
Chatham County Local Government Department Heads-Up

Instructions: Please return to lisa.west@chathamnc.org by January 14, 2020.

Department Name: Chatham County Schools

Chatham Grove Elementary - New school operating costs (FY 21)

Already included as a part of the approved FY 2017-2023 Capital Improvement Program (CIP) is \$1.38 million for the increased operating costs associated with Chatham Grove Elementary School (which is scheduled to open in August, 2020). Those costs include additional teaching positions, instructional and non-instructional support positions, classroom and exceptional children's assistant positions, classroom materials, insurance and utilities. Average state salaries and benefits and historical expenses were used in projecting these costs.

Conversion to a percentage of salary supplement for licensed employees, Year #3 (FY 21)

The plan to convert the flat-rate supplement to a percentage of salary supplement for licensed employees (see below) was implemented last year (2018-2019). It is based on the North Carolina teacher pay scale and was designed to ensure that Chatham County Schools remained competitive with our surrounding districts. At the time, our district was one of only two (when considering the 10 districts that border us) with a flat-rate supplement for licensed employees.

Perhaps the biggest challenge with a percentage of salary supplement is related to the variable nature of teacher salaries and benefits. The North Carolina General Assembly sets base salaries for teachers and establishes costs associated with benefits (e.g., retirement, hospitalization, etc.). Our new supplement scale for licensed employees is therefore inextricably linked to any state-approved changes. In 2018-2019, for example, teacher pay raises ranged from 0% to 14.8%, and retirement has increased approximately 3% since 2018.

There are other factors (e.g., additional positions, changes to experience levels, and timing of when the supplement budget is due to the county) considered in projecting the total cost of a percentage of salary certified supplement. Each year, the supplement expense is greater than the funded amount. In the past, the district has been able to cover the overage through various strategies, including using flexibility given by the State (which has been greatly limited) and general savings. The budget overage has grown to approximately \$850,000 and is too large for the district to cover with existing funding and maintain the amount of fund balance recommended by the Local Government Commission.

The data used to develop the approved proposal is approximately five years old. Furthermore, as noted at the bottom of the approved plan (see below), there was no way to envision how large the funding "gap" would become. To that end, consideration needs to be given to the possibility of freezing the supplement at the current rates (year 2) and working with the County Manager's Office to determine the extent to which there is a more sustainable model moving forward. At this time, however, the funding "gap" is approximately \$850,000.

It's important to note that even with the additional \$850,000, there is still the potential for an even larger funding "gap" if the General Assembly approves pay raises and benefit increases later this year or in subsequent years.

Certified Salary Supplement - 4 Year Phase-In

	17-18	18-19	19-20	20-21	21-22	Total Increase
Increase	834,580.00	425,111.00	525,000.00	475,000.00	300,000.00	1,725,111.00
Budget	5,206,889.00	5,632,000.00	6,157,000.00	6,632,000.00	6,932,000.00	
% Increase	19.09%	8.16%	9.32%	7.71%	4.52%	

Years/Cert.	17-18	18-19	19-20	20-21	21-22
0-5 A	N/A	12.00%	12.00%	12.00%	12.00%
6-10 A	N/A	12.25%	13.00%	14.00%	14.00%
11-15 A	N/A	12.50%	13.75%	15.00%	15.50%
16-20 A	N/A	12.75%	14.00%	15.50%	16.00%
21-25 A	N/A	13.00%	15.00%	16.50%	18.00%
26+ A	N/A	13.25%	15.75%	17.00%	18.25%
0-5 M	N/A	12.50%	12.50%	12.50%	12.50%
6-10 M	N/A	12.75%	13.50%	14.50%	14.50%
11-15 M	N/A	13.00%	14.25%	15.50%	16.00%
16-20 M	N/A	13.25%	14.50%	16.00%	16.50%
21-25 M	N/A	13.50%	15.50%	16.75%	18.50%
26+ M	N/A	13.75%	16.25%	17.50%	18.75%

Note: The cost does not include the % for salary increases within each given fiscal year.

Certified supplement funding in current year (FY 20)

As previously stated, there is a funding "gap" for the current fiscal year. The amount fluctuates (i.e., could increase or decrease on a daily basis depending on the experience level of employees hired to fill vacancies). Without additional funding in the current fiscal year, there will be a significant impact on fund balance at the end of FY 2019-2020. An additional increase in funding for the supplement in arrears would increase the likelihood of the district remaining within the Local Government Commission's recommended fund balance levels.

Based on the foregoing information, County and CCS administration have worked collaboratively to develop the following plan for your consideration:

Supplement Sustainability Proposal

Problem Statement:

The current model has proven to be unpredictable and perhaps difficult to sustain. There are several important variables to consider, including the inability to predict state-approved raises, mandated changes to retirement rates, and employee longevity (i.e., length of service). The timeframe in which the school board has to submit budget requests to the County requires the need to project costs in advance of knowing what actions the General Assembly will take, adding to the complexity of the problem.

Potential Responses:

1. Take no action, which would exacerbate the funding issue and limit the potential to sustain.
2. Freeze the licensed supplement dollar amount (as paid in November, 2019) for the rest of FY 2020 and FY 2021 based on the existing salary schedule for 2019-2020. If the General Assembly approves a pay increase during the current year, the supplement would **not** be adjusted. However, any increases to the retirement rate would need to be included.
3. Update the fiscal impact projections, and develop a more predictable model (this will require time to complete) with the following goals:
 - a. Ensure that Chatham County Schools' licensed supplement remains in the top five when compared to the 11 districts that surround ours (currently 5th).
 - b. Ensure that Chatham County Schools' supplement remains in the top 10 in North Carolina (currently 6th out of 115).
 - c. Maintain the tier structure (i.e., based on years of service and degree level).
 - d. Share a preliminary draft of the plan with the Board of Education and Board of Commissioners in September and solicit input.
 - e. Solidify final proposal for the Board of Education and the Board of Commissioners to consider in December or early January.
4. Direct staff to identify additional options, including budget reductions.

Strategies that will be explored:

1. Continue with percent of salary. This will require a significant increase in funding at a time when new schools are coming online and more are expected to be needed.
2. Return to a flat rate with the aforementioned goals in mind.
3. Develop a hybrid approach that combines a flat rate with an additional percentage.