

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

A handwritten signature in cursive script that reads "James P. McIntyre, Jr." followed by a horizontal line.

Date: March 17, 2010

Subject: Fiscal Year 2011 Budget Proposal

This memorandum and the attached documents represent the preliminary budget proposal for the Knox County Schools Fiscal Year 2011 (FY11) General Fund Budget. As you will see, we have made significant progress in closing our initial budget gap (the difference between likely revenues and expected expenditures) of \$19 million. However, at this point in time, we are still approximately \$1 million away from presenting a balanced budget proposal. I will provide a final budget recommendation for the consideration of the Board of Education at the April 7th Board meeting. I anticipate presenting a balanced budget at that time.

This has been a very difficult budget process, and we continue to labor to balance our budget based on what we expect to be near level funding for the second consecutive year. We continue to review our spending to ensure that we are matching our limited resources to our greatest instructional priorities. Our challenge is to offer a budget proposal that enables and supports our educational vision and five-year strategic plan, *Excellence for All Children*, while recognizing our limited financial means.

The Knox County school system is not immune to the difficult economic conditions that are impacting our community, our state, and our nation. As we have discussed publicly over the last several weeks, revenue forecasts for the coming fiscal year are not encouraging. Even though local and state leaders have expressed their strong desire to preserve funding for public education, we do not expect to see a significant increase in general fund dollars for the Knox County Schools in FY11.

This general fund budget proposal totals \$379.91 million. It 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

Our revenue projection is slightly higher than for the current fiscal year, due mainly to some one time budget transfers and reimbursements, while the recurring revenue picture is not encouraging.

Local sales tax revenues continue to be less than robust, and are not expected to meet the level projected for the current fiscal year. However, there are indications that the downward trend may be stabilizing, albeit at a level much lower than was experienced just three years ago. Property tax revenues appear to be stable. The net impact of these two dynamics is a current projection of local revenues under budget by several million dollars in the 2009-2010 school year. Given this challenging revenue environment, we do not expect that substantially increased local resources will be available to fund public education. However, we do expect that the Knox County Schools will receive at least the same level of local resources that are budgeted for the current year.

From the state revenue perspective, the Governor 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 and may even reflect a modest amount of inflationary growth. While we do not have official notification of the magnitude of resources associated with FY11 BEP inflationary increases for Knox County, we have made a planning assumption of \$1.25 million. Additionally, based on the Governor's budget proposal and our discussions with state officials, we have also projected \$735,000 in state funding for extended contracts.

Our projected revenues include a \$1.21 million reimbursement from the State of Tennessee under the Energy Efficient Schools Initiative (EESI). This reimbursement is for work we have already funded that will reduce our schools' energy consumption and operating costs. The state is also providing about \$65,000 to cover expenses for all 11th grade students to take the ACT.

Funding for the very successful Kindergarten Intervention Program has been transferred from the Great Schools Partnership to the Knox County Schools. This is reflected as revenue in the FY11 budget, but the budget also reflects the expenditures associated with the program. Because both the revenues and expenditures have been transferred, the impact of this transaction is essentially budget neutral.

In terms of recurring revenue, therefore, we assume FY11 will represent a very small increase over FY10, almost exclusively due to a potential inflationary increase of just over \$1 million associated with the BEP.

American Recovery and Reinvestment Act (ARRA)

Last year we received \$23 million, to be spent over two fiscal years, from the ARRA through the Individuals with Disabilities Education Act (IDEA) and Title I programs. As these funds are administered through the IDEA and Title I programs they are not accounted for within the General Fund budget. However, they have been instrumental

in allowing us to move forward in some areas of our strategic plan, even in a very constrained fiscal environment. Much of this funding has been dedicated to helping the school system build instructional capacity that we expect to retain even after these funds are no longer available.

Revenue Summary

Given our known revenue adjustments within the current fiscal year, our planning assumptions, and our estimates of inflationary growth, we are projecting a preliminary revenue budget of \$378.91 million at this time. Unfortunately, with expenditures of \$379.91 expected, we are still approximately \$1 million away from being able to present a balanced budget for FY11.

Expenses

With limited growth in revenues expected, the Knox County Schools faces significant fiscal challenges, 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 FY11 contributed to a preliminary estimated deficit of \$19.14 million.

Increased expenditure obligations include increased contribution requirements to both the Tennessee Consolidated Retirement System and the now-closed City A retirement fund, pay scale step pay increases (unless negotiated with the teachers association), the annualized increase in health insurance contributions approved by the Board in December 2009, and expanded debt obligations based largely on capital spending in prior years. Position reductions in the current year and next year will mean our anticipated unemployment costs will increase in FY11.

Additionally, we believe it is prudent to assume an increase to our fee waiver expenses of \$500,000. This has been necessitated by the clarification in guidance around school

fees that we recently received from the State Board of Education.

In addition, we have added six ESL teaching positions in order to meet the amount of instructional time mandated by the state for students who are English language learners. There are also a small number of targeted investments in critical instructional priorities that are part of this budget, as discussed in later in this memorandum.

Strategies to Balance our Budget

To close this 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 adapted and improved upon the rational and equitable methodology for the allocation of resources to schools that was 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 budget, the development of this budget proposal has forced many very difficult choices and challenging tradeoffs. It 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. While we certainly would have preferred to apply our school staffing methodology in a resource- neutral environment, this was not possible. Allocations reduce the current middle and high school level teacher staffing by a net thirty (30) positions. However,

the model produces an additional two elementary teaching positions, four additional assistant principal positions, a guidance position and one clerical position. This represents a net reduction of 22 school-based positions.

Additionally, we have reduced three Solutions teacher positions and three related teaching assistant positions. We will also restructure our Talented and Gifted (TAG) program to improve how we support and challenge our students who are excelling academically. This restructuring will also allow us to use available federal funding resources to provide the seventeen (17) TAG teacher/instructional coach positions we project we will require.

In this preliminary budget proposal, the stated instruction and instructional support allocations are reduced in the aggregate \$3.67 million or about 1.2% from FY 2010 levels. Should we receive funding beyond what we currently project will be required to balance the budget, my first priority will be to apply these funds toward reinstating critical instructional positions at the school level.

The budget cuts to our Central Office represent a significantly higher overall percentage reduction than those applied to our schools. The reductions at the Central Office and from system-wide support total approximately \$2.7 million or about 3.5% from the FY10 levels. This includes the reduction of 27 positions as well as significant cuts to various supplies and material budgets across all functional areas.

As you recall, last year we substantially restructured our custodial services unit to make our own internal provision of custodial services more competitive with outside vendors. Given the restructuring from last year and the significant reduction in custodial staff we implemented at that time, I do not believe it is prudent to again this year to make major reductions to our custodial services operation. We believe there is significant value in retaining this function within the KCS given our current quality of

service. Our maintenance department continues to work diligently and creatively to meet our high standards for clean and well-maintained school facilities, while doing so cost-effectively.

While we are not significantly modifying our custodial operation, we are reducing our maintenance and operations staffing by 16 positions, saving approximately \$650,000. The position reductions as well as significant reductions in contracted services, supplies and materials will potentially require some non-essential maintenance to be deferred. We will also have to implement longer intervals between mowing on our various campuses.

This budget proposal does not contain any increase in compensation or step pay increases for our classified personnel. As currently presented, it also does not include the local portion of step increases for certified personnel. In order to balance this budget, I have proposed that no step increases be granted to any Knox County Schools employee for FY11. This strategy would allow us to both balance our budget and potentially restore approximately twenty (20) teaching positions of the net thirty (30) positions that have been reduced in this budget. However, any change to the compensation of our certified personnel is subject to negotiation. We are currently engaged in negotiation with the Knox County Education Association (KCEA) around this compensation issue, and I will keep the Board informed of our progress.

At this point, I believe our only viable options left to balance this budget are foregoing the step increases, adjustments to the employer contribution for health insurance premiums, or more position cuts. As we reduced school-based and central office positions to balance the FY10 budget, and have already proposed painful reductions in staff for FY11, I believe that freezing step increases, while difficult, is the best of the unappealing choices remaining 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 the critical investments we have made to continuously improve the quality of instruction in our classrooms, and to ensure that every child in the Knox County Schools can be academically successful. (see Appendix A).

There are several important instructional investments and purposeful educational enhancements, driven by our strategic plan, that are recommended in this proposal. Specifically, the proposed FY11 budget:

- Continues our established rational, equitable and transparent method for allocating personnel resources for all schools.
- 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 and effectiveness.
- Provides for the establishment of fellowships in the newly established 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.
- Maintains our commitment to and investments in the system-wide "Excellence Through Literacy" initiative, early childhood education programs, as well as in our urban and magnet schools.
- Reconfigures our Talented and Gifted program at the elementary level to a teacher/coach model which should expand the benefits of TAG programming to more elementary students and help teachers better differentiate instruction.

- Continues our implementation and development of our Education Management Information System, or data warehouse, which will help teachers to use student outcome data to inform instruction and administrators to use data to support good educational decisions.
- Makes an investment in human resource management technology that will allow us to more efficiently manage substitutes and employee absence information.
- Makes a significant investment in our growing population of students for whom English is a second language.
- Allows for implementation of a district-wide formative assessment system.

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 constructively 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.

While these are trying economic times, we also do not want to be short sighted. In developing this budget proposal, we have attempted to address head-on our short-term fiscal difficulties, while also keeping our eye toward our long-term academic goals and instructional aspirations. We have attempted to avoid making decisions that would have a permanent impact on our school system in order to address what we hope will be a temporary financial challenge. Rather, we have reallocated resources to our highest instructional priorities and concentrated even more directly on our core educational mission, so that when the economy begins to brighten, we will emerge even stronger and better positioned to continue our proud tradition of providing an outstanding education for each of our children.

In closing, I would like to share with you the very clear and strong message that I articulated to our principals when we met last week: while constrained resources will mean we have to be more creative and efficient in our work, we simply will not allow this budget crisis to weaken our ambitious educational goals, nor take us off track from our audacious strategic plan to achieve our vision of *Excellence for All Children*.

cc: R. Thomas
D. Wright
R. Oaks
M. Jones
R. McPherson

Appendix A

Significant Academic Investments in the FY2011 Budget Proposal

Talented and Gifted Program (TAG)

We have been reviewing our delivery of TAG services to our students in this program. Our goal is to provide strong and rigorous TAG offerings to a broad population of students. Our current TAG program is based on a “pull out” model in which students receive instruction about once a week and are required to make up any work missed in their regular classroom while they are “pulled out” for TAG. This budget presents us the opportunity to restructure our TAG program to be a co-teacher/coach program that is based on a model that “pushes” TAG into the regular classroom rather than pulls selected students out. TAG positions will be restructured as co-teachers and instructional coaches to further build the capacity of our regular education teachers to offer rigorous and challenging instruction and educational activities to our students who are excelling academically. This new concept is still in development and our TAG committee will be closely involved with the transition over the next year.

We firmly believe this restructuring will better serve a larger population of students and build capacity to differentiate instruction among many of our classroom teachers. It also will make it possible for us to fund the program using available federal resources and save about \$980,000 in our general purpose budget.

Leadership Academy

The Leadership Academy, established as a partnership between the Knox County Schools and the University of Tennessee, will see its first cohort of aspiring school administrators beginning this summer. The Leadership Academy will prepare the next generation of outstanding school principals in the Knox County Schools through an intensive 18-month immersion in school leadership.

The FY11 budget is designed to support this effort to provide a pipeline of extremely well qualified leaders who will be the future principals of our schools. This year we expect to have eight to twelve fellows participate in the program and emerge at the end of 18 months ready to assume leadership roles in our schools. We recognize the importance of leadership to teacher and student success and in creating great schools. The financial commitment in this budget is an important investment in the future of our school system, and in our ability to achieve our ambitious academic goals.

Formative Assessment

The capacity to conduct meaningful formative assessment is critical to a teacher's ability to analyze and implement instructional strategies that will improve student learning. A system-wide formative assessment model or program will allow both teachers and administrators to make detailed analysis of student progress and the success levels of various instructional strategies. A real-time formative assessment model will allow this analysis to be conducted and strategies implemented in such a way as to improve student learning in between annual summative assessments.

While formative assessment is not a line in this budget, we have established a project account for the implementation of a formative assessment system during FY11 (the 2010-2011 school year). We have a draft request for proposal which we expect to publish in the very near future.

Excellence Through Literacy

We continue our investment in ensuring and enhancing literacy at all levels that began three years ago. While we remain unable to commit resources to expand the initiative fully to what we envisioned as Phase II, the *Excellence Through Literacy* initiative remains intact. We are continuing to commit about \$2.5 million annually which includes personnel and materials specifically to address the needs of our students who may be under performing in any of the components of literacy such as reacting, comprehension, oral communication and writing. Many of our students make

significant progress in a very short time as we have implemented various interventions including the "Language!" program, learning centers and assigning literacy coaches for teacher support and training.

Human Capital

Outstanding people are at the heart of what we do. Quality instruction requires a commitment to recruiting, selecting, inducting, developing, supporting, compensating, promoting, challenging and valuing talented professionals, particularly our teachers. While this budget does not make substantial gains on the compensation front, it will support:

- Ongoing efforts to reorganize our Human Resources department to allow for greater efficiency, customer service and strategic partnership with our schools
- Continued teacher leadership opportunities through our expanded Title I funding
- Enhancements to instructional quality through greater teacher collaboration - made possible through our continued support of parallel block scheduling at all elementary schools
- Continuing investments in the successful Teacher Advancement Program (TAP) through the Great Schools Partnership
- Implementation of a new substitute and absence management system that should result in reduced man-hours to schedule substitute teachers and to track and manage employee absence data.
- Preserve capacity for our HR department to respond to the Safety Review Committee Human Resources Workgroup recommendations that are expected in late April.

Early Education

Providing educational experiences to our youngest residents is a *very* wise and forward-thinking investment. Early education is a critical area where every dollar we spend provides a significant return in student learning both at the early elementary years and throughout a student's education experience. Over the past few years, the

Knox County Schools has offered three highly successful early education programs: 1) the birth-to-Kindergarten initiative, 2) the Governor's voluntary pre-Kindergarten program, and 3) our Kindergarten Intervention program.

This year we have transitioned the Kindergarten intervention program from the Great Schools Partnership to the Knox County Schools budget. This is a positive step to the eventual transition of all of these successful programs from the Great Schools partnership to the school system.

While we are not expanding our early education offerings in FY11, we are budgeting with an eye to maintaining the levels of service that currently exist.

Project GRAD

Project GRAD provides a framework for urban school reform focusing on academic success, student support and an intense emphasis on college-going. Our relationship with the Project GRAD model continues to be supported in this budget. We are in the eighth year of our 12 year engagement, and while in recent years we have had to trim costs a bit, we are budgeting almost \$1.5 million this year to continue to fund the school system's portion of the work that Project GRAD is doing in 14 of our urban schools. After reimbursements, net costs to KCS within the Project GRAD budget should total approximately \$1.15 million.

Education Management Information System (EMIS)

We continue the implementation and development of our Education Management Information System or data warehouse. We expect future instructional efficiencies as we develop an information management structure that will allow us to make many of our management processes more effective and transparent. Currently, we are providing introductory training to administrators and building level data analysts who work with school improvement and strategic plan goals. We have provided this training to most of our high schools. We are working with middle schools and will begin elementary

school training this month, and will be providing more advanced training for middle and high schools later this spring. Ultimately, EMIS will give our teachers and administrators the tools and data they need to make good educational decisions and inform and improve instruction, and therefore increase student achievement.