



MANCHESTER-BY-THE-SEA

FINANCE COMMITTEE • TOWN HALL
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Minutes of the Finance Committee

Thursday, January 26, 2023 7:00 p.m. Town Hall, Room 5, Hybrid for Public

<https://us06web.zoom.us/j/87377044152?pwd=WE9pRnhHOHILSTJFc1V3ZlplR0VSdz09>

Meeting ID: 873 7704 4152 Passcode: 278798 Dial In: 646.558.8656

MEMBERS PRESENT: Sarah Mellish, Chair, Andy Oldeman, Mory Creighton, Tom Parkins, Dean Nahatis, and Mike Pratt – Member Not Present: Peter Twining

SELECT BOARD PRESENT: Ann Harrison

STAFF PRESENT: Greg Federspiel, Town Administrator, and Gail Hunter, Administrator

MERSD: Pam Beaudoin, Superintendent, and Avi Urbas, Director of Finance, Anna Mitchell, School Committee Representative Manchester

- **Call to Order**

Ms. Mellish called the meeting to order at 7:03 p.m.

- **FY24 Budget Review MERSD (Budget in Progress)**

Ms. Mellish asked Ms. Beaudoin to provide an overview for the Committee.

Ms. Beaudoin stated the FY24 Budget is a designed to provide Level Services. Level Services is the provision of the same program scope, class size, course offerings, and services from one year to the next. She noted that in recent years cuts to program to keep at an assessment of 3.5% has been achieved through attrition from retirements, enrollment cuts through attrition, reduction in Elementary Foreign Language and Middle School Spanish. These programs will be reinstated in current discussion of level services.

Ms. Beaudoin also mentioned that the timeline for a new Essex Elementary School has been moved forward. The building is beyond its useful life and the cost of maintaining the building is increasing.

Mr. Urbas presented the FY24 Budget Overview

- FY23 Tentative Operating Budget = \$30.14M Proposed Budget is 4.21% (\$1.22M) spending increase from FY23 Budget
Personnel: \$18.8M in FY24 = \$517K (2.82%) growth
Operating Expenses: \$11.32M in FY24 = \$701K (6.6% growth)

- Preliminary FY24 Operating Assessment Increase = 6.53%
Measures cost increase to towns after deducting “Other Revenue” (e.g., State Aid) from spending needs.
Growth above 3.5% typical annual target reflects removal of one-time reserve funds from revenue budget.
MERSD reserves have been used in prior years to suppress cost to Towns.
FY23 budget committed \$520K revenue from MERSD’s Excess & Deficiency (E&D) reserves, following commitments of \$335K in FY22 and \$100K in FY20.
- Absent a revenue correction for FY24 (i.e., proposed 6.53% assessment) MERSD would need to make minimum of \$757K in cuts to bring assessment back to 3.5% target level.

Mr. Urbas stated that the reason the increase for FY24 is 6.53% is the use of reserves has been removed from the budget. The District has not requested a correction in 8 years. During budgeting discussions with the Collaborative Group this has been part of ongoing information sharing, The District has been preparing the Town’s for this request and has shared the information in several forums.

The District likes to benchmark reserves at 10%. The stabilization account is from interest earned from borrowing for Memorial School has gone to capital projects to equalize programs at Essex Elementary. The stabilization account has supported the Essex playground, technology, security upgrades things that make the Essex building as close as possible on a student facing basis. The cost of this was approximately \$1M. The additional funds in the stabilization account will be directed to the turf fields.

Budget Highlights: Revenue

- \$413K (10.5%) decline in non-assessment revenue, reflects removal of \$520K reserves, offset by minimum State Aid growth.
- \$107K budget increase in Chapter 70 based on estimated \$60/pupil minimum growth estimate.
- Route consolidation for transportation suggests FY24 Transportation Aid will be below FY22 \$357K actual. Budgeted in line with FY23 at \$275K.
- Assume flat School Choice revenue to offset spending by replacing graduating students.

Ms. Mellish asked if School Choice funds were restricted in any way. Mr. Urbas replied they are not; however, they are maintained in a separate account.

MERSD Reserve Funds Are Made Up of Four Accounts

- Excess & Deficiency (E&D) – Accumulated operating budget savings (revenue in excess of expense) over time.
- Facilities Rental – Accumulated surplus from building rental fees in excess of expense (e.g., custodial)
- School Choice
- Accumulated surplus DESE funds received from sending districts for non-resident students.
- Stabilization – Interest income from MMES bond proceeds awaiting deployment between FY20 and FY21

Financial Reserves Update

- School Choice: \$1.29 million est. at FY22 yearend. No plans to spend School Choice reserves in FY23.
- Stabilization: \$389K at FY22 year end – fully committed through summer 2023. \$970K initial balance generated from interest income on Memorial School bond funds awaiting deployment: committed to capital improvement projects.
- Projects completed/committed included: EES Playground: \$382K, EES Technology to match MMES project \$171K, Security enhancements at EES/MSHS to match MMES project: \$120K, Habeeb Report on EES/MSHS: \$47K, and Gale contract- turf field design: \$55K.
- E&D: \$1.14 million est. pending DOR certification, \$1.58 million FY21 + \$85K FY22 return (revenue surplus only) - \$520K FY23 commitment.
- Facilities Rental: \$270K, +23K in FY22 vs. FY21.
- Total: \$3.09 million estimated FY22 ending balance (10.7% of FY23 budget)

Mr. Oldeman asked how the Stabilization funds were accessed stating the Town’s stabilization account could only be accessed by a vote at Town Meeting. Mr. Urbas stated the funds are allocated by Town Meeting but once in the District Stabilization Fund can be accessed by the District.

According to Mr. Urbas the Hyland Field will be resurfaced this summer due to its condition and the Brook Street Field had improvements this past summer which could tide it over for 2 to 3 years. If for some reason the override fails the Hyland Field will be put off given the District cannot justify a field replacement while making cuts of \$575K.

The District is considering either a capital or debt exclusion to complete the fields without depleting reserves. In the event the reserves are needed for incurring additional debt for Essex Elementary. Mr. Urbas noted that debt to the Town’s for the Middle High School and Memorial School are coming down and a debt exclusion for a few years would likely still result in a reduction of debt for the Towns.

Mr. Creighton asked about the remaining bond. Mr. Urbas stated it is \$1.3M for the Memorial School but given that MSBA is usually slow to close out that bond may not be happening immediately.

Mr. Pratt suggested running bonding analysis scenarios to evaluate the best approach. Mr. Urbas agreed and added in the past the District has worked with a working group of Town partners to develop a bonding strategy and that is part of that process. Mr. Pratt expressed interest in being part of the group and Mr. Urbas thanked Mr. Pratt and added everything he was stating was spot on.

Ms. Beaudoin and Mr. Urbas discussed keeping reserves on hand given the liability list for Essex Elementary from the Habib Report. Ms. Beaudoin added the Middle High School building is not a new building and the Habib Report included projected costs for improving that building. Mr. Creighton stated that if the District can delay that will help. Mr. Pratt asked for comparable information from other Districts.



MERSD Budget Presentation.pdf

The Committee discussed reserve spending slides 31, 32, and 33 which will require some correcting of the zeroed-out numbers in slide 31.

Mr. Federspiel asked Mr. Urbas to speak to the \$756K deficit which results in a 6.53% ask for FY24. Mr. Urbas stated growth happens each year if the District budgets for 3.5% there is additional growth. The last correction was in 2016. The correction prior to 2016 took place in 2006 which provided the District with the 10 year objective. In discussing this the possibility of multiple smaller corrections was discussed and that is a decision for the Towns. Is it easier for the Towns to manage smaller corrections or the larger corrections which for FY24 is at the 8 year mark.

Ms. Mellish stated in Manchester non-union employees are receiving a 2.5% increase and the District non-union employees salary growth is at 4%. She asked how much of the \$756K does that increase represent. Ms. Mitchell stated that figure is between \$50K to \$75K. Ms. Mellish asked why; adding given the levy limit is 2.5% it is difficult to justify the increase for the District.

Ms. Beaudoin stated that the non-union salaried employees pay was lagging compared to the union employees and there are supervisors whose pay is below the employees they are supervising. The District needs to make the correction to be competitive in recruiting and to match other Districts.

Mr. Urbas added that teachers contracts are benchmarked with other communities and the District is attempting to get sustainable contracts and to find ways to fund the contracts. Supervisors head Departments and the structure and rates of their contracts are comparable to other Districts.

Ms. Mellish also asked about the number of students. She divided the number of students by the number of classroom teachers and noted in Essex the number of students is 14 per class, High School 7 per class, Memorial 13 per class and Middle School 20 per class.

Ms. Beaudoin stated that the faculty to student ratio is 9 to 1 but that includes: guidance, art, music, librarian, language, physical education, math and reading support teachers all these teachers are classroom teachers. In Memorial the class size is 18, in Essex the class size is 19, Middle School is 18 – 20 and in the High School the classes are smaller 16 with AP classes 5 to 10 students. Enrollment is down 11% and teachers are down 9%. Ms. Beaudoin concluded that the District is managing the enrollment decline.

Special Education and specialized programming was briefly discussed. Ms. Beaudoin noted that the increase in Special Education Teacher Assistants has increased with increased enrollment in the specialized programs.

Mr. Creighton asked about “School Choice Out” there are 11 students. Some of those students are in Gloucester some are enrolled in on-line programs. The State is managing an on-going online program. School Choice is a blind lottery, and the District accepts the students that are chosen. If a student has special needs and requires out placement the District that student comes from pays the OOD placement costs.

The question was asked how many School Choice students require in house special programs. Ms. Beaudoin stated the last time she ran the numbers it was about the same number as resident students which is between 15% to 18%. Ms. Beaudoin added that on the positive side of Special Ed the in-house programs are attractive to other public schools and there are 2 or 3 tuition paying students enrolled.

Mr. Nahatis asked about State Aid. Mr. Urbas stated it is formula driven by number of students enrolled, number of special ed students, income base of communities. The District usually receives the minimum amount of aid. It was usually \$30 per student and last year \$60 per student. The usual increase is 1% to 1.5% which below inflation. The District is working with State Legislators to support the Student Opportunity Act for full funding which would add funding from OSD for all OOD placements. If that came to fruition the District could gain \$215K to \$230K.

Mr. Creighton asked about Health Care and when that figure is known. Mr. Urbas replied that figure comes in April. The District currently is estimating a 12% increase and hoping for 19%. Mr. Urbas continues to monitor claims and the number of claims is running pretty well .

Mr. Pratt asked if it was possible to kick the can down the road one more year. Mr. Urbas replied yes we could do that but it is less than ideal. The reserves are at \$3.4M and the District has already committed to spending \$2.2M leaving reserves at \$1.2M. which is not enough to cover the debt for the following year. Ms. Mellish pointed out not if the fields was dealt with a debt exclusion.

That is not a good place for the Towns to be the \$750K this year would be going up next year. There are two Towns and last evening there was concern if the number escalates. The number will go up to \$950K or \$1M and will result in additional cuts. Mr. Creighton noted that requesting an operational correction in one year and the next year asking for a new school is not a pleasant position to be in during Town Meeting.

Ms. Beaudoin proposed the smaller correction with a 3- or 5-year cycle. When the correction goes to 10 years the numbers are just too big. Ms. Mellish stated that the Committee's approach to taxing is to tax for what the Town needs and to spend down so the Town is not being overtaxed. Mr. Urbas suggested that the District is not asking for more than the \$756K but if the Town had an override authorization the Town could tax to the level of the request and not just place the money in the District's account.

Ms. Mellish asked how the \$756K splits out. Mr. Creighton stated there are decimal points but overall, the split is 2/3 to 1/3. \$504K for Manchester and \$252K for Essex.

Population shifts were discussed and there is an increase in Kindergarten enrollment at Memorial School but that increase is too early to be called a trend but needs to be watched.

Mr. Creighton asked about Pre-K. Pre-K is a Special Education inclusion program. The District is not offering universal Pre-K,

Mr. Federspiel needs to confirm that it is possible for the Town to have a permanent adjustment to the levy capacity to support the District. The Town currently has excess levy capacity, but Mr. Federspiel is not sure there is a designated excess levy capacity. Ms. Mellish asked how much the Town gains with each 1% increase in taxation. Mr. Federspiel estimated \$290K at this time.

Following a comprehensive discussion there were two proposals:

1. Use reserves to fund Manchester's portion of the fields or
2. Ask residents to approve a debt exclusion for the fields. Saving the District's reserves for use in other areas of the District's budget.

There was a sense that a debt exclusion for the turf fields would win universal approval at Manchester Annual Town Meeting.

- **Town Administrator Updates: Grants and Financial Matters**

Mr. Federspiel stated that there was nothing new to report to the Committee.

- **Updates from Liaisons if any**

Mr. Oldeman stated he would forward the CPC recommendations to the Committee.

- **Review Meeting Minutes –**

Ms. Mellish edited previously approved meeting minutes for December 5, 2022 and January 5, 2023 and provided edits for January 12, 2023.

Ms. Mellish moved to approve the meeting minutes for January 12, 2023, Mr. Parkins seconded the motion. The motion passed with Ms. Mellish, Mr. Oldeman, Mr. Parkins, Mr. Pratt, Mr. Nahatis, and Mr. Creighton voting affirmatively.

- **Next Meeting Subject Matter**

- February 2, 2023 – CPC and Town
- February 9, 2023 – Public Safety with Select Board 6:00 p.m.
- February 16, 2023 – BOH, Library, and Parks and Rec
- February 23, 2023 – Final MERSD

- **Other matters, as may not have been reasonably anticipated by the Chair.** There were no additional matters to discuss this evening.

Mr. Oldeman moved to adjourn the Finance Committee meeting; Mr. Creighton seconded the motion. The motion passed unanimously.