

KNOX COUNTY SCHOOLS
ANDREW JOHNSON BUILDING

Bob Thomas, Superintendent



MEMORANDUM

To: Chair and Members
Knox County Board of Education

From: Bob Thomas, Superintendent

Date: March 26, 2018

Subject: Fiscal Year 2019 Preliminary Budget Information

In fiscal year 2019 (FY 2019), our priorities will continue to focus on increasing student achievement, eliminating disparities in both academic and discipline outcomes and creating a positive culture. We have used these priorities to guide our efforts in determining how we propose to spend the monetary resources we forecast will be available to us in FY 2019.

This memorandum and the documents that follow represent the preliminary budget information for Knox County Schools FY 2019 General Purpose Fund. As you will see, this preliminary budget information totals \$483 million, which is an increase of approximately \$11.8 million or 2.51 percent over the \$471.2 million the Board approved for FY 2018.

Significant Increases in Committed Expenditures

In FY 2019, we anticipate the district will experience significant increases in expenditures to maintain benefit programs for district employees, including the cost of providing health insurance and the rate of contributions required to the state retirement plan for certified employees. Additionally, the total cost to operate our two new middle schools will be included in the budget for the first time.

Based on our latest projections and estimates, we foresee the following major committed expenditures (those that are essentially non-discretionary in nature) in FY 2019:

- Health insurance premiums increased on Jan. 1, 2018, and they are projected to increase another five percent on Jan. 1, 2019. As a result of these increases, our total cost of employee health insurance premiums will increase \$4.3 million to \$34.7 million.
- A mandated increase of more than one percentage point in the employer contribution rate to the Tennessee Consolidated Retirement System Legacy Retirement Plan for certified employees will result in an increase of \$2.1 million, bringing the total benefit

contribution for our certified employees to more than \$25 million.

- The cost to operate the two new middle schools opening this fall will total \$8.8 million, of which \$4.7 million are incremental costs. More than 60 percent of these incremental costs are due to adding teachers and other school level staff representing 57.5 full-time equivalent employees who were not previously represented in the FY 2018 budget.
- FY 2019 is the third year of our three-year annual commitment to provide \$1 million in additional funding for student transportation. Furthermore, the impact of opening the two new middle schools, rezoning and changes in bell times will increase what we pay for student transportation by \$1.3 million, bringing the total to more than \$18.6 million in FY 2019.
- The charter school, Emerald Academy, will be adding two grade levels in FY 2019, increasing student enrollment by 125. This will result in total revenues “flowing through” to the school by \$1.05 million, totaling \$3.9 million.

Other Priorities

In an effort to continue to build on the progress already made as a district in our three main priority areas, the FY 2019 budget information provides some additional targeted investments in key areas including: extended teacher contract lengths for our Priority and Cusp schools and funding for staff added since the start of school in August 2017 who were not included in the FY 2018 approved budget.

Extended Teacher Contract Length for Priority and Cusp Schools

Priority and Cusp schools are identified by the state as schools that fall into the bottom five and 10 percent of schools, respectively, in the state for overall academic achievement. For a number of years, we have continued to work on improving our students’ overall performance and maintaining great teachers in our Priority schools by offering extended contracts to those who serve them. The teacher contracts have ranged from 211 days to 221 days and have been funded through sources such as the School Improvement Grant (SIG) and iZone grants. In addition to these funding sources, there were years during which the district funded these extended contracts through the General Purpose budget. Most of the grants that originally funded these efforts are about to expire or we are uncertain whether they will be awarded for the 2018-2019 school year. Our desire remains to have all our Priority school teachers on a 216 day contract.

In order for us to continue making progress in our most fragile schools, we must have the best and brightest teachers in their classrooms. One way to retain and attract these teachers is to continue offering extended teacher contracts. Our Curriculum and Instruction (C&I) Department created a comprehensive support package for the approximate cost of 16 additional contract days for Belle Morris, Lonsdale, Green Magnet Academy, Sarah Moore Greene, Vine and Austin-East High that totals \$1.4 million.

Staffing for Unanticipated Needs

The current year budget was approved in April 2017, four months prior to the opening of school in August 2017. As commonly occurs, the unique needs of students and schools that are only discernible once the school year starts, result in the need to redirect resources and add staff. Also, as some essential staff who are funded through other sources, such as federal grants awarded on the federal government fiscal year basis, become integral to the achievement of our goals. We

face the dilemma of how to continue paying those staff members under the General Purpose budget. When that funding goes away, this school year, we have identified 43.85 full-time equivalent staff members who fall into one or both of these situations. I am proposing to continue funding them through the General Purpose budget at an estimated total cost of \$2.89 million.

The additional costs of these significant increases in committed expenditures and the priorities noted above—net of reductions we have identified in other areas—totals \$15 million, increasing expenditures based on the FY 2018 approved budget to \$486.2 million.

Revenue Forecast

Governor Haslam's proposed state budget for FY 2019 increases Tennessee Basic Education Program (BEP) funding to \$4.8 billion, a growth of \$1.85 billion. Using historical trends, we anticipate receiving \$7.4 billion of this increase, making our total BEP allocation \$216.8 billion for FY 2019, which is \$10 billion more than the \$206.8 billion forecasted when the FY 2018 budget was developed.

As in the past, we are working closely with the Knox County Mayor's Office to forecast revenues from local sources. Local sources, primarily local option sales tax and property taxes, received so far for FY 2018 are trending very close to our FY 2018 budget forecast, but are also showing no significant growth for FY 2019. Consequently, the current forecast of local source revenue growth of \$2.3 million to \$255.8 million in FY 2019 is less than one percent.

Based on the latest available data, we are forecasting total revenues to grow by approximately \$11.8 million dollars however, expenditure projections, excluding any salary increase, are estimated to be approximately \$15.1 million. With these projections, there is a \$3.3 million shortfall. We are continuing to review all expenditures, in particular those representing discretionary programs, to identify areas where reductions might be made to achieve a balanced budget.

Unfunded Budgetary Priorities

As we work to balance the already proposed expenditures with projected revenue, there are several other important district needs we will not be able to fund this year. For our district to continue to perform at the current level of academic progress or higher, we must have excellent teachers in every classroom and great principals at the helm of each one of our schools. In order to continue attracting and retaining the best and brightest teachers, we must have a level of compensation that is competitive with surrounding districts and other school systems in the southeast.

As a district, our goal has been that either the average teacher base pay will be within the top 20 school systems in Tennessee or teachers' average pay will increase 20 percent by 2022. Over the past two years, we have made a concerted effort to increase teacher pay. In FY 2017, the Board-approved budget included a 3 percent compensation increase for teachers and a 2.5 percent increase for all classified staff. In FY 2018, the Board-approved budget included a 3 percent compensation increase for both teachers and classified staff, with the exception of educational assistants who received a \$1 per hour increase.

This current information, as prepared for our discussions, does not include a raise for any staff beyond those still eligible for step increases. The cost of a one percent salary increase would be approximately \$2.3 million for certified employees and \$1.2 million for classified employees. The total cost for a one percent salary increase for all employees would be \$3.5 million.

Conclusion

I believe this preliminary information is a good place to begin our discussions about leveraging our available resources to advance the district's efforts in achieving our three major priorities and I look forward to our upcoming discussions.

cc: KCS Executive Team