

FY24 Tentative Budget School Committee Discussion

MERSD Budget

- MERSD operational budget is managed to deliver a stable and predictable spending and assessment growth rate from which apportionment is factored.
- MERSD manages key drivers and wild cards to maintain the agreed upon target of 3.5% spending/assessment growth.
- The mechanics of apportionment can inflate or deflate the apportionment growth rate as town enrollments fluctuate.
- The operational budget has been historically been developed to provide level services.



Key Terms

- Spending Growth: *percentage/\$ increase in spending approved by School Committee from one year to the next*
- Assessment Growth: *percentage/\$ increase in annual charge to Essex & Manchester after deducting state revenue from spending.*
- Apportionment Formula: *split of assessment between Essex & Manchester based on formula defined in the Regional Agreement.*

Key Terms

- Level Services: *Provision of the same program scope, class size, course offerings, and services from one year to the next.*
 - For service provision to be level (same range of services) from year-to-year it may be necessary to increase the number of staff to meet the need.
 - Ex. Special Education Services total number of enrolled students may decrease but the number of students who need specialized programming, small group, or one-one assistance may increase. This will show an increase in staffing (Tas or specialized teachers)
 - For us to take a reduction in general ed staffing we typical need the reduction of approximately 20 student at one grade level.

FY24 Tentative Budget Overview

Budget Goals

- Develop and deliver a fiscally responsible budget that maintains educational quality, supports District strategic goals, and aligns with our multi-year budget goals.
- Manage Enrollment
 - Strive to meet School Committee class size guidelines
 - Serve increasingly diverse student educational needs
- Exercise fiscal responsibility
 - Seek internal efficiencies to offset growth needs when possible
- Meet local, state and federal responsibilities while controlling growth

Budget Architecture

Operating Budget

Historically funded with neutral impact to the operational budget.

Investments & Program Enhancements

Preventative Spending & Common Practices

Required Spending

Capital Budget

- Debt Service on MHS & Memorial School
- Excluded from Proposition 2 ½ limits by taxpayer vote in both Essex & Manchester
- Known/pre-fixed, multi-year payment schedule for both towns
- Structured to decline each year

Tentative Budget Overview

- **Carry/Forward Level Services:** The tentative budget is built to be a carry forward/level services budget.
- **Strategic Plan Priorities:** The tentative budget supports the work outline in the Strategic Plan and supporting District and School Improvement Plans.
- **Right Sizing for Enrollment:** The tentative budget includes a staff enrollment reduction of four (4) full time equivalent (FTE) staff positions. Positions will come from both general and special education and through attrition where possible. Position cuts should not result in increased class sizes or program reductions.
- **Elimination of Reserves:** The tentative budget does not use MERSD reserves as a revenue stream. Reserves in FY24 will be used to fund one-time planned capital expenditures turf field replacements, maintain bond rating, and provide a set aside for the EES feasibility study.
- **Deficit:** There is a projected gap of \$756K between spending and revenue. This will need to be addressed by cuts or new funding in the form of increased assessments for the towns.

Tentative Budget Overview

The tentative budget does not include

- **Reinstatement:** Funding to fully fund small capital lines, staffing reductions, and service cuts.
- **Stabilization Contribution:** Defined annual contribution to a capital fund dedicated to managing the long-term capital plan.
- **Reserves Replenishment:** Replace reserve funds used for revenue between FY20-23.



If we want to add any of these items into the budget it will require additional revenue or offsets from favorable assumptions revisions

FY24 Operating Budget Overview

- Annual Level Services goal increasingly challenging due to rising mandated costs and constrained revenue
 - Level Services = maintaining same level of program currently in place
 - Multi-year history of efficiency-oriented program restructuring to fund new investments
 - Prior year cuts leave few options for FY24 budget reductions without impacting program
- Gap between Level Services and sustainable funding is \$756K in Tentative Budget.
 - Target 3.50% assessment to towns prior to apportionment
 - No use of one-time reserve funding from prior years as starting point

FY24 Operating Budget Overview

- Mandated health insurance is primary driver of increased FY24 gap
 - Districtwide personnel cost growth of just 2.8% in FY24 after reduction of 4.0 full-time equivalent (FTE) due to declining enrollment
 - 12% preliminary assumption for health insurance rate growth at conservative end of 8-12% inflation trend observed in market
 - Out-of-district (OOD) tuition costs increasing \$300K, based on Commonwealth's 14% growth in allowable program rates, but offset by increased Circuit Breaker reimbursements

FY24 Operating Budget Drivers

- Compensation: *\$517K (2.82%) spending growth*
 - Teachers: 2.5% Cost of Living Adjustment (COLA), same as FY20-23. Effective growth = 4.0% after factoring column/step. Pending contract resolution.
 - Teaching Assistants: 2.5% COLA + existing steps = 4.2% forecasted growth
 - All other staff: no steps available. 4.0% COLA budgeted for FY24 after 3 prior years of 2.5%, which lagged teacher/TA compensation.
 - 4.0 FTE reduction due to declining enrollment brings spending for all categories down to 2.8% personnel budget growth in FY24.
- Insurance & Non-META Pension: *\$525K (10.0%) spending growth*
 - Initial health rate increase estimate of 12%, at high end of 8-12% market trend; offset by savings in FY23 base cost.
 - MERSD utilization currently favorable; budget estimate could improve with each 1% of rate reduction saving approximately \$43K.

FY24 Operating Budget Drivers

- Out-of-District (OOD) Tuition/Transportation:
 - \$300K tuition growth (13% increase) driven by State approved 14% rate growth for private school programs.
 - Statewide driver shortage for OOD transport continues: \$786K FY24 budget up 146% vs FY21 (35% per year)
 - Continued savings from in-district programs: \$1.8 million avoided cost per year. 61 MERSD students served
 - Remaining OOD students have more significant needs: 14 forecasted placements of \$100K+ in FY24
 - Circuit Breaker (CB) growth will offset OOD budget growth: \$766K reimbursements in FY23 up from \$309K in FY21.

FY24 Budget Overview

- FY23 Tentative Operating Budget = \$30.14 million
 - 4.21% (\$1.22 million) spending increase from FY23 budget
 - Personnel : \$18.8 million in FY24 = \$517K (2.82%) growth
 - Operating Expenses: \$11.32 million in FY24 = \$701K (6.6% growth)
- Preliminary FY24 Operating Assessment Increase = 6.53%
 - Measures cost increase to towns after deducting “Other Revenue” (e.g., State Aid) from spending needs
 - Growth above 3.5% typical annual target reflects removal of one-time reserve funds from revenue budget.
 - MERSD reserves have been used in prior years to suppress cost to Towns
 - FY23 budget committed \$520K revenue from MERSD’s Excess & Deficiency (E&D) reserves, following commitments of \$335K in FY22 and FY21 and \$100K in FY20.
- Absent a revenue correction for FY24 (i.e., proposed 6.53% assessment) MERSD would need to make minimum of \$757K in cuts to bring assessments back to 3.5% target level.

Budget Highlights: Revenue

- \$413K (10.5%) decline in non-assessment revenue, reflects removal of \$520K reserves, offset by minimum State Aid growth
 - \$107K budget increase in Chapter 70 based on estimated \$60/pupil minimum growth estimate.
 - Route consolidation for transportation suggests FY24 Transportation Aid will be below FY22 \$357K actual. Budgeted in line with FY23 at \$275K
 - Assume flat School Choice revenue to offset spending by replacing graduating students

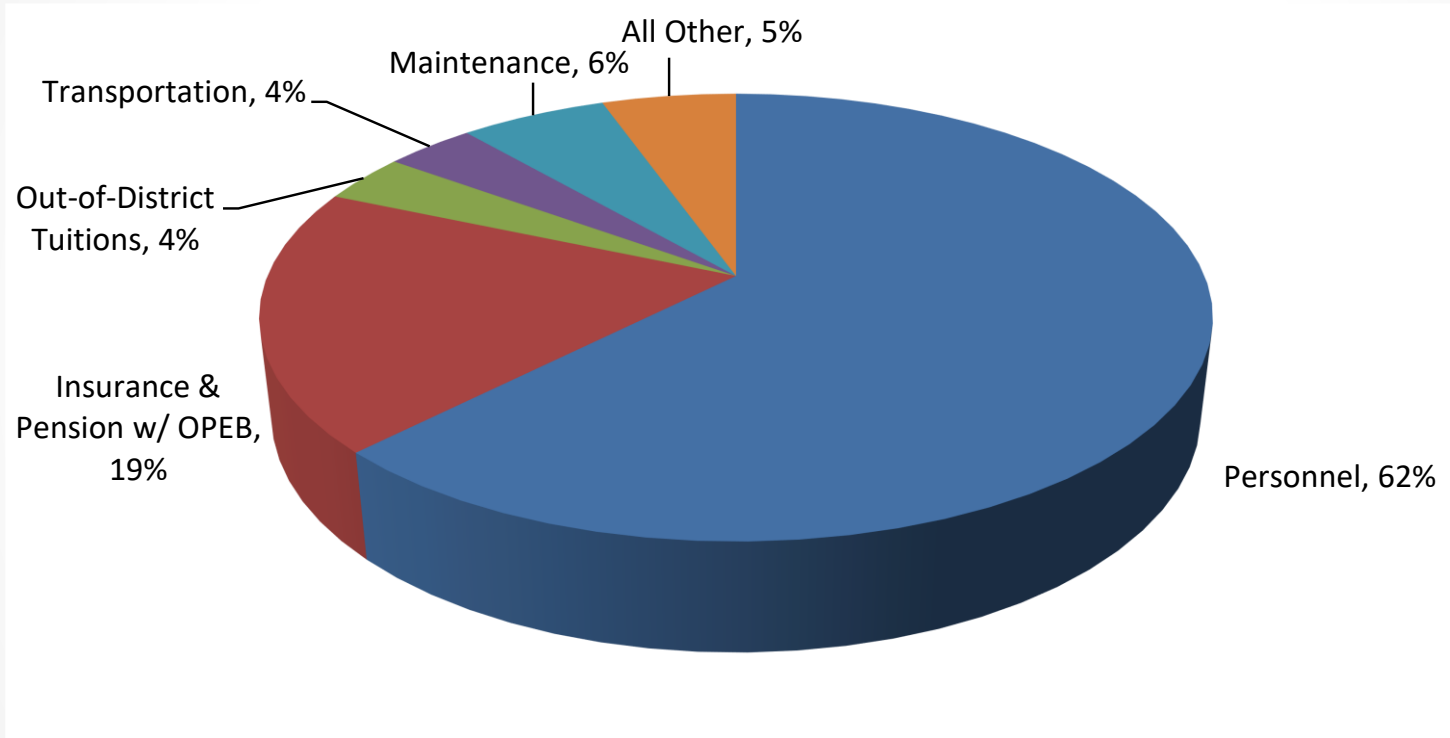
Budget Highlights: Spending Detail

	FY23	FY24	% of FY24 Spending	Inc. vs. FY23	
				\$	%
Personnel	\$18,304,319	\$18,821,050	62.44%	\$516,730	2.82%
Insurance & Pension w/ OPEB	\$5,209,901	\$5,734,899	19.02%	\$524,998	10.08%
Maintenance	\$1,678,581	\$1,790,235	5.94%	\$111,654	6.65%
Transportation	\$1,065,300	\$1,092,357	3.62%	\$27,057	2.54%
Out-of-District Tuitions	\$1,148,134	\$1,064,515	3.53%	(\$83,619)	-7.28%
All Other	\$1,519,752	\$1,641,008	5.44%	\$121,256	7.98%
Total	\$28,925,987	\$30,144,063	100.00%	\$1,218,076	4.21%

- *95% of spending is from largest 5 categories*
- *\$300K increase in Out-of-District Tuitions to be offset by increased Circuit Breaker reimbursements – for net budget reduction of \$84K in FY24*

Largest Budget Categories

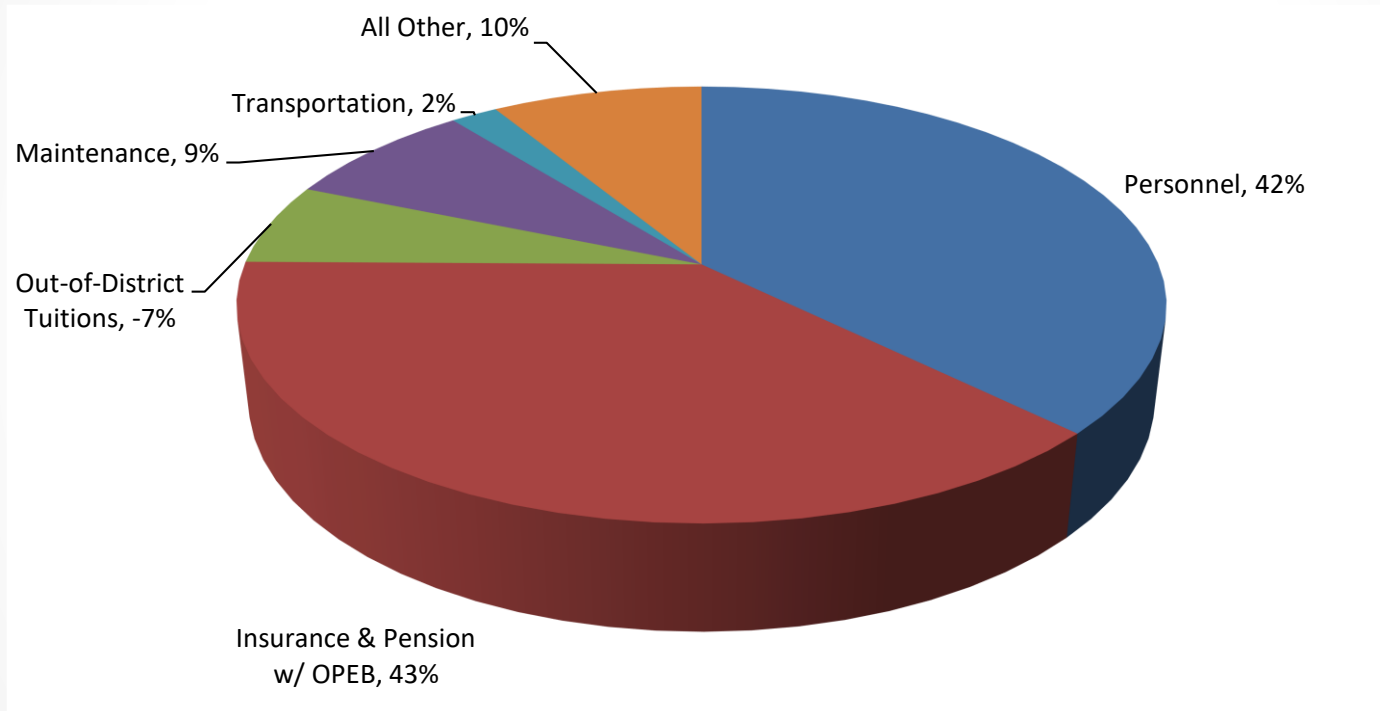
(% of Total Spending - \$30.14 million)



95% of spending from 5 categories

Largest Budget Drivers

(% of \$1.22 million budget increase)



OOD Tuition & Transportation account for 47% of total budget growth despite being only 8% of total spending

Financial Reserves Update

- **School Choice: \$1.29 million est. at FY22 year end**
 - No plans to spend School Choice reserves in FY23
- **Stabilization: \$389K at FY22 year end – fully committed through summer 2023**
 - \$970K initial balance generated from interest income on Memorial School bond funds awaiting deployment: committed to capital improvement projects
 - Projects completed/committed included:
 - EES Playground: \$382K
 - EES Technology to match MMES project \$171K
 - Security enhancements at EES/MSHS to match MMES project: \$120K
 - Habeeb Report on EES/MSHS: \$47K
 - Gale contract- turf field design: \$55K
- **E&D: \$1.14 million est. pending DOR certification**
 - \$1.58 million FY21 + \$85K FY22 return (revenue surplus only) - \$520K FY23 commitment
- **Facilities Rental: \$270K**
 - *+23K in FY22 vs. FY21*
- **Total: \$3.09 million estimated FY22 ending balance (10.7% of FY23 budget)**

Reserves Outlook

- \$2.8 million heading into FY24 available to fund:
 - \$800K Hyland Field replacement (updated estimate from Gale)
 - \$400K Brook Street Field replacement (plug assumption 50% share w/MBTS)
 - Any near-term findings from Habeeb FCI at EES & MSHS
 - Recurring operating deficit of \$756K-\$1.3 million if FY24 revenue correction does not materialize

FY24 Capital Budget

- Capital Budget is a separate annual budget for debt service on Middle High (MSHS) and Memorial School (MMES) construction bonds
- All Capital Budget payments are excluded from Proposition 2.5 limits, per taxpayer votes at projects' initiation.
- FY24 Tentative Capital Budget: \$4,169,063, or \$338K (7.5%) below FY23
 - As expected per multi-year debt service model due to final payment on \$1.964 million MSHS bonds in FY23
 - Assumes \$1.3 short-term MMES Bond Anticipation Notes (BANs) roll into FY24, pending final MSBA reimbursement

The Challenge

The challenge we were discussing at this time last year

- The cost of level services grows at an average 3.5-4% which is faster than 2.5%.
 - Perpetual and Structural Challenge – not a function of any single budget year
 - Level Service growth rate is suppressed annually in recognition of fiscal constraints
 - Creates a cycle of cutting to meet a specified budget number
 - Cumulative level services deficit grows over time
 - Every 7-10 years MERSD faces a financial crossroads of significant program reduction or need for an override
- We are at that crossroads.



The Challenge

Structural Financial Challenge Continues

+

Level Service Growth Averages 3.5-4%

+

Enrollment Shift Causing Apportionment Concern for Town of Essex

*MERSD must determine the direction it wants to take to balance the budget
Reserves / Reserves & Program Cuts / All Program Cuts*



Next Steps

- Public Input
 - 1st FY24 Budget Hearing – December 14th @ 7:00pm
 - 2nd FY24 Budget Hearing – January 24th @ 7:00pm
- Fine Tuning – December/January
 - Process Inputs
 - Check assumptions and projections
 - Identify areas for generating funds to meet unmet needs
 - Meet with Town Boards if needed
- Finalize Budget
 - SC Meeting - February 7th @ 6:00pm