

MANCHESTER ESSEX REGIONAL SCHOOL DISTRICT

FY22 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

This past year has been a unique and challenging one for MERSD. The onset of the pandemic forced a school closure that lasted from March 12, 2020 to October 20, 2020, when the first students returned to campus for hybrid learning. Throughout this period, MERSD spent significant time and effort assessing the needs of students and families and redesigning instruction to meet the needs of remote and hybrid learners. The result was a flexible model that not only allowed us to provide the structure and engagement of a traditional school day but also allowed us to easily transition between in-person and remote teaching. Manchester Essex educators' commitment to excellence combined with their innovative and adaptable skill sets have allowed them to create active and engaging learning environments in each phase of reentry. The pandemic has required us to make frequent changes to how our schools operate; however, always at the forefront has been our goal to deliver a high-quality learning experience for each of our students. For more information please visit www.mersd.org – Quick Link: Fall 2020 Reentry

We are living through an unprecedented public health crisis that has upended the lives and livelihoods of millions of people, and it has been a traumatic experience for both children and adults, alike. The pandemic has highlighted the persistent inequities among and within communities throughout the Commonwealth and the country. Families have unique circumstances; therefore, we have worked diligently to provide a plan that is equitable and achievable for all. In addition to the pandemic, recent events in our country have brought to the forefront the realities of systemic racism in our society. Recognizing the need to improve our current equity initiatives, the School Committee voted to approve a resolution committing MERSD to develop and expand antiracism and inclusive practices. Resolved - *the Manchester Essex Regional School District and the school districts in the Commonwealth must guarantee that racist practices are eradicated, and diversity, equity, and inclusion is embedded and practiced for our students, families, faculty, and staff.* This is important work to undertake, and I am proud of our students who are leading the way. As a result of a student petition calling for action, the Student Coalition Against Racism (SCAR) has been established and is working collaboratively with the high school administration to identify ways in which the school can improve and address issues of equity. "It is the mission of the MERSD Student Coalition Against Racism (SCAR) to further the diversification of our school culture. We aim to build and foster a community where equity, access, and equality are present and sustainable for all." This effort complements the existing Middle High School Anti-Defamation League World of Difference program, and our K-12 educator study group that has been formed to examine strategies for diversifying our curriculum and offer recommendations for district-wide improvements to advance our anti-racism and equity goals.

Our equity goals and our experience with innovative learning methods will play a prominent role in our strategic planning efforts. Looking to build upon the success of our program and to prepare students for the workplace of tomorrow, MERSD will use the planning process to define our roadmap for creating a future-focused education program. Phase one (Fall 2019) focused 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 (Winter 2021), 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. We will be engaging the community in a conversation about our future needs during the spring and we will present the plan in the Fall 2021-2022 school year.

I am very proud of our MERSD community, as it always strives to put students at the center of decision making. Our educators have shown heart, professionalism, and creativity in their efforts during this pandemic to make teaching and learning accessible, innovative and exciting. Our School Committee has provided sound and thoughtful leadership during such an unprecedented time, often making difficult decisions, in order to provide our students with the best learning opportunities. Our parent community has shown flexibility, patience and 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

2022 Budget - Summary Overview

MERSD's School Committee budget goals include the objective to "Develop and deliver a fiscally responsible budget that strives to balance maintaining educational quality, District goals, and recognizes the confines of Proposition 2.5." MERSD begins each budget cycle aiming for "Level Services," or, in other words, the same level of program currently in place. When program additions 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 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

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. This last occurred for MERSD in FY2016, 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 decision point over the next one to three budgetary cycles.

Use of "Rainy Day" Reserve Funds

During this time, 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, and as such, continuing use of reserve funds is neither sustainable nor considered best practice. Keeping reserve balances healthy in the long run is also beneficial to taxpayers by signaling to potential lenders that MERSD is a low-risk borrower for capital projects. 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 School construction project of \$35 million at a 3.289% interest rate, a significant improvement from the estimated 5.0% rating presented to voters in the fall of 2018, when the new building was approved. The resulting savings in interest payments over the 30 year term will total \$17 million or \$577K per year. Additional borrowing of approximately \$5 million is expected, in addition to up to \$12 million in matching grants from the Massachusetts School Building Authority (MSBA) in order to fund the remainder of the Memorial School project.

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 64 years old), which will require input and approval from voters, and additional potential borrowing. MERSD’s strong credit rating has also helped MERSD to 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.

Fiscal Discipline and Level Services Challenges

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

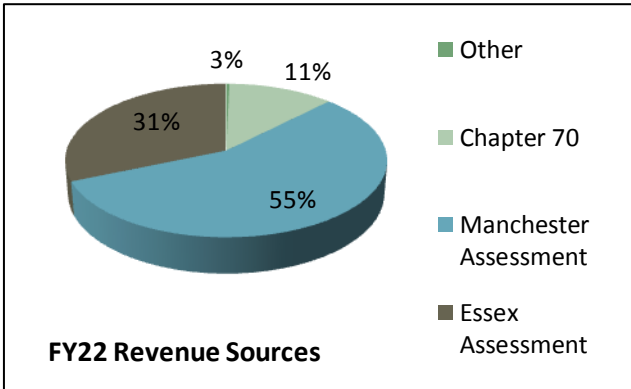
Average Annual Increase		
	5-Yr	10-Yr*
Spending	3.15%	4.04%
Assessment	3.17%	3.60%
*Includes FY16 override		

As noted, however, this achievement has come at a cost of continual program and staffing reductions. 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 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 Education, MERSD ranked 92 among all MA districts in average teacher salary, despite consistent recognition for its award-winning academic and ‘whole child’ program. MERSD’s next largest area of spending is mandated health insurance. With average annual growth rates in the public marketplace of 6-8%, 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. Since then, MERSD has negotiated changes to its benefits offerings to make them more affordable, resulting in below-average growth in costs. Although much smaller in total size, 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 \$1.5 million annually. Nevertheless, changes in these placements can be difficult to predict when associated with move-ins (i.e., new residents), and MERSD now has several students whose mandated out-of-district placements cost more than \$100K annually per student. 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.

MERSD FY22 Budget Highlights

FY22 Operating Assessment = 3.50%

- 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%
- Slightly above 5-year average operating assessment increase of 3.17% (3.18% in FY21, 2.85% in FY20, 3.29% in FY19, 3.20% in FY18 and 3.32% in FY17), as spending reductions become more difficult to implement without impact to the educational program.



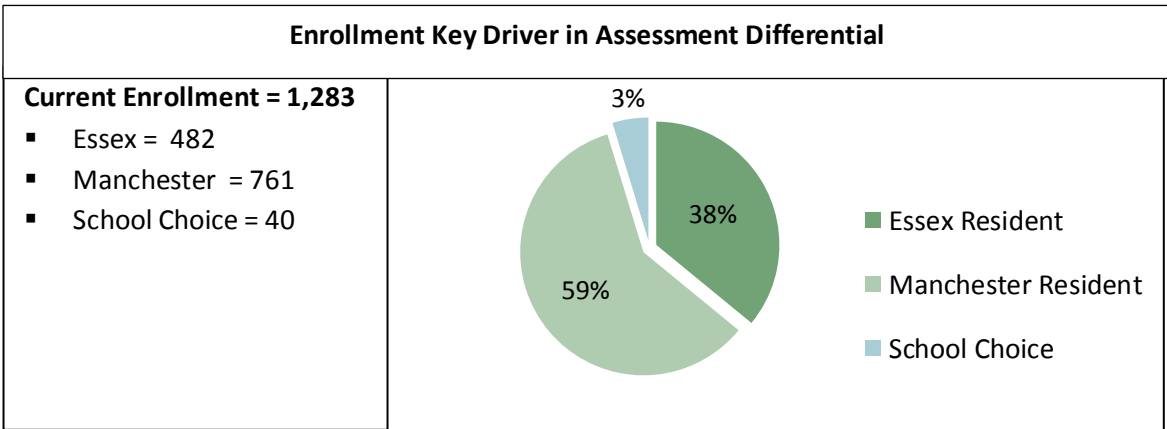
FY22 Budget = \$27.93million

- 4.16% spending increase vs. FY21 budget

FY22 Operating Assessment = 3.50% increase

- Essex = 3.96%
- Manchester = 3.24%

Five-year average assessment growth of 3.17%



Memorial School Building Project Update

In the fall of 2020, the first phase of construction was completed, and the academic wing of the new Memorial School opened for students. At the same time, WT Rich began the second phase of construction: the gymnasium, cafeteria, pre-kindergarten classrooms, and administrative offices. This second phase of construction is scheduled to be completed by summer of 2021, and ready for occupancy to begin the 2021-2022 school year.



The final phase of demolition, for the old gym and cafeteria, is scheduled for early summer 2021, when school is not in session. This will allow for the landscape construction (parking lot, playgrounds, and exterior signage) to begin in July with an expected completion date of November 2021.

Through the efforts of the Memorial School Building Committee and the Project Team, 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

FY22 Operating Budget Detail – Overview

MERSD's operating budget request for Fiscal Year 2022 (FY22) is \$27,930,703, up \$1,114,989 or 4.16% from 2021.

The main source of funding for the budget is town taxation, referred to as assessments, which are budgeted to grow \$820,734, or 3.50% in 2022 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. Last year, MERSD reduced its budget for State Aid by 10% as State representatives and analysts contemplated 10-20% aid reduction scenarios due to plummeting State tax receipts during the COVID-19 pandemic. Recognizing the significant cost to school districts of responding to the pandemic, the Commonwealth eventually agreed to level funding Chapter 70 in FY21 compared to FY20. As a result, MERSD's FY22 budget reinstates the 10% reduction budgeted for FY21, thereby placing FY22 Chapter 70 in line with actual aid in FY21 and FY20. The longer-term trend, however, for MERSD's Chapter 70 aid has been average annual growth of just 1.35% over the past seven years, as enrollment has declined. This has placed additional burden on other revenue sources, including town assessments.

Revenues from the School Choice State Aid program are budgeted remain flat in the 2022 budget at \$325,000, with target enrollment of 51 students as the School Committee plans to replace all graduating School Choice students with new students. In 2021, safe distancing protocols kept MERSD from replacing graduating School Choice students, as fewer students could be accommodated in each classroom, leading to a budget shortfall in this area; as a result, MERSD currently has only 40 School Choice students. On a multi-year view, budgeted School Choice enrollment is down 66% from a high of 150 School Choice students (and \$875K of annual revenue) in 2005 and down from 80 students just five years ago as the District 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 2022 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 and 2022, 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 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 FY22 will increase by a higher percentage (3.96%) than that of Manchester (3.24%) in accordance with the Regional Agreement formula.

2022 Revenue Sources

		FY21	FY22	\$ Change	% Change
BUDGETED EXPENDITURES		27,140,714	28,255,703	1,114,989	4.11%
Revenue other than Assessments					
	Chapter 70 Aid	2,774,413	3,083,668	309,255	11.15%
	State Transportation Aid	207,000	207,000	0	0.00%
	School Choice Sending	(85,000)	(100,000)	(15,000)	17.65%
	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	335,000	0	NM
Total other Revenue		3,675,913	3,970,168	294,255	8.00%
Operating Assessments					
	Manchester	15,099,835	15,589,835	489,869	3.24%
	Essex	8,364,966	8,695,830	330,864	3.96%
Total Operating Assessments:		23,464,801	24,285,535	820,734	3.50%
TOTAL REVENUE		27,140,714	28,255,703	1,114,989	4.11%

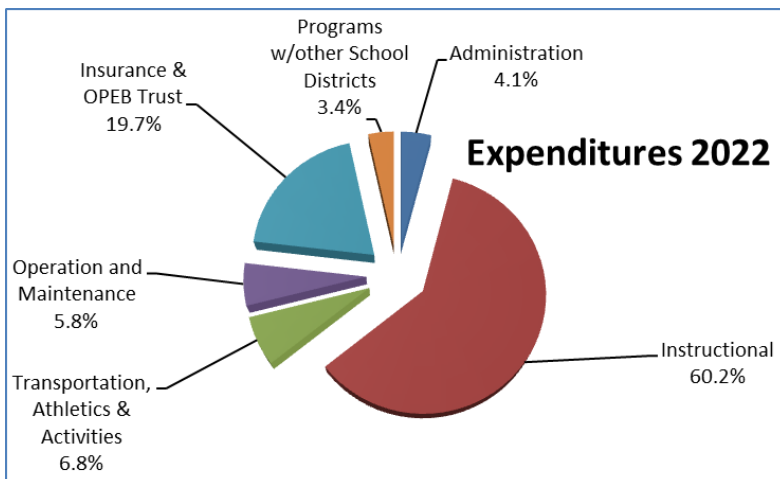
**School Choice (SC) receiving funds must be spent outside of the General Fund budget, per state regulations, but are included here to account for all major recurring spending categories. Excluding budgeted SC funds of \$325,000 in 2021 and 2022, the total General Fund budgeted expenditures for 2022 are \$27,930,703, up \$1,114,989 or 4.16% from \$26,815,714 in 2021.*

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 2022 compared to 2021, 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 3.7%, below MERSD’s overall budget spending increase of 4.1%. Health insurance rates, a bright spot for the budget for the 2nd year in a row, are growing just 4.0%, 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 (5.45%), despite continued savings and cost avoidance from in-district special education programs. The biggest change in allocation of spending relates to transportation for out-of-district (increasing \$150K in 2022) and introduction of funding into the budget for the district-wide School Resource Officer (\$65K increase).

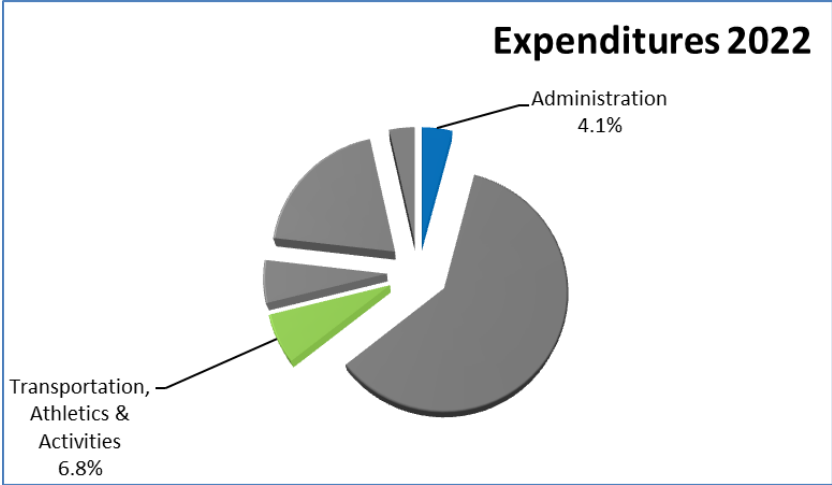
Summary of Expenditures

	FY21	% of Total	FY22	% of Total
Administration	1,138,730	4.20%	1,162,846	4.12%
Instructional	16,389,655	60.39%	17,010,784	60.20%
Transportation, Athletics & Activities	1,654,635	6.10%	1,907,568	6.75%
Operation and Maintenance	1,666,329	6.14%	1,632,267	5.78%
Insurance	4,811,788	17.73%	4,980,930	17.63%
Programs with other Districts	923,377	3.40%	973,709	3.45%
Contribution to OPEB Trust Fund	556,200	1.99%	587,600	2.08%
Total Budgeted Expenditures	27,140,714	100.00%	28,255,703	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 2.5% (\$21.6K) reflecting the district-wide Cost of Living Adjustment (COLA) with no new positions planned. Operating expenses have been mostly level funded, and are increasing just 0.94% (\$2.5K) overall.

<i>Administration</i>	
Salaries	\$889,879
Expenses	\$272,966
Total	\$1,162,846
% of Budget	4.12%
% Growth	2.12%



Transportation, Athletics & Activities

<i>Transportation, Athletics & Activities</i>	
Salaries	\$854,679
Expenses	\$1,052,889
Total	\$1,907,568
% of Budget	6.75%
% Growth	15.29%

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 in this category of \$253K (15.3%) consists primarily of increases in required transportation for out-of-district special education

placements (\$150K), based on new placements in 2021 after the budget was adopted, and additional placements forecast to occur in 2022. Inclusion of the School Resource Officer contract in the budget in 2022 accounts for most of the remaining spending growth (\$65K) in this category. Salaries for district personnel (e.g. nurses, hourly nurse substitutes, and athletic/extracurricular stipends) are forecast to grow just 1.87% in 2022, or \$15.7K.

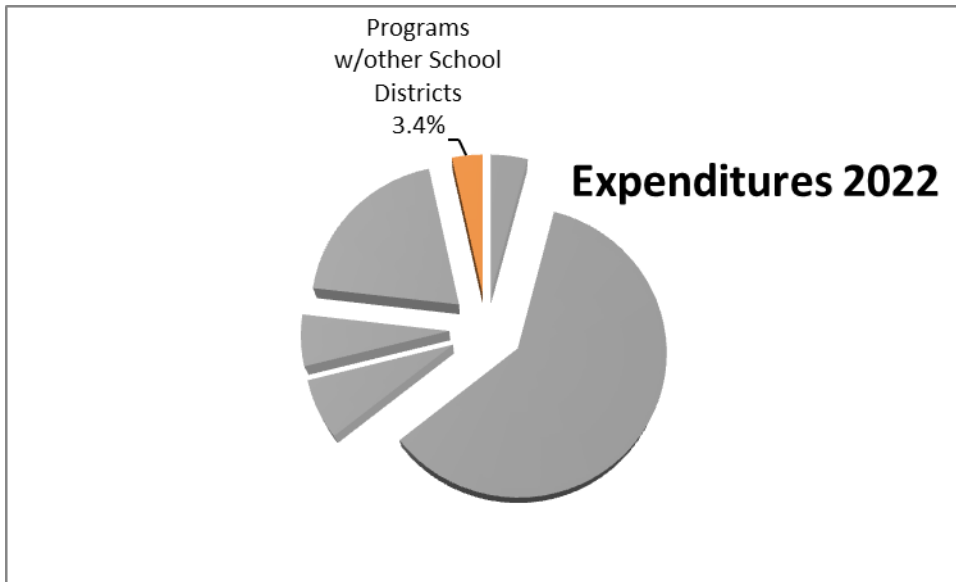
Programs with Other Districts is the cost of sending students from the district to programs outside the district (OOD). Tuition costs for special education students attending schools in other districts or

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 5.45% or \$50K in FY22.

<i>Programs with other Districts</i>	
2022	\$973,709
2021	\$923,377
% of Budget	3.45%
% Growth	5.45%

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 \$1.5 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. For students with highly specialized needs that cannot be served by MERSD's in-district programs, however, costs continue to rise. In 2021 several students had single-year tuition costs of more than \$100K. This growth has been offset to some extent by State Aid from the Circuit Breaker program, which reimburses a portion of required high-cost placements.



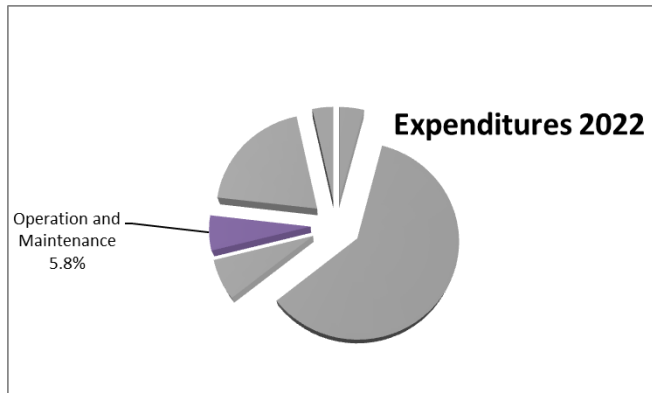
Operation and Maintenance of Plant includes the cost of custodial services, utilities, building and grounds maintenance, and capital improvements. Costs include salaries, contracted services, natural gas, electricity, telephone, and equipment, and tools.

Spending on Operations and Maintenance is declining by \$34K or 2.04% in FY22. Although most categories in the facilities budget have been level funded, the district expects \$20K savings in 2022 related to utilities. MERSD was quick to take advantage of falling natural gas and electricity prices in

<i>Operation & Maintenance</i>	
Salaries	\$266,492
Expenses	\$1,365,775
Total	\$1,632,267
% of Budget	5.78%
% Growth	-2.04%

March of 2020, as the economy began to weaken, and has locked in new supply contracts that will yield several years of savings. To close its budget shortfall in 2022, MERSD also cut its annual allotment for capital asset maintenance and replacement by \$20K, with a plan to fund capital improvements out of Stabilization reserve

funds instead. The Stabilization fund now stands at nearly \$1 million, generated from interest income on \$35 million in bond proceeds awaiting deployment for the Memorial School construction project. With that project more than halfway complete, MERSD’s facilities department is focusing capital planning efforts on extending the life of Essex Elementary School, now 64 years old. In partnership with the Town of Essex, MERSD has used Green Community state grants over the past few years to fund \$395K of energy improvements at the school, at zero cost to local taxpayers, including LED lighting conversion, and installation of a modern building automation system. These systems lower future operating costs, such as utilities and maintenance. Additional capital investments at Essex Elementary include the new playground, which is scheduled to be completed by the end of the current school year. Other capital projects expected in the next five years could cost more than \$1.5 million, including replacement of the Middle High School turf fields (now 13- and 11-years old), potential investments to shore up the Essex Elementary heating system, and normal replacement cycle investments in Middle High School flooring and furniture.



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 60.2% of all budgeted spending in 2022, and are expected to grow \$621K or 3.8% from the prior fiscal year. Over 90% of

<i>Instructional Services</i>	
Salaries	\$15,943,310
Expenses	\$1,067,474
Total	\$17,010,784
% of Budget	60.20%
% Growth	3.79%

spending in this category relates to instructional personnel for which headcount in 2022 is budgeted to remain flat. Prior to 2021, MERSD has had to reduce staffing as retirements occurred, in order to keep total budgetary growth within the levy limit, which also limited the ability to use budgetary savings for reinvestment in other areas of program need. Enrollment, which impacts instructional staffing levels, has declined district-wide over the past

several 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) from 2017 to 2020. When possible, MERSD has redirected budget funds from elementary to the secondary level, to manage these changes. Statewide trends suggest that enrollment declines in 2021 compared to 2020 may be one-time in nature, due to COVID.

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

The 2022 budget includes a 2.5% cost-of-living adjustment for teachers, the same as in 2020 and 2021 (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 39% of faculty.

In addition to personnel changes, operating expenses for Instructional Services are budgeted to grow \$52K (5.1%) relating primarily to continued investments in instructional technology before and during the COVID-19 pandemic. This year MERSD accelerated its pre-existing, migration towards a 1:1 ratio of devices per student, in response to the COVID remote learning phase of instruction.

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 2022 budget for Insurance and OPEB is up 3.7% or \$201K, compared to fiscal 2021. Budget assumptions include a 4.0% increase in health insurance rates, roughly half the industry average, as MERSD experienced significantly improved (reduced) utilization in 2020 and 2021.

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>	
2022	\$5,568,530
2021	\$5,367,988
% Budget	19.8%
% Growth	3.74%

MERSD now insures more retirees than active employees, 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 \$3.5 million set aside by 2022 in its trust fund for OPEB (Other Post-Employment Benefits, or future-year retiree health care). 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 2020 has been 8.94%. These asset returns reduce the contribution needed from MERSD to meet its statutory OPEB obligations.

The 2022 budget estimate for pension contribution is \$628K, a 7% increase from 2021, tracking the published plan of Essex Regional Retirement system to require 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 \$250K-300K per year, in order to keep assessment increases to 3.5% per year. This would quickly become unsustainable with reserve usage surpassing \$1 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-19*	FY-20*	FY-21	FY-22	FY-23	FY-24	FY-25
Personnel	\$16,308	\$16,805	\$17,372	\$17,984	\$18,643	\$19,327	\$20,036
<i>Growth %</i>	<i>1.54%</i>	<i>3.05%</i>	<i>3.37%</i>	<i>3.53%</i>	<i>3.66%</i>	<i>3.67%</i>	<i>3.67%</i>
Expenses	\$8,952	\$9,207	\$9,769	\$10,271	\$10,789	\$11,334	\$11,914
<i>Growth %</i>	<i>3.09%</i>	<i>2.85%</i>	<i>6.11%</i>	<i>5.15%</i>	<i>5.04%</i>	<i>5.05%</i>	<i>5.12%</i>
Total Spending	\$25,260	\$26,012	\$27,141	\$28,256	\$29,432	\$30,661	\$31,950
<i>Growth %</i>	<i>2.08%</i>	<i>2.98%</i>	<i>4.34%</i>	<i>4.11%</i>	<i>4.16%</i>	<i>4.17%</i>	<i>4.20%</i>
State Aid	\$3,130	\$3,119	\$2,896	\$3,191	\$3,247	\$3,303	\$3,361
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	\$335	\$595	\$885	\$1,205
Town Assessments	\$22,111	\$22,742	\$23,465	\$24,286	\$25,134	\$26,016	\$26,928
<i>Growth %</i>	<i>3.29%</i>	<i>2.85%</i>	<i>3.18%</i>	<i>3.50%</i>	<i>3.50%</i>	<i>3.51%</i>	<i>3.50%</i>
Total Revenue	\$25,682	\$26,390	\$27,141	\$28,256	\$29,432	\$30,661	\$31,950
<i>Growth %</i>	<i>2.97%</i>	<i>2.76%</i>	<i>2.84%</i>	<i>4.11%</i>	<i>4.16%</i>	<i>4.17%</i>	<i>4.20%</i>

*FY19 and FY20 = actual results. FY21-FY22 = budget. FY23-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. 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 and again in 2020, MERSD used its strong bond rating to refinance its MSHS debt, saving taxpayers an additional \$2 million over the remaining life of the bonds, or \$125K+ 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. 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 future capital repairs or asset replacement.

2022 Debt Payments

			Increase	
	2021	2022	\$	%
Principal Payments on Long-Term Debt	\$2,525,000	\$2,485,000	(\$40,000)	-1.6%
Interest Payments on Long-Term Debt	\$1,890,238	\$1,787,088	(\$103,150)	-5.5%
Total Debt Expense	\$4,415,238	\$4,272,088	(\$143,150)	-3.2%
Manchester - Capital Assessment	\$2,948,032	\$2,851,524	(\$96,509)	-3.3%
Essex - Capital Assessment	\$1,451,933	\$1,405,292	(\$46,641)	-3.2%
Amortization of Issuance Premium	\$15,272	\$15,272	\$0	0.0%
Total Capital Budget Revenue	\$4,415,238	\$4,272,088	(\$143,150)	-3.2%

Section 3

MERSD At A Glance

District Overview

Enrollment

- ▶ Students = 1,283
 - Resident Population = 1,243
 - School Choice = 40
- ▶ Per Pupil Expenditure = \$19,200 (85 in MA)
- ▶ Per Pupil Exp. State = \$17,511

Active Faculty & Staff

- ▶ Faculty, Counseling & Support = 151
- ▶ Other Support Staff = 33
- ▶ 12 Month Administrative, Clerical & Plant = 27
- ▶ Avg. MERSD Teacher Salary = \$86,227 (92 in state)
- ▶ Average State Teacher Salary = \$84,730

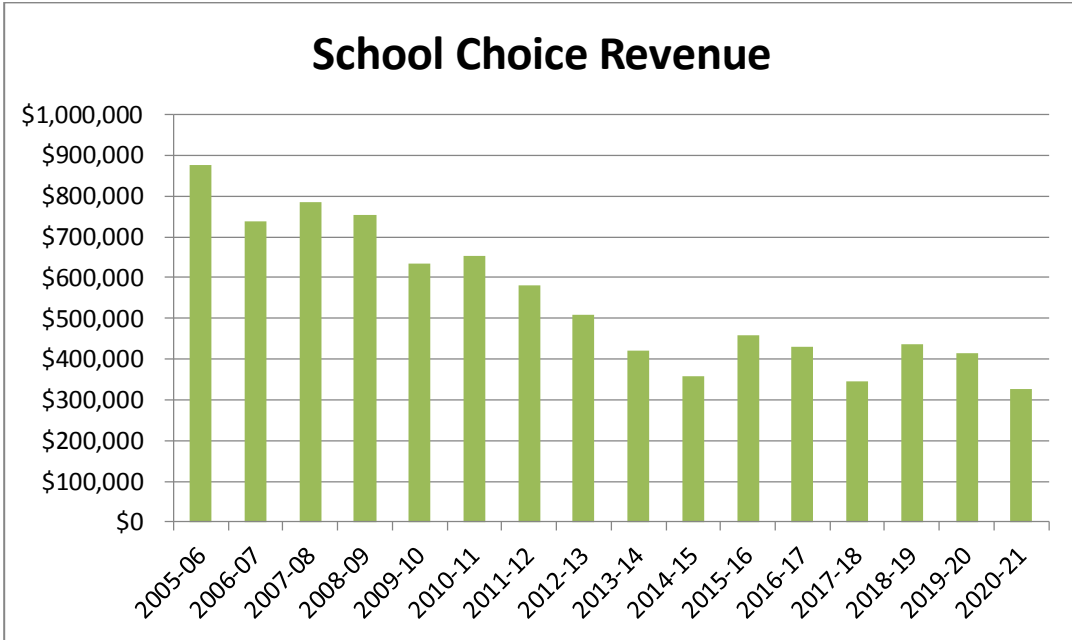
Facilities

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

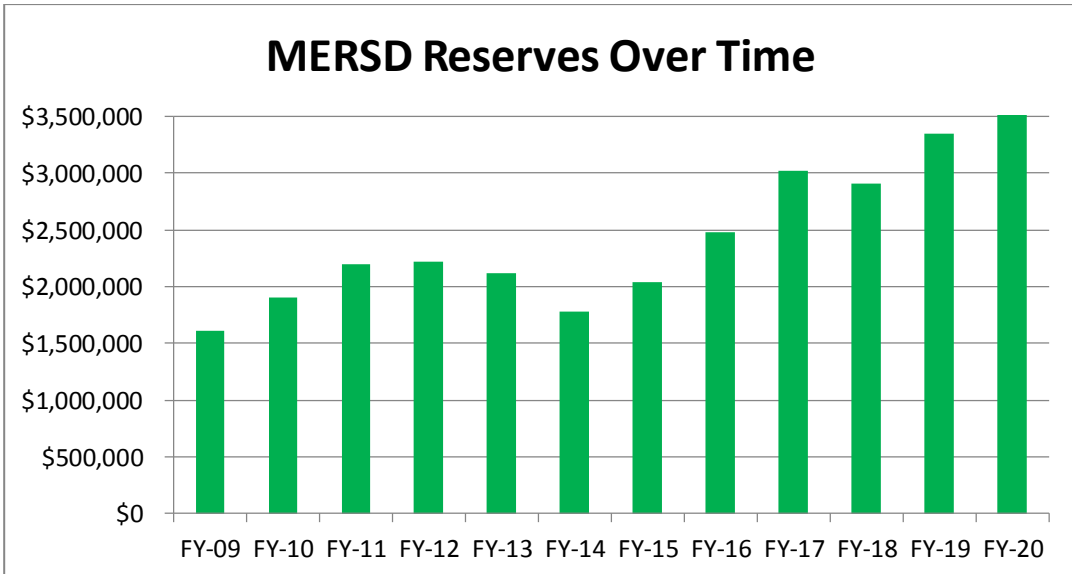
Operations

- ▶ 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