

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: October 11, 2011

Subject: Fiscal Year 2013 Budget Considerations

A handwritten signature in black ink, which appears to read "James P. McIntyre, Jr.", followed by a long horizontal line extending to the right.

In previous discussions, I have alluded to the fact that the Fiscal Year 2013 (FY13) budget development process for the Knox County Schools will be a difficult one. While local and state revenues are beginning to trend slightly upward, we have known since the adoption of the 2011-12 Budget that we would start the process for FY13 with a deficit of at least \$7 million before any fixed cost increases are considered.

This budget gap is due to the fact that we utilized \$7 million in federal funding from the Education Jobs Bill to balance the FY12 budget. These funds were used for their intended purpose: to maintain our level of school-based instructional staffing and to protect the classroom from experiencing the full impact of our economic circumstances. We currently have dozens of teaching positions in our budget that are funded with the Education Jobs Bill revenue. I anticipate that without significant additional revenues, we will have to make some very difficult decisions to balance our FY13 General Fund Budget.

Over the past two fiscal years, we have implemented budget reductions in virtually 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: instruction, instructional support, and debt service. We have purposefully allocated our funding to our highest priorities: activities that directly support classroom

instruction and student learning. We have worked diligently to demonstrate to our community that we are operating efficiently, and utilizing our taxpayer funding effectively to provide an outstanding education to our children.

In the FY12 budget, we continued the progress we made in the two previous years toward ensuring that less of our funding goes to administrative and operational functions, and more is committed to instruction and instructional support. Our central administration experienced significant budget reductions in FY12, including a cut of approximately 8% of the total 225 district administration positions in a single year.

FY13 Budget Analysis

In each of the last three budget cycles, as we have worked to balance projected expenditures against expected revenue, we identified potential cost saving actions that were not immediately viable options due to the extensive planning and implementation time required. This year, we started analyzing these options much earlier in order to determine if they were in fact viable options that could have an impact on FY13 expenditures.

In our analysis we have looked closely at five specific areas of school system operations where we might gain financial efficiencies. These areas are:

1. Custodial Services
2. Operation of Very Small Schools
3. High School Staffing to Support Pure Block Schedules
4. School Start Times
5. Community Use of School Facilities

Let me be very clear: none of these areas of analysis represent attractive choices. None of the areas analyzed present options that are without significant impact on one or more segments of our population, and most of the options in each analysis would require changes not just in operations but to what may be seen as a philosophy of support or service. However, given our current economic outlook, and knowing that \$7 million in revenue will no longer be available next year, I believe we have an obligation to at least examine these options.

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 Fund Budget. However, over the years, several industry professionals have noted that we could potentially experience significant additional savings without a loss in quality of service by outsourcing our custodial services.

In order to test this assertion, we released a detailed Request for Proposals (RFP) for custodial services, in March 2011 (Attachment A). At that time, the RFP contemplated potential contract implementation in the summer of 2011 if outsourcing were deemed to be advantageous. The RFP had very specific requirements concerning our cleanliness standards, the quality of cleaning supplies and materials required, and the level of services to be performed. We also asked vendors to include pricing for an option where one custodial position at each school would remain on the Knox County Schools payroll to support specific needs during the school day.

Nine vendors responded to the Request for Proposals, and all of the proposals were subjected to a rigorous review by a committee composed of Knox County Schools and Knox County Purchasing Department personnel. The bids were evaluated based on price (75%), current square footage the vender had under active custodial services contracts (15%), and the business model to be used in fulfilling the requested services (10%). Service Solutions, a Knoxville company providing facilities service for educational institutions, received the highest evaluation score (93.7%) and was determined to be the “apparent successful bidder” by the Knox County Purchasing Department (A summary of all proposals and evaluations is at attachment B).

In June, it became apparent that there was not adequate time to complete the Purchasing Department’s due diligence, negotiate a contract, and develop an implementation plan for execution in the summer. The Purchasing Department was asked to move forward with their process and negotiations with the apparent successful bidder, but to examine a potential implementation date as late as the summer of 2012.

At this point, the Purchasing Department entered into an extensive negotiation process with Service Solutions to develop a contract that best meets the needs of the school system. Service Solutions bid on a three year contract (with a two-year extension option) at an annual cost of \$8.9 million for a complete outsourcing of services. The Knox County Schools custodial expenses for FY12 are projected to be \$11.2 million. This represents a savings over current cost of approximately \$2.3 million in the first year of the potential five-year contract.

The Service Solutions proposal for a partial outsourcing, where the Knox County Schools would retain one custodial position at each school, was approximately \$7.5 million annually. We project that the cost to Knox County to maintain the school based positions would be approximately \$2.7 million annually. Therefore, the Service Solutions bid on partial outsourcing would represent an annual cost reduction of about \$939,000.

The recently concluded negotiations with Service Solutions have also addressed provisions for retention and compensation of Knox County Schools custodial personnel, the purchase of our inventory of equipment and supplies, and a potential transition timeline. These negotiations were very fruitful in that they have led to a more advantageous position for our current custodians, who would receive a commitment of continued employment from the vendor for the life of the potential contract (provided they remain in good standing), and a compensation and benefits package that is comparable to their current structure. In addition, the negotiations led to a favorable tentative agreement around the purchase custodial supplies and equipment.

Discussion around the implementation timeline has primarily focused on a transition over the winter break, should a contract be recommended and approved by the Board of Education. The early January timeline was recommended by our Maintenance Department due to their concerns that a summer transition could impede the immense workload that a successful summer cleaning and school opening requires.

I expect to provide a recommendation concerning custodial outsourcing to the Board for its consideration at the November Board meeting.

Operation of Very Small Schools

We have initiated a process to closely examine the costs and benefits associated with operating schools with a very small student population. In this conversation it is certainly necessary to recognize that while very small schools can be financially inefficient, they offer some wonderful advantages in terms of community building, relationships, and individual attention.

Every school has a certain level of foundational “fixed costs” such as a principal, secretary, custodian, and infrastructure that exist regardless of the size of the school. In very small elementary schools, such as those which serve about 200 students or fewer, the price of those fixed costs becomes very high on a per pupil basis, thus leading to the assertion of financial inefficiency.

In exploring this issue, an analysis has been conducted to examine what level of financial efficiency might be recovered if school consolidation were considered. Generally, if a very small school was closed, and all of the students served by that school could be accommodated by another school in close proximity, financial savings, operational efficiencies, and organizational flexibility could potentially be realized.

Attachment C shows the preliminary analysis of operational savings associated with potential consolidation of several of our smaller schools, including:

- Gap Creek Elementary School (2010-11 enrollment: 110 students)
- South Knoxville Elementary School (enrollment 124)
- Maynard Elementary School (enrollment 196)
- Corryton Elementary School (enrollment 205)
- Vine Middle Magnet School. (enrollment 341)

In order to calculate potential savings, a facility had to be identified into which the small school could be consolidated. In identifying potential facilities to be a receiving school for a consolidation, schools were considered that were contiguous in zone to the small schools’ zones in order to limit any possible rezoning to a single school.

The analysis clearly indicates that some options are more viable than others, and that some identified options would not be viable at all without significant investment to increase the capacity of the potential receiving schools. In particular, consolidation of Gap Creek Elementary School looks to be the least viable option based on geography and limited capacity in the closest schools, while South Knoxville Elementary School would appear to have very few logistical impediments to successful consolidation.

The analysis also indicates that savings generally would be based on school operational costs: administrative positions, custodial support, and utilities expenses. This is primarily due to the fact that we staff our larger elementary schools very close to the state mandated pupil to teacher ratios, and very little excess instructional capacity currently exists in these schools. Almost all teaching positions in the small schools would have to move to the receiving schools in order to provide additional instructional capacity.

Closing a school is an incredibly difficult, emotional, even gut-wrenching decision that I certainly would not recommend lightly. If our continued analysis indicates that this would be a viable and prudent option, I will examine carefully the fiscal, logistical, and particularly the educational implications of such a proposal before bringing it to the Board of Education.

High School Staffing Models

For the last several years, in order to provide a fair, rational and transparent allocation of budgetary resources to our schools, we have used an enrollment-based staffing allocation formula to determine the resources that will be available to schools. The staffing model for high schools is based upon the assumption that all schools use a pure block schedule of four 90-minute instructional periods each day, and that the school year will be divided into two distinct semesters. However, as our efforts to provide students greater support and opportunities for success have evolved, our high schools have been moving away from a pure block schedule. This may create some opportunities to better tailor our staffing model to our current reality.

While there are many strong educational arguments for a block schedule at the high school level, it is also a somewhat more expensive scheduling model than traditional structures. We find that as schools develop year-long freshman academies and offer more classes that meet for less than 90 minutes and span two semesters (particularly in mathematics and English/language arts), additional capacity is generated within the staffing model. These modifications may provide some opportunities to adjust the model for high schools and realize some efficiencies and savings in staffing without having a negative impact on instructional programming or quality.

If we were to consider adjusting our staffing formula to reflect the fact that our high schools are generally using a “modified” block schedule rather than a pure block schedule, we may be able to garner some additional savings through the reduction of a reasonable number of instructional positions. Because it would simply reflect our current practice, such a reduction would not negatively impact student learning, and could likely be addressed largely through attrition.

School Start Times

Transportation is one of the few areas in our General Fund Budget with significant costs that are not directly applicable to the classroom. In recent years we have worked diligently to ensure that our transportation services are efficient and that every dollar we commit to transportation is spent wisely and effectively. Over the last three years we have used various efficiencies to hold the increase to our transportation budget to just 2% when associated transportation expenses have increased exponentially. This is especially true with respect to the cost of fuel.

Two years ago, we looked closely at adjusting school start times across the county in order to make more efficient use of our transportation assets and to reduce the total number of buses required every morning and afternoon. Most of our schools currently operate on a two-tiered start schedule. Elementary schools start the day at 7:45 a.m. and middle and high schools generally start at 8:30 a.m. Our transportation staff developed a proposal that would save approximately \$700,000 if we were to start school at various times between 7:30 a.m. and 9:15 a.m. Fortunately, we were able to use some federal funds from the American Recovery and Reinvestment Act to forestall the need for this discussion for two years.

Attachment D represents two possible options for school start times each of which could save as much as \$700,000 in our transportation budget. Option A would place most of our schools on a three-tier start schedule which would see schools start at 7:30 a.m., 8:30 a.m., and 9:30 a.m. In Option B, schools generally would start at various times between 7:30 a.m. and 9:15 a.m.

In our analysis of start times and the associated transportation support required, we found that there are many variables that have to be considered: school location, size of school zone, proximity of other schools, road infrastructure, traffic patterns, location of equipment at the end of a route, and time between runs, for example. The two options that have been developed take these and other variables fully into consideration. Generally, alteration of a portion of the plan will invalidate the entire option, as a great many of the variables are interrelated. Therefore, as we consider changing start times to reduce transportation costs, we find ourselves with a specific and somewhat limited set of options.

When discussing school start times, we must also consider the needs and preferences of parents and families in the Knox County Schools. Our current two-tier start times generally appear to be satisfactory to parents and guardians, but altering school schedules will also inevitably alter family routines and parent work schedules as well. Before potentially bringing such a recommendation to the Board of Education, we will need to ensure that we are cognizant of the full impact that such a change could have on our families and school communities.

Community Use of School Facilities

In our Central Administration reorganization this summer, we reassigned responsibilities for oversight of the community use of school facilities process to the Knox County Schools Maintenance and Operations Department. As part of this action, we closely reviewed our policy and the operational practices that had grown around the management of community use of school facilities over the years.

We have determined that our policy lacks complete clarity, and that our implementation of the policy has not been entirely consistent. Organizations did not always remit requested fees, and there was limited follow-up on fee collections. The facilities use policy is not explicitly clear in all cases as to which organizations should be charged fees and which organizations should have the fees waived.

The maintenance department is engaged in the process of standardizing practices, and in developing an online management process to request and approve the use of facilities. This process, when fully implemented, will speed approval, facilitate invoicing for fees, and enhance our ability to oversee how our facilities are being used by the community.

Our current fee structure is also problematic from financial and operations perspectives. The fees we charge, in many cases, do not fully cover the expense incurred to operate the facility for the period required.

We will complete our analysis of the *Community Use of School Facilities* policy, procedures, and fee structure in the coming weeks. I expect that I will bring a recommendation to the School Board to update our policy to bring it into compliance with federal tax regulations and to enhance our ability to manage the facilities use process. I also expect to propose an adjusted fee structure which will more fully recover the operational costs associated with the use of our facilities.

Tightening up our policy and practices on community use of school facilities could save hundreds of thousands of dollars, but like all of the potential areas of exploration listed in this memorandum, it would not be without challenge and perhaps controversy.

There are many community, faith-based, civic, and athletic organizations that utilize our facilities and arguably provide a benefit to our students or to our community. However, allowing these organizations to use our facilities at less than cost means that we are sacrificing resources that could otherwise go to supporting our core mission of effective education in our classrooms. Many of these wonderful and important organizations would no doubt be vocal in their opposition to these potential adjustments.

Conclusion

These are difficult economic times, and while the most recent state and local revenue projections are somewhat encouraging, we begin the discussion of the next fiscal year knowing that \$7 million of federal revenue will no longer be available to our school system. This requires us to examine all of our expenditures and operations for efficiencies and opportunities for reductions and reallocations. We seek to make budget reductions in areas that have less impact on student learning, so that we might be able to continue and enhance our investment in the classroom.

In addition to the \$7 million in revenue that will no longer be available, we anticipate several million dollars in fixed costs that we will be obligated to fund as part of next year's budget. Also, there are some important investments that we need to consider for the future success of our students and our school district. For example, our average teacher salary ranks 34th among school districts in the state, putting us at a competitive disadvantage. In addition, we know that our student academic outcomes are not yet where they need to be, and that gaps in achievement are emerging that must be addressed to ensure that all our students have the opportunity for a bright future. As such, academic interventions, additional instructional time, teacher compensation, and enhanced academic offerings are expenditures that we will need to consider for the FY13 budget.

These important instructional priorities, coupled with our fixed cost requirements and known revenue losses, highlight the need to make some difficult budgetary tradeoffs in order to fully fund our obligations as well as critical strategies to enhance student success. The areas of budgetary analysis outlined in this memo are all unattractive choices. They each would be uncomfortable to approve, and painful to implement. However, I do believe that some level of significant savings must be achieved from this unpleasant list in order to position ourselves to present a balanced and educationally responsible budget for FY13.

I look forward to discussing these areas of budgetary analysis and potential savings at the School Board's October 18th Mid-month workshop, and at the community forum scheduled for Thursday October 27th at 6:00 p.m. at Fulton High School. Please do not hesitate to call me if you have any questions.