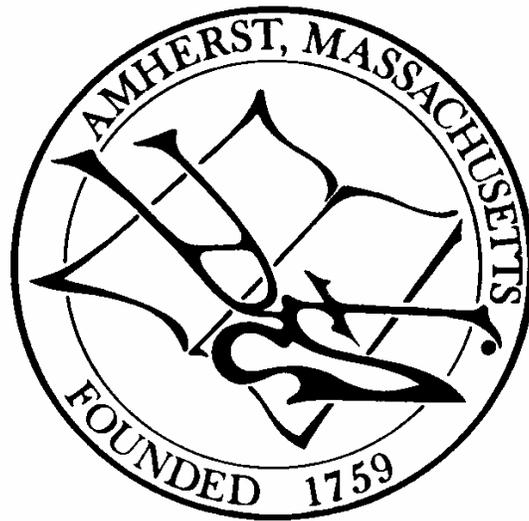


OVERRIDES

A FINANCE COMMITTEE REPORT TO THE CITIZENS OF AMHERST



January 2007

FOREWORD

The Finance Committee prepared this report in response to a request by the Budget Coordinating Committee for information on Proposition 2 1/2 overrides and as part of the Finance Committee's responsibility to provide advice on matters affecting the finances of the Town of Amherst.

Amherst must decide how to resolve a serious revenue shortfall projected for fiscal year 2008 and several years beyond then. There are a number of approaches available; the Town may wish to employ several of them. Among the possibilities are to reduce spending, increase various local fees and other charges, find money-saving efficiencies in Town operations, seek more money from others (the state? tax exempt institutions in the Town?), and increase the property tax levy by means of a Proposition 2 1/2 override.

This report focuses only on overrides. Other approaches will be considered throughout the coming budget process.

The report tells what overrides are and how they may be conducted, the experience Amherst and other cities and towns have had with overrides, and some of the pros and cons of adopting an override. It compares Amherst property taxes with other communities, shows the impact of possible overrides on tax bills, and lists ways to lessen the impact on certain categories of taxpayers and renters. Finally it describes the Town's current and future financial problem.

The Committee's purpose here is to present information to citizens without advocating either in favor of or against overrides.

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EXPLANATION OF PROPOSITION 2 1/2 AND LEVY LIMITS

The property tax levy is the revenue a community raises in any given year by taxing real and personal property. Real property refers to land and improvements. Personal property refers to equipment used in businesses. Approved by Massachusetts voters in 1980, Proposition 2 1/2 restricts the levy in two ways:

1) Levy ceiling. The tax levy can't be more than 2.5% of the total full and fair cash value of all taxable real and personal property in the community.

For FY 2007, the full and fair cash value of all taxable property in Amherst is \$2,045,921,630, and the tax levy is \$32,080,051, or 1.57%, well below the levy ceiling.

2) Levy limit. The levy limit is the maximum amount a town may raise in property taxes each year without approval by the voters in a referendum. The law allows an automatic annual 2.5% increase in the levy limit that is calculated by the state Department of Revenue. The law also allows the levy limit to increase as a result of new growth, which is new development, construction, renovation and property adding to the total value of the community's taxable property. The automatic increase and the increase for new growth are both permanent increases.

Voters of a town may increase the levy, either permanently or temporarily, by approving one or more referendum questions. These procedures, described in the following chart, are called overrides or exclusions, depending on the purpose and type. (Note: Underrides, put on the ballot and voted in the same manner as overrides, are a permitted but rarely used method of decreasing the levy limit.)

Figure 1. Calculation of Property Tax Levy

TOWN OF AMHERST - CALCULATION OF PROPERTY TAX LEVY					
	FY 06 Actual	FY 07 Budget	FY 08 Proposed	Change FY 07-08	Percent Change
Prior Year Levy Limit	28,639,551	30,318,214	31,713,076	1,394,862	4.6%
+ 2.5% Allowable Increase	715,989	757,955	792,827	34,872	4.6%
+ Estimated New Growth	962,674	636,907	400,000	(236,907)	-37.2%
+ General Override	0	0	0	0	0.0%
= Levy Limit	30,318,214	31,713,076	32,905,903	1,192,827	3.8%
+ Debt Exclusion - High School	220,641	382,217	340,425	(41,792)	-10.9%
= Maximum Allowable Levy	30,538,855	32,095,293	33,246,328	1,151,035	3.6%
- Actual Tax Levy	30,535,984	32,080,051	33,246,328	1,166,277	3.6%
= Excess Levy Capacity	2,871	15,242	0		

TYPES AND TIMING OF BALLOT QUESTIONS

Different types of ballot questions may be used, the simplest being a single question requesting funding for one or more purposes. Pyramid overrides give the voters a choice between two or more proposed funding levels by presenting questions with different dollar amounts for the same purpose. If more than one funding level is approved, the highest amount governs. Menu overrides give the voters a choice of different services to fund by presenting multiple questions, each with its own purpose and funding level. All questions approved are funded. (See Figure 2 Overrides and Exclusions on page 6 for a summary description of the three types of overrides).

The law allows override and exclusion ballot questions to be voted either before or after town meeting has voted on the associated appropriations. For example, an override question could be put on the ballot for the Amherst Town election scheduled for March 27, 2007. If the override were to pass, town meeting could then include the dollar amount of the override in its revenue estimates and appropriate the money at Annual Town meeting. In this case, a majority of the Select Board would have to have approved a specific ballot question, stating its amount and purpose, no later than February 20, 2007. Or, Town Meeting could vote appropriations and hold an election later to seek the additional funding needed to balance the budget. If the needed amount were approved, the budget would be balanced and the tax rate could be set without further action. If the amount were not approved, the Town would have to reduce spending or find other revenue in order to balance the budget and set the tax rate.

Town meeting could also vote contingent appropriations for specific purposes. In this case, the money appropriated could not be spent unless the Select Board voted to put the questions(s) on the ballot and the electorate approved it/them. If the 2007 Annual Town Meeting were to pass contingent appropriations, the entire process would have to be completed by September 15, 2007, or the appropriations would be void.

For detailed information on increasing the levy limit and procedures for doing so, see the Department of Revenue's publications "Levy Limits: A Primer on Proposition 2 1/2," available in the budget section of the Town's website (www.amherstma.gov/budget/levylimits.pdf) and the more detailed "Proposition 2 1/2 Ballot Questions, Requirements and Procedures" (www.amherstma.gov/budget/prop2.pdf).

ALTERNATIVE OBJECTIVES FOR OVERRIDES

Overrides are sometimes planned as a one-year or short-term fixes to a revenue shortfall problem. It is possible to design an override to manage a more long-term, structural deficit. The Town of Arlington passed an override in 2005 that was designed to solve its deficit problem for a period of five years. They accomplished this by projecting revenues and spending for five years, allowing specific percentage increases for operating budgets each year. The plan included raising enough money in the override to put some of the proceeds in reserve for use in the later years of the plan. It was coupled with a commitment not to seek a further override during the five-year period. Thus, a single override would cover needs for five years. Arlington's elected committees and Finance Committee all supported the plan, and the voters approved the override. The plan is now in its second year; so far it is working as planned.

Figure 2. Overrides and Exclusions

Overrides of the Levy Limit	
Purpose:	Provide funding for municipal expenses likely to recur or continue into the future
Duration:	Permanent increase in levy limit
Votes required:	Select Board majority vote to put referendum question on ballot; majority approval of the electorate
Question Format:	Can be broadly worded; single, multiple, pyramid, or menu formats; must state a dollar amount and purpose(s)
Monetary Limitations:	Capped at levy ceiling, 2.5% of the community's full and fair cash value
Use Limitations:	None
Capital Projects Funded by Debt Exclusions	
Purpose:	To increase the amount of property tax revenue (in addition to the levy limit) a community may raise for a <u>limited or temporary period</u> of time in order to fund specific projects.
Duration:	Until debt retirement
Votes required:	Select Board 2/3 vote to put referendum question on ballot; majority vote of the electorate
Question Format:	A question (to voters) stating the purpose for each debt, or a consolidated question; single, multiple, pyramid, or menu formats; no dollar amount stated
Monetary Limitations:	Amount of debt service. No dollar limitation, but does not increase community's levy limit, and does not become part of the base for calculating future years' levy limits.
Use Limitations:	Capital projects where borrowing is anticipated or has occurred
Capital Expenditure Exclusions	
Purpose:	To increase the amount of property tax revenue up to the cost of the specified project.
Duration:	One fiscal year
Votes required:	Select Board 2/3 vote; majority vote of the electorate
Question Format:	A question (to voters) for each project, or a consolidated question; single, multiple, pyramid, or menu formats
Monetary Limitations:	Cost of project. No dollar limitation, but does not increase community's levy limit, and does not become part of the base for calculating future years' levy limits.
Use Limitations:	Capital projects where appropriations are anticipated or have occurred

HISTORY OF OVERRIDES

Through the years since enactment of Proposition 2 1/2, the statewide number of overrides requested as well as the success rate of override votes has varied considerably. In the initial years, the effects of Proposition 2 1/2 on individual municipalities varied, but many cities and towns had no need for overrides because they had local reserves and state aid was quite generous. Statewide, few override questions were brought before the voters and the success rate for these overrides was better than 50% (FY 83-FY 89, Figure 3 on next page). In the early 1990's, as state aid was reduced due to the recession, cities and towns significantly increased their use of overrides to address shortfalls in revenue. In the 3-year span of fiscal years 1990, 1991, and 1992 there were 1,572 override requests. However, the resulting success rates of those overrides fell significantly, from 45% for FY 90 to 25.5% for FY 92. [Note: The state's count of override votes lists each ballot question separately, although in many cases a municipality may have had several questions on a single ballot.] Beginning in FY 93, state aid began to steadily increase again; as a result the number of overrides brought before the voters dropped dramatically. The success rate of those overrides rebounded a bit (to about 38%) but not to the pre-1990 value. With the economic downturn starting in FY 2000, cities and towns again returned to overrides to shore up budgets. However, the number of override requests has in no way approached the numbers seen in the early 1990's. FY 00 through FY 04 saw 469 override requests compared to the 1,609 for FY 90 through FY 92. For FY 00 through FY 06 the success rate for overrides was at or above 50%, but that trend is ending. For FY 07 override questions, the success rate was down significantly, to 37%.

Figure 4 is a summary of all overrides, successful and unsuccessful, that have been attempted in the Town of Amherst since the enactment of Proposition 2 1/2.

More detailed information on overrides is available in the FY 2008 budget section of the Town Website (www.amherstma.gov/budget), with links to publications from the Massachusetts Department of Revenue. Note that the override votes discussed are only for general overrides that permanently raise the levy. Debt and capital exclusions are not included. A December 2, 2006 *Boston Globe* article summarizes use of overrides and also includes comments on exclusions.

(http://www.boston.com/realestate/news/articles/2007/01/02/property_tax_bills_rising_across_state/)

Figure 3. Override Votes, State Totals, Fiscal Years 1983-2007

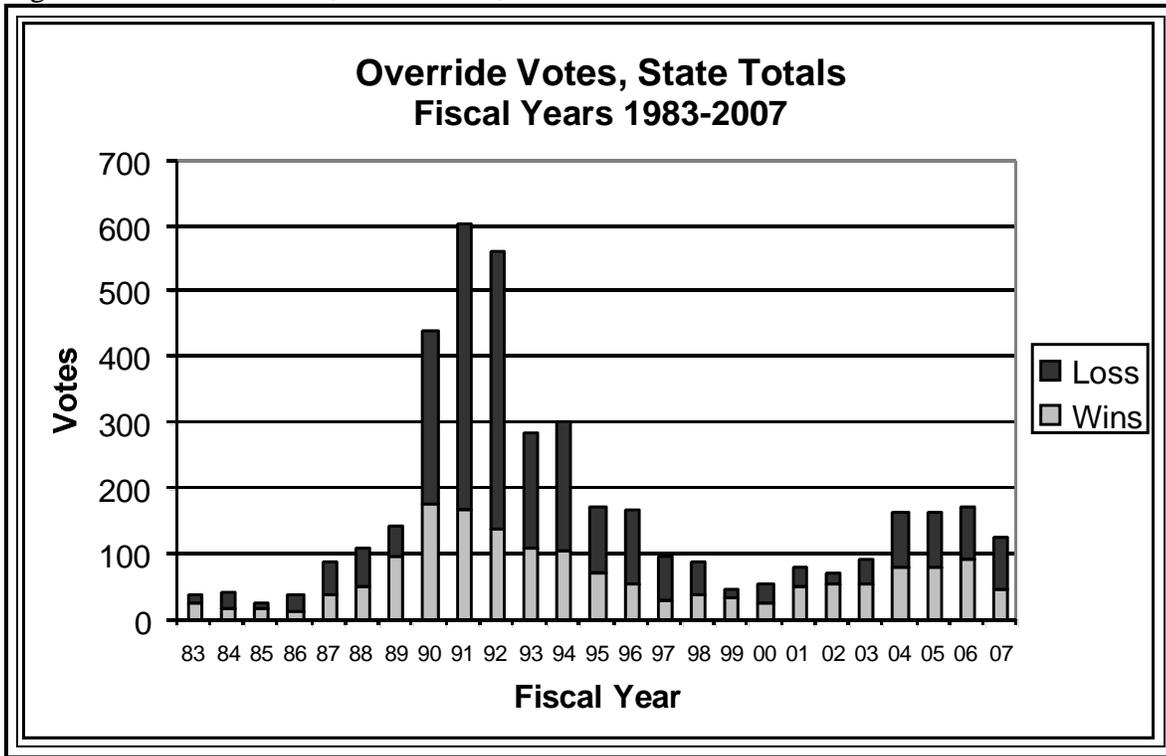


Figure 4. History of Proposition 2 1/2 Overrides – Town of Amherst

HISTORY OF PROPOSITION 2 1/2 OVERRIDES - TOWN OF AMHERST						
Date of Vote	FY	Type / Purpose	Amount	Yes	No	Result
1-May-1990	1991	Override - Town/Schools/Library capital & operating expenses	\$557,698	1,725	2,005	Not Approved
1-May-1991	1992	Override (menu) - Town/Schools/Library operating expenses				
		Police Officer & Human Resources budget	\$26,290	2,467	2,761	Not Approved
		Streetlights	\$34,240	2,442	2,775	Not Approved
		Conservation - Clerical position	\$3,300	2,387	2,837	Not Approved
		Firefighter/EMT & Human Resources budget	\$138,010	3,226	2,009	Approved
		Schools - Regional Assessment #1	\$300,000	3,192	1,999	Approved
		Schools - Regional Assessment #2	\$547,955	2,868	2,345	Approved
		Schools - Elementary #1	\$299,444	3,101	2,089	Approved
		Schools - Elementary #2	\$409,884	2,795	2,415	Approved
Libraries - Jones, North Amherst, Munson	\$11,097	2,792	2,468	Approved		
5-Apr-1994	1995	Debt Exclusion - Regional Junior High School Roof		1,734	1,066	Approved
14-Jun-1994	1995	Capital Exclusion - Fire Pumper Truck	\$200,000	1,943	1,942	Approved
		Override - Schools Regional Assessment	\$297,558	1,867	2,031	Not Approved
		Debt Exclusion - Renovations to Regional High School		1,907	1,979	Not Approved
4-Nov-1994	1995	Debt Exclusion - Renovations to Town Hall		1,787	2,098	Not Approved
		Debt Exclusion - Renovations to Regional High School		2,786	2,161	Approved
30-Mar-2004	2005	Override - Town/Schools/Library capital & operating expenses #1	\$2,000,000	2,258	2,169	Approved
		Override - Town/Schools/Library capital & operating expenses #2	\$2,500,000	1,914	2,487	Not Approved

Sources: Massachusetts Department of Revenue Division of Local Services and Amherst Town Clerk

OVERRIDES: PRO AND CON

These are some arguments for and against override ballot questions.

PRO

Allows current programs and services to continue as they are now or adjust to changing needs. Provides resources to carry on activities collectively that citizens cannot do individually. Discussion of an override proposal stimulates examination of existing programs, how they might be improved and whether some should be eliminated.

Because the property tax is the most significant available source of local funds, increasing it is the most feasible approach to enabling the town to carry out its responsibilities to citizens. Seeking more funds from the state and federal governments and tax-exempt entities is important but does not pay today's bills and cannot guarantee results.

More property tax income for the town permits development of services better adapted to the varying needs of citizens.

An override would assure valued staff that their employment is not threatened.

An override could prevent some Town employees from losing their jobs.

A carefully calculated, large property tax increase could virtually guarantee that no further override would be needed for a stated period of years, perhaps five. This would allow a highly beneficial level of certainty in budgeting over the stated period of time. Taxpayers would know what to expect, too.

CON

Discussion of an override may result in examination of existing town activities, but passing an override puts off, at least temporarily the continuing need for review and revision if the town's structural deficit is to be resolved.

The regressive nature of the property tax means some citizens may not be able financially to remain in Amherst. Increased funding by the state and federal governments could provide a fairer means of supporting vital local services and should be pursued aggressively.

The increase in property tax income means less money for individuals most in need, and a resulting need for more services to some.

Town government operates to provide services for the citizenry as a whole.

High taxes help price Town employees out of buying homes in Amherst.

A large increase covering an extended period of time would worsen the position of taxpayers having difficulty finding the money to meet their tax obligations now. Any guarantee of no additional override during the period would be problematic at best and, if honored, could lead to reduction of services.

PRO

High quality of town services brought many people to Amherst. Continued high quality is needed to maintain property values.

An override could make it possible for the town to rebuild its reserves, something essential to managing its finances during the next economic downturn.

Menu overrides:

Allows voters to choose which services they are willing to pay for, rather than leaving that up to Town Meeting.

Debt or capital outlay exclusion:

Allows voters to choose which services they are willing to pay for, rather than leaving that up to Town Meeting.

CON

Landlords may not be able to recover from their tenants the full cost of higher property taxes because of lease agreements or market conditions. Tenants may face disproportionately high rent increases.

High quality of services does nothing for people who can't afford to live in Amherst because of high property taxes.

Instead of the Town accumulating cash, money should stay with taxpayers until the Town actually needs it.

Could create dissention and competition among town departments, the schools and libraries; risks under-funding essential but unpopular or uncharismatic services.

Undermines the Town's long-range capital planning by treating items singly; risks failure to replace essential equipment.

AMHERST SINGLE FAMILY HOME TAX COMPARISONS

Data from the Massachusetts Department of Revenue Division of Local Services Municipal Databank/Local Aid Section allows us to compare taxes on Amherst single family homes with statewide averages and with other communities. The following three graphs illustrate three types of comparison: Amherst and communities with similar total assessed valuation; Amherst and communities with similar single family home tax bills; and Amherst and a few neighboring communities. The first two are broad measures of similarity among the towns. The neighboring communities provide useful comparison by virtue of their familiarity.

The analysis of Amherst's average single family tax bill over the last seventeen fiscal years demonstrates two primary features. First, that Amherst has been consistently willing to pay taxes above the state average for the services provided by the Town. Second, the steady growth of the tax bill, while considerable at 6% per year, is comparable to many other communities in the Commonwealth.

Figure 5. Changes in Amherst's Average Single Family Tax Bill as Compared to the Changes in the Statewide Average Single Family Tax Bill

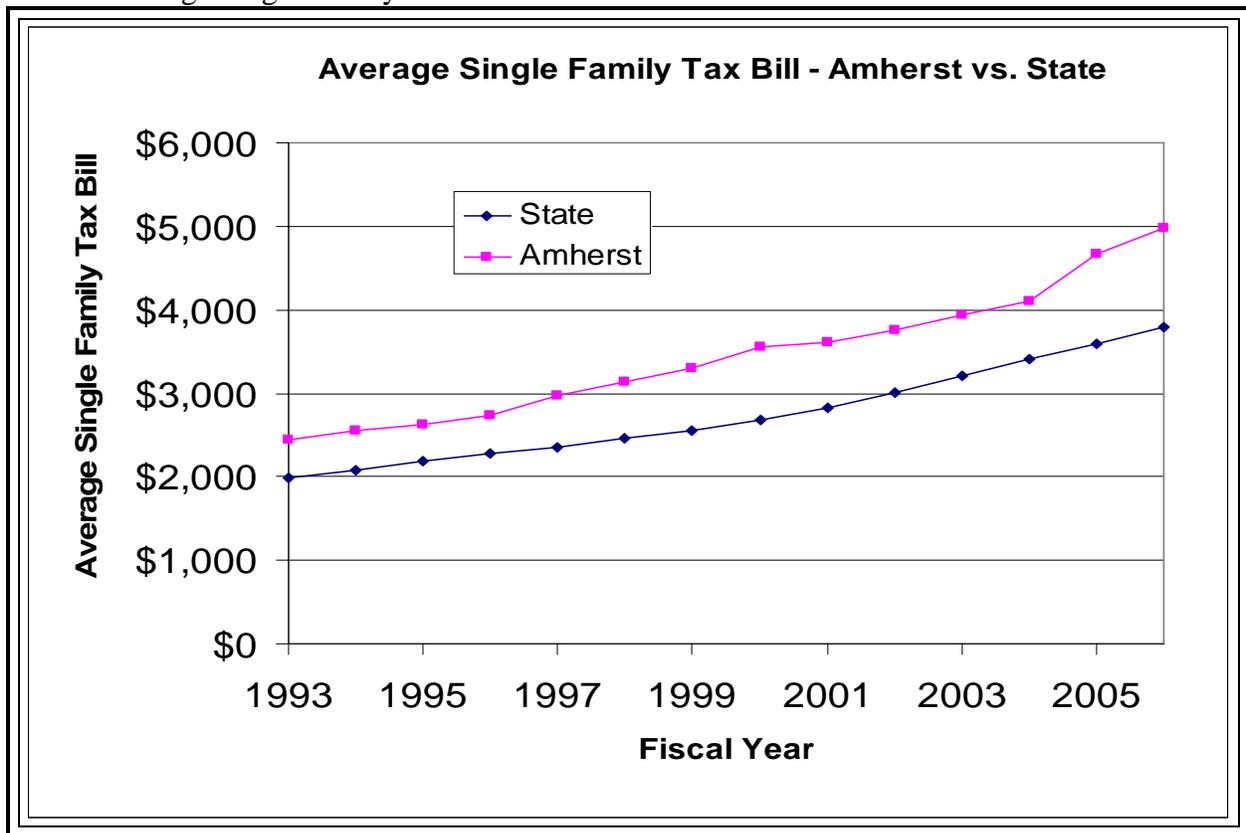


Figure 5 shows the growth of Amherst's Average Single Family Tax Bill in comparison to the statewide average. Roughly, the Amherst tax bill has grown at a rate of 6% per year whereas the statewide average has grown at about 5% per year.

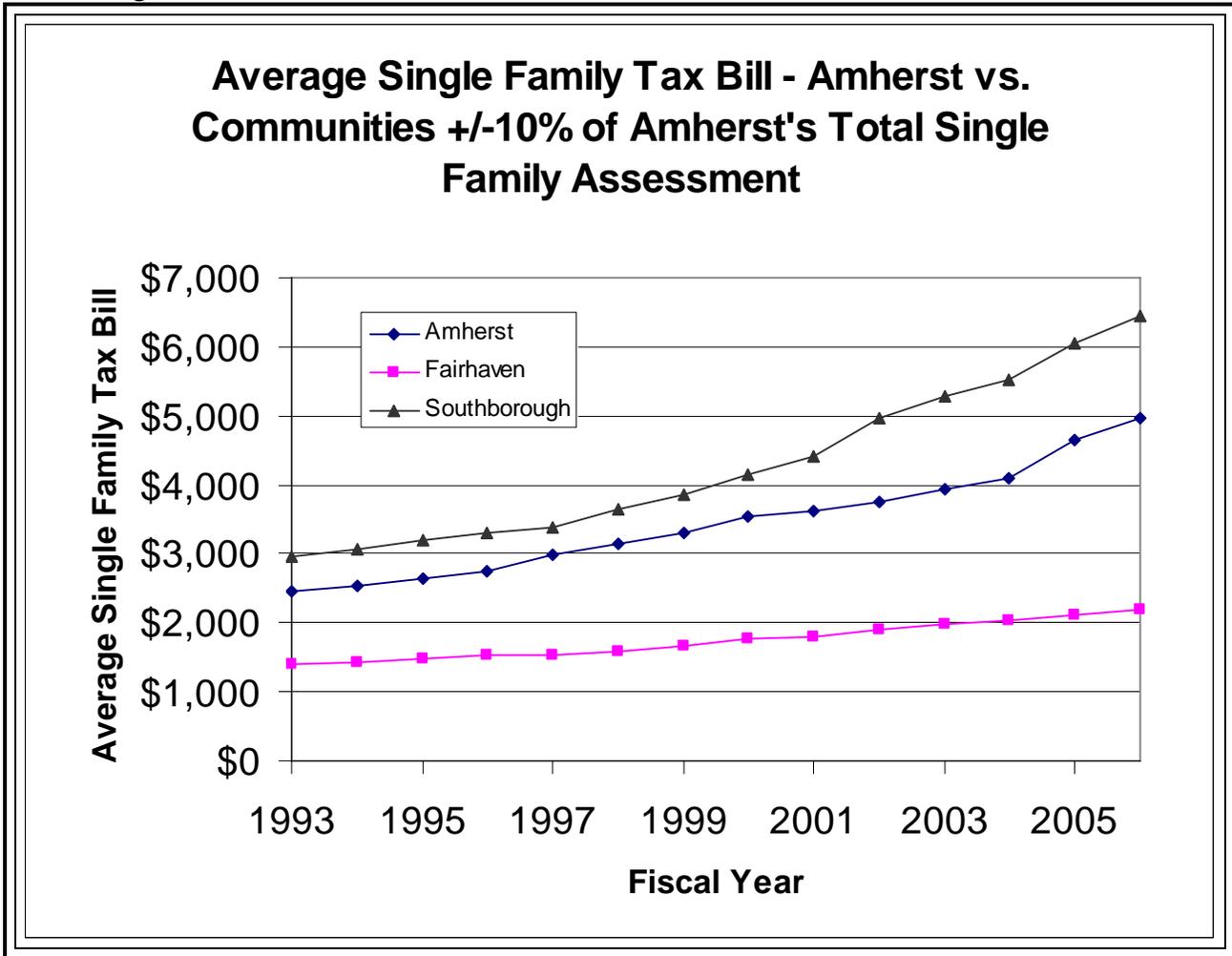
Figure 6. Average Single Family Property Tax Bill FY 1993 – FY 2007

AVERAGE SINGLE FAMILY PROPERTY TAX BILL FY 1993 - FY 2007 TOWN OF AMHERST VS. STATEWIDE AVERAGE						
AMHERST			AMHERST		Hi-Lo Rank	# of Towns Included
FY	Average Single Family Home Valuation	% Change from Prior Year	Average Single Family Tax Bill	% Change from Prior Year		
1993	149,602		2,444		60	339
1994	149,983	0.3%	2,545	4.1%	64	340
1995	148,069	-1.3%	2,633	3.5%	67	340
1996	148,859	0.5%	2,738	4.0%	65	340
1997	162,522	9.2%	2,981	8.9%	52	340
1998	163,658	0.7%	3,142	5.4%	56	340
1999	164,967	0.8%	3,296	4.9%	55	340
2000	180,598	9.5%	3,552	7.8%	52	340
2001	183,624	1.7%	3,610	1.6%	57	340
2002	198,118	7.9%	3,764	4.3%	61	340
2003	230,037	16.1%	3,936	4.6%	63	340
2004	236,015	2.6%	4,107	4.3%	67	340
2005	279,238	18.3%	4,660	13.5%	56	340
2006	330,595	18.4%	4,979	6.8%	56	338
2007	330,900	0.1%	5,189	4.2%	n/a	292
1993 - 2007		121.2%		112.3%		
2000 - 2007		83.2%		46.1%		

STATE					
FY	Average Single Family Home Valuation	% Change from Prior Year	STATE Average Single Family Tax Bill	% Change from Prior Year	# of Towns Included
1993	154,589		1,993		339
1994	153,133	-0.9%	2,081	4.4%	340
1995	153,571	0.3%	2,182	4.9%	340
1996	156,159	1.7%	2,272	4.1%	340
1997	159,838	2.4%	2,360	3.9%	340
1998	165,050	3.3%	2,463	4.4%	340
1999	173,576	5.2%	2,557	3.8%	340
2000	185,009	6.6%	2,679	4.8%	340
2001	206,789	11.8%	2,826	5.5%	340
2002	236,229	14.2%	3,015	6.7%	340
2003	266,350	12.8%	3,206	6.3%	340
2004	307,361	15.4%	3,412	6.4%	340
2005	352,820	14.8%	3,588	5.2%	340
2006	385,502	9.3%	3,801	5.9%	338
2007	411,288	6.7%	4,003	5.3%	292
1993 - 2007		166.1%		100.9%	
2000 - 2007		122.3%		49.4%	

*Source: Massachusetts Department of Revenue.
FY 07 data as of January 2007, 292 of 351 communities reporting.*

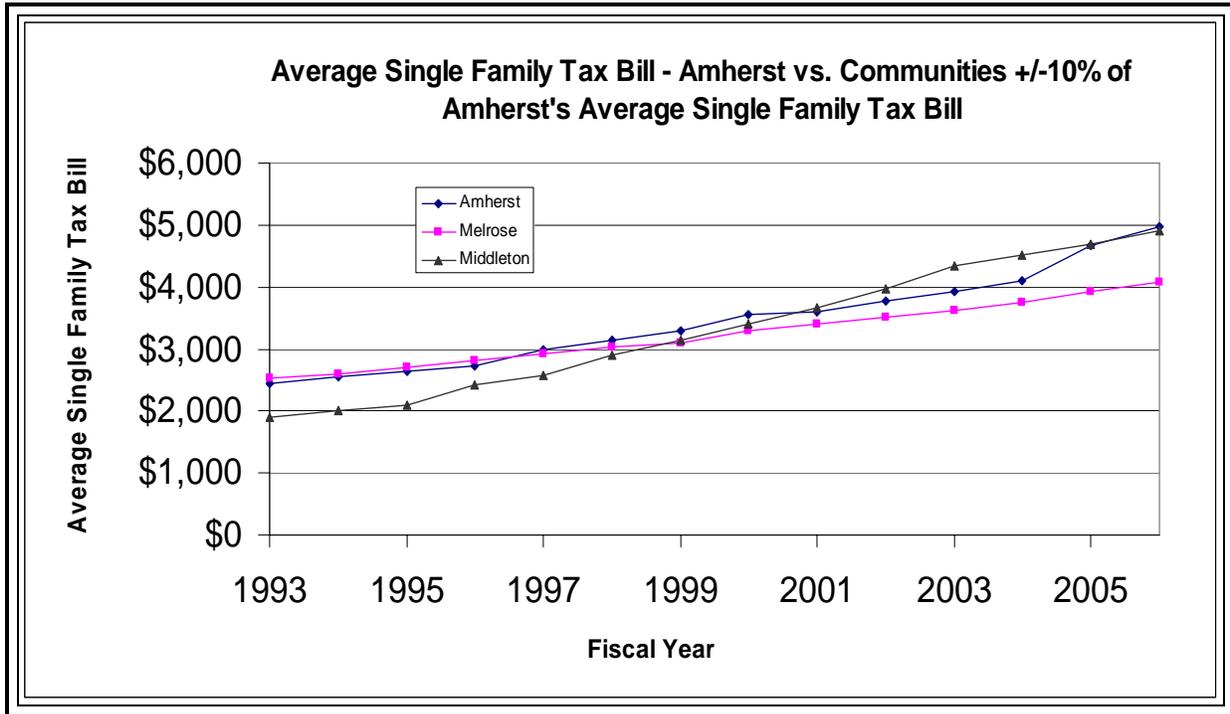
Figure 7. Comparison of Amherst's Average Single Family Tax Bill with that of Fairhaven and Southborough



Fairhaven and Southborough represent the least and greatest percentage change in Average Single Family Tax Bill (relative to their FY 93 value, shown by the steepness of the curve) of communities with Total Single Family Residential Assessments within +/-10% of Amherst's.

There are 19 communities whose overall assessment falls within this category. They are Ashland, Bellingham, Carlisle, East Longmeadow, Fairhaven, Fitchburg, Hudson, Hull, Ludlow, Medway, Middleborough, Norfolk, Norton, Oak Bluffs, Revere, Seekonk, Southborough, Wellfleet, and Wilbraham.

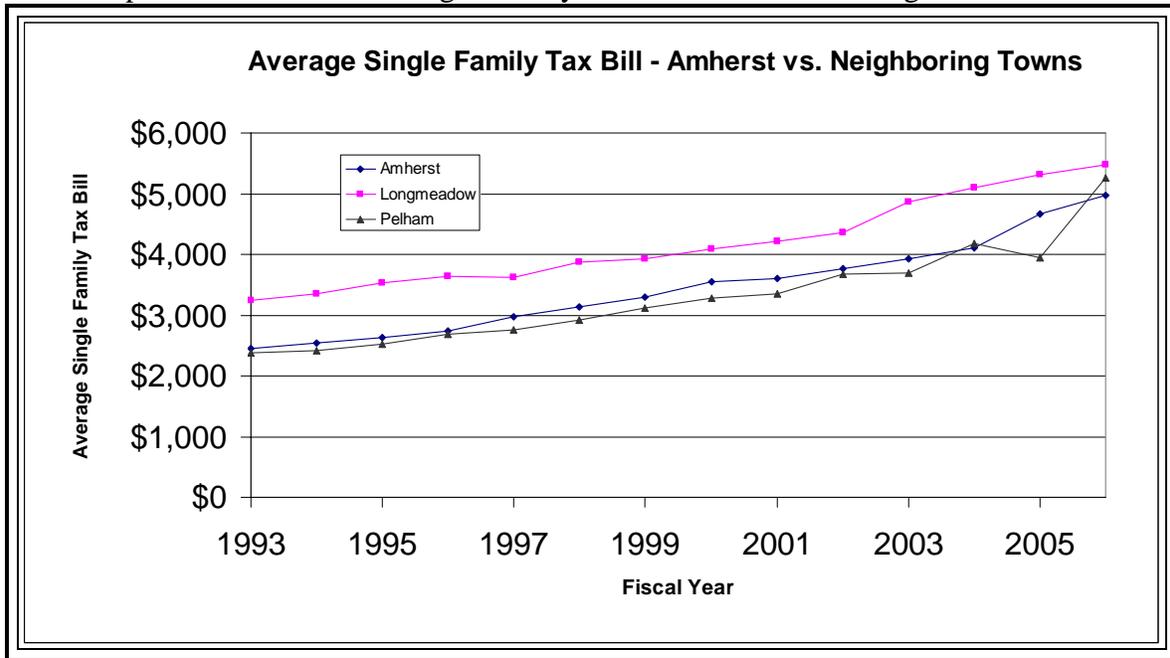
Figure 8. Comparison of Amherst's Average Single Family Tax Bill with that of Melrose and Middleton



Melrose and Middleton represent the least and greatest percentage change in Average Single Family Tax Bill (relative to their FY93 value, shown by the steepness of the curve) of communities with Average Single Family Tax Bills within +/-10% of Amherst's.

There are 37 communities whose average single family tax bill are in this category: Arlington, Reading, North Andover, Norfolk, Bedford, Hanover, North Reading, Northborough, Medway, Ashland, Chelmsford, Framingham, Nahant, Dunstable, Beverly, Marion, Natick, Princeton, Amesbury, Walpole, Rockport, Scituate, Millis, Easton, Pelham, Melrose, Stoneham, Mansfield, Middleton, Gloucester, Tyngsborough, Newburyport, Wrentham, Canton, Ipswich, Leverett, Plympton.

Figure 9. Comparison of Amherst's Single Family Tax Bill with that of Longmeadow and Pelham



Longmeadow and Pelham represent the least and greatest percentage change in Average Single Family Tax Bill (relative to their FY 93 value, shown by the steepness of the curve) of neighboring communities selected.

The average single family tax bill of the following neighboring towns was used for comparison to Amherst's: Deerfield, East Longmeadow, Easthampton, Hadley, Leverett, Longmeadow, Northampton, Pelham, Shutesbury, South Hadley, and Sunderland.

IMPACT ON TAXPAYERS

The financial impact of an override on property owners would vary according to the assessed value of property owned. The effect on renters is more complex. They pay taxes indirectly through their rent. The amount of any rent increase caused by an override could be influenced not only by the value of the property they rent, but also by existing lease agreements and rental market conditions. We have not attempted to quantify effects on rents. A report by the Massachusetts Budget and Policy Center states that “low- and moderate-income families’ ability to pay their property taxes may not have risen at the same rate as those taxes.” To the extent that the average Amherst renter may be less well off than the average single family home owner, this suggests that an override’s tax increase might be more difficult for renters to pay than for home owners. However, the data to support this is somewhat nebulous. The report can be read at www.massbudget.org/Property_Taxes_in_Massachusetts.pdf

The following chart indicates the amount of new tax that can be expected to result from overrides of various sizes. Since all classes of property in Amherst are taxed at the same rate, the increases are the same for residential and commercial properties.

Figure 10. Estimated Tax Bill Impacts of a Property Tax Override in FY 08

TOWN OF AMHERST ESTIMATED TAX BILL IMPACTS OF A PROPERTY TAX OVERRIDE IN FY 08 **						
Assessed Valuation	Tax Rate / Bill FY 07	\$1,000,000 Override	\$2,000,000 Override	\$3,000,000 Override	\$4,000,000 Override	\$5,000,000 Override
		INCREASE TO TAX RATE				
	\$15.68	\$0.49	\$0.98	\$1.47	\$1.96	\$2.44
AVERAGE SINGLE FAMILY HOUSE		INCREASE TO TAX BILL				
330,900	5,189	162	323	485	647	809
100,000	1,568	49	98	147	196	244
200,000	3,136	98	196	293	391	489
300,000	4,704	147	293	440	587	733
400,000	6,272	196	391	587	782	978
500,000	7,840	244	489	733	978	1,222
600,000	9,408	293	587	880	1,173	1,466
700,000	10,976	342	684	1,026	1,369	1,711
800,000	12,544	391	782	1,173	1,564	1,955
900,000	14,112	440	880	1,320	1,760	2,199
1,000,000	15,680	489	978	1,466	1,955	2,444
Assessed Val	2,045,921,630					
Tax Levy	32,080,051					
Increase to Tax Bill = Assessed Valuation multiplied by Increase to Tax Rate divided by 1000.						
** Source: Assessors. Used FY 07 assessed valuation (values as of 1/1/06) to calculate impacts. The calculation of increases to property tax bills does not assume any new growth added to the tax base from new construction and/or renovations/additions.						

PROPERTY TAX MITIGATION

State law allows municipalities to provide limited property tax relief to certain categories of taxpayers. Amherst currently offers the maximum dollar amount of property tax exemptions and deferrals, with the least restrictive qualifications allowed under state law. In addition, the town offers a tax work-off program. Amherst Town Meeting has also voted, for the last few years, to adopt the local option allowing an additional optional exemption up to 100 percent of the state amount. Separately, the state offers a property tax “circuit breaker” credit on state income tax for qualified people 65 and older. The circuit breaker credit is the only property tax relief method that benefits renters as well as property owners.

Exemptions

Exemptions, which reduce the amount of property tax owed, must be applied for annually. Exemptions are available to various categories people. The dollar figures shown here are 2006 amounts.

1. Qualifying veterans, disabled veterans & surviving spouses that do not remarry — exemption of \$400 to \$1,000, based on amount of disability. Recent legislation will allow some spouses of military personnel killed in action a 100% exemption for 5 years and then \$2,500 a year until they die or remarry. This cost, as well as the base increase in exemption amounts for veterans, is reimbursed by the state.
2. The blind — exemption of \$500.
3. People 70 years and older, surviving spouses, and minor children with one deceased parent, who have owned and occupied the property for at least 5 years; and who have whole estates (not counting value of domicile) no greater than \$40,000 if single, \$55,000 if married — exemption of \$175. (Exemption adjusted annually for inflation).
4. People 65 years and older who have owned and occupied any property in Massachusetts for at least 5 years and lived in state for at least 10 years; who have gross receipts no greater than \$25,763 if single, \$38,646 if married; and whole estates (not counting value of domicile) no greater than \$44,092 if single, \$60,026 if married — exemption of up to \$1,000. (Income and asset limits adjusted annually for inflation)

The state partially reimburses the town for exemptions.

Currently, 127 people in Amherst are getting exemptions.

Deferrals

Property owners qualifying for deferrals do not have to pay property taxes in the year they are due. The town puts a lien on the property, and all deferred property taxes must be paid with interest to the town when the property is sold or transferred to another owner. (The 2006 Annual Town Meeting reduced the interest rate from 8% to 4%.) A taxpayer who already receives an exemption may apply to defer the rest of the tax.

Deferrals are available to people 65 years and older who have owned and occupied any property in Massachusetts for at least 5 years and lived in state for at least 10 years; who have gross receipts no greater than \$40,000.

Currently, 3 Amherst people are getting deferrals, and at least 3 more are likely to.

Deferrals are also available to those experiencing temporary financial hardship and are being called to active military duty, or who are older with physical or mental illness, disability or impairment. No such people are currently getting deferrals.

Tax Work-Off

The tax work-off plan allows residents 60 years and older, who have an annual adjusted gross income of \$30,000 or less, to work off up to \$750 in property taxes a year at a rate of \$7.50 an hour. This can be in addition to any property-tax exemption. A maximum of 20 people may participate. Work must be completed by December 15th of each year. Currently, 17 people are participating.

“Circuit Breaker” State Income Tax Credit for Seniors

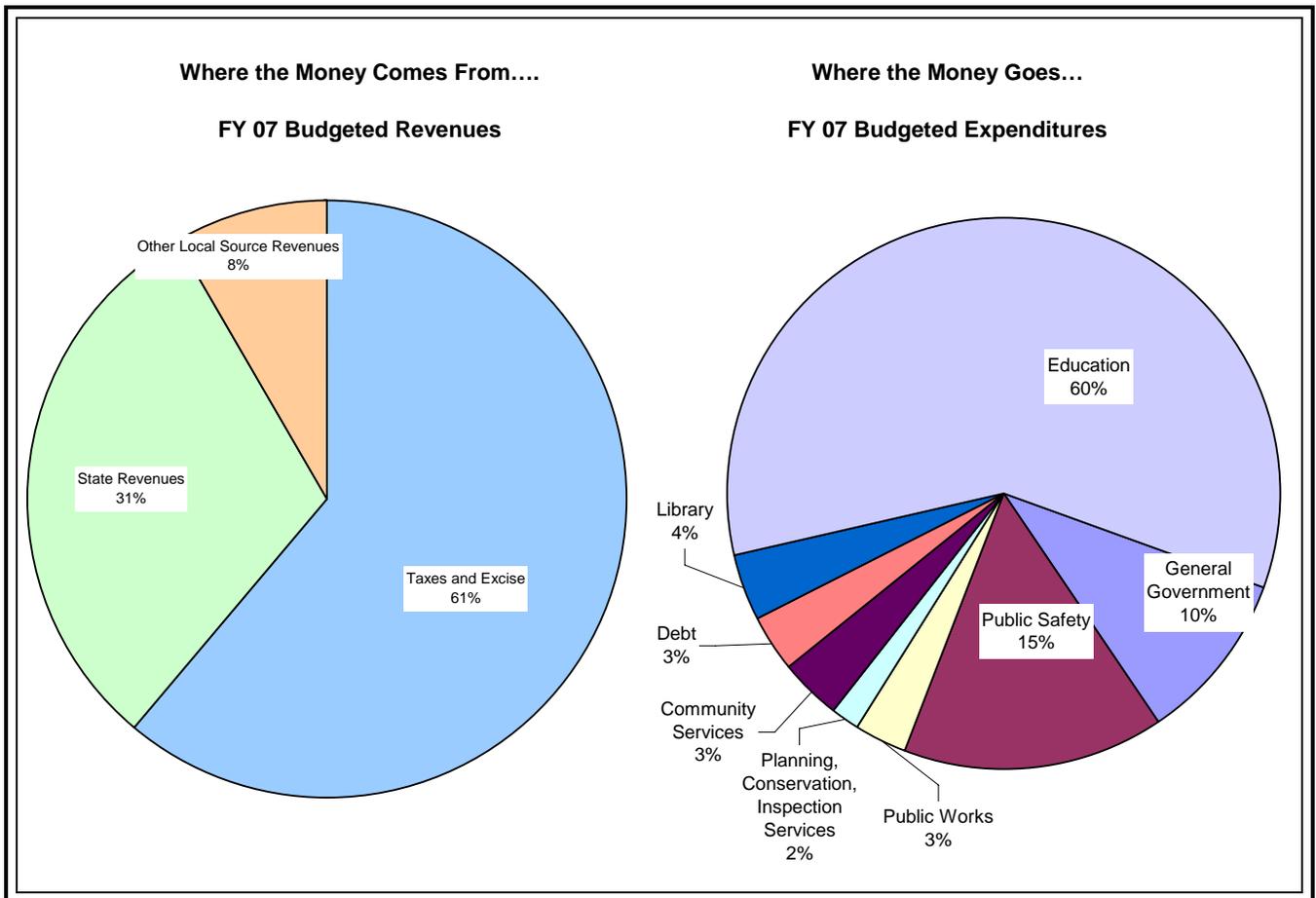
Homeowners and renters age 65 and older may be eligible to claim a refundable credit of up to \$870 on their state income taxes for the real estate taxes paid during the tax year on the residential property they own or rent in Massachusetts that is their principal residence. The taxpayer’s total income can’t exceed \$46,000 for a single filer who is not the head of a household, \$58,000 for a head of household, or \$70,000 for taxpayers filing jointly; and for homeowners, the assessed valuation, before residential exemptions but after abatements, cannot exceed \$684,000. Renters may qualify with 25% of their rent being considered real estate taxes. Fifty percent of water and sewer use charges paid during the tax year may be added when calculating their credit. If the credit due the taxpayer exceeds the amount of the total income tax payable for the year by the taxpayer, the excess amount of the credit will be refunded to the taxpayer without interest. These amounts (shown here for 2006) are adjusted annually based on changes in the cost of living.

THE AMHERST BUDGET DILEMMA

The factors that led to the budget challenges in Amherst are systemic, difficult to resolve, and not unique to this Town. Any decisions about the strategies to address the financial challenge need to be made with an understanding of these factors; the roles of our Town Meeting, committees and boards, and voters; and the limits on local government's authority to control the Town's financial situation.

The two graphs below summarize our current revenues and expenditures. They are intended to provide a concrete context in which to consider the realities of our budget dilemma.

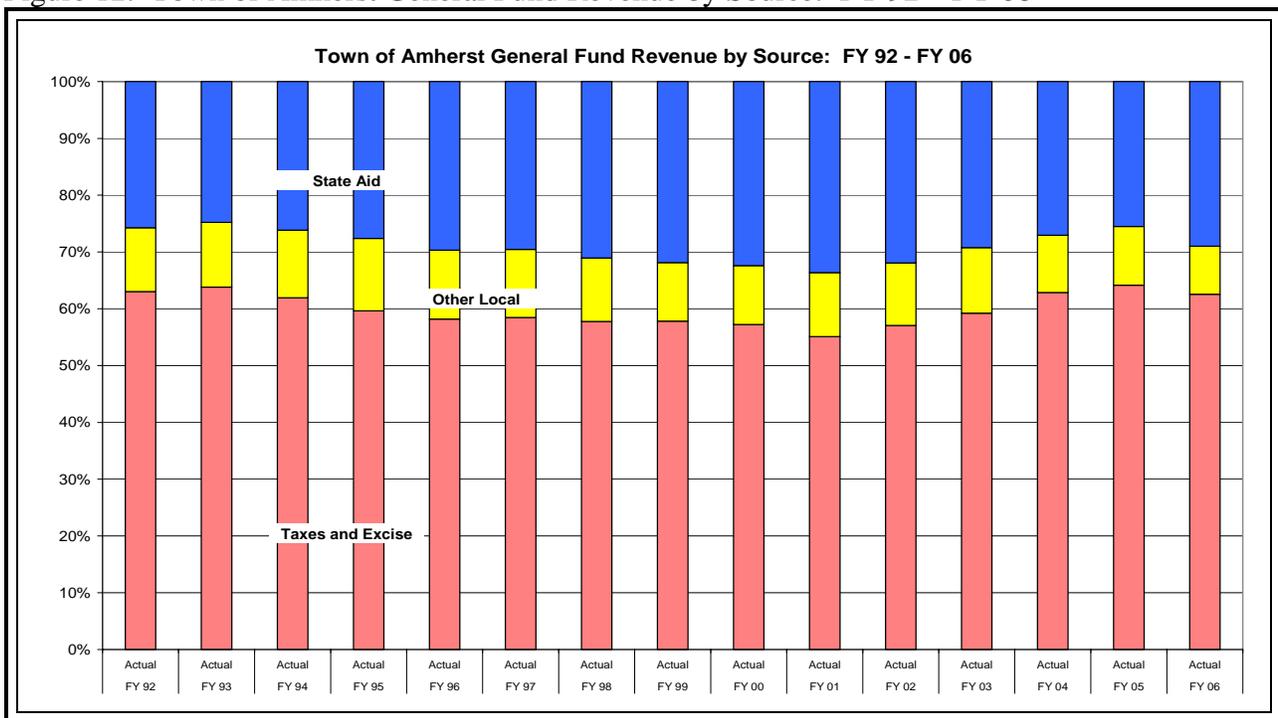
Figure 11. Where Amherst's Money Comes From and Where It Goes



Reliance on Property Taxes for Town Revenue

Amherst, and the other 350 cities and towns in the Commonwealth, provide a variety of public services that are highly valued and needed by its residents, businesses, out-of-town people who work here, and visitors. These public services include the basic functioning of the town government, education, public safety, public works, land use management and regulation, and the community services we deem to be vital to health and quality of life. Property taxation is the major source of revenue available to cities and towns. Smaller amounts derive from excise and other taxes. State aid, made up of several categories, is the second largest source of funds for communities. It is supported by the taxing capacity of the state, which is far more diverse than that of municipalities. Other local revenue sources, such as fees, fines, grants, and donations, are a much more limited resource. (See Figure 12: Town of Amherst General Fund Revenue by Source: FY 92 – FY 06).

Figure 12. Town of Amherst General Fund Revenue by Source: FY 92 – FY 06



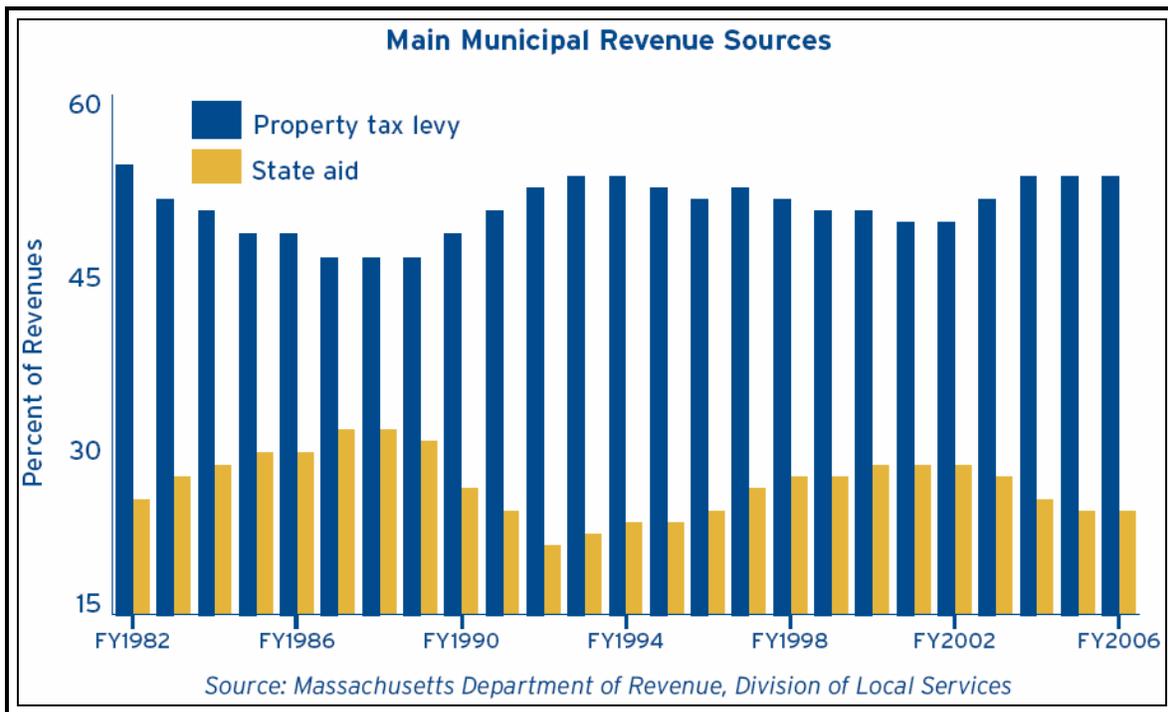
Property tax revenue and most state aid go into the Town’s General Fund. This all-purpose fund is where the largest part of our Town money is managed. Amherst, like many municipalities, segregates some specific services into enterprise funds, as allowed by state law. In these situations, the costs of the services are supported almost entirely by user fees. Amherst pays for its water, sewer, solid waste, parking and public transportation services this way. Because fees and not property taxes cover costs, these enterprises are affected by Proposition 2 1/2 either not much or not at all. It is General Fund services and purchases – just about everything else the Town does – that are impacted.

Reduced State Aid

Since the state fiscal crisis of 2002, the state has reduced the resources it shares with local governments. Even with the increase in state aid in Fiscal Years 2006 and 2007, the amount remains lower than 2002 when adjusted for inflation. The Finance Committee estimates that if all forms of state assistance, including funds that cannot be allocated at Town Meeting’s discretion, had grown by a

modest 4.5% annually, the amount received in total state aid in 2007 would have been \$2,246,670 greater than the actual amount received. The difference between state aid received during the entire period from 2003 through 2007 and the amount we would have received if the 2002 amount had been adjusted for inflation is \$14,907,228. The lack of increase contributed substantially to diminishment of valuable local services and reduction of Town reserves. As a result, the proportion of General Fund resources that comes from property taxation continues to grow and now represents 59% of General Fund spending. Conversely, FY 07 state aid represented only 28% of General Fund revenues compared to 33% in FY 02. This mirrors the finding of the Massachusetts Municipal Association for all Massachusetts communities, shown in the graph below.

Figure 13. Main Municipal Revenue Sources, Statewide



The Permissible Property Tax Increase Compared to Inflation

As mentioned previously, the allowed limit to growth in the property tax levy is 2.5% annually, plus taxation from the increase in the tax base because of new growth. The cost to do business for any city or town, or for any other enterprise seeking just to maintain level services, is greater than 2.5%. Our services – education, public safety, maintaining our infrastructure, general government, land use management, and community services – are “people” services. Personnel expenditures are a large portion of our budget: specifically, 82.6% of the FY 07 operating budget. This includes salaries and employee and retiree benefits. Health care costs for employees has steadily increased by amounts far greater than 2.5% – as much as 21% in recent years – and will continue to outpace the 2.5% allowed levy increase. This extraordinary inflationary factor is not unique to Amherst or to government employers. We have been more successful at controlling our health care costs than the average for all cities and towns in Massachusetts. We continue to look for and implement cost-saving measures in this area. Other costs, such as energy and construction materials, have also increased at a rate much greater than 2.5%

Figure 14. Average Annual Budget Growth, Amherst

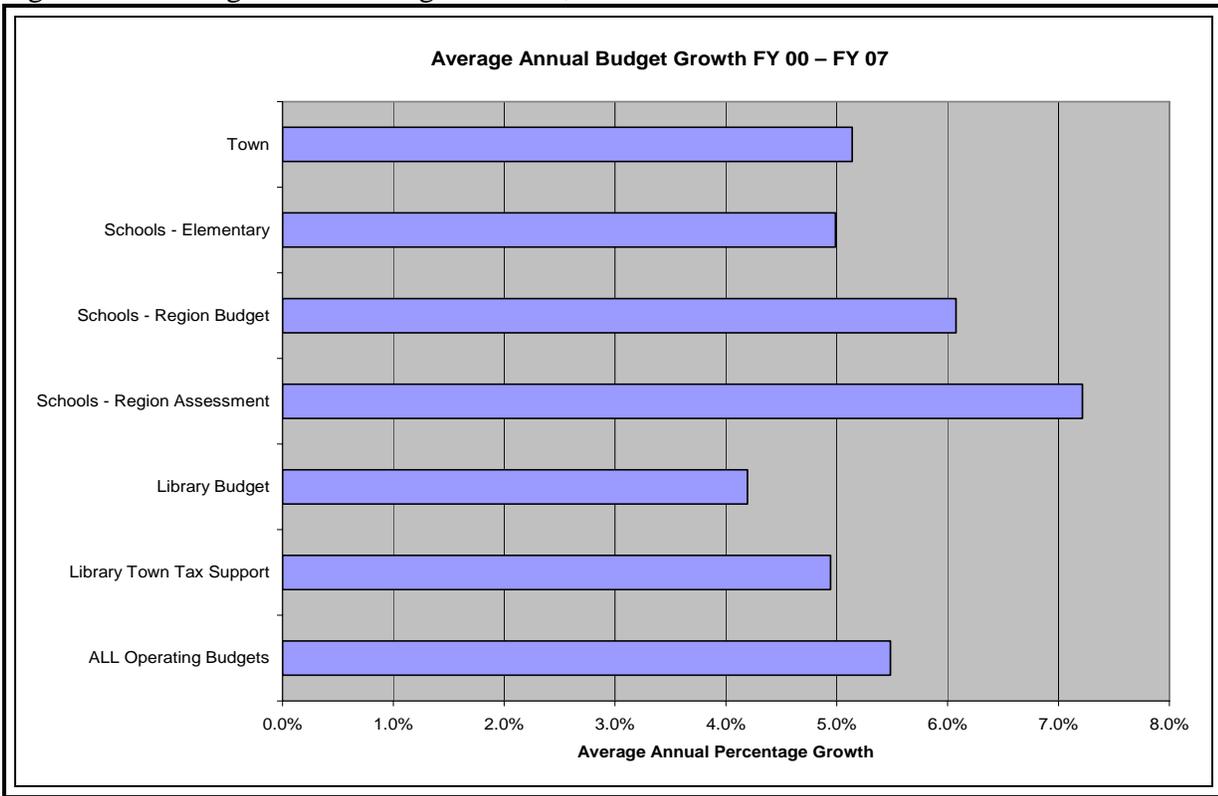
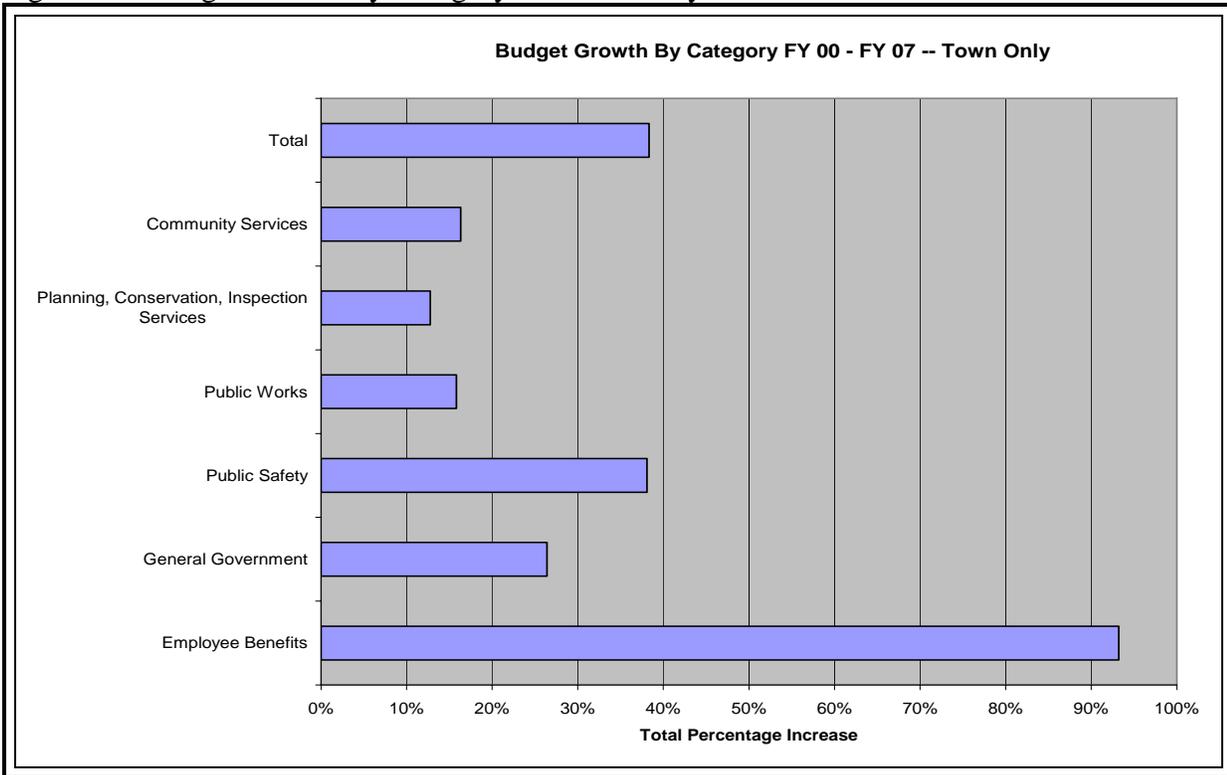


Figure 15. Budget Growth by Category — Town Only



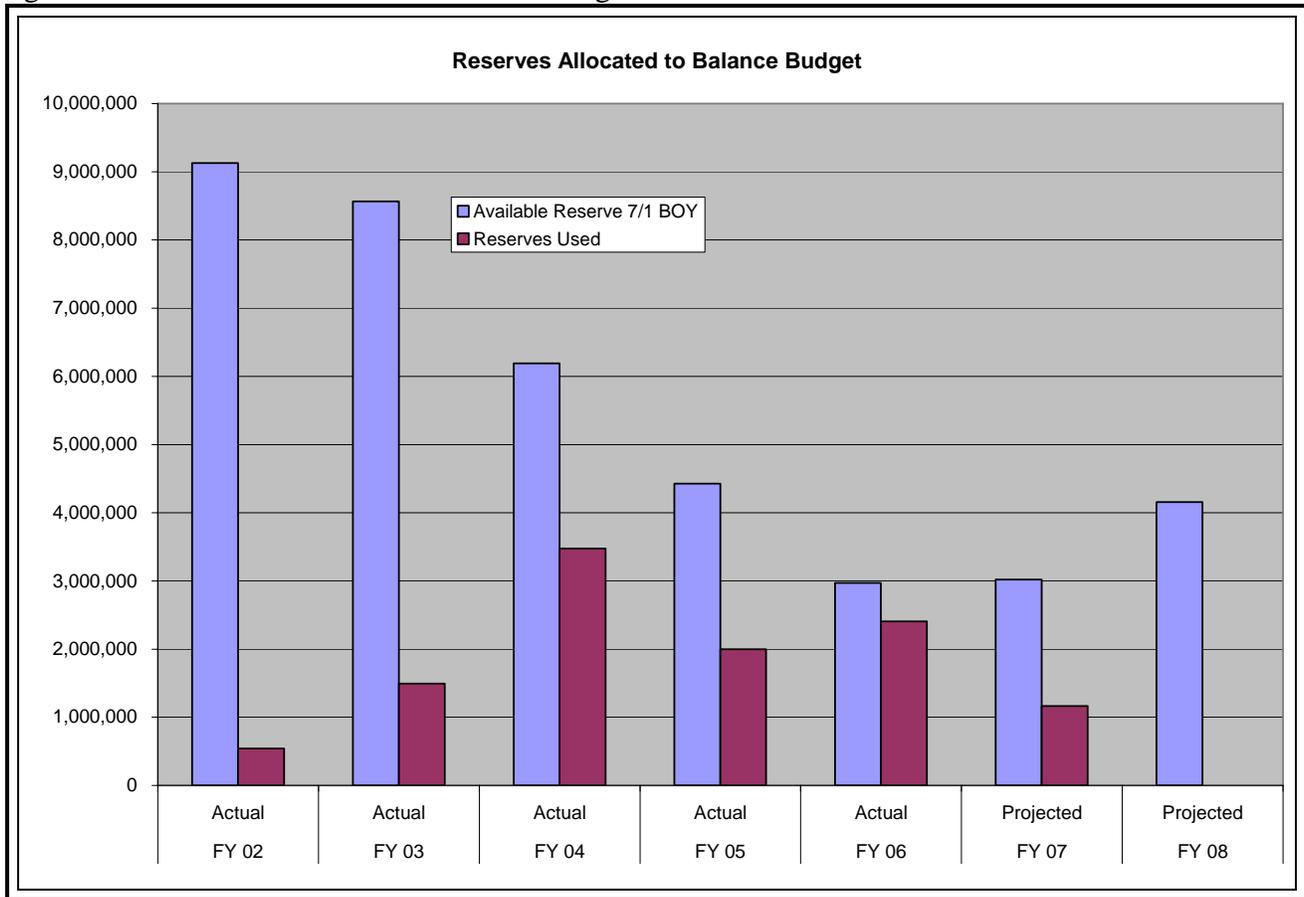
In the first years following the passage of Proposition 2 1/2 in 1980, the Commonwealth regularly increased local aid for cities and towns. This enabled Amherst and many other communities to address ongoing needs despite increases in the annual cost that were greater than 2.5 percent. The state's decision to reduce local aid as its revenues declined during the economic downturns of the early 1990's and 2000's had a devastating impact on local communities. Figure 13 (Main Municipal Revenue Sources, above) demonstrates that as state aid increases, cities and towns have been able to reduce their dependence on local property taxes to support essential services. Conversely, when state aid decreases, towns have no other means to replace these resources than to increase property taxes and user fees.

The Massachusetts Municipal Association and the Massachusetts Taxpayers Foundation have called on the Governor and legislature to increase the proportion of the budget that is allocated to local aid, including Chapter 70 School Aid, to 40% of the state's income, corporate and excise taxes, phasing in the change over a multi-year period. The full report can be read on the Town of Amherst website at http://www.amherstma.gov/budget/mma_partnership_principles.pdf. Even if the Governor and legislature adopt the proposal, control other state expenditures, and generate sufficient taxes to enable the Commonwealth to implement this recommendation, the benefit to the municipalities will come slowly because of the long phase-in period. Meanwhile, some of the significant pressures on the Town's budget due to employee health costs and energy expense will not abate.

The Depletion of Reserves

Amherst was fortunate to have more than \$9 million in reserves (Free Cash and the Stabilization Fund) at the beginning of the five-year decline in state revenues, in FY 2002. We have judiciously used those funds during this period in order to meet our essential needs. (See Figure 17 Reserves Allocated to Balance Budget). A \$2 million override in FY 05 helped make this possible. The peak year of reserves spending was FY 04, when \$3.4 million was used. The amount followed a planned schedule of decreases in the three following years. We cannot use additional reserves again in 2008 without jeopardizing the Town's financial health and its bond rating. The Finance Committee has concluded that increasing reserves to the level of 9% of operating budgets by the end of FY 10 is a reasonable, desirable and probably attainable goal. It could be accomplished primarily by a combination of (1) not spending reserves and (2) allowing annual unexpended appropriations and revenues in excess of budget estimates to accumulate as Free Cash. Clearly, this will be difficult, but it is also wise. Reserves are necessary for emergency situations, and they are necessary to help out when the next economic downturn arrives and state aid is once again reduced.

Figure 16. Reserves Allocated to Balance Budget



FINANCIAL PROJECTIONS

Essential guidance for preparing operating and capital budgets for the Town comes from financial projections for the General Fund that the Finance Director presents each fall. These projections incorporate the best available information at the time of preparation; they are revised as better information appears. The updated financial projections assume that in FY 08 the Town will continue to levy property taxes to the maximum allowed under Proposition 2 ½ (2.5% annual increase plus new growth), no net increase in state aid, and no use of reserves (\$1,000,000 was used to balance the FY 07 budget).

While state aid is the second largest source of funds in support of our Town government’s activities, it is also arguably the most difficult to predict. Figure 17 illustrates the problem. Governor Patrick has told municipal leaders to expect a “modest” increase in state aid in his budget proposal for FY 08. FY 08 projected shortfalls range from \$3.4 million with no new net state aid to \$2.1 million with a “robust” increase (defined as +8%). These shortfalls are projected to range from \$6.1 million to \$2.0 million, respectively, by FY 11 using differing definitions of “robust” and “modest” increases to state aid over the next four years. Details of current projections are shown in Figure 18 on page 26. The Town Manager’s Proposed FY 08 Municipal Budget (www.amherstma.gov/budget) also contains a detailed description of FY 08 revenue sources, assumptions, and significant changes from FY 07.

Figure 17. Impact on Projected Shortfalls with Various State Aid Assumptions

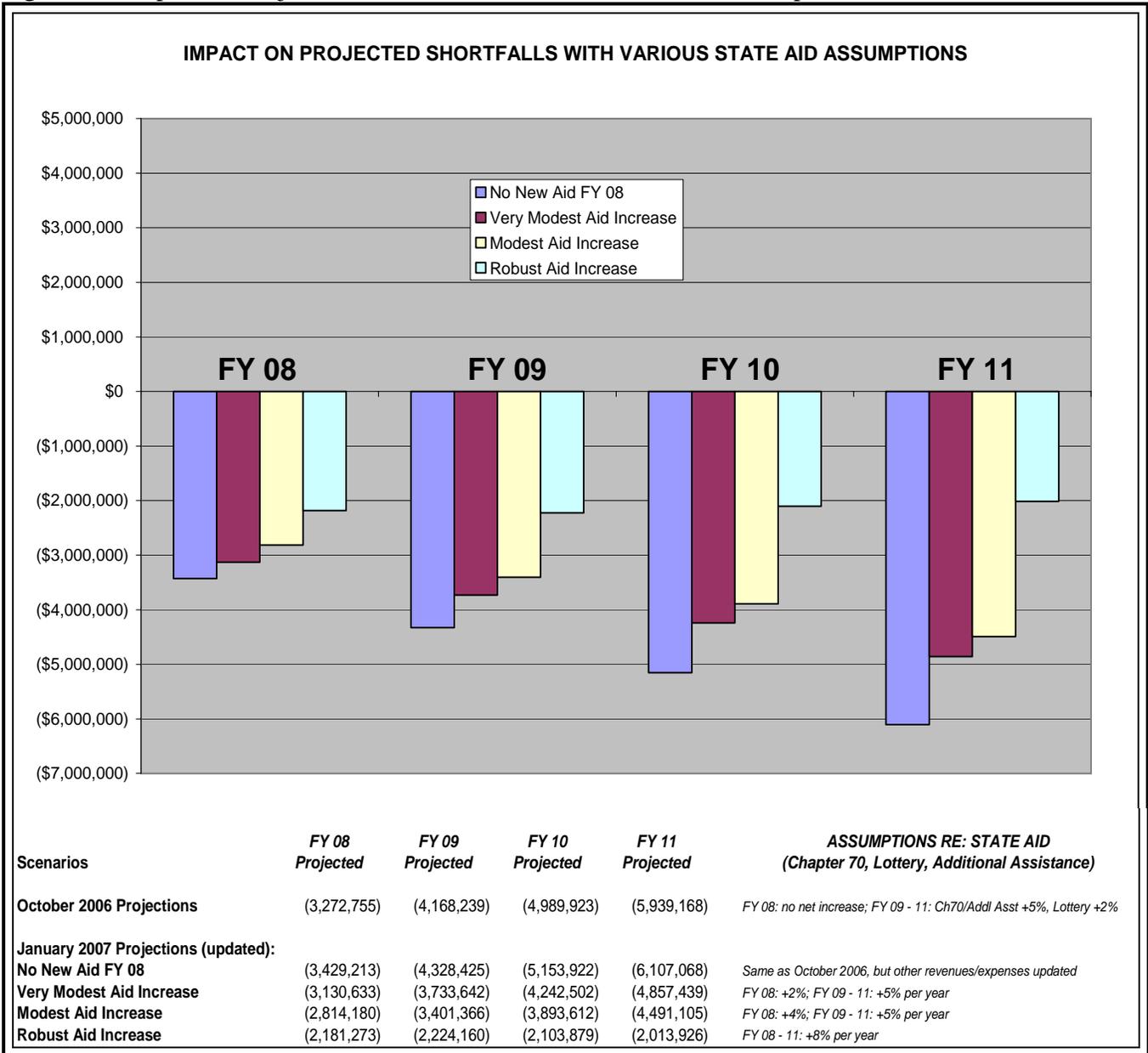


Figure 18. Financial Projections – General Fund

Financial Projections - General Fund									
	FY 06	FY 07	%	FY 08	%	FY 09	FY 10	FY 11	Assumptions
	Budget	Budget	Chg	Projected	Chg	Projected	Projected	Projected	
IF REVENUES INCREASE BY...									
Taxes	32,984,656	34,486,509	4.6%	35,717,786	3.6%	37,032,903	38,510,714	40,018,595	FY 08: only \$26M growth (\$400k to Levy) vs \$41M in FY 07 User fees & charges, investment income +2-3%/year Ch70/Addl Asst +5%/year; Lottery -3% (FY08), then +2%/year Ambulance Fund; Jones Library, Inc. FY 08+ Use \$0 from Reserves per FinCom guideline.
Other Local Revenues	3,379,200	4,345,748	28.6%	4,090,008	-5.9%	4,207,925	4,330,023	4,456,463	
State Revenues	14,288,429	16,245,680	13.7%	16,311,945	0.4%	16,842,415	17,382,108	17,948,665	
Other Financing Sources	1,941,735	2,076,242	6.9%	2,092,953	0.8%	2,176,671	2,313,737	2,406,287	
Reserves (Free Cash + Stabilization)	1,700,000	1,166,087	-31.4%	0	-100.0%	0	0	0	
Total Revenues	54,294,020	58,320,266	7.4%	58,212,691	-0.2%	60,259,913	62,536,583	64,830,010	
...AND EXPENDITURES INCREASE BY...									
Capital Plan - Debt Exclusion	220,641	382,217	73.2%	340,425	-10.9%	301,108	260,624	212,253	Dedicated revenue source, offsetting expenditure. Allocates 8.2% of Tax Levy for all years, same as in FY 07. PVTA +2.5%/year; Hampshire County Retirement +4.3%/year FY 07 includes \$166,087 free cash to HCTF
Capital Plan - Tax Funded	2,495,782	2,600,284	4.2%	2,698,284	3.8%	2,804,281	2,923,588	3,045,878	
Other Govt Assessments	3,242,667	3,673,301	13.3%	3,727,730	1.5%	3,873,501	4,025,177	4,183,003	
Miscellaneous	583,525	652,886	11.9%	540,518	-17.2%	557,754	576,837	596,451	
Subtotal Other Expenditures	6,542,615	7,308,688	11.7%	7,306,957	0.0%	7,536,644	7,786,226	8,037,585	
Town	16,916,134	17,799,893	5.2%	18,778,887	5.5%	19,717,831	20,703,723	21,738,909	
Elementary Schools	18,455,714	19,264,119	4.4%	20,323,646	5.5%	21,339,828	22,406,819	23,527,160	FY 08: Shift FY 07 Leverett/Shutesbury \$124,000 to Amherst
Amherst-Pelham Regional School District	10,508,489	11,904,067	13.3%	13,094,474	10.0%	13,749,197	14,436,657	15,158,490	
Jones Library	1,921,981	2,026,484	5.4%	2,137,941	5.5%	2,244,838	2,357,080	2,474,934	ALL: +5%/year FY 09-11; 1% variance = \$540k/year
Subtotal Operating Budgets	47,802,318	50,994,563	6.7%	54,334,947	6.6%	57,051,694	59,904,279	62,899,493	
Total Expenditures	54,344,933	58,303,251	7.3%	61,641,904	5.7%	64,588,338	67,690,505	70,937,078	
...THEN SURPLUS / (SHORTFALL)...	(50,913)	17,015		(3,429,213)		(4,328,425)	(5,153,922)	(6,107,068)	
PROJECTED RESERVES:									
BOY Certified Free Cash	1,240,133	2,216,935							
BOY Stabilization Fund	1,729,647	801,720							
BOY Free Cash + Stabilization	2,969,780	3,018,655	<i>actual</i>	4,283,655		4,683,655	5,083,655	5,483,655	
Current Year Operating Budget xfers	(705,443)	(166,087)		0		0	0	0	
Balance Next FY Operating Budget	(1,000,000)	0		0		0	0	0	
Capital Plan	0	0		0		0	0	0	
Appropriation Turnbacks (1)	77,089	100,000		100,000		100,000	100,000	100,000	
Revenues in Excess of Budget (2)	421,479	700,000		300,000		300,000	300,000	300,000	
Other DOR Adjustments (3)	311,457	0		0		0	0	0	
Other DOR Adjustments - HCTF (3)	705,443	166,087		0		0	0	0	
HCTF Reimbursement (4)	238,850	465,000		0		0	0	0	
EOY Free Cash + Stabilization	3,018,655	4,283,655	<i>projected</i>	4,683,655		5,083,655	5,483,655	5,883,655	
Reserves % General Fund Revenues	5.6%	7.3%		8.0%		8.4%	8.8%	9.1%	
<p>BOY = Beginning of Fiscal Year (7/1/xx); EOY = End of Fiscal Year (6/30/xx)</p> <p>(1) Unexpended appropriations that are not being carried forward (encumbered) into the next fiscal year.</p> <p>(2) Revenues in excess of the amounts estimated in the budget. FY 07 includes one-time MSBA reimbursement approximately \$400,000 higher than original estimate for Crocker Farm School building project.</p> <p>(3) DOR Adjustments can include the net change in real estate/personal property tax receivables and other receivables and/or overdrawn accounts or deficits. EOY FY 06 and FY 07 restores \$705,443 and \$166,087, respectively, deducted for prior year Health Claims Trust Fund (HCTF) deficits.</p> <p>(4) Reimbursements to the general fund from temporary rate surcharge to employers/employees from HCTF re: 6/30/05 and 6/30/06 HCTF deficits.</p>									

FINANCE COMMITTEE GUIDELINES

The Finance Committee issues guidelines each fall stating the level of operating budget increases that the Committee thinks the Town can afford. For FY 08, the guidelines proposed increases of 1 percent for municipal services, elementary schools, the regional schools assessment and library tax support. The administrators are preparing budget information that will meet the guideline, although budgets at that level will clearly require staff reductions and serious reductions in services. There is much uncertainty behind the guidelines, primarily because solid information about state aid to the Town does not exist and the effects on the various budgets are not known yet. The Committee will, as usual, reexamine its guidelines as the budget process unfolds. (The guidelines letter is available on the Town website at www.amherstma.gov/budget in the Documents and Links section.)

The Committee also advised that money from the Town's reserves should not be used to support budgets in FY 08, because it is essential that reserves be built up from their current low level. Consequently, some other source of funding is needed to replace the \$1 million of reserves being used in the current year. This circumstance was recognized as a repercussion of using reserves, a one-time source of funds, to support ongoing expenses of the operating budgets. Following this advice contributes to the Town's revenue shortfall for FY 08, but once the situation is resolved, it should not be repeated in subsequent years.