

KNOX COUNTY SCHOOLS


ANDREW JOHNSON BUILDING

Dr. James P. McIntyre Jr., Superintendent



MEMORANDUM

To: Chair and Members
Knox County Board of Education

From: Dr. James P. McIntyre, Jr.
Superintendent 

Date: March 28, 2011

Subject: Fiscal Year 2012 Budget Preliminary Proposal

This memorandum and the documents that follow represent the preliminary budget proposal for the Knox County Schools Fiscal Year 2012 (FY12) General Fund Budget. As you will see in this package, we have presented a balanced budget based upon our assumption of \$384.67 million in state and local revenue. This represents a 1.3% increase over the FY2011 Budget. We are working with the Knox County Mayor's Office to further refine and validate our local revenue assumptions. While we have not yet received a projection of state funding, we are able to make some general assumptions based on information from the Governor's budget proposal.

The coming year's budget will once again offer great challenges due to increasing expenditure obligations coupled with limited revenue growth. I am recommending a budget that will reflect reductions in many non-instructional areas in order to address the fixed increases in our operating costs, all while maximizing our investment in the classroom. We continue to review our spending to ensure that we are matching our limited resources to our greatest instructional priorities. I believe this is a budget proposal that enables and supports our educational mission and strategic plan, while recognizing our limited financial means.

Revenue collection trends and economic indicators are not as bleak as they have been in the past two fiscal years. However, while indications are that the economic outlook is improving to some degree, revenues have not begun to approach the growth levels we experienced in the

more robust economy of just three or four years ago. Based on this environment and the Governor's stated commitment to maintain education funding, we believe we can project a very modest increase in BEP funding as well as in local revenue based on a slight growth in sales and property tax collections.

This general fund budget proposal totals \$384.67 million, which is a 1.3% increase over the FY2011 budget. This preliminary financial plan acknowledges our fiscal constraints, while supporting and maintaining key instructional investments, and also seeking to focus and align our resources around our most important educational priorities.

Revenues

At this point, local sales tax revenues are trending slightly higher than what was projected in the current year. It appears that the downward trend experienced in recent years has stabilized, albeit at a level lower than was experienced just a few years ago. Property tax revenues appear to be stable, and also trending slightly upward. Given these factors, we expect that the Knox County Schools will see a modest increase in local revenue due to an increase in sales and property tax collections. This increase is estimated to be approximately \$2.92 million.

From the state revenue perspective, Governor Haslam has signaled that "fully funding" the Basic Education Plan (BEP) is among his highest priorities. We are reasonably confident that next year's Basic Education Plan funding will be at least equal to the current year. We expect it to recognize growth in our student population, and it may even reflect a modest amount of inflationary growth as well. While we do not have official notification of the magnitude of resources associated with any FY12 BEP increases for the Knox County Schools, we have made a planning assumption of \$2.20 million. We think this is a reasonable assumption under which to continue planning until we receive our first BEP funding estimate from the state in late April.

In terms of recurring revenue, therefore, we assume that FY12 will represent a modest increase over FY11, due to a potential increase in BEP funding associated with growth and inflation, as well as projected increases in local sales and property tax revenues.

American Recovery and Reinvestment Act (ARRA)

Two years ago, we received \$23 million from the ARRA through the Individuals with Disabilities Education Act (IDEA) and Title I programs. We have used these funds to address a number of areas within our strategic plan. While these were federal funds that are not accounted for under the General Purpose Budget, they have been instrumental in allowing us to move forward in some areas of our strategic plan in a very constrained fiscal environment.

Some of this funding was invested in one-time purchases such as technology and equipment, but most of these funds were dedicated to helping us build instructional capacity that we expect to benefit from for many years to come, even though these funds will be fully expended at the end of the current fiscal year. The end of these dollars will mean fewer instructional coaching positions in FY2012 than we have enjoyed in the past two years, but we will continue to invest resources in this very powerful and successful professional development model.

Education Jobs Program

In August of 2010, the United States Congress adopted and funded the federal *Education Jobs Program*, which provided significant resources to save or retain critical public education jobs in a difficult economy. In the Knox County Schools, only a small proportion of the \$8.18 million that was allocated was spent in FY11, with the lion's share preserved for FY12. In the coming fiscal year, we will have \$7.7 million available to mitigate the challenges of the FY12 budget situation. Even with small increases in revenue, and the difficult tradeoffs and hard choices outlined below, without the Education Jobs Bill, the Knox County Schools would almost certainly be facing significant layoffs and even more painful budget cuts in FY12.

We are grateful to have these resources, but recognize that they represent only a one year solution. In FY2013, without these funds, our school district will need to substantially reduce spending, radically reallocate our resources, and/or realize additional revenue in order to balance our budget.

Revenue Summary

Given our known revenue adjustments within the current fiscal year, our planning assumptions, and conservative estimates of inflationary growth, we are presenting a preliminary budget of \$384.67 million at this time.

Expenses

With limited growth in revenues expected, the Knox County Schools again faces a challenging fiscal environment, especially in light of expected fixed costs increases. Fixed costs are those expenses that are essentially non-discretionary in nature, some of which experience cost increases even if our services remain at current-year levels. Fixed cost increases for FY12 contributed to a preliminary estimated deficit of approximately \$14.3 million.

Fixed costs for FY12 include step pay increases for certified employees, the annualized increase in health insurance contributions approved by the School Board in the FY11 budget and implemented at mid-year, and expanded debt obligations. Additionally, even though our energy consumption has been decreasing each year since 2007, we are still experiencing increased costs primarily due to rate increases. Therefore, it is prudent to project this increase in our FY12 fixed costs.

We have also estimated costs for step pay increases for classified employees in the FY12 budget. While this is not a contractual requirement as it is for certified employees, it is important to address this need since step increases for classified employees were foregone in FY11 to balance that budget.

The Governor has recommended a 1.6% pay raise for teachers. If approved by the General Assembly, this would be a fixed cost to the Knox County Schools. While this adjustment would be applied to the state portion of teachers pay, it is not an increase that will be fully funded by the state. Additionally, approximately 25% of the Knox County Schools certified positions earn no funding through the BEP. Therefore, the system will have to fund 100% of the increase for these positions from local revenue. While we do not yet have specific costs, we expect the impact to the budget to be about \$3.15 million if the General Assembly approves the proposed pay increase. We expect to receive funding from the state to cover just under half of this cost.

School Staffing

In order to provide a fair, rational and transparent allocation of budgetary resources to our schools, we have once again implemented an enrollment-based staffing allocation formula to determine the resources that will be available to schools. This methodology, which we have

used since FY10, applies a student to staff ratio to each school's projected enrollment. That ratio is stratified by school level (elementary, middle, high) and by the concentration of students in poverty. Being able to say that two schools that are similarly situated and have the exact same enrollment will receive the exact same level of general fund budgetary resources is an important measure of the equity of this system.

While there are some small increases and decreases of positions seen at individual schools due to fluctuations in enrollment, in the aggregate the FY12 general fund budget shows a slight net increase in classroom teacher positions in our schools.

Strategies to Balance our Budget

To close the gap between projected revenues and expected spending, we must make budget reductions, reallocate resources to higher priorities, and/or identify operational efficiencies. Much as we did last year, this budget proposal was built using a three-pronged strategy:

- 1) We examined district-wide programs, initiatives and commitments for their applicability to the goals of the Knox County Schools and for efficiency and effectiveness in supporting student academic success.
- 2) We scrutinized all expenditures of the central office, including organizational structure and positions, and will make reductions wherever feasible to protect instructional spending.
- 3) We once again adapted and improved upon the rational methodology for the allocation of resources to schools that was originally implemented in FY10. This methodology both recognizes the educational needs of our students, as well as the difficult fiscal circumstances in which we find ourselves.

Compounded by the generally flat funding in the FY10 and FY 11 budgets, the development of this budget proposal has forced many very difficult choices and challenging tradeoffs. While we have been able to use the *Education Jobs Program* funds to help balance this budget, these funds are only available through FY12. Therefore we have had to build this budget with a careful eye toward the FY 2013 budget, and begin to make adjustments that will help us balance the budget when this revenue is no longer available to us.

Developing this budget proposal has required a thoughtful examination of every dollar we spend and every activity we undertake, to ensure that we are maximizing the funding we

have to continue to best support high quality instruction and strong student achievement.

Among our budget cuts and potential cost saving strategies are:

- Significant Central Office and system-wide budget reductions
- Maintain a 2% reduction in athletic coaching supplements
- Exploration the outsourcing of custodial services
- Exploration of curtailing supply warehouse operations
- Restructuring of our Instructional Coaching initiatives and coaching deployment

Central Administration

Over the last two years, we have looked closely at our central office operations and staffing, and we have made reductions and adjustments to be more cost efficient. For FY12, we have continued and intensified this effort. There has been much public discourse regarding perceptions of our central office, but much of the rhetoric has simply been inaccurate. National studies show that our central administration, as a percentage of overall staffing, is smaller than most comparable school districts.¹ According to the National Center for Education Statistics, among the 100 largest school districts in America (KCS is 74th) the Knox County Schools ranks seventh (7th) in the percentage of our budget that is dedicated to instruction and instructional support, and tied for 100th in the proportion of total positions committed to local education agency (school district) administration.

However, as we have made changes in how we enable and enhance learning at the school level, we must also continue to look how we provide support, oversight and quality assurance at the central administration level. While the central office is not overstaffed as compared to our peer districts, we believe we can continue to realize efficiencies and reduce our supervisory and clerical infrastructure.

Over the past two fiscal years, we have implemented budget reductions in all administrative and operational areas, with the intentional exception of school security and human resources. At the same time, we have increased spending in only three other areas of our budget:

¹ Allan Odden, Carolyn Busch, Financing Schools for High Performance (Jossey-Bass, 1998) pp.17-25 and the National Center for Education Statistics Data on staffing and budget for the nation's 100 largest school systems.

instruction, instructional support, and debt service. Clearly, we are purposefully allocating our funding to our highest priorities: activities that directly support classroom instruction and student learning.

In the FY12 budget, we continue the progress we have made over the past two years in ensuring that less of our funding is going to administrative and operational functions, and more is committed to instruction and instructional support. Our Central Office will experience significant budget reductions in FY12, including position reductions of approximately 7% of the total 225 Central Office positions. We believe this intentional alignment of our resources to our educational mission will continue to yield benefits in student achievement.

Custodial Services

In recent years we have made profound changes in how we deliver custodial services that have resulted in significant savings within our General Purpose Budget. However, one of the strategies that we are exploring with the Knox County Purchasing Office is custodial outsourcing. Some vendors have told us that we could see significant additional savings in pursuing this route, but we cannot validate this assertion unless and until we actually put out a Request for Proposal (RFP), which we will plan to do in the next month. I think we have the obligation to at least examine this possibility, although I know there are potential disadvantages to moving in this direction, and that such a change would require a fundamental adjustment in how we manage our facilities.

Warehouse Operations

Our finance office is in the final stages of completing a cost benefit analysis that examines operations at our supplies and materials warehouse. This warehouse operation was implemented a number of years ago to allow the school system to benefit from reduced costs in the purchase of office, art, medical and custodial supplies. Previous analysis has shown that warehouse operations have provided savings to the district. It has been suggested that we could eliminate the warehouse operation and continue to realize these bulk purchase savings by contracting with a third party to provide delivery of these materials directly to schools. Through the Knox County Purchasing Office, we are soliciting proposals for just such a contract. The proposal we receive will allow us to complete our analysis and determine if

contracting this function is in fact a best value for the Knox County Schools.

Budget Highlights

While we have had to recommend reductions to spending in a number of areas, this proposal seeks to continue and enhance the critical investments we have made to sustain broad educational opportunity for all our children and to support universally successful student learning (see Appendix A). Specifically, the proposed FY12 budget:

- Establishes a STEM (Science, Technology, Engineering and Mathematics) Academy magnet high school using a combination of state, federal and local resources.
- Maintains a significant level of investment in instructional coaching, which builds the capacity and enhances the effectiveness of our teachers.
- Expands the commitment to our very successful formative assessment system, Discovery Education, to include grades 1 and 2.
- Provides certified personnel with a 1.6% increase on the state funded component of their salary, and pays for salary step increases for certified and non-certified employees, in addition to any Strategic Compensation structure that is agreed to and approved.
- Continues our established rational, equitable and transparent method for allocating personnel resources for all schools.
- Expands the Kelley Volunteer Academy program to allow for instruction to continue through the summer.
- Continues to provide school principals a degree of autonomy, within established parameters, in the organization and assignment of school-based personnel resources.
- Reduces operational funding within the Central Office and in other system-wide school support areas, preserving funds for direct instructional services for children, and requiring creative solutions to increase efficiency.
- Continues to provide for 10 fellowships in the Leadership Academy in which we are partnering with the University of Tennessee to prepare the next generation of outstanding school principals for the Knox County Schools.
- Maintains the “Parallel Block” scheduling model at all of our elementary schools that is allowing for more robust teacher collaboration and implementation of Professional Learning Communities (PLCs) at the elementary level.
- Allows for the restructuring of several central office functions to increase efficiency, including our Human Resources, Curriculum, and Accountability departments.

- Continues most of our investments in the system-wide "Excellence Through Literacy" initiative, early childhood education programs, as well as in our urban and magnet schools.
- Continues implementation and development of our Education Management Information System (EMIS) or data warehouse to support future instructional and managerial efficiencies.
- Makes an important investment in our growing population of students for whom English is a second language.

Outside Support

In these difficult fiscal times, the Knox County Schools has been fortunate to be the beneficiary of strong support for our instructional initiatives from outside sources of funds. These resources enhance our educational efforts and allow us to use the tax payers' money more efficiently by leveraging outside support. Without these additional resources, we would genuinely struggle to meet our ambitious goal of *Excellence for All Children*. Outside resources that support effective teaching and high level learning include:

- Resources from the Simon Youth Foundation to enable the Kelley Volunteer Academy.
- Support from the Knoxville Chamber of Commerce Partnership to facilitate the development of the Education Management Information Systems (EMIS).
- A grant to expand the Arts360 integrated arts program.
- Significant financial assistance for early education, successful transition to high school, and other initiatives from the Great Schools Partnership.
- Race to the Top (RTTT) funding which will enable several important and innovative educational programs.
- Expansion of the TAP system made possible by backing from the Teacher Incentive Fund (TIF), Great School Partnership and RTTT.
- Significant dollars from Project GRAD Knoxville to maintain Project GRAD.
- Financial resources for Strategic Compensation through RTTT and an Innovation Acceleration Fund (IAF) grant from the state.
- A variety of generous private donations to help with specific academic and other school-related initiatives.
- Support for the Leadership Academy from the University of Tennessee, RTTT, and the Cornerstone Foundation.

These outside resources are critical to our continued educational innovation and growth, help to maximize the public resources invested in our school district, and are critical to our efforts to provide an outstanding education to every child in the Knox County Schools.

Future Budgets

As noted, the federal *Education Jobs Program* has allowed us to mitigate the level of budget cuts that we have had to impose in order to balance this budget. To some extent we have been able to develop a strong budget proposal closely aligned to our educational priorities utilizing these time-limited funds. However, we have done so fully cognizant of the fact that these resources only delay for one year the severe budget reductions that would have been necessary in FY12 without these federal dollars.

Unless our revenue picture improves considerably, FY13 will be an extremely difficult budget year. Therefore, we need to begin now to examine certain long-term budget issues that may provide some savings in the future, but that require considerable analysis and public discussion prior to any implementation. These challenging issues may include revisiting our examination of school start times for transportation savings, studying the fiscal and educational impact of block scheduling at the high school level, and analyzing the educational and financial efficacy of very small schools.

Conclusion

Although we have had to build this budget proposal with a constant eye toward savings and efficiencies, I believe this recommendation organizes our increasingly limited educational resources creatively and effectively. Throughout the budget development process we have approached every difficult decision and every unattractive tradeoff with a clear and unwavering focus on achieving our most important educational objectives: high quality teaching and successful student learning. This budget proposal maintains our course toward realizing the educational vision to which we aspire: *Excellence for All Children*.

cc: KCS Executive Team, R. McPherson

Enclosures:
Significant Academic Investments in the FY2012 Budget Proposal (Appendix A)
Budget Overview
Staffing Allocations
Central office position Summary