



Amherst Massachusetts

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Preliminary Fiscal Year 2010 Budget Guidelines

November 19, 2008

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

From: Finance Committee
Re: Preliminary Fiscal Year 2010 budget guidelines

Preliminary Guideline Summary

Overall operating budget increase of no more than 2.1 percent.

- Suggested 2 percent increase for municipal budget.
- Suggested 2 percent increase for Amherst Elementary Schools budget.
- Suggested 2 percent increase in tax support to the Jones Library System.
- Suggested 3½ percent increase in tax support for the Regional Schools.

Estimated available revenue at this point allows for an overall Town wide budget increase of just 2.1% for FY 10. The preliminary guidelines follow the same pattern used for a number of years, recommending maximum increases of 2% for the Municipal and Elementary School budgets, 2% for tax support for the Libraries, and 3½ % for the Regional School Assessment.

We emphasize that these guidelines are preliminary and, given the international financial downturn, they may reflect a best-case scenario. There are too many unknowns at this point to budget for a worst-case situation. But possible developments to watch for include a decline in local excise receipts; the tightening of the credit market; and state tax collections below budget, which might cause state officials to revise downward the amount of state aid for FY 10 and even reduce state aid already promised for the current fiscal year. The report from the Facilitation of Community Choices Committee, due December 1, could also cause us to change the guidelines, either up or down.

The \$2.68 million problem

On October 6, 2008, Assistant Town Manager/Finance Director John Musante presented five-year financial projections based on currently available information. To maintain existing services, projections for FY 10 indicate that operating budget increases of 5.2 percent for municipal services, 5.8 percent for Amherst elementary schools, 6.1 percent in library tax support, and 11.7 percent in the regional schools' assessment would be required. Overall, the cost of level services increases by an estimated 6.5 percent, while revenues are projected to increase by only 2.1 percent. Revenue increases assume the property tax increase allowable under Proposition 2 ½, historic average new growth added to the tax levy, a 1.5% increase in Chapter 70 state aid with all other state aid level funded, and small incremental increases in local fees and charges. That is \$2.68 million less than needed to maintain existing services.

The increase in recurring expenses, especially employee salaries, pensions and health insurance, continues to exceed the growth in recurring revenue. This is a problem nation-wide, not just in Amherst. If we simply maintained existing services, and nothing else changed, the deficit would reach \$10.7 million in FY 14. The Finance Committee appreciates the thorough, realistic view of Amherst finances Mr. Musante presented, and the work the Facilitation of Community Choices Committee is doing to determine what services Amherst residents want and their willingness to pay for them. The Town faces a serious challenge in dealing with the revenue shortfall for FY 10 and beyond. We start from a base of services already reduced to meet previous years' budget constraints. The prospect of managing next year's \$2.6 million problem is daunting. Its resolution will have to be achieved through revenue increases or further spending reductions or some combination of the two. Some further loss of town services seems inevitable.

Revenue adjustments

We should not plan on increased state aid to reduce our \$2.6 million shortfall. State aid may actually fall, making the problem worse. Other revenue sources are not expected to increase by more than 2%. A construction slowdown is reducing inspection and permit fees, and Amherst College has put on hold a major downtown commercial development at the Lord Jeffery Inn. Property tax revenue could drop below current projections if new construction declines further. Fees for various town programs will be reviewed, though they were raised in the past three years.

Nor should we plan for increased revenue from the University of Massachusetts, Amherst and Hampshire colleges, or other entities. Last year the University of Massachusetts agreed to raise its payment for fire and emergency medical services by \$140,000; any increase beyond that for FY 10 is capped at 5% per the agreement with the town. Amherst College contributed \$120,000 for FY 09 only; any FY 10 contribution from Amherst College and/or Hampshire College must be negotiated and should not be counted on at this early date. FY 10 revenue estimates include recently agreed-to multi-year increases in emergency medical services fees from surrounding towns, except for Hadley, which is still considering other options.

Capital expenditures

The Town reduced spending on its Capital Plan from 10 percent of the annual tax levy in FY 05 to 7 percent in FY 08, in order to make more money available for operating budgets. We recommend against continuing this practice, which results, we believe, in the neglect of equipment, buildings and facilities necessary to essential town functions, and the likelihood of

greater future expense. For FY 09, the percentage increased to 7.25%, with the long-term goal of raising the percentage of tax levy used by 0.25% annually until the 10% goal is reached. Though we have not yet heard specific capital requests for FY 10, we know that many important capital needs have been deferred for lack of funds in previous years, and several large projects may soon have to be funded. While we cannot yet commit to increasing the percentage of tax levy used for capital in FY 10, we believe a decrease would be detrimental. We will be interested in the Joint Capital Planning Committee's guidance on this issue.

In previous years, the Town has spent down its reserves (Free Cash and the Stabilization Fund) to help balance the budget. The Finance Committee originally recommended that no reserves be used in FY 09, but finally, and reluctantly, agreed to appropriations of \$400,000 from reserves to balance the FY 09 budget (in anticipation of a long-term financial plan) and \$25,000 for the town's 250th anniversary celebration. Free Cash and the Stabilization Fund totaled \$4,017,186 as of July 1, 2007. Reserves have increased to \$4,423,405 as of July 1, 2008, or 7.2% of the operating budget. (Free Cash was at \$3,528,863 and the Stabilization Fund at \$894,542 before the fall Town Meeting transferred \$460,000 from Free Cash to Stabilization).

We continue to believe the Town should rebuild its reserves to a minimum of 8 percent of operating revenue by FY 10; however, if state aid is reduced, as has been the case in prior recessions, that goal may be unattainable for the short term. For the recession of 2001, the Town began with over \$9 million in available reserves, which was roughly 18 percent of operating revenue. There is no way of predicting how long the current economic downturn will last, but reserves are not now sufficient to provide anywhere near the level of support available in prior recessions.

A further opportunity for increasing revenue is, of course, a Proposition 2 1/2 override. Long-term financial planning is essential to resolve the town's fiscal problem, and that process has begun. It remains to be seen whether an override is proposed as part of this year's planning.

Two percent guideline

For at least the two previous years the town, schools and library system have had to deal with the fact that revenue is not growing as fast as expenses, requiring fundamental changes in the kinds and quality of services the Town provides. It is difficult to think that this must happen yet again. But the Finance Committee is convinced of the need to deal with the situation as it is, even while working toward long-term solutions. There are no easy answers. Consequently, the Committee asks administrators and elected board members to craft realistic budget proposals to provide information and guidance to officials and citizens of Amherst as they determine how best to cope with this very serious revenue/spending problem. We all need to know what would be the consequences of very small budget increases, at the 2 percent guideline, so there can be a cooperative effort on the part of all to craft a fair and reasonable resolution to the problem.

The dimensions of the budget problem will undoubtedly change as the budget process unfolds. Our guideline could change, too, as new information emerges. Such change could be to the total amount of funds available for FY 10 operations, or to the division of funds among municipal services, schools and libraries.

We hope that the financial policies for the town recommended by the Finance Committee in January 2008, with the assistance of Mr. Musante, will guide financial planning for FY 10 and future years. They are available on the town web site at

<http://www.amherstma.gov/DocumentView.asp?DID=1553>

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