

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 23, 2016

Subject: FY17 Preliminary Budget Recommendation

A handwritten signature in black ink, reading "James P. McIntyre, Jr.", followed by a horizontal line.

This memorandum and the documents that follow represent my preliminary proposal for the Knox County Schools (KCS) Fiscal Year 2017 (FY17) General Fund Budget. At its mid-month meeting on March 23rd, the Board of Education will be presented with a preliminary recommended budget of \$453,500,000, which represents an increase of \$15,500,000 (3.54%) over the current FY16 Budget. This budget proposal is both conservative and fiscally responsible, all while supporting and maintaining key instructional investments, and focusing our resources on our most important educational priorities. Specifically, this budget proposal supports salary increases for KCS employees, incorporates an anticipated 6.1% increase in health insurance premiums, enhances investment in our transportation program, allows us to offer worker's compensation to certified employees, includes resources to support the Disparities in Educational Outcomes Task Force recommendations, and initiates a sustainable instructional technology initiative at the high school level.

In accordance with last year's Intergovernmental Memorandum of Understanding, we are pleased to have worked closely with the Knox County Finance Director to agree on a consensus level of expected revenues for FY17 that represents a healthy increase over FY16. Over the next few weeks, we will continue to refine and validate our revenue and expenditure assumptions, as we work toward finalizing this budget recommendation.

Revenue Growth

Revenue growth is defined as any increase in funding the Knox County Schools receives from the levels approved in the previous year's budget. The revenue growth traditionally experienced by our school system is generated largely from increases in the state's Basic Education Program (BEP) funding, local option sales tax and property tax collections. In the last few years, we have typically experienced two to three percent revenue growth.

At this point, local sales tax revenue collections are trending higher than what was projected in the current year. Property tax revenues appear to be relatively stable. Given these factors, we expect that Knox County Schools will experience an increase of approximately \$6 million in FY17 revenue due to local tax collections.

Also, the Knox County Schools is anticipating the receipt of an estimated additional \$12 million as a result of the Governor's plan to enhance the BEP in order to invest in teacher salaries, technology, special education, and enrollment growth and inflation. Those solid increases in revenue are partially offset by reductions in operating transfers from Knox County Government for APEX (\$3 million) and the Mayor's Reading Initiative (\$950,000) which had been provided as supplemental funds in the current fiscal year.

Fixed Costs

Like revenue, fixed cost expenses (those expenses that are essentially non-discretionary in nature, or tied to inflationary dynamics) are also increasing, but typically at a slightly higher rate. Fixed costs for FY17 include, among other items, increases in the cost of employee benefits, step pay increases for certified and classified employees, additional funding for Emerald Academy Charter School due to increased enrollment, additional security and custodial obligations for community schools, vehicle maintenance increases, and funding for additional teacher positions to serve English Language Learners due to increased enrollment. The fixed costs associated with the second year of the Emerald Charter Academy are particularly significant, as the planned increase in enrollment, coupled with an increased per pupil amount, will mean an incremental cost of approximately \$997,000.

Key Priorities

The educational investments we have made in the past few years to facilitate instructional improvement are paying clear dividends for our students and community, as evidenced by the Knox County Schools being named an “Exemplary” school district by the state of Tennessee due to our students’ extraordinary academic outcomes this past school year.

We have much to be proud of and much to celebrate, but there is a great deal more work to be done to ensure the academic success of every child at every school in the district. In order to build upon this strong foundation of student academic progress, the FY17 budget recommendation provides for additional targeted investments in several priority areas:

- Enhancing teacher and staff compensation, including a 3% salary increase for certified employees, and at least a 2% raise for classified staff
- Maintaining the current percentages paid by employees for health insurance premiums
- Offering Workers’ Compensation to certified employees for the first time
- Supporting the work of the Disparities in Education Outcomes Task Force
- Significantly increasing our investment in our Pupil Transportation Program, and
- Sustaining our Personalized Learning Environment (PLE) effort and initiating a comprehensive instructional technology initiative at the high school level.

The narrative that follows will outline each area of investment in greater detail.

Enhancing Teacher and Staff Compensation

Our teachers and staff continue to do an extraordinary job of facilitating student learning and success in an era of great change and heightened expectation. In order to retain our outstanding teachers and recruit the next generation of exemplary educators, we must ensure that we offer a more competitive and professional level of compensation. This is a clear priority established in our strategic plan, and reinforced in our collaborative conferencing memorandum of agreement with our professional educators.

Therefore, I am recommending that this FY17 budget proposal include a three percent salary increase for teachers. This raise in compensation is in addition to a budget commitment of \$3.5 million to support “step” pay increases for certified employees, bringing the total growth in the FY17 budget for teacher compensation and benefits to approximately \$12 million.

In addition to increasing educator salaries, I am also recommending a two percent increase in base pay for our classified staff. We value our staff and appreciate their remarkable efforts to support our students, parents, teachers, and principals on a daily basis. As we continue to review and refine budget assumptions and dynamics, I would like to see us achieve a 2.5% salary increase for classified employees. However, at the time of this recommendation, our fiscal situation only permits the 2% that has been proposed.

Maintaining Percentages Paid by Employees for Health Insurance

This budget proposal contemplates a 6.1% increase in health insurance premiums beginning in January, 2017. We have done a comprehensive analysis of our employee benefits line item budgets, and believe that with some additional investment (a net of approximately \$1.4 million) we can both ensure appropriate budgetary resources to support all current employee benefits, as well as maintaining the percentages of premiums currently paid by employees in each of our plans. In the coming years, we do anticipate some savings associated with Knox County Schools employees now having more health insurance plan options from which to choose.

Workers' Compensation

For many years, our school system has explored ways to offer Workers' Compensation to certified employees (teachers and other licensed educators) so that workplace-related injuries could be addressed without any significant financial burden to the employee. Over the past few decades, we simply have not been in a position financially to offer this important benefit. In this FY17 recommendation, however, Workers' Compensation is finally a part of the budget. Our ability to now offer Workers' Compensation to certified employees is due to the confluence of our Benefits Office working hard to identify a reasonable and affordable rate, and our strong commitment to make this critical benefit a reality.

Supporting the DEO Task Force

Last year, I convened a Disparities in Educational Outcomes (DEO) Task Force, which was charged with studying gaps in academic achievement and disproportionalities in student discipline in the Knox County Schools that might be correlated to income, race, language and/or disability. The Task Force was asked to identify strategies and solutions that would address these challenging issues, and make specific recommendations to the Superintendent. While the Task Force has not yet finished its work, we know that the group is working toward presenting recommendations later this spring. It seems likely that at least cultural competency training for all KCS employees may be part of the recommendations, as well as other important strategies. While there is no way of estimating potential cost at this point in the process, the FY17 budget includes a modest amount to begin to implement the Task Force recommendations in the coming summer and school year. It is believed that these recommendations will be important to the School Board and to our community, and therefore additional resources will be allocated as needed once final recommendations are made by the Task Force.

School Bus Transportation

This budget proposal includes a significant increase in resources committed to our student transportation program. Over the past few years, we have significantly increased our expectations and requirements around quality of service and student safety in our pupil transportation program. While our school bus contractors and their employees (school bus drivers) have been the focus of these significantly increased expectations, financial remuneration has not increased commensurately. Therefore, an additional \$1 million in funding is being recommended for our transportation program. The vast majority of these resources will be committed to increasing the rate for contracted service agreements paid to our bus contractors. This increased financial commitment will help ensure that our community small business contractor model, which has served us so well over the years, continues to be a viable transportation structure. With all the increased requirements and expectations, contractors and their drivers must be fairly compensated for the service and value they provide to our school system and our community. This increased investment in FY17 will start us down a path to ensure the long-term success of our student transportation system.

Instructional Technology

Our strategic plan, *Excellence for Every Child*, highlights the importance of personalizing learning for each and every one of our more than 58,000 individual students. Digital devices, software, and electronic learning platforms offer a number of options for tailoring instruction to an individual student's academic strengths, weaknesses, interests, motivations, pace and personal learning preferences. In order to accelerate student outcomes, close achievement gaps, and ensure success for every student in the Knox County Schools, we must continue our efforts to facilitate personalized learning with the support of instructional technology.

This budget recommendation includes two components related to personalized learning supported by instructional technology: 1) sustaining our personalized learning environment (PLE) effort in the existing 15 schools, and 2) beginning a comprehensive instructional technology initiative at the high school level.

Next year will mark the fourth year of funding the Personalized Learning Environment (also originally known as the School Technology Challenge) initiative. The schools selected for this program were provided resources for essentially a one-to-one technology implementation and this budget will continue to support hardware, software, infrastructure, and instructional and technical support for these schools. As these devices begin to outlast their warranty and exceed their useful lives, and as the prices of software licenses increase, we have found the need to invest additional resources to repair and replace laptops already in service, and to support the software licenses used to make these devices truly teaching and learning tools.

Instructional technology provides teachers the opportunity to differentiate instruction and adapt their teaching methods to meet the unique needs of their students. As we move forward into the future, our students, particularly our high school students, will not only need to be digitally literate, but more importantly, they will need to know how to use technology as a tool to create, collaborate, communicate, and solve problems. Therefore, I believe it is imperative that the Knox County Schools provide a sustainable model of comprehensive technology to support teaching and learning.

This FY17 budget recommendation represents the first step in that direction, in that it includes resources to purchase a Chromebook laptop computer for every high school classroom teacher. This infusion of classroom technology sets the stage for \$1.4 million, currently in the Knox County Schools general fund budget for school-based technology, to be committed in FY18 and beyond for a four-year sustainable purchasing cycle of Chromebooks for every high school student. Reallocating these dollars in FY18, after the fourth and final lease payment for the PLE initiative, would allow the school system to pay for a one-to-one technology initiative for every high school student and teacher, without increasing the existing budget. I strongly encourage the School Board to take this first step in FY17 toward a comprehensive, sustainable high school technology solution that would reap significant academic benefits for our students for the foreseeable future.

Budget and Programmatic Reductions

As with any organization, though we are thrilled to report additional investments in priority areas, we must also face the reality that limited funding and program changes sometimes necessitate budget reductions or reallocations. Such reductions in the FY17 budget include:

- TAP System (formerly the Teacher Advancement Program)
- APEX Strategic Compensation
- First year of the phase out of the Mayor's Reading Initiative

The narrative that follows will outline each area of reduction or elimination in greater detail.

Teacher Advancement Program (TAP)

We are nearing the end of the \$25 million federal Teacher Incentive Fund (TIF) grant that allowed us to expand the TAP System for the last six years. The grant originally had a five-year duration, but we were granted the ability to carry funds forward into year six. The Knox County Schools and our students have garnered significant benefits from these TIF resources, and the designation of eighteen TAP schools that follow the program principles of teacher leadership and collaboration, strategic compensation, and developmental accountability.

We will continue to utilize many of the valuable practices of TAP in our school district, but funding for the staff and the financial incentives associated with the program are no longer available. We have built significant instructional and leadership capacity in our TAP schools these past several years, and perhaps more importantly, our entire school system has benefited from the research-based instructional strategies and concepts that are part of the TAP System.

With the sunset of the TAP System, Master Teacher positions in TAP schools will no longer be funded, however, the extraordinary educators filling these roles will be guaranteed teaching positions in our system moving into FY17.

APEX Learning Performance Incentive

This proposal also eliminates funding for the APEX performance incentive. As part of last year's budget compromise and the Intergovernmental Memorandum of Understanding, APEX financial incentives that were earned in 2014-15 were paid in November, 2015 utilizing a one-time payment from Knox County Government. At that time, APEX was discontinued for the 2015-16 school year, and the expectation was set that funds would not be available for any payments in the fall of 2016. At this time, APEX remains suspended. Led by a steering committee of teachers, discussions are currently underway with educators about how our differentiated compensation program should be structured in the future, noting that any plan would require funding if or when approved and adopted by the Board of Education.

Mayor's Reading Initiative

In an effort to improve literacy in early grades (K-3), additional funds were made available to the Knox County Schools as part of the Mayor's Reading Initiative. These funds were used to hire elementary literacy educators, instructional coaches, and interventionists to provide daily support to teachers and students, and also for professional development training on how to teach reading, and resource materials to support literacy instruction. As defined in the Intergovernmental Memorandum of Understanding, the funding for this initiative will be phased out by Knox County Government over the next three years. However, we continue to invest in early literacy in a variety of ways, and will continue to make proficient reading by the third grade an important instructional priority.

Conclusion

I am very pleased to present this preliminary Knox County Schools Fiscal Year 2017 budget recommendation. While not without some difficult choices, this budget proposal represents a significant step forward in continuing to tightly align our financial resources with our most important educational priorities. This budget focuses on enhancing employee compensation and benefits, addressing disparities in educational outcomes, investing more in high-quality and safe student transportation services, and personalizing learning for our students with the help of instructional technology. I am proud to present the Board of Education with this student-focused and educator-focused budget proposal which undoubtedly will assist us in making substantial progress toward achieving our ambitious goal of *Excellence for Every Child*.

Please let me know if you have any questions. I look forward to our discussions of the FY17 budget.