

FY26 Proposed Budget

January 21, 2025



FY26 Proposed Budget

Due to the combined multi-year impact of reserve use to offset the growth rate, inflation, and contractual obligations, we are unable to propose a carry forward/level service budget for FY26.

FY26 Proposed Budget

FY26 Proposed Budget = \$32,397,588 million

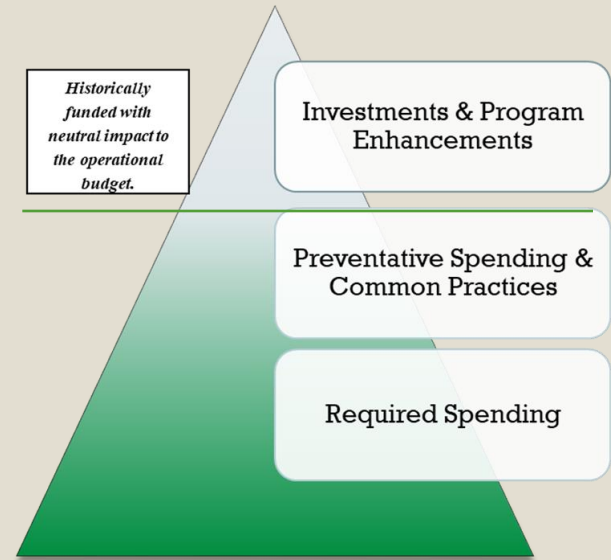
- 5.42% increase from FY25 budget

FY26 Operating Assessment = 4.93 %

- Manchester: 4.48% / \$731,623 apportioned growth
- Essex: 5.68% / \$561,395 apportioned growth

FY26 Draft Capital Budget = \$3,955,014 million

- Debt service for MSHS and MMES approved by voters when projects began
- \$107,749 decrease (2.7%) vs. prior year
- BAN Renewal in February will impact final capital budget number



FY26 Proposed Budget

- Budget Summary
 - Tentative budget assumptions have been refined based on information available as of 1/15/25. *Changes outlined in budget memo.*
 - Healthcare Costs:
 - A projected 24% increase in healthcare costs has been partially addressed by budgeting for a 10% increase, representing a high typical year of growth.
 - The remaining 14% increase is isolated for separate consideration, in response to discussion at the School Committee meeting on 7/21/25.
 - A best-case renewal rate of 15% would still require an additional funding allocation of \$205,585. A chart outlines funding needs at various renewal rates.
- The proposed budget includes:
 - \$150,000 additional E&D reserves over FY25 (Total: \$500K)
 - \$100,000 additional choice revenue over FY25
 - \$150,000 carryforward usage of OPEB reserves to reduce the cost of retiree health care

FY26 Proposed Budget

- While this budget iteration does not meet carry/level service objectives, it avoids cuts to the educational program or educator staffing.
 - A reduction in two administrative positions will allow the preservation of two full-time teaching positions which will be reallocated from the high school to high-need areas:
 - Memorial School class sizes
 - Middle school world language programs
 - Staffing reallocations assumed will result in a reduction of 9-12 sections which will impact scheduling and high school class size.
 - Achieving an aligned Middle High School schedule will mitigate this slightly, allowing the principal to share world language staff between levels.

Potential Health Care Obligation Above 10%		
Health Care Increase Included in FY26 Proposed		
Budget	10%	
Current Health Care Renewal Projection	24%	
Differential		
<i>amount needed to budget to actual gap</i>	14%	\$575,638
Additional Reserves Needed to Fund Gap Between Actual and Budgeted Renewal		
Health Care Renewal At		
24%		\$575,638
23%		\$534,521
22%		\$493,404
21%		\$452,287
20%		\$411,170
19%		\$370,053
18%		\$328,936
17%		\$287,819
16%		\$246,702
15%		\$205,585
14%		\$164,468
		<i>\$41,117 per point</i>

Health Care Obligation Excluded from Proposed Budget

Operational & Capital Reserves	FY24 Begin Balance	FY25	FY 26	FY 27	FY28	FY 29	Projected Usage for Opeating Revenue	10 Year Avg Yr to Yr E&D Change +110K	Reserve Balance End FY29
E&D	\$1,400,000	-\$350,000	-\$500,000	-\$650,000	-\$800,000	-\$950,000	-\$3,250,000	\$440,000	-\$1,410,000
Operational & Capital Reserves	FY24 Begin Balance	FY25	FY 26	FY 27	FY28	FY 29	Projected Usage for Capital Needs	10 Year Avg Yr to Yr Stabilization Change +\$134K	Reserve Balance End FY29
Stabilization	\$1,503,756	-\$84,000	-\$780,930	-\$401,500	-\$282,500		-\$1,548,930	\$576,920	\$531,746
Total Reserve Balance	\$2,903,756								-\$878,254

Reserve Usage Outlook

Essex Building Project Timeline

- ✓ **Successful Statement of Interest Process**

- ✓ **Successful Completion of Eligibility Process**
 - Seat a building committee and conduct enrollment study
 - Key Benchmark: Vote 1: Town Meeting vote to approve funding a feasibility study**

- **Entering Feasibility**
 - December 2024 – Summer 2025
 - Hire Project Manager according to MSBA guidelines
 - Hire Designer/Architect

 - Summer 2025- Fall 2026
 - Feasibility Study & Schematic Design: approx.15 mos. depending on scope/direction of study

 - Fall 2026-Spring 2027
 - Phase 5: Funding the Project
 - **Key Benchmark: Vote 2 Town Meeting vote to approve funding of building construction project**

 - **Final Design & Construction (Spring 2027 – Summer 2031)**



The Problem We We're Trying To Solve *January 26, 2021 – January 21, 2025*

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”

Our challenge is greater and more complex than it was January 2021.

The Problem We We're Trying To Solve

January 25, 2022 – January 21, 2025

Structural Problem Continues

+

Expanded Obligations in Health Insurance & Out of District Placements

+

Enrollment Shift Causing Apportionment Imbalance

+

Inflation & Contractual Obligations

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



Things to Consider...

- The decision of how to address health care renewal costs exceeding 10% may significantly impact the overall budget. *The final health care renewal is anticipated in early March.*
- Use of reserves creates a funding cliff and increases the amount needed for a correction.
- The 2024 EQV (Equalized Valuation) values are not yet available, which may impact apportionment.
- The impact and timing of the Essex Elementary building project on financial planning.
- Continued staffing cuts will degrade the program and reduce student offerings and opportunities.

Next Steps



Public Input

~February 4th- Budget Hearing @ Essex Elementary



February FY26 Budget Adoption

~March 4th – School Committee Meeting



Annual Town Meetings

~April 28th Manchester

~May 5th Essex