

WORK SESSION NOTES
Draft Budget Development Process
November 23, 2015
4:00 p.m.

Purpose of Meeting:

This is one of three sessions to explain the Draft Budget process which will be presented to the Board in January 2016. These notes contain information presented by Cordelia and dialogue with Board members.

Present:

Alicia Averette	Linda Duncan	Tom Hudson	Angie Moorin
Chris Brady	Chuck Haddaway	David Jones, Jr.	Marco Munoz
Karen Branham	Cordelia Hardin	Jonathan Lowe	Diane Porter
John Collopy	Dr. Hargens	John Marshall	Mike Raisor
Dena Dossett	Stephanie Horne	Frank Mellen	Lisa Willner

Cordelia:

Budget cycle for fiscal year 2016-17 includes:

- Enrollment projections - October and November
- Revenue projections – November and December
- Draft Budget – January
- SBDM Allocations – March, updated in May
- Tentative Budget – May
- Tax rates levy – August
- Working Budget – September

Three main areas of focus:

- How will we improve student outcomes
- How will we pay for identified priorities to improve student outcomes
- How will we build community support for reallocation of budget dollars

Strategic financial plan is necessary to accomplish student success:

- Built on Strategic Vision 2020
- Learning, growth and development
 - Early Childhood
 - Kindergarten readiness
 - Third grade reading pledge
 - High school graduation
 - College and career readiness
 - Equitable access
- Increasing capacity and improving culture
 - High-performing teams professional learning communities
 - Effective educators
 - Capacities/dispositions

- Personalized learning
- Culture and climate
- Behavior and discipline
- Turn around lowest performing schools
 - Extended learning
 - Additional support based on identified student needs
- Improving infrastructure and integrating systems
 - Increase allocations of instructional resources and district supports
 - Increase highly qualified educators
 - Recognize and address diverse needs of students
- Increase community engagement
 - Improve communication
 - Build and strengthen relationships with families and community
 - Provide customer service training

Budget Development – what has changed since FY16 Budget

- Revenue
 - Updated General Fund revenue projections
 - Assumes no increase in property taxes
 - Grant revenue assumes same funding levels as FY16 Working Budget

David: What is the assumption about the state SEEK contribution?

Cordelia: We have assumed 2% growth on SEEK revenue. Enrollment and assessments could impact that.

David: So property tax revenue is flat?

Cordelia: Yes. On occupational tax, we have assumed 6% growth. Overall, the revenue increase was \$15 million. When we look at revenue minus expenses, we are about \$2.6 million where expenses exceed revenue.

- Expenses
 - One-time budget approvals from previous year removed (Chris Brady requested list)
 - No other reductions have been assumed
 - Assume same positions as prior year, reality changes will occur
 - Salary step increases have been included - \$11.6 million General Fund
 - No cost of living increase on salaries have been included unless mandated by state, which would compact Tentative Budget (1% equals \$6.5 million)
 - Enrollment projections used are from August 18, 2015 enrollment
- Other
 - Draft Budget is starting point – no major decisions included for next year
 - Items that will impact the budget
 - Legislative actions
 - State mandates
 - Grant funding levels
 - Budget request approvals
 - Sustaining existing programs and services

Our process for Draft Budget development:

- November 2015
 - Principals and department heads submit budget proposals to Division Chiefs
 - Schools notified of grant implications on staffing, if known
 - Equity, Finance and District Planning meet on Section 7 process
 - Finance meets with administrators of Academics and Director of Priority Schools to discuss needs
 - Initial revenue projections completed
- December 2015
 - One-time approvals removed from developmental budget
 - Salary and benefit projections completed
 - Demographics sends student projection draft to principals (based on trend data)
 - Board approves District Improvement Plan
 - Budget instructions are developed for schools and department heads
- January 2016
 - Free and reduced student count taken to determine Title I allocations to schools
 - Board approves standard school allocation formula
 - Board receives enrollment projection data from Demographics for approval
 - Board receives Draft Budget, including school allocation projection (required by January 31)
 - After budget submittal to Board, Finance provides spending blueprints for central office and prepares budget packets

David: I'm trying to connect the assumptions to the allocation formulas and when the decisions have to be made. For example, assuming we adopt the Early Childhood and Third Grade Reading Pledge strategies today, there's an assumption that more money will flow toward younger students. If budget assumptions are basically known (step increases, flat revenue), how do we make sure we are cutting and adding in the right places because assumptions mean there is no give in the system and everything has to come from within.

Cordelia: That is where program evaluations come in to play. In my opinion, the way the state has set this timing up is not the best to let boards have an opportunity to make some strategic changes, but we have to live within that. We need to understand what priorities you feel are important. Once we send standard allocations to schools, that's their allocation for their staffing. If Early Childhood is a priority, I need to know the plan so we can build the cost into the budget, either by eliminating a low-performing program or through central office cuts. The majority of money is going to schools or to support schools.

David: The priorities in the Strategic Plan are going to be clear – early compared to middle and high, investment in equity. The question is, will it be this budget cycle or next? There is no benefit to putting the work off. We need to get the information together to get going. I don't expect the implementation of the Strategy to wait another 18 months.

Chris: My concern is reducing student/teacher ratios, specifically middle schools. Maybe not in this budget cycle, but possibly for the next.

David: This can't happen all at once, but like we said in the beginning, if this is actually a strategy, then at least \$100 million has to move from yesterday to tomorrow. It can't be nip and tuck around the edges. And the allocation formulas are what drives that.

Linda: Our Strategic Plan doesn't have to be implemented all in one year. Third Grade Pledge looks to me to be the priority area.

Diane: I think the class-size issue depends on the individual schools and circumstances; it's not a one-size fits all. It depends on the population. If research says 20:1 doesn't matter, it matters in elementary compared to 27:1 classrooms. We've always used fifth-day enrollment. Also, have we ever used any trending data to see how fifth-day enrollment compares to enrollment later in the year? **I would like more information on this.** Also, on the strategic five-year plan, we currently know the priority schools. We won't know next year's needs until next year gets here. If we need to put money into programs needing support, that needs to happen.

John: I would like to make a clarification – direct budget will not require the Board to make the hard decisions; there are too many unknowns. The biggest thing pertaining to the Strategic Vision is we don't yet know what the price tag of that is going to be. Once it's finalized, it will be turned over to the administrative team to determine the dollars needed for year one, two and three. They will put this into formal requests so funds can be allocated for issues that this Board sees as most urgent. But, you won't see that until the Tentative Budget. We won't know if hard decisions will be required until we find out what the state is going to do. We don't know what SEEK funding will be or if additional salary increases will be mandated. But, it would be premature to ask the Board at this point to cut a million dollars in programs. That needs to be done carefully with consideration of program evaluations.

David: Time rolls on and we have to get moving on this. Since we don't yet know what the state will provide, I think we need to look at the areas that do create resource. We may need to take away from high school and put it into early childhood. We may be able to give back but if we only have X amount of dollars, the instruction on where to lean on spending is coming from this Board. The instruction is not to keep spending where you are until you get more.

John: I agree with that. I think if you really want to drill deep, the type of decisions you are talking about need to happen in the next 45-60 days at most.

Chuck: I'm hopeful the budget request proposals that you are collecting now are going to help us answer some of those questions. For instance, if the Board gives a directive in an area, someone from administration puts together a program to reach a goal that is aligned with our strategy. Are the spending blueprints an act of accountability or fact finding?

Dr. Hargens: Once the decisions are made, the spending blueprint lays it out according to priorities. A school or department may go through the entire year being really busy and not spent their funds on what they said their priorities were. You get to the end of the year and you have money left, and you had needs. The money should be spent during the year in the program it was allocated for in order to benefit students. It's more for discipline – to lay out a plan and spend it according to that plan. Not that the plan can't be flexible, but it shouldn't get away from us and keep us from doing the important things. Quarterly checks are helpful to make sure you are spending according to the plan. If you wait until April to spend, you've benefited no students. It's discipline according to the priorities, then execution.

David: It's taken five years to spend the \$5 million dollars we appropriated for one year of extended day, correct?

Cordelia: It's taken 2-1/2 years.

David: It was running about \$1.7 million per year. So barely under three. That's a good example of what you are talking about. When there's a budget that says spend here and don't spend there, and when

there's a strategy, we need to be alert to make sure it is actually happening. We learned last year that after the allocations were set in January, 80% of the budget was locked and loaded.

Cordelia: Yes, and that's why the decisions and direction need to be made now so that we can start making sure all department heads and schools know. I do know Early Childhood is working on putting together their plan. I think we have all heard that Early Childhood, PreK and K-3 are priorities.

Cordelia: The answer as far as priority schools - we just received notice we are getting \$3.7 million for priority schools to be used over the next three years. It is allocated by school and based on the allocation they submitted.

Steph: The budget should be reactive to the choice system. It's loud and clear in our Strategic Plan that we are a district of choice. For instance, at Male, you may have square footage that has been recaptured from adults that were moved and now their square footage, the idea would be, is your choice to make that policy decision at the allocation level that we are just going to continue to allocate the same number of children to the same schools or because there are new rooms, that number would change. So you could increase the choice of some parents and enable more parents to choose to go to schools. I think there should be some reaction in the allocations.

Steph: If you look at trending, Cordelia has been right on target for her revenue this time of year projecting what it would be at the end of the year, basically the actuals. The expenses, however, although by the end of the year when we look at what actuals were, they were pretty much where we needed to be but widely in variance for \$29 million over budgeting of expenses versus where we ended up. I would prefer this budget cycle to not show ourselves in the hole, in a sense, over budgeting expenses. At the end of the year we ended up over \$4 million. I would like to be more consistent with the budgeting of expenses.

John: It depends what budget you look at, but if you look at the Working Budget, you cannot look at the expense budget and say that is how much money we are going to spend. The reason why is there are three elements included that you aren't going to spend and we account for this in our five-year plan. We know it will happen.

1. Reimbursements – eRate and transportation. We have to budget because purchase orders have to be placed and we plan for the reimbursement that is forthcoming, but it isn't guaranteed.
2. Carryover - Prior year surplus of school discretionary funds. We literally pick those up and place them in the subsequent year.
3. Carryforward - Funds encumbered in the prior year, but not spent.

So you have an increase in budget and an increase in obligation. At the end, there will be purchase orders that will not be spent. That doesn't sound like a lot, but it's about \$13 million a year. To recap, you've got \$1.3 million in reimbursements from eRate, \$4 million in reimbursements from Early Childhood, IDEA, and ECE programs, \$13 million in Carryforward that you don't expect to spend, and \$10 million in Carryover that you don't expect to spend. If you look at the total of all those, it will appear you will spend more than you really will.

Steph: It's frustrating because we can't see how much money we are actually dealing with. It looks like we are reaching \$25 million into the fund balance, but in reality, that is zero. You are really dealing with \$4-5 million in play. So if taxes are assessed, that's going to bump up. This year it was a 2.5% increase. But you really can't count on any of that.

Cordelia: It used to be the total amount a school could carry over was the value of a teacher or a certain percent. What I saw happening was the attitude of use it or lose it. So, I went to the superintendent and Board and asked this to be changed. As long as they have a plan in place, they can carry over. So, it went from a \$4 million carryover to about a \$9 million carryover. But at least, they aren't buying a bunch of supplies that aren't needed.

Cordelia:

This is our membership and how it is set up:

January – Draft Budget data points

- School staffing – Draft Budget based on same staffing as prior year
- FY 2015-16 membership: Total 101,431
 - Elementary regular schools – 44,867 plus 709 ECE self-contained*
 - Middle regular schools – 18,437 plus 504 ECE self-contained*
 - Secondary regular schools – 27,807 plus 683 ECE self-contained*
 - Early Childhood – 4,149**
 - ECE schools, state agency, and special schools – 3,794 plus 487 ECE self-contained**

*From 5th day enrollment projections

**From 2015-16 third month membership report

Cordelia: This is our process for the Tentative Budget Development:

- February 2016
 - Budget packets provided to cabinet for distribution and development of budget proposals
 - Budget allocations provided to schools for certified/classified staffing, instructional supplies, and Section 7
 - School required add-on allocations and other add-on's reviewed for priority
 - Schools/departments enter budget proposals for first level supervisor review and approval
 - Budget priorities developed from Strategic Plan are submitted for cabinet review
 - Technology department reconfigures KETs grant priorities to align with Strategic Plan
- March 2016
 - Cabinet reviews and prioritizes budget requests based on relevance to Strategic Plan
 - Schools meet with SBDM councils and submit staffing decisions to HR
 - Schools/departments enter flex budget line items into Munis based on allocations provided
 - Central office spending blueprints submitted
 - Major grants spending blueprints submitted – grants over \$1 million
- April 2016
 - Final budget recommendations from Cabinet included in Tentative Budget
 - Tentative Budget is updated for revenue projections and tentative budget approvals
- May 2016
 - FY17 Tentative Budget work session presented to Board on May 10, 2016
 - FY17 Tentative Budget is presented to Board on May 24, 2016
 - FY17 Tentative Budget submitted to KDE by May 31, 2016

Cordelia: These are our school allocations and the information we are sending to schools:

2016 Draft School Allocations

- Council allocation – February 2
 - Sections 4, 5, 6, and 7 - \$384 million plus \$31 million in employee benefits (certified and classified staffing, instructional supplies, Section 7)

- Add-on allocations – currently \$156.4 million including fringes, plus \$137.6 million state-paid benefits. Some add-ons will be reviewed for priority determination
- Early Childhood - \$2.9 million plus an additional \$4 million in transportation costs
- Special education (ECE) schools - \$15.5 million
- Special schools - \$52.4 million
- State agency sites - \$10 million
- Districtwide school-center costs (sub teacher, music instruments, science kits, etc.) - \$51 million
- Title I allocation to schools is on or near February 2 – over \$19 million

Cordelia: Dr. Hargens was asking about teacher sell backs. When we send these allocations out to SBDM's they make decisions. Based on their decisions, they come back and say they want to sell back a teacher in exchange to buy something else, or put funds in their supply code. They get 95% value of an average teacher salary to use however the SBDM feels is needed for that particular school. Sometimes they sell back because they don't have the space for another teacher. There are various reasons. We require SBDM notes so we know why they are selling a teacher.

Teacher Sell Backs – KRS 160.345 (2) (c)

- Elementary schools – 175.3 teachers
 - Based on 24 to 1 student to teacher ratio, 41 schools with less than optimal number
- Middle schools – 29.15 teachers
 - Including both Olmsted's, Stuart, and Thomas Jefferson
- High schools – 53.4 teachers
 - Including Fairdale, Fern Creek, Iroquois, Moore, Seneca, Southern, and Western

Lisa: Is there any regulation that binds us to all elementary, middle or high schools having the same formula or are we able to differentiate based on our equity goals?

Cordelia: We differentiate based on add-ons. The standard needs to be in place first.

Lisa: Hypothetically, it could be a much lower standard allocation so that we have more flexibility.

Cordelia: This is for regular schools. Special schools are not funded this way. They are funded based on the program and program needs.

Cordelia: We have a long list of what we've done:

Priority School Support

- Held harmless in the 5th day adjustment in FY16 (no teachers pulled back)
- Extended learning – Achievement Through Teaching and Intervention (ATTAIN)
- Additional Support from assistant superintendents & ETC's specific to school need
- Priority hiring
- Various add-ons based on school need - \$7.5 million (included in add-on total)
 - Additional teachers – 45.5
 - Additional assistant principals- 2
 - ECE consulting teachers – 17
 - Security – 27
 - Other positions – 13

Cordelia:

General Fund Add-On Programs – Regular schools

Beginning with Special Education \$59 million (General Fund) is determined by federal law and that's in addition to IDEA. I don't see that you will be touching that. The list begins with highest and goes to lowest. The Elementary Redesign we talked about earlier is 2.0 million.

Special Education	\$59.4M	HS Maintenance Workers	\$1.2M
Goal Clarity Coaches	11.2M	Foreign and World Language	1.2M
Additional Teachers/Instructors	11.0M	Office of Principal	1.2M
English as Second Language	9.1M	Montessori	837,000
Elementary Assistant Principals	8.4M	Mental Health Counselors	484,500
Athletics & Activities	8.2M	Catalpa at Maupin	455,075
Vocational Tech (5-Star)	3.9M	Counselors	447,800
Music Instruction	3.1M	Reach - Atkinson	409,400
Security	2.6M	Technical Coordinators (stipend)	348,000
Operational	2.5M	Safe School	249,488
Student Response Team	2.3M	LEEP	207,000
High School Textbooks	2.1M	Operations of Plant	166,580
Elementary Redesign/Class-size Reduction	2.0M	Other Positions	128,800
Magnets	1.8M	Aviation	95,600
Extended Days, Principals/Counselors	1.5M		

Anticipated funding requests for FY17 – what we expect will be included in the Tentative Budget

- Vocational teachers (5-Star Theme) – will we want to continue
- ESL - students continue to increase; student to teacher ratio needs to be lowered
- Third grade reading pledge
- Bus replacement
- Annual Facilities Improvement Fund

Actions which could impact FY17 Tentative Budget

- Legislative session actions – SEEK funding levels or other funding changes
- State mandate of cost of living increases
- State grant funding levels
- Budget requests submitted to support Strategic Plan
- Specific requests to sustain/expand existing services or programs
- Will existing programs be eliminated based on evaluations

Chris: Priority school support – are counselors considered “other position” - should we look at this to make sure we have more counselors in our alternative schools and priority schools?

Also, bus replacement. We are currently supporting three brands. Should we narrow that down to one or maybe two brands for backup so we don't have to carry parts and all the other things?

Mike: We are moving in that direction and narrowing it down.

David: There's a lot of work to define the implementation, benchmarks.

John: The Draft Budget will not show priorities because it won't be until February where the priorities are put to numbers.

Cordelia: If we know for a fact that K-3 is a priority, we pull all budget requests together at once and decide how much we are going to fund. Let's say Early Childhood needs \$4 million and another department needs \$7 million. Cabinet meets to discuss what the priorities are, look at how much money is available, and decide how much we are going to fund. The Draft budget won't have those details but we can certainly tell you what we plan to put in the Tentative Budget if we get the feedback from all the departments, and I think we will have some of that.

David: In my opinion, it's not optional to wait after it's adopted to begin to prioritize around it. We aren't going to tell you in detail how to do that, but the pieces that are coming forward – we need to figure out where the money is coming from.

Cordelia: We are required by law to give allocations to schools by March 1.

David: Maybe you should do it in February after you have more information.

Cordelia: February 2 is when we actually put the information out there for staffing. There is just so much for a district this size, in order for HR to do what they need, we have to move the calendar back. We have to deal with the Draft Budget by January 31 (KDE standard). I do feel there are some items we can suggest that are withheld. We can look at staffing formulas to see if there is something we can do, and if so, we certainly will.