about the termination date of March 15. He asked if it affects anything.

Commissioner Melvin stated the termination of the lease is from the date the County gives notice.

Mr. Yarborough explained the change in paragraph twelve. He noted the changes were made because bond refinancing for the hospital is being considered. Usually when there is bond refinancing, the lease is re-done. This change will make the lease more generic and more adaptable for refinancing or additional debt. He noted these changes were merely suggestions and he will make any further drafts the committee wishes him to make.

MOTION: Commissioner Melvin offered a motion to accept the draft lease with the changes noted in paragraph one with regard to real property acquired by the hospital and paragraph two regarding the notice of lease termination.

SECOND: Commissioner Tyson

DISCUSSION: Commissioner Shaw stated she would be able to support the lease without the noted changes.

Mr. Yarborough advised the draft he has presented was not a result of any discussion with anyone. The errors in the draft are his.

Commissioner Shaw stated she feels the 365 day out clause gives a one year lease under the guise of a three year lease.

Commissioner Melvin stated the 365 day out clause is in place to give the Board of Commissioners an opportunity to let the hospital out of the three million dollar payment should they be unable to pay it.

Commissioner Shaw noted it will give future Commissioners the opportunity to make the payments higher than \$3 million. She is looking down the road for the hospital. She is concerned that a year from now the lease payment will be \$5 million instead of \$3 million.

Commissioner Melvin stated he did not feel the lease payment will increase. If it needs to be changed, however, he wants it to change.

Commissioner Tyson stated the Board has tried to obtain the lease payment in a totally straight-up, legal and proper manner.

Commissioner Shaw stated she does not have a problem with the hospital making a lease payment. She just feels there should be more stability to the lease.

VOTE: Favor: Commissioners Melvin and Tyson
Oppose: Commissioner Shaw

MOTION: Commissioner Melvin offered a motion to present to the full Board of Commissioners the committees recommendation to designate the funds from the hospital lease payment to the school system.

SECOND: Commissioner Shaw

VOTE: UNANIMOUS

4. Other Committee Concerns.

It was noted there were no other committee concerns.

Mr. Strassenburg advised the Board he had obtained the annual survey from the Association indicating funds spent for school systems by the different counties.

The current expense for average daily attendance:

State Average:	\$824
Cumberland County:	\$774

(\$50.00 difference per child would equate to an additional \$2.5 million to bring the county up to the state average.)
**Mr. Strassenburg noted he does not believe the \$774 includes impact aid. If that amount was added, the county would be right at the state average.

Percentage of tax levy to support the school appropriation:

State Average:	60.8%
Cumberland County:	60.9%

Percentage of General Fund to support the school appropriation:

State Average:	26.7%
Cumberland County:	25.4%

Commissioner Tyson stated regardless of whatever differences there may be, the two newest Commissioners on the Board are very much supportive of the school system.

MOTION: Commissioner Melvin offered a motion to adjourn.
SECOND: Commissioner Shaw
VOTE: UNANIMOUS

Meeting adjourned at 3:40 PM.