

# **Predictable Budget Concerns**

## **Presented to the Finance Committee**

March 18, 2017

Dale Magee

John Samia

School Committee

# What we know

- Each year the School Committee initially presents a “level services” budget & the town is unable to fully fund it, **resulting in service cuts**
- The state **Chapter 70 aid** has been **essentially flat** for 8 years, similar communities get ~\$2 million less in aid than we do
- Schools (& the town) have aggressively sought non-tax \$ sources: these are not increasing to meet inflation, resulting in **more pressure on the tax base**

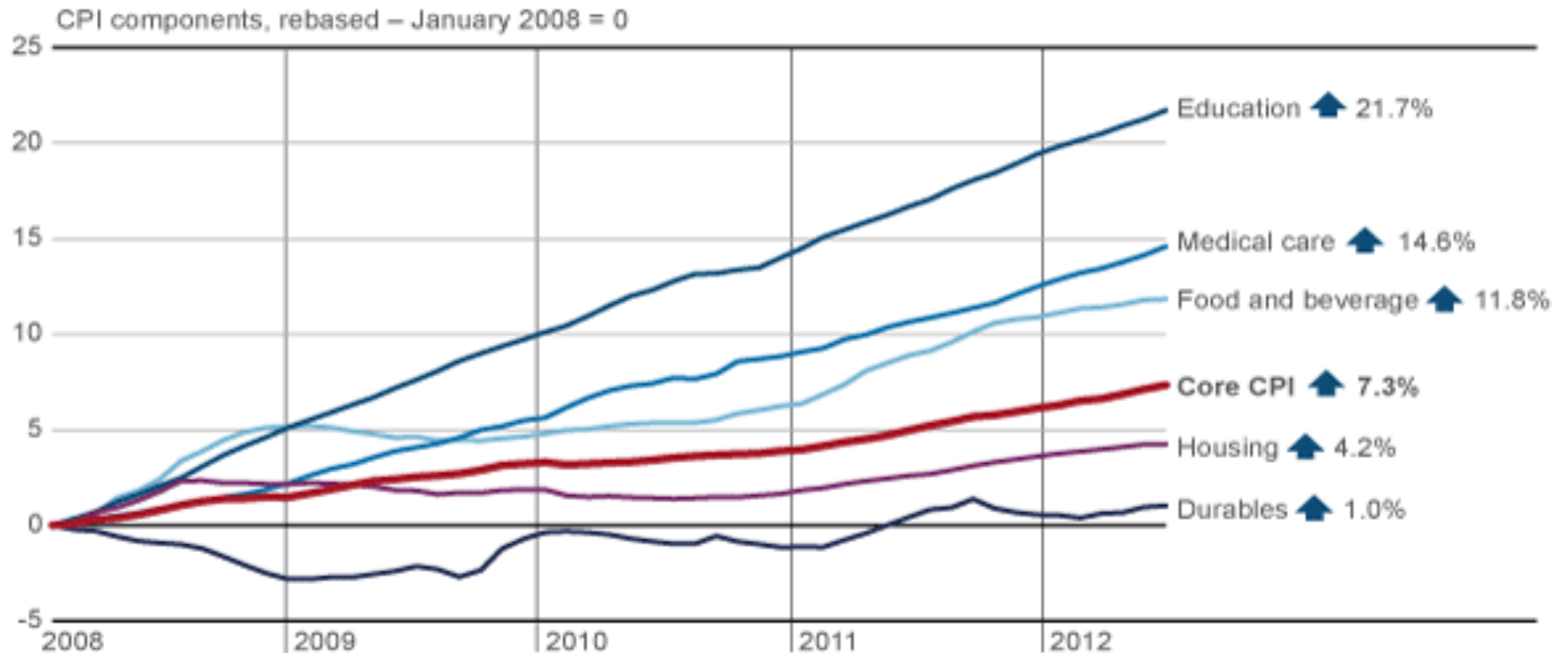
# Expense side issues:

- Budget destabilizers:
  - **Volatility**
  - **Inflation**
- **Outside expenses can crowd out** funds for schools
- We will look at:
  - Perspectives on **inflation**
  - Overview of **teacher costs**
  - Overview of **SPED costs**
  - **Health insurance costs**

# CPI is made up of 9 different areas, each with unique inflation pattern

## U.S. inflation

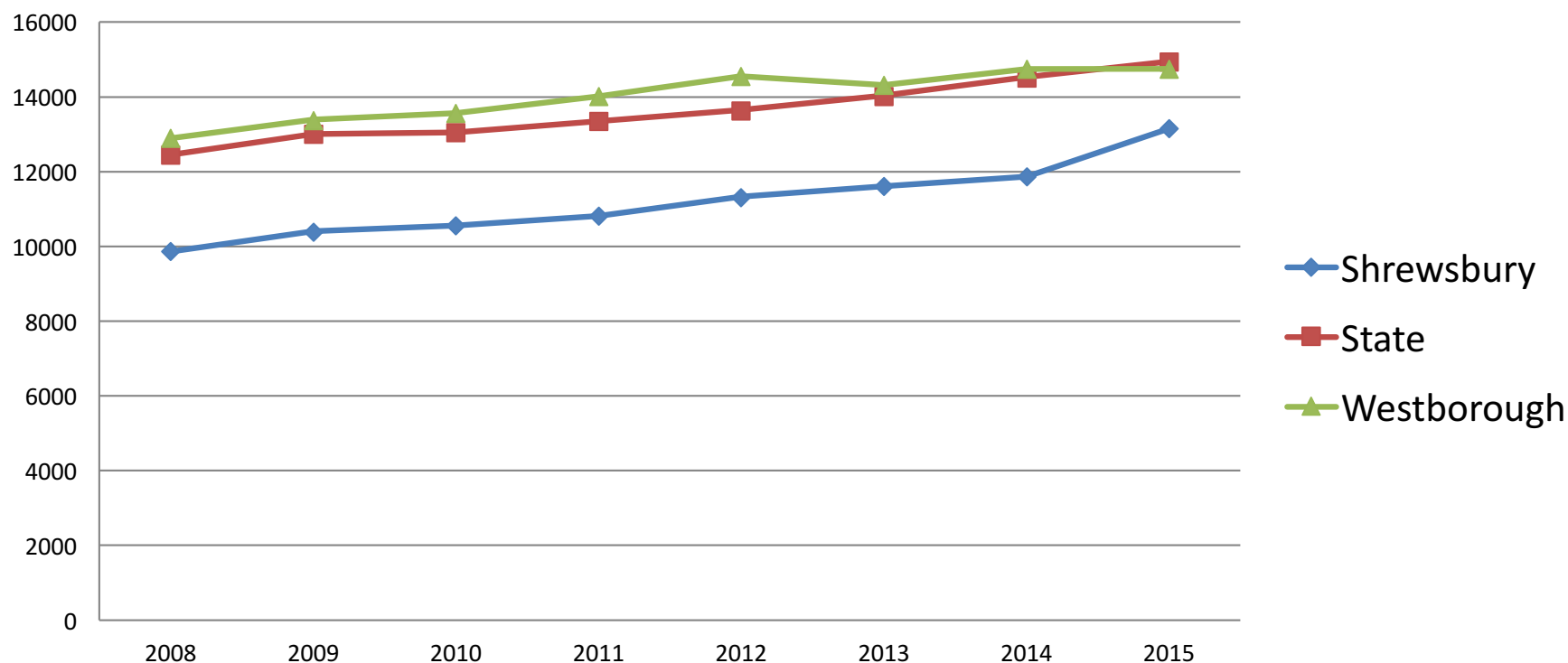
Core CPI (which excludes food and energy) rose 0.2 percent in May. Since the onset of the recession, education, medical care and food/beverage costs have risen faster than core CPI. The price of housing and durable goods, however, have lagged core CPI.



# Inflation in Education ~3-4%/yr.

## Shrewsbury's cost per pupil is in the lower 20% of MA

Per Pupil Exp



Shrewsbury avg annual increase 2008-15= 4.8% for 2008-2014: 3.4%

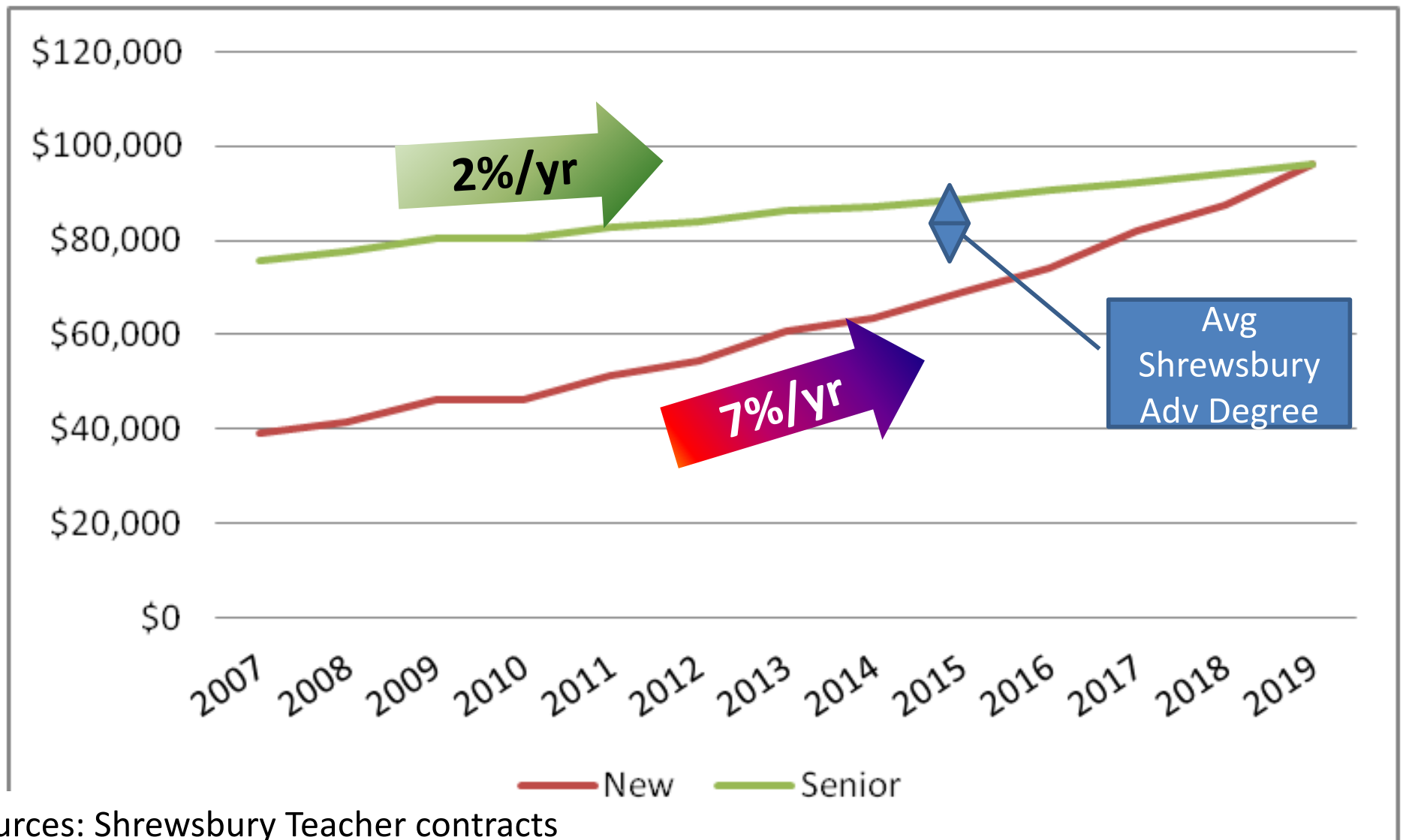
Massachusetts avg annual increase 2008-15= 2.8%

Source: DESE Per Pupil Expense reports

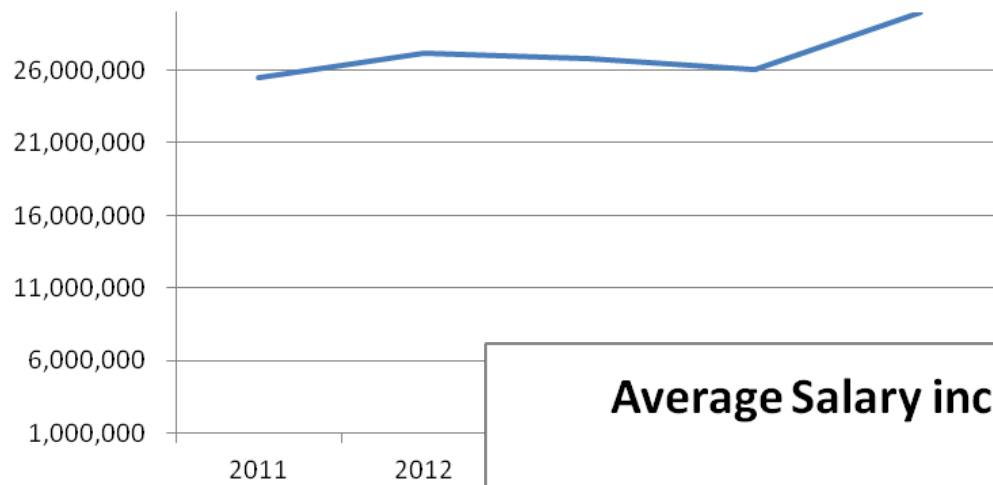
# Labor Intensive Fields have higher increases in the cost of labor (Baumol effect)



**While senior teacher salaries go up by 2%/yr, junior teacher salaries start at 50% lower but go up by ~7%/yr**

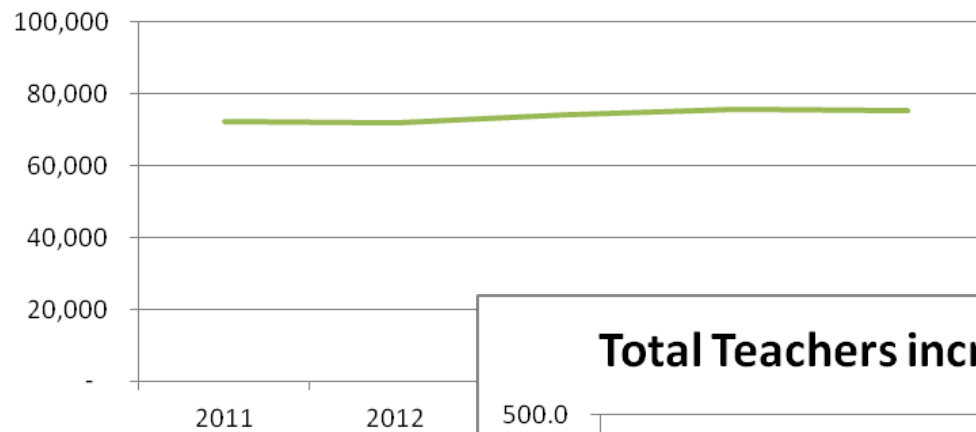


**Total Salaries increased 17% in 5 yrs**

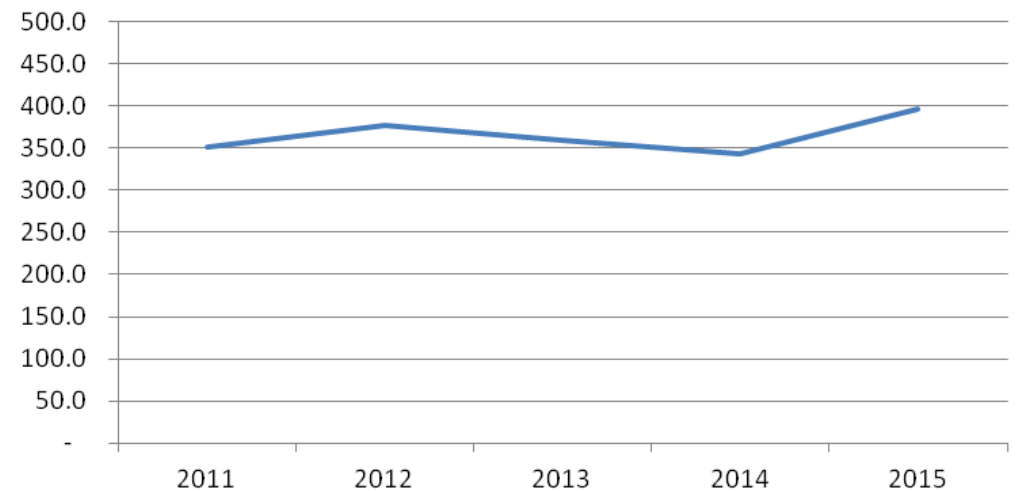


**Because of changes in the mix of new & experienced teachers, most new money went to hiring more teachers in the past 5 years**

**Average Salary increased 4% in 5 yrs**



**Total Teachers increased 13% in 5 yrs**

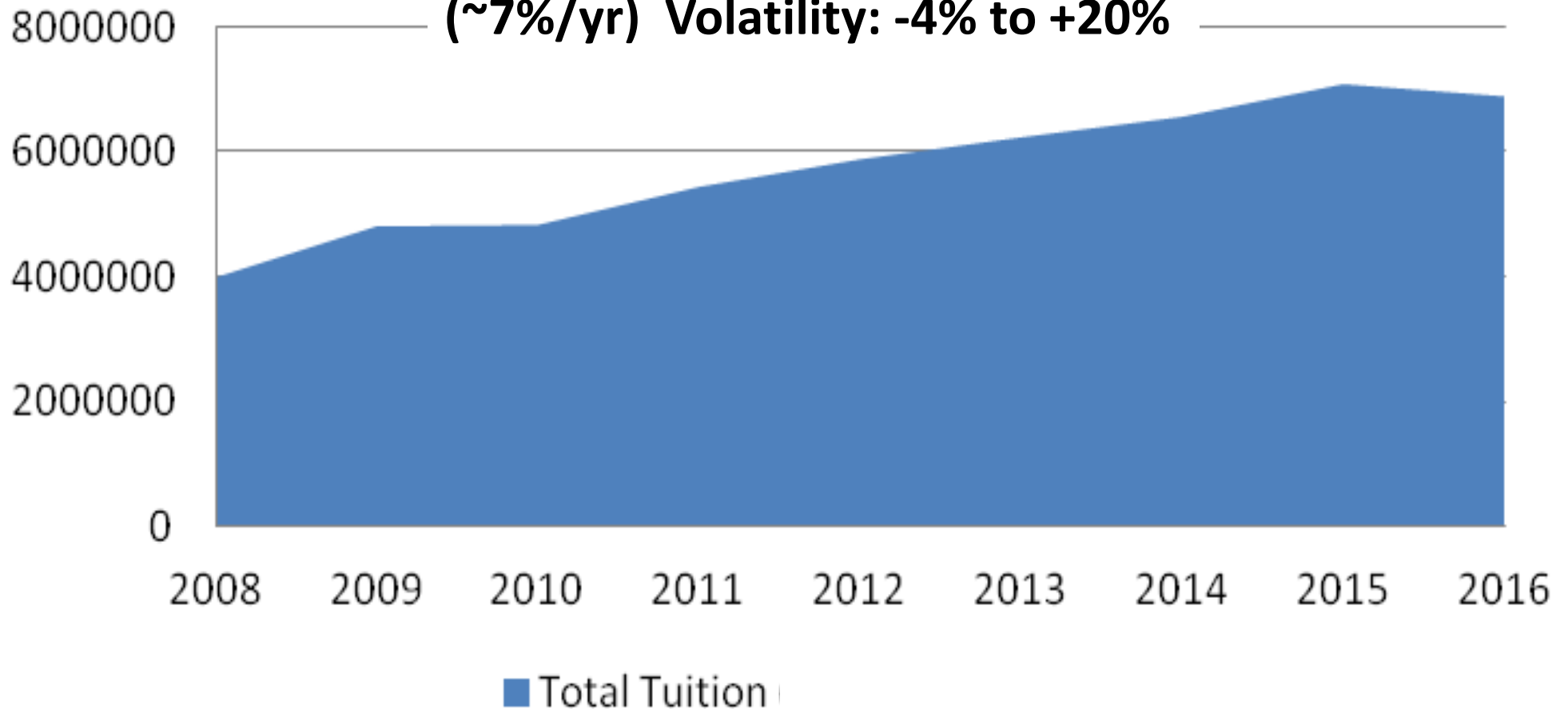


Source: DESE Teacher salary Reports



# Out of District SPED tuition increased by 73% in 8 yrs

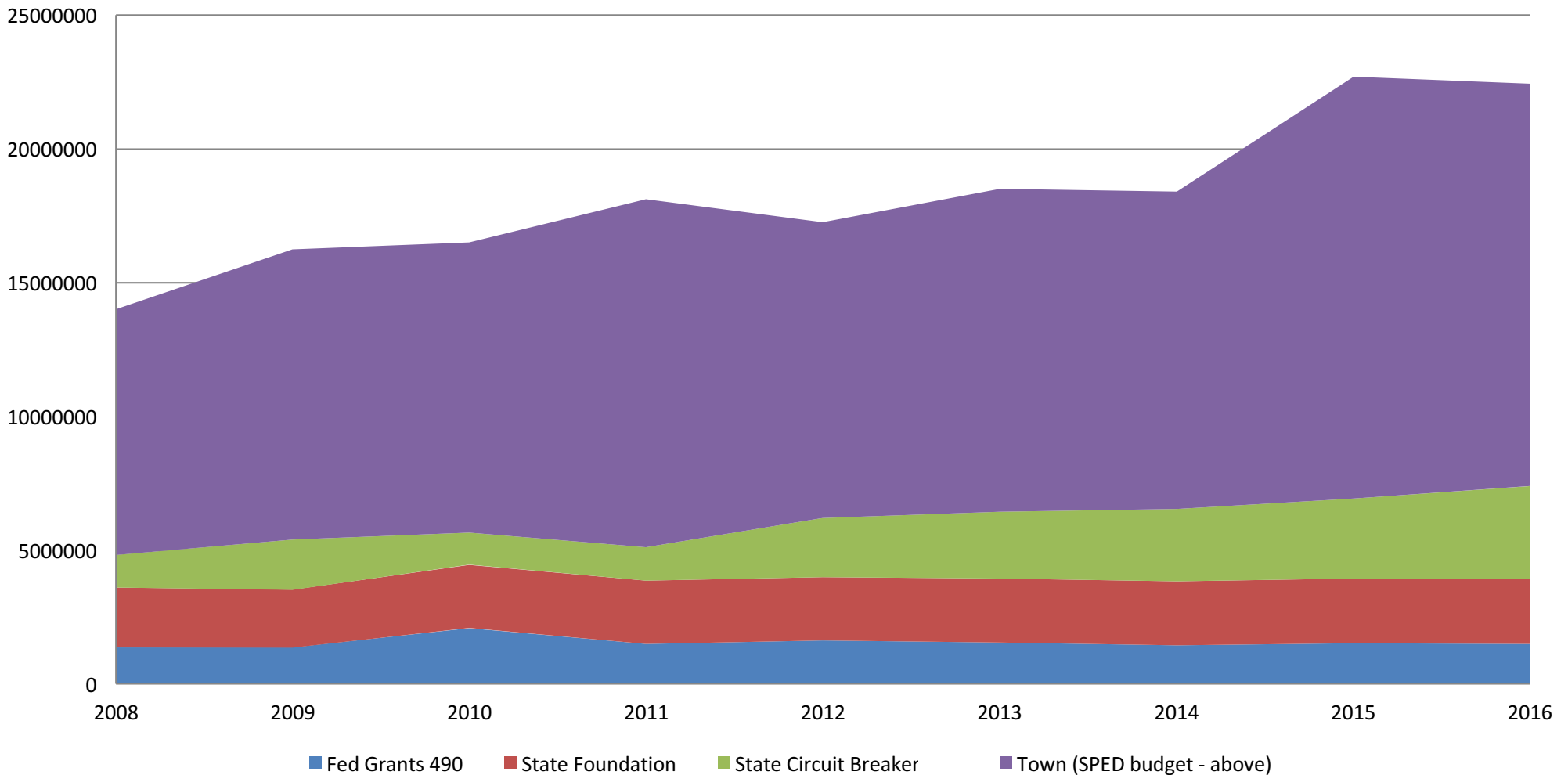
(~7%/yr) Volatility: -4% to +20%



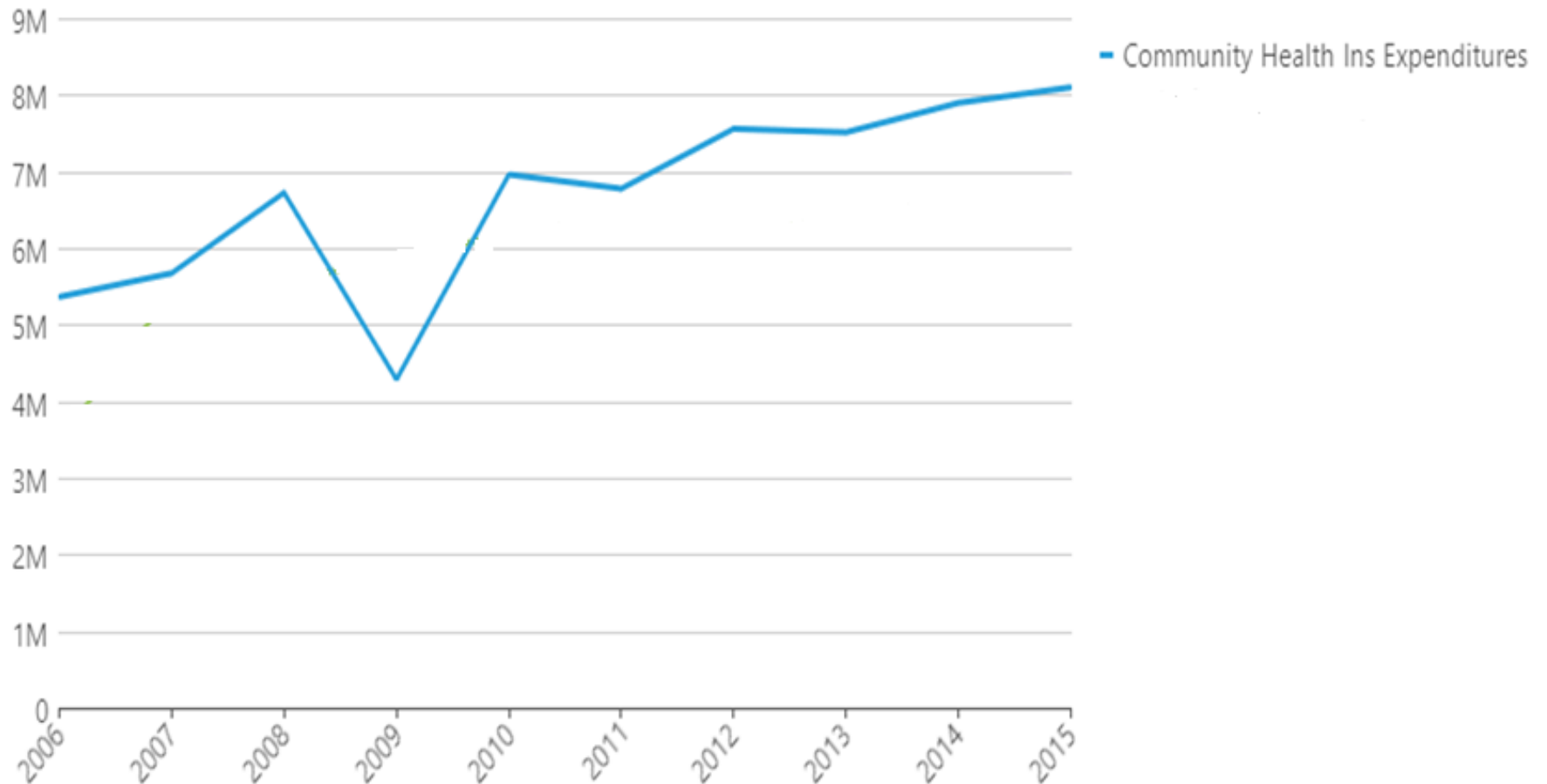
Source: End of Year Reports, Total Tuition out of district

# Special Ed has multiple sources of revenue- but town bears the volatility

SPED by \$ Source



# Locally: Shrewsbury Health Ins Exp ~5%/yr (and are about to go up by >10%)

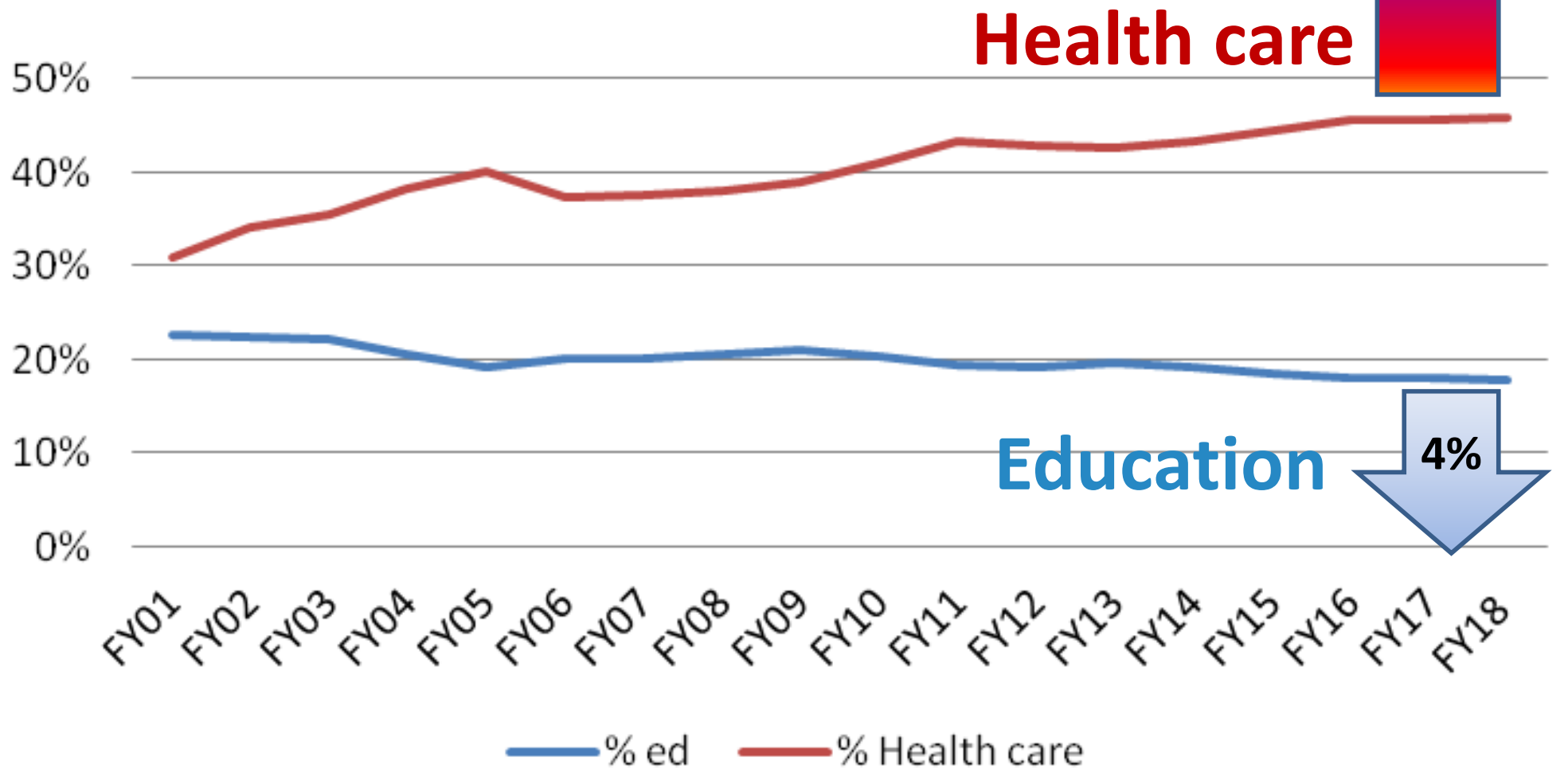


Source: Mass DOR Municipal Databank

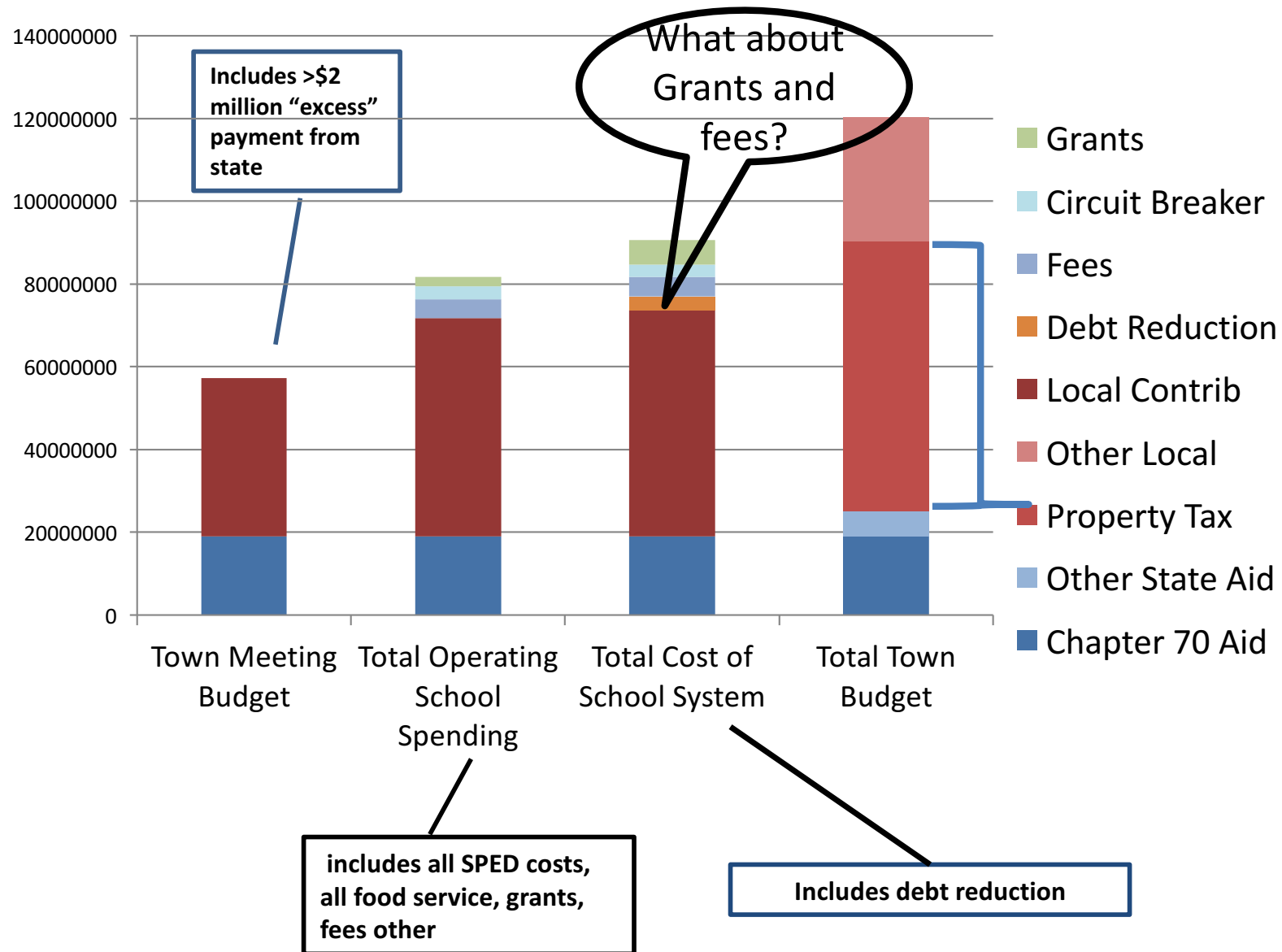
<https://dls.gateway.dor.state.ma.us/reports/rdPage.aspx?rdReport=ScheduleA.HealthInsurance.HealthInsExpenditures&ctHealthExp-PageNr=7&rdDataCache=3302376082&rdShowModes=&rdSort=&rdNewPageNr=True1&rdRequestForwarding=Form>

# Percent of State Budget going to Health Care & Education

For FY18 State increases for Health Care were 10X more than Education

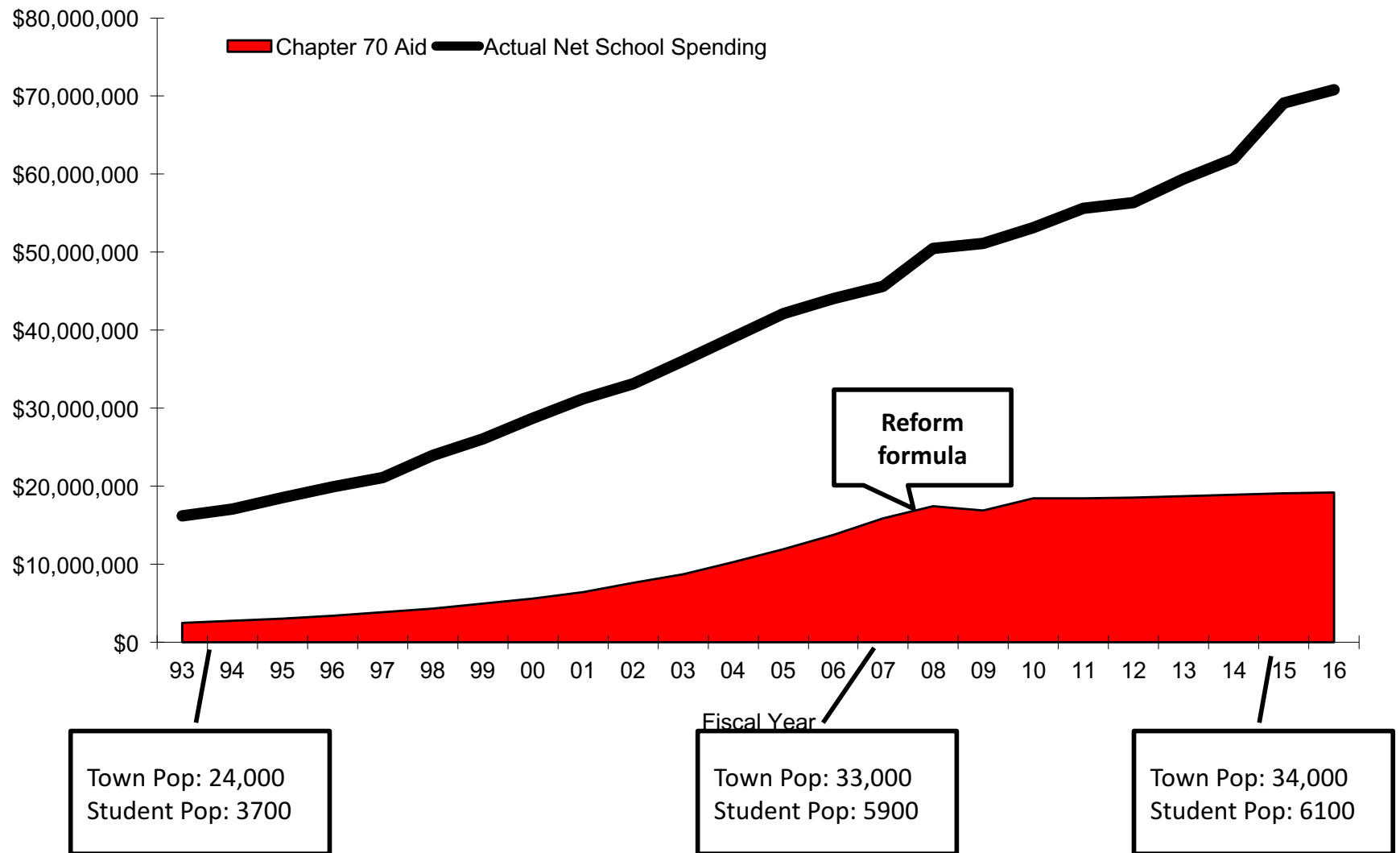


# Revenues: 4 budgets to think about



Sources: DESE; Shrewsbury Schools End of Year report 2015, Shrewsbury Budget FY15

# State aid for Shrewsbury is not keeping up with inflation- by design



Sources: Town Reports, DESE

# Similar towns, different tax pressures

Town A



Same school pop



Same housing stock

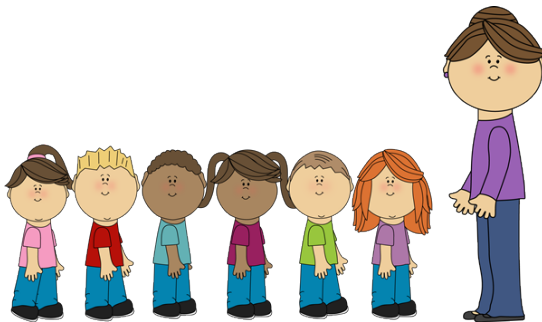


Different income



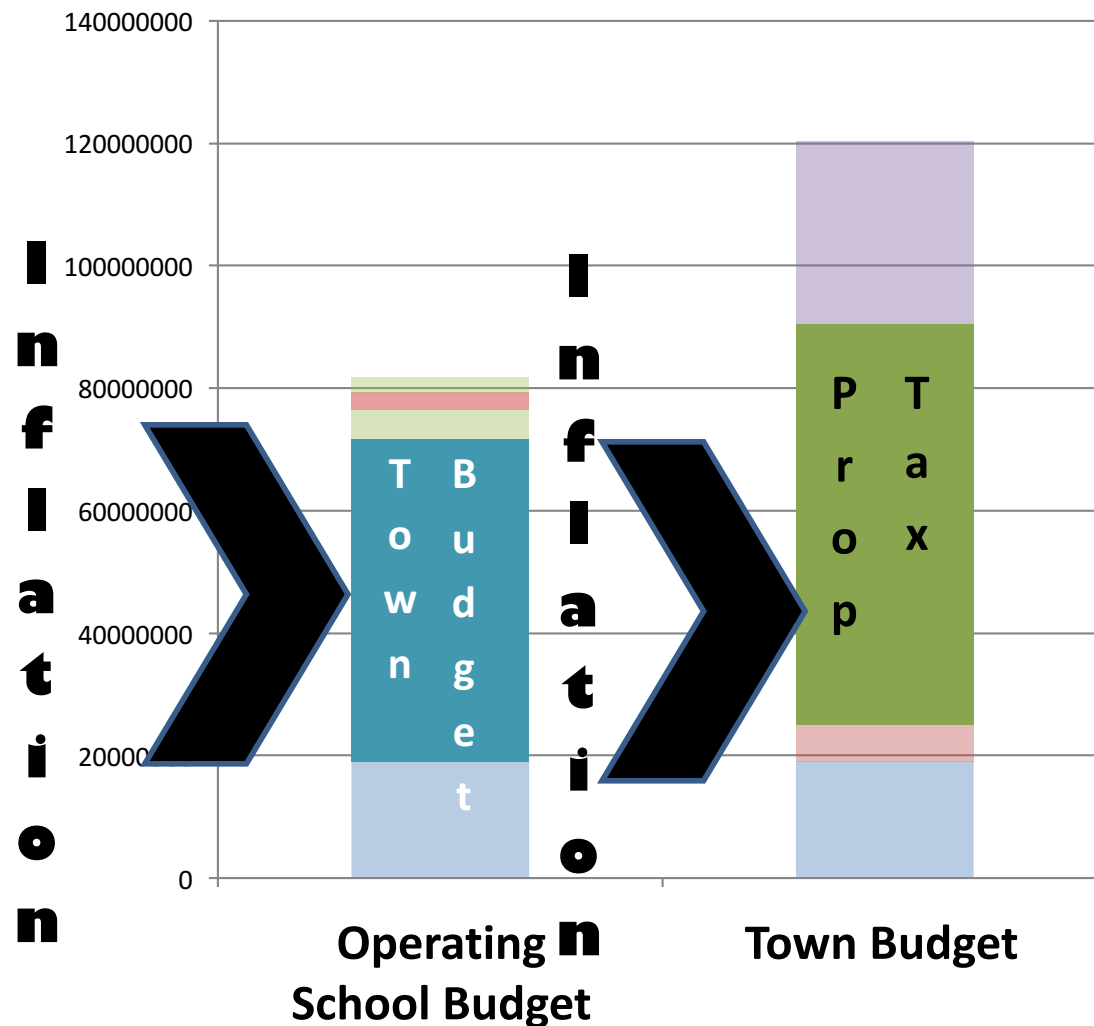
Different property tax revenues needed

Town B



# Revenues

***\$ available for cost increases are not just held to 2 ½% they are held to 2 ½% of a fraction of the total & this fraction must bear the full inflationary pressure***



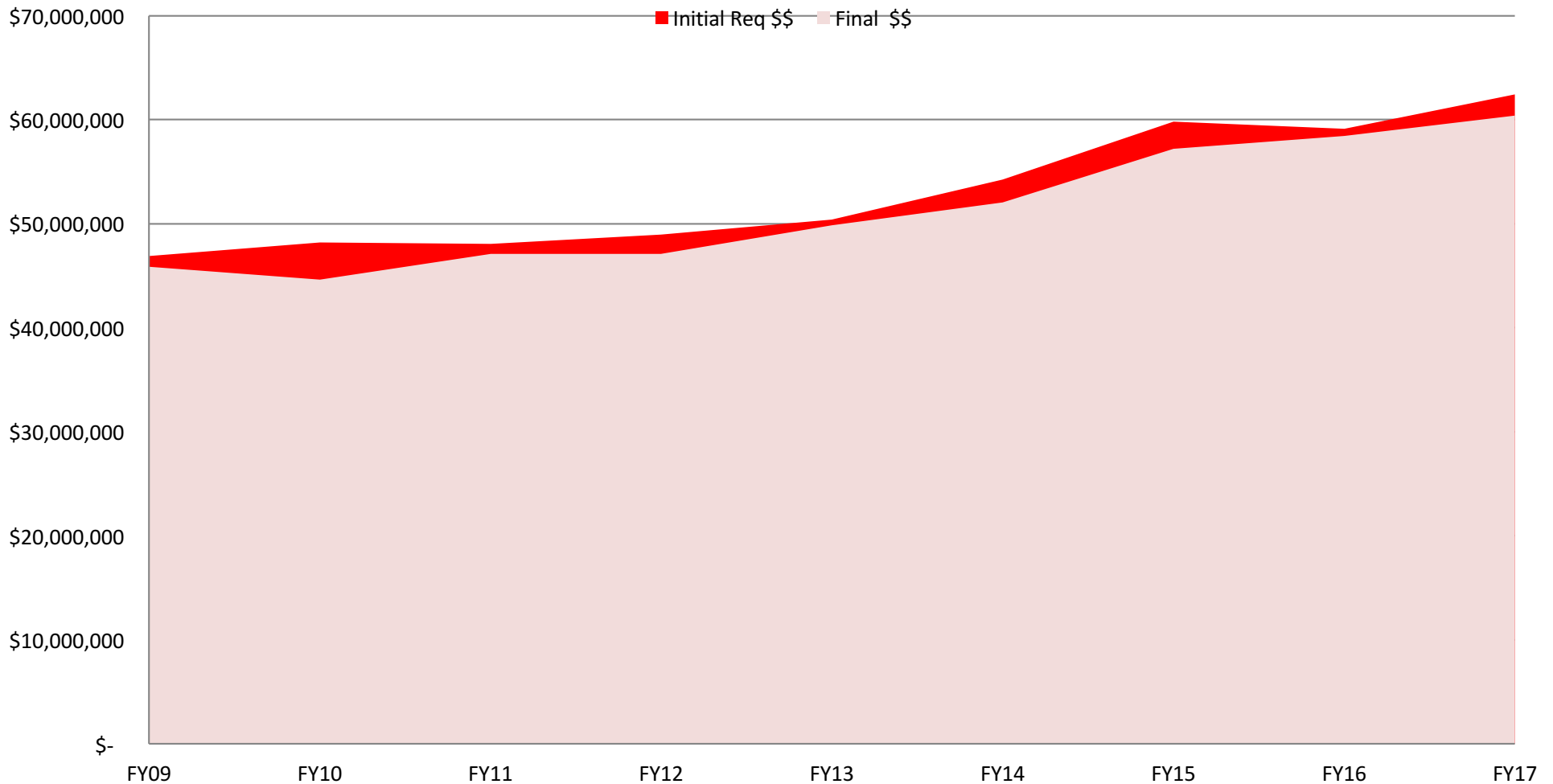


# What is \$3.7 million in increased op costs?

- Town Appropriated School Budget: **6.09%**
- Operating School Budget (~\$85 million): **~4.3%**
- Portion of Town Appropriated budget from property tax: **~11.5%**

# Level Service vs. Final Budget

## Avg Gap: \$1.7 million, 3.5%



# 5-Year Fiscal Projection

# Fiscal Projection Subcommittee Goals

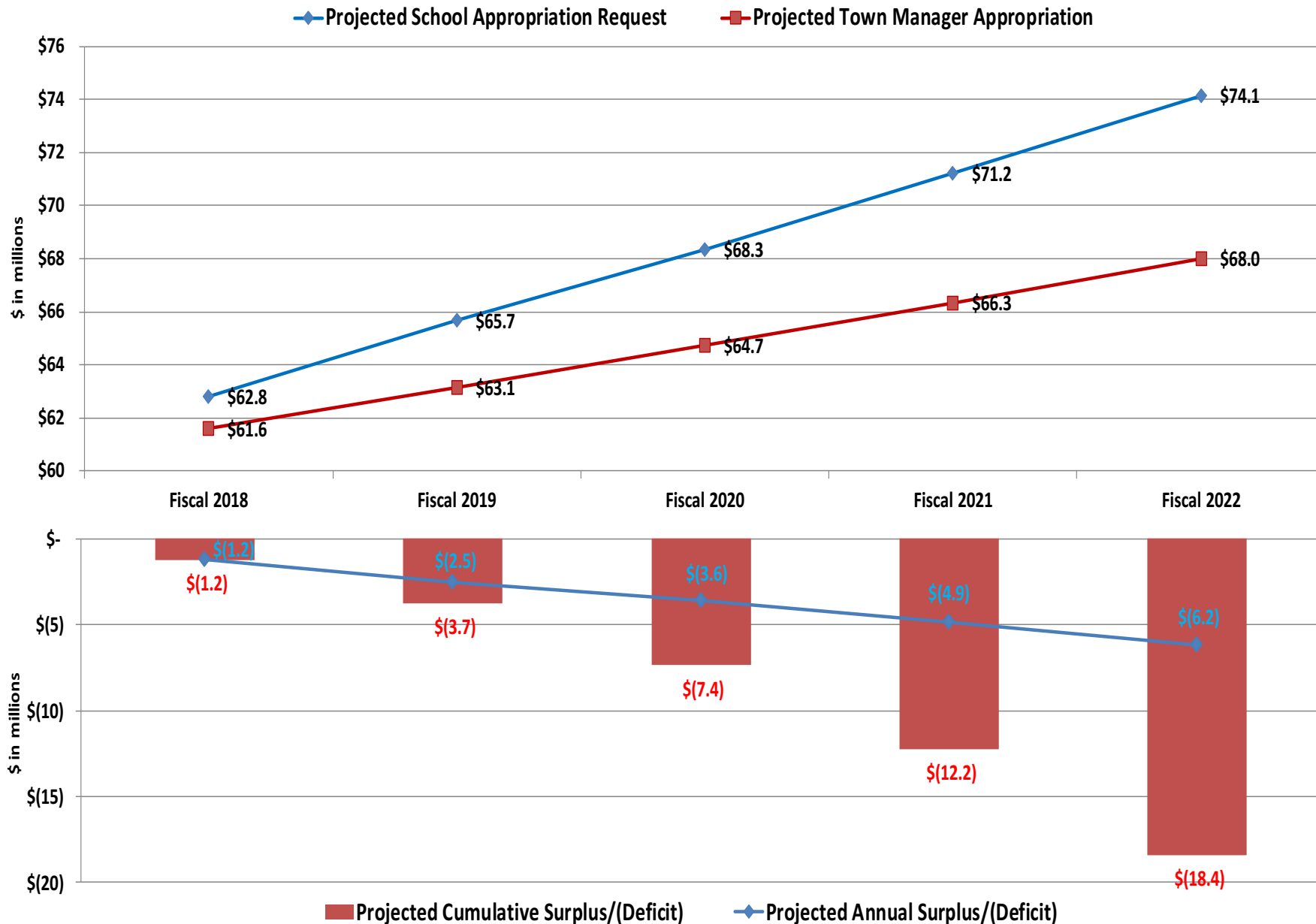
- To provide a high-level fiscal management tool that projects future school department financial information based on historical, current and assumed future financial conditions.
- To identify near- and longer-term trends that will impact the Shrewsbury Public Schools.
- To facilitate discussion among all stakeholders in the community regarding the future of public education in Shrewsbury.

# Forecasting Approach

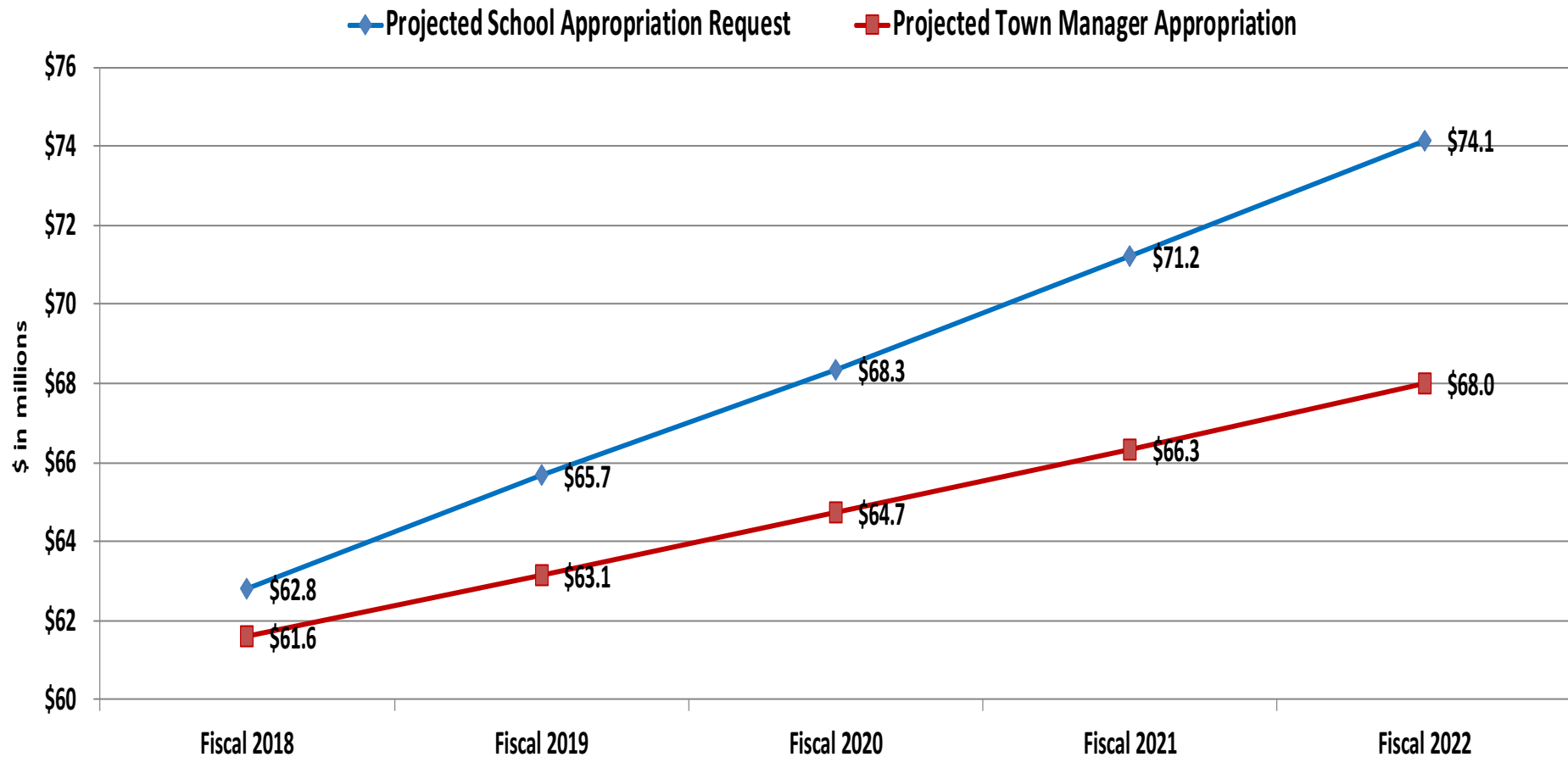
## *Develop High-Level 5-Year Financial Projection By...*

- **Following FY2017 School Committee Guidelines**
  - Sustaining the existing education program
  - Meeting mandates in cost effective ways
- **Carrying Forward the Existing Program**
  - Does not include needs identified for FY2018 or beyond
  - Does not include any changes in out years that may result from the Beal School Building Project
- **Incorporating Terms of Collective Bargaining Agreements**
- **Projecting Other Costs Based On Actual FY2017 Run Rate and Best Guest Estimates**

# FY2018 – FY2022 Fiscal Projection

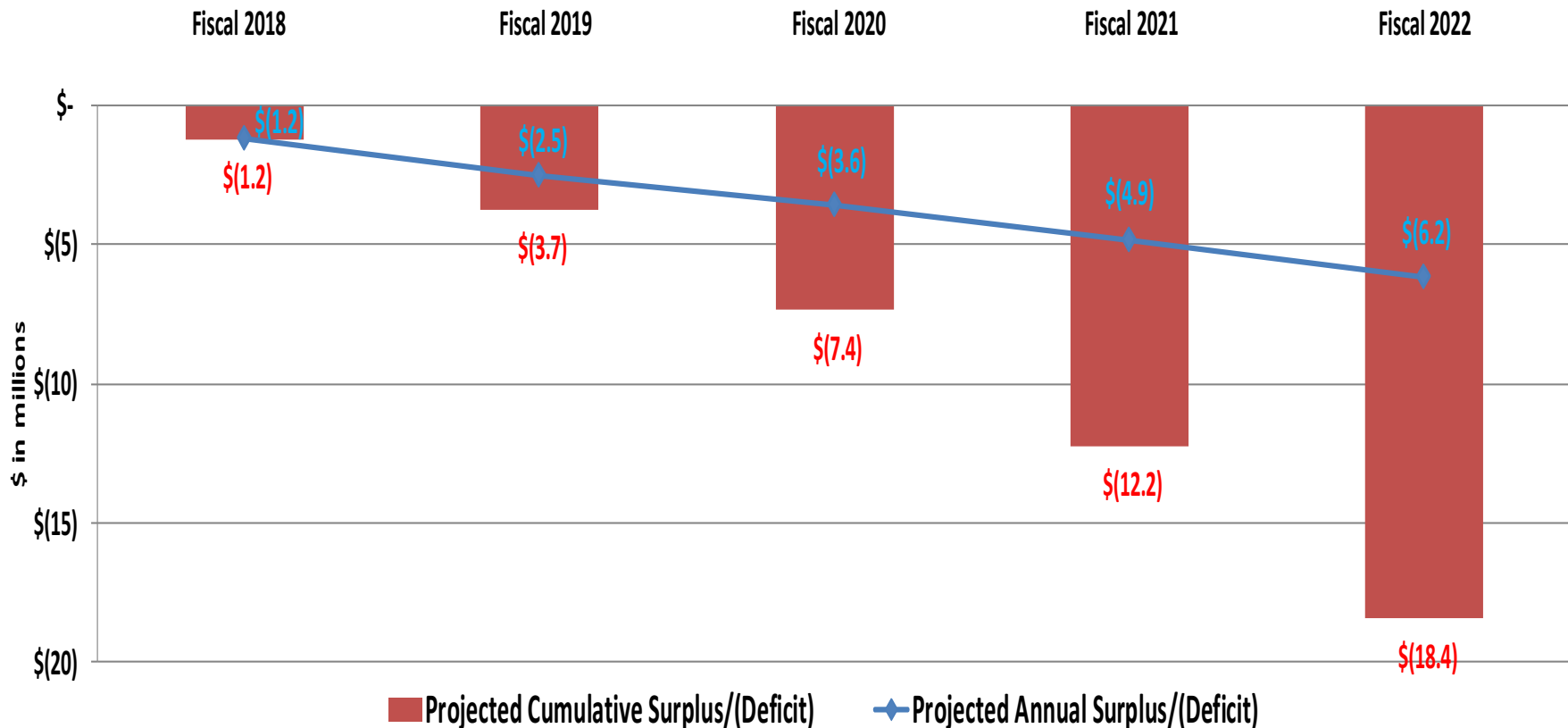


# FY2018 – FY2022 Fiscal Projection



Shrewsbury Public Schools will face widening structural deficits over the next 5 years.

# FY2018 – FY2022 Fiscal Projection



With personnel costs comprising approximately 80% of the school department budget, significant headcount reductions would need to occur to close the structural deficit.



# Translating the numbers...

If Shrewsbury were to close the structural deficit through headcount reductions only, then Shrewsbury will need to reduce:

- FY2018 = (\$1.2M)/\$55,000 per FTE = (-22 FTEs)
- FY2019 = (\$1.3M)/\$55,000 per FTE = (-24 FTEs) (-46 Total FTEs)
- FY2020 = (\$1.1M)/\$55,000 per FTE = (-20 FTEs) (-66 Total FTEs)
- FY2021 = (\$1.2M)/\$55,000 per FTE = (-22 FTEs) (-88 Total FTEs)
- FY2022 = (\$1.3M)/\$55,000 per FTE = (-24 FTEs) (-112 Total FTEs)

Headcount reductions of this magnitude will result in much larger class sizes and a severely compromised education program.

# Key Points

- Shrewsbury will continue to face significant deficits over the next 5 years.
- We should not expect State and Federal revenues to help close this structural deficit.
- **Without additional resources, the school department cannot provide the high quality public education that the Shrewsbury community expects.**

# **The Essential Question**

**“What will our community do to solve the structural funding dilemma that jeopardizes the future quality of public education in Shrewsbury?”**

*Dr. Joseph Sawyer,*

*January 25, 2017 Budget Recommendation  
Presentation to the School Committee*