



**Town Council Finance Committee
Recommendation on Fiscal Year 2020 Budget**

Introduction

This is the first annual budget that will be adopted by the Town Council. The process and the engagement of Councilors is different from the Town Meeting process and how members participated. Most members of Town Meeting were not involved with the budget process until they received the report from the Finance Committee. A significant number of members were only elected for the first time at an election that was less than a month before the report was provided to Town Meeting members and the first session of the Annual Town Meeting. Town Meeting members did not receive the budgets from the Town Manager, Superintendent of Schools, and Library Director, and had no presentations on Town finances before Town Meeting.

The Town Council received the budgets from the Town Manager on May 1. The budget was referred to the Finance Committee by vote of the Town Council on May 6. There have been presentations and ongoing discussion of Town Finances. Therefore, this Finance Committee report is different from what was provided for the Annual Town Meeting. Rather than recreate sections from budgets that have been provided to the Town Council, which was a significant portion of the former Finance Committee reports, we refer to the Town Manager, School and Library proposed budgets that are available for more detail. For anyone who is reviewing this report and does not have a copy of the proposed budgets, they are found at <https://www.amherstma.gov/78/Budget>.

The relevant provision in the Charter is in Section 5.5:

(c) Action by Town Council: The Town Council shall adopt the budget, with or without amendments, by June 30. In amending the budget, the Town Council may delete or decrease any programs or amounts except expenditures required by law. Except on the recommendation of the Town Manager, the Town Council shall not increase any item in, or the total of, the proposed budget, unless otherwise authorized by the general laws. If the Town Council fails to take action on an item in the proposed budget by June 30, that amount shall, without any action by the Town Council, become a part of the appropriations for the ensuing fiscal year and shall be available for the purposes specified. The vote to approve the budget shall be by roll call vote. If the Town Council determines it prudent to separately consider and act on a portion of the budget due to legal requirements, agreements with regional entities of which Amherst is a participant, or for other substantial cause, it may do so, by roll call vote, provided the Town Council complies with Sections 5.5(a) and (b).

Unlike at Town Meeting, where an amendment could increase an appropriation, which was occasionally done for specific purposes, the Council can only delete or decrease programs or amounts recommended by the Town Manager. The Council could ask the Town Manager to consider a program or expenditure not envisioned in the proposed budget, but it cannot require him to make such a recommendation. The Council can set forth priorities for the next Fiscal Year similar to the Select Board guidelines that were part of the process for this budget. That is not part of the FY 20 budget process.

Finance Committee process

After the budget was referred to the Finance Committee for review, the committee met twice each week through May 28 in meetings that were also posted as full Town Council meetings. In addition to hearing from Town Manager Paul Bockelman and Interim Finance Director Sonia Aldrich, the committee met with Superintendent Mike Morris and School Finance Director Sean Mangano regarding the elementary school budget, Library Director Sharon Sharry, and the heads of the municipal departments about the budgets for their departments. The meetings focused on the written budgets as presented and the information presented about mission, goals, accomplishments, challenges, staffing, programs, and changes from prior years.

The Town provides important services and a significant goal is to continue those services. Because our resources are limited, services cannot be expanded or added unless we know how they will be supported. We also need to think in a longer-term than a single year and not expand services if we do not have a plan to continue to provide them if successful. There are costs to start a new program and once created, there will be people who expect that it will be continued. We will therefore comment on our current financial condition and long-term projections before reporting on the review of each budget section

Financial condition and projections

Amherst is presently in a strong and stable financial position. Property taxes constitute 66% of revenues for the General Fund. (Enterprise Funds are part of the Consolidated Operating Budget but are separate from the General Fund.) Our tax collection rate is high. Without a voter-approved override, increases are limited to 2.5% per year plus any additional amount attributed to new growth. The Town Manager projects new growth for FY 20 of \$800,000, only slightly less than the \$819,985 projected for FY 19. Construction is proceeding on several new projects including North Square and University Drive. Without new growth or an override, an annual growth rate at 2.5% would not be sufficient to cover increases to continue level services.

Significant increases in other revenue areas would alleviate pressure on increases in property taxes to continue level services. The second largest portion of revenues for the General Fund is from state aid, 20% of the total. This year's projected increase is at 1.8%. State aid always depends on solid growth of state revenue and the legislature's determination of its budget priorities. As the chart on page 8 of the Town Manager's proposed budget indicates, over time the increases in state aid have not matched inflation so the increase in "constant dollars", aid adjusted for inflation, is not growing significantly. There is no reason to project that to change. Local receipts comprise 9% of revenues. We anticipate modest growth due to marijuana sales tax, and to new lodging taxes and impact fees on short-term rentals. The amounts are currently unknown. The Town Manager projects a 5.3% increase in Motor Vehicle tax for FY 20 but has noted that this depends on new car purchases, which tend to fluctuate. We cannot project that increases in these areas will be greater than increases in the cost to maintain level services.

There are two additional considerations. We have been fortunate that inflation has remained low for an extended period and have no ability to project future inflation. Any significant increase would affect the cost to provide level services and could adversely affect some revenues, such as the legislature's capacity to provide state aid. And, as the Town Council has discussed, we confront significant capital needs. We recommend that the Town Council not consider requesting any increases to the proposed FY 20 expenditures.

Review of Department budgets

The budgets from the Town Manager, Superintendent and Library Director include information such as mission, goals, accomplishments, program and staff plans for FY 20, future challenges, and information on proposed funding allocations. The committee reviewed appropriate budgets sections before the meeting with senior staff and came prepared with questions. Presenters started with an overview during which they focused most often on plans for FY 20 and future challenges.

Public Schools. The elementary schools are funded in the budget that we are now considering. Regional Schools were funded by a budget approved by the Town Council on April 22 and subsequently by the other three towns that are members of the Region at Town Meetings. The schools are moving forward with the implementation of a dual language program at the Fort River School and the budget funds the first year implementation at the kindergarten level. It continues investments in arts, school gardens, and technology. The successful new food service program will continue and the schools will make new investments in English Language Education, Special Education, Curriculum, Preschool and facilities.

There continues to be long-term uncertainty because of possible changes to charter school tuition and reimbursement formulas, and because the state budget continues to fund some local aid accounts at amounts less than first promised including Charter Tuition and Homeless Student Transportation reimbursements.

The largest challenges ahead relate to facilities. The Town Council took a first step to support a long-term resolution with the Statement of Interest to the Massachusetts School Building Authority. The need to maintain the current buildings as safe and useful facilities is addressed through the capital budget.

Library. The library system provides a high level of service. Out of 367 Massachusetts public libraries, only 20 circulate more items annually than the Jones Library system. Springfield is the only library that is higher on the list from western Massachusetts. The library budget meets the guidelines established by the former Finance Committee and Select Board of a 2.5% increase. As with the schools and other municipal departments, the projected small health insurance increase (less than 1%) is a significant factor in the Library's ability to maintain current services within the budget guideline. However, the library is not able to fill two vacant positions and the Trustees had to approve a 4.5% draw rate on the endowment for FY20 to avoid layoffs. The library's Investment Manager recommends a spending rate of no more than 4% per year to assure the Endowment's viability. To address future budget concerns, the library merged its fundraising effort with that of the Friends of the Jones Library System and is engaging in an effort to increase donations. The municipal appropriation (\$2,043,302) is the largest component of funding, at 75.4% of the total income for the library system. The challenges that need to be addressed include: (1) the buildings, which will be considered in future capital budgets; (2) funds are insufficient to meet the demand for youth, teen, adult and senior programming; (3) funds are insufficient to fill two vacant positions, (4) needed staff development; (5) library hours cannot be expanded; (6) the endowment draw rate used in FY 20 is unsustainable; and (7) personnel costs, including past increases in health insurance and recent increases to the minimum wage, are rising faster than the town appropriation and fundraising have been able to support.

General Government. Significant changes for FY 20 include the change in employee health coverage from a self-insured plan to group plan purchased through MIIA, changes in funding for Finance Department positions, and changes that relate to the implementation of the Charter. The Human Resources Manager had been funded from the Health Claims Trust Fund, the self-insurance plan that was replaced with the new group health plan. That added a position to the Human Resources and Human Rights Department. The savings for all government functional areas and departments from the reduction of employee health insurance costs justifies the cost to fund this position in another manner. The Finance Department changes from the previous year are due to reassignment of ambulance billing from a staff function to a purchased service, and the change in funding source for two positions. A change in the

department charged for an employee, such as the reassignment of a position from LSSE to the Finance Department, does not affect the number of town employees or the overall budget.

The budgeted cost for the Town Council is greater than the budgets for the Select Board and Town Meeting, which was expected. It is more difficult to quantify the expense to provide staff support for the former elected bodies and for the Council. The Finance Committee is looking at the amount of time now being allocated by the Town Manager, staff in his office, the Town Clerk who is also Clerk to the Council, other staff in the Clerk's office, and the Community Participation Officers. There have been great demands on their time since the Charter passed and the Council was elected and inaugurated. We also do not know the effect that early voting for municipal elections and ranked choice voting will have on the elections budget and the Town Clerk's office. The Town Manager and Town Clerk/Clerk to the Council said that their work to support the Council has been challenging and rewarding. They expect to reassess the resources needed to meet the needs of the new form of government after initial Town Council processes are in place.

Public Safety. This functional area is the largest portion of the municipal services portion of the Town's operating budget. The immediate challenge to the Police Department is due to four vacancies. It takes time for newly hired officers to be fully available because of required programs at the police academy and to meet other orientation and training requirements. Another challenge relates to a likely consequence of increased use of recreational marijuana, an increase in impaired driving and other health-related service calls. The committee asked about problems related to the homeless population. The department has developed relationships with providers and the homeless population. The creation of more housing opportunities for people who are presently homeless will help. The Fire Department's long-term challenge has been staffing. They provide a high level of ambulance services, including frequent trips to support Amherst's aging populations, and are on call for a range of services, yet often operate with staff vacancies due to sickness or injury. The decision by Hadley to terminate its arrangement with Amherst to provide the primary EMS to that town has had a significant financial impact for Amherst (the revenue impact is about \$600,000 from the contract with Hadley and decreased insurance billings) but has relieved some staffing pressure. The department provided initial statistics about service call reductions. Two other areas discussed were the Communication's Center and Animal Welfare.

Public Works and Enterprise Funds. The Department and the Enterprise Funds are the largest section of municipal government under the direction of one manager, the Superintendent of Public Works. There are high public expectations for services of all funds and divisions: water, sewer, solid waste, transportation, highways, snow & ice removal, street & traffic lights, tree & grounds maintenance, and equipment maintenance. Like all general fund budgets, the Town Manager and the Council need to consider whether budgets are adequate to meet the public's expectations. The Superintendent of Public Works identifies two additional challenges. The Department operates under permits issued by the Commonwealth's Department of Environmental Protection (DEP) and the federal Environmental Protection Agency (EPA). Two major permits are up for renewal, one needs to be modified, and one is new and the Town must adjust to operate according to requirements. The other challenge identified by the Superintendent is that recruiting and retaining employees is difficult when the economy is strong and unemployment is low.

The Town's Four Enterprise funds (Water, Sewer, Solid Waste, and Transportation) are supported by the users of the services supported by each of the funds. Three of the four funds (Water, Sewer, and Transportation) provide support for the management and administrative services provided to the enterprise, and contribute to the OPEB trust for health insurance for enterprise employees/retirees. There is inadequate revenue in the Solid Waste Enterprise Funds to do so. In order to provide sufficient revenue, the Council will be asked to authorize increases in water and sewer rates in a later action that is not part of the budget approval. We discussed evaluating whether Amherst might consider differential

rates for water use by large purchasers/users such as large apartment/mixed-use buildings, UMass, and colleges. This would require future study.

The Transportation Fund's revenues are from parking system fees and fines. Expenses are principally for the parking system and bus service. This year the Town has drawn on Transportation Fund Free Cash to support continued late night hours for bus service. Transit passenger data is in Appendix F to the budget, at pages 192-195. We note that the Nelson Nygaard study released in April 2019 calculated the cost to build a new parking structure at \$40,000 per space, requiring average monthly revenue per space of \$275. We had a brief discussion about whether the Boltwood Garage was constructed to enable additional upper floors at a later date. While the answer is "yes", this might no longer be possible with added building near the garage. The Finance Committee discussed the need to review parking policies, including fees, hours, and use of reserved underground garage space at a later date. Meter revenue per space for current lots through FY18 can be found on page 171 of the budget.

Planning/Conservation/Inspection. The Conservation Department includes the work of the sustainability coordinator. FY 20 objectives include support for the Energy and Climate Action Committee, completion of the new Dog Park, construction of the solar array on the north landfill, and initial work on the dredging of Puffer's Pond. The Department manages over 5,000 acres of conservation land, including Puffer's Pond, and more than 80 miles of trails. The Planning Department will work with the Planning Board and Council to update the Master Plan and review current zoning law. Other FY 20 objectives include rehabilitation of the North Common and Main Street parking lot, beginning to update the Housing Production Plan, and working with the Affordable Housing Trust to preserve and encourage development of new affordable housing units. The Inspections Department's two biggest challenges are to improve the automation for managing the large number of licenses and permits issued by the Department and, working with the new Board of License Commissioners, to incorporate the licensing processing and issuance formerly placed with the Select Board.

Community Services. This functional area of the budget includes two large groups of services important to Amherst. One is Public Health, the Senior Center and Veterans' Services. The other is the programs administered by Leisure Services and Supplemental Education, which includes youth sports, camps, after school and adult education programs, the pools and the golf course. There is a large need for resources to support those who depend on these services. All of the department heads described the services they now provide and the gaps. As an example, the Public Health Department lacks adequate resources to assist people experiencing mental illness and substance use disorder, the need for day services for people who are homeless, and the need for substance use disorder education. The Senior Center identified the need for more low-income housing for elders, appropriate recreational space at the Senior Center, and parking to enable more seniors to use the Center. Veterans' Services reported on the need to increase outreach to assure that all eligible veterans receive the benefits to which they are entitled. LSSE has made significant progress in its effort to evaluate its programs and to extend outreach and programs to the apartment complexes. LSSE is a department that has been challenged to maintain services and meet the minimum wage requirement for seasonal part-time staff.

Debt Service and OPEB. The Town is legally required to repay its debts. As the Town Manager has advised, current debt is low for a community of our size which is planned in anticipation of major projects we will consider in the next years. Debt for five purposes was fully paid in FY 19 and these debts are not on the list of Principal and Interest payments on page 115 of the Town Manager's proposed budget. We also refer you to Appendix D on pages 187-190 for a list of current debt obligations. The budget proposes adding \$500,000 to the OPEB trust to fund Other Post-Employment Benefits, principally the health insurance promised to town employees upon retirement and until they are eligible for Medicare. Other required assessments are listed on page 120.

Capital Plan

The Capital Plan is fully described in the report from the Joint Capital Planning Committee that was part of the Town Manager's budget packet sent to the Council on May 1. The JCPC report is in three sections. The first 6 pages describe its process and town policy on capital planning and management. The policy is part of the Town's "Financial Management Policies & Objectives". It provides that, "The annual budget should include a Capital Program that includes debt service obligations and cash-funded capital projects funded from current revenues equal to at least 10% of the estimated property tax levy. This does not include capital projects funded via debt exclusions (debt excluded from Proposition 2 ½ limits). If in any year funds for the capital program recommended to Town Meeting are below the target allocation of 10% of the estimated property tax levy, a plan will also be presented to replenish funding of the capital program to 10% within a reasonable timeframe." The first page of the JCPC report states, "On November 6, 2018 the former Finance Committee issued Preliminary Budget Guidelines that recommended a capital budget equal to 9.5% of the tax levy in FY20 for a total of \$5,014,825 (an increase of 12.6% from the FY19 total). In addition to funding the purchase of new items, the capital budget includes debt service for capital projects that were purchased through borrowing. After subtracting the debt service costs projected for the year, the amount available for tax funded capital in FY20 is \$3,503,810."

The portion of the JCPC report that is incorporated into the budget that requires Council action is found on pages 7-13. It is the proposed expenditures for FY 20, including purchases funded from taxation. The ten-year capital plan begins on page 14. The Finance Committee will continue its discussion of long-term capital planning in the next months. The established JCPC practice was to assure that expenditures deemed to be necessary within the ten-year period are included and to use the plan to establish a preferred order for funding. JCPC did not attempt to balance each year's expenditures against projected revenue. There will be changes since new needs will be identified and items on the list of needed investment may become more or less urgent. The ten-year plan is important, but it is a working document, not an immutable plan. It has always been a public document that was shared with Town Meeting. Town Meeting action, however, was on the budgeted expenditures for the next year, as is the current process.

Community Preservation Act

The Finance Committee reviewed the recommendations of the Community Preservation Act Committee, beginning with a presentation by that Committee's Chair and Vice-Chair at a meeting attended by many members of the Town Council and therefore a meeting of the Council. The Committee considered whether each proposed project is sound, financially responsible, consistent with the purposes of the Community Preservation Act, and raised any other legal questions. There may be other factors that the Town Council may consider to be compelling reasons to fund a project recommended by the Community Preservation Act Committee, or not to do so.

The Finance Committee voted to postpone its final consideration of the Valley Community Development Corporation proposal until June 25, after the forum announced by the President. We recommend the other proposals submitted by the Community Preservation Act Committee based on the criteria described above.

Requested Council actions

On June 3, the Finance Committee recommends that the Council approve seven separate Appropriation and Transfer Orders. This is a term that is new to Amherst, and is equivalent to motions

passed by Town Meeting in financial Articles. These proposed Orders have been reviewed by our Town Attorney. They were previously sent to you by the Clerk of the Town Council and are appended to this report. Five Orders require a majority vote of the Town Council members present. A two-thirds vote is required if the Order also authorizes borrowing funds or transfer of property. At a Town Meeting, those actions were by separate motions because of the different vote requirement. The Finance Committee is not recommending action on two of the orders at the June 3, 2019 Town Council meeting. These are the orders recommended for action on June 3:

Appropriation Order FY20-04 will fund the operating budget for the town's municipal functions, the elementary schools, library and the four enterprise funds. It combines a number of actions that were separate Articles and motions in our former form of government.

Appropriation Order FY20-05 will fund the capital budget. At Town Meeting, this was several Articles and motions but appropriately combined for our new government.

Appropriation and Transfer Order FY20-06 rescinds borrowing authority authorized at a previous Town Meeting. Less money was needed and borrowed than was authorized. It is sound financial management to rescind that unused borrowing authority. This would have been a separate Article and motion at a Town meeting.

Appropriation Order FY20-07 funds the projects proposed for the Community Preservation Act that do not require borrowing funds or transfer of property.

Appropriation and Transfer Order FY20-08 transfers funds from the Community Preservation Act Fund to purchase the Szala property, as recommended by the Community Preservation Act Committee and authorizes actions to apply for a grant, acquire the land, and convey a restriction that is required for conservation land. Because it involves transfer of property, it is a separate Order and will require a two-thirds vote of the Town Council

Appropriation and Transfer Order FY20-09 is similar, for the Keet Haskins property.

Appropriation and Transfer Order FY20-11 is similar to Article 3 at the 2018 Annual Town meeting and actions that Town Meetings took annually. This local option authorizes assessors to reduce property taxes for certain qualifying taxpayers with limited income: surviving spouses (17D), military veterans (53), blind persons (37A), and 70 or over elderly (41C). The reduction is in addition to the base amount allowed by the state. The option has been in effect in Amherst since FY94, the first year for which Town Meeting adopted it. The option must be renewed annually. The total cost to the Town in FY19 to provide these tax exemptions, including the optional tax exemptions, was \$94,549.00 in foregone tax receipts. Reimbursement by the state for the base exemptions was \$31,719.00. The cost to the Town in FY19 to provide the additional optional tax exemptions was \$35,110.00.

FY 21 process

Now that we are almost at the end of the FY 20 budget process, the Finance Committee will begin to develop a proposed plan for FY 21. As noted, this was a transition year that began with the Select Board and former Finance Committee and will be completed with Council action on the orders we recommend. The process for FY 21 will begin with a financial projections meeting and the establishment of what was previously called "guidelines." This will include convening the first meeting of the Budget Coordinating Group (Charter Section 5.2).

In previous years the Town Manager presented projections at a joint meeting in October of the Select Board, School Committee, Library Trustees, and the Finance Committee, what was called a Four Board Meeting. The Select Board provided the Town Manager with policy guidelines. The former Finance Committee then provided general financial policy guidance and set forth preliminary allocations

for operating budgets general municipal functions, schools, regional schools, and library, and for capital expenditures.

For FY 21, there will be an additional question of whether to proceed with Participatory Budgeting, and to what amount of funds. Another part of the initial process is to establish a budget development calendar. The calendar will help the library and schools coordinate with the Town Manager. The processes and timelines of the Budget Coordinating Group, Joint Capital Planning Committee and Community Preservation Act Committee need to be integrated into the process. JCPC is meeting on June 6 to make recommendations for the FY 21 process.

The Finance Committee will possibly begin its discussion of the proposed FY 21 process in July, after the resident members are appointed