PSB Budget Drivers FY23

Introduction

This document provides the context for FY23 PSB budget development. Simply put: revenues have not kept pace with expenses. This is not unexpected - from the 2018 Override Study Committee report: "Brookline is experiencing a long-term mismatch between expenses and revenue. The School budget pressure that Brookline has experienced in recent memory is a symptom of a larger problem that Brookline, and similarly positioned Massachusetts cities and towns, needs to respond to holistically. In brief, the expenses necessary to operate local government are increasing faster than combined tax and non-tax revenue. Put bluntly, this structural deficit has been recognized in prior Override Study Committee reports and the Town has implemented a number of strategies. Despite the Town's best efforts including strategies to enhance the commercial tax base, the structural deficit remains." (P. 6)

Indeed, the 2018 override was intended to provide funding for FY19-21, after which time "shortfalls are projected in the municipal and school budgets beyond FY21 that will require further action." (P. 39). Because no further action for FY22 was taken, and because funding received from the Town was near-level from FY21, PSB identified efficiencies and used one-time funds to fund its FY22 structural gap. **For FY23, PSB is continuing to pursue efficiencies, but <u>these are insufficient to offset the structural deficit</u>. Without an additional source of funding, such as ARP revenue replacement funds, PSB will not be able to sustain its educational program at the current level of quality.** Further, an operating override should be considered for FY24.

Expense Drivers and Trends

Enrollment

Enrollment continues to be the largest, most dynamic challenge for PSB to manage and forecast. K-12 enrollment has gone from 7599 (pre-pandemic in Oct 2019) to 6738 (Oct 2020) to 6673 (Oct 2021). The reduction (12%) was entirely in K-8; BHS has increased from pre-pandemic enrollment. Survey data show a combination of factors that have contributed to the pandemic enrollment drop, primarily international students who left and were not replaced due to border restrictions, and families departing to independent schools.

Given this enrollment reduction, it is reasonable to consider a commensurate reduction in staff. The intertwined questions/issues that have guided discussion are:

- **If/when enrollment will return entirely or nearly to pre-pandemic levels:** At this moment it appears that COVID is shifting from a pandemic to an endemic phase, thus opening the possibility of returning to more typical international student levels. We should know more over the summer and into this fall. If staffing is cut back, and enrollment ticks sharply upward, we will have very large class sizes.
- **Recovering from pandemic impact on academics and social-emotional learning:** With school closure in spring 2020 and hybrid learning in much of 2020-2021, students continue to need enhanced support. Cutting staff would mean reduced ability to mitigate ongoing pandemic impacts.

To hedge against both of these challenges, PSB set a goal of an average of 19 students per K-8 section for FY22, ultimately landing at 18 (Oct 2021). **Given the volatility and uncertainty of our enrollment, the superintendent has recommended that this strategy continue for FY23.** Standard PSB class size guidelines are less than 22 students in K-2 and 25 students in 3-8; should enrollment not return in the endemic phase, a return to more typical class sizes will be appropriate to consider starting in FY24 (likely drastically mitigating but not wholly eliminating an override.)

Contractual Obligations

Contractual obligations represent the largest routine expense driver: staff salaries are 89 percent of the budget, and 95 percent of staff are unionized. In particular, teacher salaries are a key cost driver: the teachers unit contains 66 percent of staff.

Teacher salaries increase based on a so-called cost of living adjustment that is bargained, in addition to "steps and lanes", which are built-in pay increases most teachers receive. **Contractual obligations bargained under this pay structure routinely grow by a larger percentage than revenue, driving the structural deficit.**

The negotiation of collective bargaining agreements with the Brookline Educators Union (BEU) is therefore critical, particularly with the teachers unit (as noted above, 66 percent of staff) and the paraprofessional unit (20 percent of staff.) PSB successfully negotiated a collective bargaining agreement with the paraprofessional unit for 2020-2023. The district and BEU have not yet agreed to contracts for teachers and mid-level administrators (another 3 percent of staff), and will be entering state-sponsored mediation beginning in March 2022 for both of these groups The ultimate disposition of the salary increases in the collective bargaining agreements is an unknown that will greatly affect the FY23 budget and must be managed carefully.

Inflationary Environment

Current inflation rates are a significant cost driver and require a significant investment simply to maintain our purchasing power for school supplies, software, etc. PSB has budgeted for a 5% increase on those items.

Pandemic Response

In addition to maintaining favorable staff ratios for the current year, PSB made a relatively small investment of about 1% of the total budget (~$1.3M) in specific pandemic-inspired student support programs starting in the current FY. These have been widely supported by the community and include adding nine new social workers and a universal summer program comprising four weeks of free project-based learning with social-emotional skill building. The School Committee recognizes that these two elements exacerbate the existing deficit, but is committed to providing these needed student academic and mental health supports going forward.

Immediate PSB needs in advance of PSB FY24-28 strategic plan

The Superintendent has identified specific needs in the district that he feels are urgent enough to request in advance of his full strategic plan. These new positions total approximately $900K in salary and include 12 student-facing staff (11 first grade aides, 1 English Language Learner staff) as well as 6 system staff to address equity (1.5), IT (1), student services/special education (2), HR (1) and data analysis (.5).

Technology Maintenance

The 2015 override provided additional funds targeted for equitable technology investment and has been very successful for acquisition of laptops and classroom audiovisual equipment. The ubiquity of laptops in PSB that technology investment provided was also critical to the pivot to pandemic remote and hybrid learning. The district's technology costs are not fully being met at this point, with the inability to replace classroom AV (e.g. projectors) at the rate needed. This is expected to worsen with several large laptop leases ending next year, as current lease terms are typically less favorable than those of the existing leases.

Building Maintenance

In addition to the core educational program, school buildings must also be maintained. The PSB portion of the Building department expenses has increased significantly over the past five years, nearly doubling from $1.3M in FY17 to $2.5M in FY22, with an FY23 request of $3.3M (a one-year increase of more than 30 percent). PSB is grateful for the work of the building department staff and supportive of the need, but this additional expense, if charged to PSB, would mean a resulting $800K reduction to educational programs. This is currently unresolved.

In addition to the Building Department request, there is over $12M in previously deferred schools maintenance projects that are not funded in the CIP. This is not a driver of PSB operating expenses except insofar as deferred maintenance leads to increasing emergency repairs, which are funded from the school portion of the Building Department funding, potentially causing even greater increases in future fiscal years.

Efficiencies

As in other fiscal years, PSB will be actively identifying efficiencies through a public and transparent budget process during the winter and spring that will analyze, e.g. schedule refinements to minimize travel of staff between schools, thus maximizing instructional time in the workday, refining budget requests, analyzing potential expense deferrals, and evaluating enrollment for potential section consolidations.

Revenue Drivers and Trends

PSB funding typically comes from five principal sources. Revenue from the town is the largest source of funds by far, making up about 80% of the total. **While expenses tend to be highly predictable (principally driven, as mentioned earlier, by the teacher salary structure), revenue provided by the town is more variable and importantly, structurally lower.** Discussion of the noteworthy revenue drivers follows.

Town Revenue/Local Education Appropriation

Town revenue for each fiscal year has varied widely from previous forecasts, particularly recently under pandemic conditions. For example, for FY23, PSB has been slated to receive as little as $117.9M to as much as $125.5M - and none of these forecast allocations have met the forecast expenses. **Because, as noted above, the town-provided LEA revenues are the largest portion of the total revenue, this variability in amount that is always insufficient places significant year-to-year pressure on PSB. This year is no exception - although the preliminary PSB expenses are $130.6M (significantly less than previous projections), the**

projected funds allocation is even lower. Additionally, it is clear from this chart that the forecast allocation is insufficient going forward.

Table 1. PSB forecast expenses (white rows) and allocations (shaded rows) for future fiscal years as shown in the Town's five most recent long range financial plans (FY19-23). Percentages represent change in value between years.

	FY19		FY20		FY21		FY22		FY23		FY24		FY25		FY26		FY27
FY19 LRF - forecast exp	$111.0M	5.4%	$117.0M	5.6%	$123.5M	5.7%	$130.5M	4.5%	$136.3M								
FY19 LRF - forecast alloc	$107.0M	3.2%	$110.4M	3.3%	$114.0M	2.4%	$116.7M	1.1%	$117.9M								
FY20 LRF - forecast exp			$118.1M	5.9%	$125.1M	5.7%	$132.2M	4.7%	$138.4M	4.7%	$144.8M						
FY20 LRF - forecast alloc			$116.7M	3.0%	$120.2M	2.3%	$123.0M	1.1%	$124.4M	0.0%	$124.4M						
FY21 LRF - forecast exp					$124.9M	4.9%	$131.0M	4.9%	$137.4M	4.9%	$144.1M	4.9%	$151.1M				
FY21 LRF - forecast alloc					$122.7M	1.0%	$123.9M	1.3%	$125.5M	0.0%	$125.5M	0.0%	$125.5M				
FY22 LRF - forecast exp							$126.8M	5.0%	$133.2M	5.0%	$139.9M	5.0%	$146.9M	5.2%	$154.6M		
FY22 LRF - forecast alloc							$117.3M	1.6%	$119.2M	1.2%	$120.6M	2.0%	$123.1M	1.3%	$124.7M		
FY23 LRF - forecast exp									$130.6M	5.9%	$138.3M	5.8%	$146.4M	5.8%	$154.8M	5.7%	$163.7M
FY23 LRF - forecast alloc									$124.0M	1.4%	$125.8M	4.7%	$131.7M	2.7%	$135.2M	2.8%	$139.0M

Circuit Breaker

Circuit breaker funding is provided by the state to offset extraordinary special education expenses. Each year the formula for calculating the circuit breaker funding is redetermined, and applied against the previous year's qualified expenses. The funding that is received is then applied against the current or next year's special education expenses (it cannot be held as a longer term reserve). Because the formula varies annually, the value of circuit breaker funding is not wholly predictable. The formula for FY22 and expenses from FY21 have led to **higher than expected FY22 revenue** of $3.1M compared to the projected $2.3M (a **positive budget trend**) - these additional funds are being used to offset special education services for FY23, reducing the operating budget request accordingly.

Revolving Funds

Revolving funds are intended to provide revenue to sustain activities outside of the core K-12 educational mission. Significant attention was paid recently (5-10 years) to developing strategies to maximize revolving fund sustainability. This was both for the stability of the programs supported through these funds, and because revolving funds cannot carry a negative balance from one fiscal year to the next (they can carry over excess funding.) Unfortunately, **the pandemic greatly disrupted the largest revolving funds, mostly negatively.** The three largest revolving funds (Food Services, Brookline Early Education Program (BEEP), Brookline Adult and Community Education (BACE)) have been impacted. Federal pandemic funding to provide free school lunch has enabled Food Services to have slightly positive cash flow for the first time in recent memory; however that positive news is offset as both BEEP and BACE were impacted over multiple years with significant losses. BEEP was negative in FY20, and BACE has been negative since FY20, as a result spending its funding reserve and thus requiring the PSB operating budget to pay for some staff costs in FY21, a situation which is forecast to continue for FY22. Other smaller reserve funds have also been impacted, e.g. Building Rentals, which previously absorbed significant custodial costs that now must be funded by the operating budget. **Revolving fund instability is an ongoing revenue challenge.**

One-time Pandemic Relief Funds

Pandemic relief funds (e.g. ESSER) are one-time allocations that can be used over multiple years; they have been critical to closing funding gaps due to both pandemic-specific increased expenses and reduced LEA revenues. **PSB has been vocal about the challenges of relying on one-time funds for recurring operating expenses, but has had no other option** (see override discussion in the Introduction section of this document). PSB anticipates that only $1M of ESSER funds will be available to carry over into FY23; this has already been used to offset the request to the town.

Conclusion

Contractual obligations, an inflationary environment, and maintained staffing in the face of enrollment uncertainty and learning recovery are three significant budget drivers. Pursuing reasonable efficiencies cannot sufficiently offset these expenses to keep PSB within its forecast allocation for this and coming years, given the structural deficit. ESSER funds supported the FY22 transition year; ARP revenue replacement funds would help bridge the FY23 transition year. There needs to be a significant partnership with the Town to explore an operating override for FY24 and beyond.