



Amherst Massachusetts

FINANCE COMMITTEE

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November 4, 2013

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

From: Finance Committee

Re: Preliminary Fiscal Year 2015 Budget Guidelines

The Finance Committee asks you to develop operating budgets with an increase in Town support of 2.7%. That includes the Amherst Regional School assessment and the library's revenue from the Town. The budget increase for the Regional School District will then be determined by the assessment method and the current 5-year rolling enrollment average. The actual amounts preliminarily proposed that the Town will raise and appropriate for each budget area are set forth at the top of Page 2 of the General Fund Financial Projections, attached to these guidelines. We ask that the Library Trustees establish a budget as they determine to be appropriate with this projected increase in Town operating support.

These are preliminary budget guidelines, based upon the projections that Finance Director Sandy Pooler presented to all of us on October 17. These projections are reasonable. Nevertheless, there is a need to be cautious. As we look ahead to FY15, there is some uncertainty.

Revenue

Pooler projected an overall revenue increase of 3.1% from FY14. The largest revenue source is from the property tax, which is expected to increase by 3.8%. Property tax increases by the allowable 2.5% plus taxes on new growth. Property owners pay the taxes that are due, so this revenue is stable and predictable.

The second largest source of revenue is state aid. Pooler suggested that we assume an increase of 1.0%. Every year this is an area of uncertainty. Decisions made in Washington could have an impact on the state budget and the funds it can share with local governments. After the recent federal government shutdown, Congress postponed the decision on the budget until February. The House of Representatives may insist upon reductions in entitlement program funding. While it is impossible to predict an outcome, there is a possible effect on state revenue. Some of the largest transfers from the federal to state budgets are for entitlement programs including Medicaid. Also, the state budget is developed after the Executive Office of Administration and Finance and the Chairs of the Ways and Means Committees reach consensus on a revenue estimate for the state. That estimate considers revenue history and economic trends that may

affect income and sales taxes. Information about the federal budget and state revenue projections will influence the Governor's budget recommendation and legislative decisions. The 1.0% projection is cautious and we are comfortable with that assumption for the purposes of preliminary budget guidelines.

At the Four Boards Meeting on October 17, the Finance Director also estimated revenues for FY15 from local receipts and other financing sources. Local receipts are estimated to increase by 4.3%, and other financing sources to increase by 0.5%. The committee notes that the increase in local receipts is due to some one-time factors; similar increases are not projected for subsequent years. We are comfortable with the FY15 projection and include that amount in the revenue available for the year for which we are developing a budget.

In addition to the uncertainty about state aid, there is another reason to exercise caution. The 2013 Community Development Block Grant (CDBG) included transition funds after the town lost its Mini-Entitlement status for the 2013 grant year. The Town will now have to apply for a competitive grant, and the Town Manager cannot establish a budget that assumes CDBG revenue. The Block Grant has provided funding for administrative expenses, capital projects, and human services. The committee will consider the effect of this change when the Town Manager presents his budget in January. We will consider the needs of the town as a whole, including municipal functions, education, and libraries, as we develop final budgets.

These are preliminary guidelines. We ask the Town Manager, Superintendent, and Library Director to develop initial budgets assuming increases of allocations to be raised and appropriated from General Funds as noted. As the budget process continues, this Committee, with input from the Budget Coordinating Group and based upon additional information that becomes available, may need to make adjustments in its preliminary assessment of the amounts that it can recommend for allocations from the General Fund.

The capital budget and mandatory expenses

The capital budget includes debt service obligations and capital projects funded from current revenues. The Town's Financial Policy specifies that the annual capital budget should equal at least 10% of the estimated property tax levy. This policy recognizes that it is essential to maintain and improve our infrastructure, including our town, school, and library buildings and the equipment required to provide services, as well as to invest in recreation fields and facilities, open space, and other Town priorities. When the policy was adopted in 2008, 7.2% of the tax levy was allocated to that purpose. Then the allocation decreased to 5.64% in FY11. In FYs 12 and 13 we used 6.5% of tax levy for capital projects allocated through the Joint Capital Planning Committee (JCPC), including debt service on capital expenses funded by borrowing. In FY14, the capital budget equaled 7% of the tax levy, and we propose using 7% of the levy for capital expenses in FY15. Because of the amount for debt service on several projects financed by borrowing in recent years, the dollar amount available for cash capital purchases in FY15 will decrease.

Some appropriations that are not part of the operating budget must increase, such as the assessments for the Retirement System.

Other Post-Employment Benefits (OPEB)

We propose including an allocation of \$100,000 to the OPEB Trust in the budget. The June 30, 2012, actuary report estimated our liability at \$93.7 million. By law, we are required to fund pensions, but as of now, not our OPEB obligation. We have begun to put money into the OPEB Trust, including \$585,342 at the Fall 2012 Special Town Meeting and from Amherst's share of the Medicare Part D reimbursements we receive because we provide drug benefits to retirees through our health plan. Given the size of our OPEB obligation, the allocation of \$100,000 seems inconsequential. However, it is important that Town Meeting recognize this debt and assume responsibility by allocating funds for that purpose. Furthermore, Standard and Poor's included this unfunded liability in its last assessment of the Town's credit worthiness. A representative from that company speaking at the October 19, 2013, annual meeting of the Association of Town Finance Committees said that it considers an OPEB funding plan as an essential factor in rating bonds. If we do nothing, we place our AA rating at risk. With a solid and funded plan, Standard and Poor's might upgrade the Town to AAA and reduce future borrowing costs. This is not the reason we recommend allocating OPEB funds, though that is a benefit. Whether or not the loan rates are reduced, the obligation to pay the health insurance costs for our retired employees remains. Given the trend in federal and state budgets, we cannot expect significant help to meet that obligation. We must recognize that in prior years, the Town inflated its budget by making a promise to its employees to provide health care and life insurance after they retire without setting aside funds to do so. It is sound financial policy to take steps to do so now.

Reserve funds

The Town Financial Policy is to maintain reserves at 5-15% of general fund operating revenues. The Department of Revenue notified the Town last month that it had certified the "free cash balance" on July 1, 2013 at \$4,738,976. At that time the Stabilization Fund had a balance of \$2,915,976, for a total reserve fund balance of \$7,654,952, 11.2% of FY14 revenues. This committee will propose that the November 4 Special Town Meeting allocate some of the free cash, the amount greater than 5% of General Fund operating revenues, to the Stabilization Fund. That action will not affect the total reserves.

The Committee believes that the Town is entering a period when there will be, at best, annual revenue growth of 2.8%. With the uncertainty about state aid for FY15, it would not be wise to use any reserves to fund recurring expenses in FY15. The Finance Committee still seeks to limit the use of reserves to implementing bona fide plans to move toward models of service provision that will provide net savings to the Town in the future while providing acceptable levels of service; to leverage outside revenue in order to maintain existing core services; and for limited, unforeseen and nonrecurring expenses. At the 2013 Annual Town Meeting, \$90,000 was allocated from Free Cash for social services because of the reduction of the Community Development Block Grant that had supported these services, and because of the lack of time to develop a new spending plan for the activities deemed the highest priorities by the Community Block Grant Advisory Committee. An additional \$30,000 in Free Cash was allocated to a one-time Town-Gown Strategic Planning Process conceived by University of Massachusetts Chancellor Subbaswamy and Town Manager Musante just prior to Town Meeting. These amounts are not included in the FY14 budget used to determine the 2.7% increase for municipal functions in FY15.

Requested budget information

Budgets reflect changes in programs, services and staffing, which can be a combination of reductions and additions. We ask that you provide information about projected cost increases and changes in operations for FY15, the effect that a 2.7% increase in town funding will have on programs, and a description of what would be added with a small amount of additional funds. We also request that you describe anticipated or possible changes in grants and other revenue that is additional to the proposed allocation from the General Fund and how the changes might affect services. The information is essential for the Finance Committee to fulfill its responsibilities. It will also be helpful for discussing the overall priorities with the Budget Coordinating Group, and will help prepare all of us to adjust budgets if necessary, including a variation in the amount of State Aid from the present assumption.

The Finance Committee is trying to achieve uniformity in the descriptions of programs and budgets in our report to the Annual Town Meeting. Each operating budget will be presented with a five part budget narrative:

1. Budget and Finance Committee recommendation
2. Basic Functions
3. Summary for the next fiscal year, the year for which a budget is considered, including changes from the current year
4. Full-time-equivalent employees for the next fiscal year, showing change from the current year
5. Services provided by other departments and for other departments

The Finance Committee recognizes that it has not been possible to define “full-time-equivalent” in a uniform manner that works well for all budget areas. It is more important to achieve year-to-year uniformity within each budget area and explain the projected change for the next year. For example, if the work force consists of salaried and hourly employees, the employee count might be projected as the number of FTE benefited staff and the number of hours of part-time staff.

For several years, the Finance Committee has been interested in the services provided by each department to assist other departments. This teamwork is important to Amherst. It helps all parts of the Town to be efficient and effective. Town Meeting will appreciate this practice and we want to try to report it to them.

It would be helpful if you can provide this information with the budgets you submit to the Finance Committee. If that is not possible, we will ask for this information when you meet with us to present your budgets. As in prior years, we may have additional questions as we review budgets, including questions we will ask when we meet with you.

Schedule

The Finance Committee requests that you submit budgets according to the Budget Coordinating Group’s budget development calendar. The Town Manager, Superintendent, and Library Director are asked to present budgets to the Finance Committee no later than January 21. We

understand that in some cases they may be executive budgets that still require review by elected policy boards and are subject to revision.

Conclusion

The Finance Committee values the quality schools, libraries, and municipal services that the Town provides, and we clearly like to have more resources to support them. Regrettably for all of us who volunteer in Town government or work for the Town, and most importantly for the people who rely on the Town for these services, our resources continue to be less than is needed. We project that revenues will improve in FY15, but only modestly. The challenge to find creative approaches to provide quality services economically will be with us for the foreseeable future.

Amherst is a model of responsible management and quality community services. That works because of your dedication and resourcefulness. Equally important is the cooperative spirit that all of you bring to your work, and your willingness to work with us so that we can present a responsible budget, a plan for Amherst, to Town Meeting. Thank you.

Kay Moran, Vice Chair 549-5767

Janice Ratner 253-7214

Anurag Sharma 549-1542

Douglas Slaughter 253-9920

Andrew Steinberg, Chair 549-6826

Sarah Swartz, 362-2000

Marylou Theilman, 253-7980

**TOWN OF AMHERST, MASSACHUSETTS
FINANCIAL PROJECTIONS - GENERAL FUND**

**DRAFT
For Discussion Purposes Only
October 17, 2013**

	<u>FY 13 Recap</u>	<u>FY 13 Actual</u>	<u>FY 14 Budget</u>	<u>FY14 Recap</u>	<u>FY 15 Projected</u>	<u>\$ Chg</u>	<u>% Chg</u>	<u>FY 16 Projected</u>	<u>% Chg</u>	<u>FY 17 Projected</u>	<u>% Chg</u>	<u>Assumptions</u>
REVENUES												
PROPERTY TAX												
Base Levy	40,045,691	40,045,691	41,550,978	41,550,978	43,089,752	1,538,774	3.7%	44,766,996	3.9%	46,486,171	3.8%	
2.5% Allowable Increase	1,001,142	1,001,142	1,038,774	1,038,774	1,077,244	38,470	3.7%	1,119,175	3.9%	1,162,154	3.8%	
Estimated New Growth	504,145	504,145	500,000	500,000	600,000	100,000	20.0%	600,000	0.0%	600,000	0.0%	FY04 - FY14 avg \$567,000/year
General Override	0	0	0	0	0	0		0		0		
Levy Limit	41,550,978	41,550,978	43,089,752	43,089,752	44,766,996	1,677,244	3.9%	46,486,171	3.8%	48,248,325	3.8%	
Debt Exclusion	259,374	259,374	213,522	213,522	171,480	(42,042)	-19.7%	125,378	-26.9%	83,239	3.6%	High School debt
Maximum Allowable Levy	41,810,352	41,810,352	43,303,274	43,303,274	44,938,476	1,635,202	3.8%	46,611,549	3.7%	48,331,564	3.7%	
Excess Levy Capacity	(10,626)	(10,626)	0	0	0	0		0		0		
Subtotal PROPERTY TAX	41,799,726	41,799,726	43,303,274	43,303,274	44,938,476	1,635,202	3.8%	46,611,549	3.7%	48,331,564	3.7%	
LOCAL RECEIPTS												
Motor Vehicle Excise	1,423,750	1,488,012	1,584,344	1,484,344	1,521,453	37,109	2.5%	1,559,489	2.5%	1,598,477	2.5%	Car sales data shows increased sales.
Hotel/Motel and Meals Excise	640,000	745,008	673,297	733,297	751,629	18,332	2.5%	770,420	2.5%	789,680	2.5%	Assumes modest growth in meals tax
Penalties and Interest	198,125	216,058	208,125	208,125	208,125	0	0.0%	208,125	0.0%	208,125	0.0%	Continued strong collections of delinquent taxes
PILOT	935,958	941,877	940,958	940,958	944,358	3,400	0.4%	944,358	0.0%	944,358	0.0%	Largest source is Enterprise Funds PILOTs
Rentals	78,500	85,729	78,500	68,500	68,500	0	0.0%	68,500	0.0%	68,500	0.0%	FY13 Survival Center moved
Departmental Revenue	1,158,385	1,484,745	1,162,385	1,175,938	1,193,986	18,048	1.5%	1,193,986	0.0%	1,193,986	0.0%	Relies on only recurring department revenue
Licenses and Permits	797,550	1,109,086	939,798	948,798	1,073,798	125,000	13.2%	1,073,798	0.0%	1,073,798	0.0%	FY13 showed upturn in building permits
Special Assessments	675,215	649,540	575,292	583,126	728,688	145,562	25.0%	728,688	0.0%	728,688	0.0%	PVTA assessment from UMass/5 College Inc
Fines and Forfeits	227,033	269,229	227,033	227,033	227,033	0	0.0%	227,033	0.0%	227,033	0.0%	New noise and open container enforcement
Investment Income	75,000	76,094	70,000	70,000	70,000	0	0.0%	70,000	0.0%	70,000	0.0%	Lower interest rates
Miscellaneous	1,226,491	1,249,408	1,123,341	1,115,507	1,092,535	(22,972)	-2.1%	1,092,535	0.0%	1,092,535	0.0%	Amherst College, Charter/Choice reimbursements
Subtotal LOCAL RECEIPTS	7,436,007	8,314,786	7,583,073	7,555,626	7,880,105	324,479	4.3%	7,936,932	0.7%	7,995,180	0.7%	
STATE AID												
Chapter 70	5,864,398	5,864,398	5,895,073	5,895,073	5,954,024	58,951	1.0%	6,013,564	1.0%	6,073,700	1.0%	FY15 Assumes small increase in education aid
Charter Tuition Assessment Reimbursement	171,425	220,114	188,821	195,880	200,777	4,897	2.5%	200,777	0.0%	200,777	0.0%	FY15 Based on trend data
Unrestricted General Govt Aid	7,120,842	7,120,842	7,289,164	7,289,164	7,362,056	72,892	1.0%	7,435,677	1.0%	7,510,033	1.0%	FY15 Assumes small increase in Unrestricted Aid.
Veterans Benefits	196,112	195,681	201,423	201,423	201,423	0	0.0%	201,423	0.0%	201,423	0.0%	
Exempt: Vets, Blind, Surv. Spouses, Elderly	33,876	37,803	35,825	35,825	35,825	0	0.0%	35,825	0.0%	35,825	0.0%	
State Owned Land	151,796	151,796	153,052	155,965	155,965	0	0.0%	155,965	0.0%	155,965	0.0%	
Offset Receipts												
School Lunch	6,306	6,306	6,443	6,443	6,443	0	0.0%	6,443	0.0%	6,443	0.0%	Goes directly to School Department
School Tuition	219,624	219,624	197,819	219,624	219,624	0	0.0%	219,624	0.0%	219,624	0.0%	Goes directly to School Department
Public Libraries	63,576	63,576	67,103	67,103	67,103	0	0.0%	67,103	0.0%	67,103	0.0%	Goes directly to Jones Library
Subtotal STATE AID	13,827,955	13,880,140	14,034,723	14,066,500	14,203,240	136,740	1.0%	14,336,401	0.9%	14,470,893	0.9%	
OTHER FINANCING SOURCES												
Ambulance Fund	2,546,028	2,546,028	2,301,028	2,305,040	2,419,833	114,793	5.0%	2,480,329	2.5%	2,542,337	2.5%	FY15 incorporates renewed contracts with towns
Reserve for Debt Service - WW Roof	39,698	83,798	0	0	0	0		0		0		Debt paid in FY13
Enterprise Fund Reimbursements	852,083	852,083	880,193	880,193	902,198	22,005	2.5%	924,753	2.5%	947,872	2.5%	Enterprise Fund reimbursements to Gen Fund
Overlay Surplus	0	0	0	0	0	0		0		0		
Free Cash	218,200	218,200	0	120,000	(120,000)			0		0		FY13 one-time appropriation to APS for School Choice
Stabilization Fund	0	0	0	0	0	0		0		0		
Subtotal OTHER FINANCING SOURCES	3,656,009	3,700,109	3,181,221	3,305,233	3,322,031	16,798	0.5%	3,405,082	2.5%	3,490,209	2.5%	
TOTAL REVENUES	66,719,697	67,694,761	68,102,291	68,230,633	70,343,852	2,113,219	3.1%	72,289,964	2.8%	74,287,846	2.8%	

**TOWN OF AMHERST, MASSACHUSETTS
FINANCIAL PROJECTIONS - GENERAL FUND**

**DRAFT
For Discussion Purposes Only
October 17, 2013**

	<u>FY 13 Recap</u>	<u>FY 13 Actual</u>	<u>FY 14 Budget</u>	<u>FY14 Recap</u>	<u>FY 15 Projected</u>	<u>\$ Chg</u>	<u>% Chg</u>	<u>FY 16 Projected</u>	<u>% Chg</u>	<u>FY 17 Projected</u>	<u>% Chg</u>	<u>Assumptions</u>
EXPENDITURES												
OPERATING BUDGET												
Town	19,583,195	20,078,464	20,238,481	20,238,481	20,784,920	546,439	2.7%	21,346,113	2.7%	21,922,458	2.7%	
Elementary Schools	21,558,039	21,551,249	21,989,199	21,989,199	22,582,907	593,708	2.7%	23,192,645	2.7%	23,818,847	2.7%	
A-P Regional School District (Assessment)	13,746,434	13,746,434	14,158,830	14,158,830	14,541,118	382,288	2.7%	14,933,728	2.7%	15,336,939	2.7%	
Jones Library (Tax Support)	1,690,789	1,690,788	1,741,512	1,741,512	1,788,533	47,021	2.7%	1,836,823	2.7%	1,886,418	2.7%	
Subtotal OPERATING BUDGET	56,578,457	57,066,935	58,128,022	58,128,022	59,697,478	1,569,456	2.7%	61,309,310	2.7%	62,964,661	2.7%	
CAPITAL BUDGET												
Debt Service - Debt Exclusion	259,374	259,374	213,522	213,522	171,480	(42,042)	-19.7%	125,378	-26.9%	83,239	-33.6%	ARHS debt funded via debt exclusion
Debt Service - Current	1,382,150	1,532,081	1,561,993	1,561,993	1,591,332	29,339	1.9%	1,451,893	-8.8%	1,451,893	0.0%	Per JCPC 5-Year Capital Plan
Debt Service - Projected	17,911	0	20,000	20,000	266,900	246,900	1235%	353,290	32.4%	353,290	0.0%	
Cash Capital (Tax Support)	1,294,199	1,294,199	1,434,290	1,434,290	1,275,458	(158,832)	-11.1%	1,681,279	31.8%	2,054,683	22.2%	
Subtotal Tax Funded Capital	2,953,634	3,085,654	3,229,805	3,229,805	3,305,170	75,365	2.3%	3,611,841	9.3%	3,943,105	9.2%	
Tax Capital Less Debt Excl	2,694,260	2,826,280	3,016,283	3,016,283	3,133,690	117,407	3.9%	3,486,463	11.3%	3,859,866	10.7%	
% Net Tax Levy	6.48%	6.80%	7.00%	7.00%	7%	0.00%	0.0%	7.50%		8.00%		Town Financial Policy goal is 10% of tax levy
Cash Capital (Ambulance Fund)	255,000	332,100	0	0	0	0	0.0%	0		0		FY13 Ambulance purchase
Subtotal CAPITAL	3,208,634	3,417,754	3,229,805	3,229,805	3,305,170	75,365	2.3%	3,611,841	9.3%	3,943,105	9.2%	
MISCELLANEOUS												
Assessment - Retirement System	3,468,324	3,442,971	3,925,567	3,925,567	4,239,612	314,045	8.0%	4,430,395	4.5%	4,629,762	4.5%	Per Hampshire County Retirement Board
Assessment - Regional Lockup Facility	31,323	31,323	31,323	31,323	31,323	0	0.0%	31,323	0.0%	31,323	0.0%	
Other	0	0	0	120,000	0	(120,000)		0		0		FY14 Social Services and Town/Gown
OPEB	585,342	585,342	0	0	100,000	100,000		200,000	4.5%	300,000	187.1%	Begin building OPEB funding into annual budget
Reserve Fund	100,000	3,185	100,000	100,000	100,000	0	0.0%	100,000	0.0%	100,000	0.0%	Finance Committee Reserve Fund
Subtotal MISCELLANEOUS	4,184,989	4,062,821	4,056,890	4,176,890	4,470,935	294,045	7.0%	4,761,718	6.5%	5,061,085	6.3%	
Total APPROPRIATIONS	63,972,080	64,547,510	65,414,717	65,534,717	67,473,583	1,938,866	3.0%	69,682,868	3.3%	71,968,852	3.3%	
UNAPPROPRIATED USES												
Reserve for Abatements & Exemptions	415,510	415,510	430,898	430,898	447,670	16,772	3.9%	464,862	3.8%	482,483	3.8%	Target: 1% of tax levy
State Assessments (Cherry Sheet)	1,958,032	1,951,816	1,969,638	1,956,175	2,113,756	157,581	8.1%	2,166,600	2.5%	2,220,765	2.5%	Charter & Choice Tuition, PVTA
Cherry Sheet Offsets	69,882	289,506	271,365	293,170	293,170	0	0.0%	293,170	0.0%	293,170	0.0%	School lunch, School Choice tuition, and Library aid
Other Amounts to be Raised	15,673	188,558	15,673	15,673	15,673	0	0.0%	15,673	0.0%	15,673	0.0%	PVPC and Tax Title
Subtotal UNAPPROPRIATED USES	2,459,097	2,845,390	2,687,574	2,695,916	2,870,269	174,353	6.5%	2,940,305	2.4%	3,012,091	2.4%	
TOTAL BUDGET PLAN	66,431,177	67,392,900	68,102,291	68,230,633	70,343,852	2,113,219	3.1%	72,623,173	3.2%	74,980,943	3.2%	
								2,279,321		2,357,770		
SURPLUS / (SHORTFALL)	288,520	301,861	0	0	0			(333,209)		(693,097)		