

FY23 MERSD Budget Update

1.11.22

FY23 Operating Budget Overview

- ▶ Annual Level Services goal increasingly challenging due to rising mandated costs and constrained revenue
 - Level Services = maintaining same level of program currently in place
 - Multi-year history of efficiency-oriented program restructuring to fund new investments
 - Prior year cuts leaves few options for FY23 budget reductions without impacting program
- ▶ Gap between Level Services and sustainable funding is \$648K in Tentative Budget.
 - Target 3.50% assessment to towns prior to apportionment
 - Continued \$335K use of one-time reserve funding from prior years as starting point
- ▶ Mandated special education costs and health insurance are primary drivers of increased FY23 gap
 - Excluding \$405K in new out of district (OOD) tuition and transportation, tentative budget gap would be just \$243K, in line with typical tentative phase
 - Districtwide personnel cost growth of just 3.2% in FY23, prior to addition of 1:1 aids (in FY22 carried forward to FY23) to support keeping students in district
 - Excluding all three (tuition, transportation, and aide additions), gap would be \$78K.
 - 10% preliminary assumption for health insurance rate growth as post-COVID utilization rises.
- ▶ COVID costs excluded from FY21-FY-23 budgets; funded instead by MERSD/Town CARES \$, FEMA and MERSD reserves

FY23 Operating Budget Drivers

- ▶ **Compensation: \$734K (4.08%) spending growth**
 - Level services growth of just 3.2% excluding new 1:1 special ed. aides for in-district students
 - 2.5% Cost of Living Adjustment (COLA) for all district personnel, in line with FY20-FY22
 - Savings possible pending retirements. Limited restructuring opportunities remain (e.g., Central Office).
- ▶ **Insurance & Pension: \$332K (6.36%) spending growth**
 - Initial rate increase estimate of 10%, as utilization rises following COVID dip
 - FY22 baseline savings offsets impact to active employee insurance (3.8% growth, net)
 - Mandated retiree health forecasted 14% growth (\$152K) due to continued rise in number insured (168 insured retirees vs. 166 active)
- ▶ **Out-of-District (OOD) Tuition/Transportation: \$405K (28%) spending growth**
 - \$188K tuition growth (20% increase) and \$216K transportation growth (46%)
 - Transportation shortage statewide driving spike in rates
 - Continued multi-million \$ savings from in-district programs, but cost for those needing OOD is significant (9 forecasted placements of \$100K+)
 - Circuit Breaker (CB) growing, but only covers portion of cost growth

FY23 Budget Overview

- ▶ FY23 Tentative Operating Budget = \$28.89 million
 - 3.43% (\$957K) spending increase from FY22 budget
 - Requires \$648K of yet-to-be-identified spending efficiencies/reductions
 - Prior Tentative Budget gaps: \$611K FY22, \$430K FY21, \$380K FY20, \$900K FY19
 - \$648K FY23 gap excludes \$335K carry-forward of reserve commitment from FY21 and FY22 = \$983K total structural deficit
 - Spending growth prior to gap reductions is 5.75% (\$1.6 million), driven by OOD tuition/transportation, 1:1 aides, and insurance
- ▶ Preliminary FY22 Operating Assessment Increase = 3.50%
 - Measures cost increase to towns after deducting “Other Revenue” (e.g., State Aid) from spending needs
 - High end of MERSD’s sustainable multi-year budget range
 - 5-year average assessment increase is just 3.25% amidst avg. State Aid increase of 2.0%.
 - Assume minimum increase (1.3%) in Chapter 70 to \$3.12 million, due to continued dip in enrollment.

Budget Highlights: Revenue

- ▶ 2.98% growth in non-assessment revenue, close to 3.43% spending growth, with remainder funded by 3.50% Town Assessments.
 - New State Aid program does not impact MERSD FY23 Chapter 70 due to enrollment picture, and “Hold Harmless” aid
 - Transportation Aid has risen in recent years (\$298K in FY21), but outlook for FY22 and FY23 still uncertain due to COVID impacts
 - Reduced ridership will generate modest savings, but duration unclear
 - Continue to assume flat School Choice revenue at \$325K as offset to spending by replacing graduating students
 - Rising OOD costs and increasing DESE reimbursement for OOD transportation yields growth in Circuit Breaker aid (spending offset).

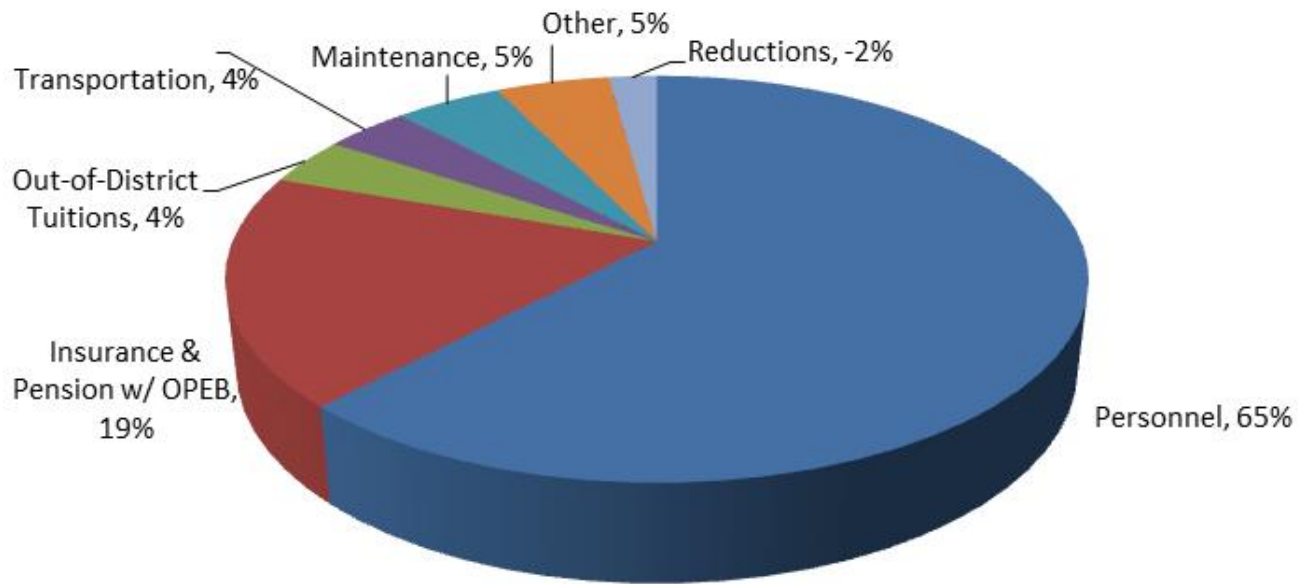
Budget Highlights: Spending Detail

	FY22	FY23	% of FY23 Spending	Inc. vs. FY22	
				\$	%
Personnel	\$17,984,361	\$18,718,043	64.80%	\$733,682	4.08%
Insurance & Pension w/ OPEB	\$5,213,529	\$5,545,288	19.20%	\$331,758	6.36%
Maintenance	\$1,361,775	\$1,450,031	5.02%	\$88,256	6.48%
Transportation	\$879,089	\$1,135,300	3.93%	\$256,211	29.15%
Out-of-District Tuitions	\$959,709	\$1,148,134	3.97%	\$188,425	19.63%
Other	\$1,532,240	\$1,539,192	5.33%	\$6,952	0.45%
Reductions to be Identified	\$0	(\$648,000)	-2.24%	(\$648,000)	
Total	\$27,930,703	\$28,887,988	100.00%	\$957,284	3.43%

- *95% of spending is from largest 5 categories*
- *\$216K of transportation growth relates to OOD placements*

Largest Budget Categories

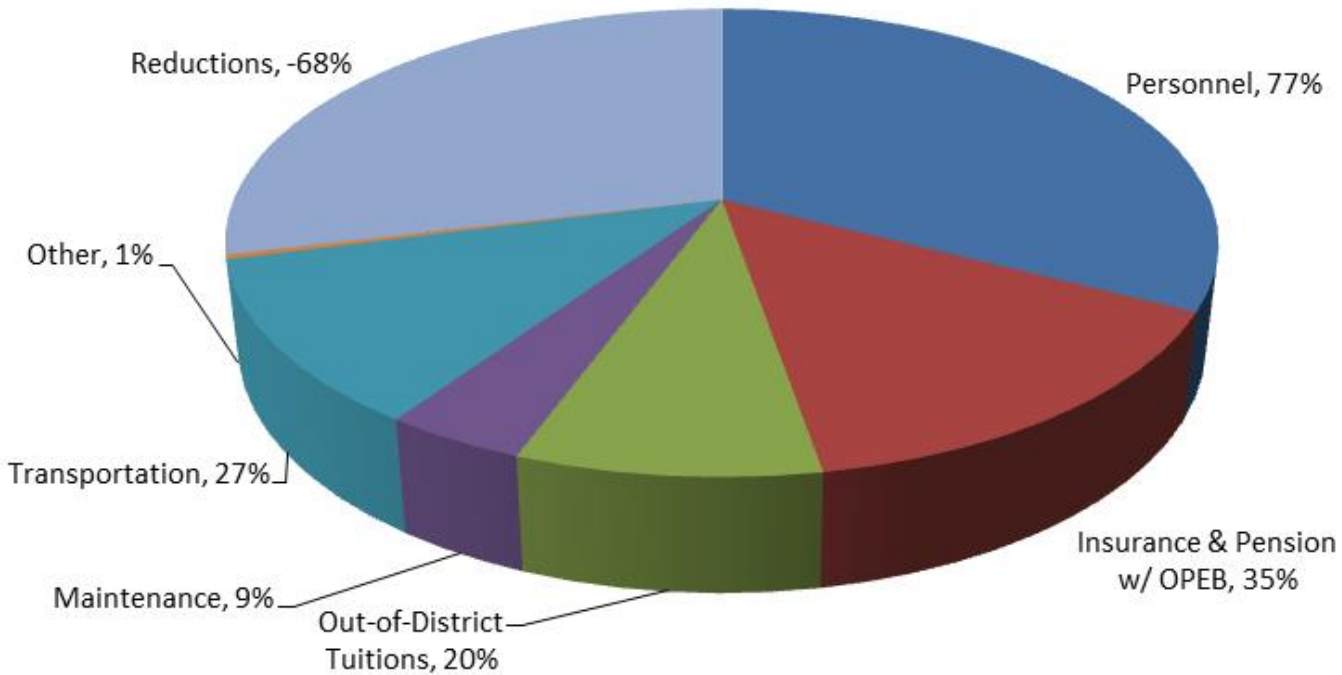
(% of Total Spending – \$28.89 million)



95% of spending from 5 categories

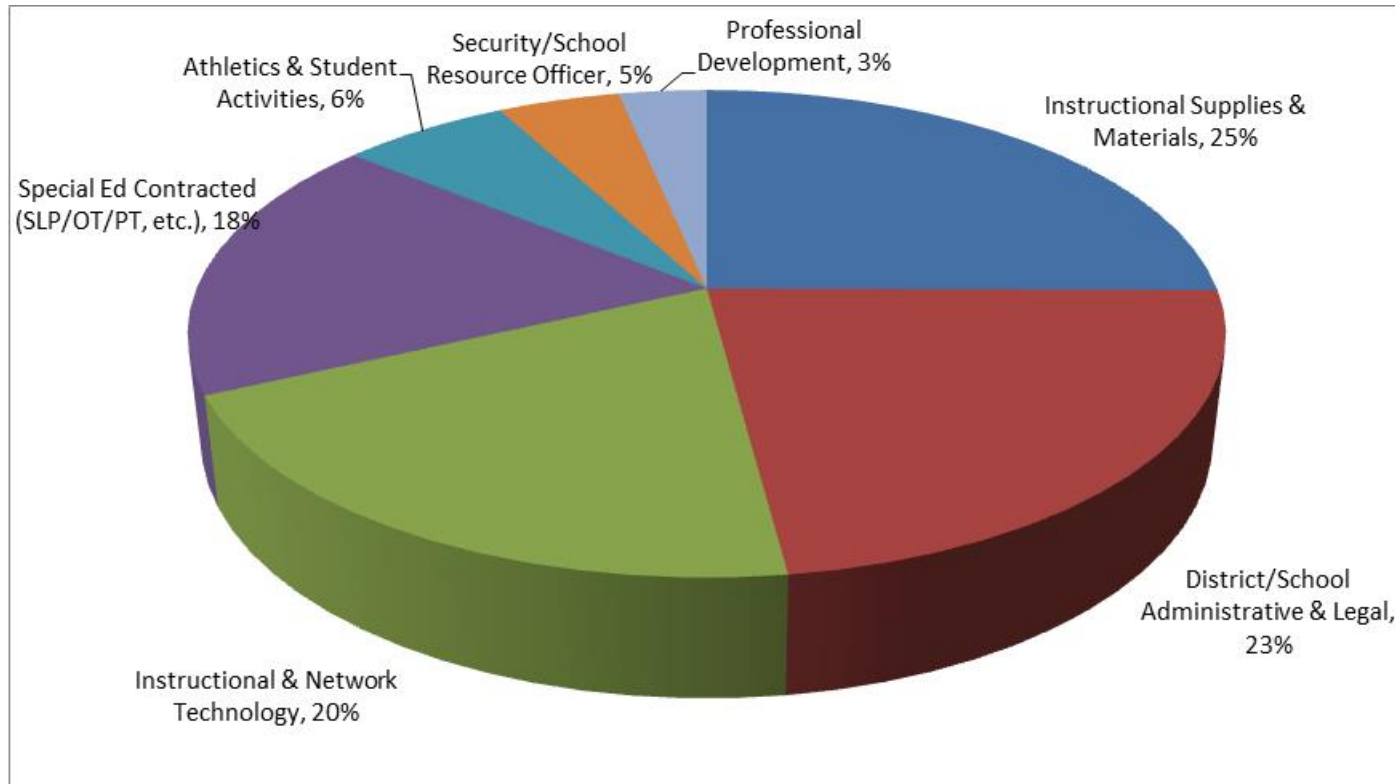
Largest Budget Drivers

(% of \$957K budget increase)



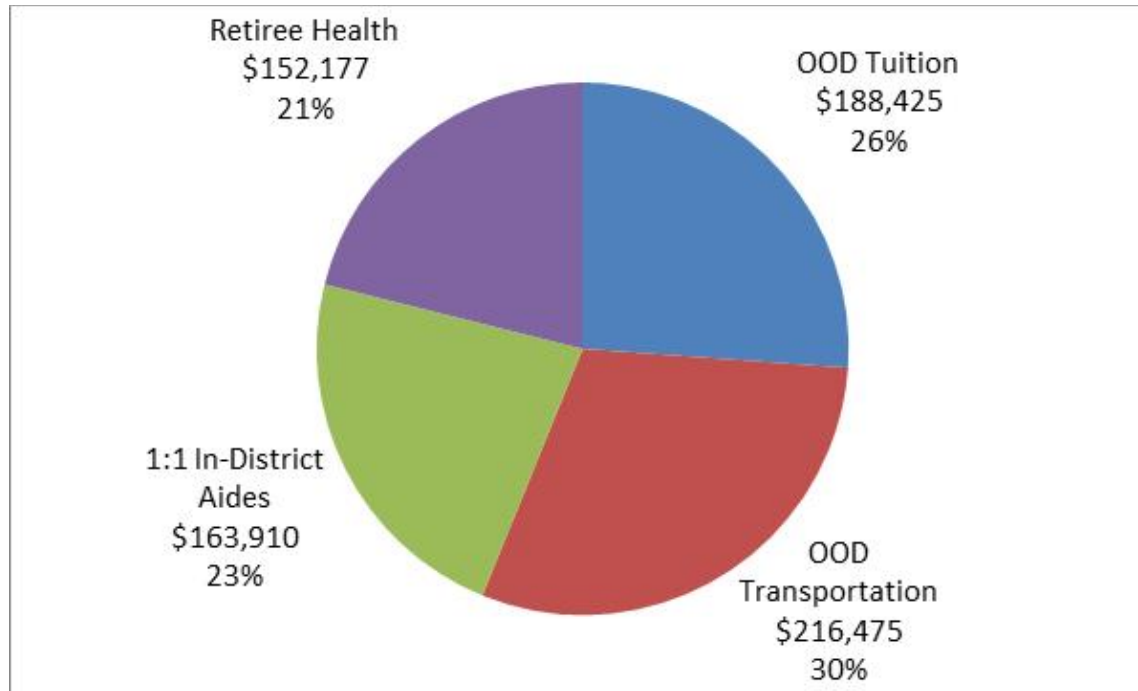
OOD Tuition & Transportation account for 47% of total budget growth despite being only 8% of total spending

Composition of “Other” Expenses (*\$1.5 million total – 5.3% of FY23 Budget*)



- *% shown in chart = % of \$1.5 million “Other” categories*
- *0.5% growth for all “Other” expenses combined, in FY23 budget*

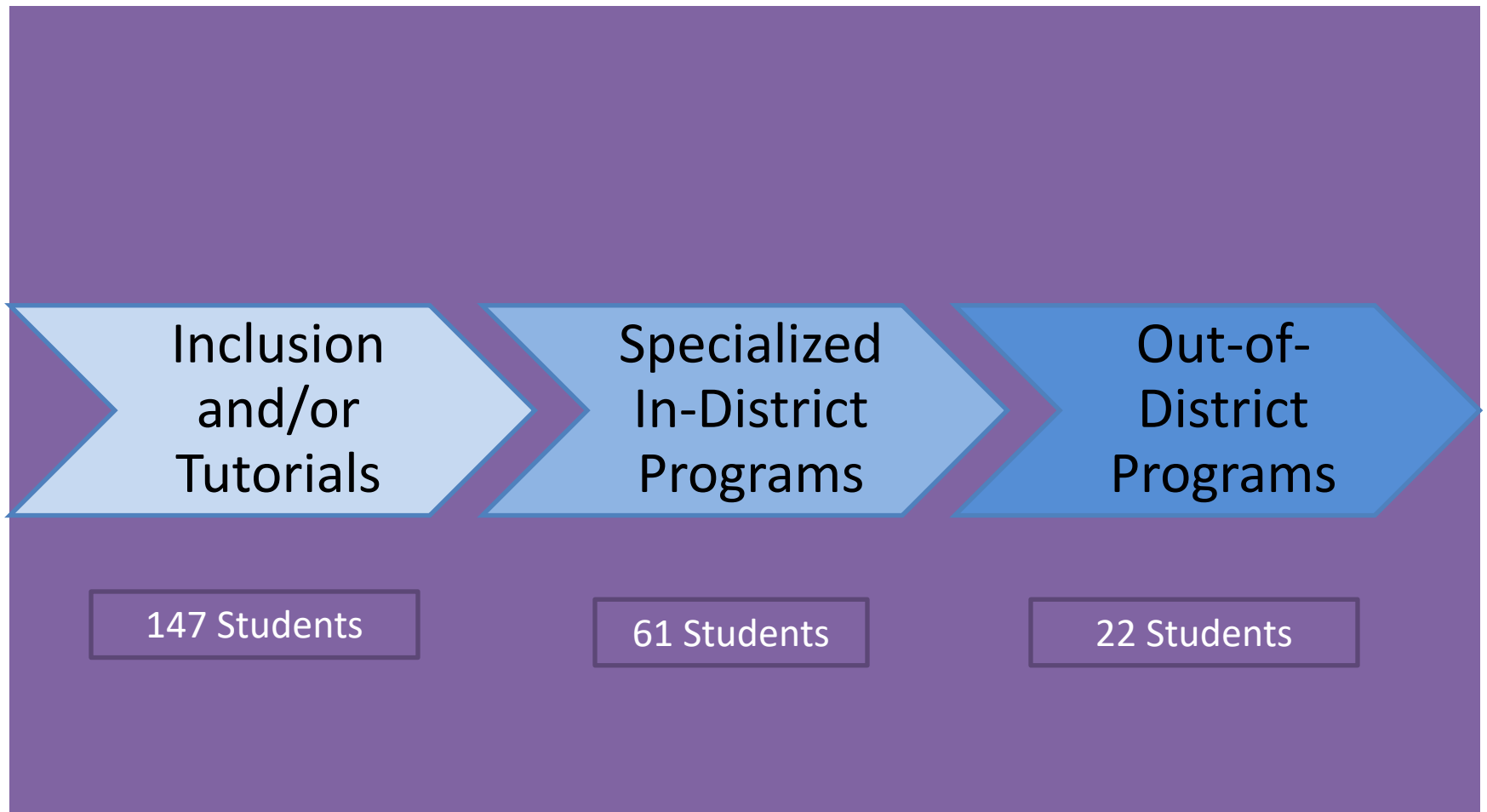
Mandated High Cost Growth Areas



High-Cost Mandated Growth Areas (HCMG)	FY23 \$ Inc.	% of HCMG
OOD Tuition	\$188,425	26.1%
OOD Transportation	\$216,475	30.0%
1:1 In-District Aides	\$163,910	22.7%
Retiree Health	\$152,177	21.1%
Total	\$720,987	100.0%

- These categories account for more than entire \$648K Level Services Gap

Continuum of Special Education Programs and Services



Comparative Cost Analysis: In-District Versus OOD

In-District Specialized Programs

- Staff Salaries
- Benefits
- Minus In-District Tuition Revenue

Out-of-District Programs

- OOD Tuition
- Transportation
- Minus Circuit Breaker Funding

Out-of-District Net Cost – In-District Net Cost =
Savings from In-District Programs

Savings by Program FY22

Program	Grades Served	# Students	Savings
SWING	K-12	14	\$284,186
SAIL/Transitions	K-12	22	\$909,872
IRWL	2-8+	22	\$530,271
ACE	4-5	3	\$33,097

Out-of-District Programs FY23 Projections

Disability Type	Number of Students	Projected Tuition Cost
Complex LD or ASD	3	\$60,166
Mental/Behavioral Health Needs	10	\$841,820
Severe Special Needs	12	\$1,136,023

Cape Ann / North Shore Special Education Comparables

Operating District Name	-- In-District Expenditures --			-- Out-of-District Expenditures --			-- Other Expenditures --	Combined	Special Education	OOD Cost	In-District Cost	OOD Heads	Enrollment	
	Teaching	Instructional	Transp.	Mass. Public	Mass Private	Tramspotation	Spending from	Special Ed	Percentage of					
				Schools and	and Out-of-State		Grants	Expenditures	Total					
				Collaboratives	Schools		and Revolving Funds	(sum of C through J)	Expenditures					Total Expenditures
Manchester Essex	3,281,665	913,527	73,665	351,418	905,825	262,442	569,201	6,357,743	27,047,350	24%	1,519,685	4,268,857	22.4	1,250.00
Lynnfield	4,618,832	1,047,158	62,713	509,994	869,885	269,317	437,415	7,815,314	37,127,471	21%	1,649,196	5,728,703	26.6	2,241.30
Rockport	2,197,225	566,229	55,885	848,706	1,273,722	291,335	377,833	5,610,935	19,138,687	29%	2,413,763	2,819,339	17.3	892.2
North Reading	5,758,604	1,039,083	119,567	557,423	2,384,179	75,301	210,213	10,144,370	42,552,332	24%	3,016,903	6,917,254	35.6	2,448.50
Triton	6,419,568	319,957	548,126	1,123,916	1,676,250	467,519	733,880	11,289,217	47,673,321	24%	3,267,686	7,287,651	109.1	2,558.10
Newburyport	5,056,537	717,703	119,697	287,885	2,803,213	428,252	520,179	9,933,466	44,623,135	22%	3,519,350	5,893,937	188.2	2,477.90
Pentucket	5,464,803	632,665	514,738	992,644	2,749,423	372,737	662,997	11,390,007	40,937,199	28%	4,114,804	6,612,206	67.2	2,510.70
Hamilton Wenham	4,098,656	809,836	212,067	715,704	3,237,221	397,626	463,027	9,934,137	35,421,785	28%	4,350,551	5,120,559	45.6	1,891.70
Amesbury	5,011,820	526,442	246,592	1,251,583	3,017,596	491,692	605,624	11,151,349	39,152,792	28%	4,760,871	5,784,854	140	2,196.10
Gloucester	9,041,033	818,068	334,648	2,601,457	2,051,807	188,775	1,004,810	16,040,598	57,451,423	28%	4,842,039	10,193,749	56.2	3,219.80
Tri-Town/ Masco*	9,256,488	1,786,877	150,240	477,950	1,116,113	170,183	1,162,476	10,352,830	39,533,395	25%	1,764,246	11,193,605	60	3,920.30
Danvers	6,103,040	797,271	583,027	1,440,344	3,601,245	560,547	1,111,083	14,196,557	65,049,748	22%	5,602,136	7,483,338	73.3	3,538.20
Tri-Town/Masconement											5,332,897			
Topsfield	1,909,354	291,555	47,819	3,100	284,050	3,135	426,339	2,965,352	11,354,792	26%	290,285			
Boxford	2,037,105	491,705	37,010	227,243	389,433	55,606	339,945	3,578,047	14,334,636	25%	672,282			
Middleton	2,079,330	480,491	51,739	247,607	442,630	111,442	396,192	3,809,431	13,843,967	28%	801,679			
Masconomet	3,230,699	523,126	13,672	939,618	2,589,069	39,965	407,367	7,743,515	36,275,519	21%	3,568,652			

OOD Funding Sources / Strategies

OOD Tuition - By Funding Source	2018-2019		2019-2020		2020-2021		2021-2022		2022-2023		
	Expended	% Inc.	Expended	% Inc.	Expended	% Inc.	Budget	% Inc.	Budget	\$ Inc.	% Inc.
Budget Funded - Tuition Out	\$778,253	23.6%	\$1,059,001	36.1%	\$1,172,945	10.8%	\$899,709	-23.3%	\$1,088,134	\$188,425	20.9%
Circuit Breaker & Grant Funded	\$167,776	-15.4%	\$294,476	75.5%	\$124,251	-57.8%	\$420,000	238.0%	\$799,875	\$379,875	90.4%
Pre-Paid in Prior Year	\$156,893	20.4%	\$199,099	26.9%	\$329,410	65.5%	\$150,000	-54.5%	\$150,000	\$0	0.0%
(Less: Prepayments of Next Year)	(\$199,099)	26.9%	(\$329,410)	65.5%	(\$219,732)	NM	\$0	NM	\$0	\$0	NM
Annual Cost of Tuitions	\$903,823	12.8%	\$1,223,166	35.3%	\$1,406,874	15.0%	\$1,469,709	4.5%	\$2,038,009	\$568,300	38.7%

- ▶ MA Commonwealth increasingly participating in OOD costs via Circuit Breaker expansion
- ▶ End-of-year budget savings mitigate after-budget OOD additions via MGL “prepayment” provisions

Financial Reserves Update

- COVID impact continues to evolve with \$500K potential influx
 - New CARES aid from member towns (\$260K MBTS, \$146K Essex)
 - FEMA appeal may generate \$115K
 - *Potential* for full offset of COVID costs – pending FY22 needs
- Stabilization use continues according to plan
 - \$550K committed for Essex Elementary (playground, tech equalization)
 - Summer 2022 turf replacement on the horizon at MSHS
- Multi-year operating and capital strategy is essential
 - EES building solution timeline is increasingly near-term
 - Continued use of reserves for operating is unsustainable

	FY21 Ending (unaudited)	Approved Uses*	Remaining Available
E&D Net	\$1,296,697	(\$335,000)	\$961,697
Stabilization	\$970,803	(\$551,000)	\$419,803
S.C.	\$1,604,288	\$0	\$1,604,288
Reserves Total	\$3,871,788	(\$886,000)	\$2,985,788
FY23 Budget	\$28,887,988		\$28,887,988
% of Budget	13.40%		10.34%

Essex Playground	\$350,000
Essex Technology/Memorial Match	\$201,000
*Approved Stabilization Uses	\$551,000

**Assuming \$335K carryforward of E&D uses in FY23*

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	

Addressing the Gap

- Retiree Health Care Increase (\$150K)
 - Pre-Medicare Legacy Plan
 - Utilize OPEB to offset the disproportionate cost of this group
- PG Out of District Tuition (\$150K Tuition/Transportation)
 - Post Graduate Tuition (\$150K Tuition/Transportation)
 - Time bound – commit reserves until graduated (4 years)
 - Savings from exiting FY23 students(\$150K Earmark)
- Revise budget for actual OOD (\$344K)
 - Utilize Reserves as contingency for any new OOD realized during FY23
 - Replenish annually w/ circuit breaker excess beyond budget estimate
- Considerations: Why using reserves is of concern?
 - Continued dependence until correction
 - Critical capital projects (boiler/fields) for Essex & Middle High School cannot be deferred planned funding source is reserves
 - Depletion of reserves over time weakens our borrowing position for EES and increases project costs

Next Steps

▶ Public Input

- 2nd FY23 Budget Hearing – January 25th @ 6:00pm

▶ Budget Revisions – December/January

- Check assumptions and projections
- Identify areas for generating funds to close gaps and consider meet unmet needs
- Meet with Town Boards as needed

▶ Finalize Budget

- SC Meeting – February 1st @ 6:00pm