



## FINANCE COMMITTEE REPORT TO AMHERST CITIZENS AND RECOMMENDATIONS FOR THE JULY 27, 2009 SPECIAL TOWN MEETING

The Finance Committee submits this report to summarize the Town's financial situation after the completion of the Annual Town Meeting on June 24, 2009, to provide information to assist Town Meeting at the July 27 Special Town Meeting, and to prepare us for the decisions we will need to make for Fiscal Year 2011 and beyond.

In 2008 a citizens group, the Facilitation of Community Choices Committee, analyzed the Town's needs and resources, conducted a series of community forums to present that information, surveyed residents about their priorities, and produced a report with guidelines for the development of budgets during a five year period beginning with Fiscal Year 2010. As they completed their report in the fall of 2008, the extent of the current international recession was just becoming evident. Since then, it has become clear that the recession is deep and will have a long-lasting impact on the national and state economy and the state and Town budgets.

The Community Choices Committee made several recommendations that were incorporated into the process of developing the budget that Town Meeting adopted for 2010.

- *The Select Board, School Committee and Library Trustees should define a core budget to fit within the anticipated revenues.*
- *Our elected officials should pursue a local option meals tax and increased local option lodging tax.*
- *The Town should increase fees, and some free services should become fee based.*
- *The Select Board should look carefully at the money allocated to the capital budget, with an eye toward possible reallocation of a portion of these funds to other budget areas.*

Developing core budgets that will fit within available resources was difficult. The budgets adopted at the Annual Town Meeting reduce the municipal budget by 1.4%, the elementary and regional school budgets by 1.5% and 1.2% respectively, and the library budget by 1.5%. With other municipalities and the Massachusetts Municipal Association, the Select Board and others in Amherst successfully lobbied the Legislature to provide local options meals and lodging taxes. Fee increases have now been implemented for ambulance services, which for patients are mostly reimbursed by insurance, LSSE programs, and some school programs. The capital budget approved for FY 10 is 8.9% less than in FY 09, a decrease substantially greater than decreases in the operating budgets.

When the Community Choices Committee made its recommendation to define core budgets, it recognized that Amherst, and all towns and cities in Massachusetts, face a structural deficit.

*"The Committee concludes that Amherst faces a serious and growing budget gap between projected revenues and the cost of providing the current level of Municipal, School, and Library services."*

This problem has not disappeared. While we have reduced what we expect the Town to provide by defining core budgets, the cost to maintain those budgets will increase in 2011 and beyond at a rate greater than state and local revenue will increase without a tax override. If state aid in 2011 is the same as now expected for 2010, a best case, and no reserves are used, we cannot project that revenue will

increase by greater than 2.5% without an override. Since expenses for health insurance, energy, personnel and other categories will certainly increase by more than 2.5%, a growing deficit is inevitable.

Town revenues are largely dependent upon property taxes and state appropriations. The largest revenue source is property taxes. The growth of those taxes has been limited by law since 1980. Absent significant new development, the annual rate of increase in property taxes will lag behind the rate of increase of the cost to maintain services. In prior years, we sustained services with state revenues. However, as the Finance Committee explained in Part 1 of its report to the Annual Town Meeting, those revenues are not constant and depend upon the state's revenue and the economy. The Town has judiciously used its reserves to adjust its budgets as the state revenues rise and fall. When the economy is stronger and state revenue increases, we add to reserves that can be used when state revenue declines. We have depleted our useable reserves.

An assumption that state aid will be level for the next three years may be a best-case scenario. The economic recession has not ended and will likely continue into 2010. It will take several additional years for the state's financial condition to recover. Revenues continue to decline. The state's revenues in June were \$200 million less than projected, creating a new hole in the state budget. For the year that just ended, revenues are \$3.2 billion less than the original projections, and the state's reserves, which were \$2.1 billion at the beginning of the fiscal year, are apparently less than \$600 million. Unless the Legislature increases income taxes – unlikely in an election year during a recession – we must assume that aid from the state to the Town in 2011 will be no higher than the much-reduced amount budgeted for 2010 and may well be lower. We must also be prepared for a mid-year rescission of state aid, as occurred late in FY 09.

Our reserves are now approximately \$3.5 million. The Finance Committee was reluctantly prepared to expend an additional \$300,000 from reserves to achieve a solution for 2010, while recognizing the risk of doing so. We were fortunate that the combination of state aid and anticipated revenue from the optional meals and lodging taxes exceeded the projections from late in May by that amount. Because of the inherent risks, and additional risks that are now apparent, it would not be wise to plan any further use of reserves at this time. The possibility of a mid-year rescission of state funds is greater because of the larger decline in state tax revenues. The Legislature reduced the optional meals and lodging taxes from what we anticipated in May, while increasing direct assistance. Therefore a larger portion of Amherst's budget is dependent upon state budget appropriation, which increases the uncertainty of future funding and the possibility and consequences of a current year rescission.

It is always difficult to adjust a budget by reducing expenses part way into a year due to the rescission of state funds, or for any reason. There is a natural multiplier effect because the reduction must happen in fewer than 12 months. For example, if expenses must be reduced by \$500,000 halfway into the year, the cut must equal \$1 million from an annual budget. We were fortunate in FY 09 because we received an unanticipated reimbursement from the state for the replacement of the Wildwood School roof as we adjusted for the rescission, and could take other one-time steps to avoid the need to cut a budget mid-year. We cannot anticipate anything similar happening again. If there is a midyear rescission this year, we might need to consider using reserves, even if the result takes us below our desired minimum.

The Finance Committee policy about reserve use has not changed. We recommend that no reserves be used simply to fill a gap in an operating budget. In addition to the reasons already explained, using more reserves now for FY 10 operating expenses will simply set the stage for a larger cut next year or postpone an inevitable decision that should be made now. The only reasonable uses for reserves are to implement bona fide plans to adopt a new service model that will produce future net savings while providing acceptable levels of service, or to leverage new sources of revenue. It therefore made sense to

use reserves to operate the Marks Meadow School for an additional year to permit the orderly planning and implementation for the closure of that facility. Similarly, the use of reserves that we know can be replaced with new meals and lodging taxes was also consistent with that policy. If Town Meeting approves these new taxes, we will have the benefit for part of FY 10 but for all of FY 11. In that regard, we also note that since the Legislature reduced the amount of allowable optional local taxes, we should use a smaller amount of our reserves in FY 10 in anticipation of a smaller annualized amount.

We conclude by returning to the Community Choices Report. The additional findings and recommendations are still valid and important:

- *An override will probably be necessary at some point in the next 5 years to sustain even the most essential school and municipal services.*
- *Pursue economic development, though economic development will have, at best, a moderate financial impact in the next few years.*
- *Secure increased financial contributions from our three resident institutions of higher education – The University, Amherst College, and Hampshire College – through formal Payment in Lieu of Taxes (PILOT) agreements.*
- *Hold personnel costs to a rate of growth in line with projected revenues.*
- *Develop a plan to reduce the Town’s unfunded liabilities for pensions and retiree health care.*

Of these five recommendations, we especially note the question of a property tax override. The Budget Coordinating Group and its member boards and committees (Select Board, School Committee, Library Trustees, and Finance Committee) will need to consider whether this is the appropriate time to ask the voters to consider an override, and if so, what the form, the goals, and the amount should be. The Select Board will then decide what, if anything, to put on the ballot in 2010. We cannot presume any decisions about these matters, including the decision of voters. However, the need to address the future structural deficit remains.

This report has covered a number of topics and may raise additional questions for Town Meeting members as you prepare for the July 27 Special Town Meeting. We invite you to submit questions in advance of the meeting to [fincom@amherstma.gov](mailto:fincom@amherstma.gov) and, if possible, we will respond before or during the session.

**Finance Committee Members:**

Marilyn Blaustein	253-5963
Kay Moran, Vice Chair	549-5767
Robert Saul	253-6631
Andrew Steinberg, Chair	549-6826
Douglas Slaughter	253-9920
Marylou Theilman	253-7980

**ARTICLE 1. Local Option Meals Excise  
(Select Board)**

To see if the Town will vote to accept M.G.L. c. 64L, s. 2 and impose a local sales tax upon the sale of restaurant meals originating within the Town by a vendor at a rate of .75% of the gross receipts of the vendor from the sale of restaurant meals, said excise to take effect on the first day of the calendar quarter commencing at least thirty days after such vote of Town Meeting.

**RECOMMENDED by Finance Committee vote of 4-0, 2 members absent.**

This article considers the option provided by the Commonwealth for towns and cities to impose a meals tax of .75%, which will be additional to the 6.25% sales tax that will be in effect on August 1. If approved, the local meals tax will be imposed on October 1. It will be collected by the state Department of Revenue as it collects the state sales tax and remitted to the Town on a quarterly basis. The tax will be effective for 10 months in FY 10, if adopted at this Special Town Meeting. We estimate that this tax will generate \$150,000 during this first year.

This additional tax was assumed as part of the Town's revenue for FY 10 during the Annual Town Meeting, when we adopted the budget. If Town Meeting does not adopt this tax, we will need to make further cuts in the budget adopted in June, or take from our limited reserves at a subsequent Special Town Meeting. For the reasons set forth in the introduction to this report, we cannot recommend that alternative.

Other town and cities in the Commonwealth are considering whether to impose this local option tax. It appears that most will do so, including the neighboring communities of Hadley and Northampton. As of the date on which this is written, the Northampton City Council voted in a first reading to impose the tax, but has to vote again at a second reading for it to be effective.

This Town Meeting action will fulfill one of the recommendations of the Community Choices financial planning process, that our elected officials pursue a local options meals tax. The Select Board, with the support of many people in Amherst and in conjunction with others across the state, actively worked to implement that recommendation.

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**ARTICLE 2. Local Option Room Occupancy Excise  
(Select Board)**

To see if the Town will vote, pursuant to M.G.L. c. 64G, §3A, to amend the vote taken under Article 14, 1988 Annual Town Meeting, and impose a local excise tax upon the transfer of occupancy of any room or rooms in a bed and breakfast establishment, hotel, lodging house or motel located within the Town at a rate of 6%, said excise to take effect on the first day of the calendar quarter commencing at least thirty days after such vote of Town Meeting.

**RECOMMENDED by Finance Committee vote of 5-0, 1 member absent.**

This article considers the option provided by the Commonwealth for towns and cities to impose an additional lodging tax of 2%. Amherst currently has a 4% lodging tax, as permitted under previous law. If approved, this tax will be 6% effective on October 1. It will be collected by the state Department of Revenue as it collects the current lodging tax. The tax will be effective for 10 months in FY 10, if adopted at this Special Town Meeting. We estimate that this tax will generate \$100,000 during this first year, including lodging taxes from the University of Massachusetts Campus Center Hotel.

This additional tax was assumed as part of the Town's revenue for FY 10 during the Annual Town Meeting, when we adopted the budget. As with the meals tax considered under Article 1, if Town Meeting does not adopt this tax, we will need to make further cuts in the budget adopted in June, or take from our reserves at a subsequent Special Town Meeting.

Other towns and cities in the Commonwealth are considering whether to impose this local option tax. It appears that most will do so, including the neighboring communities of Hadley and Northampton.

This Town Meeting action will fulfill one of the recommendations of the Community Choices Committee, that our elected officials pursue a local options lodging tax.

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**ARTICLE 3. Atkins Economic Opportunity Area – Amendment  
(Select Board)**

To see if the Town will vote to amend the existing Atkins Economic Opportunity Area (EOA) the area known as Atkins Fruit Bowl, 1151 West Street, shown as Parcels 25B-51 and 25B-57 and described in the Atkins Economic Opportunity Area Application, dated June 9, 2009 as amended which is on file with the Town Clerk, the Assessors' Office, and the Select Board's Office; and that the Town authorizes the Select Board to offer, subject to Town Meeting approval, the granting of an amended Tax Increment Financing (TIF) agreement for qualified economic development projects undertaken within said Economic Opportunity Area.

**RECOMMENDED by Finance Committee vote of 6-0.**

This article will expand the existing Atkins Economic Opportunity Area and authorize the Select Board to amend the Tax Increment Financing (TIF) agreement already in place with Atkins. TIF agreements mitigate property tax payments for qualified economic development projects within a designated Economic Opportunity Area. They also enable the company (Atkins) to obtain state approval for a 5% investment tax credit – a state income tax reduction. The company commits to a schedule for job growth and private investment.

This area, known as the Atkins Fruit Bowl, was designated as an Economic Opportunity Area and a Tax Increment Financing agreement was approved at a Special Town Meeting in October, 2003. Atkins Fruit Bowl and the adjacent areas have been targeted by the Town for commercial development to increase, in the long run, the municipal tax base. In the short run, defined as the next three years, the Town will undertake the reconstruction and reconfiguration of the intersection of Route 116 and Bay Road. The Economic Opportunity Area needs to be expanded so that it can include new construction by Atkins to replace a facility that will be lost when the Town purchases three acres from Atkins that are necessary to complete the reconfiguration. That new construction will also enlarge the business and provide for additional jobs. (See discussion of Article 4.) While this road project will ultimately improve the characteristics of Atkins' business location, it will also substantially disrupt Atkins' business activity for a period of time. As part of the compensation for the business disruption and land acquisition, the amendment of the current TIF terms will reduce Atkins' property tax obligation on its new construction beginning in the year 2014. The new TIF amendment will offset, on a declining scale from 90% to 10%, over a ten-year period through 2023 a total of \$79,961 in property tax on the approximately \$600,000 in improvement value as estimated by the Town Assessor. The improvement will be a warehouse facility that will replace the one that now stands on the 3 acres that Atkins will transfer to the Town.

In sum, Atkins is giving up 3 acres of commercial land, and building a new facility to replace the facility they are selling to the Town. As part of the compensation package to Atkins and to enable Atkins to build a new facility that will create new employment opportunities, the Town is proposing tax forgiveness of about \$80,000. This arrangement would allow the Town to offset some of the proposed expense of purchasing the land by foregoing tax revenue at a later date.

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**ARTICLE 4. Atkins Economic Opportunity Area – Project Certification Application  
(Select Board)**

To see if the Town will vote to approve a new Project Certification Application dated June 9, 2009 as amended, submitted by Atkins Fruit Bowl, Inc. and Orchard Run Associates for construction of a new facility within the amended Atkins Economic Opportunity Area shown as 1151 West Street, Parcels 25B-51 and 25B-57 (Exhibit A of the EOA application) and the form of the amended Tax Increment Financing (TIF) agreement between Atkins Fruit Bowl, Inc. and Orchard Run Associates and the Town of Amherst. This approval is for the information contained in both the amended Economic Opportunity Area Application and the amended Project Certification Application that confirms:

- a) The Project as proposed is consistent with and can reasonably be expected to benefit significantly from the inclusion in the amended Economic Opportunity Area; and
- b) The Project contains an expansion of the existing project which was certified for the Economic Opportunity Area and together will not overburden the Town's infrastructure and utilities servicing the amended EOA; and
- c) The Project as described in the amended Project Certification Application will increase employment for residents of the Greater Franklin County Economic Target Area, thereby reducing economic depression; and
- d) The Town requests that the expanded project be designated a certified project for a term of twenty (20) years from the initial project certification date.

**RECOMMENDED by Finance Committee vote of 6-0.**

To implement the new TIF agreement and expedite the Atkins improvements described above, the Town needs to approve a new Project Certification Application as submitted by Atkins Fruit Bowl and Orchard Run Associates. This new application proposes the building of the new facility to replace the facility that will be removed from Atkins ownership when the three acres are sold to the Town. At the time of our vote, the Finance Committee had not had the opportunity to review this application, and there was some level of discomfort about this. However, the Town maintains that the project as proposed is consistent with and provides benefit for the Economic Opportunity Area. First, it expands an existing business as Atkins constructs a new warehouse facility and enables the Town to improve the adjacent intersection and roads, and second, it does not overburden the Town's existing infrastructure. It is also consistent with the Economic Opportunity Area mandate in that it creates jobs within our economic target area. Again, not having seen the application, it was difficult to discern the scope of the amendment. The application will be available before Town Meeting convenes. The Town is requesting that the expanded project receive project certification for 20 years.

**ARTICLE 5. Photovoltaic Solar Panel Systems Contract  
(Select Board)**

To see if the Town will authorize the Town Manager to sign a five year contract with DCS Energy for a pilot program to install two photovoltaic solar panel systems for the Department of Public Works.

**RECOMMENDED by Finance Committee vote of 6-0.**

The Town Manager is allowed to negotiate and enter into contracts on behalf of the Town as long as the term of the contract is three years or less. In order to enter into contracts for a period longer than three years, Town Meeting must grant the Town Manager specific authority. In this case the term of the contract would be 5 years. The anticipated payback via electricity savings over the term of the contract is nearly double the outlay of \$24,000 specified in the lease agreement. At the conclusion of the contract the Town would wholly own the equipment, and the full value of the electricity savings would be realized for the remaining life of the equipment (estimated at 20+ years).

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**ARTICLE 6. FY2010 Library Services Operating Budget Amendment  
(Jones Library Trustees)**

To see if the Town will amend the action taken under Article 22 of the 2009 Annual Town Meeting (FY 2010 Operating Budget) by increasing the amount approved for the Library Services Operating Budget by \$34,704 and the amount raised and appropriated for the Town's share of that budget by \$34,704.

**NOT RECOMMENDED by Finance Committee vote of 6-0.**

After reviewing and discussing this request to increase the appropriation for Library Services, Finance Committee members continue to support the appropriation (\$1,468,029 in tax support) approved by Town Meeting on June 24, 2009, for the same reasons stated at the time.

- 1) We believe the library is not in danger of losing state certification or state aid. Though the already approved appropriation is \$34,704 less than the state's Municipal Appropriation Requirement for Amherst, the same law that requires towns to increase their appropriation to libraries each year allows for a waiver of that requirement if the cut in the library appropriation is not disproportionate to cuts in other budgets. Ours is not disproportionate. Of the 271 libraries that have filed for waivers in the last 15 years, only four were denied certification.
- 2) The FY 10 budget approved by Annual Town Meeting reduces the Library appropriation by 1.5%. Tax support decreases by 1.5% for the elementary schools and 1.4% for the municipal budget. The Amherst-Pelham Regional School District budget decreases by 1.2%. Knowing the Town's revenues for FY 10 would decrease, the budget-making entities worked cooperatively for nine months to reorganize and reduce services. The percentage decreases listed above resulted in the elimination of 15 municipal jobs and a total of 40-50 positions in the schools. All these cuts were difficult, and the Town and schools continue necessary planning to meet future financial challenges with downsizing and reorganization. The pain is widespread, not limited to the library.
- 3) For all the reasons stated in the introduction to this report, we should not spend more in FY 10 than already appropriated. Budgeting for FY 11 and FY 12 will be at least as challenging as for this year.

**ARTICLE 7. Petition – Library Services Operating Budget Amendment  
(Ms. Holland)**

“To see if the Town will amend the action taken under Article 22 of the 2009 Annual Town Meeting (FY 2010 Operating Budget) by appropriating and transferring to the budget for Library Services the sum of \$34,704 from Free Cash in the Undesignated Fund Balance of the General Fund.”

**DISMISSAL recommended by Finance Committee vote of 6-0.**

Warrant articles submitted by valid petition must be placed on the warrant exactly as submitted. This petition’s wording specifies that the appropriation be made from Free Cash. However, under state accounting regulations, free cash is not available for appropriation after July 1 until the state Department of Revenue has reviewed the Town’s June 30, 2009, balance sheet and certified free cash. Typically, this does not happen until September. If Town Meeting voted in July to approve this article, the vote would be invalid, since the funds would not yet be available. Article 6 was placed on the warrant to correct the error in the petition.