KNOX COUNTY SCHOOLS
ANDREW JOHNSON BUILDING

Dr. James P. McIntyre Jr., Superintendent

MEMORANDUM

To: Chairman and Members
Knox County Board of Education

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

Date: October 29, 2011

Subject: Fiscal Year 2013 Budget Initial Recommendations

The Fiscal Year 2013 (FY13) budget development process for the Knox County Schools is almost certain to be challenging from a variety of perspectives. While we do not yet have solid revenue projections, we know that we will start the process for FY13 with a revenue loss of more than $7 million due to the expiration of the federal Education Jobs Bill program. These funds were used for their statutorily-defined purpose: to maintain our level of school-based instructional staffing and to protect the classroom from experiencing the full impact of our economic circumstances. However, the use of these federal dollars, while appropriate and prudent, only served to stave off a challenging budget situation for one year.

In my October 11th memorandum to the Board of Education (Enclosure A), I outlined the actions we have taken in recent years to ensure that we are an efficient organization, and that we are using the taxpayers' money effectively to provide a high quality education to our children. We have purposefully made budgetary reductions in administrative and operational areas, and reallocated resources to our highest priorities: activities that directly support classroom instruction and student learning.

As we begin to look toward the FY13 budget, we have conducted analysis in five specific areas of school system operations where we might potentially 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

Community Input

I have made it a priority since being appointed Superintendent of the Knox County Schools to reach out to our community and seek input on important decisions from parents, teachers, students, staff and other community stakeholders. Since the October 18th meeting of the Board of Education, I have had the opportunity to meet with our custodial personnel about potential outsourcing, as well as to host a public forum to discuss these five areas with interested members of the community.

On Thursday night (October 27th), nearly 300 people attended a public forum on the fiscal challenges that we are likely to face in FY13 and the unattractive choices that we may need to consider to close the gap, as outlined in my memorandum of October 11th (Enclosure A). At the public forum we heard testimony on several critical topics such as school start times and community use of facilities, but much of the discussion centered around two sensitive issues: closing of small schools and custodial outsourcing. I listened closely, and have thought carefully about these two important considerations.

It is abundantly clear that all of the potential options we have analyzed represent extremely difficult tradeoffs, and none is without some impact on people in our community. The issue that I have had to carefully consider is the cost-benefit calculus for each potential savings strategy: the resources that can be saved and reinvested back in the classroom, versus the concerns and challenges associated with each possible option.

Much of the discussion at the budget forum centered around the observation that while we know that $7 million in federal monies will not be available in FY13, we are considering very serious budgetary actions without knowing the precise level of revenue that will support our

budget, and without having asked our appropriating body and our community for the financial resources to bridge this gap. This argument certainly has merit, particularly given the fact that the full funding picture for FY13 is yet to be determined.

Recommendations

For the past several years, we have identified reductions, reallocations and efficiencies in our operational and administrative areas that we have reinvested in supporting classroom instruction. I believe that we need to continue to identify and implement such operational efficiencies, even when they are extremely tough decisions. Outsourcing custodial services and strengthening procedures on the use of facilities can certainly be seen as continuing our efforts to effectuate operational efficiencies. Conversely, closing successful small community schools would clearly represent a more intense and consequential category of budget reductions.

We began the conversation about very small schools to explore the cost and the benefits of these institutions, and I have been reminded (often by our remarkable children) that our smallest schools, while arguably financially inefficient, provide value to this community in ways that make them a worthy investment. The problem is that investments can only be made when appropriate resources are available. The wise, practical people of our community understand that one does not invest in the stock market if the mortgage payment cannot be met. Therefore, if we are to continue to value and fund small schools, we collectively will need to thoughtfully re-examine and significantly enhance the level of resources that are made available for public education in our community.

Since we began this public conversation, many citizens, taxpayers, and stakeholders have asked for more time to make the case for additional funding that would allow our smallest schools to remain open and thriving, our school schedules to remain intact, and for the Knox County Schools to have the resources necessary to achieve our ambitious educational goals. At this point in time, I am convinced that this is a public dialogue worth having, and therefore, I am persuaded to not recommend the closure of any small schools for the 2012-13 school year, and also to recommend keeping our school start times at the status quo.

However, if we are unsuccessful in overcoming the structural limitations that have constrained our revenues, we will need to revisit this conversation about closing small schools and school start times for the 2013-14 school year.

I am recommending that the Board of Education move forward on realizing savings in three areas of operational efficiency that I believe will have minimal impact on our students and the quality of their education: 1) adjusting our budget formula to recognize more efficient high school course scheduling, 2) tightening our protocols on community use of school facilities, and 3) outsourcing custodial services. Even if considerable additional resources were available, I would almost certainly still recommend that we implement these three changes because they are fiscally responsible proposals that have little or no educational impact. Saving an estimated $3 million dollars on these three areas of operational efficiency is not only prudent financially, but it will also allow us to continue to invest in some of our most critical instructional priorities.

The areas of high school scheduling and use of school facilities will be addressed through specific recommended changes in policy and practice that I will bring forward to the School Board in the coming weeks and months. With regard to outsourcing of custodial services, I respectfully request that the Board of Education approve the proposed contract with Service Solutions Corporation that is attached to your meeting agenda.

Custodial Services

In my October 11th memorandum (Enclosure A), I describe the process used for obtaining and assessing proposals for providing custodial services to the Knox County Schools. Of the nine firms that submitted proposals, Service Solutions Corporation was identified to be the "apparent successful bidder" by the Knox County Purchasing Department. The Knox County Purchasing Department subsequently has worked with Service Solutions to develop a contract that best meets the needs of the school system, and protects the interests of both the school system and our current custodial employees.

The proposed contract is for three years with an additional two year option at annual cost of $8.9 million for a complete outsourcing of custodial services. The Knox County Schools custodial expenses for FY12 are projected to be $11.2 million. The contract represents a cost

savings of approximately $2.3 million in the first year of the proposed contract, and has the potential to save the school system more than $11 million over its five-year term.

The proposed contract is a very detailed document that includes some important concessions, and very stringent performance criteria. A fact sheet prepared by Service Solutions (Enclosure B) details some areas of employee protection that have emerged as being of high interest to both our custodial personnel and the School Board, including:

- All current KCS employees (who pass a background check) would be hired by Service Solutions at their current wages and hours.
- Our current custodians would be guaranteed employment for the life of the contract as long as they remain in good standing.
- Service Solutions Corporation (SSC) has agreed to define good standing in the contract, and give the KCS Supervisor of Maintenance the opportunity for input and review before any adverse job action might be taken.
- Representatives of the company have said they would keep our current employees at their current schools for the foreseeable future.
- Service Solutions does not normally provide paid sick days, but has agreed they would give 6 paid sick days annually to our current employees.
- The health insurance premiums for the Blue Cross / Blue Shield plan offered by Service Solutions are the same or less than our premiums, but the deductible is considerably higher ($1,500 vs. the current $350)
- Service Solutions offers an optional 401(k) retirement plan and matches 25% of employee's contributions. SSC employees are vested in the plan immediately.

The fact sheet also provides some specific information concerning managerial aspects of the potential contract that are of interest to the Board of Education, including: accountability safeguards, financial information, management structure, and employee turnover rates.

Outsourcing custodial services is not something that I relish doing. We have a dedicated group of custodial employees who have done a very good job in keeping our schools clean and well maintained. Our custodians are indeed an important part of the school community, and many feel a strong commitment to the children of the Knox County Schools. However, when I look at the comprehensive structure of the potential contract, the concessions that have been made to accommodate our current custodial personnel, and the magnitude of the

savings that can be re-invested in classroom instruction, I don't believe I can responsibly recommend against outsourcing. Therefore, I would respectfully request that the Board of Education approve the proposed contract with Service Solutions Corporation.

Conclusion

In developing my recommendation to the Board of Education, I have tried to make the distinction between recommending the implementation of several operational efficiencies, and advising that we not move forward with budget reductions that more directly impact our students and our families.

Therefore I am recommending that the School Board approve custodial outsourcing, and I will recommend that we take advantage of savings based on efficient high school scheduling, and enhancing protocols around community use of school facilities. I believe these three recommendations will potentially save $3 million annually, putting our school district on strong footing as we begin the FY13 budget development process and deal with the loss of considerable federal revenue, as well as growing educational needs. At this time, I am not recommending that the School Board implement wholesale changes to school start times, or close our smallest schools.

I believe it is time for our community to reflect upon our goals, priorities and aspirations with regard to the education of our children. In developing the Knox County Schools strategic plan, *Excellence for All Children*, our community worked together to set extremely ambitious goals for our school system, our schools, our teachers, and especially our students. If we are to be successful, we must collectively commit to investing the appropriate level of resources to enable our students to meet these ambitious expectations, and thereby ensure a brighter future for our children and our community.

cc: KCS Executive Team