

**THE BOARD OF COUNTY COMMISSIONERS
DURHAM, NORTH CAROLINA**

Wednesday, June 1, 2005

2:00 P.M. Budget Worksession

MINUTES

Place: Commissioners' Room, second floor, Durham County Government Administrative Complex, 200 E. Main Street, Durham, NC

Present: Chairman Ellen W. Reckhow, Vice-Chairman Becky M. Heron, and Commissioners Lewis A. Cheek, Philip R. Cousin Jr., and Michael D. Page

Absent: None

Presider: Chairman Reckhow

Review of Durham Public Schools (DPS) Budget

Chairman Reckhow stated that the Commissioners received answers to questions raised at the May 9, 2005 BOCC/DPS joint meeting; however, no answers were provided on exceptional children and transportation funding questions. She requested more information on these two items.

In addition, Chairman Reckhow stated that she has since asked Schools Superintendent Ann Denlinger to provide statistics on projected and 20-day enrollment for both public and charter schools for the past few years. Her recollection was that the projected growth in the public domain was 250 students for this year; the 20-day enrollment showed 87. She wanted information to clarify the discrepancy.

Chairman Reckhow directed County Manager Mike Ruffin to note all the questions raised by the Commissioners at today's meeting and not answered by DPS. He was to send a memo in the next couple of days listing all questions.

Chairman Reckhow noted that the Clerk requested that speakers identify themselves for the record.

Hank Hurd, Associate Superintendent for Administrative Services, explained the projected and 20-day enrollment. The projection number is more difficult to determine for public schools than for charter schools because of the Department of Public Instruction (DPI) numbers and growth tabulations. The end of the 20th day of the 1st month is an unreliable indicator of the number of students in Durham Public Schools. A more reliable indicator is to look at DPS in the middle of the fiscal year (5th month) to accumulate internal data. In FY 2004-05, Average Daily Membership (ADM) numbers

reflected 30,492 students. The number was 30,231 for the same time in 2003–04, so the number had increased by 261 students at the 5th month of this fiscal year.

Mr. Hurd informed the Board that Durham Public Schools, from a financial perspective, is probably the most severely impacted district in the state from charter school efforts. That premise is based on charter schools receiving the per student allocation directly from Durham Public Schools. Pass-through money is paid to the charter schools based on their ADM. Charter schools have a flexible plan as far as growth from a DPI perspective. Once the ADM is allotted to a charter school, the only variance is if a charter school grows by 10% or greater.

Chairman Reckhow stated that she was still confused by the numbers. She received a copy of the 20-day enrollment report from Mr. Hurd when they met at the end of September 2004. In her copy, the total at all the schools was 30,974, only 85 higher than the previous-year's 20-day report which was 30,889.

Mr. Hurd explained that in dealing with enrollment, students may come into Durham Public Schools and leave a week later. If the student enrolls, he/she is reflected in enrollment, but the ADM is the number of students enrolled and the days in attendance. The 20-day enrollment figures are less reliable than the conservative numbers in ADM, because a student must be on record in a particular school for a certain period to count in ADM.

Chairman Reckhow requested that Mr. Hurd give her a five-year total for ADM. She wished to see numbers reflecting a consistent trend. The last year does not reflect much growth.

Commissioner Heron asked what happens to the funding if enrollment in the charter school drops during the middle of the year.

Mr. Hurd stated that under current state regulations, DPS would receive no additional funds for those charter students until the next year, and only then if they were in the highest one or two months. This is another reason for inequity in the charter legislation as far as funding.

Vice-Chairman Heron asked the following questions:

- If 10 to 15 students moved from a charter school to the public school system, is funding provided at that time for these students who come in from the charter school?
 - DPS would receive no State funding for the new students.
 - Charter schools are required to provide a monthly list of enrolled students. If those students enroll in the Durham Public Schools' system, the County money would discontinue at the charter school, but the State funding would remain with the charter school.

- Do you pay charter schools in a lump sum or on a monthly basis?
Mr. Hurd stated that the charter schools are paid on a monthly basis.
- What would happen to those County funds?
Those County funds would be kept in the general fund to assist in other areas.
- Is there any charter school monitoring to make sure they are reporting correct numbers?
The state has difficulty tracking charter schools' attendance, enrollment, and membership. Many documented instances exist where charter schools across the state have reporting errors.

Gail Heath, Chairman, DPS Board of Education, stated that charter schools attempt to keep students at least until the 20th day to make sure they draw down the State funds.

Commissioner Page asked what would happen if DPS did not receive funding for the requested activity buses. Would services be removed?

Dr. Ann Denlinger, DPS Superintendent, responded that services would not be deleted because the activity buses are an expansion item for services not presently provided. A significant number of middle and high school students do not participate in after-school activities because they have no transportation home. The buses were requested to provide bus transportation for all middle and high school students from school to home from after-school activities.

Chairman Reckhow stated that at the middle school level, an after-school program serves almost 1,000 students. Yellow buses return from their normal routes to pick up the middle school students.

Dr. Denlinger informed the Commissioners that DPS wishes to expand this service to all students.

Commissioner Page asked if DPS has considered other alternatives.

Dr. Denlinger commented that DPS needs to add to the deteriorating activity bus fleet and replace older buses. The current fleet has insufficient capacity for additional services.

Ms. Heath stated that she has received several e-mails with suggestions that church vans help with the initiative.

Mr. Hurd conveyed why church vans cannot be utilized:

- legal issues involved in transporting students in vehicles that do not meet state standards for transporting students
- the insurance policy requires that students be transported in state-approved vehicles.

Commissioner Heron noted that DATA is providing some transportation, particularly to the high school. She asked about the free services for high school students and for the elderly.

Dr. Denlinger stated that almost every school is either on an existing DATA line or the service has been extended. The question was posed at a City Council meeting whether the DATA service is for the parents or the students. The initial purpose was to provide a mechanism for parents who do not have the personal capacity to get to their children's schools. Middle and high school students may certainly utilize DATA transportation. The services are free but are not coordinated with the after-school programs.

Chairman Reckhow suggested, for cost efficiencies, that DPS work with DATA to align the bus schedule as close to 4:30 p.m. as possible (the time after-school activities are usually over).

Nancy Hester, Assistant Superintendent for Support Services, remarked that DATA buses are presently making stops at 4:00 and 4:30 p.m. The suggestion is already in place; however, DATA transportation is not the solution for all in need of transportation.

Chairman Reckhow suggested that a survey be conducted on the number of students who utilize DATA buses on a typical school day.

Commissioner Cousin referred to page 22 in the budget request book. The numbers reflect that the State is removing about \$250,000 from instructional support for Fiscal Year 2005-06. The local increase is \$600,000. Is the increase to absorb the State's reduction? If the State funding would have remained the same, would the local increase have been \$150,000?

Mr. Hurd responded that during preparation of the Schools' budget in February, the best possible estimates were made concerning resources that would be available. The Program Report Code (PRC) includes funding for full-time social workers, school psychologists, one part-time nurse, and other noted areas in support services. DPS tried to estimate based on the best available information. State dollars are eroding in many categories, as well as a discretionary reduction of about \$1.6 million. DPS must designate funds back to the State, which makes planning and hiring staff very difficult. DPS has attempted to spread out the \$1.6 million into several PRCs estimating the amount to be paid back in State resources.

Commissioner Cheek asked if the estimates in February had been compared to the present situation.

Mr. Hurd reported that the Governor's budget and the Senate budget are in. Durham Public Schools is waiting on the House budget before reconciling the numbers. The Senate side is break even; however, the matching retirement rate is increasing by 1% and

the matching insurance amount has increased by 14% of the Senate budget above the projected amount. DPS would lose 51 teacher assistants but would gain two significant pools of funds—the Disadvantage Student Supplemental Fund (DSSF) as well as some flexibility money. DPS may end up to the positive (approximately \$½ million) with the \$47 million statewide for the DSSF and the flexibility funding. The question is very difficult to answer.

Commissioner Cheek emphasized that he would like a comparison between the February projections and the present in terms of requested dollars. Has anything changed?

Ms. Denlinger responded that most things have changed, just not permanently and not enough to make a prediction.

Commissioner Cheek asked if DPS is relying on the February figures.

Dr. Denlinger replied, “Yes, for the most part.”

Commissioner Cousin stated that as far as DPS is concerned, the State is a moving target.

Mr. Hurd noted that the House has received a significantly reduced revenue number from the Senate budget. Revenue sources estimated by the Senate may have been inflated. DPS is anticipating more severe cuts in the House than in the Senate budget.

Commissioner Cousin referred to the “Improving Student Accountability” fund. Does DPS still anticipate receiving 75% of the request from the State?

Mr. Hurd replied that the Improving Student Accountability fund is based on the students who are at Level 1 or 2. Hopefully, the 1s and 2s are decreasing and the 3s and 4s are increasing which impacts next year’s funding.

Dr. Carl Harris, Associate Superintendent for Instructional Services, stated that the final numbers are not in for this year. The State will fund DPS under PRC O72 based on Levels 1 and 2. Until State testing is completed, those numbers are not available, but those projections are pretty accurate.

Commissioner Cousin remarked that the State is optimistic that the 3s and 4s are going to be higher. Will the numbers change if the optimistic expectations are not realized?

Dr. Harris replied that the numbers will change. The State would then readjust their numbers and support the students on Levels 1 and 2.

Commissioner Reckhow stated that about \$30.5 million in local money is spent on non-instructional support. She asked why the State is providing insufficient staffing; the County must double what the State is providing. How does DPS measure against other major school districts in this non-instructional support category?

Mr. Hurd replied that in the non-instructional support area, the State of North Carolina provides limited resources for clerical assistance and custodial services; the resources have been on a decreasing scale over the last eight to ten years. The Governor's office and the General Assembly emphasize placing State funds in the classroom. Major initiatives have been undertaken to reduce class size in the elementary settings. There has been an eroding of non-instructional support positions to generate dollars for classroom teachers. State funds have decreased while local dollars have increased. The State has mandated a SIMS (Student Information Management System). DPS will need additional positions at the local level for the NC Wise (Window of Information on Student Education) module to provide student information to the State. This area does not include central service positions.

Commissioner Reckhow emphasized that she would like to see benchmarking to understand whether DPS is in line with other school systems on non-instructional support. This represents 35-40% of our local dollars; it is probably the biggest category.

Dr. Denlinger stated that the school system is receiving additional mandates from the State on a regular basis. DPS tries to figure out how to accomplish the tasks without placing the burdon on the teachers and principals.

Chairman Reckhow inquired about how other school districts are operating with half of the local money that Durham County funds per student. How do other school systems meet the mandates? The County funds \$30.5 million for this category; the State is funding \$7.1 million. How do districts that cannot afford \$30.5 million meet their requirements to keep their schools clean? She asked for more background information.

Dr. Denlinger stated that clerical positions could be eliminated by reassigning the tasks to the teachers, teacher assistants, guidance counselors, principals, assistant principals, etc. The custodial issue is a huge issue.

Chairman Reckhow voiced appreciation for the responses to the May 9 questions regarding the discrepancy of staffing in the central office. The comparative figures explain why DPS central office staff is higher than the average central office. Only one system is spending more than DPS. There is room for a little improvement given that the average is lower among comparative school systems.

Chairman Reckhow asked a question relating to salaries. A chart from the State shows the salaries paid to administrative staff in the school system, what the State is paying, and the local share. In most cases, the school systems are providing the salary that the State provides with no supplement.

Mr. Hurd stated that all local districts provide a supplement to the State salary.

Discussion and questions ensued regarding the local supplement for administrative staff. Chairman Reckhow requested more information.

Dr. Denlinger remarked that every superintendent, assistant superintendent, and associate superintendent has a locally negotiated contract with different terms, different benefits, etc. There are no standardized contracts because the contracts in North Carolina are negotiated individually between the Board of Education and that individual.

Chairman Reckhow spoke about the support for some increase in the teachers' salary supplement. At a meeting last week, the County Manager, Commissioner Cousin, and Chairman Reckhow broached the concept of looking at other alternatives that might not be as costly as DPS's proposal.

Dr. Denlinger conveyed appreciation for the County Manager's recommendation and the continuation amount that allows DPS to begin in August at the same level. The \$1.5 million maintenance on the capital out-lay is appreciated, although the amount is inadequate. Perhaps the Commissioners will consider a penny increase to give DPS \$2 million extra to allow for a more equitable situation for classified staff, bus drivers, and maintenance staff. The teachers' supplement last year provided increases for only the most veteran teachers.

Chairman Reckhow requested variations for increasing the salary supplement for teachers with five or more years of experience.

Chairman Reckhow voiced her support for extending the school day to provide educational benefits to students.

Commissioner Page pointed out that extending the school day is not allowed by the State.

Dr. Denlinger stated that DPS is obligated by law to provide transportation for students after regular school hours. DPS cannot unilaterally decide to run the school buses two hours later; however, school buses could pick up students at normal times and then come back for a second pick up.

Chairman Reckhow suggested that the idea be considered for a magnet school.

Commissioner Page stated that implementation could occur in a phased approach. This could be a response to some of the students' needs. The idea should not be negated; it is worthy of more attention.

Commissioner Cheek asked how extending the school day would impact teachers' salaries. This big issue must be addressed first rather than last. More issues should not be created.

Chairman Reckhow informed DPS that today's questions would be written and communicated. Any additional information provided by the Schools would be appreciated.

Employee Compensation Issues

Jackie Knight, Human Resources Director, introduced Human Resources staff as follows:

- Debbie Davidson, Benefits Manager
- Tony Noel, Technical Services Manager
- Elaine Hyman, Employee Relations Manager
- Diane Pearson, Training and Development Manager

Ms. Davidson presented the "Benefits" portion of the compensation plan, which included:

Benefit Projections – 2006

- Health Insurance Increase: 12.5% - 14%
- Dental Insurance Increase: 7%
- Short-Term Disability Increase: \$10

Benefit Recommendations

- Increase Flex Credit to \$460 per month: 15% increase
- Fund Hospital Gap Plan at \$200,000

Projected Costs

- | | |
|------------------------|------------------|
| ▪ Increase Flex Credit | \$594,000 |
| ▪ Fund Hospital Gap | <u>\$200,000</u> |
| ▪ Total | \$794,000 |

Chairman Reckhow asked for an explanation about the increase in the hospital gap, which was incorporated into last year's budget figure, therefore, should not be an expansion item. The increment above the funded amount would be the expansion. The \$594,000 to increase the flex credit is a new cost, an increase in benefits. If the \$200,000 is a continuing cost, it should have no budget impact.

Ms. Knight stated that the informational handouts show no designation for last year or current year funding—the figures are the total costs of the compensation package for this year.

Commissioner Heron asked if employees could choose less insurance to reduce some of their out-of-pocket costs.

Ms. Davidson replied, "Yes." Often times when employees are covering dependants, they will choose nothing but health insurance because that is all they can afford.

Chairman Reckhow asked if health costs are increasing by 15%. Blue Cross/Blue Shield is one of the County's insurers. She could not understand how BCBS can justify raising rates so much, given its profits.

Ms. Davidson replied that the final rates would not be available until August. These are preliminary rates since the County had insufficient claims experience in March.

Commissioner Cheek asked whether Human Resources shops for coverage every year, which should be the practice. It may not be financially beneficial to change every year, but a small amount from each employee adds up very quickly.

Ms. Knight stated that starting in January 2005, the County was locked in for one year with BCBS and Wellpath. The new rates start in January 2006. Human Resources could receive no reduction by locking in for two years. Staff does look very critically at insurance charges to other jurisdictions.

Commissioner Heron pointed out that Durham County has one of the best cafeteria plans in the state.

Chairman Reckhow added that Durham County spends a great deal of money on benefits. Not many employers pay for health, dental, life, and disability for their employees. The City Manager's budget recommendation includes increasing the City employee's payment for personal health insurance. In the City, an employee must make a financial contribution.

Commissioner Cheek asked about dental coverage.

Ms. Davidson stated that dental coverage is based on preventative care covered at 100% with two cleanings per year; basic coverage is 80%; major coverage is 50%. The low plan would pay up to \$1,000 per year; the high plan would pay up to \$1,500 per year. Dental coverage claims have been favorable to the County. The cost of administration is \$3.51 per person; 96% of Durham County employees have dental insurance.

Commissioner Cheek asked if the County has done an analysis to look at the cost benefit of the dental coverage. He stated that his law firm discontinued dental insurance because it was not cost effective. The firm pays for employees' preventive care twice a year. Has the County considered other approaches?

Ms. Davidson stated that dental insurance is for preventive care. It helps as far as the overall package is concerned.

Vice-Chairman Heron voiced her opinion that the dental insurance should continue.

Chairman Reckhow stated that employees could be re-surveyed periodically to see what types of insurance they value.

County Manager Ruffin noted that the insurance is costly. The majority of an individual's income, in terms of raises, is spent on health care. Insurance rates have increased over the last three years. It is expensive, but not atypical of insurance in the community.

Chairman Reckhow suggested more marketing efforts regarding mail-order prescriptions.

County Attorney Chuck Kitchen stated that Blue Cross/Blue Shield is now with an association pool that is self-funded. Any increase should be based on actual experience, unless the association is taking out more money in profits.

Ms. Davidson clarified that the rates are preliminary since Durham County did not have six months worth of claims experience in March.

Commissioner Page asked about insurance for retirees.

Ms. Davidson replied that after 20 years of service with Durham County, a retiree is eligible for health insurance, may participate in dental insurance, and is provided hospital gap insurance and \$5,000 in life insurance.

Commissioner Cheek asked, relative to the Medicare supplement, whether Durham County has done a study to determine what is more economical.

Ms. Davidson stated that it would not be more economical for the County to consider a Medicare supplement.

Commissioner Heron inquired about the retirees' dental insurance.

Ms. Davidson stated that although the 100 retirees pay for their dental coverage, they are included in Durham County's numbers.

Ms. Hyman gave an update about the performance appraisal process, which is a large component of the employee compensation plan. She provided information on the performance appraisal plan and gave an overview of the employee rating system ("meets" [employee receives 3.25%], "exceeds" [employee receives 4.25%], "needs improvement", or "fails to meet expectations". The process is workplan driven. Durham County is rewarding its best employees based on performance.

Ms. Knight added that before "exceeds" performance was connected to salary increases, the number of employees receiving that rating was lower.

County Manager stated that he was pleased with the process so far, but it will continue to be monitored.

Commissioner Page asked if performance reports for employees are something other counties utilize as well. Some employees never receive “exceeds” expectations. When discussing employee morale, this could really be an issue.

Chairman Reckhow informed the Board that the City was moving to this type of performance pay plan.

Commissioner Cheek inquired about the number of employees who have requested a review by the Performance Review Panel.

Ms. Hyman stated that at this point, only two employees. This is the second year for the pay-for-performance plan.

Mr. Noel gave a brief overview of the compensation plan. Human Resources solicited Department Head input before plan implementation. Some of the goals and objectives set at that time were:

- To attract new employees
- Retain current workforce
- Pay living wages

Four components of the compensation plan established by Department Heads in 1997:

- Pay plan maintenance
- Compensation at hire
- Movement through the range
- Performance bonus

Commissioner Heron did not agree with giving a bonus to employees who have reached the top of their scale. Instead of the bonus, why is the employee not moved up on the scale?

Ms. Knight explained that the each job category has a minimum and maximum range for its value on the market. Durham County is one of a few organizations that will pay a bonus, which has not been a problem because only a few employees have reached the top of the scale. Instead of receiving nothing, they receive the bonus percentage, which is included in their pay.

Ms. Davidson explained a bonus is recorded as principle income; an employee pays 6% retirement on the bonus. (The retirement amount is based on the highest 48 consecutive months.)

County Manager stated that the 3.25% has enabled employees to advance in the pay range, an important factor for pay compression.

Vice-Chairman Heron requested annualized costs for all programs in the employee package.

Chairman Reckhow requested more information on the market adjustment for competitive salaries. The study was not done this spring as originally planned. The cost estimate for implementation is \$1 million. She wanted an understanding of how this figure was calculated.

Ms. Knight informed the Board that last year's data indicated that Durham County was approximately 7% behind the market. The vendor took the County's same benchmark information and used the current data from Mecklenburg and Wake Counties. Using that framework, they determined that Durham County is 12.4% behind the market. Implementation is scheduled for January. The vendor needs to work with the Board and the Steering Committee on a new pay philosophy. The prior philosophy was to be at least 2½% of market. The market was last determined in 1997. The vendor needs to get some buy-in from the County Manager, the Department Heads, and the Board about the new market and Durham County's competitors.

Commissioner Heron asked about the turnover rate.

Ms. Knight stated that the rate is 16%, which is still high but better than the prior rate of 20%. The average turnover is 10% in terms of what is accessible.

Chairman Reckhow inquired about an adjustment that must be made in the compensation study given that Durham County employees work a 37½-hour week.

Ms. Knight replied that an adjustment would be made after completion of the study.

Commissioner Cheek asked if the \$1 million is required for January through July 2006.

County Manager Ruffin replied that the \$1 million is a placeholder for next fiscal year for adjustments for six months and will safely accommodate the necessary increases from January 1 to June 30, 2006. He informed the Commissioners that a worksession in late summer or early fall would be devoted to the market study.

Chairman Reckhow asked, "What if an employee is in a range that gets adjusted up but that employee's salary still falls within the new range, would that employee receive an adjustment?"

Ms. Knight responded that she did not know the answer. The vendor will come back with an implementation strategy based upon the philosophy of management.

Chairman Reckhow requested more information on her question.

Commissioner Cheek asked how implementation of the market increases would affect employee morale in the entire working government.

County Manager Ruffin stated that not every employee would receive an increase in pay. The plan is very complicated and cannot be put together until the variances are understood. The \$1 million is just an estimate. The first series of questions about implementation must be answered by the Board. A future worksession will be scheduled for Board input.

Ms. Knight added that the pay plan behind the market is being considered at this point, not the individual employee. The consultant will mainly adjust the entry and ending ranges for positions. How this is implemented and how it will affect each employee is a detail that must be worked out with the Board.

Commissioner Page thanked the Human Resources Department on the thorough presentation.

Commissioner Cheek noted that not every employee is leaving Durham County because of salary considerations.

Commissioner Heron stated that Chairman Reckhow had to be excused.

County Manager gave an outline of tomorrow's budget worksession. He had been asked by several individuals if they would be allowed to speak.

Commissioner Heron stated that the Commissioners' priority is to hear the budget presentations and requests. Citizens may speak at the budget public hearing on June 13.

Commissioner Page supported Commissioner Heron's suggestion.

Adjournment

There being no further business, Vice-Chairman Heron adjourned the meeting at 4:30 p.m.

Respectfully submitted,

Vonda C. Sessoms
Clerk to the Board