



Amherst Massachusetts

Town Hall
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November 3, 2009

To: Select Board, Town Manager
Amherst School Committee, Superintendent of Schools
Jones Library Trustees, Library Director

From: Finance Committee

Re: Preliminary Fiscal Year 2011 Budget Guidelines

In previous years, we established preliminary guidelines for the development of budgets based upon percentage increases from the present year. You responded with preliminary budgets that were consistent with the guidelines and enabled us to develop a budget to propose to the Annual Town Meeting. We are taking a different approach for FY 11.

On October 15 at the Four Board Meeting we learned that, based upon estimates of expenses and income, we confront a deficit exceeding \$4 million to maintain level services unless there is an override of the property tax limit of Proposition 2½. The Select Board intends to place an override proposal on the March 23 town election ballot.

The budgets and additional information that we ask for will enable the Finance Committee, the Budget Coordinating Group, the Select Board, and the community to understand the effect of FY 10 budget decisions on the programs and services provided by our Town, schools and library, and the difficult choices that all of us must make for the coming year.

Preliminary Fiscal Year 2011 Budgets

We ask that the Town Manager and Select Board, the School Committees and Superintendent, and the Library Director and Trustees prepare the following FY 11 budgets by Monday, January 18, 2010:

1. A "level services" budget for FY 11 that would allow you to continue the services that you are providing in FY 10 (except for the operation of the Marks Meadow School).
2. An "estimated available funds" budget for FY 11 based upon funds that are currently projected to be available without an override. This amount is very close to the current year budget, except for the funds from reserves to operate the Marks Meadow School. With this budget, we request that you provide a prioritized list of existing services and programs that would have to be reduced or eliminated, with an indication of the savings for each listed service or program.
3. A budget for FY 11 with a 3% cut in funding from the FY 10 amount, and a prioritized list of services and programs that would have to be reduced or eliminated, with an indication of the savings for each listed service or program.

Additionally, we would like to see:

4. Any other factors that should be considered, such as potential loss of certifications, and an indication of the cost to address this matter, and
5. A concise statement describing the difference in what you are providing to our community, the manner in which you are providing it and the fees charged to users between FY 09 and FY 10.

Massachusetts communities continue to confront exceptional challenges. We need to work together and create consistent information in a uniform format that will

- enable the Finance Committee and Budget Coordinating Group (BCG) to recommend an amount needed for an override to the property tax limits of Proposition 2½;
- help the Select Board determine the amount and form of the override question it anticipates placing on the March 23rd annual election ballot
- allow voters to make knowledgeable choices about Amherst and what they seek for the Town;
- and assist the Finance Committee to develop a budget for Annual Town Meeting consistent with available funds and the budgets and priorities you present to us.

This must happen within the constraints of the calendar discussed at the September 17 BCG meeting.

When Town Meeting in June adopted the FY 10 budget that supports only core services, we hoped to adopt an FY 11 budget that would continue those services. We recognized that we would need to ask voters to pass an override to do so. Voters will expect to have a clear vision of what their town will be without an override, and with overrides at various levels. The Select Board will expect similar information as it determines what to present to voters. Your cooperation with this request is essential.

Revenues

The largest portion of our revenue (59%) is from property taxation. It can grow by only 2.5% annually (plus "new growth," tax revenue from new construction) unless voters agree to override the limit. New growth decreased from 2009 to the present year because of the economy and the limited amount of space conducive to development. The result is a 3.3% increase in property taxation revenue.

The next largest category of revenue is state aid. We assume a 10% decrease in state aid; that assumption may even be optimistic. The state budget depends upon income, capital gains, and sales taxes as well as federal revenue. The state budget is affected by the economy. Until employment recovers from this recession, income taxes will remain suppressed and consumer confidence and spending will be depressed. While equity markets have recovered from the low of the first calendar quarter of 2009, they remain volatile. Most investors are still recovering from losses, and capital gains taxes will remain below 2008 levels for a while. In addition to income, sales and capital gains tax, the state derives funds from the federal government. There was additional federal funding for 2010 from the American Recovery and Reinvestment Act (ARRA, or the "stimulus bill"). There will be less ARRA funds available in 2011 than used in 2010. Finally, the state's own reserves will be largely spent by the end of the current fiscal year.

Local receipts and other financing sources constitute 18% of our revenue. Mr. Musante's estimate increases these income categories by 8.3%. A larger increase is unlikely. Much of this increase is

from the newly adopted local option lodging and meals taxes. The estimates for the current year and next year are based upon the state Department of Revenue estimates. That amount could be wrong by some amount, but the variance is unlikely to be large and it could be in either direction. With the state budget cuts to the University of Massachusetts and endowment problems at the colleges, a change in their support or payment for services to the Town is not expected.

Expenses

The October 15 projection made some valid but general presumptions about the cost to continue the current services and programs into FY 11. We are not comfortable with presenting the voters with a request based upon general assumptions. You know the particular needs and costs within your functional areas and can make a more accurate projection of level services costs. We also recognize that some programmatic adjustments may be needed within the meaning of level services. We rely on you to provide us with this information.

Capital expenditures

The Town's Financial Policies and Objectives establish a goal of allocating 10 percent of the annual tax levy to capital expenditures. If Town buildings, facilities and equipment, are not routinely maintained, our operating expenses will increase and a crisis point will be reached as happened before the capital plan and the Joint Capital Planning Committee (JCPC) were established in the early 1990's. Continuing allocations of 6.5% of the tax levy to the capital budget is inadequate to avert the recurrence of the crisis. However, since we are not yet at the lowest point of the recessionary cycle, we must consider short-term policies we would not otherwise contemplate. We will be interested in the Joint Capital Planning Committee's guidance on this issue. We hope that they will catalog the backlog of needed repairs and replacements, the costs and consequences of those delays, and the future cost to correct the growing deficiency. Pending the JCPC recommendation, we are assuming that we will again limit our capital expenditure to 6.5% of the levy for this additional year.

No reserves use in 2011

The Department of Revenue has certified Amherst's reserves after FY 09 at \$4.05 million. It is important to consider the relevant part of the Town's Financial Policies and Objectives, which are available at <http://www.amherstma.gov/DocumentView.aspx?DID=1553>.

The Town endeavors to maintain reserves between 5% and 15% of General Fund operating revenues to maintain its good financial standing and bond rating and to provide a financial cushion against events such as a sudden loss of a revenue source, an economic downturn, an emergency or other unanticipated expenditures, non-recurring capital expenditures, and uneven cash flow.

The current amount of reserves in excess of 5% of operating revenue is \$964,000. A stated purpose for maintaining reserves is to address a sudden loss of revenue after a budget is adopted, as we now are responding to the Governor's "9C" rescissions for FY 10. Consistent with the Financial Policies and Objectives, and considering our experience in FY 09 and FY 10, it would not be wise to budget for the use of any reserves in planning for FY 11.

Conclusions

Revenue from property taxes, when limited to an increase of 2½% plus new growth, is insufficient to maintain programs and services because costs increase at a greater rate. Until this recession, state aid and other sources of support have grown sufficiently to allow the Town to continue and expand its capacity to serve the community. However, state aid is not always stable or predictable. The state

tries to build its reserves when the economy is strong to use in more challenging periods and stabilize its support to cities and towns, and other state priorities. Similarly, Amherst maintains reserves for similar purposes. This is the biggest recession since the Great Depression and it has overwhelmed both the state's and the town's reserves.

Based upon the projections Mr. Musante presented October 15 and limiting capital expenditures to the current level of 6.5% of the annual tax levy, without an override Amherst faces a deficit of \$4.06 million in FY 11 which will only grow larger in the two years thereafter.

The 2009 average single family property tax bill was \$5,611. (The assessed value of the average single family property was \$354,647 in that year.) The community will need to consider that for each additional \$1 million in town-wide taxation from an override, that tax bill will increase by \$160. An override sufficient to fill the entire \$4 million gap will result in an 11% increase for this average tax bill. The Select Board will need to consider whether this is a reasonable request, and whether to present an additional alternative in the form of an override for a lesser amount. This range has two boundaries: (1) no override and (2) one that will close the entire gap between projected revenues and expenses to maintain level services. In summary, we are asking you to confirm the projected expense of a level services budget; describe what the FY 10 core budget provides, explain what the town will have if no override passes, and assist all of us to assess alternatives between the extremes.

Marilyn Blaustein 253-5963
Philip Jackson 549-2619
Kay Moran, Vice Chair 549-5767
Robert Saul 253-4059
Douglas Slaughter 253-9920
Andrew Steinberg, Chair 549-6826
Marylou Theilman 253-7980

TOWN OF AMHERST, MASSACHUSETTS
FINANCIAL PROJECTIONS - GENERAL FUND

Finance Committee Preliminary Budget Guidelines
3-Nov-2009

	(1)		(2)		(3)	
	FY 11 Level Services	\$ Chg	% Chg	FY 11 Est Avail Funds	\$ Chg	FY 11 3% Cut Budget
REVENUES						
Property Tax	37,254,092	1,193,132	3.3%	37,254,092	1,193,132	37,254,092
Local Receipts	8,782,419	581,937	7.1%	8,782,419	581,937	8,782,419
State Aid	12,780,522	(1,500,699)	-10.5%	12,780,522	(1,500,699)	12,780,522
Other Financing Sources	2,572,964	(605,052)	-19.0%	2,572,964	(605,052)	2,572,964
TOTAL REVENUES	61,389,998	(330,682)	-0.5%	61,389,998	(330,682)	61,389,998
EXPENDITURES						
OPERATING BUDGET						
Town	19,248,131	916,578	5.0%	17,932,157	(399,396)	17,781,606
Elementary Schools	21,167,000	785,232	3.9%	19,448,703	(933,065)	19,295,985
A-P Regional School District (Assessment)	13,831,447	1,257,404	10.0%	13,025,581	451,538	12,852,939
Jones Library (Tax Support)	1,541,430	73,401	5.0%	1,436,045	(31,984)	1,423,988
Subtotal OPERATING BUDGET	55,788,008	3,032,615	5.7%	51,842,486	(912,907)	51,354,519
CAPITAL BUDGET						
Debt Service - Debt Exclusion	400,837	(48,371)	-12.1%	352,466	(48,371)	352,466
Other Tax Funded Capital	2,322,456	76,150	3.3%	2,271,362	(51,094)	2,252,782
% Net Tax Levy	6.51%	6.50%		6.16%		6.10%
Community Preservation Act (debt service only)	83,774	(2,808)	-3.4%	80,966	(2,808)	80,966
Cash Capital (Non-Tax Support)	0	277,000	#DIV/0!	277,000	277,000	277,000
Subtotal CAPITAL	2,807,067	301,971	10.8%	2,981,794	174,727	2,963,214
Miscellaneous	3,131,975	205,023	6.5%	3,336,998	205,023	3,336,998
Total APPROPRIATIONS	58,694,435	3,539,609	6.0%	58,161,278	(533,157)	57,654,731
Unappropriated Uses	3,026,245	196,886	6.5%	3,223,131	196,886	3,223,131
TOTAL BUDGET PLAN	61,720,680	3,736,495	6.1%	61,384,409	(336,271)	60,877,862
SURPLUS / (SHORTFALL)	(0)	(4,067,177)		5,589		512,136
Reduction from 10/15/2009 FY 11 Level Services Estimate:						
OPERATING BUDGET						
Town				(1,315,973)		(1,466,524)
Elementary Schools				(1,718,297)		(1,871,015)
A-P Regional School District (Assessment)				(805,866)		(978,508)
Jones Library (Tax Support)				(105,386)		(117,442)
Subtotal OPERATING BUDGET				(3,945,522)		(4,433,490)
Other Tax Funded Capital				(127,244)		(145,823)
TOTAL				(4,072,766)		(4,579,313)

(1) FY 11 Level Services estimates are from the Preliminary Financial Projections dated 10/15/09. Town, Schools, and Library to develop a revised detailed budget proposal for level services. Regional assessment estimated increase of +10% assumed Chapter 70 Aid -10%, Transportation Aid -50%, and a budget increase of +5%, Elementary Schools: To calculate FY 11 estimate, the FY 10 approved budget is reduced by \$489,000 (the estimated 1st year savings from closure of Marks Meadow), then increased by 5%.

(2) FY 11 Estimated Available Funds Budget reduces all budgets by 2.2%. Elementary Schools additional reduction from Marks Meadow closure.

(3) FY 11 -3% Cut Budgets. Elementary Schools additional reduction from Marks Meadow closure.

