

FY23 Budget Workshop

February 1, 2022

The Problem We We're Trying To Solve

January 26, 2021

The challenge we were discussing at this time last year

- The cost of level services grows at an average 3.5-4% which is faster than 2.5%.
 - Perpetual and Structural Challenge – not a function of any single budget year
 - Level Service growth rate is suppressed annually in recognition of fiscal constraints
 - Creates a cycle of cutting to meet a specified budget number
 - Cumulative level services deficit grows over time
 - Every 7-10 years MERSD faces a financial crossroads of significant program reduction or need for an override
- We are at that crossroads in planning for FY22-24.



The Problem We We're Trying To Solve

January 25, 2022

Structural Financial Challenge Continues

+

Expanded Obligations in Health Insurance & Out of District Placements

+

Enrollment Shift Causing Apportionment Concern for Town of Essex

*MERSD must determine the direction it wants to take to balance the budget
Reserves / Reserves & Program Cuts / All Program Cuts*



MERSD Budget

- MERSD operational budget is managed to deliver a stable and predictable spending and assessment growth rate from which apportionment is factored.
- MERSD manages key drivers and wild cards to maintain the agreed upon target of 3.5% spending/assessment growth.
- The mechanics of apportionment can inflate or deflate the apportionment growth rate as town enrollments fluctuate.
- The operational budget has been historically been developed to provide level services.



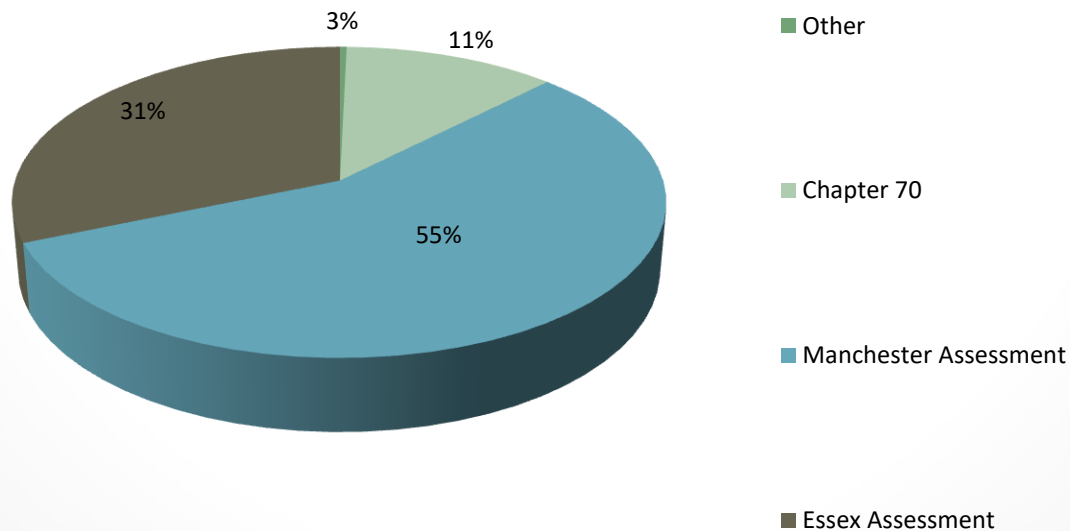
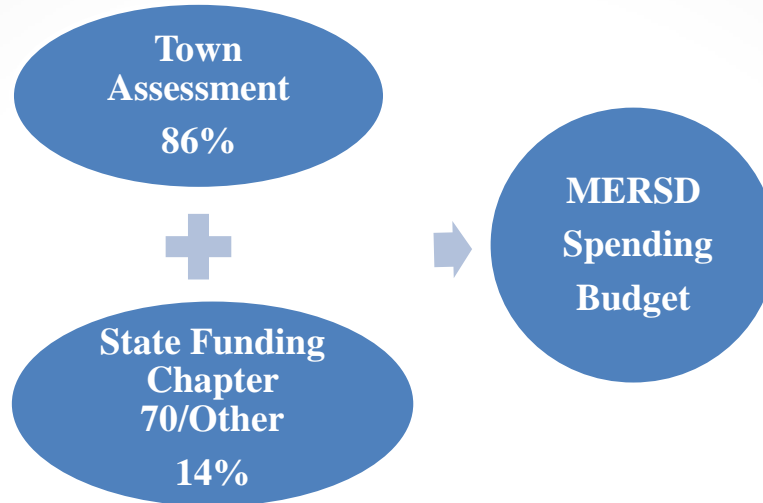
Key Terms

- Spending Growth: *percentage/\$ increase in spending approved by School Committee from one year to the next*
 - Assessment: *percentage/\$ increase in annual charge to Essex & Manchester after deducting state revenue from spending.*
 - Apportionment: *split of assessment between Essex & Manchester based on formula defined in the Regional Agreement.*
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Spending

- MERSD operational budget is managed to deliver a stable and predictable spending and assessment growth rate from which apportionment is factored.

FY21 Revenue Sources



Budget Architecture

Operating Budget

Historically funded with neutral impact to the operational budget.

Investments & Program Enhancements

Preventative Spending & Common Practices

Required Spending

Capital Budget

- Debt Service on MHS & Memorial School
- Excluded from Proposition 2 ½ limits by taxpayer vote in both Essex & Manchester
- Known/pre-fixed, multi-year payment schedule for both towns
- Structured to decline each year

FY23 Proposed Revised Budget - January

- FY23 Revised Draft Operating Budget = \$28.84 million
 - 3.25% (\$908K) spending increase from FY22 budget
 - \$435K Use of E&D Reserves to fund gap between revised budget (*below level services*) and Target Assessment to Towns
- Revised FY23 Operating Assessment Increase = 2.78%
 - Reduction of \$174K from Tentative Budget
 - Manchester 1.98% apportioned growth (*Reduction of \$107K*)
 - Essex 4.21% apportioned growth (*Reduction of \$67K*)
- FY23 Draft Capital Budget = \$4.48 million
 - Debt service for MSHS and MMES approved by voters when projects began
 - \$208.6K increase (4.9%) vs. prior year reflects new cost from 2nd round of MMES borrowing (\$3.23 million bonds)

What Has Changed Since the Tentative Budget

Reduced Spending & Reserve Use \$722K

\$548K Reduction of Reserves & \$174K Reduction to Assessment

- Revised Assumptions
 - Assumed risk for 50% of projected out of district placement (\$170K)
 - Transportation (\$30K)
 - Known Staffing Change Saving (\$57K)
- Utilize OPEB to Fund Portion of Retiree Health (\$150K)
- Utilize Stabilization to Fund Facilities Small Capital (\$53K)
- Utilized ESSER III to Fund COVID related staffing (\$122K)
 - HS Adjustment Counselor
 - IT Technician
- Service Reductions
 - Reduce Summer Work 50% - (\$30K)
 - Reinstate Monitor Staffing Level to Pre-COVID Levels (\$10K)
- Increased Revenues
 - School Choice Increase Enrollment MHS - (\$75K)
 - Fees – (\$25K)

FY23 Operating Budget Drivers

- Compensation: *\$515K (2.86%) spending growth* ↓
 - 2.5% Cost of Living Adjustment (COLA) for all district personnel, in line with FY20-FY22
- Insurance & Pension: *\$182K (3.28%) 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 due to continued rise in number insured (168 insured retirees vs. 166 active) funded via OPEB contribution
- Out-of-District (OOD) Tuition/Transportation: *\$205K (15%) spending growth* ↓
 - 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

	Budget Reductions FY18 - FY22				
	FY18	FY19	FY20	FY21	FY22
	<i>28% Insurance Rate Increase After Budget Adoption Assessment 3.2%</i>	<i>16% Insurance Rate Increase Assessment 3.29%</i>	<i>Level Service Assessment Target 3.5% Assessment 2.85*</i>	<i>Level Service Assessment Target 3.5% Assessment 3.18%</i>	<i>Level Service Assessment Target 3.5% Assessment 3.5%</i>
Staff & Program Reductions	\$0	\$414,500	\$125,000	\$133,500	\$50,000
Staff Reduction through attrition (equivalent 5.5 FTE)		\$354,000	\$125,000		
HS Student Activity Cut		\$20,000			
Curriculum/PD Small Cap Reduction		\$20,000	\$0		
Full Day K on Wednesdays/Eliminate Transportation Cost		\$8,000	\$0		
Eliminate Crossing Guard Fund		\$4,500	\$0		
Retirement Replacement Offset		\$5,000		\$133,500	\$50,000
Reduce Nurse Substitute Line		\$3,000			
Operational/Process Changes	\$195,000	\$244,500	\$240,000	\$85,000	\$65,000
Implement M5 Hire Cap	\$65,000	\$65,000	\$65,000	\$65,000	\$65,000
Reduce Building Based Expenses	\$40,000				
Cut Small/Cap Annual Budget	\$40,000	\$40,000			
Defer EERB Pension Repay Set-Aside	\$50,000	\$50,000			
50% Reduction Overtime/Summer work - all departments		\$60,000			
Partial Reduction Late Bus Services		\$5,000		\$20,000	
IDEA Grant Reorganization		\$17,000			
Reduce Custodial Supply Line		\$7,500			
Health Care Restructure - Intro HRA			\$175,000		
Alternative Revenue Sources/Offsets	\$215,000	\$20,000	\$200,000	\$0	\$35,000
Tuition Prepay - FY17 Reserves	\$150,000				
School Choice Revenue Increase	\$15,000				
Solar Savings		\$10,000			
Essex Green Grant Upgrades		\$10,000			
Reduce OOD / Tuition Prepay	\$50,000		\$200,000		
Kindergarten Revolving Fund					\$35,000
Reduction	\$410,000	\$679,000	\$565,000	\$218,500	\$150,000
Direct Reserve Usage (E&D)			\$100,000	\$335,000	\$335,000
Total Budget Reduction to Achieve 3.5 Assessment Target	\$410,000	\$679,000	\$665,000	\$553,500	\$485,000
				\$2,792,500	

*After budget reserve usage to assist TOE with unanticipated OSHA expenses

Options for Reducing the Budget

- Annual Target Assessment Rate 3.5%
- Current Assessment Rate = 2.78%
- TOE requests further reduction to reduce apportionment to 3.5%
- Requires an additional \$170K in reductions/reserve use
- Cutting the district budget to address a town apportionment target requires the district to cut 3X the amount requested
- Ex. *Town wants to reduce its apportionment cost by \$50K the district needs to cut \$150K so the town target is met after apportionment.*

FY23 Budget	Current Gap Target = \$170K
Assumptions Revisions	\$0
Watching Health Care - No Change could by +/- 3pts	
Operation Reductions	\$105,000
Continued Bus Run Reduction	\$50,000
Eliminate Late Bus	\$20,000
Potential Staffing Tide Savings	\$35,000
Staffing and Program Reductions <i>(Staff reductions to be taken by attrition if possible)</i>	\$185,000
Elem. Classroom Teacher <i>(enrollment class size / attrition if possible)</i>	\$85,000
Eliminate Elem. Foreign Lang Exploratory K-6 <i>(begin program Grade 7)</i>	\$65,000
Move Instrumental Music Lessons to Fee for Service <i>-Reduce .7 FTE</i>	
<i>-Move instrumental music lessons to fee-based after-school</i>	\$35,000
Restructuring	\$95,000
Restructuring of Elementary Intervention Model <i>-Reduce 1.2 TAs / 1Tutor</i>	<i>\$70,000</i>
Study K-12 Administrative and Central Office Restructure <i>-Cont. w/ Interim CIT FY23</i> <i>-CO Admin Support Proposal 3/22 for implementation in FY23</i> <i>-K-12 Inst Leadership Proposal by 12/22 w/ implementation plan</i> <i>-Initial Est. Short Term Savings</i>	<i>\$25,000</i>
Previous Reductions/Offsets/Reserves & Fees	\$722,000
Total Reductions from Tentative Budget	\$1,107,000

Beyond the Budget

~ Explore potential of expansion of regionalization/union w/ Cape Ann neighbors

*

Concerns/Considerations

- Enrollment Impact
 - Elementary Class Size will potentially be over benchmark at two – three grade levels depending on summer enrollment
 - Would mean accepting class sizes around 22-25 at upper elementary
- Reduction of Elementary FL
 - Elimination of exploratory program
 - No current data to support keeping or elimination
 - Reassignment of staff/bumping
 - Reduction of collaboration time for classroom teachers
- Move Instrumental Music Lessons to Fee-Based After School Program
 - .7 FTE current dedicated to instrumental lessons and after-school chorus
 - Exploratory program for interested students
 - Students are pulled from class instruction to participate in lessons
 - Concern that after school program will reduce number of students participating in band
 - As a fee based program it could be expanded to offer lessons the MS students
- Restructuring Opportunities
 - Lose potential for generating dollars to address
 - end of ESSERIII
 - additional mandated costs
 - and/or investment in new or expanded programs

Concerns/Considerations

- The total cuts/reserves/offsets liability is \$985K
 - This will be the baseline number for an override in FY24 (Spring '23) before the key driver costs are accounted (ex. Health Care / OOD)

- Budget is 80% people and benefits
 - Reductions will need to come from these areas
 - Programs = people (minimal costs to supplies)

- If a revenue correction is unsuccessful...
 - Reserve usage would carry us for one to two years with some additional cuts if we defer field replacements until operational budget is stabilized and reserves replenished
 - A budget reduction of \$900-\$1.2M would require 11.5-14 FTE (*factoring based on the average teacher salary*)
 - It would likely mean more individuals when reductions are spread across employment groups and unemployment costs are assessed (est. 20-30% of personnel cut / ex. \$200K additional cuts for \$1M in personnel cuts)

Projected Reserve Usage – 3 Year Outlook

		Reserves @ Glance				
		Excess & Deficiency	School Choice	Stabilization	Facilities Revolving	Total Reserves
FY21 Usage						
	Operations	\$335,000				
	COVID Costs (after federal funding)		\$200,000			
	EES Technology			\$128,000		
	Essex Playground			\$291,000		
<i>FY21 Ending - Unaudited</i>		<i>\$1,296,391</i>	<i>\$1,404,288</i>	<i>\$552,201</i>	<i>\$253,943</i>	<i>\$3,506,823</i>
FY22 Usage						
	Operations	\$335,000				
	Essex Playground			\$33,000		
	Security, Technology & Fiber			\$199,000		
				\$600,000		
	Hyland Field Replacement			<i>Defer to '24</i>		
FY23 Usage						
	Operations	\$435,000				
	EES Back-Up Boiler			\$100,000		
				\$600K		
	Brook Street**			<i>Defer to '24</i>		
	MHS Carpeting (Auditorium & Pods)			\$90,000		
Account Totals		\$526,391	\$1,404,288	\$130,201	\$253,943	\$2,314,823

****Brook Street Field Replacement shared with Town of Manchester**

Tentative Budget Slides

FY23 Tentative Budget Operating Budget

- 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 \$983K 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
 - New gap for FY-23 is \$648K
- 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, new 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), new 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

COVID Spending

- COVID spending charged initially to MERSD reserves to avoid special town assessment.
- As federal reimbursements are received, reserves are replenished
- \$1.8 million total spend to date vs. \$1.6 million anticipated funding

REVENUE SOURCES				COVID SPENDING					
Grant Name	Confirmed	Potential		Facilities	Food Service	Instructional Technology	Staffing	Total	Future Spend
ESSER I	\$54,198					\$54,198		\$54,198	
RLTE	\$45,250					\$45,250		\$45,250	
CvRF	\$303,300					\$303,300		\$303,300	
ESSER II	\$206,931						\$206,931	\$206,931	
Coronavirus Prevention	\$45,050						\$45,050	\$45,050	
ESSER III	\$442,591					\$42,221	\$319,690	\$361,911	\$80,680
FEMA Revisited		\$118,889		\$118,889				\$118,889	
Essex Town CARES	\$146,796			\$46,295	\$82,391	\$18,110		\$146,796	
MBTS Town CARES		\$265,000		\$75,375	\$34,623	\$155,001		\$265,000	
"New" FEMA		\$68,521		\$68,521				\$68,521	
Unreimbursed CARES (funded by MERSD Reserves)				\$64,384		\$68,210	\$75,000	\$207,594	
Total	\$1,244,116	\$333,521	\$1,577,637	\$373,464	\$117,014	\$686,290	\$646,671	\$1,823,440	

FY23 Operating Budget Drivers at Tentative

- 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 at Tentative

- FY23 Draft Operating Budget = \$29.54 million
 - 5.75% (\$1.61 million) spending increase from FY22 budget
 - \$983K gap between Level Services and Target Assessment to Towns of 3.5%
 - Prior Tentative Budget gaps: \$611K FY22, \$430K FY21, \$380K FY20, \$900K FY19
 - Spending growth driven by OOD tuition/transportation, 1:1 aides, and insurance
- Preliminary FY23 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.
- FY23 Draft Capital Budget = \$4.48 million
 - Debt service for MSHS and MMES approved by voters when projects began
 - \$208.6K increase (4.9%) vs. prior year reflects new cost from 2nd round of MMES borrowing (\$3.23 million bonds)

Background & History Slides

MERSD Budget

- MERSD operational budget is managed to deliver a stable and predictable spending and assessment growth rate from which apportionment is factored.
- MERSD manages key drivers and wild cards to maintain the agreed upon target of 3.5% spending/assessment growth.
- The mechanics of apportionment can inflate or deflate the apportionment growth rate as town enrollments fluctuate.
- The operational budget has been historically been developed to provide level services.



Stable & Predictable Spending and Assessment Growth

Spending & Assessments have been stable over time

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

Level Service Reductions are an annual step in budgeting

Reductions to Close Annual Gap			
FY 18	FY 19	FY 20	3 Yr. Total
\$410,000	\$679,000	\$565,000	\$1,654,000

Reserve Funds provide temporary bridge prior to eventual correction

- Potential for 80% reduction by FY23 (\$3.4 Million)

Key Drivers

Personnel - 65% of spending

- Stable FTE
- Managed to align with spending/assessment targets:

META COLA since 2005

2.11% 18-Year Average

2.03% 10-Year Average

w/est. 1.5%

for Step/Column

3.61%

3.53%

Key Drivers (contd.)

- Insurance & OPEB Trust – 20% of spending
 - Industry growth of 6-8%/yr. does not align w/assessment targets
 - Ongoing negotiation of MERSD benefits to match external comparable
 - Changes in MERSD contribution rate:
 - FY09 – moved from 85% to 80%
 - FY16 – moved to 75% with new hires at 70%
 - Changes in plan design:
 - Introduced \$1K/\$2K deductibles in FY20
 - 10% premium savings with employer funded HRA

HRA	Annual MERSD Contribution		
	Total	75%	70%
Individual	\$10,421	\$7,816	\$7,295
Family	\$28,138	\$21,104	\$19,697

Key Drivers (contd.)

OPEB (Other Post-Employment Benefits)

- OPEB = Retiree Health Care, mandated by statute
 - 164 insured retirees now > 159 insured active employees
 - 12% annual growth over past 5 years
 - \$3.5 million contributions funded in partnership with META via negotiated changes to health plans
 - Annual OPEB = 96.48% of actuarially determined annual contribution to achieve full funding

	% of		Employer		% of		
	Heads	Heads	Contr. %	FY21 Cost	Cost	Per Head	
Grandfathered Plan	25	15%	80%	\$451,669	43%	\$18,067	<i>No longer available to new retirees</i>
Active Employee HRA	8	5%	75%	\$124,471	12%	\$15,559	<i>For new retirees prior to Medicare eligibility</i>
Medicare Plan	131	80%	80/75%	\$464,218	45%	\$3,544	
	164	100%		\$1,040,358	100%	\$6,344	

Key Drivers (contd.)

Out of District Tuition & Transportation – 5.2% of Budget

- Special Education IDEA – Federally Mandated Obligations and Associated Costs / Required but Variable
- Much smaller in total size but can grow beyond the limits of Proposition 2.5.
- Changes in placements for move-ins difficult to predict
- Several students with mandated placements > \$100K annually per student.
- Investment in district based programming (staffing) to meet students need and manage OOD costs
 - MERSD's in-district programs offset potential spikes in costs, saving more than \$1.5 million annually.

Assessment

- MERSD manages key drivers and wild cards to maintain the agreed upon target of 3.5% spending/assessment growth.

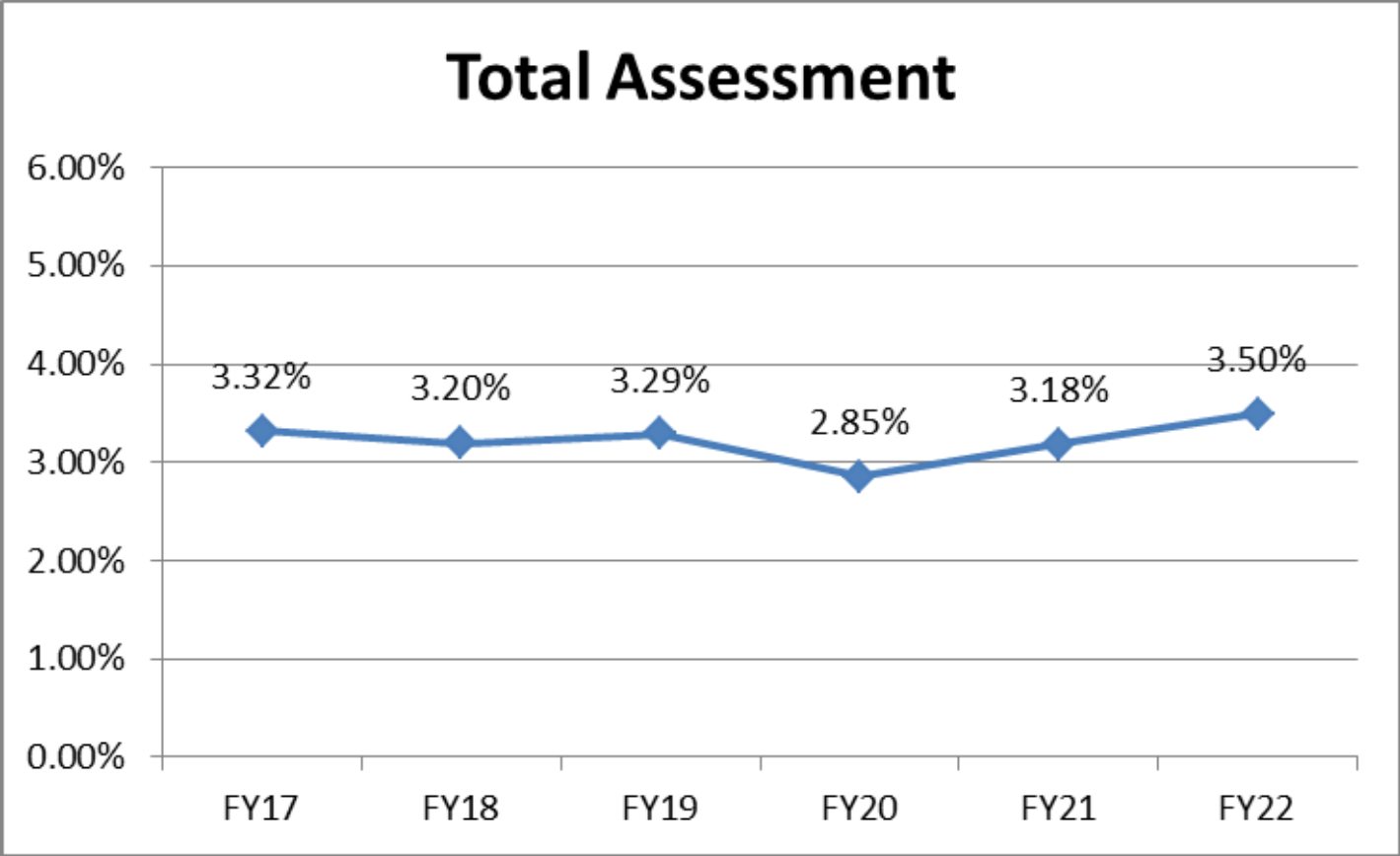
Multi-Year Budget

	2.5% COLA	Actual	Actual	Budget	Budget	Forecast 1	Forecast 2	Forecast 3	Forecast 4
(\$ in 000)		FY-19	FY-20	FY-21	FY-22	FY-23	FY-24	FY-25	FY-26
Personnel		\$16,308	\$16,805	\$17,372	\$17,984	\$18,643	\$19,327	\$20,036	\$20,772
Yr/Yr Growth		1.54%	3.05%	3.37%	3.53%	3.66%	3.67%	3.67%	3.67%
All Other Operating Expenses		\$8,952	\$9,207	\$9,769	\$10,271	\$10,789	\$11,334	\$11,914	\$12,532
Yr/Yr Growth		3.09%	2.85%	6.11%	5.15%	5.04%	5.05%	5.12%	5.18%
Total Spending		\$25,260	\$26,012	\$27,141	\$28,256	\$29,432	\$30,661	\$31,950	\$33,304
Total Growth		2.08%	2.98%	4.34%	4.11%	4.16%	4.17%	4.20%	4.24%
State Aid		\$3,130	\$3,119	\$2,896	\$3,191	\$3,247	\$3,303	\$3,361	\$3,420
Yr/Yr Growth		2.1%	-0.3%	-7.1%	10.2%	1.75%	1.75%	1.75%	1.75%
Fees & Other		\$116	\$105	\$120	\$120	\$131	\$131	\$131	\$131
Yr/Yr Growth		-31.9%	-9.7%	14.4%	0.0%	10.0%	0.0%	0.0%	0.0%
S. Choice: Annual Revenue		\$325	\$325	\$325	\$325	\$325	\$325	\$325	\$325
Yr/Yr Growth		8.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Reserves: Choice, E&D		\$0	\$100	\$335	\$335	\$595	\$885	\$1,205	\$1,555
Yr/Yr \$ Growth		\$0	\$100	\$235	\$0	\$260	\$290	\$320	\$350
Yr/Yr % Growth				235%	0%	78%	49%	36%	29%
Town Operating Assessments		\$22,111	\$22,742	\$23,465	\$24,286	\$25,134	\$26,016	\$26,928	\$27,872
Yr/Yr Growth		3.29%	2.85%	3.18%	3.50%	3.50%	3.51%	3.50%	3.51%
Total Revenue		\$25,682	\$26,390	\$27,141	\$28,256	\$29,432	\$30,661	\$31,950	\$33,304
Total Growth		2.97%	2.76%	2.84%	4.11%	4.16%	4.17%	4.20%	4.24%
Assessment Growth		\$704	\$631	\$723	\$821	\$849	\$882	\$911	\$945
Assessment Growth %		3.29%	2.85%	3.18%	3.50%	3.50%	3.51%	3.50%	3.51%

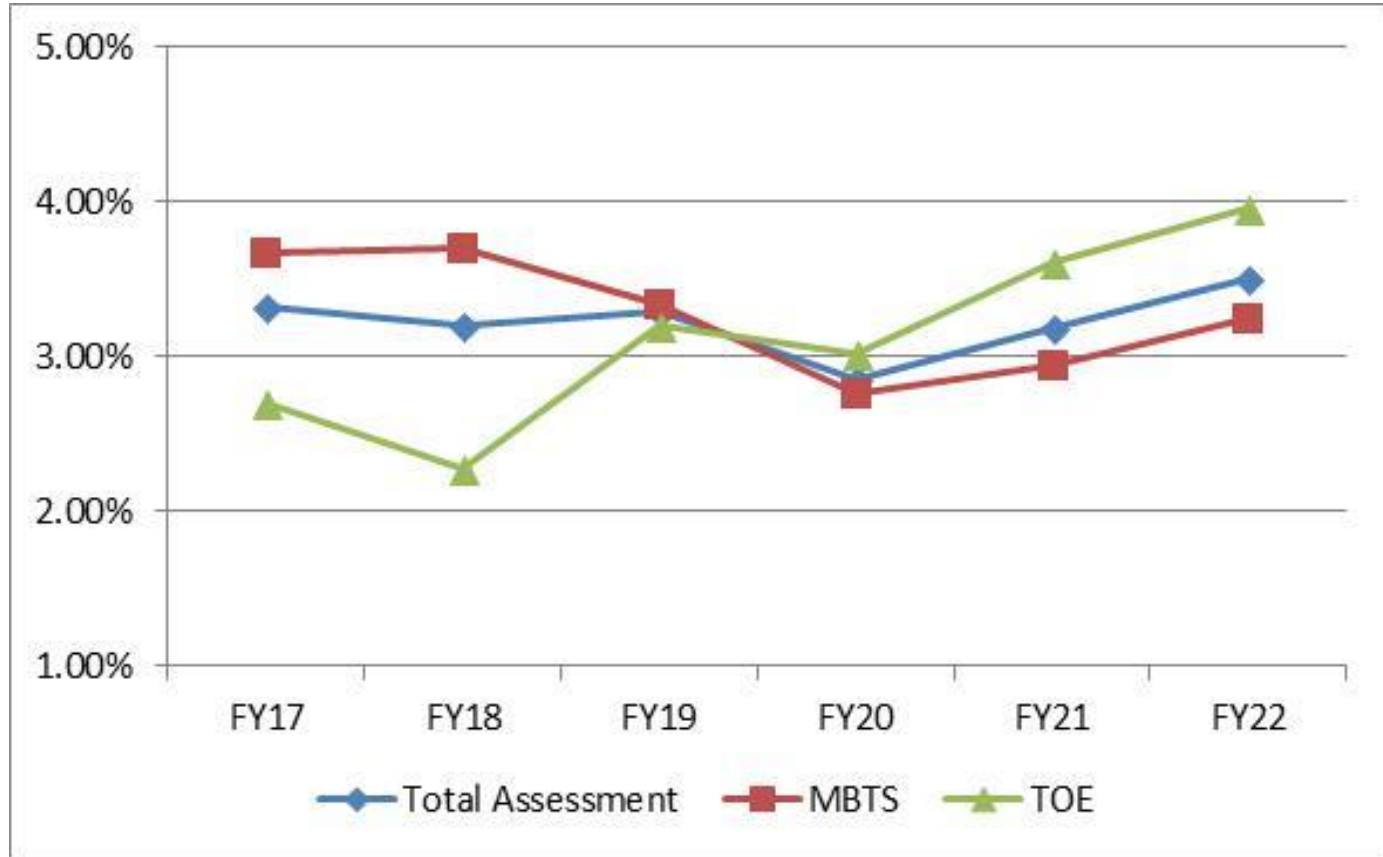
Apportionment

- The mechanics of apportionment can inflate or deflate the apportionment growth rate as town enrollments fluctuate.

Assessment Prior to Apportionment is Stable



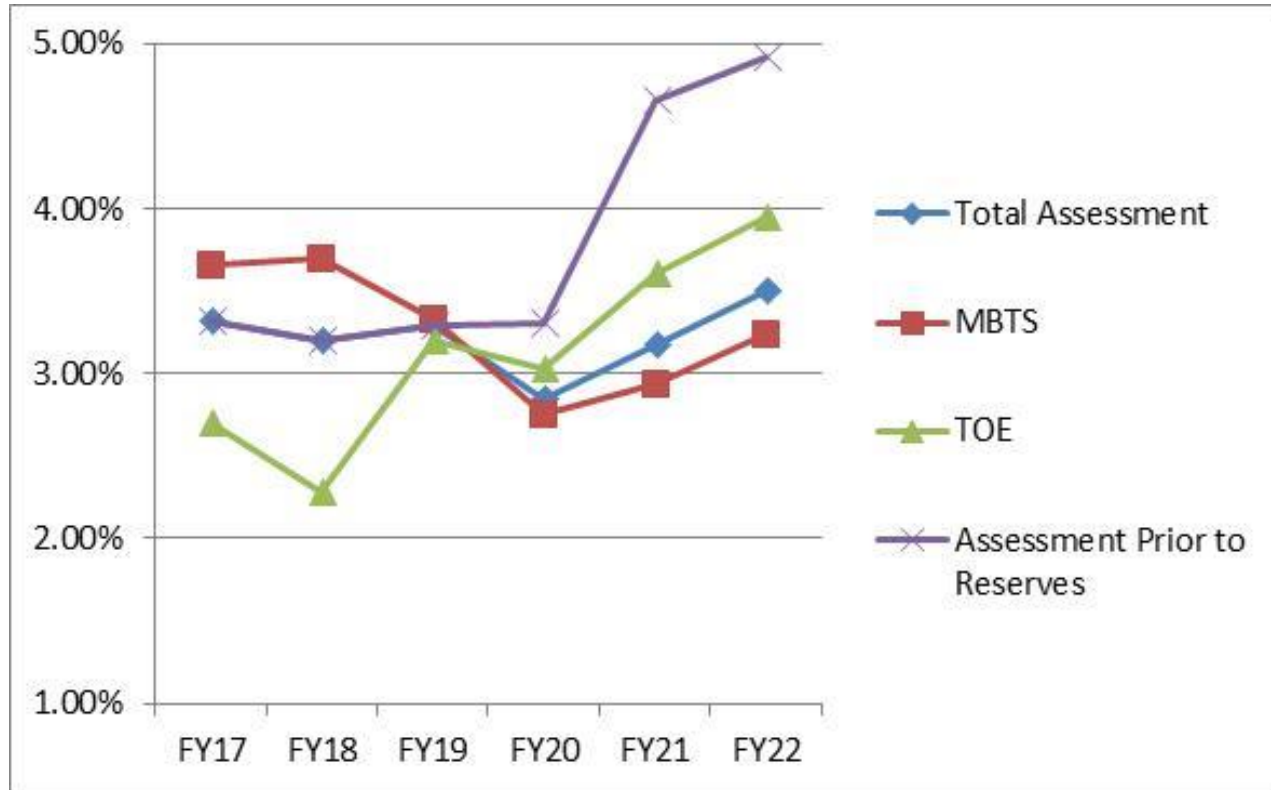
Apportionment Volatility Has Impacted Both Towns at Different Times



Apportionment Over/(Under) Total Assessment

	FY17	FY18	FY19	FY20	FY21	FY22	Cumulative
MBTS	\$44,509	\$67,750	\$6,434	(\$13,494)	(\$34,819)	(\$38,281)	\$32,098
TOE	(\$44,509)	(\$67,750)	(\$6,434)	\$13,494	\$34,819	\$38,281	(\$32,098)

Level Services Cuts and Reserve Use Reduce Total Assessment



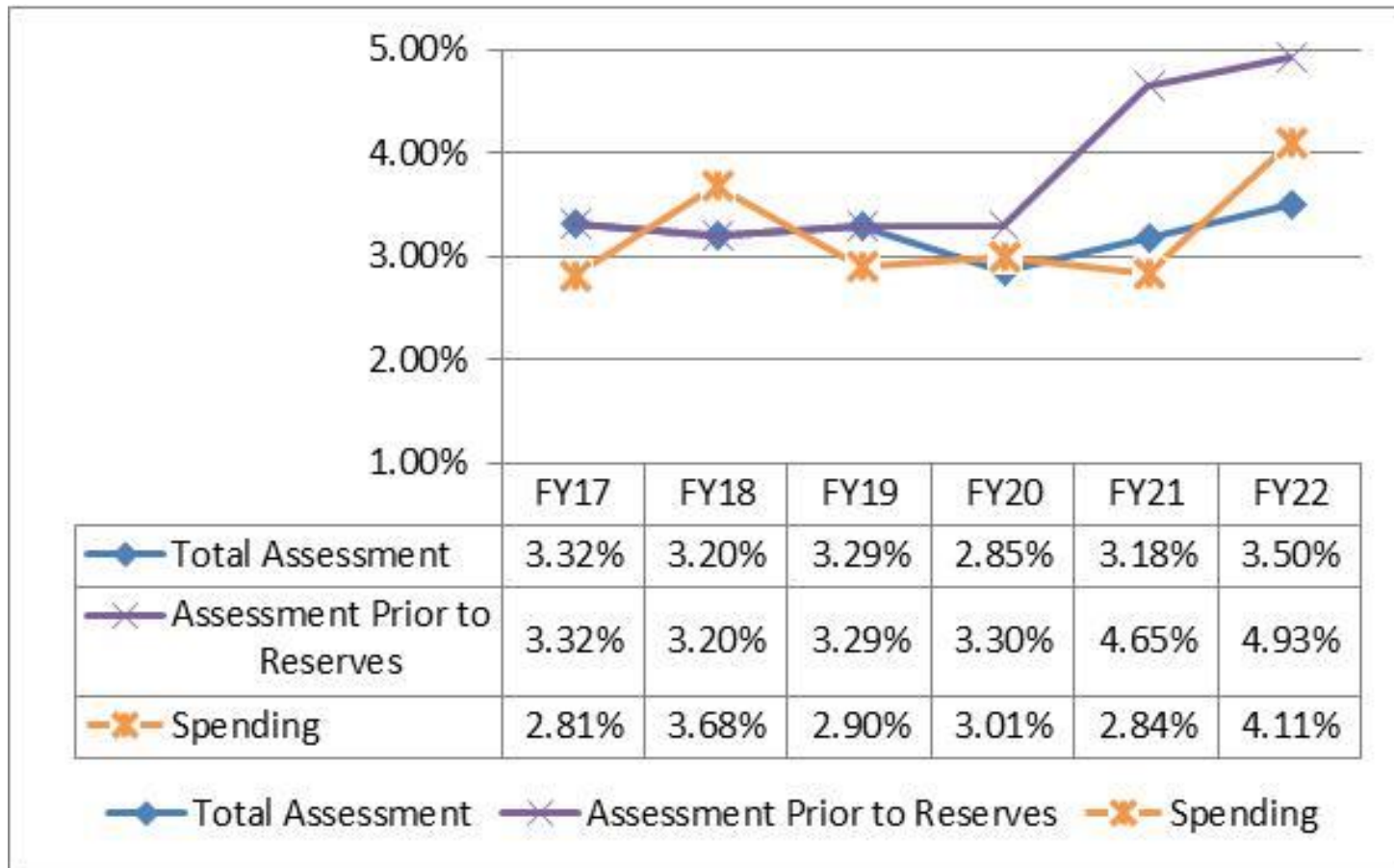
Apportionment Over/(Under) Total Assessment

	FY17	FY18	FY19	FY20	FY21	FY22	Cumulative
MBTS	\$44,509	\$67,750	\$6,434	(\$13,494)	(\$34,819)	(\$38,281)	\$32,098
TOE	(\$44,509)	(\$67,750)	(\$6,434)	\$13,494	\$34,819	\$38,281	(\$32,098)

MERSD Reserve Contribution

\$0	\$0	\$0	\$100,000	\$335,000	\$335,000	\$770,000
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Revenue Problem \neq Spending Problem



- Although assessment prior to reserve use would approach 5% spending range has been lower/with target range
- FY22 School Committee voted to stop cutting program below level services

FY23 Budget Details

Revenue @ Tentative

- 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).

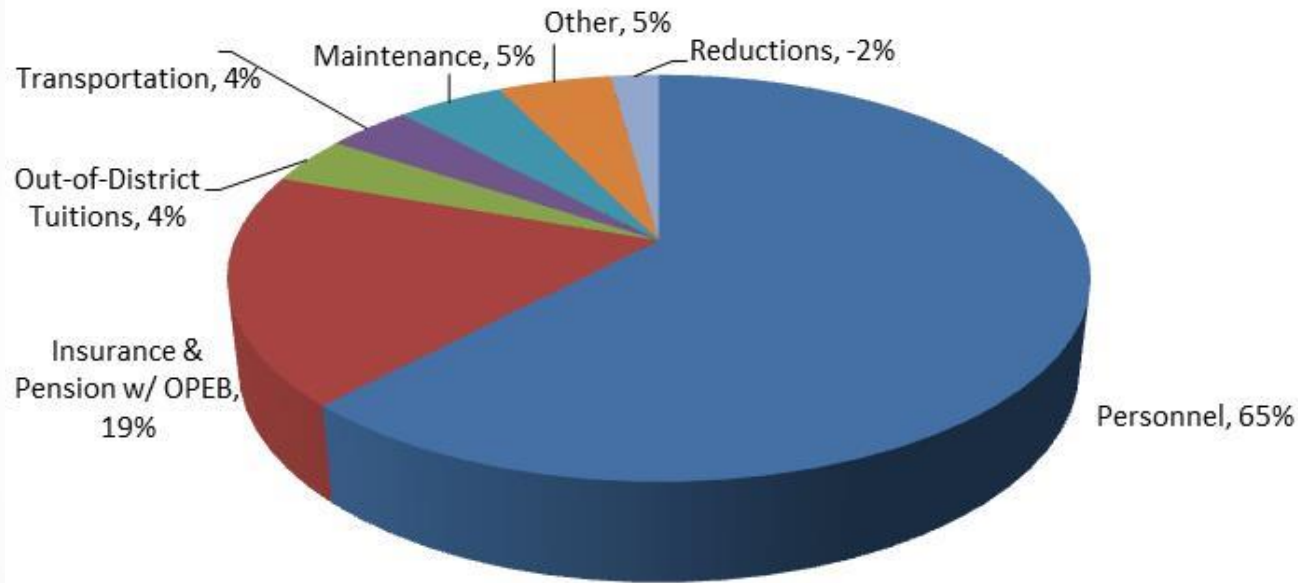
Budget Highlights: Spending Detail

	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

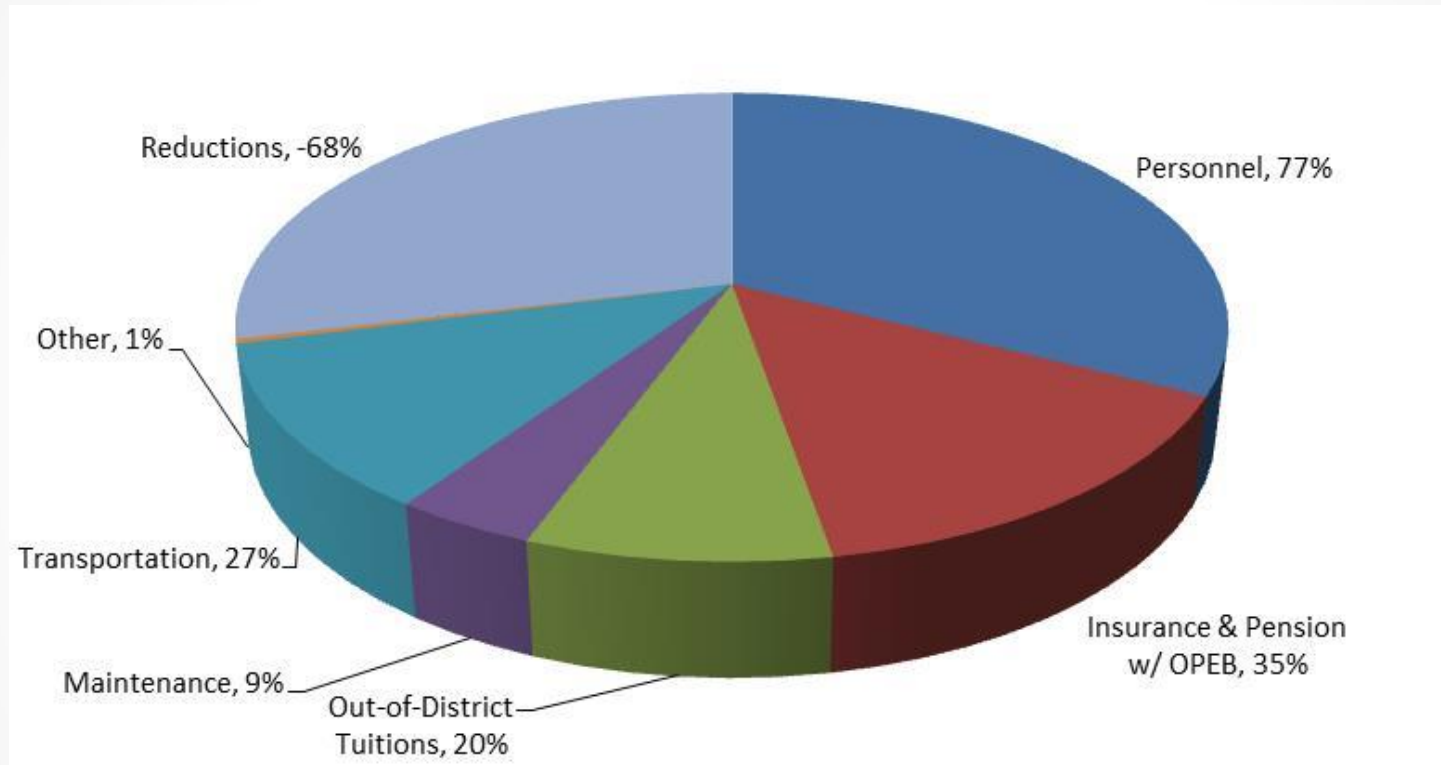
(% of Total Spending - \$28.89 million)



95% of spending from 5 categories

Largest Budget Drivers

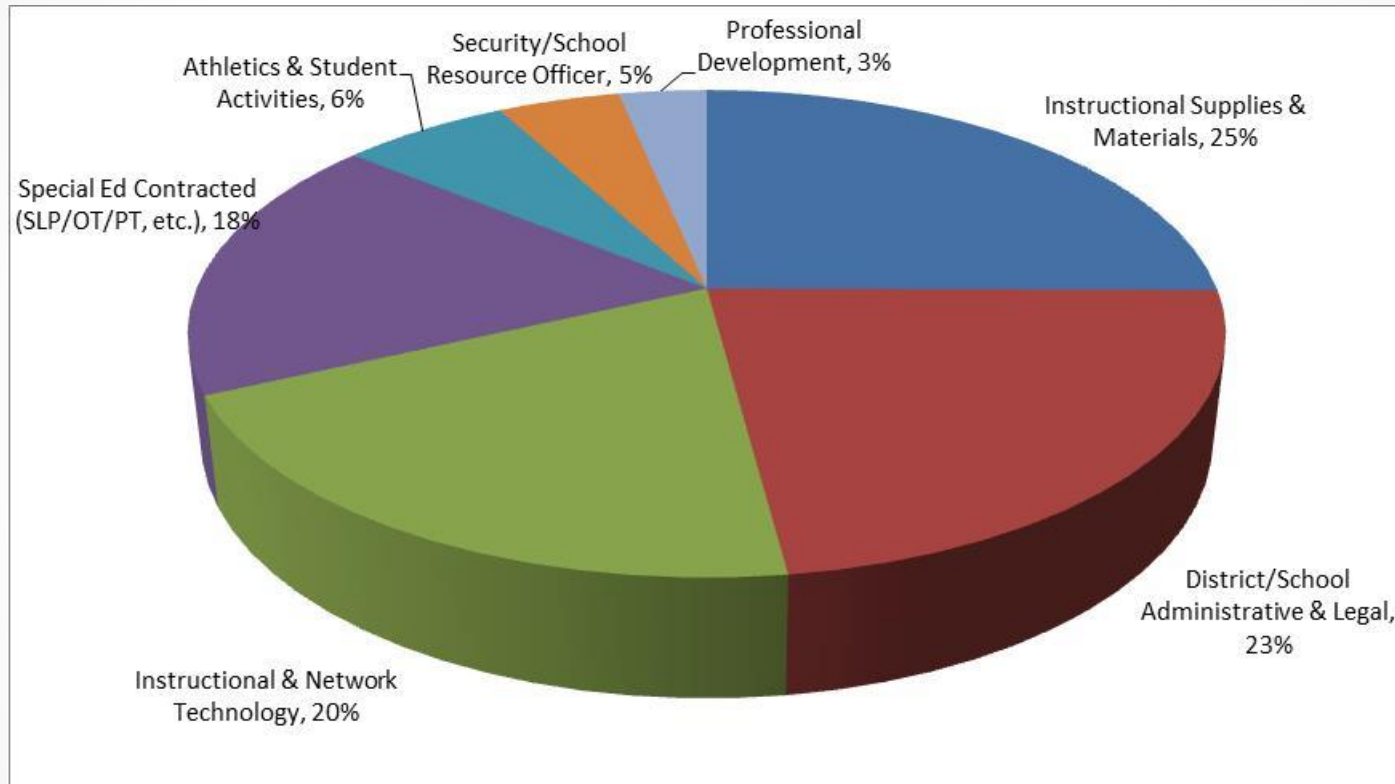
(% of \$957K budget increase)



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

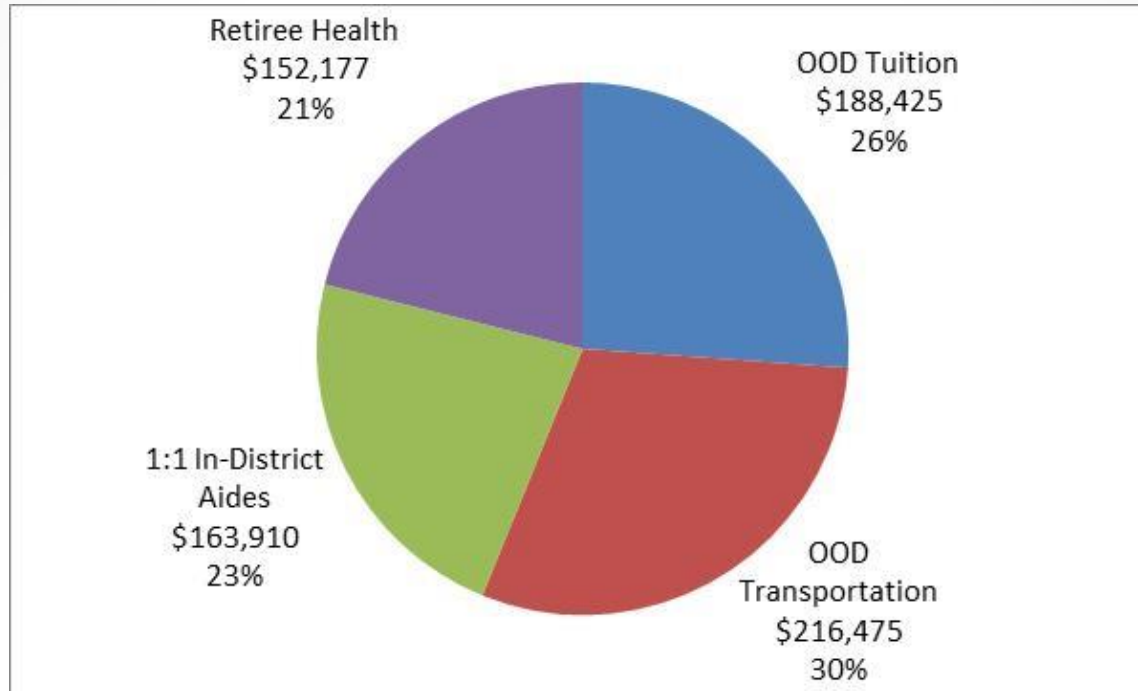
Composition of "Other" Expenses

(\$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*

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

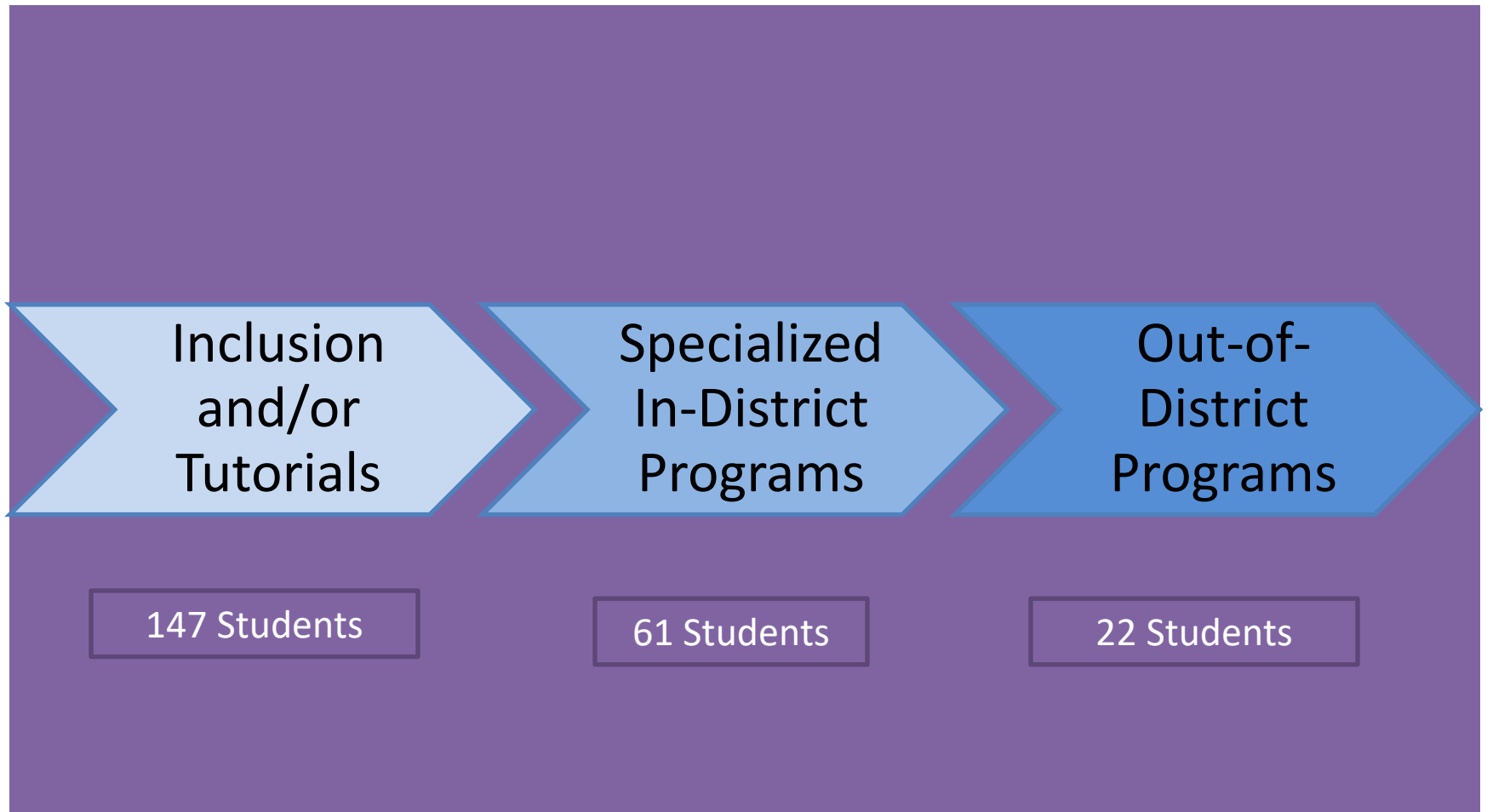
OOD Funding Sources/Strategies

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

Special Education

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					
	Teaching	Instructional	Transp.	Mass. Public	Mass Private		Spending from	Special Ed		Percentage of				
				Schools and	and Out-of-State		Grants	Expenditures	Total	Total Expenditures				
				Collaboratives	Schools	Transportation	and Revolving Funds	(sum of C through J)	Expenditures	(K as % of L)	OOD Cost	In-District Cost	OOD Heads	Enrollment
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/Masconomet											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			

Capital & Essex Building Project Planning

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	

Hypothetical EES Timing Scenarios

	Fast Track	6-Yr Delay
Apply to MSBA	2023	2029
Feasibility	2025	2031
Towns Vote	2026	2032
Construction Begins	2027	2033
Construction Ends	2029	2035
LT Debt Begins	2030	2036
Borrowing Ends	2059	2065

- Fast Track: apply to MSBA immediately after MMES concludes
- 6-Yr Delay: align EES project with expiration of MS/HS debt
- Inputs/Assumptions:
 - EES built 1957
 - 2.5% construction cost escalation per year
 - Feasibility funded via reserves, 3-way share (same as MMES)
 - MMES/EES borrowing:
 - 67% MBTS/33% TOE apportionment
 - 3% BANs during construction
 - 5% Level Payment, 30-Year Bonds after construction

3 Potential EES Scenarios

- Fast Track:
 - Annual debt increases to 3x current in 2028-2034 when MSHS debt expires
 - 2.5x thereafter
- 6-Year Delay
 - Only 2 LT debt projects in any year (2.5x current)
 - Rely on MERSD reserves to address facilities as they arise
- 6-Year Delay w/Committed Transition \$\$
 - Assess towns upfront for limited, targeted short-term capital investment to sustain EES in interim
 - Based on Habeeb report w/updated inputs as needed
 - Potential investment areas:
 - Educational: Tech, Furniture/Fixtures
 - Facilities: Security, HVAC, Roof/Envelope, Site

Reference

Where We Are & Where We Are Going

Spending & Assessments have been stable over time

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

Level Service Reductions are an annual step in budgeting

Reductions to Close Annual Gap			
FY 18	FY 19	FY 20	3 Yr. Total
\$410,000	\$679,000	\$565,000	\$1,654,000

Reserve Funds provide temporary bridge prior to eventual correction

- Potential for 80% reduction by FY23 (\$3.4 Million)

Regional Agreement

- Governance Document
- Establishes Budget Timeline & Apportionment Formula
 - School Committee Approves Detailed Budget
 - Town Meeting Approves Assessment
- References Lease Agreements for Facilities by Town

See MERSD Budget Documents for Apportionment Formula

Budget Timeline

November/December

- District-Town collaboration meetings
- Schools and departments submit budgets
- District formulates tentative budget
- Superintendent's budget is presented to School Committee for review, revision, and adoption
- Public Hearing held to solicit community feedback on School Committee's adopted Tentative Budget

January/February

- School Committee and leadership team revise budget to meet assessment goals established through District-Town collaboration meetings
- A second public hearing is held to solicit feedback on final budget proposal
- Final budget is adopted and submitted to towns

March

- School Committee and leadership team monitor and refine budget variables
- Attend Town board meetings to seek support for budget requests

April/May

- Budgets are presented and voted on at Town Meeting
 - ▶ Manchester: April 2020
 - ▶ Essex: May 2020

Comparable Per Pupil Expenditures

High Performing Districts	PPE 2019
Weston	\$25,846
Lincoln-Sudbury	\$22,772
Wellesley	\$21,016
Newton	\$20,220
Bedford	\$19,925
Brookline	\$20,543
Lexington	\$18,687
Wayland	\$19,443
Hamilton-Wenham	\$19,438
Westwood	\$19,378
Sharon	\$17,262
Harvard	\$20,910
Average	\$20,453
MERSD	\$18,837

Cape Ann	PPE 2019
Rockport	\$20,826
Hamilton Wenham	\$19,438
Gloucester	\$17,212
MERSD	\$18,837

- Personnel & Collaborative Bargaining Agreement
 - Interest Based Bargaining (IBB)
 - Financial Sustainability Framework / Prop 2.5
 - Comparable Teacher Compensation

Cape Ann Region	
Salem	11
Masconomet	15
Lynnfield	31
Newburyport	87
MERSD	88
Gloucester	95
Boxford	96
Danvers	99
Hamilton- Wenham	107
Topsfield	116
Swampscott	119
Winchester	138
Amesbury	161
Triton	163
Ipswich	179
Beverly	199
Rockport	234

Boston Magazine Top 10 Districts	
School District	Avg. Teacher Salary
Dover-Sherborn	\$97,806
Concord-Carlisle	\$107,527
Weston	\$105,592
Lexington	\$88,142
Wayland	\$97,121
Westford	\$87,194
Newton	\$86,724
Wellesley	\$97,301
Sharon	\$93,161
Average	\$95,619
Median	\$97,121
MERSD	\$84,460
STATE TOTALS	\$81,496

