

FY23 Tentative Budget

Presentation to MERSD School Committee

December 7, 2021

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
 - 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. aids 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

- ▶ 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).

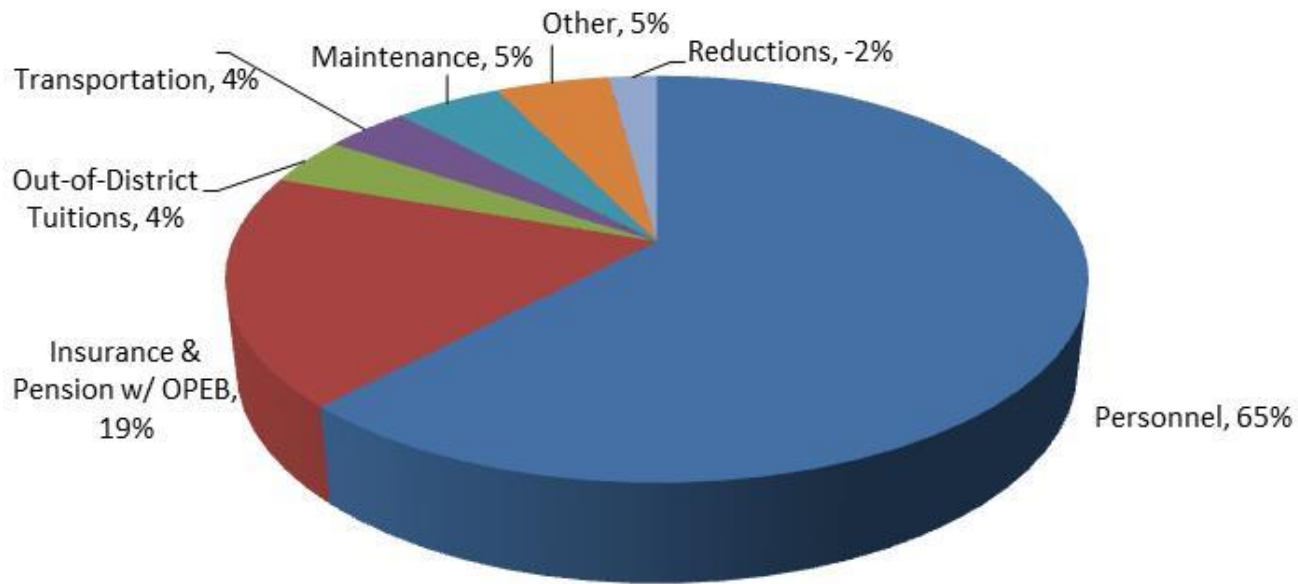
Budget Highlights: Spending Detail

	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

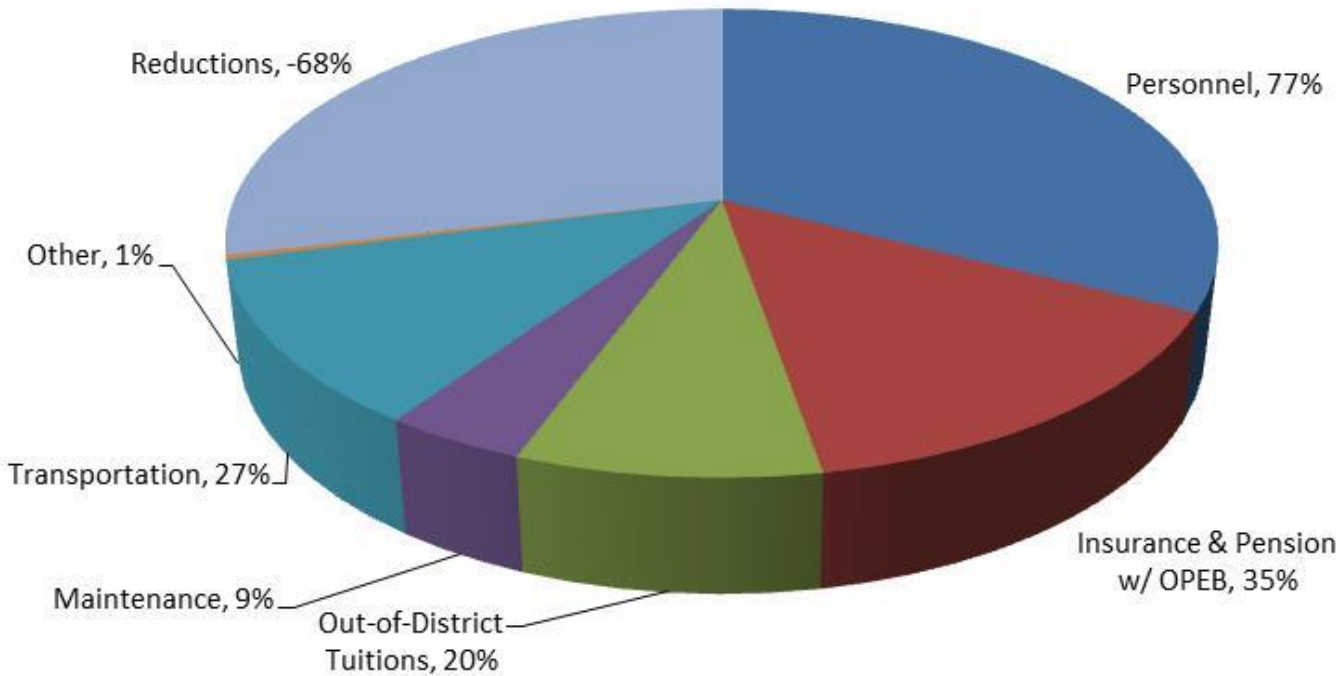
(% of Total Spending – \$28.89 million)



95% of spending from 5 categories

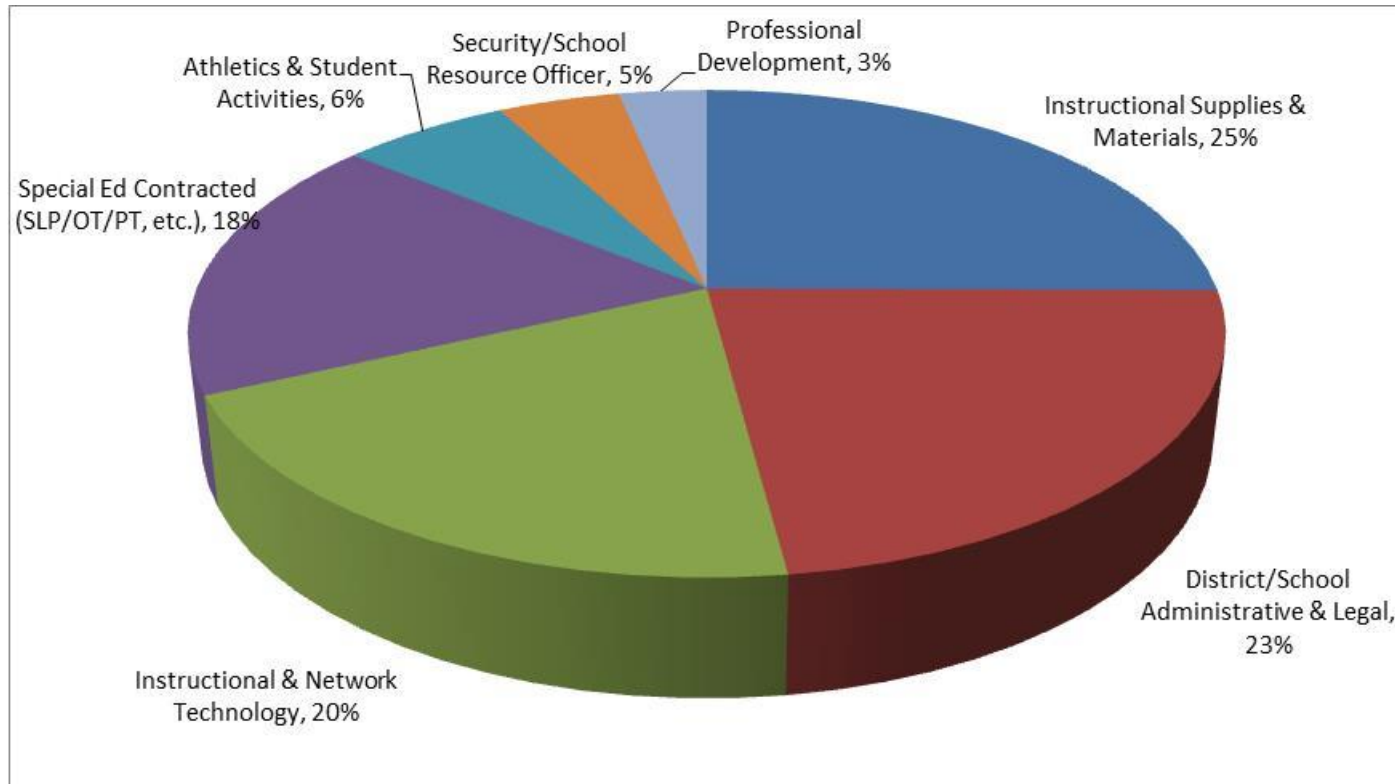
Largest Budget Drivers

(% 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*

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 \$100K
 - *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*

Closing Remaining Budget Gap

- ▶ Work has just begin on pathway to manage FY23 gap
- ▶ Initial areas for potential exploration:
 - Retiree Health Insurance: OPEB usage, plan design
 - Transportation: cost of “in-district” runs
 - Staffing: retirements, Central Office
 - Multi-year budgeting for OOD/graduations

Next Steps

▶ Public Input

- 1st FY23 Budget Hearing – December 15th @ 7:00pm
- 2nd FY23 Budget Hearing – January 25th @ 7:00pm

▶ 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