



# Amherst Massachusetts

Town Hall  
4 Boltwood Avenue  
Amherst MA

March 26, 2008

To: Budget Coordinating Group  
Select Board, Town Manager  
Amherst School Committee, Superintendent of Schools  
Jones Library Trustees, Library Director  
From: Finance Committee  
Re: Finance Committee Reserve Use Criteria

At our March 12 and March 19, 2009 meetings, the Finance Committee began discussing potential local control options to close the FY 10 budget gap within the context of the current economic situation. We are looking at the current economic turmoil as a long-term event, and potentially deeper than prior recessions. Furthermore, based on historical data, even after the recession ends, local and state revenue is not expected to recover for several years. With that in mind, the Finance Committee feels that it is imperative that whatever solutions/mitigating factors we apply to FY 10 be part of a forward-thinking approach to FY 11 and beyond.

One source of funding that will become part of the gap closing discussion is the use of reserves. Financial Policies adopted in January of 2008 state that *“reserves, including the combined balance of Free Cash and Stabilization Fund, should be maintained at 5 – 15% of general fund operating revenues. The primary objective of the Town’s reserve policy is to provide the Town the flexibility to sustain service levels despite the adverse financial impacts of economic downturns and unforeseen and extraordinary expenses.”* This goal is a widely accepted measure of good financial standing and a key factor in Amherst’s bond rating. Adhering to this guideline means that the amount of reserves currently available for use to mitigate state aid losses over the next three to four years, (roughly the historical average period of aid reductions) is about \$1.4 million of our reserve balance of \$4.4 million. In comparison, the Town used nearly \$14 million during and after the recession of the early 1990s and roughly \$9 million during and after the 2001 recession. Given the magnitude of the budget gaps we potentially face over the next few years and the relatively small amount of reserves available, the use of reserves can only play a small dollar role in the overall strategy. Additionally, reserves are a non-recurring revenue source, and should be spent carefully and strategically in any given year.

With this in mind, we formulated three criteria for the Finance Committee to use when looking at budget proposals for FY 10 and beyond, and what level of reserves might be applied as a revenue source for a given year. In order to inform the remainder of the budget process as to the Finance Committee’s current thinking, we wish to share them with you now.

1) The first criteria relates to the use of reserves to implement bona fide plans to move toward models of service provision that would provide net savings to the town in the future while providing acceptable levels of service. Since we feel that moving in this direction is extremely important for the long-term, we will be receptive to targeted use of reserves to aid the process of transitioning to new models that reasonable analysis indicates have a likelihood of providing future cost savings, but might have some costs associated with a transition, or require a reasonable and finite time to implement. Some possible examples (not recommendations):

Regionalization of Veteran's Services or Emergency Dispatch services might have cost saving potential in future years, but might also have transitional costs to bridge between the current and future model.

Reorganizing the elementary schools in some fashion might provide long-term savings, but might also require some upfront money to implement.

Part of the evaluation and monitoring process for this "transitional funding" would include an estimated transition timeline, estimated transitional costs, a preliminary analysis of potential savings, and periodic cost/savings analysis updates and progress reports to the Finance Committee as well as to the appropriate elected board or committee and the Budget Coordinating Group.

2) Second, some level of reserve use to leverage outside revenue in order to maintain existing core services might be appropriate. This applies to current funding sources as well as potential new sources.

3) Finally, we are not inclined to recommend the use of reserves simply to fill the last bits of a revenue gap for the operating budget as has been past practice.

Please note that we are not committing to a particular amount of reserve use for FY 10 at this point; more information is needed in terms of state and federal revenue flows, potential municipal relief, and FY 10 budget proposals before that decision can be made.

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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