

December 2, 2022

To: MERSD School Committee (SC)

From: Avi Urbas, Director of Finance & Operations

Copy: Pam Beaudoin, Superintendent of Schools

Re: Tentative Budget for 12/6/22 School Committee Meeting

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### **FY24 Tentative Operating Budget**

- Highlights:
  - Spending:
    - \$30.144 million budget represents spending growth of \$1.218 million or growth of 4.21% vs. FY23. This is in-line with typical Level Services growth (i.e., the cost to maintain current program and honor contractual commitments), particularly at this stage of the budget process.
    - Personnel costs, which represent 63.3% of the FY23 School Committee adjusted budget, are tentatively budgeted to grow \$516.7K or 2.82%. This is below typical Level Services growth rates, due primarily to FTE reductions associated with declining enrollment (detail below). All other Operating Expenses are budgeted to grow 6.6% or \$701K, driven primarily by forecasted rate growth for health insurance rate and utilities.
  - Revenue:
    - MERSD has 3 main sources of revenue:
      - Town Assessments (86% of revenue in FY23), which represent the annual charge to Essex & Manchester after deducting State Revenue and other miscellaneous income from spending.
      - State Aid, including the Chapter 70 and Regional Transportation Aid program, which accounted for 11% revenue in FY23
      - Local miscellaneous receipts, such as interest income, and Medicaid reimbursements, which provided less than 1% of revenue in FY23
      - The remaining portion of FY23 revenue (3%) came from use of one-time rainy-day reserve funds in the Excess & Deficiency (E&D) account.
    - Consistent with prior discussions about seeking a revenue correction, there is no use of one-time reserve funds as a revenue source in the FY24 Tentative Budget.
      - As a result, non-town revenue is budgeted to decline 10.48% (\$413K) in FY24. This relates primarily to the removal of \$520K of revenue used in the FY23 budget from MERSD's Excess & Deficiency (E&D) reserves. Excluding this line item, other non-town revenue is budgeted to grow \$107K or 3.13% in FY-24, which reflects our estimate for minimum Chapter 70 (State Aid) growth (\$60/resident student). Due to bus route consolidation, we expect Regional Transportation revenues (also State Aid) to decline from FY22 actual, and have not budgeted an increase for FY24.
    - Assessments to member towns are budgeted to grow 6.53% to \$26.62 million.

This is approximately \$756K above our typical target of a 3.5% assessment rate. In other words, MERSD would need a mix of \$756K in additional non-town revenues or spending cuts to hit the 3.5% target. To illustrate the point, had we budgeted a fresh, new \$520K from one-time E&D reserves as a revenue source for FY24, the 6.53% assessment would fall to just 4.45%.

- As a result, \$756K is a starting point for discussions about the potential size of a revenue correction. The final amount, however, will need to grow to ensure that a correction is large enough to cover normal Level Services growth for several years, before another correction becomes necessary. Similarly, \$756K would be the starting point for cost reductions that MERSD would need to implement in FY24 if a revenue correction is not successful.
  - Prior to budgeting staff reductions related to declining enrollment (detail below), our current \$756K revenue correction was trending closer to \$1.05 million, as previewed in our budget collaboration conversations, earlier this week.
  - Due to the natural growth of costs over time and the potential for an unsuccessful correction, MERSD has begun scenario planning for up to \$1.3 million in cost reductions.
- As requested by member towns, we have drafted a preliminary apportionment between Manchester-by-the-Sea (MBTS) and the Town of Essex (TOE). Apportionment means the split of assessment between our member towns based on the formula defined in the Regional Agreement.
  - Although apportionment figures will change prior to budget finalization, we currently estimate that the 6.53% growth in total Town Assessments will translate into 5.35% for MBTS and 8.60% for TOE. This differential is based on the formula contained in the Regional Agreement and changes in enrollment mix between the communities, with MBTS students now representing 57.5% of enrollment, down from 61.2% just two years ago.
- Main Spending Drivers
  - Staff
    - MERSD is currently negotiating a new contract with the Manchester Essex Teachers' Association (META) for FY24-FY26. Absent agreed-upon terms for salary rates, we budgeted for all step and column moves to occur, which is presumed based on case law, to be a continuing obligation. To be safe, we have also assumed a 2.5% cost-of-living adjustment (COLA) to the salary grid, consistent with each of the past four contract years. Since our FY24 Tentative Budget already requires a revenue correction, which is not guaranteed to materialize, we believe any additional growth required by the final META contract would likely need to be funded by reductions from other areas of the budget. The combination of step/column and 2.5% COLA assumption translates into 4.0% growth for the META pool, consistent with prior years, prior to expected savings from planned reduction in staff in FY24, due to declining enrollment (see below).
    - Rates for non-META staff are budgeted as follows:
      - For Teaching Assistants (TAs), we have assumed a 2.5% COLA, consistent with the past 3-years. TAs also have the opportunity to earn step increases, so a 2.5% COLA translates into 4.2% growth for the pool of 40 full-time equivalent (FTE) staff. Because 78% of TAs are already at the maximum 4th step, however, we have also budgeted a small reserve for

potential growth in longevity payments, which will not have a material budget impact.

- All other non-META staff are not eligible for step/column increases. We have budgeted a 4.0% COLA for this group (administrative assistants, facilities/IT, Central Office, and administrators) recognizing that the past 3 years of 2.5% of rate growth has lagged by 65% (12.38% average teacher compensation growth over 3 years, or 4.13% per year, vs. 7.50% or 2.5% per year for non-META, non-TA staff).
- With declining enrollment, we have budgeted for reduction of 4.0 FTE across the district, which can be implemented through attrition. In prior years, savings from FTE reductions associated with declining enrollment have been directed in part to adding special education staff to our in-district programs for a net cost savings to taxpayers through avoided out-of-district (OOD) tuitions costs, but we do not anticipate needing any new special education staff in FY24. Savings from this 4.0 FTE reduction explains the difference between our 2.82% FY24 total growth in personnel budget and a more typical Level Services growth rate of roughly 4.0%.
- Health Insurance:
  - Based on the advice of USI Benefits, our insurance broker, we are currently budgeting a 12% increase in health insurance rates, at the high end of the 8-12% growth they have observed for typical renewals in the current inflationary marketplace.
  - MERSD's utilization is currently tracking well, despite some continued pressure from 'large losses' (individual, high cost cases) so a market rate of growth appears achievable. We will monitor utilization over the next few months prior to finalizing the budget, with some potential for savings. With an FY23 forecasted base value of \$4.3 million, each 1% of savings from our current 12% rate assumption would generate approximately \$43K in savings.
- OOD:
  - Baseline costs of OOD tuition for resident students are forecasted to grow to \$2.3 million in FY24 from \$2.0 million in FY23 (13%). The main driver of this change is 14% growth in private school OOD tuition rates, which is the inflationary rate adjustment guaranteed by the Commonwealth to private school programs for next year. Forecasting OOD one year in advance also carries inherent risks as student needs tend to change with time, and MERSD is always exposed to the potential of new residents moving into town who may require an OOD placement. For this reason, we monitor projections throughout the year and update School Committee for any material financial changes in expectations as they become known.
  - Spending increases in FY24, however, will be more than offset by anticipated growth in Circuit Breaker (CB) reimbursements from the Commonwealth. As a result, the FY24 budget for OOD tuition is declining 7.3% or \$83.6K.
    - As background, in the prior two budget cycles, we have observed that our in-district programming saves MERSD roughly \$1.8 million annually in avoided OOD tuitions, even after factoring in additional staffing costs. For students with more significant needs, however, OOD tuition rates are often much higher. We noted previously that in FY23, nine students had annual OOD tuitions of >\$100K. That figure is up to 14 students in FY24 projections.

- The one silver lining of these higher cost tuitions is that CB reimburses up to 75% of OOD costs in excess of DESE's formula-driven foundation tuition amount (\$47K in the most recent year). As more of MERSD tuition's are high-cost in nature, the CB program reimbursements have grown, with DESE's preliminary FY23 CB award to MERSD of \$766K up from \$510K in FY22 and \$309K in FY21. These extra CB funds offset the amount of FY24 OOD that is charged to the taxpayer-funded budget.
- Maintenance:
  - The FY24 Tentative budget includes 6.1% growth in maintenance costs, with non-personnel cost up an estimated 6.7% or \$112K.
  - For utilities, we are estimating a \$60K budget increase on top of the \$188K FY23 budget transfer voted by School Committee in November, reflecting a full year in FY24 at the new contract rates, which have been dramatically impacted by global energy crisis and war in Ukraine. Our energy consultant, PowerOptions, will help us to refine these estimates in the coming weeks as more data about current year usage becomes available, which will impact estimates for FY24.
  - Other growth in this category is designed to bring the FY24 budget in line with recent year actual cost of maintenance at Essex Elementary School (EES), now sixty-five years old, and to a lesser extent the MSHS. We have also assumed a 5% growth in hourly rates for our outsourced custodial contract, due to the impact of rising minimum wage mandates and continued supply pressure in the labor market for hourly workers.

**FY 24 Tentative Budget Summary**

	FY 19 Actual	FY 20 Actual	FY 21 Actual	FY 22 Budget	FY 22 Actual	FY 23 Budget	FY 24 Tentative	\$ Change	% Change
<b>Expenses</b>									
<b>Operating Budget</b>									
Salaries	\$16,307,987	\$16,804,730	\$17,117,234	\$17,984,361	\$17,993,584	\$18,304,319	\$18,821,050	\$516,730	2.82%
Expenses	\$8,822,198	\$8,984,975	\$9,437,064	\$9,946,342	\$9,936,945	\$10,621,668	\$11,323,014	\$701,346	6.60%
<b>Total Operating Spending</b>	<b>\$25,130,184</b>	<b>\$25,789,705</b>	<b>\$26,554,298</b>	<b>\$27,930,703</b>	<b>\$27,930,529</b>	<b>\$28,925,987</b>	<b>\$30,144,063</b>	<b>\$1,218,076</b>	<b>4.21%</b>
Yr/Yr Increase	2.81%	2.62%	2.96%	4.16%	5.18%	3.56%	4.21%		
<b>Revenue</b>									
<b>State Aid &amp; Other Miscellaneous Revenue</b>									
Chapter 70	\$3,007,748	\$3,048,668	\$3,048,668	\$3,083,668	\$3,086,258	\$3,124,118	\$3,231,218	\$107,100	3.4%
School Choice/Charter Out	(\$92,624)	(\$99,848)	(\$106,234)	(\$100,000)	(\$100,841)	(\$100,000)	(\$100,000)	\$0	0.0%
State Aid: Transportation	\$214,527	\$230,294	\$297,704	\$207,000	\$356,910	\$275,000	\$275,000	\$0	0.0%
Other Sources (Medicaid, Bus/Parking Fees)	\$85,335	\$66,771	\$37,491	\$79,500	\$186,661	\$79,500	\$79,500	\$0	0.0%
Bank Interest	\$411,366	\$555,506	\$25,744	\$40,000	\$17,483	\$40,000	\$40,000	\$0	0.0%
<b>Reserves: Excess &amp; Deficiency</b>	\$0	\$100,000	\$335,000	\$335,000	\$335,000	\$520,000	\$0	(\$520,000)	-55.2%
<b>Total: State Aid, Other &amp; Reserves</b>	<b>\$3,626,352</b>	<b>\$3,901,391</b>	<b>\$3,638,373</b>	<b>\$3,645,168</b>	<b>\$3,881,471</b>	<b>\$3,938,618</b>	<b>\$3,525,718</b>	<b>(\$412,900)</b>	<b>-10.48%</b>
<b>Town-Funded Operating Assessment</b>									
Manchester	\$14,274,688	\$14,668,257	\$15,099,835	\$15,589,705	\$15,589,705	\$15,909,698	\$16,760,186	\$850,487	5.35%
Essex	\$7,836,479	\$8,073,441	\$8,364,966	\$8,695,830	\$8,695,830	\$9,077,671	\$9,858,160	\$780,489	8.60%
<b>Total Operating Assessment</b>	<b>\$22,111,166</b>	<b>\$22,741,698</b>	<b>\$23,464,801</b>	<b>\$24,285,535</b>	<b>\$24,285,535</b>	<b>\$24,987,369</b>	<b>\$26,618,345</b>	<b>\$1,630,976</b>	<b>6.53%</b>
Yr/Yr Increase	3.29%	2.85%	3.18%	3.50%	3.50%	2.89%	6.53%		
<b>Operating Assessment %</b>							<b>Preliminary</b>		
Manchester	64.56%	64.50%	64.35%	64.19%	64.19%	63.67%	62.96%		
Essex	35.44%	35.50%	35.65%	35.81%	35.81%	36.33%	37.04%		
<b>Total</b>	<b>100%</b>								
<b>Total Operating Revenue</b>	<b>\$25,737,518</b>	<b>\$26,643,089</b>	<b>\$27,103,175</b>	<b>\$27,930,703</b>	<b>\$28,167,006</b>	<b>\$28,925,987</b>	<b>\$30,144,063</b>	<b>\$1,218,076</b>	<b>4.21%</b>

<b>Capital Budget: Middle High &amp; Memorial Schoo</b>	FY 19 Actual	FY 20 Actual	FY 21 Actual	FY 22 Budget	FY 22 Actual	FY 23 Budget	FY 24 Tentative	\$ Change	% Change
Short Term Debt/Interest	\$0	\$0	\$0	\$0	\$0	\$25,928	\$45,500	\$19,572	75.5%
Long Term Debt/Interest	\$2,108,338	\$4,483,000	\$4,383,602	\$4,272,088	\$4,272,088	\$4,480,668	\$4,123,563	(\$357,105)	-8.0%
Bond/BAN Issuance Costs	\$151,820	\$0	\$53,345	\$0	\$64,362	\$0	\$0	\$0	NM
<b>Total Capital Expense</b>	<b>\$2,260,158</b>	<b>\$4,483,000</b>	<b>\$4,436,947</b>	<b>\$4,272,088</b>	<b>\$4,336,450</b>	<b>\$4,506,596</b>	<b>\$4,169,063</b>	<b>(\$337,533)</b>	<b>-7.5%</b>
Manchester Capital Assessment	\$1,403,891	\$2,993,490	\$2,926,954	\$2,851,524	\$2,851,524	\$3,007,431	\$2,783,599	(\$223,832)	-7.4%
Essex Capital Assessment	\$689,174	\$1,474,238	\$1,442,096	\$1,405,292	\$1,405,292	\$1,483,892	\$1,372,415	(\$111,478)	-7.5%
Premium from Sale of Bonds/BANs*	\$2,861,820	\$0	\$398,345	\$0	\$373,674	\$0	\$0	\$0	NM
Reserve for Reduction of Future Debt	\$15,272	\$15,272	\$15,272	\$15,272	\$15,272	\$15,272	\$13,049	(\$2,223)	-14.6%
<b>Total Capital Revenue</b>	<b>\$4,970,157</b>	<b>\$4,483,000</b>	<b>\$4,782,667</b>	<b>\$4,272,088</b>	<b>\$4,645,762</b>	<b>\$4,506,596</b>	<b>\$4,169,062</b>	<b>(\$337,533)</b>	<b>-7.5%</b>

\*\$2.710 million net premium received in FY19 and \$370K net premium received FY22 from issuance of bonds for Memorial School construction project reduced borrowing to from \$35 million to \$32.29 million, and from \$3.5 million to \$3.23 million, respectively. Payments began in FY20 and FY23 respectively.

**FY 24 Tentative Budget**

DOE CODE	FY 19	FY 20	FY 21	FY 22	FY 22	FY 23	FY 24			% of
	Actual	Actual	Actual	Budget	Actual	Budget	Tentative	\$ Change	% Change	Op. Budget
<b>1000 Administration</b>										
Salaries	\$810,455	\$833,730	\$828,512	\$868,686	\$861,165	\$1,014,763	\$1,048,188	\$33,426	3.3%	
Expenses	\$208,533	\$181,351	\$253,894	\$249,858	\$250,609	\$330,260	\$267,408	(\$62,852)	-19.0%	
<b>Total</b>	<b>\$1,018,988</b>	<b>\$1,015,081</b>	<b>\$1,082,407</b>	<b>\$1,118,544</b>	<b>\$1,111,773</b>	<b>\$1,345,023</b>	<b>\$1,315,596</b>	<b>(\$29,426)</b>	<b>-2.2%</b>	<b>4.4%</b>
<b>2000 Instructional Services</b>										
Salaries	\$14,455,241	\$14,955,927	\$15,295,418	\$16,033,738	\$16,084,460	\$16,306,687	\$16,723,365	\$416,678	2.6%	
Expenses	\$853,323	\$846,703	\$915,828	\$1,094,082	\$972,659	\$1,084,659	\$1,206,300	\$121,641	11.2%	
<b>Total</b>	<b>\$15,308,564</b>	<b>\$15,802,629</b>	<b>\$16,211,246</b>	<b>\$17,127,821</b>	<b>\$17,057,120</b>	<b>\$17,391,346</b>	<b>\$17,929,665</b>	<b>\$538,319</b>	<b>3.1%</b>	<b>59.5%</b>
<b>3000 Transportation, Athletics &amp; Activities</b>										
Salaries	\$728,244	\$721,393	\$697,929	\$785,444	\$740,403	\$678,301	\$736,934	\$58,632	8.6%	
Expenses	\$843,103	\$838,870	\$643,243	\$1,067,389	\$1,030,479	\$1,170,133	\$1,259,657	\$89,524	7.7%	
<b>Total</b>	<b>\$1,571,347</b>	<b>\$1,560,264</b>	<b>\$1,341,172</b>	<b>\$1,852,833</b>	<b>\$1,770,881</b>	<b>\$1,848,434</b>	<b>\$1,996,591</b>	<b>\$148,156</b>	<b>8.0%</b>	<b>6.6%</b>
<b>4000 Operation and Maintenance</b>										
Salaries	\$294,046	\$263,680	\$265,374	\$266,492	\$277,556	\$274,568	\$282,563	\$7,994	2.9%	
Expenses	\$1,276,229	\$1,276,096	\$1,412,307	\$1,361,775	\$1,533,748	\$1,678,581	\$1,790,235	\$111,654	6.7%	
<b>Total</b>	<b>\$1,570,275</b>	<b>\$1,539,775</b>	<b>\$1,677,681</b>	<b>\$1,628,267</b>	<b>\$1,811,305</b>	<b>\$1,953,149</b>	<b>\$2,072,798</b>	<b>\$119,648</b>	<b>6.1%</b>	<b>6.9%</b>
<b>5000 Insurance &amp; Non-META Pension</b>										
Salaries	\$20,000	\$30,000	\$30,000	\$30,000	\$30,000	\$30,000	\$30,000	\$0	0.0%	
Expenses	\$4,107,724	\$4,136,473	\$4,450,889	\$4,625,929	\$4,130,356	\$4,588,401	\$5,062,899	\$474,498	10.3%	
<b>Total</b>	<b>\$4,127,724</b>	<b>\$4,166,473</b>	<b>\$4,480,889</b>	<b>\$4,655,929</b>	<b>\$4,160,356</b>	<b>\$4,618,401</b>	<b>\$5,092,899</b>	<b>\$474,498</b>	<b>10.3%</b>	<b>16.9%</b>
<b>9000 Programs with Other School Districts (Out-of-District Tuitions)</b>										
Salaries	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	NM	
Expenses	\$839,164	\$1,111,361	\$1,210,814	\$959,709	\$1,235,842	\$1,148,134	\$1,064,515	(\$83,619)	-7.3%	
<b>Total</b>	<b>\$839,164</b>	<b>\$1,111,361</b>	<b>\$1,210,814</b>	<b>\$959,709</b>	<b>\$1,235,842</b>	<b>\$1,148,134</b>	<b>\$1,064,515</b>	<b>(\$83,619)</b>	<b>-7.3%</b>	<b>3.5%</b>
<b>OPEB Trust Contribution</b>	\$498,605	\$525,677	\$550,088	\$587,600	\$530,436	\$621,500	\$672,000	\$50,500	8.1%	2.2%
<b>Transfer to Lunch/Athletics</b>	\$195,516	\$68,444			\$24,763					
<b>Transfer to COVID Closeout</b>					\$228,053					
<b>Total Salaries</b>	<b>\$16,307,987</b>	<b>\$16,804,730</b>	<b>\$17,117,234</b>	<b>\$17,984,361</b>	<b>\$17,993,584</b>	<b>\$18,304,319</b>	<b>\$18,821,050</b>	<b>\$516,730</b>	<b>2.82%</b>	<b>62.4%</b>
<b>Total Expenses</b>	<b>\$8,822,198</b>	<b>\$8,984,975</b>	<b>\$9,437,064</b>	<b>\$9,946,342</b>	<b>\$9,936,945</b>	<b>\$10,621,668</b>	<b>\$11,323,014</b>	<b>\$701,346</b>	<b>6.60%</b>	<b>37.6%</b>
<b>Tentative Operating Budget</b>	<b>\$25,130,184</b>	<b>\$25,789,705</b>	<b>\$26,554,298</b>	<b>\$27,930,703</b>	<b>\$27,930,529</b>	<b>\$28,925,987</b>	<b>\$30,144,063</b>	<b>\$1,218,076</b>	<b>4.21%</b>	<b>100.0%</b>
<b>Capital Budget: Middle High &amp; Memorial School Debt</b>										
Short Term Debt/Interest	\$0	\$0	\$0	\$0	\$0	\$25,928	\$45,500	\$19,572	75.5%	
Long Term Debt/Interest	\$2,108,338	\$4,483,000	\$4,383,602	\$4,272,088	\$4,272,088	\$4,480,668	\$4,123,563	(\$357,105)	-8.0%	
Cost of BAN/Bond Issuance	\$151,820	\$0	\$53,345	\$0	\$64,362	\$0	\$0	\$0	NM	
<b>Total Capital Budget</b>	<b>\$2,260,158</b>	<b>\$4,483,000</b>	<b>\$4,436,947</b>	<b>\$4,272,088</b>	<b>\$4,336,450</b>	<b>\$4,506,596</b>	<b>\$4,169,063</b>	<b>(\$337,533)</b>	<b>-7.5%</b>	