



Town of Amherst, Massachusetts

Facilitation of Community Choices Committee Report to the Budget Coordinating Group

Hard Choices Ahead

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Finally, we thank the many members of the community who listened thoughtfully to our presentations and studied the Library display and the documents on our website, and the 437 people who gave us their views by completing our questionnaire.

The Facilitation of Community Choices Committee

Final Report December 1, 2008

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The Facilitation of Community Choices Committee

Preface

The Facilitation of Community Choices Committee was given a difficult assignment, made worse by the economic and financial events of the last several months. Nevertheless, we have attempted to rise to the challenge by maintaining a macabre fascination with how rapidly global and national events can impact regional and local circumstances. The fiscal problems of the Federal and State government are Amherst's fiscal problems too, and although it may take a year or two for the full effects of the housing, banking, and financial market disruptions to fully manifest themselves on the local level, these effects will eventually impact us directly. Any halcyon hope for budget business as usual is wishful thinking, and without extreme measures we do not see balanced budgets on the horizon within the time frame (FY2010 to FY2014) we've assessed.

Additionally, we collectively acknowledge that we are not the decision makers or elected officials who have to implement what will inevitably be difficult decisions. Consequently, our recommendations will be more general in nature. Additionally, our questionnaire results are not a statistically valid sample of Amherst's collective attitudes toward municipal, school and library services. We are reluctant to say: "this is what the community will support" with any real conviction. Nevertheless, we have worked very hard to understand the budget and discern public attitudes towards municipal service cuts and restoring cuts made in prior years, and we believe that our mandate demands that we make some judgments, recommendations, and concrete calculations regarding our fiscal future.

The world is changing, and Amherst floats in the soup of this changing world. We enter it with certain definite assets; a strong, involved and devoted community, and certain liabilities; a structural budget deficit, high expectations, and a general predilection to remain conservative with our personal resources. Amidst this community balance sheet, there are compromises to be struck among conflicting priorities. Strong, decisive leadership will be required. Our job is simply to present the facts, parameters, and best guesses about the troubling mathematical equations that lie ahead. It is up to our elected officials to make the hard, unpopular, but necessary, decisions about service priorities. We sincerely wish you good luck, good judgment, and good grace, as you grapple with these very difficult, and unprecedented fiscal challenges.

Chapter 1. Summary of Recommendations, Findings, and Conclusions

Summary Recommendations by the Facilitation of Community Choices Committee

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. If State aid remains constant, the budget shortfall is approximately \$2.66 Million in FY2010, rising to \$10.2 M in FY2014. If State aid decreases by 15% next year, as in previous economic downturns, then the budget gap will be approximately \$5.2 M in FY2010.

The budget gap for the next 5 years is of such magnitude that substantial cutbacks and restructuring will be required, and revenue increases in some form will also be needed.

Under the current economic conditions, the Committee recommends a Level Funding budget scenario for FY2010. This means, regrettably, cuts, some severe, in all budget areas. We hope that a combination of reducing to a core budget in FY2010 and concerted efforts on the part of our elected officials to control costs and increase revenues will limit these service cuts to the near future. Community feedback overwhelmingly appears to support Level Services, with a moderate bias towards Priority Restorations for the School budgets. However, given the projected revenue shortfall, the uncertainty in State aid, and the pace of local economic development, we find it unrealistic to recommend a more optimistic scenario than level funding at the present time.

The FCCC recommends that the Select Board, School Committee and Library Trustees define a core budget to fit within the anticipated revenues. The Committee does not foresee that a balanced budget can be achieved by cutting all services equally, particularly if State aid decreases. Priorities must be set and difficult choices made. These priority budget decisions should be formulated at the Library, Municipal, Elementary, and Regional school levels, beginning immediately, so that the FY2010 to FY2014 budgets can be built upon the concept that the town must provide only certain core services and everything beyond the core must be carefully evaluated.

The Committee recognizes that an override will probably be necessary at some point in the next 5 years to sustain even the most essential school and municipal services. All members agree that an override will not solve Amherst's long-term budget gap and substantial cutbacks will be necessary regardless. Committee members hold a range of views regarding the timing of an override and the criteria that must be met before considering an override. Some members are against seeking an override vote for the FY2010 budget because they fear it would be an excuse to postpone difficult budget decisions. Others would favor keeping that option open *if* State aid decreases significantly. Others think an FY2010 override is necessary to preserve essential services while town leaders develop a restructuring plan. We recommend that if an override is put forward, a menu override approach be used to allow voters a choice of where to direct the revenues.

The Committee has reviewed various options for closing the funding gap and we make the following recommendations to achieve the goals stated above.

The Committee recommends pursuing economic development, but notes that economic development will have, at best, a moderate financial impact in the next few years.

The Committee recommends that our elected officials pursue a local option meals tax and increased local option lodging tax. These taxes require action by the State Legislature. These taxes may have a significant impact on revenue, but it is beyond the scope of this Committee to assess the likelihood that they will be implemented. Additionally, the Committee recommends that town officials seek legislation to require that the Campus Center Hotel at the University be subject to the local option lodging tax.

The Committee recommends that the Town increase fees and that some free services become fee based. The Committee finds broad support in the community for increased fees. Fees can help to sustain specific programs that might otherwise be cut, but they will have low impact on the overall revenue shortfall.

The Committee recommends that our elected officials immediately start work to 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. In the spirit of neutrality and mutual cooperation, the Committee also recommends that our elected officials consider hiring an independent cost accounting firm to determine the cost of delivering specific services to these institutions so that such costs can serve as a guide in determining equitable financial contributions. The Committee is aware that these institutions have been negatively affected by the vaporization of the substantial financial gains of the past decades and acknowledges that any guarantee of payments in lieu of taxes has to occur in the context of mutual benefit for both the Town and these schools. Also, the Committee realizes that the schools provide substantial benefits that exceed those concrete benefits that can be counted as tax receipts or fees. However, in light of the magnitude of the budget cuts that will be necessary, and the threat to the Town's unique quality of public education, it seems appropriate that the three Amherst educational institutions find tangible, intangible, and extraordinary means to support the Town during a period of unusual budgetary stress. Once again, these institutions will be more likely to cooperate if they see the Town's decision-makers exercising discipline as they set budget priorities

The Committee sees the need to hold personnel costs to a rate of growth in line with projected revenues. Personnel costs accounted for 86% of Amherst's spending in FY 09. The public sector is labor-intensive, so it is not surprising that employee compensation and other personnel-related costs make up most of the town's budget. Finding a way to limit the growth in personnel-related costs to a sustainable rate is therefore essential to the overall fiscal stability of the town. Once the FY2010 budget is brought into balance the town and the schools should each manage their personnel costs so that the combination of salaries, employee health benefits, and staffing levels grow at a sustainable rate. This can be achieved by four methods: a) continuing to make progress in achieving more cost-effective employee health insurance plan design, b) restricting future COLAs, c) reducing staffing, and d) some combination of the previous three.

The Committee recommends that our elected officials develop a plan to reduce the Town's unfunded liabilities for pensions and retiree health care. Payments for pensions and retiree health care already

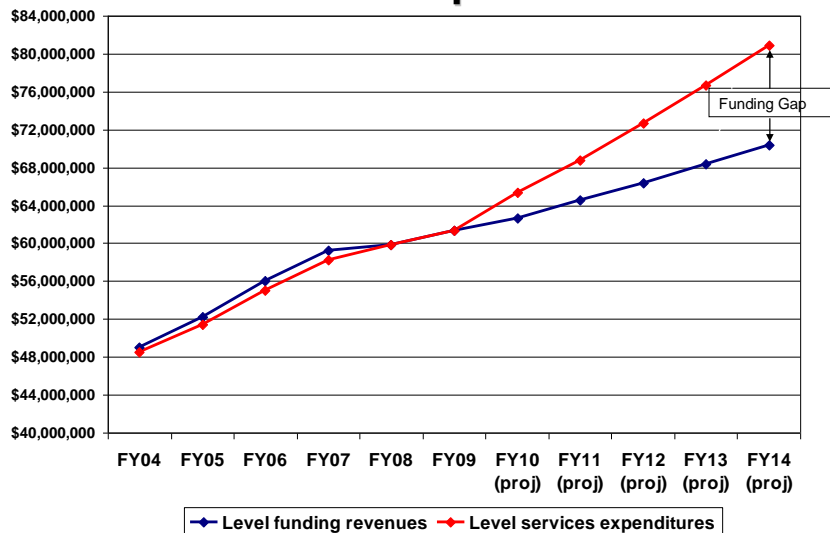
consume roughly 8% of total expenditures. These costs are projected to rise quickly over the next five years. Any solution to Amherst’s long-run budget problems must include a plan to manage these costs.

The Committee recommends that the Select Board 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.

Key Findings: Summary of Major FCCC Conclusions

The cost of providing municipal services is rising at a faster rate than our revenues. This trend will continue. The chart below shows revenue and expenditures for the Town from 2004 to 2009 along with the FCCC forecast of revenue and expenditures assuming the (1) tax revenues follow their current path and there is no Proposition 2 ½ override and (2) the Town maintains the current level of municipal and school services. The projected cost of maintaining current level of services rises at about 6% per year, while our revenues are expected rise at about 3% per year. Chapter 2 of this report explores the reasons for this finding in detail. The current budget for the Town, Schools, Library, and Capital Improvements is FY2009 is \$61 million.

History and Projections of Total Town Revenue and Expenditures



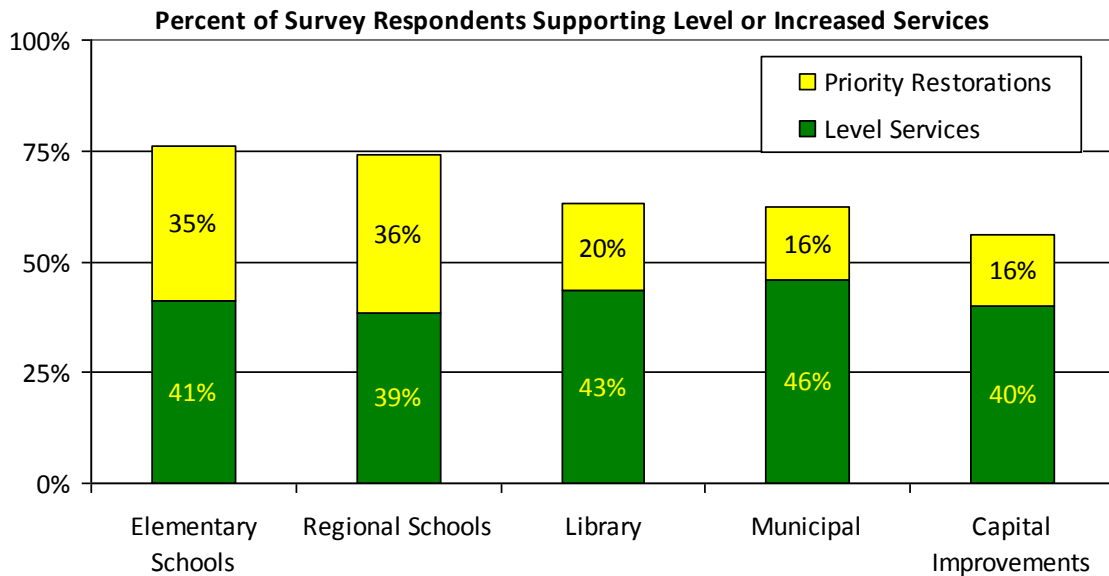
If our forecasts are wrong, it is more likely that the deficit will be higher, not lower. We identified a number of major risks in our budget forecasts. The largest of these is the potential for lower-than-expected State aid over the next five years. The prospect for a positive surprise from the State in coming years seems slim, while the odds of a negative surprise are growing as the economic crisis deepens. This topic is addressed in Chapter 2 of this report.

A sizeable of the Amherst residents who completed our questionnaire prefer the Town to maintain (or increase) the current level or services. An important part of our mandate was to present long-term budget forecasts to the local community and solicit feedback regarding the choices we face. There were

437 responses to the questionnaire. Our questionnaire asked residents to select one of the following three choices for each of the main budget sectors. The scenarios are summarized below:

Budget Scenarios Presented to Amherst Residents on Questionnaire		
Level Funding	Requires service cuts	No increased revenue required
Level Services	Maintains current services	Requires increased revenues
Priority Restorations/Additions	Restore core services cut in recent years and, in some cases, additional services	Requires substantial increased revenues

The chart below shows the percentage of respondents who chose to maintain or increase services. For example, 76% of respondents preferred to maintain the current level of Elementary School services (41% preferred to maintain current levels and 35% chose to increase services). The remaining 24% of respondents chose to reduce service levels. Support for avoiding cuts to schools was the highest, followed by library and municipal services. Only 56% of residents preferred to maintain the current level of capital improvements. These results are described in detail in Chapter 6. The FCCC also encouraged open-ended responses to our questionnaire. Comments that focused on town services are summarized in Chapter 6 and printed in their entirety in Appendix 3.



The budget gap cannot be closed without a Proposition 2 ½ override or a sizeable increase in State aid. The FCCC analyzed a number of potential sources of increased revenues. Of these, only State aid and a property tax override were deemed to have a high impact on the budget. The table below summarizes our conclusions regarding the potential impact of various options.

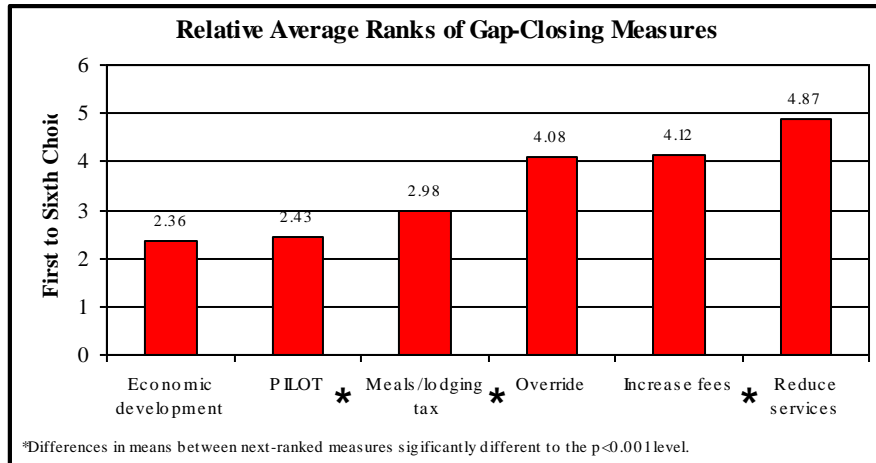
Potential Sources of Revenue and Estimated Impact on Amherst Budget	
Proposition 2 ^{1/2} Override	High impact
State Aid	High impact (positive or negative)
Local Option Meals/Lodging and Telecommunications Taxes	Moderate to high impact
Economic Development	Moderate impact
Consolidation/Regionalization of Services	Moderate impact
Increased Fees	Low impact
Payments in Lieu of Taxes (PILOTs)	Unknown impact

The table below summarizes our estimate of the *maximum* revenue that could be received from several of these options. Not all options were included in our estimates. PILOTs were excluded because estimates were deemed too uncertain. A proposition 2 ½ override was also excluded since there is no uncertainty about the amount raised by an override. The most revenue Amherst can expect from the sources listed below is 0.2 million in FY2010 and 2.0 million in FY2014. Since the budget gap is projected to be about 2.6 million in FY2010 and more than 10 million on FY2014, the FCCC finds that current service levels cannot be maintained without an override or a large increase in State aid. These topics are explored in more detail in Chapter 4 of this report.

Potential Gap-Closing Measures: Additional Expected Revenues per Year and Remaining Balance					
	FY2010	FY2011	FY2012	FY2013	FY2014
Economic Development	\$80K	\$160K	\$320K	\$320K	\$320K
NO Increase in State Aid	\$0K	\$0K	\$0K	\$0K	\$0K
Telecom. Tax Loophole			\$230K	\$230K	\$230K
Local Option Meals Tax			\$1.2M	\$1.2M	\$1.2M
Local Option Lodging Tax			\$25K	\$25K	\$25K
Low Impact Measures (total)	\$200K	\$200K	\$200K	\$200K	\$200K
TOTAL POTENTIAL REVENUE	\$0.3M	\$0.4M	\$2.0M	\$2.0M	\$2.0M
Total budget gap—Level Services (current projected revenues)	\$2.7M	\$4.2M	\$6.3M	\$8.4M	\$10.5M
AMOUNT REMAINING (cuts, override, or a combination needed to balance budgets)	\$2.4M	\$3.8M	\$4.3M	\$4.0M	\$8.5M
Total budget gap—Level Services (15% cut in State Aid FY2010)	\$5.2M	\$6.8M	\$9.0M	\$11.1M	\$13.3M
AMOUNT REMAINING (cuts, override, or a combination needed to balance budgets)	\$4.9M	\$6.4M	\$7.0M	\$9.1M	\$11.3M

The Amherst residents who took our questionnaire prefer that the town pursue Economic Development and PILOTs over other choices for raising revenues. We asked respondents to rank six potential gap-closing measures in order of priority to be used in hopes of closing Amherst’s future budget gap. A total of 347 people provided ranks for all six choices, representing 79.4% of all

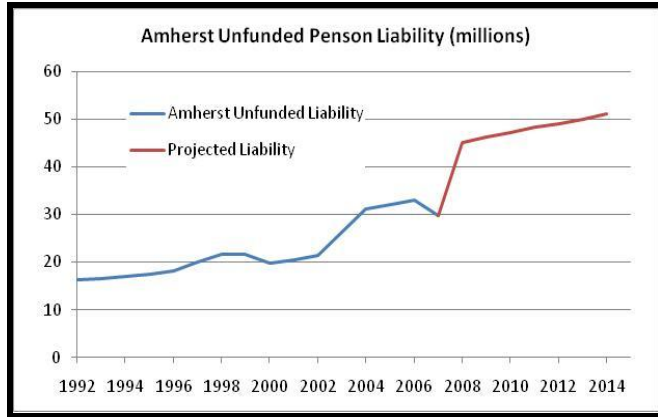
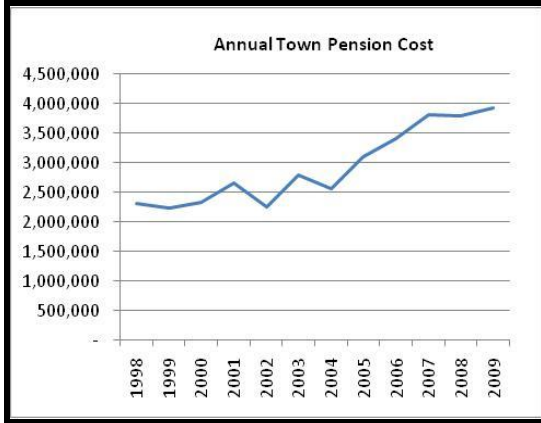
respondents. Responses were ranked from one (1) to six (6), where 1 is the first choice and 6 is the last choice. The chart below shows the average rank for each of the choices (lower average means higher preference).



The highest ranked measure was Economic Development (average rank of 2.36), followed closely by PILOT (2.43). An increase in the Meals/Lodging Tax ranked 2.98. The rank for Override and Increased Fees were nearly tied with ranks of 4.08 and 4.12, respectively. Ranked last, with an average rank of 4.87, was Reduce Services/Expenditures, exclusively. Detailed analysis of these choices is provided in Chapter 7, along with a large number of open-ended responses that dealt with budget-closing choices.

The preferred methods of closing the budget gap cannot provide enough additional income to close the gap. Many people indicated on their questionnaire that they would like to maintain or increase service levels but indicated – through their ranking of budget-closing measures and their open-ended comments – that they would like this to be done without raising local property taxes and fees. The FCCC found that this is not feasible.

Our analysis of the town’s pension obligations revealed a considerable risk that payments will increase substantially in coming years, in part due to the recent credit crisis which has dramatically lowered the value of pension investments. The chart below shows the annual contribution made by the Town to various pension plans since 1998. This cost increased from about 2.25 million in the early part of this decade to about 3.8 million today – an increase of more than 60%. Pension costs have been rising faster than the Town’s revenues for many years. Pension expenses now consume about 6.3% of our total budget. In five years we expect pension costs to consume between 7.5% and 9% of every dollar of town revenues.



In addition to higher annual pension contributions, the Town faces a large deficit in its pension plans. The chart above (right) shows that the current unfunded pension liability is about 30 million. This is project to rise to 50 million by 2014. The projected increase is mostly caused by the recent stock market decline, which reduced the value of assets in the fund but did not reduce the projected cost of providing pensions. Chapter 5 of this report analyzes this problem in greater detail.

Amherst is not well prepared to shoulder the rising cost of providing health care to retired employees.

The cost of providing health care to retirees is a large and rapidly growing liability. This year the combined cost of providing health insurance to retirees is estimated at \$2.8 million (or about 4.5% of total expenditures). Our actuarial consultants estimate this cost will rise to \$4.8 million in 2014 (6.8% of the projected 2014 revenues). These consultants recommend that Amherst begin setting aside money today in order to reduce the future cost of providing health benefits to retirees.

	Combined Liability (Town + 77% Regional)
Present Value Future Benefits	143,216,902
Unfunded Actuarial Liability	95,786,217
Annual Required Contribution	8,149,590
Expected Benefit Payments	2,831,124

The table above summarizes the recommendations of our actuarial consultants. “Expected Benefit Payments” of 2.83 million is the current cost health coverage for retirees. “Annual Required Contribution” of 8.15 million is the amount Amherst should be setting aside to meet both current and future obligations. The town currently has no plans to begin setting aside money to fund retiree health care benefits. More details about this topic can be found in Chapter 5 of this report.

Conclusion

Since we began our meetings in May the financial outlook has changed, and not for the better. We desperately need our town officials and our town leaders to prepare a new vision for our community, a vision based upon the persistent, inconvenient fact that the town will be dealing with increasingly limited resources at least through FY 2014. Without thoughtful, proactive preparation, important

decisions, with repercussions that will last for years, might be made hastily under duress. To avoid this outcome, priorities need to be established and a plan of action needs to be developed. The efficient use of limited resources will need to quickly replace our collective expectations that there will be additional augmentations or restorations to our current level of services. “How to do more with less?” will require creative solutions to difficult problems. These are the urgent, immediate responsibilities of our elected officials and our town administrators.