

June 3, 2022

To: MERSD School Committee (SC)

From: Avi Urbas, Director of Finance & Operations

Copy: Pam Beaudoin, Superintendent of Schools

Re: Financial Reporting for 6/7/22 School Committee Meeting

Greetings, MERSD School Committee.

We have several financial updates for the 6/7/22 School Committee meeting next week, including Fiscal Year 2022 end-of-year budget transfer requests, OPEB contribution finalization and several accounts payable warrants. A summary is below. Given that we have several new School Committee members, I included additional background information, which may be familiar (or event repetitive) for returning members. As such, this memo is noticeably longer than my typical review.

1. FY22 Budget Transfer Request:

- a. We end each fiscal year by presenting a report to School Committee (SC) showing how we fared vs. budget in the form of a budget transfer request.
 - i. Budget transfers do not change the total size of budget, but rather request authorization from School Committee to align budget appropriations (i.e., legal permission to spend) in various categories more closely with actual spending needs. This request reflects a natural evolution in MERSD's budgetary environment over the 15 months since our FY22 budget was adopted by School Committee, and is a routine practice for all school districts.
 - ii. Categories with spending that exceeds the originally approved budget require a budget appropriation increase (positive transfer) to be funded by savings in other categories, for which we can reduce the budgetary appropriation (negative transfer). These changes are noted on the transfer request form, along with a brief explanation for each category. More detail is below.
- b. At a high level, as reported in previous SC updates, this has been our tightest budgetary environment in many years, with total estimated savings of just over \$100K or 0.3% of our \$32.2 million operating and capital (i.e., debt service) budget.
 - i. We are forecasting personnel budget savings of just \$25K for the year or 0.1% of budget. Declining enrollment has generated savings in general education classroom teacher staffing needs, offset by rising cost of special education personnel, particularly "1:1" teaching assistants assigned to individual students to help keep them in district. This is consistent with our FY23 budget drivers.
 - ii. For operating expenses, savings in the insurance category are helping to fund increased cost of out-of-district (OOD) special education placements and related transportation.
 - iii. The total extent of transfers is greater in FY22 than in recent years, reflecting the need to adjust mid-year to changes in these mandated costs. Additionally, inflation has hit several categories (e.g. hourly work, transportation, utilities).
- c. Some details to provide more information on the transfer request:

- i. Personnel:
 - 1. Classroom teachers:
 - a. Coming out of COVID we did see a larger number of staffing transitions (i.e., permanent departures), particularly at the Middle School, with new staff coming in at lower average salaries vs. departing staff. This generated significant (\$164K) savings.
 - 2. Substitutes:
 - a. Temporary leaves of absences also increased in the aftermath of COVID, with MERSD paying for long-term substitutes to keep classes running, particularly at the middle high school. In our accounting system, substitute costs are associated with paid leaves of absence, meaning that MERSD is double paying for coverage. Long-term substitutes for unpaid leaves of absence, by contrast, are charged directly to the Classroom Teacher account instead.
 - 3. Teaching Assistants (TAs):
 - a. Total added expenses of \$136K is roughly equivalent to 4.5 FTE. These are positions that were not anticipated when the budget was set in January of 2021 for the current fiscal year. As referenced above, and during the FY23 budget process, this reflects MERSD's efforts to keep students in district, which is better for students and significantly less costly, even if a TA is added. This cost adjustment aligns MERSD's budget for FY22 more closely to the TA budget request for FY23.
 - 4. Guidance/Adjustment Counselors:
 - a. \$30K savings in this category reflect lower salary for one replacement hire, column moves that were requested and budgeted but not realized, and a reduction in summer hours at the HS.
 - b. Importantly, the addition of a 1.0 FTE adjustment counselor for the HS during FY22 is not included in the budget, as it is currently funded by federal COVID ESSER funds. This position, which reflects increased need for student supports, has been included in the FY23 budget, in anticipation of the eventual expiration of ESSER funds.
 - 5. Athletics:
 - a. Overall, the program is smaller this year with fewer students participating, particularly among seniors, with larger numbers for younger grades. This generated cost savings of \$23K (7%) as fewer coaches were needed.
- ii. Operating Expenses:
 - 1. District Admin:
 - a. Axis Computer Networks, an outsourced IT firm, provided support to MERSD during COVID, including desktop support for families during remote operations, and support for students and staff due the preplanned (and accelerated by COVID) expansion of computer devices to a "1 to 1" model. These services have

been funded by COVID relief grants. With the departure of MERSD's 2 IT staff members (Network Administrator and Network Technician) in December 2020 and May 2021, respectively, Axis also provided temporary services to keep IT operations running, pending rehire of new internal staff members. The FY22 budget transfer request covers budgetary spending on Network Administrator services prior to hiring and onboarding MERSD's own staff member in the fall. This cost was partially funded by savings in the salary of the Network Administrator account, as shown above in the personnel/salaries accounts.

2. Building Instructional Supplies/Equipment:
 - a. This area of discretionary spending has been largely frozen for several months, to free up funds for anticipated overages in mandated services, such as OOD tuition and transportation. Purchases needed to keep instructional programs running have continued to proceed.
3. Special Ed Contracted Services:
 - a. This budget area covers contracts for outside providers of services (e.g. physical therapy, specialized student assessments, staff consultations) that are sufficiently variable in volume that internal staff is not an option. The account also covers membership in the Northshore Educational Consortium, a regional collaborative that aggregates need for Cape Ann school districts to provide student services (including specialized OOD programs) for which internal programs are not a viable option due to volume/scale. Spending in this category has grown in recent years along with student need, but FY22 spending came in below a cautiously estimated budget.
4. Transportation/Traffic:
 - a. MERSD receives regional transportation State Aid each year, a program created by the Commonwealth to incentivize regionalization of school districts. State Aid in excess of budget estimates may be placed in a single-year reserve fund outside of the General Fund, in acknowledgement of potential swings in transportation costs and the lack of significant competition in the outsourced transportation services marketplace.
 - b. Excess Transportation Aid in FY21 totaled \$95K, which must be spent in FY22. Because these carryforward funds must be placed outside of the General Fund budget in a separate reserve, the impact is to reduce spending on transportation by this amount in the General Fund budget.
 - c. Additional savings in this category relate to a mid-year consolidation of routes in Essex. This consolidation was necessary due to a driver shortage, but has been made permanent by MERSD for FY23, to help reduce our budget gap.

5. Special Ed Transportation:
 - a. MERSD is required to provide transportation for students that attend OOD programs. As discussed in the FY23 budget preparations, this cost is up significantly for all districts, reflecting inflation and a shortage of hourly workers. An outcry from school districts to the DESE and Commonwealth has led the State to begin reimbursing a portion of these mandated costs through the Circuit Breaker State aid program, which reimburses a portion of high-cost OOD tuitions, so some relief will come in FY23 for these FY22 expenditures.
 - b. Of note, the FY22 final cost for OOD transportation is above MERSD's FY23 budget allocation, which was set back in January, so we are anticipating an overage in FY23 as well. This despite the fact that the FY23 budget for OOD transportation is already up 46% vs. the original FY22 budget, and up 170% from FY21 actual spending.
6. Utilities:
 - a. As previewed recently with School Committee, MERSD expects to have a budget overage in utilities in FY23 due to rising rates across the economy related to inflation and supply shocks related to the invasion of Ukraine. In FY23 MERSD will be coming off extremely favorable multi-year contracts that were locked in during the initial days of the COVID economic downturn when rates had plummeted.
 - b. The FY22 overage relates to bringing on new Memorial School accounts during the recent market turmoil. Additionally, usage district wide has been up during the COVID pandemic as MERSD has run its air handling units for many more hours per day to maximize fresh air intake, in keeping with CDC guidelines. This usage should return to normal in FY23, but the rates environment could lead to a 50% overage, as current contracts expire in December, just prior to peak usage months.
7. Maintenance/Capital:
 - a. Rates for our outsourced custodial services have continued to rise (\$47K overage in FY22), reflecting inflation across the economy in rates for hourly workers associated with full employment. MERSD has increased its FY23 allocation to account for this change. Overall, outsourced custodial services provides significant savings particularly in benefits, such as annual health care, and mandated lifetime costs for retirees, such as pension and retiree health insurance (aka OPEB). Of note, MERSD's internal facilities staff (3.0 FTE) have received annual increases of 2.5%, so there is some risk of not keeping pace with the market.
 - b. Other overages in this category relate to the costs of extending the life of Essex Elementary, now more than 65 years old, and in need of systemic solutions. Examples include maintenance of the boiler and outdated unit ventilator distribution systems.

This need also appeared in the capital category, with extra costs needed for the aging roof and replacement of the burner assembly on the boiler. A full boiler replacement is needed at Essex Elementary, as the building is currently running on just one unit, which is not in keeping with best practice and exposes MERSD to service interruptions in the winter.

- c. Other cost increases relate to increased spending on Preventative Maintenance, which is more costly initially, but saves money over time by extending the life of assets. MERSD received extra reimbursement from the MA School Building Authority (MSBA) for the MMES project because of its investment in preventative maintenance practices. MERSD has also hired Habeeb & Associate Architects to update its facility condition analysis of EES. This report will include the MSHS as well, which is now 12 years old and beginning to need normal investment in asset maintenance.
- d. It is important to remember that MERSD's facility capital budget line was cut by \$20K as a budget reduction in FY22 (with a \$40K cut in prior years), with plans to fund needs through reserves instead. We do not believe the current budget allocation is appropriate to maintain our buildings. Given the significant increase in use of reserves to fund the FY23 revenue shortfall, and uncertain future of a potential override request and the need to maintain reserves in that time, MERSD elected to use savings in other budget areas to cover the \$20K capital spending overage in FY22.

8. Insurance:

- a. Significant savings in this category are funding FY22 budget overages in mandated spending (OOD tuition/transportation) and other categories. Health insurance rates are determined after the budget is set. For FY22, MERSD was carrying a 4% rate increase assumption in the budget, but benefitted from an actual rate reduction of 1% after the budget was set. This reduction reflected temporary declines in utilization during the COVID lockdown (recall that rates are back up 9% in FY23). Additional savings related to lower costs vs. forecast in FY21, which was the base for the FY22 4% rate growth assumption.
- b. This budget category also includes cost of liability insurance, which is up \$37K due to the cost of carrying a new MMES school. Other savings in this category include lower unemployment insurance charges.

2. FY22 OPEB Contribution

- a. MERSD brings its annual contribution for OPEB (Other Post-Employment Benefits, or in plain language, state mandated retiree health care) to School Committee at the end of each year. The contribution for FY22 is calculated to be \$530,436, based on the formula contained in the META contract.
 - i. In short, the formula dedicates to an OPEB trust fund 100% of savings from changes made in FY16 to benefits programs. MERSD migrated to lower cost

programs with higher out-of-pocket costs for employees (copays) and also brought employer contribution rates down from 80% of monthly premium cost to 75% for existing employees and down to 70% for new hires, with employees paying 25% (legacy staff) and 30% (new hires) respectively.

- b. The OPEB trust enables MERSD to prefund future retiree health care obligations, based on actuary analysis indicating that over time these costs would grow well beyond the limits of Proposition 2.5. In fact, MERSD's annual budgeted expense for retiree health care has grown an average of 12% per year over the past five years, confirming that this financial threat is very real.
- c. MA General Laws generally limit the types of investments allowed for municipalities and school districts, but an exception is made for OPEB trust funds given the enormous liabilities associated with funding mandated benefits. Outsourcing investment risk, MERSD sends its OPEB trust funds to PRIM (Pension Reserves Investment Management board), the same highly rated investment management body that manages State pension investments. PRIM invests MERSD's OPEB trust funds generating significant returns (9.5% average annual return over the last 10 years) that reduce the contribution required from the taxpayer-funded budget.
- d. More information about pension and OPEB can be found in MERSD's "Annual Unfunded Liabilities" letter, which per Manchester by-laws is a required annual disclosure to taxpayers. MERSD is well ahead of most regional school districts in prefunding and investing its OPEB trust, with \$4 million contributed to the trust through FY22.

3. Vouchers:

- a. **V1060:**
 - i. \$20.8K transfer request to replenish the HS Student Activity checking account, following checks written in January and February. A listing of checks written in that time is included in the Excel report. For more information about the Student Activity Transfer process, please refer to my School Committee financials memo from the 5/17/22 SC meeting.
- b. **V1061:** \$18.4K Student Activity transfer request for the HS for checks written in March with check listing included in the attachment.
- c. **V1062:** \$15.80 tax obligation for May related to meals purchased by staff in the cafeteria, placed on a separate voucher, because funds are transferred electronically to the Commonwealth.
- d. **V1063:** main AP voucher for MERSD, totaling \$390K, which is relatively small. Of note:
 - i. Curriculum & Technology:
 - 1. \$5.4K to Culture7 Coaching (Michael Eatman), for professional development services related to Diversity, Equity & Inclusion, based on MERSD's strategic plan initiatives in this area. The majority of this initiative has been funded by regional and federal grants, with the remainder supported by MERSD's professional development budget.
 - 2. \$12.5K to the Northeast Educational Consortium for a special member assessment related to COVID. Typically, the annual membership fee for MERSD is \$10K. The additional, one-time COVID assessment stems from the fact that consortiums do not receive and federal COVID funds, but did have many COVID costs.
 - ii. Finance & Operations:

1. \$5.5K for annual license to ClearGov, which makes MERSD's financial spending data (as presented to the DESE via our End-of-Year Financial Report) available online to taxpayers in a user-friendly, visual interface that allows viewers to drill down into any spending category to see additional detail.
 2. \$4.8K to Delta Beckwith for elevator repairs necessary prior to annual inspection, beyond our base contract. DB provides preventative maintenance (PM) for \$7.5K annually, covering 3 elevators, and 3 wheelchair lifts. PM service includes regular checkups and minor recurring service needs, but not larger repair items, which are an additional cost.
 3. \$4.8K to FieldTurf for cost of annual maintenance visits at both turf fields. This is our base maintenance contract, which includes inspection, routine repairs and grooming.
 4. \$4.4K to Gale Associates, our design consultant for the turf replacement project. This invoice relates to additional services that we requested to informing our interim strategy to maintain the fields while awaiting a full replacement project. Gale's work identified the scope of additional repairs needed this spring (seam replacement at Hyland, and sectional replacement near each goal, to pass impact testing at Brook Street). Those additional repairs were performed by RAD this spring, totaling nearly \$40K. We expect that invoice in coming weeks. Gale's service also included an additional GMAX testing after repairs were made to confirm that the fields were safe to open.
- iii. Athletics:
1. \$4.5K to various contracted officials with costs ranging from \$66-90 per event.
 2. \$1.6K each to John Bishop and Andrew Dominick for the 2nd installment of rental costs for "chase boats" for coaches to accompany the HS sailing team during practices and matches.
- iv. Benefits:
1. Note that all costs charged to fund 903 (\$29K on this voucher) are benefits costs funded by employee payroll deductions. MERSD contributes only to health insurance and a small amount (\$8.40 per employee per year) for life insurance. All other benefits are 100% funded by staff, including dental, vision, supplemental life/disability insurance, and retirement accounts. These employee-funded amounts appear on our vouchers because we issue the payments to benefit providers on employees' behalf.

Please let me know if you have any questions.

Best regards,

Avi Urbas