

MEMORANDUM

To: Chair and Members
Knox County Board of Education

From: Bob Thomas
Superintendent

Date: May 20, 2020

Subject: Preliminary Budget Recommendation

Attached please find my recommendation for Knox County Schools Fiscal Year 2021 (FY21) General Purpose School Fund Expenditure Budget of \$503,847,000, a *reduction* of \$2,805,000 from the current year 2020 budget. The prospect of a prolonged economic downturn resulting from the COVID-19 pandemic necessitated the development of the most unsettling financial scenario that I can remember in my 30 years directly working with Knox County Schools budgets. Though forecasted economic conditions hinder our ability to invest resources into strategic plan initiatives at the level I desire, I have remained committed throughout the development of this budget proposal to avoid significant cuts to the classroom.

During this process, we found ourselves challenged on two fronts: 1) To what degree will the pandemic's negative impact on the economy necessitate our use of fund balance reserves for the remainder of the current fiscal year; and 2) To what degree, and for how long, will this unprecedented situation affect revenue sources throughout the upcoming school year? These uncertain times compelled us to take a particularly cautious approach in developing the FY21 proposal. Unfortunately, if actual revenue collections over the coming months are significantly worse than current projections, we may find ourselves in the unenviable position of having to exercise more restraint by modifying the budget after the school year begins. Please rest assured that I will continue to keep the Board informed as we closely monitor revenue trends along the way.

Fund Balance Utilization and Replenishment

Preliminary estimates indicate that deficit sales tax collections for the remainder of the fiscal-year requires the utilization of a significant portion of our rainy day fund. Unfortunately, since sales tax revenue postings run two months in arrears, we will not know the full extent of our 2020 deficit for several more months. Regardless, we made a commitment to meet necessary obligations throughout the remainder of the current school-year, particularly as it relates to paying our employees, in spite of revenue shortfalls.

Available fund balance was approximately \$19 million (\$15 million of this amount represented the State required 3% reserve) before the occurrence of the pandemic. In working with County Finance staff, coupled with reviewing a variety of economic predictors, we are estimating that fund balance utilization could be as much as \$12 million in the final quarter of 2020 due to significantly lower revenue streams. This could ultimately mean we enter the 2021 school-year with fund balance levels being as much as \$8 million below the State required 3% minimum, which has directly impacted our budget planning. Our proposed strategy to address this issue is two-fold: 1) mitigate 2020 fund balance use by capturing some savings resulting from the hiring pause and spending freeze implemented in March; and 2) replenish a portion of fund balance by utilizing available CARES Act dollars (estimated to be just over \$4 million net of the 1:1 initiative) to reimburse 2020 expenditure obligations, thereby lessening the strain on the 2021 budget. Under these strategies, \$4 million of the fund balance gap could be restored in 2020, leaving the remaining \$4 million to be replenished in 2021.

2021 Forecasted Revenues – Projected Net Increase of \$1.2 million

Forecasted revenues for 2021 are \$507,930,000, \$4 million more than the proposed expenditure budget since we are anticipating the need to replenish fund balance reserves for the upcoming year. Below is a summary:

2020 Budgeted Revenue	\$506,652,000
State Revenue	8,804,000
Property Taxes	-
Local Option Sales Taxes	(8,529,000)
All Other	900,000
2021 Budgeted Revenue	507,827,000
Portion to Replenish Fund Balance	(3,980,000)
Available for 2021 Expenditures	<u>\$503,847,000</u>

Following are the expected budget to budget increases (decreases) for 2021 revenue:

State Revenue - \$8.8 million

For budget purposes, revenue estimates are based on the most recent information we have received from the Department of Education. State officials continue to indicate that they expect BEP estimates to remain relatively stable. Nevertheless, I do have concerns that the legislature could reconvene over this topic.

Property Tax Revenue – no change

In working with County Finance officials, 2021 property tax collections will likely be budgeted at the same level as 2020.

Local Option Sales Tax – (\$8.5 million)

This budget reduction is reflective of expected lower levels of consumer spending throughout fiscal-year 2021. Our calculations are based on discussions with County Finance staff (who have worked with both State and UT officials), as well as our review of a variety of national level economic predictors. It is important to note, however, that forecasting economic trends can be speculative, particularly given the uncertainty of the pandemic.

All Other Revenue Sources - \$0.9 million

The remaining portion of budgeted revenue growth is largely attributed to allowable increases in indirect cost charges related to the administration of federal grants.

Expenditures – Projected Net Reduction of \$2.8 million

The proposed expenditure budget for 2021 is \$503,847,000. Below is a summary:

2020 Expenditure Budget	\$506,652,000
Step Increases	4,000,000
Fixed Increases	3,527,000
Savings	(4,902,000)
Reallocation	(1,100,000)
Cuts	(4,330,000)
2021 Proposed Expenditure Budget	<u>\$503,847,000</u>

Below is a synopsis of the budget to budget increases (decreases) within expenditures:

Step Increases - \$4.0 million

This amount includes step raises for eligible certified (\$3.0 million) and classified (\$1.0 million) personnel.

Fixed Increases - \$3.5 million

Approximately \$1.5 million of unbudgeted positions were added in the 2020 school-year. These consisted primarily of educational assistant positions (IEP and 504 requirements), required ELL teachers and nurse positions, and bus driver training support positions in transportation.

More participants in the health insurance plan than the prior year accounts for an additional \$1.4 million of employer related costs, though unfortunately, there are no dollars programmed in the budget proposal to help offset expected premium increases. However, since the new rates will not become effective until December, we can possibly revisit this situation in the coming months if revenue streams turn out significantly better than expected.

The remaining \$0.6 million in this category relates to increased property insurance rates and additional contributions needed to the closed retirement plan as determined by the actuarial valuation.

Budgetary Savings – (\$4.9 million)

A significant amount of expected savings will narrow the budget gap. In working with the County, we will be able to restructure \$2.0 million of debt related to bond utilization for capital improvements. Other budget savings include \$0.6 million in TCRS contributions due to a slight reduction in State mandated percentage rates, \$0.6 million in workers compensation insurance (resulting from the continued implementation of district-wide safety measures and training), \$0.6 million in charter school pass-through payments (due to somewhat lower enrollment projections), \$0.4 million less in anticipated sick leave payouts (higher costs in 2020 resulted from the early retirement incentive), \$0.3 million related to the move from the A.J. Building to the TVA East Tower (assuming a mid-year move), \$0.2 million in the transportation department (savings in fuel index costs, summer transportation services, equipment repair/maintenance, supplies, etc.), and \$0.2 million from various other system-wide savings.

Budget Reallocation – (1.1 million)

A few years ago we extended the school day at our priority schools at an annual cost of roughly \$1.1 million. A one-year restructuring of grant dollars will provide the capacity to continue this initiative for an additional year. While grant funds will assume this obligation in 2021, thereby alleviating the strain on the General Purpose budget, we likely will be faced with revisiting this cost in 2022.

Budget Cuts – (\$4.3 million)

Since instruction, student supports, and school-based services account for the majority of the General Purpose budget, it becomes quite challenging to identify significant cuts that do not affect these areas. However, we made a purposeful decision to minimize any negative impact as much as possible. Below are the components of base budget reductions:

- *Instructional/School-based*
 - School Allocations (\$1.0 million) – 50% reduction of departmental and fee waiver allocations
 - Contracted Services (\$0.3 million) – elimination of Distinguished Professionals cost
 - Pre-K (\$0.2 million) – reduction of supplemental funding above grant and local match levels

- *District-level*
 - Year-round employees (\$0.7 million) – reduction of 5 days for 255-day employees (non-supervisory custodial and maintenance personnel will not be affected)
 - Professional development and associated travel (\$0.4 million) – 50% reduction

- Central Office/System-wide
 - Reduction in Force (\$1.7 million) – elimination of 20 positions

In closing, I would be remiss in failing to mention a few of the very critical things that we will not be able to in 2021 given the constraints of this budget situation. Sadly, funds are insufficient to provide percentage raises for our teachers. Nor are there sufficient dollars to address the ELA textbook adoption, enhance RTI services, or to bolster mental health supports. Like others, my hope is that the pandemic's duration will be shortened and that the economy will quickly bounce back to pre-COVID levels. Regardless, I remain committed to do everything possible to maximize our resources to the classroom and am heartened to know that I am part of a community that rallies to the support of one another. I am confident that in working together, our students, staff, and citizens will emerge on the other side of this storm with a greater resolve than ever.

I respectfully recommend that the Board of Education approve and adopt this FY21 budget at our next meeting on Wednesday, May 27, 2020.

Cc: KCS Executive Team