

MANCHESTER ESSEX REGIONAL SCHOOL DISTRICT

FY23 Budget



The Mission of the Manchester Essex Regional School District (MERSD) is to provide a high quality, comprehensive, student-centered educational experience that prepares them for a post-secondary educational or service experience, a career, and life as an engaged member of society.

Introduction – State of the District

The last two years have been ones of change, uncertainty, and resiliency. Although the pandemic continued to play a prominent role throughout 2021, MERSD’s priority goal was to reinstate and maintain in-person learning and to minimize risk to the health and safety of all in attendance. While continuing with masking and distancing, all other school programs, operations, and student activities resumed and continued, some with modifications, through the Omicron surge. I am thankful for the hard work and dedication of the faculty and staff who strive every day to support the social, emotional and intellectual growth of our students and grateful to the entire MERSD community for their flexibility and support throughout the pandemic.

This fall MERSD celebrated the completion of two large capital projects, the Memorial Elementary School and the Essex Elementary playground. Through the oversight of the Memorial School Building Committee and the collaborative efforts of the Project Team, the Memorial School building project remained on time and on budget. The result is a state-of-the-art building, designed to meet LEED Silver certification standards and provide a flexible learning environment that supports interactive student-centered learning. The new Essex Elementary playground replaced the beloved Eagle’s Nest and was designed to capture its spirit while promoting diversity of experiences, inclusiveness, and of course fun for all! I am proud to say that each project was a collaborative effort between school and community from inception to completion. Both projects are community assets. Looking ahead, MERSD is moving forward with a facilities assessment of Essex Elementary School (EES) and working collaboratively with our town partners to formalize a timeline for submitting a statement of interest to the Massachusetts School Building Authority (MSBA) to pursue replacement or renovation of EES.

In the fall of 2021, MERSD completed a multi-year planning process with the launch of its Strategic Plan. The strategic plan consists of a district mission, vision, core values and strategic priorities. This document guides the development of the district and school-based improvement plans and, ultimately, the framework for the development of teacher goals and objectives.

Mission
<i>The Mission of the Manchester Essex Regional School District (MERSD) is to provide a high quality, comprehensive, student-centered educational experience that prepares them for a post-secondary educational or service experience, a career, and life as an engaged member of society.</i>
Vision
<i>MERSD, with the partnership and support of member communities, will provide educational opportunities and resources so that all students can realize their individual, unique, and highest potential, achieve academic excellence, value integrity and honesty, and become intellectually curious and critical thinkers.</i>
Core Values
Student Centered We believe schools must establish a safe environment that supports the development of all students. Schools must engage all aspects of a child’s development, including knowledge, a sense of self, emotional well-being, physical health, and skills and strategies to negotiate an ever-changing and unpredictable world.

Student Achievement

We believe MERSD should foster a learning environment that encourages academic achievement, social and emotional freedom and engagement, collaboration and creative problem-solving; the skills to confront new ideas with both rigor and sensitivity, and the awareness to and ability to extend the skills beyond the academic core to include experiential learning, the arts, cultural awareness, and physical and social emotional health.

Equity

We believe our schools must strive to create a just and equitable environment that respects individual differences and the diversity of our communities, country, and world.

Family & Community Partnerships

Schools are a reflection of their communities. We believe that providing a quality education that prepares our students for an unpredictable world is a shared responsibility, fostered by partnerships among the schools, families, educational non-profits, businesses and the community-at-large.

Resources

We believe the District and our community partners should collaborate to provide the necessary funding to equip our students with the essential critical thinking, analytic, communication, and problem-solving skills they need to be productive, contributing members of our local and global communities and deliver on the promise of our students' potential.

Vision of the Graduate

Empathetic Global Citizen
Responsible Collaborator
Critical Thinker
Effective Communicator
Personally Accountable
Social/Emotional Awareness
Innovative and Creative

Theory of Action

If we

Keep students at the center of decision making and practice

Cultivate a collaborative and inclusive culture

Articulate the relationship between social emotional well-being and student achievement

Engage in two-way communication with our community

Then...

Students will realize their individual, unique, and highest potential, achieve academic excellence, value integrity and honesty, and become intellectually curious and critical thinkers.

Strategic Priorities

Establish and foster an authentic Pre-K-12 learning environment.

Integrate social emotional learning into all aspects of the school day.

Celebrate and nurture an inclusive and diverse school culture that recognizes the contributions and uniqueness of each learner.

Maintain a sustainable multi-year operational budget and capital improvement plan.

The communities of Essex and Manchester have a strong reputation for their commitment to high-quality schools, and our continued success is a community effort! On behalf of the faculty and staff of MERSD, I extend my sincere appreciation to the residents of the communities of Essex and Manchester for their continued support.

Pamela Beaudoin, Superintendent of Schools

2023 Budget - Summary Overview

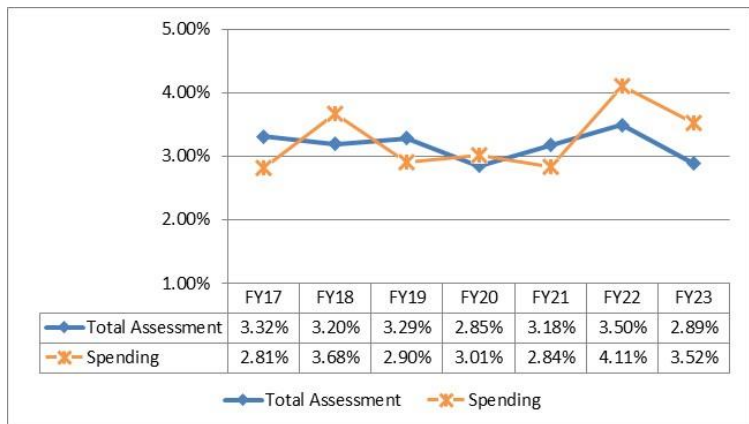
MERSD's School Committee goals include the objective to Develop and deliver a fiscally responsible budget that supports our Mission, Vision, Core Values, and strategic initiatives, maintains educational quality, and recognizes the confines of Proposition 2 ½.

MERSD's operational budget is managed each year to deliver stable and predictable growth in spending and assessment (i.e., cost to member towns) each year, balancing program needs and town funding constraints associated with Proposition 2.5. Over the past seven years, spending and assessment increases have been relatively consistent, averaging 3.27% and 3.17%, respectively.

At minimum, MERSD strives to achieve "Level Services," or, in other words, the same level of program currently in place. When program enhancements are necessary, MERSD has opted to fund them by finding cost reduction opportunities in other areas of the budget whenever possible. Over time, however, this balance has become more challenging, and in the past several years, the district has fallen short of a Level Services budget, having had to implement staffing reductions to ensure that budgetary growth fits within the levy limit.

Planning for a Revenue Correction in 2023-2024

The challenge begins with the cost of Level Services, which typically grows at 3.5% - 4.0% annually for most school districts, beyond the limits of



Proposition 2.5. This puts MERSD and other districts in a cycle of annual reductions to meet budgetary goals. The result over time is a cumulative "Level Services deficit" that must be addressed every 7-10 years with either a revenue correction (e.g. override) or more substantial program reductions. A revenue correction last occurred in FY-16, when Manchester passed an override and Essex used extra revenues to raise the contribution for MERSD.

Using its ongoing process of multi-year budgeting, MERSD and its member towns have begun planning for another such correction, most likely for the fiscal 2024 budget cycle, which begins next year. As of the 2022-2023 fiscal year, the gap between Level Services and the 3.5% target assessment growth rate for member towns was approximately \$985K. Given the magnitude of this gap, MERSD would need to substantially cut its program if town-voted revenue corrections are not successful. With staffing and benefits accounting for roughly 80% of spending at MERSD and comparable school systems, these reductions would take the form of increases in class size and reduction in electives, which would clearly conflict with MERSD's School Committee goals and the expectations of many community members.

Use of “Rainy Day” Reserve Funds

In recent years, in order to minimize additional program reductions, MERSD has begun to use rainy day, “reserve” funds as a temporary revenue source. This helps to keep taxpayer costs below the levy limit while multi-year, sustainable budgeting planning continues with member towns.

Reserve funds, however, are one-time in nature, and an important source of emergency funding for capital repairs (including, most recently, COVID-19 response, see below), and as such, continuing use of reserve funds is neither sustainable nor considered best practice. Given the size of the current Level Services funding gap, MERSD would exhaust its reserves in 1-2 two years, if a town override vote is not successful, and as such, the School Committee is currently contemplating ways to reduce spending and program to minimize this risk. Although MERSD currently has sufficient reserve funds, certain capital projects, such as athletic turf field replacement have had to be deferred, until it is clear that both towns will support a revenue correction.

Keeping reserve balances healthy also saves taxpayers money, by lowering the cost of interest associated with building project borrowing, by signaling to potential lenders that MERSD is a low-risk borrower. MERSD’s credit rating was recently upgraded to AA+ (one step below the highest possible AAA rating) by S&P, who cited the strong financial position of both Manchester-by-the-Sea and Essex, as well as MERSD’s multiple years of positive budgetary results and healthy financial reserves. As a result of this favorable credit rating, MERSD was able to secure initial funding for the Memorial Elementary School building project of \$35 million at a 3.289% interest rate, and a second round of \$3.2 million at 1.63%. This represents significant savings from the estimated 5.0% rating presented to voters in the fall of 2018, when the construction project was approved, saving taxpayers more than \$17 million or \$577K per year over the life of the bonds. Taxpayer cost for this project has also been offset by \$10 million in contributions from the Massachusetts School Building Authority, with eligibility for up to \$12 million total. At this time, the project is on track to be completed with budgetary savings.

Healthy reserves will also be important as MERSD shifts its focus over the next several years to renovation and/or replacement of Essex Elementary (now 65 years old), which will require input and approval from voters, and additional potential borrowing. MERSD’s strong credit rating has also helped reduce the cost to taxpayers of the 2008-10 Middle High School construction project by enabling the district to refinance \$17.5 million of outstanding debt at lower interest rates, generating savings of more than \$2 million over the life of the bonds, or roughly \$130K per year.

A list of MERSD’s capital project priorities over the next five years is included in the appendix.

Fiscal Discipline and Level Services Challenges

Fiscal discipline has been a consistent priority for MERSD, leading to consistent, stable and low growth in spending and “assessment” (i.e., the cost to taxpayers).

Despite a five-year average annual growth rate in spending of 3.27%, there are structural, recurring reasons why Level Services generally exceeds the limits of Proposition 2.5. Staffing, which accounts for nearly 65% of MERSD’s spending, typically grows at 3.0-4.0%, accounting for annual cost of living increases (2.0-2.5%), and any additional contractually obligated payments for increased years of service or staff’s educational attainment. MERSD uses statewide data to ensure that compensation levels are fair and in line with other districts. According to the Department of Elementary and Secondary Education, MERSD ranked 92 among all districts in Massachusetts in the category of average teacher salary, despite consistent recognition for MERSD’s award-winning academic and ‘whole child’ program.

MERSD’s next largest area of spending is mandated health insurance. With average annual medical trend growth rates in the public marketplace of 7-8%, health insurance, which accounts for 20% of MERSD’s budget, naturally pressures Level Services spending growth upward each year as well. An unusual challenge occurred in 2018, when MERSD absorbed a 28% increase in health insurance rates after its budget had been set, with a two-year total cost increase in that time frame of \$1.5 million. Since then, MERSD has negotiated changes to its benefits offerings to make them more affordable, resulting in below-average growth in costs. Cost of retiree healthcare, however, is mandated by State law, and has grown an average of 12% annually over the past five years, with MERSD now covering more retirees (168) than active employees (165). Through negotiations with its teachers’ association, MERSD has set aside \$4 million over the past eight years, in an invested trust fund, to address future retiree health care (aka Other Post-Employment Benefits, or OPEB).

Although much smaller in total size (4% of total), mandated spending on out-of-district tuition and transportation for special education students is another area that can grow beyond the limits of Proposition 2.5. In recent years, MERSD has developed many in-district special education programs to help manage potential spikes in costs, saving more than \$1.8 million annually. For students whose needs cannot be met in district, however, the cost is much higher than average, with 9 students whose individual placement cost is expected to exceed \$100K in FY23. Out-of-district placements can be difficult to predict when associated with move-ins (i.e., new residents). Transportation is also mandated for these out-of-district placements and the cost of these services has risen significantly for all school districts in recent years, leading to \$216K (46%) increase in a single year. Recognizing this statewide fiscal challenge, a portion of these expenses is now reimbursed by the Commonwealth of Massachusetts through the “Circuit Breaker” program, but the majority of the cost increase falls to MERSD through its budget.

Aside from staffing, benefits and out-of-district costs, most other areas of MERSD’s budget are level funded each year (i.e., close to 0% growth) in order to offset growth in mandated, non-discretionary spending.

Addressing COVID Costs without Added Cost to Taxpayers

Statewide, school reopening and safety measures in response to the COVID-19 pandemic have been costly. Since the outset of the pandemic, MERSD has spent more than \$1.8 million to keep the schools running safely, with no additional costs or assessments passed on to taxpayers. Costs have included facility improvements (e.g. air filtration, sanitization, touch free installations), personal protective equipment (e.g. masks, gloves, etc.), instructional technology and technical support for remote operations for students and staff, and additional temporary staffing (during the 2020-2021 school year only) to facilitate safe distancing between students.

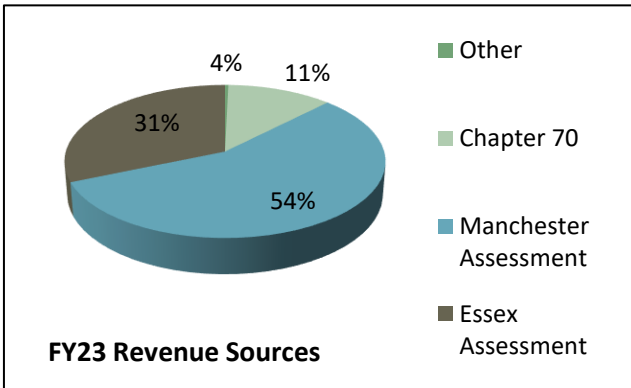
Having stable reserves allowed MERSD to incur these costs without delaying reopening, and without a special tax assessment to its member communities. Since that time, MERSD has received commitments for just over \$1 million from the federal CARES program and Department of Elementary and Secondary Education COVID grants. Additionally, MERSD has partnered with the towns of Manchester and Essex to utilize their remaining, unspent CARES funding for up to \$400K in additional reimbursements. A portion of the facility and PPE costs (between \$100-200K) are also eligible for reimbursement from FEMA, leaving MERSD to cover an estimated \$200K from reserve funds.

REVENUE SOURCES			COVID SPENDING					
Grant Name	Confirmed	Potential	Facilities	Food Service	Instructional Technology	Staffing	Total Future Spend	
ESSER I	\$54,198				\$54,198		\$54,198	
RLTE	\$45,250				\$45,250		\$45,250	
CvRF	\$303,300				\$303,300		\$303,300	
ESSER II	\$206,931					\$206,931	\$206,931	
Coronavirus Prevention	\$45,050					\$45,050	\$45,050	
ESSER III	\$442,591				\$42,221	\$319,690	\$361,911	
FEMA Revisited		\$118,889	\$118,889				\$118,889	
Essex Town CARES	\$146,796		\$46,295	\$82,391	\$18,110		\$146,796	
MBTS Town CARES		\$265,000	\$75,375	\$34,623	\$155,001		\$265,000	
"New" FEMA		\$68,521	\$68,521				\$68,521	
Unreimbursed CARES (funded by MERSD Reserves)			\$64,384		\$68,210	\$75,000	\$207,594	
Total	\$1,244,116	\$333,521	\$1,577,637	\$373,464	\$117,014	\$686,290	\$646,671	\$1,823,440

MERSD FY23 Budget Highlights

FY23 Operating Assessment = 2.89%

- Cost of increase to towns after deducting “Other Revenue” (e.g., State Aid) from spending needs
- Below previous multi-year model assumptions of 3.7%, and town target of 3.5%
- Below 7-year average operating assessment increase of 3.17%, as spending cuts and reserves have been necessary to lower impact of enrollment-based 4.39% apportionment for Town of Essex.



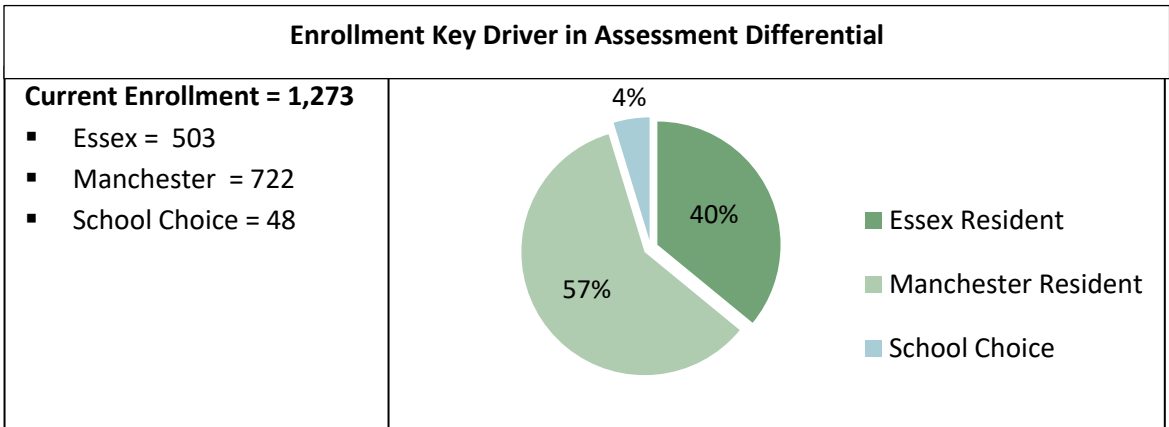
FY23 Budget = \$28.93million

- 3.56% spending increase vs. FY22 budget

FY23 Operating Assessment = 2.89% increase

- Essex = 4.39%
- Manchester = 2.05%

Seven-year average assessment growth of 3.17%



SECTION 2
Budget Detail

FY23 Operating Budget Detail – Overview

MERSD's operating budget request for Fiscal Year 2023 (FY23) is \$28,925,987, up \$995,284 or 3.56% from 2022.

The main source of funding for the budget is town taxation, referred to as assessments, which are budgeted to grow \$701,834, or 2.89% in 2023 from the prior year. MERSD evaluates spending needs each year, compared to projections for non-town revenues in order to understand the potential implication of budget decisions on taxpayers.

State Aid

The largest source of non-town revenue is State Aid, which includes the Chapter 70 and Regional Transportation programs. With MERSD enrollment declining for several years in a row, the district is eligible for only minimum annual increases in Chapter 70 revenue, and as such is budgeting growth of just \$40K (1.31%) in FY23, for total Chapter 70 revenue of \$3.124 million. Regional Transportation aid is much smaller, and budgeted at \$275K in FY23. Transportation Aid growth of \$68K or 32.85% brings the FY23 budget estimate closer to FY21 actual aid, reflecting higher reimbursement rates from the State for all districts.

Revenues from the School Choice State Aid program are budgeted to remain flat in the 2023 budget at \$325,000, with target enrollment of 48 students as the budget assumes that all graduating School Choice students will be replaced with new students. Class sizes in elementary grades suggest that additional School Choice students could be accepted beyond the budgeted allotment, which could provide additional revenue. On a multi-year view, School Choice enrollment is down 66% from a high of 150 School Choice students and \$875K of annual revenue in 2005. MERSD has since focused on aligning staffing levels with resident enrollment, and opted for new School Choice students only where class sizes were below benchmarks.

Reserve Funds

The 2023 budget is also funded with a \$520K contribution from MERSD's reserve or "rainy day funds." Since receiving a revenue correction from member towns in 2016, MERSD has intentionally sought to refrain from using reserves, which are non-recurring revenue sources, to fund recurring operating spending. After absorbing a 28% increase in health care costs in the 2018 budget, however, it has been increasingly difficult to align "level services" spending, levy-limited town assessments, and State Aid growth that has not kept pace. In an effort to minimize further cuts to the educational program, and maintain a level services budget for 2021 through 2023, School Committee has voted to use reserves a revenue source, while also beginning discussions with member towns on planning for a revenue

correction in the future, given that reserve funds do not represent a recurring, sustainable source of revenue.

Apportioning Assessments Between Member Towns

The cost to each town of MERSD depends on three factors: budget (the amount of spending approved by the School Committee), revenue (the amount of money the school district receives from sources other than the towns), and apportionment (the division of costs between the two towns). The chart below shows the total impact of these three factors. Over the past few years, the percentage of MERSD students from Essex has grown slightly compared to Manchester, and as a result, the apportionment for Essex in FY23 will increase by a higher percentage (4.39%) than that of Manchester (2.05%) in accordance with the Regional Agreement formula.

2023 Revenue Sources

	FY22	FY23	\$ Change	% Change
BUDGETED EXPENDITURES	28,255,703	29,250,987	955,284	3.52%
Revenue other than Assessments				
Chapter 70 Aid	3,083,668	3,124,118	40,450	1.31%
State Transportation Aid	207,000	275,000	68,000	32.85%
School Choice Sending	(100,000)	(100,000)	0	0.00%
School Choice Receiving*	325,000	325,000	0	0.00%
Medicaid Reimbursement	50,000	50,000	0	0.00%
Bank Interest	40,000	40,000	0	0.00%
Parking/Transp. Fees	29,500	29,500	0	0.00%
Reserve Funds	335,000	520,000	185,000	55.22%
Total other Revenue	3,970,168	4,263,618	293,450	7.39%
Operating Assessments				
Manchester	15,589,705	15,909,698	319,993	2.05%
Essex	8,695,830	9,077,671	381,841	4.39%
Total Operating Assessments:	24,285,535	24,987,369	820,734	2.89%
TOTAL REVENUE	28,255,703	29,250,987	1,114,989	3.52%

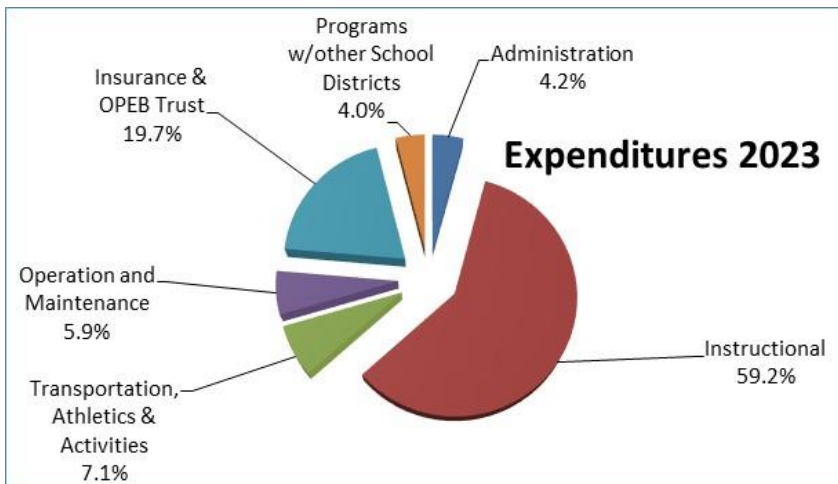
**School Choice (SC) receiving funds must be spent outside of the General Fund budget, per state regulations, but are included here to account for all major recurring spending categories. Excluding budgeted SC funds of \$325,000 in 2022 and 2023, the total General Fund budgeted expenditures for 2023 are \$28,925,987, up \$995,284 or 3.56% from \$27,930,703 in 2022.*

Operating Budget Detail - Distribution of Expenditures

Changes in distribution of expenditures from one year to the next reflect key drivers in MERSD’s budget. Instructional costs and Insurance continue to account for more than three quarters of all spending. Instructional services, however is declining most significantly as a percent of total spending in FY23 due to staffing reductions that are needed to fund mandated spending growth in other areas, most notably Programs with other Districts, and Transportation. MERSD has also reduced its FY23 budget by planning to fund \$150K of mandated retiree health insurance using its OPEB (retiree health) trust fund. This offsets what would otherwise be a large cost increase associated with an estimated 10% increase in health insurance rates in 2023. Other changes are described in greater detail below.

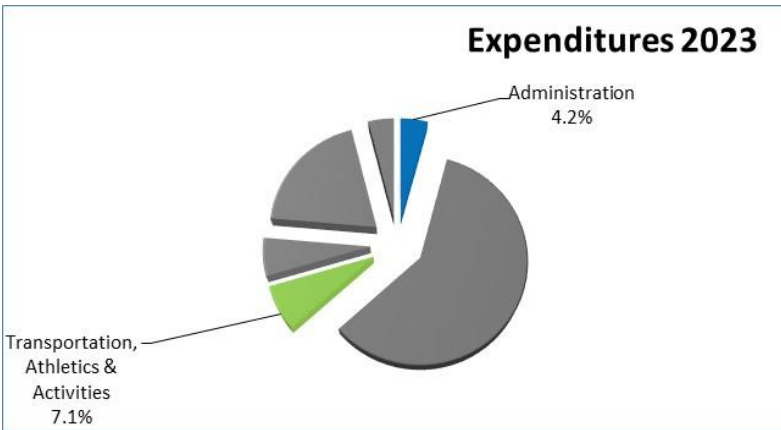
Summary of Expenditures

	FY22	% of Total	FY23	% of Total
Administration	1,162,846	4.12%	1,232,930	4.22%
Instructional	17,010,784	60.20%	17,312,022	59.18%
Transportation, Athletics & Activities	1,907,568	6.75%	2,068,003	7.07%
Operation and Maintenance	1,632,267	5.78%	1,725,610	5.90%
Insurance	4,980,930	17.63%	5,128,787	17.53%
Programs with other Districts	973,709	3.45%	1,162,134	3.97%
Contribution to OPEB Trust Fund	587,600	2.08%	621,500	2.12%
Total Budgeted Expenditures	28,255,703	100.00%	29,250,987	100.00%



Administration includes district-wide expenses such as professional and support staff salaries, supplies and materials for the School Committee, superintendent’s office, and finance, dues, legal services, travel expenses, and administrative technology. Administrative salaries are budgeted to increase \$69K or 7.75%, reflecting the addition of a \$55K technology support position, funded partly by savings in other parts of the budget, with some budgetary increase made necessary by the significant increase in the number of student devices, prior to, and during the COVID pandemic. Excluding this addition, administrative salaries are up just 1.57%, with a 2.5% district-wide Cost of Living Adjustment (COLA) offset by other reductions. Administrative operating expenses are growing just 0.38% (\$1.1K) overall.

<i>Administration</i>	
Salaries	\$958,913
Expenses	\$274,017
Total	\$1,232,930
% of Budget	4.22%
% Growth	6.02%



Transportation, Athletics & Activities

<i>Transportation, Athletics & Activities</i>	
Salaries	\$828,203
Expenses	\$1,239,800
Total	\$2,068,003
% of Budget	7.07%
% Growth	8.41%

includes regular transportation and transportation for students placed out of district for special education, athletics, health services, school security and student activities like band, debate, and DECA. Costs include professional and support salaries, contracted services, and materials.

Spending growth of \$160K (8.41%) is driven by \$216K (46%) forecasted growth in special education transportation for out-of-district (OOD)

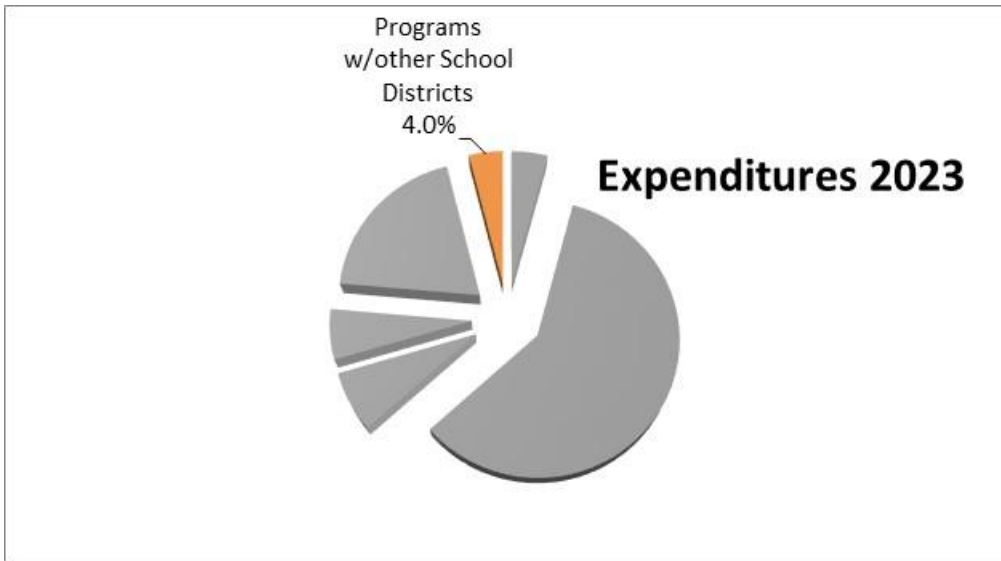
placements, offset by consolidation of general education daily bus routes for an estimated savings of \$50K. Although the number of OOD placements has been relatively stable in recent years, daily rates for transportation to programs located outside of the MERSD community are up significantly, driven by an industry-wide shortage of drivers. Salaries in this category are forecast to decline \$26K (3.10%), due to savings associated with replacement of a retiring, long-serving school nurse.

Programs with Other Districts is the cost of sending students from the district to programs outside the district (OOD), typically for special education students attending placements in other districts or private or

<i>Programs with other Districts</i>	
2023	\$1,162,134
2022	\$973,709
% of Budget	3.97%
% Growth	19.35%

collaborative schools. The budget for these mandated placements is growing \$188K (19%) in FY23. Budgeted increases for OOD placements and transportation combined totals \$405K, or 41% of all spending growth in FY23.

MERSD continues to see significant benefits from its investment in in-district special education program development, including its social/emotional and intensive reading/written language programs. A recent analysis showed that MERSD saves nearly \$1.8 million per year in tuition and transportation expense, which would be necessary if in-district programs did not exist. This benefits MERSD students by enabling them to stay in their neighborhood schools. For students with highly specialized needs that cannot be served by MERSD’s in-district programs, however, costs continue to rise. The FY23 budget includes nine placements with single-year tuition costs of more than \$100K. This has been offset to some extent by State Aid from the Circuit Breaker program, which reimburses a portion of high-cost placements.



Operation and Maintenance of Plant includes the cost of custodial services, utilities, building and grounds maintenance, and capital improvements. Costs include salaries, contracted services, natural gas, electricity, telephone, and equipment, and tools.

Spending on Operations and Maintenance is up \$93K or 5.7% in FY23, driven primarily by increases in hourly rates for outsourced custodial cleaning services, which has been a source of savings in prior years, reflecting continued pressure across MERSD's budget and throughout the economy in the labor

<i>Operation & Maintenance</i>	
Salaries	\$272,579
Expenses	\$1,453,031
Total	\$1,725,610
% of Budget	5.90%
% Growth	5.72%

pool for hourly workers. The FY23 budget also anticipates the need for continued investment maintaining Essex Elementary School (EES), now 65 years old. Although the majority of investments at EES have been funded by reserves, recurring operating budget costs are also continuing to rise, due to the age of the building's infrastructure.

Recent capital investments at EES have focused on ensuring elementary program equity, following construction of the new Manchester Memorial School. MERSD has invested \$545K of reserve funds at EES over the past two years, including replacement of the Eagles Nest playground (\$366K), upgrades of classroom interactive teaching panels (\$139K), updating the 10-year old video security system (\$23K) and improvements in network switchgear (\$17K, after \$11K in federal eRate grant funding). Additionally, partnering with the Town of Essex through the Massachusetts Green Communities Grant program, MERSD has made \$480K in energy efficiency upgrades at EES over the past five years, at zero cost to local taxpayers, including LED lighting conversion, and installation of a modern building automation software system to more efficiently control heating. These systems, completed this year, generate significant annual savings, which is particularly important as favorable, multi-year natural gas and electricity contracts secured by MERSD in 2020, at the outset of the COVID-related economic downturn, are set to expire later this year.

MERSD is currently working with an architectural and engineering firm to update its 2013 facility condition index study of EES and is including a study of the MSHS for the first time, so that the timing and cost of future capital needs can be known. Near-term capital projects include replacement of the EES boiler (\$100K+) and the MSHS turf fields (\$750K-\$1.2 million).

Instructional Services are direct costs of teaching students: salaries for teachers, principals, librarians, guidance counselors, psychologists, and classroom assistants, plus the costs of text books, curriculum materials, and professional development, stipends, contracted services, computer hardware, educational software, instructional equipment, dues, subscriptions, and testing materials.

Instructional Services represents 59.2% of all budgeted spending in 2023, and are expected to grow \$301K or 1.8% over 2022. This is slower than the rate of total spending growth, reflecting elimination of teaching positions that MERSD has had made to reduce a budget deficit, and keep spending growth within the levy limit.

<i>Instructional Services</i>	
Salaries	\$16,238,346
Expenses	\$1,073,676
Total	\$17,312,022
% of Budget	59.18%
% Growth	1.77%

Reductions planned for FY23 include elimination of elementary foreign language, and elimination of classroom teaching positions at the elementary level (1.0) and high school (1.0 math and 0.4 art). These cuts reduce the scope of MERSD’s program, and impact class size, even though

MERSD is still meeting the School Committee’s longstanding class size guidelines.

Declining enrollment in recent years has made some of these reductions possible, but not preferable. Initially, MERSD shifted teaching resources from the elementary grades to the middle school and then high school, following the path of an enrollment growth “bubble,” that was rising through the grade levels. The last remnants of this 10-year bubble are now at the upper grades of the high school, as shown below. In recent years, however, MERSD has also needed to add special education teachers and teaching assistants to address increasing student need. These additions have offset reductions in general education staffing, keeping total District staffing relatively stable, despite declining enrollment.

School Yr.	K	1	2	3	4	5	6	7	8	9	10	11	12	HS	MS	Elm
2016-17	70	67	88	112	122	115	124	132	131	115	103	98	109	425	387	574
2017-18	76	81	73	92	115	123	117	124	130	131	114	100	98	443	371	560
2018-19	74	82	85	80	98	118	127	113	127	129	123	113	107	472	367	537
2019-20	83	75	86	91	79	103	118	128	111	124	127	121	110	482	357	517
2020-21	56	78	72	84	86	73	102	113	128	96	116	123	123	458	343	449
2021-22	66	82	83	82	88	96	77	97	109	113	93	121	123	450	283	497

The 2023 budget includes a 2.5% cost-of-living adjustment for teachers, the same as in 2020, 2021 and 2022 (compared to 1.5%, 2.25%, 2.0% and 1.5% in 2019, 2018, 2017 and 2016, respectively) in addition to contractually obligated “step increases.” Step increases are awarded for additional years of service within the first 15 years, which applies to 40% of faculty.

Insurance & OPEB Trust are retirement and insurance programs, including contributions to employee retirement systems, Medicare, unemployment insurance, employee and retiree health insurance (aka Other Post-Employment Benefits, or OPEB), workers compensation, and property insurance.

The 2023 budget for Insurance and OPEB is up 3.3% or \$182K, compared to fiscal 2022. Actual forecasted growth is closer 5.97%, but MERSD has reduced its budget request in part by planning to fund \$150K of retiree health insurance costs outside of the budget, using funds from its OPEB trust. Budget assumptions include a 10% increase in health insurance rates, reflecting utilization that is slightly above industry averages of 7-8%. Insurance savings in 2022, caused by reduced employee usage of insurance during the COVID pandemic, offsets the impact of the 10% rate growth assumption, by lowering the base upon which 2023 growth will occur.

<i>Insurance & OPEB Trust</i>	
2023	\$5,750,287
2022	\$5,568,530
%	19.7%
Budget	
%	3.26%
Growth	

MERSD now insures more retirees (168) than active employees (165), with annual retiree insurance costs having grown an average of 12% per year over the past five years, in keeping with requirements under Massachusetts General Law (MGL). Fortunately, MERSD is on track to have \$4.1 million set aside by 2023 in its trust fund for OPEB. These contributions have been funded entirely from savings generated from a separate agreement with META to migrate employees to less costly plans, thereby eliminating an additional potential cost to taxpayers, which has been necessary to fund OPEB obligations in other communities. MERSD's OPEB trust is invested with the Pension Reserve Investment Management (PRIM) Board, the same entity that manages the Massachusetts Teachers Retirement System (MTRS) and Essex Regional Retirement System (ERRS). PRIM's 10-year average annual asset return as of December 2021 has been 10.98%. This reduces the contribution needed from MERSD to meet its statutory OPEB obligations. MERSD also requires eligible retirees (80% of retirees) to enroll in Medicare as their primary insurer, which reduces the District's statutory obligation to provision of supplemental insurance only. The District's obligation for this supplemental insurance is just \$3.5K per year, compared to \$15.6K for retirees prior to aging into Medicare eligibility at age sixty-five.

The 2023 budget estimate for pension contribution is \$646K, tracking the plan of Essex Regional Retirement system to require 6-7% increases annually from participating employers through 2030, as part of the system's MGL-required plan to achieve full funding by 2036. MERSD pension costs are for non-licensed staff only (e.g. teaching, school building and administrative assistants and facilities staff); MERSD has no pension cost obligation for teachers and licensed administrators, as these costs are covered by the Commonwealth instead.

Multi-Year Budget Strategy

MERSD employs a multi-year budgeting process to inform and improve collaborative funding discussions with the towns. This budgeting approach shows the impact on town assessments of a level-services spending budget and various scenarios for State Aid, which is currently in a phase of significant uncertainty. Additionally, the multi-year budget tool shows clearly the challenges of using one-time reserve funds as a recurring revenue source.

Assuming spending growth of 4.1% to 4.2%, for example, at the high end of a Level Services range, reserve usage would need to grow by \$290K-350K per year, in order to keep assessment increases to 3.5% per year. This would quickly become unsustainable with reserve usage approaching \$1.5 million annually in just three years. MERSD will continue to partner with the Towns to develop multi-year sustainable funding plans that support the educational program within affordability limitations.

	FY-20*	FY-21*	FY-22	FY-23	FY-24	FY-25	FY-26
Personnel	\$16,805	\$17,118	\$17,984	\$18,328	\$19,001	\$19,698	\$20,421
<i>Growth %</i>	<i>3.05%</i>	<i>1.87%</i>	<i>3.53%</i>	<i>1.91%</i>	<i>3.67%</i>	<i>3.67%</i>	<i>3.67%</i>
Expenses	\$9,207	\$9,617	\$10,271	\$10,923	\$11,475	\$12,062	\$12,680
<i>Growth %</i>	<i>2.85%</i>	<i>4.46%</i>	<i>5.15%</i>	<i>6.34%</i>	<i>5.05%</i>	<i>5.12%</i>	<i>5.12%</i>
Total Spending	\$26,012	\$26,735	\$28,256	\$29,251	\$30,475	\$31,760	\$33,101
<i>Growth %</i>	<i>2.98%</i>	<i>2.78%</i>	<i>4.16%</i>	<i>3.52%</i>	<i>4.19%</i>	<i>4.22%</i>	<i>4.22%</i>
State Aid	\$3,179	\$3,240	\$3,191	\$3,299	\$3,348	\$3,399	\$3,450
Fees & Other	\$66	\$63	\$120	\$120	\$131	\$131	\$131
School Choice: Annual Revenue	\$325	\$180	\$325	\$325	\$325	\$325	\$325
Reserves: Choice, E&D	\$100	\$335	\$335	\$520	\$809	\$1,139	\$1,491
Town Assessments	\$22,742	\$23,465	\$24,286	\$24,987	\$25,862	\$26,767	\$27,704
<i>Growth %</i>	<i>2.85%</i>	<i>3.18%</i>	<i>3.50%</i>	<i>2.89%</i>	<i>3.50%</i>	<i>3.50%</i>	<i>3.50%</i>
Total Revenue	\$26,154	\$27,103	\$28,256	\$28,251	\$30,475	\$31,760	\$33,101
<i>Growth %</i>	<i>1.62%</i>	<i>3.63%</i>	<i>4.11%</i>	<i>3.52%</i>	<i>4.19%</i>	<i>4.22%</i>	<i>4.22%</i>

**FY20 -FY21 = actual results. FY22-FY23 = budget. FY24-FY25 = scenario planning only*

Capital Budget – Debt Repayment

In addition to the Operating Budget discussed above, MERSD also maintains a separate, annual Capital Budget comprised of debt payments due each fiscal year. These costs are apportioned to the Towns in the form of a Capital Assessment based on formulas in the Regional Agreement.

Prior to FY20, MERSD’s debt related exclusively to the Middle High School (MSHS) facility. Voters in both towns voted in 2006 to authorize borrowing of up to \$49 million, and to exclude any borrowing from the limits of Proposition 2.5. The final cost to taxpayers, however, was just \$32 million as grants from the Massachusetts School Building Authority (MSBA) of \$17 million funded approximately 35% of the project budget. This contribution, combined with more favorable borrowing rates resulted in a tax impact that is about half of what was predicted when the debt exclusion was voted. In 2017 and again in 2020, MERSD again used its strong bond rating to refinance its MSHS debt, saving taxpayers an additional \$2 million over the remaining life of the bonds, or \$130K per year.

New debt service for the Memorial School project began in FY20, resulting in \$2.7 million of annual debt service as of the FY23 capital budget. Voters in both towns voted in the fall of 2018 to approve the \$52 million project budget, with an estimated reimbursement from MSBA of \$12 million, leaving approximately \$40 million to be funded via local taxation. In January of 2019, MERSD raised \$35 million of this total, followed by \$3.5 million in July of 2021, with bonds to be repaid over 30 years. Prior to its first debt issuance, MERSD’s credit rating was upgraded by S&P to AA+, one step below the highest possible AAA rating. This credit rating enabled MERSD to secure funding for the MMES project at interest rates of 3.289% and 1.63%, far below the 5.0% rating presented to voters when the project was approved. The resulting savings in interest payments over the 30 year term will total \$17 million or \$577K per year. Since 2019, MERSD has also earned \$970K in interest income on bond proceeds awaiting deployment to the construction project. That income was placed by School Committee into MERSD’s Stabilization fund, which is reserved for capital repairs. Roughly half of the Stabilization funds have since been used as part of MERSD’s commitment to extend the life of EES.

2023 Debt Payments

	2022	2023	Increase	
			\$	%
Principal Payments on Long-Term Debt	\$2,485,000	\$2,650,000	\$165,000	6.6%
Interest Payments on Short & Long-Term Debt	\$1,787,088	\$1,856,596	\$69,508	3.9%
Total Debt Expense	\$4,272,088	\$4,506,596	\$234,508	5.5%
Manchester - Capital Assessment	\$2,851,524	\$3,007,431	\$155,907	5.5%
Essex - Capital Assessment	\$1,405,292	\$1,483,892	\$78,601	5.6%
Amortization of Issuance Premium	\$15,272	\$15,272	\$0	0.0%
Total Capital Budget Revenue	\$4,272,088	\$4,506,596	\$234,508	5.5%

Section 3

MERSD At A Glance

District Overview

Enrollment

- ▶ Students = 1,273
 - Resident Population = 1,225
 - School Choice = 48
- ▶ Per Pupil Expenditure = \$19,200 (85 in MA)
- ▶ Per Pupil Exp. State = \$17,511

Active Faculty & Staff

- ▶ Faculty, Counseling & Support = 151
- ▶ Other Support Staff = 338
- ▶ 12 Month Administrative, Clerical & Plant = 27
- ▶ Avg. MERSD Teacher Salary = \$86,227 (92 in state)
- ▶ Average State Teacher Salary = \$84,730

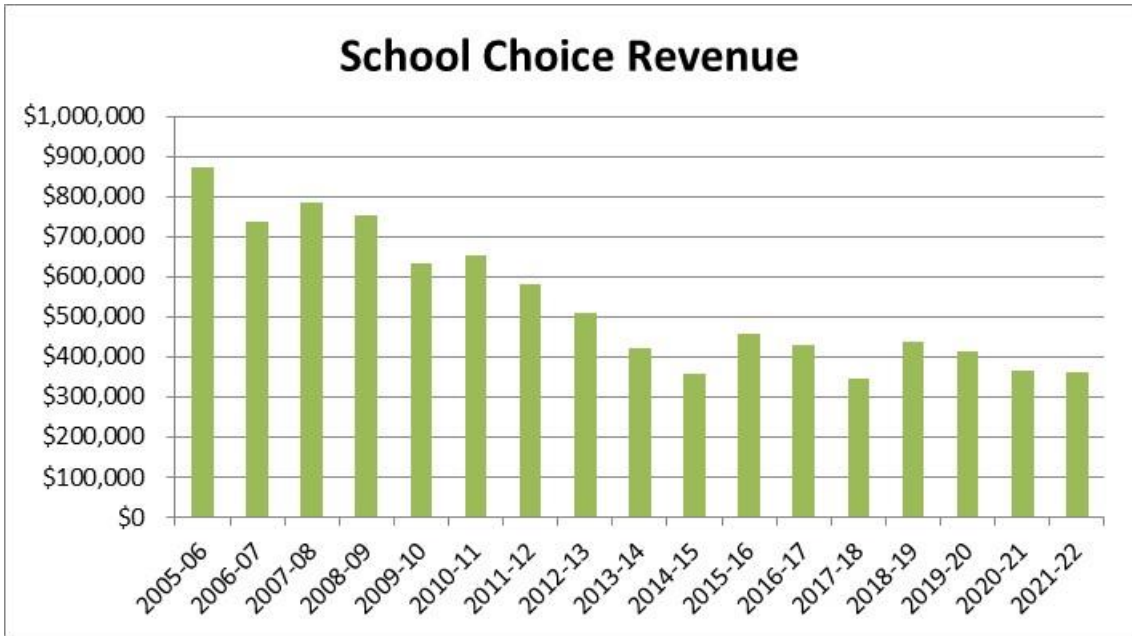
Facilities

- ▶ Open 7 Days
- ▶ Weekdays 6am – 10pm
- ▶ Weekends 9:00am – 9:00pm
- ▶ School Sites = 3
- ▶ Athletic Sites = 4

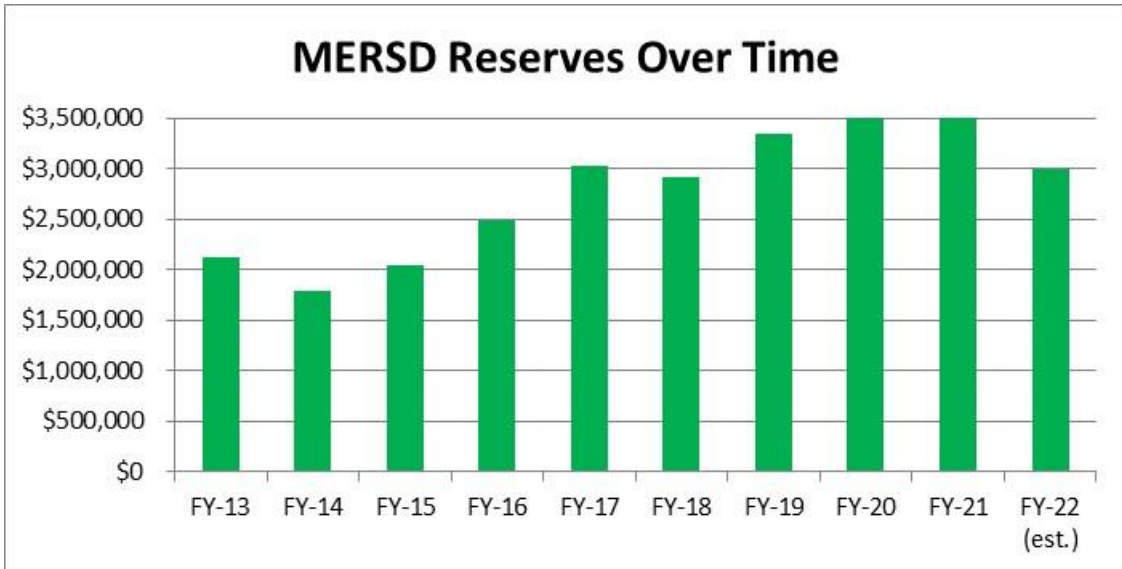
Operations

- ▶ Academic Teaching & Learning
- ▶ Special Education
- ▶ Social Services: Counseling, Health, Home Health, Homeless & Inter-agency support
- ▶ Early Childhood
- ▶ Network & Instructional Technology Management
- ▶ Facilities Management
- ▶ Food Services
- ▶ Transportation
- ▶ HR Management
- ▶ Financial Services

School Choice



Reserves



Per Pupil Expenditures (PPE)

Cape Ann	PPE 2020
Rockport	\$21,451
Beverly	\$19,497
Ipswich	\$19,704
Hamilton-Wenham	\$18,725
Gloucester	\$17,843
MERSD	\$19,200

High Performing Districts	PPE 2020
Weston	\$27,039
Lincoln-Sudbury	\$22,244
Wellesley	\$21,516
Newton	\$20,786
Bedford	\$20,184
Brookline	\$21,256
Lexington	\$19,704
Wayland	\$19,497
Hamilton-Wenham	\$18,725
Westwood	\$19,956
Sharon	\$17,708
Harvard	\$21,316
Average	\$20,828
MERSD	\$19,200

Teacher Salaries

Sample of Teacher Salary Rankings, 2020 -DESE

Cape Ann Region	
Masconomet	12
Salem	25
Lynnfield	40
Danvers	80
MERSD	92
Hamilton-Wenham	95
Topsfield	96
Winchester	97
Gloucester	104
Newburyport	118
Triton	119
Amesbury	153
Swampscott	160
Boxford	170
Beverly	176
Ipswich	192
Rockport	193

Boston Magazine Top 10 Districts	
School District	Avg. Teacher Salary
Dover-Sherborn	\$102,886
Concord-Carlisle	\$110,665
Weston	\$105,960
Lexington	\$92,678
Wayland	\$102,292
Westford	\$88,289
Newton	\$88,804
Wellesley	\$101,508
Sharon	\$94,777
Average	\$98,651
Median	\$101,508
MERSD	\$86,227
STATE TOTAL	\$84,730

Identified Capital Needs: 1-5 Years

School	Item	Priority	Placeholder	
			Cost Est.	Timeframe (Years from Now)
MSHS	Hyland Field turf replacement	High	\$600,000	Summer 2022
EES	Back up boiler	High	\$125,000	Current back up not functional
EES	Heating distribution repairs	High	\$25,000	Split over 1-5 years
MSHS	Flooring - MS, auditorium, Learning Commons, Central	High	\$110,000	5-year plan in progress
MSHS	Brook Street Field turf replacement	High	\$350,000	1-2 years. \$700K x est. 50% share
MSHS	Water Heater	High	\$30,000	1-2 years
MSHS/EES	Build out security camera coverage	High	\$30,000	1-2 years
MSHS	Flooring - hallways	Medium	\$100,000	5 years
EES	Roof replacement	Medium	\$1,000,000	5-10 years, pending school project
MSHS	Furniture - Library tables and classroom chairs	Medium	\$100,000	2-4 years
EES	Envelope Repairs (soffits, window frames, stairs)	Medium	\$20,000	Split over 1-5 years
EES	Kitchen Equipment	Medium	\$50,000	3-5 years pending school project
EES	Soccer Field Drainage	Medium	\$300,000	5+ years pending school project
MSHS	2nd/3rd Floor Temp. Control	Medium	\$100,000	Pending HVAC engineering report
MSHS	Sand/repaint gym floor	Medium	\$30,000	3-5 years
MSHS	Interior Painting	Medium	\$30,000	Annual budget is touch up only
Total			\$3,300,000	
Previously Identified - Achieved				
EES	Eagles' Nest Replacement	High	\$350,000	Summer 2021
EES	Heating controls	High	\$140,000	Funded via grant w/Essex Town
EES	Security updates	High	\$23,283	Match scope from MMES project
MSHS	Security updates	High	\$21,800	Match scope from MMES project
EES	Technology upgrade (Interactive Panels, Fiber, Switches)	High	\$201,000	Match scope from MMES project
EES	Repave hot top play asphalt play surface	Medium	\$15,000	Adjacent to playground
District	Tractor replacement	Medium	\$32,000	Funded through MMES project
EES	Classroom shades	High	\$15,000	Over 3 years
Total			\$798,083	