FISCAL ADVISORY COMMITTEE

The Fiscal Advisory Committee, an independent, non-voting committee made up of Derry residents, worked closely with the Derry School Board and administration to develop the proposed 2017-2018 Derry Cooperative School District budget. The proposed budget is just over $3 million higher than the 2016-2017 school year, an increase of 4.15%. This will cause a 10.4% increase in the school tax rate. This impact does not include the teachers' contract, which the School Board worked very hard to negotiate. The teachers' contract will be presented in a separate warrant article.

There were significant challenges this year, with contractual obligations increasing by almost $3 million and a projected revenue decrease of $397,068, neither of which the district has any control over. The largest contractual impacts were healthcare and retirement benefits, which increased $1,622,780, and Pinkerton tuition, which accounted for $1,063,839. The district saw a projected guaranteed maximum health insurance rate of increase 22.1%. There is a chance the actual rate may come in lower, and if so, the extra dollars in the budget will be returned to taxpayers. The revenue decrease was largely due to a decrease in the stabilization grant Derry receives from the State. Derry will continue to see these state dollars decrease annually if a solution cannot be reached at the state level.

The default budget, which is what would be used if the proposed budget fails, is almost $500,000 higher than the proposed budget. After weeks of meetings discussing how to educate our children in the most fiscally responsible way, the Fiscal Advisory Committee, School Board, and administration are presenting a proposed budget that does not include everything the district needs, but what we feel will be adequate given the uncontrollable increases in contractual obligations and decreasing revenue from the State.

It is difficult to face an increasing budget with decreasing enrollment. From the 2015-2016 school year to the 2016-2017 school year, Derry is educating 89 less students. This is a 1.7% reduction. The district projects a decrease of 28 students in Pre-K through 8th grade for the 2017-2018 school year, but an increase at Pinkerton Academy of 51 students. This is an overall increase of 23 students. The district is trying to reduce staff when enrollment drops, but it is extremely difficult because these students are educated at 7 different schools. This budget includes a reduction of 2 positions at the middle school level due to decreasing enrollment. However, 5 special education assistants needed to be added to the budget due to an increase in the population of our students who need additional services. This year alone there was an increase of 66 students identified for these services. After much discussion, a Math Coach was also added to support our teachers and students with math instruction. We have seen declining math scores, and the administration felt strongly that this was an important position to improve our students' success in mathematics.

Further cuts would require significant changes in the manner in which the district runs the schools. The facilities study has not been completed, but current findings based on school capacity and enrollment show an opportunity to close a school doesn't become feasible until 2019 at the earliest. The Fiscal Advisory Committee is extremely disappointed that the School Board led the town to believe the facilities study would be completed in a year and be able to be used to make strategic decisions during this year's budget session, and it did not meet that deadline. With serious budget challenges, we believe coming up with a strategic solution as soon as possible is extremely important. The final report is expected before the next budget session.

The Fiscal Advisory Committee would like to highlight areas of significant concern:

1. The phasing out of the State stabilization grant ($8M) to Derry is expected to continue over the next 3-5 years which will have a detrimental impact on the school budget and the Derry taxpayer. Dan McKenna, School Board Chairperson, has gotten involved to try to get legislation passed and find a solution to this, but our State Representatives and Senators must get involved and work to prevent this phasing out from happening. Please reach out to them and let them know how concerned you are as a citizen.

2. Over the last ten years, the gross budget has increased by almost 15% while the impact to Derry taxpayers has increased by almost 51%. In other words, the total net assessment on the taxpayer has slowly but steadily increased by an average of 4.2% annually over the last ten years. During this time there has been a significant decrease in staff, but other expenses such as healthcare and retirement benefits have continued to grow at higher rates. Salaries is the biggest budget line item, and retirement and healthcare are calculated based on salaries. Just 10 years ago, during the 2006-2007 school year, the town contributed 5.7% towards teacher's retirement. This year it increased another 1.69% to 17.36%. This is not sustainable. There are multiple reasons this has tripled. The first being the State used to fund 35% of the teachers' retirement contribution. It terminated that support in 2012, increasing the town's contribution significantly. The remainder of the increase is due to the New Hampshire Retirement System[1] using flawed contribution calculations for a long period of time, over-estimating future investment returns, and diverting funds to a special account that would fund future cost of living adjustments.

3. The school budget has never accounted for teacher retirement payouts. We currently have the largest number of teachers eligible to retire in the next five years, so having this payment as an unfunded liability has become a real issue. The teachers' retirement payout has historically been covered by hiring in younger teachers whose salary difference covers the payout. As we experience a decline in enrollment and do not replace all of these retiring teachers, it will be more difficult to account for these dollars in the normal budget. The Fiscal Advisory Committee has been pushing the School Board for years to add this liability as a budget item. We believe this needs to be done by next year's budget, and have requested a proposal from the School Board prior to the next budget session outlining a solution.

4. There are a number of Maintenance improvement projects that were not able to be funded due to the other increases. These are important and will only get worse and more expensive to fix as they are put off. The School Administration and School Board are working creatively to address these needs where possible, but if not taken care of in the next few years, these items will cause a safety risk and end up costing more in the long run.

On a positive note, the School Administration and School Board have been working with Honeywell on a project to decrease energy costs, and are seeing more savings than even initially projected. This will become an even more positive impact going forward as the debt taken out to fund this project is paid off. The current realized savings is outpacing the debt payments to fund it.

The Fiscal Advisory Committee would like to extend its deepest thanks to the District's School Administration and to the Derry School Board for their guidance during the review and analysis of the 2017-2018 budget.

Sincerely,

Carl Accardo
Bruce Kling
Craig Bulkley
Riccardo Buzzanga
Melinda Davis
Glenn Manchester
Walter Deyo
Noreen Tabor Walkup

Footnote 1: There are three components to the employer contribution rates: the normal cost (cost to fund the pension of a teacher retiring today), the unfunded liability, and the Medical Subsidy. Teachers pay the majority of the normal cost. The unfunded liability is due to a flawed funding methodology that went on for years, a diversion of roughly $900 million in investment earnings from the pension trust to a "Special Account" to cover cost of living adjustments, and significant global economic dips which impacted projected investment performance. The Special Account was repealed in 2012. Currently the unfunded liability for benefits that have already been earned accounts for more than 70% of the total employer rate.