

MANCHESTER ESSEX REGIONAL SCHOOL DISTRICT

MERSD

FY21 Budget



The Manchester Essex Regional School District is a high achieving community committed to educating all students, inspiring passion, instilling a love of learning, and developing local and global citizenship.

Introduction – State of the District

It is always a pleasure to share with our community the great work and future endeavors of the Manchester Essex Regional School District. I am very proud of the wonderful work our dedicated faculty and staff do every day to support the social, emotional and intellectual growth of our students, and I am tremendously optimistic about MERSD's future.

The Manchester Essex Regional School District continues to be recognized as one of the highest performing school districts in Massachusetts and has earned national recognition for our STEM program. In addition to traditional academic measures of achievement, MERSD has been recognized for its work to integrate social emotional learning throughout our education program. Our school has partnered with Yale to implement the RULER program, and we were chosen to be the subject of a Yale Harvard Research study funded by the Tower Foundation. This study will focus on the implementation methods and accessibility of the program. Additionally, a team from our Middle School presented at the National RULER Conference in March.

Highlights

- **Memorial School Project on time and on budget.**
- **Essex Elementary School energy upgrades funded by \$395K of Green Community Grant funds**
- **MERSD invited to join Essex County Learning Community (ECLC)**
- **MERSD invited to participate in a RULER implementation study overseen by Yale & Harvard**
- **MERHS STEM Program ranked 8th in MA / 417th Nationally by US News & World Report**
- **MERHS recognized by the DESE as a Green Ribbon School**

Looking to build upon the success of our program and to prepare students for the workplace of tomorrow, MERSD has begun a two-year strategic planning process to define our roadmap for creating a future-focused education program. Phase one focuses on developing a *Vision of the Graduate*. Following the blueprint from the New England Association of Schools and Colleges (NEASC), this process seeks to define what students should know and be able to do as a result of a Manchester Essex education and examines the question - *What are the skills and dispositions students will require to find success?* In phase two (originally planned for Spring 2020) the profile will serve as the driver for the development of a multi-year plan that establishes a set of goals and strategic initiatives to achieve the Vision of the Graduate 2033. Due to COVID-19 shutdown, we have had to reorganize our schedule, and it is our hope to restart the process in the fall by engaging the community in a conversation about our future needs during October 2020.

Throughout the COVID-19 public health crisis, the terms “uncertainty” and “uncharted waters” have been used countless times, but they remain the best descriptors of what lies ahead. In addition to the challenge of planning multiple scenarios for reopening schools in the fall of 2020, MERSD is facing a very challenging

budget situation. Although MERSD developed and passed its FY21 Budget in February, the economic downturn combined with a delayed state budget process caused the need to revise the school budget. In anticipation of a 10% (\$360,000) reduction in State Aid, MERSD has amended its budget to reflect this loss and made provisions for up to one million dollars in lost revenue. We have made every effort to reduce costs in ways that preserve program quality, class-size, and student supports. The following MERSD School Committee Budget Goals have guided our process for budget development and revision:

- Develop and deliver a fiscally responsible budget that maintains educational quality, supports District goals, and recognizes the confines of Proposition 2 ½.
- 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

Throughout this revision process, MERSD has worked collaboratively with the Boards of Selectmen and Finance in Essex and Manchester to develop a solution that addresses both short-term needs and long-term concerns. Although the economic climate is uncertain, the public schools have been recognized as a critical factor in the full reopening of the Massachusetts economy, making it a sound investment to continue our commitment to maintain MERSD funding levels.

On behalf of the faculty and staff of MERSD, I extend my sincere appreciation to the residents of the communities of Manchester and Essex for their continued support. 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!

Pamela Beaudoin, Superintendent of Schools

2021 Budget - Summary Overview

Budget Development Strategy

MERSD's School Committee Budget Goals includes the objective to "Develop and deliver a fiscally responsible budget that maintains educational quality, supports District goals, and aligns with our multi-year budget commitment to work within the confines of Proposition 2 ½." With that in mind, MERSD begins each budget season looking to provide at minimum "level services," or, in other words, the same level of program currently in place. When district or building-level administrators identify the need for program enhancements, it is MERSD's practice to attempt to fund those first, when possible, through operating efficiencies (i.e., cost savings), in order to minimize the impact to taxpayers. MERSD has a multi-year track record of revamping and improving program delivery in ways that focus on student needs while also generating financial savings.

Spending Overview

The 2021 budget of \$26.82 million assumes spending growth of 2.88% (\$751K), following 3.25% in 2020 (also referred to as Fiscal Year 20, or FY20 in this report), 3.18% in FY19, 3.31% in FY18 and 3.14% in FY17.

Prior to FY21, MERSD's budget has reflected a stable rate of growth that is consistent with the multi-year budget projections used by MERSD to collaborate and plan with member towns of Manchester and Essex. Achieving this target was particularly challenging in FY18, as MERSD had to use program cuts to offset a one-time increase of 28% in health insurance rates, driven by an unusual spike in utilization. MERSD has since worked collaboratively with teachers to migrate to less costly plans, and insurance utilization has returned to normal levels, which has been a positive development for the FY21 budget. Nevertheless, restoration of prior-year program cuts, which included elimination of positions for retiring staff and reduction of spending on curriculum and facility capital improvements, has not yet been possible.

Unfortunately, the current economic climate makes near term prospects for restoration seem unlikely. With much of the economy closed since mid-March, and Massachusetts state government revenue forecasted to decline nearly 20%, school districts across the Commonwealth have been preparing for significant budget reductions. In May 2020, the MERSD School Committee vote to cut its FY21 budget by \$360K, in anticipation of a minimum of 10% reduction in State Aid from the Chapter 70, Regional Transportation Reimbursement and Circuit Breaker programs. This reduction accounts for the lower rate of spending growth in 2021 (2.88%) compared to prior years (average of 3.22% annually, over the past four years). Fortunately, this reduction was achieved without reducing staffing headcount, and funded instead by a timely combination of lower health insurance renewal rates (3.0%) and anticipated savings from several teacher retirements, as well as an increase in the use of rainy day, "reserve" funds as revenue.

Looking forward, with a state budget not expected until mid-summer, MERSD has also prepared scenarios for a total 2021 budget cut of up to \$1 million, or \$640K in additional cuts. These scenarios, as shown, would require staffing reductions, and MERSD has begun to prepare contingency plans in the event that the State budget and resulting State Aid to school districts comes in much lower than the current budget assumes.

FY21 Budget Revision		Reduction Benchmarks - Traditional Operations			
		\$360,000	\$420,000	\$655,000	\$1,000,000
Operation Reductions		\$273,500	\$333,500	\$343,500	\$368,500
Revise FY21 HC Estimates	\$120,000	\$120,000	\$120,000	\$120,000	\$120,000
Fund Annual Facility Small Cap via Stabilization	\$60,000	\$60,000	\$60,000	\$60,000	\$60,000
Eliminate Late Bus	\$20,000	\$20,000	\$20,000	\$20,000	\$20,000
Suspend Mentor Program	\$25,000				\$25,000
Retirement Savings	\$133,500	\$133,500	\$133,500	\$133,500	\$133,500
Program Reductions				\$195,800	\$195,800
Staffing Reductions				\$59,500	\$315,350
Additional Reserves (FY20 Op. Savings)		\$273,000	\$333,500	\$598,300	\$879,650
		\$85,000	\$85,000	\$85,000	\$132,000
Total Reserves Used		\$358,000	\$418,000	\$683,300	\$1,011,650
		\$335,000	\$335,000	\$335,000	\$382,000
FTE Reductions (Attrition / Reorg)*		1TA	1TA	3.5 FTE / 1 TA	5.5 FTE / 3 TA / 1.8 Admin/Support
* FTE Reductions will be addressed first through attrition. Reorganization may lead to individual position loss.					
Note: FY19-20 Staffing Reductions -= 475K					

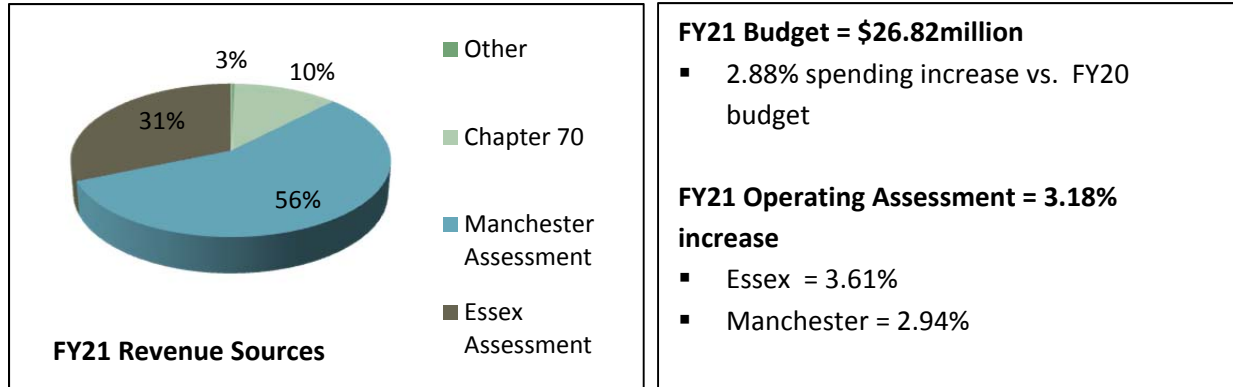
Cost to Taxpayers

The cost to taxpayers, known as Town Assessments, for MERSD's 2021 budget is \$23,464,801. This represents an increase from 2020 of \$723,103 or 3.18%. This is consistent with a prior four-year average of 3.16% annual assessment growth. Facing potential summer reductions in FY21 State Aid of up to 10%, MERSD School Committee's May decision to cut \$360K from the 2021 budget included no change to Town Assessments, and was absorbed instead through spending reductions of \$245K, and an \$85K increase in the use of reserve funds as a source of revenue. Increased use of reserves was made possible in part by operating savings achieved during the spring 2020 COVID related transition to remote learning operations.

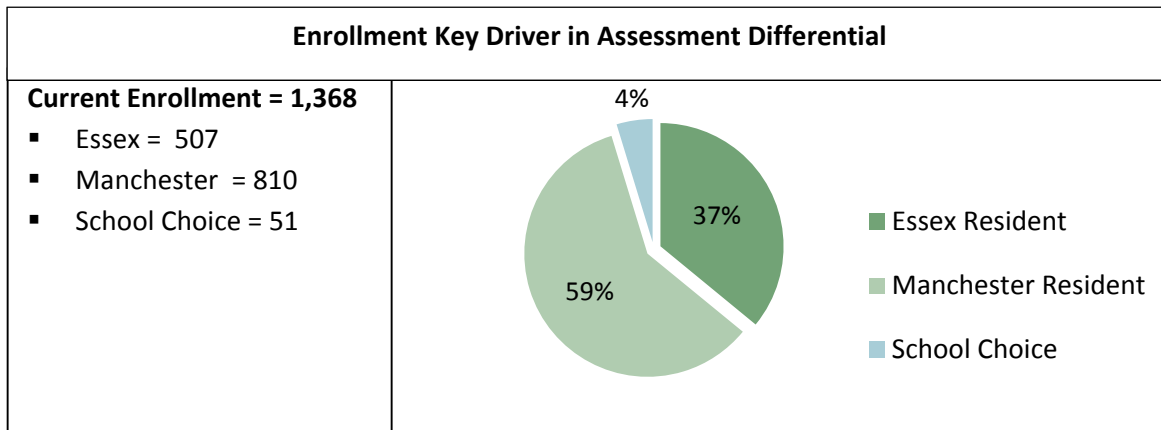
MERSD FY21 Budget Highlights

FY21 Operating Assessment = 3.18%

- Cost of increase to towns after deducting “Other Revenue” (e.g., State Aid) from spending needs
- Below multi-year model assumption of 3.7 %
- Consistent with four-year prior average operating assessments of 3.16% (2.85% in FY20, 3.29% in FY19, 3.20% in FY18 and 3.32% in FY17).



FY21 Assessment growth consistent with prior 4-year average of 3.16%



Memorial School Building Project Update

It has been a busy year for the Memorial School Building Project. Following voter approval of the \$52 million project in Essex and Manchester in November 2018, work began by JCJ Architects on more detailed design specifications to guide construction. Permitting with the Conservation Commission, Planning Board, building inspector, and many other local agencies was also completed successfully in the spring of 2019. Immediately after the school year ended in June, WT Rich, the project construction manager, began demolition of the southwest wing in order to make room for construction of the new, two-story classroom wing. Foundations were poured in September, steel was erected in October and November, concrete floors were poured in December and interior framing of the classroom wing was completed in January. Soon after, plumbing and electrical infrastructure was added and exterior masonry and window installation began. Overall, the classroom wing is on schedule to be completed in time for students to move in at the start of the 2020-2021 school year.



The WT Rich team has taken advantage of the COVID-19 school shutdown, and advance the second phase of demolition which is scheduled to begin in early June. This will help to facilitate the timely completion and the move into the new academic wing. Construction of common/administrative spaces (e.g., gym, cafeteria, main office) will begin in the fall of 2020 with an anticipated completion date of summer 2021. The final phase of demolition, for the old gym and cafeteria is slated for summer 2021, which will make space for additional parking front of the school and is expected to be completed in late fall of 2021.

The project remains on time and on budget. For more information, including aerial construction video footage, photos, monthly construction reports, safety updates and building committee minutes/agenda, please visit the **Memorial School Building Committee** webpage - <https://www.mersd.org/domain/767>.

SECTION 2
Budget Detail

FY21 Operating Budget Detail – Overview

MERSD's operating budget request for Fiscal Year 2021 (FY21) is \$26,815,714, up \$750,768 or 2.88% from 2020.

The main source of funding for the budget is town taxation, referred to as assessments, which are budgeted to grow \$723,103, or 3.18% in 2021 from the prior year. MERSD's annual budget goals include balancing the needs of our educational program with a desire to keep town assessments within the levy limitations of Proposition 2.5 (i.e., avoiding "overrides"). To this end, the District 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. In light of the current economic challenges facing the Commonwealth of Massachusetts, State Aid figures for 2020 are not expected to be announced until sometime into the summer, which contrasts with a typical spring timeframe. Current analyst estimates suggest that the Commonwealth will face its own budget shortfall of roughly 20%, and MERSD has incorporated a 10% reduction into its 2021 budget based on expectations for the impact on State Aid to school districts. Prior to the COVID outbreak, MERSD has seen a dramatic slowdown in Chapter 70 funds over the past several years from highs of 33% and 25% annual increases in 2012 and 2013 to an average of 1.6% over the past five fiscal years as enrollment growth has declined. This has placed additional burden on other revenue sources, including town assessments.

Revenues from the School Choice State Aid program are expected to remain flat in the 2021 budget, although the School Committee plans to revisit the District's ability to replace graduating School Choice students later this summer, which would impact potential revenue. This decision depends upon MERSD's ability to avoid larger budget cuts and staffing reductions, which would limit the ability to bring in new non-resident students. School Choice enrollment of 51 students in 2020 was flat with 2019, but has declined by 66% from a high point of 150 School Choice students in 2005 and from 80 students just five years ago as the District has focused on aligning staffing levels with resident enrollment, and opted for new Choice students only where class sizes were below benchmarks.

Reserve Funds

The 2021 budget is also funded with a \$335K 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, School Committee voted in February to use \$250K of reserves as a revenue source. In light of reserve fund growth related to savings from moving to remote operations during the COVID outbreak in the spring of 2020, this figure was increased by \$85K (\$335K total) with the May vote to reduce State Aid assumptions by 10% (\$360K) in the 2021 budget. The remaining \$275K in budget revisions were achieved with spending reductions in health insurance (\$120K), savings from replacing retiring teachers (\$135K) and elimination of after-school transportation for non-athletic activities (\$20K).

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 on the next page 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 FY21 will increase by a higher percentage (3.61%) than that of Manchester (2.94%) in accordance with the Regional Agreement formula.

2021 Revenue Sources

		FY20	FY21	\$ Change	% Change
BUDGETED EXPENDITURES		26,389,946	27,140,714	750,768	2.84%
Revenue other than Assessments					
	Chapter 70 Aid	3,033,748	2,774,413	(259,335)	-8.55%
	State Transportation Aid	140,000	207,000	67,000	47.86%
	School Choice Sending	(55,000)	(85,000)	(30,000)	54.55%
	School Choice Receiving*	325,000	325,000	0	0.00%
	Medicaid Reimbursement	50,000	50,000	0	0.00%
	Bank Interest	25,000	40,000	15,000	60.00%
	Parking/Transp. Fees	29,500	29,500	0	0.00%
	Reserve Funds	100,000	335,000	235,000	NM
Total other Revenue		3,507,741	3,648,248	3,675,913	0.76%
Operating Assessments					
	Manchester	14,668,257	15,099,835	431,579	2.94%
	Essex	8,073,441	8,364,966	291,525	3.61%
Total Operating Assessments:		22,741,698	23,464,801	723,103	3.18%
TOTAL REVENUE		26,389,946	27,140,714	750,768	2.84%

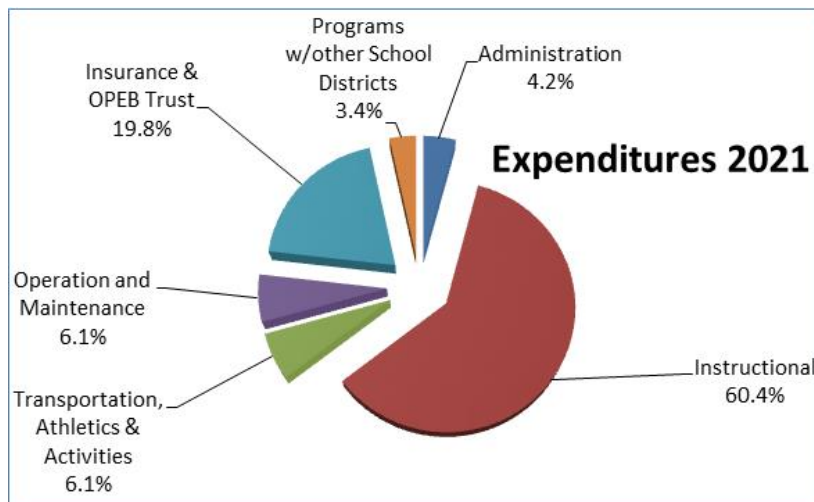
**School Choice (SC) receiving funds must be spent outside of the General Fund budget, per state regulations, but are included here to account for all major recurring spending categories. Excluding SC funds of \$325,000 in 2020 and 2021, the total General Fund budgeted expenditures for 2021 are \$26,815,714, up \$750,768 or 2.88% from \$26,064,946 in 2020.*

Operating Budget Detail - Distribution of Expenditures

Reflecting MERSD’s “level services” approach to budget building, the percentage of spending by category is very stable in 2021 compared to 2020, with only minor changes in most areas. Instructional costs and Insurance continue to account for the largest areas of spending. Although total staffing levels are flat, instructional salaries are up 3.15%, and increasing just slightly more than MERSD’s overall budget spending increase of 2.8%. Health insurance rates, a bright spot for the 2021 budget, are growing just 3.0%, which compares favorably to industry trend levels of 7-8%, reflecting MERSD’s recent migration to more cost effective plans. Programs with Other Districts, which represent spending on special education tuition costs for sending students to programs outside of MERSD, are growing faster than other areas of the budget (4.35%), despite continued savings and cost avoidance from in-district special education programs. All other categories are expected to grow less than 2.0% in 2021, which accounts for small decreases in the percent of total spending in 2021.

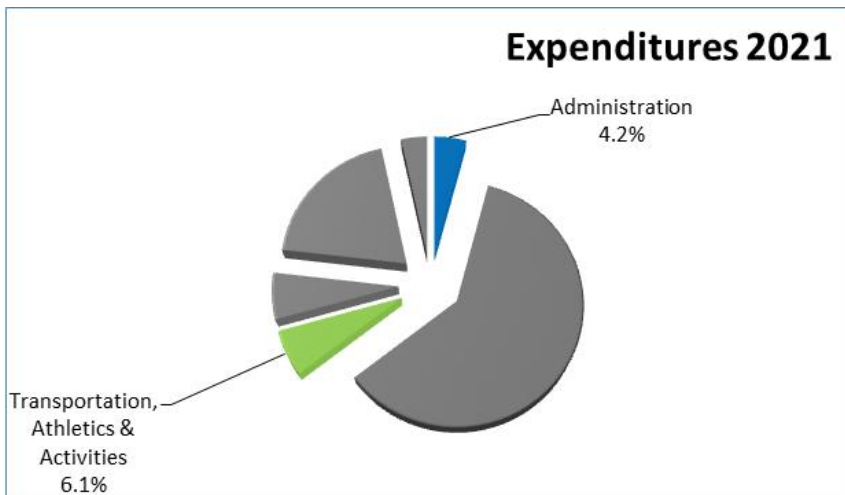
Summary of Expenditures

	FY20	% of Total	FY21	% of Total
Administration	1,132,172	4.29%	1,138,569	4.20%
Instructional	15,898,474	60.24%	16,389,817	60.39%
Transportation, Athletics & Activities	1,684,593	6.38%	1,654,635	6.10%
Operation and Maintenance	1,635,985	6.20%	1,666,329	6.14%
Insurance	4,613,859	17.48%	4,811,788	17.73%
Programs with other Districts	884,863	3.35%	923,377	3.40%
Contribution to OPEB Trust Fund	540,000	2.05%	556,200	2.05%
Total Budgeted Expenditures	26,389,947	100.00%	27,140,714	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. Overall spending on administration is expected to grow just \$6K in 2021 or 0.56%, with salaries growing \$18K (2.1%), and administrative operating expenses declining 4% or \$11K.

<i>Administration</i>	
Salaries	\$868,137
Expenses	\$270,432
Total	\$1,138,569
% of Budget	4.20%
% Growth	0.56%



Transportation, Athletics & Activities

<i>Transportation, Athletics & Activities</i>	
Salaries	\$838,961
Expenses	\$815,674
Total	\$1,654,635
% of Budget	6.10%
% Growth	-1.78%

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

Transportation costs grew 26% over the past two years, as rates statewide soared from driver wage inflation related to a strong economy, full employment and driver shortages in many communities. Looking forward, however, MERSD expects costs to decline for the first time in several years, as a more standard 3.5% rate of growth in its multi-year transportation contract is offset by further by elimination of the after school “late bus” for non-athletic after-school activities. Special education transportation for out-of-district placements is also budgeted to decline reflecting a softer economy, and also a slight increase in residential placements, which do not require transportation.

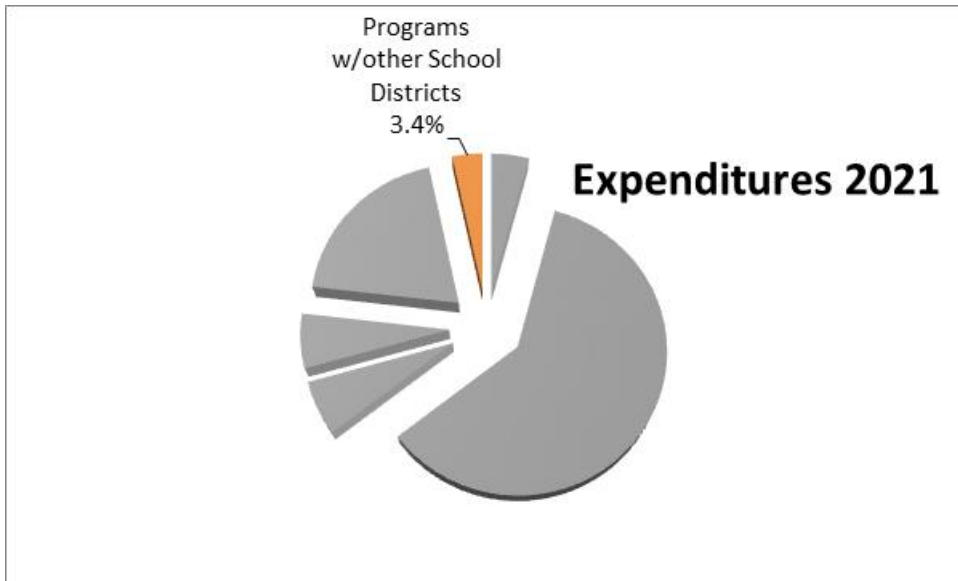
Programs with other Districts is the cost of sending students from the district to programs outside the district (OOD). Tuition costs for special education students attending schools in other districts or

<i>Programs with other Districts</i>	
2020	\$923,377
2019	\$884,863
% Budget	3.40%
% Change	4.35%

private or collaborative schools are examples in this category. The budget for these programs has risen steadily over the past few years, and is forecast to grow 4.35% or \$38.5K in FY21. This growth has been offset to some extent by State Aid from the Circuit Breaker program, which reimburses a portion of high-cost placements that are required. Although the district continues its longstanding practice of forecasting

OOD on a student-by-student basis, changes in resident population needs, and move-in students have contributed to cost growth in this category.

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 avoids nearly \$1.5 million per year in tuition and transportation expense, which would be necessary if in-district programs didn't exist. This benefits MERSD students by enabling them to stay in their neighborhood schools.



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.

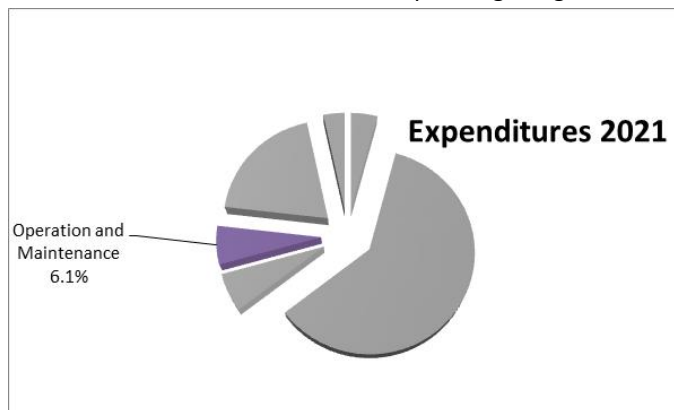
Spending on Operations and Maintenance is increasing just 1.85% (\$30K), in FY21, reflecting a continued “level services” approach for the annual operating budget. Personnel costs, which include a

<i>Operation & Maintenance</i>	
Salaries	\$260,553
Expenses	\$1,405,776
Total	\$1,666,329
% Budget	6.14%
% Growth	1.85%

facilities manager, and custodial and maintenance supervisors are increasing 1.87% (\$4.8K), reflecting ongoing savings from outsourcing of custodial positions. The cost of custodial contracts appears in operating expenses, together with contracted maintenance, supplies, and utilities. In total, operating expenses for this area of the budget are growing just 1.85%

(\$25.5K) in FY21. Although the budget for utilities has risen in the past two years, reflecting higher commodity costs during a strong economy, MERSD was quick to take advantage of falling natural gas and electricity prices in March of 2020, as the economy began to weaken, and has locked in new supply contracts that will yield several years of savings.

MERSD’s budget for capital asset repair and replacement remains flat at \$60K, having been reduced in FY18 as part of district wide cuts to absorb a 28% increase in health insurance. MERSD has focused these operating funds on extending the life of Essex Elementary and ensuring that preventative maintenance programs are in place districtwide, particularly at the Middle High School, while construction continues at Memorial Elementary. Multi-year capital planning has also identified longer-term facility needs (e.g., roofs, mechanical systems, building interiors, playing fields and the Essex Elementary playground) that will be funded over time, together with any unexpected emergency needs, from MERSD’s reserve funds, until such time that the operating budget allotment can be restored.



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.

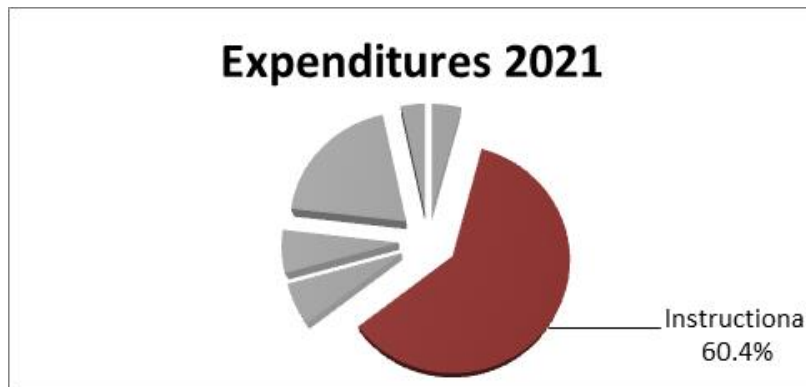
Instructional Services represents 60.4% of all budgeted spending in 2021, and are expected to grow

<i>Instructional Services</i>	
Salaries	\$15,374,330
Expenses	\$1,015,487
Total	\$16,389,817
% Budget	60.39%
% Growth	3.09%

\$491K or 3.1% from the prior fiscal year. Over 90% of spending in this category relates to instructional personnel for which headcount in 2021 is budgeted to remain flat. By contrast, in recent years, MERSD has had to reduce staffing as retirements occur, in order to keep total budgetary growth within the levy limit. Should further reductions in State Aid occur, beyond the 10% estimate contained in the current budget, additional headcount reductions may be necessary. Enrollment, which impacts instructional staffing

levels, has stabilized district-wide over the past three years, but a multi-year enrollment “bubble” of unusually large grades continues to rise through Middle School and onto the High School, which gained nearly 60 students (13% growth) since 2017. When possible, MERSD has redirected budget funds from elementary to the secondary level, to manage these changes.

The 2021 budget includes a 2.5% cost-of-living adjustment for teachers, the same as in 2020 (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 41% of faculty. In addition to personnel changes, operating expenses for Instructional Services are budgeted to grow \$22K (2.2%) relating primarily to continued investments in instructional technology.



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 2021 budget for Insurance and OPEB is up 4.2% or \$214K, compared to fiscal 2020. Budget assumptions include a 3.0% increase in health insurance rates, far below recent years, as MERSD experienced significantly improved utilization in 2020. Improvements followed a migration in 2020 to a more cost effective plan design with higher deductibles, offset by employer contributions (funded by premium savings) to Health Reimbursement Accounts (HRAs). This program change was made possible through an agreement reached in negotiations with the Manchester Essex Teachers Association (META), after a significant short-term spike in utilization, and a commensurate rate increase of 28% in 2018. That cost increase had to be absorbed by MERSD after its 2018 budget was already set, and necessitated significant cost reductions in many other areas of the budget. Prior to 2018, average annual rate increase for MERSD's insurance was just 3.3% over a 6-year period, compared to an industry trend of 7-8% annual growth. Despite the improvements in health insurance trends in 2020 and 2021, budget cuts initiated in 2018 continue to impact MERSD, including eliminated staffing positions that have not yet been reinstated.

<i>Insurance & OPEB Trust</i>	
2020	\$5,367,988
2019	\$5,153,859
% Budget	19.8%
% Growth	4.15%

MERSD continues to execute on its road map to fully fund its OPEB obligation, with trust fund contributions of \$556K budgeted for 2021, up 3.0% from the prior year. Including the 2021 budgeted contribution, MERSD has committed \$2.9 million towards settling these long-term obligations in just six years, funded entirely by negotiated changes to health insurance programs district-wide. The OPEB agreement negotiated with META effective 2016 has been forecast by MERSD's actuary to reduce the unfunded annual portion of the OPEB liability by approximately 87% or \$1.6 million per year. This successful collaboration has put MERSD far ahead of most other regional school districts, which have yet to begin setting aside sufficient funding to address mounting OPEB liabilities.

The 2021 budget estimate for pension contribution is \$587K, a reduction from 2020, as MERSD continues to see benefits from outsourcing custodial, food service and transportation operations over the past several years. This state mandated employer contribution to the Essex Regional Retirement System (ERRS) covers non-licensed staff only, such as teaching assistants, administrative assistants and facilities staff. By contrast, all licensed teachers/faculty, and administrators are required to participate in the Massachusetts Teacher's Retirement System (MTRS), for which the employer match is paid by the Commonwealth of Massachusetts, not MERSD. ERRS estimates that average employer contributions will increase 5-7% per year through 2023, before dipping to slightly below 4% annually through 2036, as part of the system's plan to achieve full funding.

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 between 3.5% and 3.6%, for example, reserve usage would need to increase by \$50K-60K per year at a minimum, in order to keep assessment increases to 3.7% per year. Over time, this would not be sustainable as reserve usage would quickly surpass \$500K annually. MERSD will continue to partner with the Towns to develop multi-year sustainable funding plans that support the educational program within affordability limitations.

	FY-19*	FY-20	FY-21	FY-22	FY-23	FY-24	FY-25
Personnel	\$16,308	\$16,860	\$17,372	\$17,938	\$18,524	\$19,128	\$19,754
<i>Growth %</i>	1.54%	3.38%	3.04%	3.26%	3.27%	3.26%	3.27%
Expenses	\$8,952	\$9,530	\$9,769	\$10,179	\$10,609	\$11,047	\$11,505
<i>Growth %</i>	3.09%	6.46%	2.50%	4.20%	4.23%	4.12%	4.15%
Total Spending	\$25,260	\$26,390	\$27,141	\$28,117	\$29,133	\$30,175	\$31,259
<i>Growth %</i>	2.08%	4.47%	2.84%	3.60%	3.61%	3.58%	3.59%
State Aid	\$3,130	\$3,119	\$2,896	\$2,947	\$2,999	\$3,051	\$3,105
Fees & Other	\$116	\$105	\$120	\$120	\$131	\$131	\$131
School Choice: Annual Revenue	\$325	\$325	\$325	\$325	\$325	\$325	\$325
Reserves: Choice, E&D	\$0	\$100	\$335	\$400	\$450	\$500	\$560
Town Assessments	\$22,111	\$22,742	\$23,465	\$24,325	\$25,228	\$26,167	\$27,138
<i>Growth %</i>	3.29%	2.85%	3.18%	3.67%	3.71%	3.72%	3.71%
Total Revenue	\$25,682	\$26,390	\$27,141	\$28,117	\$29,133	\$30,175	\$31,259
<i>Growth %</i>	2.97%	2.76%	2.84%	3.60%	3.61%	3.58%	3.59%

*FY19 = actual results. FY20-FY21 = budget. FY22-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 facility. Voters in both towns voted in 2006 to authorize borrowing of up to \$49 million, and to exclude any borrowing from the limitations 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. Additionally, borrowing rates were significantly more favorable than originally anticipated resulting in a tax impact that is about half of what was predicted when the debt exclusion was voted. In 2017, MERSD refinanced its debt, saving taxpayers an additional \$1.7 million over the remaining life of the bonds, or \$95-100K per year.

New debt service for the Memorial School project began in FY20, resulting in a \$2.4 million annual increase in the 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 borrowed \$35 million of this total via 30-year bonds. Just prior to this debt issuance, MERSD's credit rating was upgraded by S&P to AA+, one step below the highest possible AAA rating. S&P cited the strong financial position of both towns, 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 funding at a 3.289% interest rate, below the 5.0% rating presented to voters in the fall. The resulting savings in interest payments over the 30 year term will total \$17 million or \$577K per year. In 2019, MERSD also earned \$318K 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 future capital repairs or asset replacement.

2020 Debt Payments

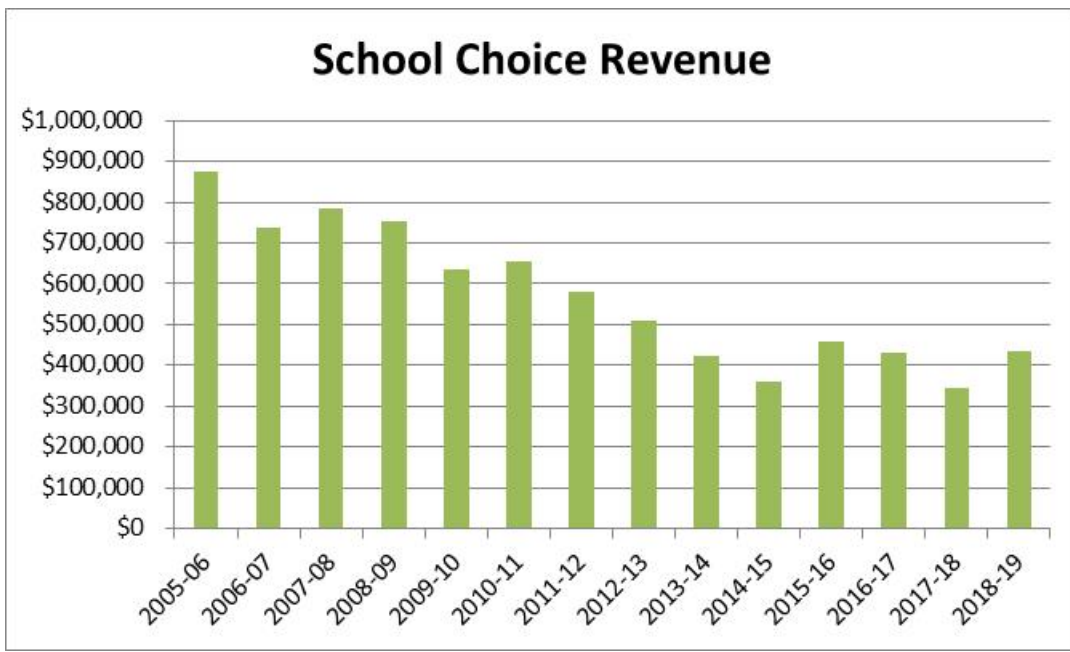
	2020	2021	Increase	
			\$	%
Principal Payments on Long-Term Debt	\$2,535,000	\$2,525,000	(\$10,000)	-0.4%
Interest Payments on Long-Term Debt	\$1,948,000	\$1,890,238	(\$57,763)	-3.0%
Total Debt Expense	\$4,483,000	\$4,415,238	(\$67,763)	-1.5%
Manchester - Capital Assessment	\$2,993,490	\$2,948,032	(\$45,457)	-1.5%
Essex - Capital Assessment	\$1,474,238	\$1,451,933	(\$22,305)	-1.5%
Amortization of Issuance Premium	\$15,272	\$15,272	\$0	0.0%
Total Capital Budget Revenue	\$4,483,000	\$4,415,238	(\$67,763)	-1.5%

Section 3

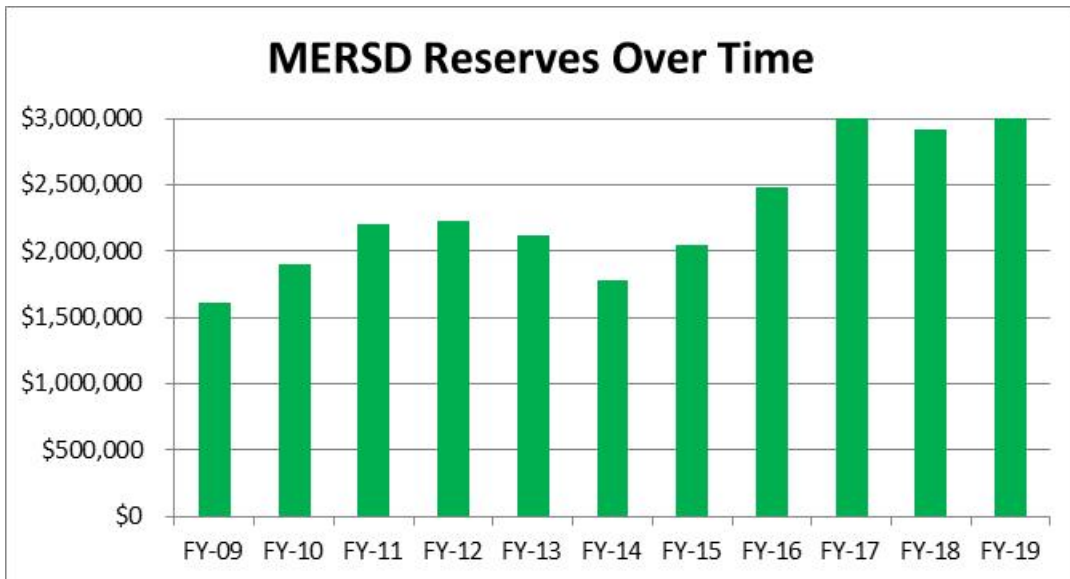
MERSD At A Glance

District Overview	
<p><u>Enrollment</u></p> <ul style="list-style-type: none"> ▶ Students = 1,368 <ul style="list-style-type: none"> ◦ Resident Population = 1,317 ◦ School Choice = 51 ▶ Per Pupil Expenditure = \$18,837 (91 in MA) ▶ Per Pupil Exp. State = \$17,131 	<p><u>Operations</u></p> <ul style="list-style-type: none"> ▶ 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
<p><u>Active Faculty & Staff</u></p> <ul style="list-style-type: none"> ▶ Faculty, Counseling & Support = 151 ▶ Other Support Staff = 33 ▶ 12 Month Administrative, Clerical & Plant = 27 ▶ Avg. MERSD Teacher Salary = \$84,460 (88 in state) ▶ Average State Teacher Salary = \$78,708 	
<p><u>Facilities</u></p> <ul style="list-style-type: none"> ▶ Open 7 Days ▶ Weekdays 6am – 10pm ▶ Weekends 9:00am – 9:00pm ▶ School Sites = 3 ▶ Athletic Sites = 4 	

School Choice



Reserves



Per Pupil Expenditures (PPE)

Cape Ann	PPE 2019
Rockport	\$20,826
Hamilton Wenham	\$19,438
Gloucester	\$17,212
MERSD	\$18,837

High Performing Districts	PPE 2019
Weston	\$25,846
Lincoln-Sudbury	\$22,772
Wellesley	\$21,016
Newton	\$20,220
Bedford	\$19,925
Brookline	\$20,543
Lexington	\$18,687
Wayland	\$19,443
Hamilton-Wenham	\$19,438
Westwood	\$19,378
Sharon	\$17,262
Harvard	\$20,910
Average	\$20,453
MERSD	\$18,837

Teacher Salaries

Sample of Teacher Salary Rankings, 2019 -DESE

Cape Ann Region	
Salem	11
Masconomet	15
Lynnfield	31
Newburyport	87
MERSD	88
Gloucester	95
Boxford	96
Danvers	99
Hamilton-	
Wenham	107
Topsfield	116
Swampscott	119
Winchester	138
Amesbury	161
Triton	163
Ipswich	179
Beverly	199
Rockport	234

Boston Magazine Top 10 Districts	
School District	Avg. Teacher Salary
Dover-Sherborn	\$97,806
Concord-Carlisle	\$107,527
Weston	\$105,592
Lexington	\$88,142
Wayland	\$97,121
Westford	\$87,194
Newton	\$86,724
Wellesley	\$97,301
Sharon	\$93,161
Average	\$95,619
Median	\$97,121
MERSD	\$84,460
STATE TOTALS	\$81,496