

Town of



AMHERST *Massachusetts*

Town Hall – 4 Boltwood Avenue – Amherst, MA 01002

October 28, 2016

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

From: Finance Committee

Re: Preliminary Fiscal Year 2018 Budget Guidelines

The Finance Committee asks you to develop operating budgets with an increase in Town support of 2.5%. That includes the Amherst-Pelham Regional School District assessment and the library's support from the Town. The budget increase for the Regional School District will then be determined by the assessment method that uses the current 5-year rolling enrollment average as a base, with a percentage based on ability to pay (assuming the method is approved, by each of the towns in the region). In FY17 the four towns agreed to 10% based on an ability to pay factor. Ability to pay was calculated using each town's EQV (property values from the State's RECAP files). The actual amounts preliminarily proposed that the Town will raise and appropriate for each budget area are at the top of Page 2 of the General Fund Financial Projections, attached to these guidelines. These would be \$22,967,135 for the municipal budget; \$22,523,222 for the elementary schools; \$15,576,048 for Amherst's assessment to the regional schools; and \$1,926,054 for the Jones Library. The apparently smaller percentage increase shown for the elementary schools, 1.7%, is due to a change in the method of accounting for charter and school choice charges and reimbursements from the State. The increase for the elementary school budget would effectively be 2.5%.

These are preliminary budget guidelines, based upon the projections that Co-Finance Director Sonia Aldrich and Town Manager Paul Bockelman presented at the Four Boards Meeting on October 13.

Revenue

Aldrich projected an overall revenue increase of 2.9% from FY17. The largest revenue source is the property tax, which is expected to increase by 3.3%, reflecting the allowable 2.5% increase plus revenue from taxes on new growth. This revenue is stable and predictable.

The second largest source of revenue is state aid. Aldrich suggested using the assumption that state aid would increase by 2.1%. Every year this is an area of uncertainty. The state budget is developed after the Executive Office of Administration and Finance and the Chairs of the Ways and Means Committees reach consensus on a revenue estimate for the state. That estimate considers revenue history and economic trends that may affect income and sales taxes. Information about the federal budget and state revenue projections will influence the Governor's budget recommendation and legislative decisions. The Governor will propose a state budget in January 2017, which will be the first indication of the amount of state aid we might actually receive. The Finance Committee is using that cautious 2.1% projection for our preliminary budget guidelines.

At the Four Boards Meeting, the Co-Interim Finance Director and Town Manager also estimated revenues for FY18 from local receipts and other financing sources. Local receipts, such as motor vehicle excise, fines and fees, and payments in lieu of taxes, are estimated to increase by 3.8%, in part because UMass agreed to pay a fee in lieu of Hotel/Motel Tax. Other financing sources, which include reserves, decrease by .8%; the FY17 budget included \$40,000 that Town Meeting transferred from Free Cash to support the Schools Library paraprofessionals. There is no use of reserves projected to help finance the FY18 budget.

The Finance Committee asks the Town Manager, Superintendent, and Library Director to start developing operating budgets using these preliminary guidelines. We emphasize the word "preliminary." As the budget process continues, this Committee may use input from the Budget Coordinating Group and any additional information that becomes available to make adjustments in its preliminary assessment of the amounts recommended for allocation from the General Fund. The Committee will consider the needs of the town as a whole, including municipal functions, education, and libraries, as we develop final budgets.

The capital budget and mandatory expenses

The capital budget includes debt service obligations and capital projects funded from current revenues. The Town's Financial Policy specifies that the annual capital budget should equal at least 10% of the estimated property tax levy. This policy recognizes that it is essential to maintain and improve infrastructure, including town, school, and library buildings and the equipment required to provide services, as well as to invest in recreation fields and facilities, open space, and other Town priorities. When the policy was adopted in 2008, 7.2% of the tax levy was allocated to that purpose. As the needs of operating budgets took precedence, the amount allocated for capital spending dropped to a low of 5.64% in FY11. It has gradually increased to 8% of the levy for FY17. The Finance Committee recommends that 8.5% of the levy be used for FY18, with a greater percentage of the levy used in future years if financial circumstances allow. The Finance Committee feels that getting to the 10% of Levy for Capital spending is necessary in order to afford the four major capital projects being proposed in the near future: the new elementary school building, Jones Library renovation/expansion, new Fire Station, and new Public Works facility. These projects will take careful financial planning. In addition to achieving our 10% goal for capital, we will need to continue to build our reserves, and control operational spending in order to make these affordable.

Some appropriations that are not part of the operating budget, and not under our control, will increase. The assessment for the Retirement System, for instance, is expected to rise by 8.0% from FY17 levels. This explains why, even with a 2.9% increase in overall revenue, we are recommending an overall spending increase of only 2.5%.

Other Post-Employment Benefits (OPEB)

The Finance Committee proposes including an allocation of \$400,000 to the OPEB Trust in the FY18 budget. The June 30, 2014, actuary report estimated the Town of Amherst's liability at \$95.7 million. Amherst is required by law to fund pensions, however, as of now, not its OPEB obligation. Town Meeting has begun to put money into the OPEB Trust, starting with \$585,342 at the Fall 2012 Special Town Meeting. Since then, Town Meeting has annually transferred into the OPEB Trust Amherst's share of the Medicare Part D reimbursements received because the Town provides drug benefits to retirees through its health plan. The FY15 operating budget included \$100,000 allocated to OPEB; for FY16, it was \$200,000, for FY17, it was \$300,000. Given the size of the OPEB obligation, the allocation of \$400,000 for FY18, may seem inconsequential. However, it is important that Town Meeting recognizes this debt and assumes responsibility by continuing to allocate funds for it.

Standard and Poors included this unfunded liability in its last assessment of the Town's credit worthiness in January 2015, noting that the Town has begun funding its OPEB Trust Fund. At least in part because of that, the Town's credit rating was maintained at AA+, which reduces borrowing costs. Whether or not loan rates are reduced, the obligation to pay the health insurance costs for retired employees remains. Given the trend in federal and state budgets, we cannot expect significant help to meet that obligation. In prior years, the Town promised its employees to provide health care and life insurance after they retire without setting aside funds for that. It is sound financial policy to continue making that effort.

Reserve funds

The Town Financial Policy is to maintain reserves at 5-15% of General Fund operating revenues. The Department of Revenue has certified Free Cash at \$4,818,684 as of July 1, 2016. That plus the Stabilization Fund \$6,390,203 comprise the Town's reserves of \$11,208,887 million, which is 15% of FY17 General Fund operating revenues. This Committee will propose that the November 14 Special Town Meeting allocate some of the free cash, the amount greater than 5% of General Fund operating revenues, to a Stabilization Fund. That action will not affect total reserves.

The Finance Committee believes that the Town is in a period when annual revenue growth cannot be expected to exceed 2.9%. With the uncertainty about state aid for FY18, we would not be wise to use any reserves to fund recurring expenses in FY18. In general, the Committee seeks to limit the use of reserves to the establishment of new programs that will have known future revenue; as a transition to the loss of funding; or for unique one-time projects.

Requested budget information

Budgets reflect changes in programs, services and staffing, which can be a combination of reductions and additions. The Finance Committee asks that you provide information about projected cost increases and changes in operations for FY18, the effect that a 2.5% increase in town funding will have on programs, and a description of what would be added with a small amount of additional funds. The Committee also requests that you describe new or possible changes in grants and other revenue you expect to receive in addition to the proposed allocation from the General Fund and how those changes might affect services. The Finance Committee needs this information to fulfill its responsibilities. Such information will also inform Budget Coordinating Group discussions of overall priorities, and will help prepare all of us to adjust budgets, if necessary.

The Finance Committee wants to achieve uniformity in the descriptions of programs and budgets in its report to the Annual Town Meeting. That report will present each operating budget with a five-part budget narrative:

1. Budget and Finance Committee recommendation,
2. Basic functions and relevant data,
3. Summary for the next fiscal year, including changes from the current year,
4. Full-time-equivalent employees for the next fiscal year and change from current year,
5. Services provided by other departments and for other departments.

The Finance Committee recognizes the difficulty of defining “full-time-equivalent” employees in a uniform way that works well for all budget areas. The important thing is to strive for year-to-year uniformity within each budget area and explain the projected change for the next year. For example, if the work force consists of salaried and hourly employees, the employee count might be projected as the number of FTE benefited staff and the number of hours of part-time staff.

For several years, the Finance Committee has been interested in the services provided by each department to assist other departments. This teamwork is important to Amherst. It helps all parts of the Town be efficient and effective. Town Meeting members will appreciate this practice and the Committee wants to report it to them.

Please provide this information with the written budgets you submit to the Finance Committee. If that is not possible, the Committee will ask for this information when you meet with us to present your budgets. As in prior years, we may have other questions as we review budgets and meet with you.

Schedule

The Finance Committee requests that you submit budgets according to the Budget Coordinating Group’s budget development calendar. We would like the Town Manager and Library Director to present budgets to the Finance Committee no later than January 19 and the Superintendent in February. We understand that in some cases they may be executive budgets that require review by elected policy boards and are subject to revision.

Conclusion

The Town provides high-quality schools, libraries, and municipal services, and the Committee expects that the modest increases in projected revenues will allow us to maintain this level of service across all sectors of Town government. Finding creative approaches to providing quality services economically is a challenge that will be with all of us for the foreseeable future, particularly as we pursue the four major capital projects discussed earlier.

Amherst is a model of responsible management and quality community services, due to your dedication and resourcefulness. The Finance Committee thanks you for that, for the cooperative spirit that all of you bring to your work, and for your willingness to work together so that we can present a responsible budget to Town Meeting.

Stephen Braun, Vice Chair

Joseph Jayne

Bernard Kubiak

Timothy Neale

Janice Ratner

Anurag Sharma

Marylou Theilman, Chair