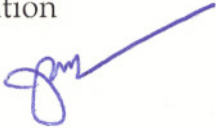


KNOX COUNTY SCHOOLS
ANDREW JOHNSON BUILDING

Dr. James P. McIntyre Jr., Superintendent



To: Chair and Members
Knox County Board of Education

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

Date: April 13, 2009

Subject: Fiscal Year 2010 Budget Proposal Revisions

Since the FY 2010 budget proposal was presented to the Board on March 23rd, we have continued to examine and refine our budget assumptions, while also receiving more specific information about the economic and revenue environment in which we operate. Crucial pieces of supplemental information include:

- Governor Bredesen's Budget proposal was released the evening of March 23rd,
- On April 1st we held a public forum on the FY10 budget proposal, and have received significant input from parents and community members in several other public meetings held since March 23rd and through correspondence,
- Figures and guidelines for the American Recovery and Reinvestment Act (economic stimulus) funding associated with IDEA (special education grant) and Title I were announced April 3rd and April 9th respectively,
- On April 8th we received the first official estimate of state revenue for education, the Basic Education Program (BEP),

- We received notification from the Office of the Commissioner of Education that Extended Contract funding would be reinstated next year at 82% of original FY09 levels; this information was confirmed by Dr. Webb on April 6th.

Having received substantial new data, analysis, information and feedback, I am pleased to present an amended budget proposal to the Board of Education.

American Recovery and Reinvestment Act (ARRA)

The direct funding through the federal American Recovery and Reinvestment Act (economic stimulus dollars) that is available to the Knox County Schools comes in the form of grants through the Title I and IDEA (special education) programs. We have been notified that the KCS will be eligible to receive \$6,773,034 under IDEA for FY2010 and \$10,148,518 under Title I divided equally between the current fiscal year and FY10. We outlined our initial priorities for these funds in the budget proposal, and these priorities remain unchanged.

We have learned that there is more flexibility in the use of the IDEA funds than we had previously anticipated. A specific provision of the stimulus package will allow us to use up to 50% of the increase in IDEA funds more broadly than just for direct special education applications. I am recommending that we utilize some of this flexibility, which will in no way reduce our commitment to improving the way we serve our students receiving services under the IDEA. In fact, this massive increase in funding for educating students with disabilities will allow us to make substantial enhancements and improvements in special education over the next two years.

Since there is no indication at this time that the level of funding in either Title I or IDEA will extend beyond two years, it is prudent that we generally do not use these funds in ways that commit us to recurring expenses.

BEP and Other State Revenue

The April revenue estimate from the state indicates a BEP funding level of \$148,582,000. This is \$58,000 less than the planning figure we used to develop the initial budget proposal, which puts our initial projection within one half of one percent (0.039%) of the state's April estimate. Additionally, we have been told the state will fund the Extended Contract program at roughly 82% of the current year level. We built our budget proposal on the conservative assumption that extended contracts would not be funded at all by the state in FY10, as this was the message we were given in January. Our preliminary budget proposal included most of the cost of these important supplemental programs, but did not assume any state revenue. The current extended contract funding estimate will mean an additional \$979,000 of revenue to our General Purpose School fund.

We have also been able to revise our previous estimate of indirect costs reimbursements to increase that revenue source by \$24,000.

Local Funding

Our local funding estimate remains unchanged. While property tax revenues have been stronger than estimated, and sales tax receipts have been weak, we continue to assume our local funding will be at least level with the appropriation received in FY 09. We have planned for a \$2.95 million fund balance contribution to General Purpose School Fund for FY10. This is approximately equal to the amount of fund balance committed to the budget in FY09, and \$305,000 greater than the fund balance funding assumption in the original budget proposal. These changes to state and local revenue projections produce a revised total general fund budget of \$375.25 for FY10.

Reductions and Efficiencies

We have identified some additional efficiencies and restructuring within the budget proposal that will make additional funds available to help address concerns elsewhere in the budget.

We have carefully analyzed our maintenance of effort obligations in special education, and are comfortable that a relatively small reduction in that budget is feasible and allowable. We will realize a \$173,500 reduction in our special education budget by restructuring and reducing the contract length of a number of personnel (primarily psychologists) to better address and match the workload. In addition, we will make substantial reallocations of resources within our special education budget to more effectively serve and educate our students with disabilities.

The contract lengths of some clerical personnel have been restructured to realize a savings of more than \$100,000. This action will require principals to judiciously schedule and apply clerical resources based on projected workload.

The 16 teaching positions we held in reserve to meet any unexpected growth across the system have been reduced by three positions. This provides an additional \$150,000. We have prioritized the activities that are supported through the Extended Contract program and will fund those at the same level that the state has provided revenue for extended contracts. This is a reduction of approximately \$344,000 from the projection made in the initial budget proposal.

We have also received revised information on the contribution we need to make to maintain the actuarial viability of the closed "City A" retirement account. This has

allowed us to reduce that fixed increase from one million dollars to \$650,000.

Additionally, based on estimated savings from refinancing our debt, we have reduced our debt service subsidy from \$1.53 million to \$1.23 million. This represents a savings to the budget of \$300,000. There is some risk involved in this assumption, but we believe the risk is minimal given Knox County's estimates and expectations.

Amended Budget Proposal for Fiscal Year 2010

Based on the additional information and identification of revenues, reductions and efficiencies, I am amending the original budget proposal in the following ways:

Teacher Positions

The revised proposal will restore 34 teaching positions at an estimated cost of \$1.7 million. To maintain our transparent, equitable and rational approach to staffing, these positions would be added by adjusting the staffing formula for elementary, middle and high schools. However, I expect about half of these positions will be restored in elementary schools. This would not be executed as a reinstatement of specific positions that have been lost at particular schools, but as an extension of the resource allocation philosophy and methodology that we presented with the preliminary budget proposal.

High School Start Times

The amended budget would maintain the current 2008-2009 high school start-time schedule by using \$700,000 in federal economic stimulus funds. I have listened carefully to the concerns and issues raised by many parents, students and educators on the proposal to move to a later start for some of our high schools. While I still believe the original proposal has both educational and fiscal merit, the very valid questions raised require additional research, analysis, solution development, and public dialogue.

Using allowable stimulus funds is a temporary “fix” given that there is not a long-term commitment by the federal government to maintain this level of funding. Therefore, it may become necessary to reexamine this option in two years. This reprieve will provide ample time to more fully examine the educational research on high school start times, analyze the many logistical challenges that have been identified over the past several weeks, and explore other options within our transportation program that may generate savings.

Utilities

Add an additional \$950,000 to our utilities budget for FY2010. Our energy consumption is actually down year over year, but the rates are significantly higher than they have been in previous years. Therefore, based on current estimates, I think it is necessary and prudent for us to increase our projected fixed increase in utilities costs from \$1.5 million to \$2.45 million.

Other Minor Adjustments

We originally projected a reduction of 38 custodial positions. Based on a careful look at our facilities and our deployment matrix, we have had to revise that projection to add back three positions (reduction adjusted to 35) at a cost of \$60,000. One nursing position that we projected for reduction has been added back at a cost of \$47,835. This position will be reassigned from the central office to the school level. There are also some small reallocations in this proposal (largely in student support areas) that will be executed to allow for flexibility as the Superintendent reorganizes the central office. Finally, we originally proposed eliminating four technology positions and moving two others from the general purpose budget to the Title IID budget. However, we are unable to transition both positions within the confines and constraints of that funding source. One position will remain on the general purpose school fund at a cost of \$40,000.

Potential Additional Revenues

This revised budget proposal is much more palatable than the original recommendation, and yet it still contains reductions that are enormously difficult for the Knox County Schools. As part of this budget adoption, I respectfully ask the Board of Education to approve the following priorities if additional general fund revenues do become available (over and above the \$375.25 million anticipated) and/or additional dollars are appropriated by the Knox County Commission:

Restore additional teacher positions at schools:	\$1.7 million
Restore critical infrastructure* (positions):	\$0.2 million
Restore critical infrastructure* (materials & equipment):	<u>\$0.1 million</u>
	\$2.0 million

* Critical infrastructure would include central office areas such as maintenance, technology and curriculum.

Conclusion

With much more clarity regarding our revenues, especially with respect to state funding and federal dollars, we have been able to recommend some vital restorations to our budget proposal. Our revised financial picture reflects something of a “trickle down” effect from the federal stimulus package, with flexibility coming from federal grant programs as well as from state dollars that would not be flowing without the benefit of stimulus funds. The various reductions and reinvestments delineated in this proposal provide for a budget that is balanced within our currently projected general fund revenue of \$375.25 million.

Despite the fact that we are able to restore some of the proposed reductions, this revised budget is not without significant pain. Position cuts, shorter contract lengths, and other difficult budget reductions are still very much a part of this proposal. However, I believe that the budget as recommended is a reasonable response to both our economic circumstances and our educational need. This FY2010 budget will allow us to continue the vital work of instructional improvement and build upon our solid foundation of academic success. It is indeed the first step toward achieving our vision of *Excellence for All Children*.

cc: R. Mullins
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