

# EXHIBIT B



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CITY MANAGER'S OFFICE

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October 7, 2011

VIA E-MAIL TRANSMISSION and U.S. MAIL

Keys Fillauer, Chairman  
Oak Ridge City Schools Board  
Of Education  
P.O. Box 6588  
Oak Ridge, Tennessee 37831

Dr. Thomas Bailey  
Director of Schools  
Oak Ridge City Schools  
P.O. Box 6588  
Oak Ridge, Tennessee 37831

**RE: Sales Tax Disbursements to the City of Oak Ridge**

Dear Mr. Chairman Fillauer and Dr. Bailey:

As counsel to the Board of Education of the Oak Ridge City Schools Board of Education, I have been asked to render an opinion relative to school system funds being disbursed to the City of Oak Ridge for school construction bond repayment.

The facts, as I understand them, reveal that the voters of Anderson County, Tennessee approved a referendum question that had the effect of raising the county local option sales tax rate to the maximum allowable under state law. According to Anderson County officials, the new county rate took effect on July 1, 2006. Prior to that time, both the city of Clinton and the City of Oak Ridge had adopted a local option sales tax rate that placed them at the state limit. As a result of the approval by the county of the higher rate, local option sales tax dollars are now distributed in accordance with Tennessee Code Annotated, § 67-6-710.

Sometime prior to the county's adoption of the referendum, an "agreement"<sup>1</sup> was reached between the City of Oak Ridge (hereafter, "City" and the Oak Ridge City Schools Board of Education (hereafter, "Board of Education") relative to payments for bonds for the renovation of the Oak Ridge High School. This "agreement" called for the Board of Education to remit to the City a percentage of the local option sales tax dollars it receives which would, in turn, be applied

<sup>1</sup> The word "agreement" is inserted in quotation marks at this juncture. The reasons therefore will be explained within the body of the letter.

to bond payments. Under law, fifty percent of all local option sales tax dollars generated must be allocated to the education system in the county or city. The percentage contemplated by the "agreement" had the school system multiply its local option sales tax receipts by a factor of .181818 and remitting the calculated amount to the City. Under the "agreement", this process was to last for five years or, in the alternative, until the county adopted a referendum that equalized the sales tax rate in both the county and the cities. Records at the School Board show the following disbursements to the City by fiscal year as a result of this "agreement":

Fiscal 2007:	\$588,029.16
Fiscal 2008:	\$699,485.35
Fiscal 2009:	\$728,842.90
Fiscal 2010:	\$707,973.13
Fiscal 2011:	\$722,208.18

To reiterate, the "agreement" called for the School Board to remit funds to the City at the formula rate and the trigger for ending the payments was five years or until the county adopted the maximum local option sales tax rate.

The School Board has now provided these payments to the City for five years. Under the "agreement" the School Board's obligation has ended. In fact, the information submitted above demonstrates that the School Board has already remitted dollars to the City that it does not owe based on the date that the maximum local option sales tax rate took effect in the county according to the "agreement".

Therein, the question becomes even more convoluted. A search of the records reveals no action on the part of the School Board ever agreeing to submit to, or giving tacit approval of said "agreement". Additionally, a thorough search of records maintained by the School Board has produced no written document between the parties effectuating the agreement. No doubt, correspondence of some sort must have been undertaken by the representatives of the parties on this matter because the School Board would not have simply started handing funds to the City for benevolence purposes. However, that agreement is now purposefully called into question.

As I understand the recent facts, the City now insists that the funds be remitted for a total period of thirty years. Based on the fact that no formal, written, or legally-approved agreement to pay funds can be located, it is my opinion that further fund transfers should not occur. Additionally, it is my opinion that further fund transfers, if any, must be approved in a written agreement that is formally adopted by both the School Board and the City Council. Finally, it is my opinion that the unilateral appropriation of these funds by the City in an attempt to enforce the "agreement" referenced herein may jeopardize the receipt of state school fund appropriations because such appropriation will call into question matters related to maintenance of effort as well as misappropriation of state instructional dollars.

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I ask that you circulate this letter to the other members of the School Board as soon as possible. If you have questions concerning this matter, please do not hesitate to contact me.

Very truly yours,

LEWIS, KING, KRIEG & WALDROP, P.C.

  
Charles W. Cagle

CWC/cc  
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