

**BEFORE THE FEDERAL COMMUNICATIONS COMMISSION  
WASHINGTON, D.C.**

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**In the Matter of**

**Schools and Libraries  
Universal Service Support Mechanism**

**CC Docket No. 02-6**

**Shelby County Schools’  
Request for Review and/or Waiver of  
Funding Decision by the  
Universal Service Administrative Company**

**Application No. 161047376**

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**SHELBY COUNTY SCHOOLS’ REQUEST FOR REVIEW AND/OR WAIVER OF  
FUNDING DECISION BY THE UNIVERSAL SERVICE ADMINISTRATIVE  
COMPANY**

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**I.     Introduction<sup>1</sup>**

On October 14, 2017, the Universal Service Administrative Company (“USAC”) issued a decision denying/reducing Schools and Libraries Universal Service funding to Shelby County Schools for Funding Year 2016.<sup>2</sup> Shelby County Schools, pursuant to 47 C.F.R. §§ 54.719(b) and 54.722(a), respectfully requests a review of USAC’s decision. As a result of USAC’s decision, Shelby County Schools, an urban school district that primarily services impoverished students, faces the denial of more than \$1 million in E-rate reimbursement for services it

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<sup>1</sup> The Commission’s rules provide the standard of review for this matter. The Federal Communications Commission (the “Commission”) and/or the Wireline Competition Bureau (the “Bureau”) shall conduct a de novo review of a request for review of USAC’s decision. 47 C.F.R. § 54.723; *see also In the Matter of Request for Review of a Decision of the Universal Service Administrator by Fort Worth Independent School District*, 27 FCC Rcd. 14995, 14996 n.10 (2012).

<sup>2</sup> The funding commitment decision letter at issue in this appeal is attached as Exhibit 1. USAC’s October 14, 2017 Decision on Appeal issued to Shelby County Schools is attached as Exhibit 2. Shelby County Schools’ Request for Review and/or Waiver is timely, as it is filed within sixty (60) days of USAC issuing its decisions denying funding. *See* 47 C.F.R. § 54.720(a).

purchased pursuant to a properly conducted competitive bid process for Voice over Internet Protocol (“VoIP”) products and services provided by ENA Services, LLC (“ENA”).

For the reasons set forth below, and for the reasons stated in the Request for Review and/or Waiver by ENA of the Funding Decision by USAC,<sup>3</sup> the Bureau and/or the Commission should grant this appeal, and/or any waivers necessary or warranted, and remand the relevant application to USAC for immediate approval. Because the issues raised by this appeal are governed by the standards and analysis the Commission and Bureau have previously issued, Shelby County Schools requests an expedited review and inclusion in the next available Public Notice streamlined order to be released by the Bureau.<sup>4</sup>

## **II. Shelby County Schools Serves an Impoverished Constituency.**

For decades, Shelby County Schools and the Board of Education of the City of Memphis/Memphis City Schools (“Memphis City Schools”) operated separate school districts in Shelby County, Tennessee. In March 2011, voters in Memphis, Tennessee, in an effort to obtain quality education in a racially integrated school district, voted to surrender the charter of Memphis City Schools. In September 2011, a federal court approved a consent decree governing the transfer of administration of Memphis City Schools to Shelby County Schools. The transfer became effective on July 1, 2013. At the time, Memphis City Schools was the largest school district in Tennessee. This was one of the largest school district mergers in the history of the United States. The merged Shelby County Schools district had nearly 150,000 students.

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<sup>3</sup> Shelby County Schools incorporates herein by reference the arguments and documents contained in the Request for Review and/or Waiver by ENA of the Funding Decision by USAC that will be filed with the Commission on or about December 12, 2017.

<sup>4</sup> The Commission or the Bureau is required to issue a decision or otherwise take action “in response to a request for review of [a USAC] decision” within 90 days. 47 C.F.R. § 54.724; *see also Streamlined Process for Resolving Requests for Review of Decisions by the Universal Service Administrative Company*, 29 FCC Rcd. 11094 (2014).

Effective July 1, 2014, Shelby County Schools went through a “de-merger”—five municipalities in Shelby County were allowed to form their own school districts. This resulted in one of the United States’ largest school district de-mergers, and resulted in Shelby County Schools becoming a segregated and racially isolated school system. Shelby County Schools lost nearly 50,000 students but remains the largest school district in Tennessee. Many of the schools in Shelby County Schools have extremely high poverty rates. More than 40,000 of Shelby County Schools’ students have a household income of less than \$10,000 per year. Nearly all of the schools in Shelby County Schools are considered Title I schools, that is, schools which have high numbers or high percentages of children from low-income families, and a large number of the schools have over 90% economically disadvantaged student populations.<sup>5</sup> During the 2014-2015 school year, Shelby County Schools’ economically disadvantaged population was 79.8%. The vast majority of Shelby County Schools’ students are minorities or of non-U.S. origin.<sup>6</sup>

Shelby County Schools has faced significant budgetary constraints since the merger/de-merger. For instance, in 2015-2016 alone, three hundred and sixty-seven (367) positions were eliminated from Shelby County Schools’ general fund budget. Of the numerous positions that have been cut over the years, many provided much needed support for students and schools such as teachers, teaching assistants, social workers, guidance counselors, reading intervention teachers and other support staff. Additionally, over the past three years, twenty (20) schools have been permanently closed down. For the 2016-2017 school year, Shelby County Schools was faced with a near \$90 million budget deficit. To close that gap, Shelby County Schools

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<sup>5</sup> The Title I program provides financial assistance to public school districts and public schools with high numbers or high percentages of children from low-income families to ensure that all children meet challenging state academic standards. *See* 20 U.S.C. § 6301 *et seq.*

<sup>6</sup> *See* Shelby County Schools’ Finance Summary attached as Exhibit 3 and Shelby County Schools’ Financial Challenges Presentation attached as Exhibit 4. Exhibits 3 and 4 were prepared by Shelby County Schools’ Chief Financial Officer Lin Johnson.

closed four (4) schools, decreased benefits for educators and staff, eliminated some positions, outsourced services, and pulled \$3.5 million from its reserve fund.

Of course, a reversal of USAC's decision denying Shelby County Schools' appeal of the application for E-rate funding for 2016 would defray some of the drastic and costly measures that Shelby County Schools has had to take to close the budget gap, as Shelby County Schools has been denied more than \$1 million in E-rate funding. USAC's E-rate funding denial/reduction imperils Shelby County Schools' already financially impaired ability to deliver a quality education to deserving students who so desperately need it.

### **III. Legal Analysis.**

#### **A. Most of the Services/Products provided by ENA are Eligible for E-rate Funding.<sup>7</sup>**

The Bureau and/or the Commission should grant Shelby County Schools' request for review and reinstate the E-rate funding that was improperly reduced by USAC. Shelby County Schools sought E-rate funding for certain VoIP services and products provided by ENA for funding year 2016. On February 23, 2017, USAC reduced E-rate funding to Shelby County Schools because it concluded that certain services and products provided to Shelby County Schools by ENA were ineligible VoIP services and products. USAC only agreed to provide \$437,072 in E-rate funding rather than the \$1,539,458 that Shelby County Schools requested.

The Commission's regulations provide that "[a]ll supported services are listed in the Eligible Services List as updated annually" by the Commission. *See* 47 C.F.R. § 54.502(a). "Telecommunications services, telecommunications, and Internet access, as defined in § 54.5 and described in the Eligible Services List are category one supported services." 47 C.F.R. §

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<sup>7</sup> Shelby County Schools does not dispute USAC's determination that the following services are ineligible for E-rate funding: (1) 411 charges, (2) ACD Routing/Termination, (3) Integrated ACD Agent, and (4) Integrated ACD Supervisor.

54.502(a)(1). The term “telecommunications services” is defined as “the offering of telecommunications for a fee directly to the public, or to such classes of users as to be effectively available directly to the public, regardless of the facilities used.” 47 C.F.R. § 54.5. The term “telecommunications” is defined as “the transmission, between or among points specified by the user, of information of the user’s choosing, without change in the form or content of the information as sent and received.” *Id.*

On or about September 11, 2015, the Commission issued an order in which it released the eligible services list for funding year 2016. *See In the Matter of Modernizing the E-rate Program for Schools and Libraries*, 30 FCC Rcd. 9923 (2015). The Commission’s Order described the eligible voice services as follows:

Eligible voice services are subject to an annual 20 percentage point phase down of E-rate support beginning in FY 2015, as described in the *E-rate Modernization Order*. For FY 2016, the effective reduced discount rate will be 40 percentage points. The reduced discount rate for voice services will apply to all applicants and all costs for the provision of telephone services and circuit capacity dedicated to providing voice services including:

- Centrex
- Integrated Services Digital Network (ISDN)
- Interconnected voice over Internet protocol (VoIP)
- Local, long distance, and 800 (toll-free) service
- Plain old telephone service (POTS)
- Radio loop
- Satellite telephone service
- Shared telephone service (only the portion of the shared services relating to the eligible use and location may receive discounts)
- Wireless telephone service including cellular voice and excluding data and text messaging

*See In the Matter of Modernizing the E-rate Program for Schools and Libraries*, 30 F.C.C. Rcd. at 9936 (2015). The Commission’s regulations define an interconnected voice over Internet protocol as a service that:

- (1) Enables real-time, two-way voice communications;

- (2) Requires a broadband connection from the user's location;
- (3) Requires Internet protocol-compatible customer premises equipment (CPE); and
- (4) Permits users generally to receive calls that originate on the public switched telephone network and to terminate calls to the public switched telephone network.

47 C.F.R. § 9.3.

# **1. SmartVoice Products.**

The SmartVoice services listed below are product names. These are VoIP services (including a voice line for each service) and are E-rate eligible services under the Commission's regulations and orders:

SmartVoice Prime
SmartVoice Prime + Tele No.
SmartVoice Prime + Tele No. + ATA
SmartVoice Plus
SmartVoice Plus Office
SmartVoice Plus + ATA
SmartVoice Pro
SmartVoice Multi Line Hunt Group

The different SmartVoice packages allow Shelby County Schools to match the use of the voice service to the needs of district personnel. For example, SmartVoice Prime is a VoIP/voice line for low volume users that includes 100 minutes per month. In addition, SmartVoice Prime does not come with a telephone number in its base service, but a telephone number can be added for outside callers. SmartVoice Prime + Tele No. is a VoIP/voice line for low volume users that includes 100 minutes per month and a telephone number. SmartVoice Prime + Tele No. + ATA is a service with a telephone number and a gateway device added to the VoIP service to convert an IP/digital signal to an analog signal. SmartVoice Plus is a VoIP/voice line for higher volume users and includes 500 minutes per month. SmartVoice Plus Office is a VoIP/voice line with

additional extensions which allows for routing main telephone numbers to the appropriate district personnel. SmartVoice Plus + ATA is a SmartVoice Plus VoIP/voice line that converts an IP signal to an analog signal. SmartVoice Pro is a VoIP/voice line for higher volume users that includes 500 minutes a month. SmartVoice Pro also allows users to simultaneously forward calls to one or more alternate phone numbers. SmartVoice Multi Line Hunt Group is VoIP/voice lines that allow calls to be received and routed within a defined group, usually a main number for a school or department.

SmartFax is related to the SmartVoice services and is simply a fax service using VoIP and is E-rate eligible.

## **2. Other Products.**

The Auto Attendant and Loud Ringer products are also E-rate eligible products. The Auto Attendant service is a VoIP/voice circuit that is designated by Shelby County Schools to route calls to other users within the school building based on a simple automated menu. The Auto Attendant title is a descriptor for how Shelby County Schools uses the telephone line. Loud Ringer is a VoIP/voice line that features a louder than normal ring and is typically used in noisier areas. For E-rate purposes, Auto Attendant and Loud Ringer are just telephone lines and, therefore, Shelby County Schools is entitled to E-rate funding for these services.

### **B. The VoIP Products at issue are E-rate Eligible but, even if they are not, the Commission should Waive its Rule to Promote the Significant Public Interest in Providing a Quality Education to Impoverished Students.**

The Commission's rules may be waived upon a showing of good cause. 47 C.F.R. § 1.3. The Commission may exercise its discretion to waive a rule where the particular facts make strict compliance inconsistent with the public interest. *Northeast Cellular Telephone Co., L.P. v. FCC*, 897 F.2d 1164, 1166 (D.C. Cir. 1990). Moreover, the Commission has acknowledged that it

“may take into account considerations of hardship, equity, or more effective implementation of overall policy on an individual basis” when considering alleged violations of its rules. *See In the Matter of Federal-State Joint Board of University Service*, 15 FCC Rcd. 15281, 15284 (2000). Waiver of the Commission’s rules is appropriate if (1) special circumstances warrant a deviation from the general rule, and (2) such deviation will serve the public interest. *NetworkIP, LLC v. FCC*, 548 F.3d 116, 125-28 (D.C. Cir. 2008). Shelby County Schools submits that it has complied with the Commission’s regulations and orders requiring it to use eligible VoIP products and services; however, if the Commission finds that it did not, the Commission should find that there are special circumstances that warrant deviation from this rule and that such a deviation will serve the public interest.

**1. Denial of E-rate Funding is Economically Devastating to an Already Impoverished School District.**

Shelby County Schools has satisfied its financial obligations to ENA for the products and services provided for funding year 2016. Shelby County Schools timely and properly requested E-rate funding by submitting an FCC Form 471 application. Shelby County Schools was shocked to learn that USAC denied Shelby County Schools’ funding request to the tune of more than \$1 million for products/services provided by ENA for funding year 2016. It would work a significant hardship on Shelby County Schools to replace that funding, and Shelby County Schools’ vital education mission will suffer as a result of this lack of funding.

As mentioned above, Shelby County Schools has more than 100,000 students, and approximately 80%-90% of those students are economically disadvantaged. Additionally, almost all of the schools in Shelby County Schools are Title I schools and more than 90% of the schools have over 90% economically disadvantaged student populations. Based on these



alarming statistics alone, it should be abundantly clear that Shelby County Schools needs every dollar it can get to educate its students.

In addition to having a student population that is overwhelmingly disadvantaged, Shelby County Schools faces annual budgetary issues. Just last year, Shelby County Schools was required to close a \$90 million budget deficit for the 2016-2017 school year that began on July 1, 2016. This necessitated, among other things, Shelby County Schools closing four (4) schools, decreasing benefits for educators and staff, eliminating positions, outsourcing services, and pulling \$3.5 million from its reserve fund. In fact, over the last three to four years, Shelby County Schools has had to cut nearly \$75 million from its budget each year. These cuts hurt Shelby County Schools' most important assets—its students and teachers. It cannot be denied that the lack of E-rate funding will work a significant hardship on Shelby County Schools and everything it does to improve lives.

**2. The Commission Should Give Consideration to the Structural Changes that Shelby County Schools has Undergone in Recent Years.**

Since 2011, Shelby County Schools has been a participant in one of the largest mergers, and one of the largest de-mergers, in United States history. In 2011, Memphis City Schools, a school district with approximately 100,000 students, surrendered its charter and the administration of Memphis City Schools was transferred to Shelby County Schools, which had approximately 40,000-50,000 students at the time. A federal judge entered a consent decree requiring Shelby County Schools and Memphis City Schools to fully merge by July 2013. Along with being one of the largest school mergers, it was also unusual because the surviving school district was taking over a much larger school district. Although numerous issues arose during the merger process, Shelby County Schools and Memphis City Schools successfully merged by the deadline set by the federal judge. Shelby County Schools did not get much time to celebrate

its history-making merger because exactly one year after it completed its merger with Memphis City Schools, it participated in a de-merger in which five municipalities in Shelby County, Tennessee chose to break off from Shelby County Schools and form their own school districts.

**3. Shelby County Schools and ENA Believed that the Products/Services at issue were Eligible.**

If the Commission determines that the VoIP products and services at issue are not E-rate eligible, it should waive its rules and allow the E-rate funding for Shelby County Schools because Shelby County Schools, in good faith, believes that the products and services are eligible based on the Commission's regulations and orders. Shelby County Schools also relied on the expertise of ENA, which has provided significant E-rate services to Shelby County Schools in the past and has provided such services to many other school districts nationwide. It seems severely inequitable, to the tune of approximately \$1 million, to punish Shelby County Schools for what is nothing more than a mistake, should the Commission determine that the products are not E-rate eligible, as Shelby County Schools and ENA truly believe that the VoIP products/services offered by ENA are E-rate eligible.

**IV. Conclusion**

For the reasons set forth herein, the Commission should grant Shelby County Schools' request for review or, in the alternative, request for waiver. In addition, Shelby County Schools requests that the Commission remand the funding requests at issue back to USAC for commitments consistent with the relief requested in this appeal, including any additional waivers of Commission rules necessary to effectuate the relief sought.

Respectfully submitted,

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*Attorneys for Shelby County Schools*

**CERTIFICATE OF SERVICE**

The undersigned does hereby certify that a copy of the foregoing has been served by filing electronically via the Commission's Electronic Comment Filing System (ECFS) on this the 11th day of December, 2017.

A handwritten signature in blue ink, consisting of several loops and a final upward stroke, is positioned above a solid horizontal line.

4823-5609-7363, v. 1

143030857|2016|07/01/2016|06/30/2017|161047376|SHELBY COUNTY SCHOOL  
DISTRICT|3772 Jackson Ave|MEMPHIS|TN|38108|Shawandra Ford|EMAIL|3772  
Jackson  
Ave|MEMPHIS|TN|38108|||901|4165038||fordsl@scsk12.org|1699107616|1600173  
44|FUNDED|2-225071-  
08|Voice|N/A||07/01/2016|06/30/2021|874143.84|50%|437071.92|The amount  
of the funding requ|Not  
Needed|02/23/2017|35|128440|N/A|02/08/2016|02/08/2016|262280.63|189435.31  
|72845.32|12|874143.84|0.00|0.00|0.00|MR1: FRN modified in accordance  
with a RAL request. <><><><><> MR2: The Monthly Recurring Cost for FRN  
Line Item 1 was modified from \$18.48 to \$18.37 to agree with the  
applicant documentation. <><><><><> MR3: The amount of the funding  
request was changed from \$255,049.08/mo to \$72,845.32/mo to remove the  
ineligible service(s): 411 \$120.00, ACD Routing/Termination \$500.00, Auto  
Attendant \$6,240.00, Integrated ACD Agent \$35.00, Integrated ACD  
Supervisor \$10.00, Loud Ringer \$52.50, SmartFax \$12,450.00, SmartVoice  
Multi Line Hunt Group \$80.00, SmartVoice Plus \$54,640.00, SmartVoice Plus  
+ ATA \$50.00, SmartVoice Plus Office16 \$1,248.39, SmartVoice Prime  
\$77,083.92, SmartVoice Prime + ATA \$14.50, SmartVoice Prime + Tele No.  
\$20,475.00, SmartVoice Prime + Tele No. + ATA \$31.00, & SmartVoice Pro  
\$14,525.00. |02/23/2017||09/30/2017||

143030857|2016|07/01/2016|06/30/2017|161047376|SHELBY COUNTY SCHOOL  
DISTRICT|3772 Jackson Ave|MEMPHIS|TN|38108|Shawandra Ford|EMAIL|3772  
Jackson  
Ave|MEMPHIS|TN|38108|||901|4165038||fordsl@scsk12.org|1699107526|9420200  
01210313|FUNDED|N/A|Data Transmission and/or Internet  
Access|N/A||07/01/2016|06/30/2017|492000.00|90%|442800.00|The  
Upload/Download Speed and |Not  
Needed|02/23/2017|35|128440|N/A||03/26/2014|41000.00|0.00|41000.00|12|492  
000.00|0.00|0.00|0.00|MR1: FRN modified in accordance with a RAL request.  
<><><><><> MR2: The Narrative for all FRN Line Items was modified from  
ENA ISP Services, 5 GBPS to Memphis City Schools Admin Building and  
Shelby County Operations to ENA ISP Services, 10 GBPS to Memphis City  
Schools Admin Building and Shelby County Operations to agree with the  
applicant documentation. <><><><><> MR3: The Upload/Download Speed and  
Reccuring Unity Cost for FRN Line Item #1 were modified from 5/5 &  
\$17,500.00 to 10/10 & \$20,500.00 to agree with the applicant  
documentation. |02/23/2017||09/30/2017||

143030857|2016|07/01/2016|06/30/2017|161047376|SHELBY COUNTY SCHOOL  
DISTRICT|3772 Jackson Ave|MEMPHIS|TN|38108|Shawandra Ford|EMAIL|3772  
Jackson  
Ave|MEMPHIS|TN|38108|||901|4165038||fordsl@scsk12.org|1699107547|9420200  
01210313|FUNDED|N/A|Data Transmission and/or Internet  
Access|N/A||07/01/2016|06/30/2017|2386560.36|90%|2147904.32|The  
Upload/Download Speed for |Not  
Needed|02/23/2017|35|128440|N/A||03/26/2014|198880.03|0.00|198880.03|12|2  
386560.36|0.00|0.00|0.00|MR1: FRN modified in accordance with a RAL  
request. <><><><><> MR2: The Monthly Quantity for FRN Line Item 1, 2, & 3  
were modified from 164, 6, & 6 to 163, 4, & 7 to agree with the applicant  
documentation. <><><><><> MR3: The Monthly Recurring Unit Cost for FRN

EXHIBIT

1

Line Item 1, 2, 3, 4, & 5 was modified from \$1,055.00, \$10,835.00, \$309.29, \$705.00, & \$500 to \$1,050.00, \$6,000.00, \$304.29, \$1,050.00, & \$550.00 to agree with the applicant documentation. <><><><><> MR4: The Upload Units and Download Speed for FRN Line Item 4 was modified from Mbps & 100 to Gbps & 1 to agree with the applicant documentation. <><><><><> MR5: The Upload/Download Speed for FRN Line Item 5 was modified from 50 to 3.088 to agree with the applicant documentation.|02/23/2017||09/30/2017||| SLD 471 Funding to Service Provider ; Total Records: 3

ENA Services, LLC|143030857|2016|SHELBY COUNTY SCHOOL DISTRICT|3772 Jackson Ave||MEMPHIS|TN|38108|128440|Shawandra Ford|EMAIL|3772 Jackson Ave||MEMPHIS|TN|38108|||901|4165038||fordsl@scsk12.org|161047376|1699107616|FUNDED|Voice|160017344|2-225071-08||07/01/2016|06/30/2021|12|874143.84|0.00|874143.84|50|437071.92|Your FCC Form 471 application included costs for the following ineligible products and or services: 411 charges, CD Routing/Termination, Auto Attendant, Integrated ACD Agent, Integrated ACD Supervisor, Loud Ringer, SmartVoice Multi Line Hunt Group, SmartVoice Plus, SmartVoice Plus with ATA, SmartVoice Plus Office, SmartVoice Prime, SmartVoice Prime with Tele No., SmartVoice Prime with Tele No. and ATA, SmartVoice Pro. USAC has given you an opportunity to provide the appropriate additional documentation demonstrating the eligibility of the products and/or services requested and you failed to do so. Accordingly, your funding request was reduced in accordance with USAC's determination. In your appeal, you did not show that USAC's determination was incorrect. Consequently, your appeal is denied.

FCC rules provide that funding may be approved only for eligible products and services. See 47 C.F.R. secs. 54.502. The USAC website contains a list of eligible products and services. See Eligible Services List posted in the Reference Area of the SLD section of the USAC website. FCC rules further require that if 30% or more of the applicant's funding request includes ineligible products and/or services, then the funding request must be denied, otherwise the funding request will be reduced accordingly. See 47 C.F.R. sec. 54.504(b). The FCC's Aiken County Public Schools Order directed USAC to permit the applicant 15 calendar days from the date of receipt of notice in writing by USAC to revise its funding request to remove the ineligible services or allow the applicant to provide additional documentation to show why the services are eligible. See Requests for Review of the Decisions of the Universal Service Administrator by Aiken County Public Schools, Aiken, South Carolina, et al., Schools and Libraries Universal Service Support Mechanism, File Nos. SLD-397612, et al., CC Docket No. 02-6, Order, 22 FCC Rcd 8735, FCC 07-61 para. 11 (May 8, 2007).|10/14/2017|25|06/30/2017|||

SLD 471 Funding to Service Provider; Total Records: 1



**INTRODUCTION SECTION**

This section includes the following information:

- I. Profile of Shelby County, Tennessee
- II. Profile of Shelby County Schools
- III. SCS Strategic Priorities and Goals
- IV. Summary

**I. PROFILE OF SHELBY COUNTY, TENNESSEE**

Shelby County Government was incorporated in 1819. The county is located on the southwest corner of Tennessee at the east bank of the Mississippi River. Shelby is the State's largest county with the City of Memphis as the county seat. The corporate limits contain 783 square miles and include seven incorporated municipalities: Arlington, Bartlett, Collierville, Germantown, Lakeland, Memphis and Millington. The County's 2010 population was 927,644 with the 2014 population estimated at 938,803, according to the U.S. Census Bureau.

Shelby County currently operates under a Mayor-Commission style of government with the Mayor as chief executive officer. The Mayor oversees the operations of the County's seven divisions. The 13 members of the Shelby County Board of Commissioners - as the county's legislative branch of government - reviews and approves county programs and budgets. The Mayor and each Commissioner serve four-year terms. Other elected officials such as the Assessor, Circuit Court Clerk, County Clerk, Criminal Court Clerk, General Sessions Court Clerk, Juvenile Court Clerk, Probate Court Clerk and Sheriff are also elected to four-year terms.

Government, trade, healthcare services, hospitality, warehousing, transportation and utilities are all prominent in the regional economy. Shelby County is located within 600 miles of most major cities and commercial markets in the United States. Shelby County is a major hub for national distribution as a result of its central location and access to the interstate, Mississippi River, rail and airport. The County is empowered to levy, without limit, a property tax on both real and personal property located within its boundaries.

Below are key economic measures for Shelby County, the City of Memphis, and the State of Tennessee, which serve as long-term markers in educating our children to drive the future workforce and economies in Shelby County and the City.

	SHELBY COUNTY		CITY OF MEMPHIS		STATE OF TENNESSEE	
KEY ECONOMIC INDICATOR	2010	2014	2010	2014	2010	2014
High School Graduates (%)	84.9%	86.7%	81.2%	83.5%	82.5%	84.9%
College Degree Graduates (%)	27.8%	29.8%	22.5%	24.7%	22.7%	24.9%
People below Poverty Line (%)	19.7%	21.3%	25.4%	27.4%	16.5%	17.8%
Unemployment Rate	4.3%	6.6%	4.8%	7.0%	3.7%	6.1%
Median Earnings of 25 years old and over who have not earned High School diploma (or equivalency)	\$17,953	\$18,258	\$17,131	\$17,261	\$18,105	\$18,643



Median Earnings of 25 years old and over who are High School Graduates	\$24,661	\$25,381	\$22,376	\$23,402	\$25,293	\$25,823
Median Earnings of 25 years old and over who obtained a Bachelor's degree	\$47,809	\$47,773	\$42,338	\$42,433	\$43,423	\$44,295

\*Data Source: US Census, American Fact Finder, Economic Survey, American Community Survey, 2010-2014

While progress is being made, more investment in education is needed to fuel the economic engines of the County and the City. About 1 out of 5 individuals in Shelby County lived below the poverty level in 2014 and more than a quarter of individuals in the City of Memphis lived below poverty. Both exceed the state's poverty rate. In 2014, a large number of individuals were unemployed with unemployment rates of 6.6% and 7.0% in Shelby County and the City of Memphis, respectively.

Education is a powerful component to increase the economic well-being of our students and families. The median earnings of a 25-year old individual with a high school diploma versus one with a bachelor's degree in Shelby County and the City of Memphis were \$22,392 and \$19,962, respectively. When their expected lifetime earnings are extrapolated, the difference would be about \$1.3 million and \$1.1 million in Shelby County and the City of Memphis respectively, assuming an annual 1% inflation rate and a 70-year life expectancy.

Increasing the percentage of high school graduates and students who are college or career-ready through investments in education improves not only the lives of our families and children, but also our community and businesses. One of the goals of Destination 2025, the District's 10-year strategic plan, is to create a more knowledgeable, productive workforce that ultimately benefits the entire County.

## II. PROFILE OF SHELBY COUNTY SCHOOLS

In January 1871, the first Shelby County-funded school opened its doors. After five months of operation, the trustee for the school reported spending \$554.20. At that time, the expansion of Shelby County education was gradual with limited room for all of the students to attend when they reported to school.

Shelby County Schools is a component unit of Shelby County Government, which is defined as the oversight entity by Governmental Accounting Standards Board (GASB) Codification Section 2100. Financial reporting for the District follows the criteria established by the GASB.

On July 1, 2013, Shelby County Schools became one of the largest school districts in the country by merging with Memphis City Schools. During the 2013-14 school year, SCS educated approximately 140,000 students in over 270 locations. This included all public schools (traditional, specialty and charter schools authorized by the District) in the County.

In school year 2014-15, approximately 33 schools joined one of six new municipal school districts. Additionally, the State of Tennessee created the Achievement School District (ASD) in an effort to transform persistently low performing schools. This resulted in the acquisition of seven district-run schools that were ranked in the bottom 5% of academic achievement and growth. Consequently, the District enrollment dropped to 116,059 students in grade kindergarten through grade 12 in school year 2014-15.

Despite enrollment loss, Shelby County Schools remains one of the largest school systems in the state of Tennessee and within the top 25 largest districts in the nation. In school year 2015-16, the District encompassed 224 schools, including regular schools, charter schools, career and technology centers (CTCs), special education (SPED) centers and alternative schools. forty-seven (47) schools were Optional Schools or offered Optional Programs that provided parents choices in selecting a public education that best suited their child. In school

year 2015-16, SCS has 248 pre-kindergarten classrooms. Of those 248 pre-kindergarten classrooms, 33 are within community partner locations.

DEMOGRAPHIC MEASURE	SHELBY COUNTY SCHOOLS		DAVIDSON COUNTY SCHOOLS		HAMILTON COUNTY SCHOOLS		KNOX COUNTY SCHOOLS	
	2013-14	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14	2014-15
Enrollment <sup>1</sup>	149,928	116,059	82,806	84,070	43,531	43,797	59,232	59,750
TVAAS	5	5	5	5	1	1	5	5
Number of Schools	277	221	156	154	78	79	89	90
Charter Schools	37	39	17	19	3	3	0	0
Economically Disadvantaged Students (%)	103,300 (68.9%)	92,615 (79.8%)	60,200 (72.7%)	63,305 (75.3%)	25,553 (58.7%)	26,497 (60.5%)	29,320 (49.5%)	23,900 (40.0%)
English Language Learners (%)	9,967 (6.6%)	9,669 (8.3%)	12,675 (15.3%)	13,655 (16.2%)	1,942 (4.5%)	2,178 (5.0%)	2,179 (3.7%)	2,597 (4.3%)
Students with Disabilities (%)	19,880 (13.3%)	14,965 (12.9%)	10,297 (12.4%)	10,465 (12.4%)	5,729 (13.2%)	5,573 (12.7%)	8,429 (14.2%)	8,332 (13.9%)
Underrepresented Minorities (%)	119,200 (79.8%)	106,189 (91.9%)	57,053 (68.9%)	58,057 (69.3%)	18,457 (42.4%)	19,052 (43.5%)	15,223 (25.7%)	16,073 (26.9%)

<sup>1</sup>Data Source: TN Department of Education, State Report Card, TN Charter School Center, State of Sector: Tennessee Charter Schools, 2013-14. TN Department of Education Charter Schools 2015 Annual Report.

The chart above highlights that Shelby County Schools is serving an increased share of students with significant needs, while achieving higher than expected year-to-year academic growth among our students. Shelby County Schools continues to prove significant improvements according to the Tennessee Value-Added Assessment System (TVAAS), which has ranked the District as a level 5 system over the last two school years. These results are attributed to the increased focus on high quality options such as – early literacy, instructional and leadership support, iZone schools, and a very detailed strategic plan.

In school year 2014-15, about 80% of our students were economically disadvantaged, which was higher than our state urban school district peers. About 92% of our students were underrepresented minorities in school year 2014-15. Approximately 3 out of 10 underrepresented minority students in Tennessee were in Shelby County Schools. Also, about 13% of our students had a disability and about 8% were English Language Learners (ELLs) in school year 2014-15.

### III. SCS STRATEGIC PRIORITIES AND GOALS

Shelby County Schools established the 10-year strategic plan “Destination 2025”, which was designed not only to improve the quality of public education, but also to create a more knowledgeable, productive workforce and ultimately benefit our entire community. Our long-term success is evaluated by the following three measures.



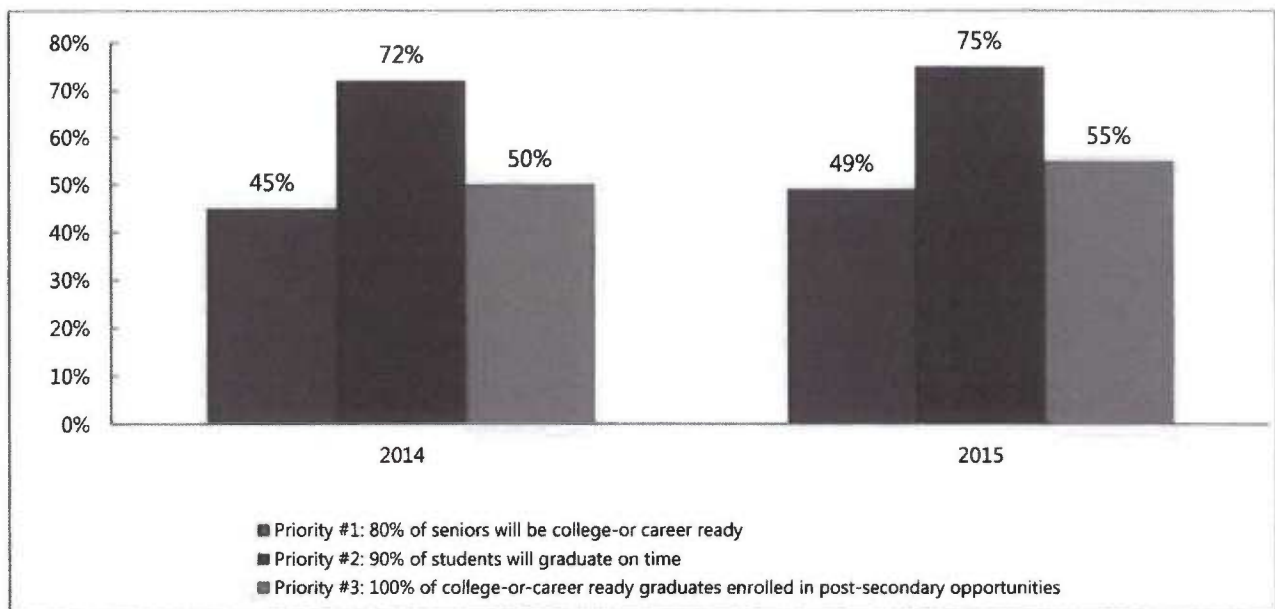


Specifically, by 2025, 80 percent of seniors will be on track to learn in a postsecondary classroom or enter the workforce straight out of high school; 90 percent of students will earn their high school diploma on time; and every student will enroll in a postsecondary opportunity college or career-ready.

To achieve the 80/90/100% College and Career Readiness goals, the District holds the following beliefs.

- Proficiency in literacy is the foundation of all learning, and we are committed to making that a top priority for students.
- As we raise expectations of our students, innovative and varied practices are needed in the classroom to provide students with learning experiences that will prepare them for life after graduation.
- Successful teachers and leaders are the drivers for student success. That means continuing to provide educators with the support and tools needed to make classroom teaching impactful.
- Although 2025 is in the future, the work is happening to produce engaged and prepared students.
- By devoting time and other resources to schools, community members can have a direct impact on student achievement.

The chart below highlights the District's overall progress towards meeting these strategic goals.



Five strategic priorities support the 80/90/100% College and Career Readiness goals and guide the District toward fulfilling Destination 2025. The following is the District progress and investment commitments made in 2015-16.

#### **Priority 1: Strengthen Early Literacy**

Goal: 90% of third graders are proficient in reading and language arts by 2025

Third-grade literacy improved from 30% in 2013-14 to 32% in 2014-15, which was measured by student proficiency on the Tennessee Comprehensive Assessment Program (TCAP) Reading & Language Arts (RLA) assessment. However, this improvement was not enough to meet SCS's target of 35% proficiency in third-grade RLA in 2015. Across grades 3–8, no grade level achieved its annual proficiency goal for TCAP RLA, and most grades declined in proficiency, a trend seen in most districts across Tennessee.

**Investment Areas:**

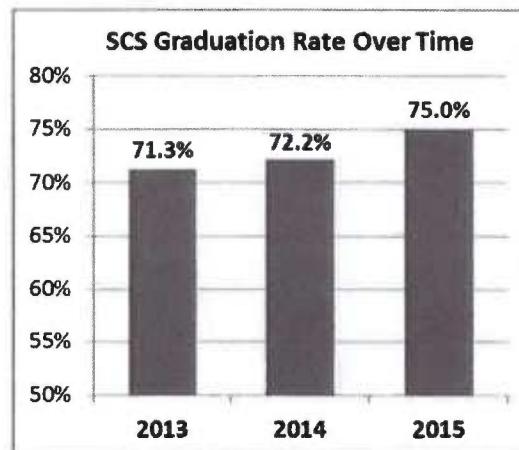
- Added 50 new Pre-K classrooms to serve 1,000 additional students
- Provided additional wrap-around services
- Aligned curriculum standards from Pre-K to third grade with a receipt of a \$8.75 million federal grant
- Executed a comprehensive district-wide literacy plan that included 30 full-time literacy coaches, literacy training for all teachers and school leaders, professional development and resources

**Priority 2: Improve Post-Secondary Readiness**

Goal No. 1: 90% of SCS students graduate on time by 2025

Goal No. 2: 100% of college- or –career-ready SCS graduates will enroll in a post-secondary opportunity

In 2015, 75% of SCS students graduated on time compared to 72% of students in 2014. This outcome exceeds our Destination 2025 target of 74%, meaning that SCS is on track to achieve 90% graduation by 2025 at the current rate of improvement. Despite steady District-wide improvement, graduation outcomes varied by high school. Although the majority of SCS high schools achieved graduation rates of 80% or better, 38% of high schools graduated less than 70% of students on time in 2015.



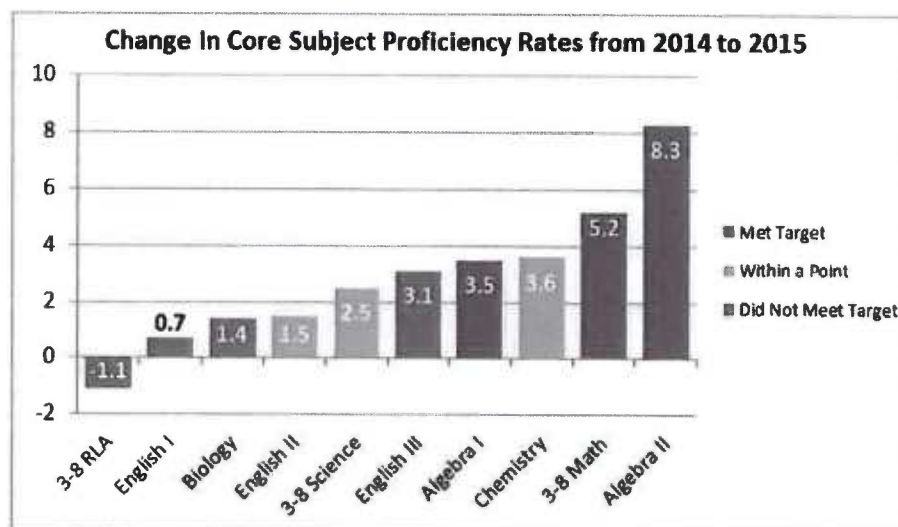
Also, SCS achieved one of the highest TNPromise application rates among all districts in Tennessee during this inaugural year of the program. TNPromise is a new statewide scholarship that gives students the opportunity to enroll in a two-year post-secondary program for free. Nearly 6,500 students — 83% of SCS seniors — successfully completed TN Promise applications, and more than 3,600 remained eligible after completing all program requirements through May 2015.

**Investment Areas:**

- Added 15 extra social workers to provide in-school support to students
- Reopened five truancy centers to address chronic absenteeism through mentoring, family engagements, and access to wrap-around services
- Added 15 new school counselors to provide college and career counseling support to students
- Developed an early warning system to help educators and school officials intervene in a timely manner with students falling behind

**Priority 3: Develop Teachers, Leaders and Central Office to Drive Student Success**

Goal: 80% of students are college- or career-ready based on mastery of TNCore standards



SCS improved District-wide proficiency rates in nine of ten tested subjects between 2014 and 2015. The District's rate of growth met or exceeded that of Tennessee in seven of ten subjects, and SCS achieved the state's highest student growth score (Level 5) as measured by TVAAS for the fourth consecutive year. In terms of the goals of Destination 2025, SCS met the three math targets for 2015, meaning our students are on track to reach 80% mastery by 2025. SCS was also within one proficiency point of meeting the three other Destination 2025 targets – English II, TCAP Science and Chemistry. However, the District has struggled to meet targets for most reading and English subjects, further reinforcing the urgency for our first priority: strengthening early literacy.

**Investment Areas:**

- Improved retention rates among top performing teachers from 90% in 2014 to 93% in 2015
- Created competitive compensation systems to attract and retain classroom and school leaders through the Teacher & Leader Effectiveness (TLE) grant
- Provided new curriculum standards and additional support to schools for the new online TNReady assessment

**Priority 4: Expand High-Quality School Options**

Goal: Student market share in SCS will increase 5% by 2025

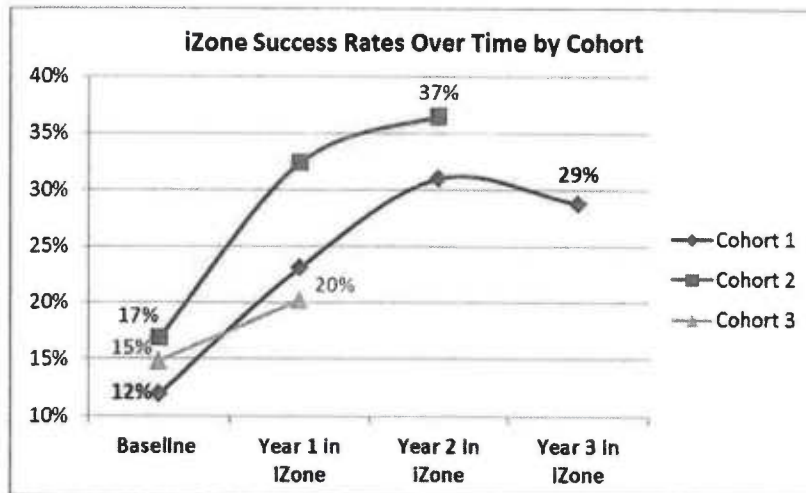
SCS market share declined from 61.0% in 2014 to 60.6% in 2015, and presently, school quality in SCS is uneven. As of 2015, more than one fifth of schools on Tennessee's Reward schools list are from SCS. These 35 schools including seven charter schools and three iZone schools are among the top 5% of schools in the state in terms of student proficiency and/or growth.

Conversely, 47 schools including four charters were named to the state's Priority list—the bottom 5% of schools in terms of academic proficiency—in 2014. From 2014 to 2015, the percentage of Reward schools within SCS



has remained constant at 18%, while the percentage of Priority schools within SCS decreased from 24% to 18%. This decline was due in part to the strategic efforts of SCS and the state-led ASD to redirect school resources toward their respective turnaround efforts. Six Priority schools have been converted to ASD schools for the 2015-16 school year, while three other schools closed and reassigned students to SCS's Innovation Zone (iZone) schools.

SCS's iZone continued to be a leading approach in Shelby County and across the state of Tennessee as a model for turning around Priority schools. Six of 13 schools that joined the iZone before 2014-15 were already removed from the Priority list, and all three cohorts of schools have made student achievement gains ranging from 5 to 20 points since joining the iZone.

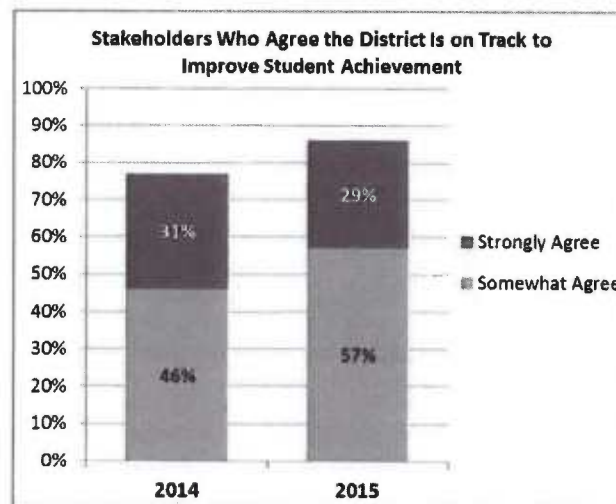


**Investment Areas:**

- Invested in the District's turnaround model in iZone schools
- Improve the partnership with charter school operators, including establishing a charter compact
- Establish new school models that focus on different career training and specialized learning

**Priority 5: Mobilize Family and Community Partners**

Goal: By 2025, we will increase community confidence in the District to 90%



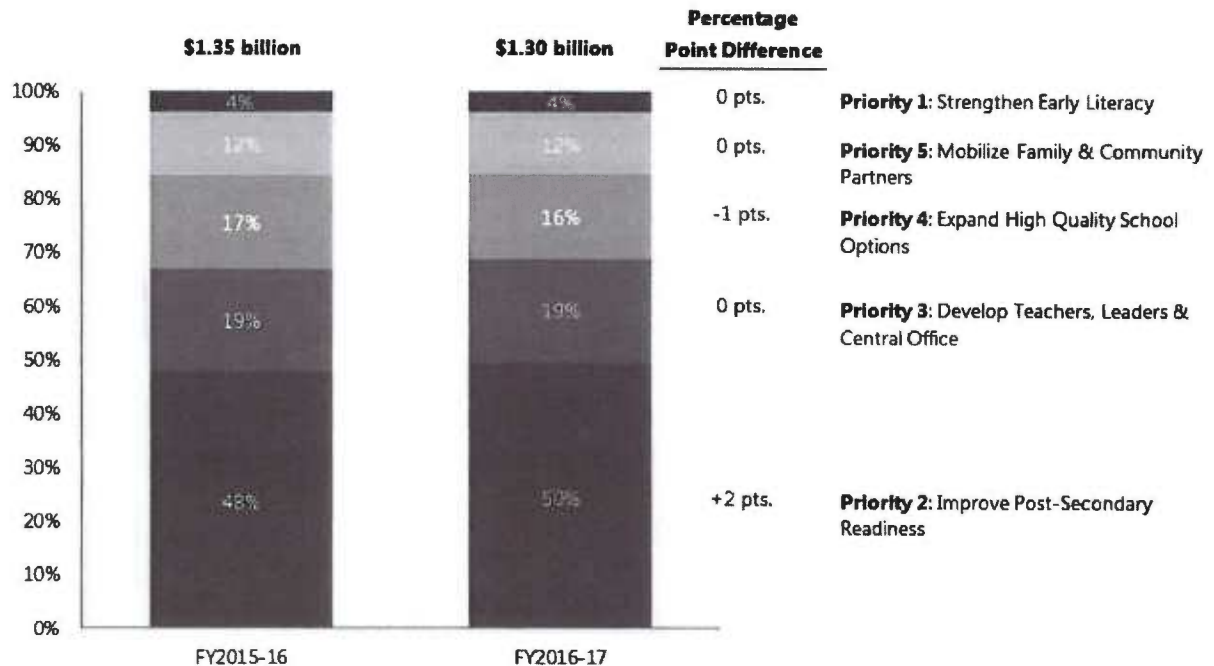
Based on SCS's annual survey to school staff, District staff and external stakeholders, community confidence in the District and its schools has grown between 2014 and 2015. The percentage of survey participants who somewhat or strongly agreed that the District was on track to improve student achievement increased from

77% to 86% in 2015. Community confidence in schools is even higher – 94% of participants agreed that schools are on track to improving student achievement.

**Investment Areas:**

- Launched a free MySCS app and redesigned the District website to focus on parents and students
- Established a Welcome Center at central office for students and their families to have a one-stop shop to access district resources and supports
- Redesigned the Family and Community Engagement Division to mobilize families and community partners

In summary, the chart below reflects the alignment of the fiscal year 2016-17 budget with the five strategic priorities with an increased focus on improving post-secondary readiness.



#### IV. SUMMARY

Shelby County Schools continues to make academic progress with fewer resources in serving our students and families with significant challenges. The District continues to invest in the future of our students guided by the goals of Destination 2025 and the Teacher and Leader Effectiveness efforts.



Financial Challenges

BOARD OF EDUCATION  
SHELBY COUNTY SCHOOLS

**Shelby County Schools Board of Education**

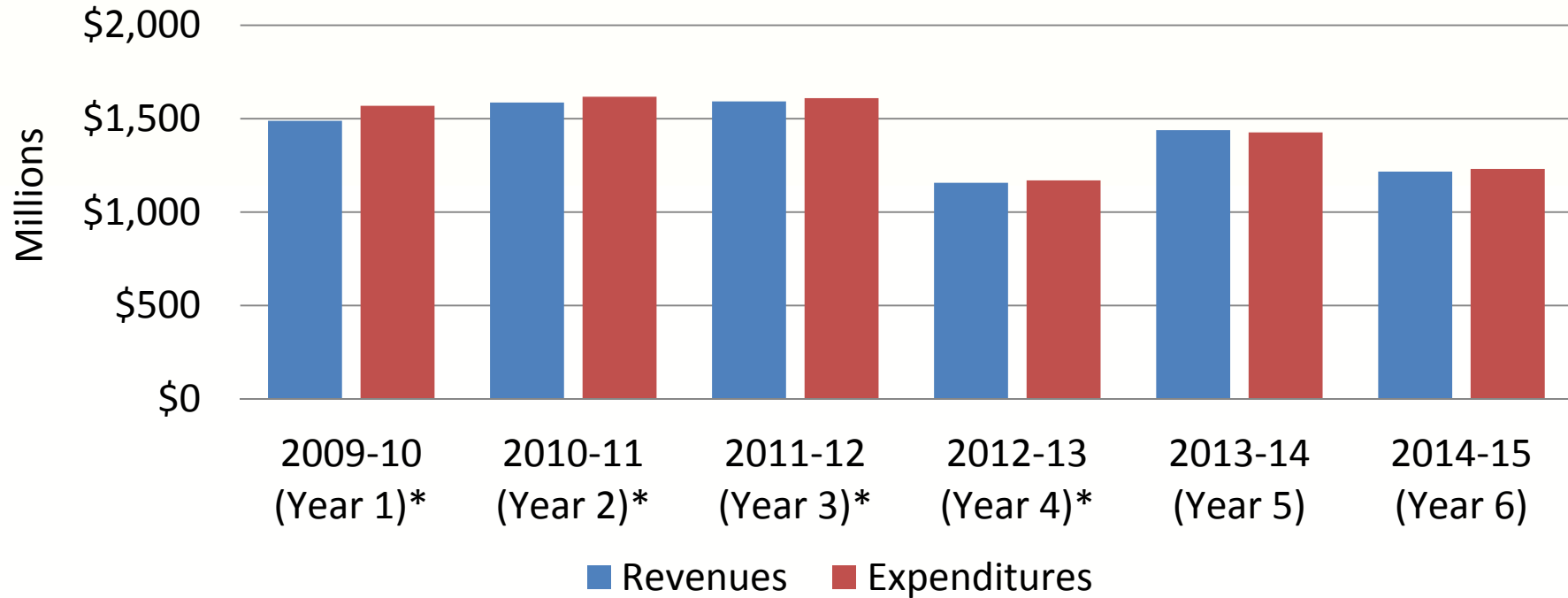
**EXHIBIT**

**4**





## Financial Snapshot of the District



<b>Unassigned GF Balance (% of exp.)</b>	\$136 million (8.6%)	\$66 million (4.1%)	\$44 million (2.7%)	\$75 million (6.4%)	\$108 million (7.6%)	\$60 million (4.9%)
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\* Memphis Public Schools and Shelby County Schools



## Financial Challenges: Year 2 (FY2010-11)

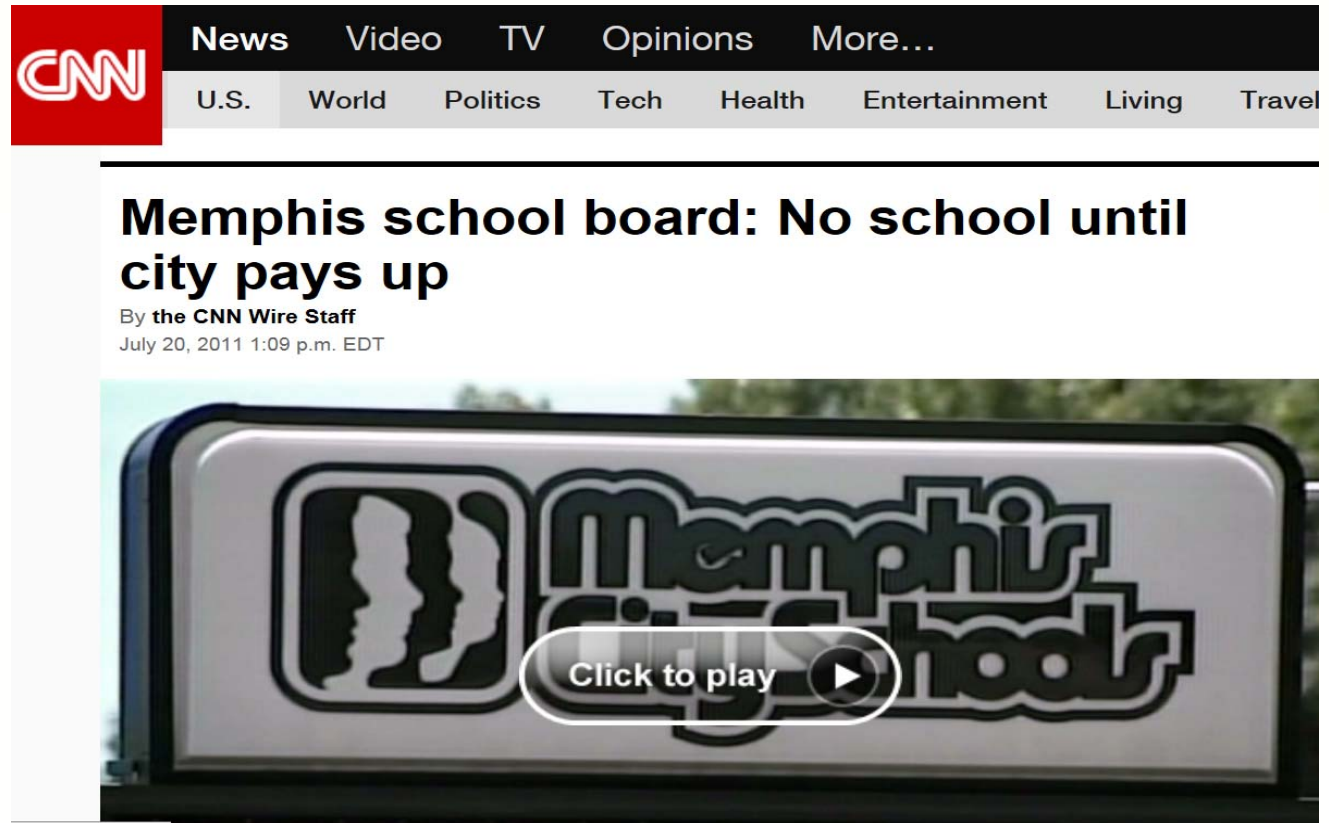
In December 2010, the Memphis City Schools board voted to surrender school system's charter. Memphis voters approved the charter surrender in March 2011.





## Financial Challenges: Year 3 (FY2011-12)

In July 2011, the Memphis City Schools Board voted to delay the school year due to the funding dispute with the City of Memphis.





## Financial Challenges: Year 3 (FY2011-12)

**United States District  
Judge Samuel “Hardy”  
Mays ruled on August  
8, 2011, Memphis City  
Schools would cease  
to exist at the  
conclusion of the  
2012-2013 school year.**

Education on  **NBCNEWS.com**

# Judge: Memphis City Schools will 'cease to exist' in 2013



## Financial Challenges: Year 4 (FY2012-13)

In April 2013, Gov. Bill Haslam approved House Bill 1288 paving the way for municipal school districts in Shelby County.

SECTIONS

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THE  
COMMERCIAL APPEAL  
MEMPHIS

NEWS

### Gov. Haslam signs main municipal school district bill



Credit: AP Photo/Mark Humphrey



## Financial Challenges: Year 5 (FY2013-14)

In July 2013, six Shelby County suburbs voted “yes” to forming municipal school districts .

### 6 Shelby Co. suburbs vote to create municipal school districts

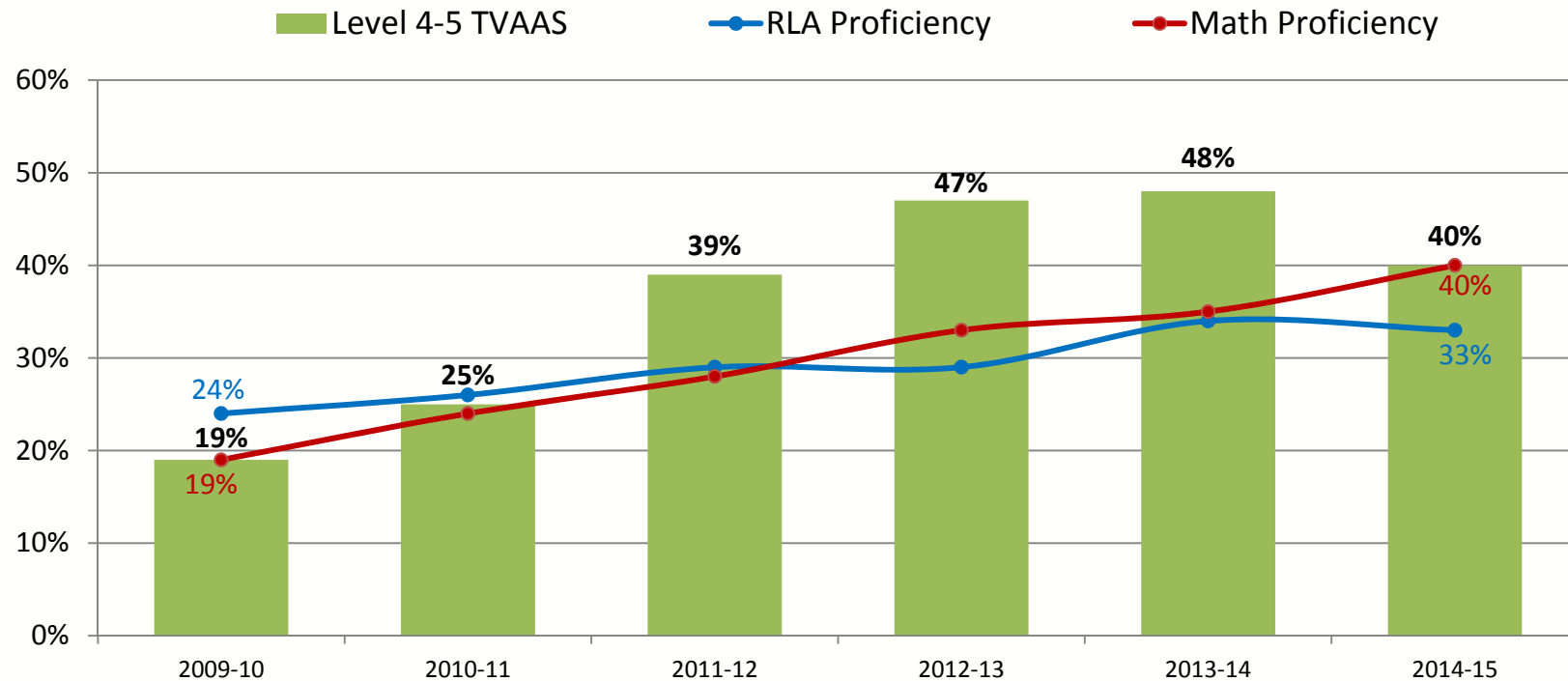
Posted: Jul 16, 2013 6:59 PM CDT  
Updated: Jul 23, 2013 10:26 PM CDT







## Despite the SCS financial challenges, progress continues.

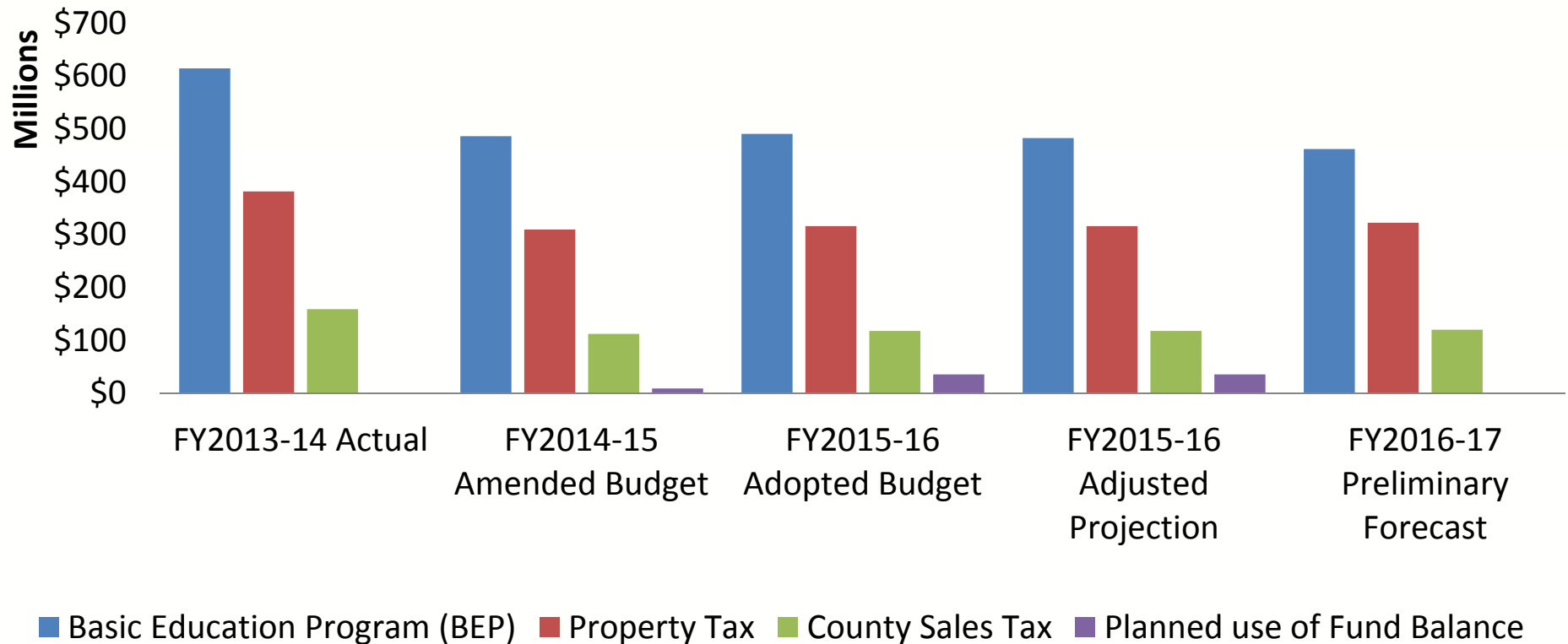


<b>Gates Foundation</b>	\$3,115,556 (70%)	\$9,861,935 (99%)	\$16,496,574 (89%)	\$12,490,091 (55%)	\$8,193,755 (27%)	\$11,371,607 (31%)
<b>District/Local Philanthropy</b>	\$1,354,333 (30%)	\$93,053 (1%)	\$2,053,998 (11%)	\$10,238,238 (45%)	\$22,691,697 (73%)	\$25,590,986 (69%)
<b>TOTAL</b>	<b>\$4,469,889</b>	<b>\$9,954,988</b>	<b>\$18,550,572</b>	<b>\$22,728,329</b>	<b>\$30,885,452</b>	<b>\$36,962,593</b>



## SCS faces a \$72M budget shortfall in FY2016-17.

### Major Revenues







## **As we near classrooms with cuts, TLE efforts become key.**

### **Over the past three years, we've made significant budget cuts:**

- Closed 17 schools
- Significantly reduced central office
- Outsourced several district services including bus transportation and custodial work
- Trimmed budget to 80-percent salary and benefits – 2 percent of that is central office staff
- Reduced Foreign and World Language course offerings

### **Despite these major budget cuts, academic progress continued:**

- Held 35 Reward Schools across the district
- Showed improvement in nine of 10 tested subject areas
- Increased HS graduation rate to 75% in 2015 from 71.3% in 2013



# FY2015-16 General Fund

## Financial Impact for 2015-16:

- 1 **7.9 million dollar BEP shortfall** due to increased ASD enrollment
- 2 **Enrollment decreased** by 1106 students, meaning loss in school-based positions and more underutilized facilities
- 3 Request to **increase teacher compensation by another \$5.5 million** (beyond the \$5.5 million investment already made for equivalent step increases)



# FY2016-17 Financial Considerations



Another **BEP shortfall** expected due to increased ASD enrollment

80 percent of budget is salary and benefits (2% is central office) - **less room for cost cutting options**

Cost of **benefits expected to increase** another \$7 million

**iZone expansion costs** are requested

Reductions to **OPEB liability** are needed

**Decrease in Early Childhood Program grants** are possible

**TLE/Gates Foundation grant** ends

Increased costs due to **differentiated compensation** for teachers

Ongoing **enrollment decreases**