

**Minutes of the
North Carolina State Board of Education
Education Building
301 N. Wilmington Street
Raleigh, NC 27601-2825
June 24, 2008**

Education Building, Raleigh	Tuesday, June 24, 2008	Board Room, 3:00 PM
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The North Carolina State Board of Education met by conference call and the following members were present:

Howard N. Lee, Chairman	Kathy Taft
Wayne McDevitt, Vice Chairman	John Tate
Melissa Bartlett	Tom Speed
Shirley Harris	Patricia Willoughby
Kevin Howell	

Also present was:

June St. Clair Atkinson, State Superintendent

CALL TO ORDER AND INTRODUCTION

After extending a warm welcome to all present, Chairman Howard Lee called the emergency session of the June 24 State Board of Education meeting to order. He explained that the Board was meeting via conference call as a committee of the whole. Chairman Lee explained that the State Board was holding this meeting under the criteria of General Statute § 143-318.12(b)(3) which provides the guidelines for an emergency meeting. He informed Board members that notice was provided to the media and others as appropriate and as required. He also noted that this 'emergency meeting' is one called because of generally unexpected circumstances that require immediate consideration by the Board, as noted in statute; and only business connected with the emergency may be considered at this meeting. At this time, Ms. Betsy West conducted a roll call to determine a quorum.

In compliance with the requirements of Chapter 138A-15(e) of the State Government Ethics Act, Chairman Lee reminded Board members of their duty to avoid conflicts of interest and appearances of conflicts of interest under Chapter 138A. He asked if members of the Board knew of any conflict of interest or any appearance of conflict with respect to any matters coming before them during this meeting. No Board members indicated a conflict of interest at this time. The Chairman then requested that, if during the course of the meeting, members became aware of an actual or apparent conflict of interest that they bring the matter to the attention of the Chair. It would then be their duty to abstain from participating in discussion and from voting on the matter.

EMERGENCY ISSUES SESSION

- "Budget Briefing - Changes in the Legislature's Conference Report Released on June 23, 2008"

Chairman Howard Lee explained that the purpose of this meeting was to provide an overview of the Legislative Conference Committee Budget and, in particular, the major areas of concern so that Board members will be able to answer questions from constituents and media in the field about the implications for education. He noted several critical areas of concern including budget shortfalls for diesel fuel, ABC teacher bonuses, Average Daily Membership (ADM), the Board Reserve, and the At-Risk Student Services/Alternative Schools: Continuation Budget. In addition, Chairman Lee emphasized concern about a provision in the budget that gives the UNC Board of Governors the right to study DPI and make recommendations for changes and adjustments in the Department.

At this time, Financial and Business Services Associate State Superintendent Philip Price provided a briefing for Board members noting that on Monday, June 23, the House and Senate Education Appropriation Committee distributed a version of the Conference Committee budget. Unfortunately, public schools received less funding in the Conference budget than was included for public schools in the House or the Senate-passed budgets. The Conference budget is \$33.9 million less than the budget passed by the House for public schools (that is more concerning since the Conference funding target was \$14 million more than the House education budget). The Conference budget is \$10.2 million less than the budget passed by the Senate for public schools (the Senate budget for education was \$20+ million higher than the Conference funding target).

Mr. Price noted a reduction to the At-Risk Student Services/Alternative Schools Continuation Budget, explaining that the Conference budget does adjust the continuation budget for At-Risk (\$13.5 million) which means that the planning allotment for At-Risk Student Services/Alternative Schools is overstated.

Increased funding for bus fuel was established at \$30 million (\$26 million once you take into account the \$4 million transportation ADM adjustment). With a possible shortfall of \$56 million (if diesel fuel is around \$4.08 per gallon next year), this additional \$26 million will leave the fuel budget short around \$30 million.

The ABC Bonus funding was set at the House level (\$70 million) which leaves this funded short of projected needs by \$37 million. Combining this shortfall with other unfunded items (and reductions to the reserves), we do not believe that reversions will be able to cover the budget shortages. Therefore, initial allotments will need to be withheld to absorb the budget reduction. Mr. Price noted that if we set the reduction at \$50 million, this would convert to \$33.86 per ADM (where the smallest school district would need to return \$19,437 and the largest school district would need to return \$4,726,304).

Mr. Price shared that the Department is communicating with the LEAs that if the budget remains as it is currently, local budgets would be severely impacted.

- 1) \$30 million short on expected needs for diesel fuel: This level of shortage, along with other non-funded items, would require the Department to either pass the cost to the local district or require districts to return some of the initial allotments.
- 2) \$37 million shortage for expected ABC Bonus needs: This level of shortage, along with other non-funded items, would require the Department to reduce the amount of the payments to teachers or require districts to return some of their initial allotments.

- 3) \$13,473,512 reduction to the At-Risk Student Services/Alternative Schools: Continuation Budget will lead to a reduction in district planning allotments (the planning allotments included this as an appropriation).
- 4) If the language remains in the Conference Committee budget, there could be an additional pay raise for teachers around November. The Senate budget allows the Governor to award an additional pay raise to teachers if revenue comes in higher than projected. This raise would be based on half of the excess up to \$200 million.

Other items that did not make the budget include seven low-performing schools that were identified for assistance under the Comprehensive Support Program.

Discussion/Comments:

- Board Member Tom Speed asked about the fuel allocation for the 2007-08 school year. Mr. Price explained that last year's fuel budget was based on \$1.69 per gallon (initial budget was \$50 million with \$22 million added to cover the rising fuel costs).
- Vice Chairman Wayne McDevitt asked for a recap on last year's allocation for the ABC bonuses. Mr. Price stated that the State Budget Office worked with the Department to identify resources to keep the funding at the same level (we were short \$31 million dollars of the \$110 million required). Mr. Price emphasized that the reversions of the State Public School Fund are created by lapsed salary situations in the school districts, in addition to revenue streams that are coming in higher than anticipated. The lottery, fines and forfeitures, sales tax and the general fund now support the State Public School Fund. In addition, the Conference budget and all the Senate and House budgets have increased the amount of money they are budgeting from the revenue streams mentioned above and that is how the public schools benefited this year from having additional reversions. Underestimates on the amount of fines and forfeitures and sales tax helped cover these items. By increasing the amount that is in the budget to be supported by those funds you are probably taking away any of the surplus that might occur and might be creating an additional deficit. Therefore, we need to be more conservative in our efforts because those revenue streams may not be available. What we had this year because of the larger salary increases and the underestimation of the revenue streams is not anticipated to be available next year.
- Board Member Kathy Taft asked Mr. Price to review the fuel budget. He noted that increased funding for bus fuel was established at \$30 million (\$26 million once you take into account the \$4 million transportation ADM adjustment). With a possible shortfall of \$56 million (if diesel fuel is around \$4.08 per gallon next year), this additional \$26 million will leave the fuel budget short around \$30 million. She asked Mr. Price to clarify how this could be less than last year's \$72 million. Mr. Price explained that the figure is \$56 million above the \$50 million in the continuation budget.
- Ms. Taft also asked about the amount of money allocated toward the study of DPI. Mr. Price stated that the allocation is set at \$200,000.
- Board Member Melissa Bartlett asked if there is an explanation for the unusual nature of the House and Senate Appropriation Committee proposal to spend less than both bodies had approved in their initial budgets. (The Conference budget is \$33.3 million less than the budget passed by the House and \$10.2 million less than the budget passed by the Senate.) Chairman Lee stated that it is not a simple matter of dividing the budget; it hinges on the exchange between the two groups and is influenced by many interest groups and initiatives.
- Responding to Ms. Bartlett's inquiry about the loss of Board Reserve funding, Executive Director Rebecca Garland explained that the \$500,000 Board Reserve helps to sponsor innovative programs and provides seed money for initiatives in the LEAs or initiatives of interest by the

State Board. Further, Mr. Price stated that in the past funds have been spent on, but are not limited to the following examples: additional Second Languages contracts for Latin with UNC Learn & Earn in the development of modules, NCVirtual Schools, the Web Academy, and the Graduation Project.

- Vice Chairman McDevitt asked about worst-case scenarios. Mr. Price was not ready to make additional recommendations at this point.
- Board Member John Tate noted that the University system appeared to be profiting handsomely with this budget, and asked if there was an explanation. Chairman Lee did not have an explanation at this time.
- Mr. Speed asked where the idea came from to have the UNC Board of Governors study DPI. According to the Chairman, Senator Malone sponsored the bill but Chairman Lee was unsure of the origin. An exchange is currently taking place to communicate the redundancy of this study.
- Noting competing priorities, Superintendent Atkinson encouraged everyone to continue communicating with legislators to help them recognize the serious implications the budget has for public education. Mr. McDevitt reminded everyone that North Carolina values education and that every time this state has been called on to support the public schools, it has stepped up to the plate.
- In closing, Chairman Lee urged every Board member to be prepared to share and answer questions about this budget with their constituents. Chairman Lee stated that we have an obligation to continue to work hard to make our case to the Legislature.

ADJOURNMENT

Upon motion by Mr. Tom Speed and seconded by Ms. Patricia Willoughby, the Board voted unanimously to adjourn the June 24, 2008, State Board of Education emergency meeting.