

DRAFT 12/11/19

TO: Paul Bockelman, Town Manager
CC: Michael Morris, Superintendent of Schools
Amherst and Regional School Committees
Sharon Sharry, Library Director
Library Trustees
FROM: Town Council
DATE: MM DD, YYYY
RE: FY21 Budget Policy Guidelines

The Town Council provides these guidelines to assist you in developing a budget for FY21 to present to the Council on May 1, 2020. This is the first year in which the entire budget process is pursuant to the Charter with guidelines developed by the Town Council. These FY21 guidelines serve the same purposes that were covered by the Select Board and Finance Committee Guidelines presented last year to assist in the development of the FY 20 budget during the transition year. This year's guidelines are presented based upon current information for FY21 projections. The Council may provide subsequent guidance as new information becomes available.

The Guidelines refer to the Town Charter and to the “Town of Amherst Financial Management Policies & Objectives” adopted January 2008 and updated in 2012. These source documents will be cited as “Charter” and “Financial Management Policies”. Another important source document for these Guidelines is the “Preliminary Financial Projections for FY 21 Budget Planning” presented on November 7, 2019 to a joint meeting of the Town Council, School Committee, and Library Trustees, to be cited as “Preliminary Financial Projections”.

I. Overall Philosophy and Key Concerns for FY21

Fiscal sustainability is a primary budget goal, so all revenue and expenditure plans should be viewed in a multi-year context. The services that are provided are important for residents and businesses and a budget must allow for their continuation. Continued evaluation of those services and improvements to enhance efficiency and effectiveness are valued. Intense evaluation of the current range of municipal, library and school services and their delivery methods is critical to ensure that every dollar is spent wisely.

The Council supports maintaining a level services budget while recognizing that there may be opportunities to address additional key priorities. These unmet budget needs, new practices and initiatives to consider, will be suggested later in these Guidelines with the hope there is capacity to consider some of them in FY 21.

If the revenue projection decreases significantly, the Council requests that the Budget Coordinating Group (BCG) provided in Charter Section 5.2 convene and consider an adjustment strategy to recommend to you and the Council. Should additional funds become available, the Council will appreciate a short and prioritized list, with rationales, for budget additions, with review and comments from the BCG. The Council would like you to consider the unmet budget needs presented later in these Guidelines and the need to increase investments in capital and the Town’s long-term retiree health care liability (OPEB).

Growth in state aid and tax receipts continue to be less than needed to support the infrastructure and services the Town needs. As a result, Amherst relies very heavily on residential property taxes as well as on new growth to fund Town services.

The Council supports continuation of the policy that reserve funds must not be used to support recurring expenses which require recurring revenue sources. Because of good planning and fiscal discipline, there has been no need to ask voters to consider a Proposition 2 ½ operating override since 2010. That law, passed by voter initiative in 1980, limits the amount that a city or town can increase total property taxation without an override of the limit passed by voters. Additional information about this law can be found in a Division of Local Services publication found at <https://www.mass.gov/doc/levy-limits-a-primer-on-proposition-2-12-0/download>. Amherst voters approved a \$1.68 million override for FY11 that was phased in over two years. Since then, important economies in providing for health care, reasonable contract renewals, efficiencies in operations, regular “New Growth” that provides new tax revenues in addition to the allowable 2.5% increase in the levy limit, and some growth in state aid have allowed property taxes to remain within the limits of Proposition 2 ½ requirements.

The Council is committed to addressing four major capital investments by renovation and repair or replacement: the Fort River and Wildwood Schools, Jones Library, Central Fire/EMS Station, and Public Works facility, with the hope to begin in FY21 with at least one project. The Council is presently engaged in a process that will do so and hopes it will garner public support. Funding these projects will require the Town to incur long-term debt, which will be repaid from capital budgets in future years. These buildings need significant investment, whether it is as new construction or fixing persistent building challenges like new roofs and HVAC systems.

It is also recognized that there are other significant needs including maintaining and improving Town roads and sidewalks, replacing equipment as needed to continue to provide essential services, and maintaining existing buildings and those to be added in the future. It is clear that the costs of the 4 major capital investments coupled with the ongoing capital needs are such that the Town cannot afford to execute them without the significant support of outside grants such as those of the Massachusetts School Building Authority (MSBA) and the Massachusetts Board of Library Commissioners (MBLC). The Council may also need to ask voters to approve one or two debt exclusion overrides. Funding capital investments is supported by means other than the capital budget, including the use of Community Preservation Act funds, CDBG, the PARC grant program, MassWorks, and other grant opportunities and through shared purchasing and ownership with other towns or entities.

The Council recognizes the perils of inadequate investment in maintaining its physical assets and in capital improvements. In the Preliminary Financial Projections for FY 21 Budget Planning at pages 32, 33, and 41, you propose to increase the percentage of the property tax levy allocated to capital to achieve the goal of 10% and continue to catch up on the backlog of capital infrastructure needs as outlined in Financial Management Policies section C-7.

Other capital needs should be considered including North Amherst Library renovation, park and athletic field improvements, a Community/Senior Center, and a Parking Garage. Except for the North Amherst Library, should the Town receive significant private donations to support that project, these projects must be long-term goals because the priorities are the four identified investments and other essential capital needs.

A strong bond rating allows the Town to borrow funds at favorable rates and is validation of sound financial management. The Council encourages steps that will maintain the Town’s present AA+ rating and also improve its rating. That includes managing finances to assure that the Town can continue to meet immediate obligations, maintain the level of services expected by residents, and meet future financial obligations.

Reserves may be needed as a planned and strategic way to mitigate the large peaks in capital expenditures during the first few years of execution of the 4 large capital investments when debt payments are likely to be greater than in subsequent years. The use of reserves is to allow for effective management but should not become ongoing support for any program or the budget as a whole. It is not prudent to use reserve funds for ongoing expenses. Maintaining a responsible reserve balance is prudent fiscal management and contributes to the Town's strong bond rating, which in turn reduces the cost of borrowing. Reserves may be needed for that "rainy day" when there is a loss of revenue or increase in expenses that could not be anticipated. Careful and strategic reserve use as a source of bridge funding or start-up costs for programs that will generate new revenue or expense reductions is a reasonable use of one-time funds. See Financial Management Policies Section B-3.

The Council supports expense reduction strategies and initiatives including the responsible reassignment of services outside of the General Fund. Other strategies include regionalization and reorganization that reduce costs and create efficiencies; expense reduction via "ordinary" means such as aggressive cost-comparison that reduces waste and seeks greater efficiency; negotiation of fair labor contracts that the Town can afford and sustain; and green initiatives that reduce long-term operating expenses. The benefits of the predictable energy costs provided by comprehensive solar projects is appreciated. These initiatives must only be pursued with due consideration of the implications and mindful of Financial Management Policies Sections B-4 and B-8.

Economic development is an important financial management strategy. Responsible and appropriate expansion of our commercial sector from the current level of about 10% and expansion of the tax base in accordance with the community's goals as expressed in the Master Plan can grow the property tax base in net-positive ways. Pursuing solar power generation and other green initiatives will reduce Greenhouse Gas Emissions, advance the recently adopted Climate Action goals, and are opportunities for economic development to support future budgets.

You are encouraged to continue to work with the three institutions of higher education on strategic partnership agreements and other initiatives that help defray some of the costs the Town incurs from providing the services they require. Robust payments in lieu of taxes (PILOT) are essential for the health of the Town. The UMass Strategic Partnership Agreement provides an important opportunity to ensure that all relevant categories of costs incurred by the Town are included and updated regularly and serves as a model for working with the other two institutions of higher education. The Town should receive financial reimbursement for the cost to educate children in our public schools who live in University-owned housing that does not pay property taxes. Working with the Town's non-profit partners including the University of Massachusetts in a collaboration similar to the University-Town of Amherst Collaborative (UTAC) provides the potential to develop more models for public and private partnerships, especially around the creation of housing and commerce that can generate new revenue.

There are other means to generate new revenue. The Town should regularly evaluate service fees to assure they are in line with costs. Aggressive pursuit of grants to offset costs and expand services produces new revenue. However, when grants involve funding of new personnel there should be a clearly communicated understanding whether those positions will be continued when the grant funding is no longer available. The Town through the Council and the Executive should advocate for State legislation that improves local taxation options, increases aid to Amherst, and mitigates mandated costs. Amherst should also support strong local advocacy for the state-wide effort to increase funding for road and sidewalk work and transportation infrastructure improvements. The Town should continue to advocate for increased State revenues, such as more progressive taxation including higher income tax, in order to increase funds available for local aid to all communities and for funding to offset the financial impact of Charter Schools and School Choice.

II. Revenue

For the purpose of these Guidelines, the Council adopts the revenue projections from the Preliminary Financial Projections (page 40) with an overall revenue increase of 1.7% over FY20 assumed from all sources, which include property tax, local receipts, state aid, and other financing sources.

The largest revenue source is the property tax representing 67% of the total budget. It is expected to increase by 3.6%, reflecting the allowable 2.5% increase plus new growth. This revenue is stable and predictable. The new growth projections presented in the Preliminary Financial Projections for FY 21 are reduced from FY20. Property tax revenues from the new buildings downtown and in North Amherst resulted in significant increases in new growth revenue in the last two years. Those buildings are now part of the total property valuation and continue to provide revenue that would not have been available without those additions. Reducing the new growth projection to the historic average \$600,000 is a conservative approach and makes sense. Projects on University Drive, Spring Street, and South East Street will provide additional revenue, but should not be included in projections until the initial assessment and the date when taxes on those properties will first be paid is known. The projection can be revisited and included as FY21 revenue if warranted.

The second largest source of revenue is state aid. It is 19% of the total FY21 budget proposed in the Preliminary Financial Projections, which is conservatively projected at no dollar increase over FY20. Every year, this is an area of uncertainty. 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 consensus revenue estimate for FY 20 was released on December 31, 2018. The Governor will propose a State budget in January 2020 for FY21, which will be the first indication of the amount of state aid the Town might actually receive. The projection for State aid to Amherst can be revisited and included as FY21 revenue if warranted.

Other revenue sources, such as local receipts and other financing sources are estimated to decrease. The projection for local receipt revenue is affected by the uncertainty of payments from new marijuana establishments, taxes on short-term rentals, and the University since a new Strategic Partnership Agreement has not been finalized. Last year's revenue for other financing sources was affected by one-time revenues. These projections can be revisited and included as FY21 revenue if warranted.

III. Expenses

The overall budget philosophy of these Guidelines anticipates a final balanced budget, with all sources of revenue providing the funds necessary to meet expense projections. As presented in the Preliminary Financial Projections (page 41), a deficit of \$959,511 is projected in FY21. The Council recognizes that revenues have been projected conservatively and hopes that there will be additional resources to support this budget. Therefore, it adopts the budget recommendations of the Preliminary Financial Projections and suggest that budgets be developed with an overall increase, including capital, of 2.9% over the FY20 budget. That presumes that operating budgets for Town Municipal Services, Elementary Schools, and the Library will have increases in Town support of 2.5%. (The Elementary Schools increase is 2.8%, because it is net of the Charter and School Choice revenues.) It also presumes an increase of 2.5% for the Amherst-Pelham Regional School District assessment. The budget increase for the Regional School District will then be determined by the assessment method. The four Towns are urged to adhere to the agreement that the assessment method will be according to the two-year plan developed by the Assessment Working Group with the Superintendent and the Regional School's Finance Director in 2018.

These targets will be a challenge as operating budgets must also fund health insurance for employees and retirees. These are projected to increase in the 5-6% range and will put pressure on budgets across the board.

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 adopted in 2008, recognizes that it is essential to maintain and improve infrastructure, including streets and sidewalks, Town buildings and the equipment required to provide services, as well as to invest in recreation fields and facilities, open space, and other Town priorities. Starting at 7.2% of the tax levy ten years ago, the Town has purposefully increased the Capital Budget to 9.5% of the Levy for FY20. The Council appreciates and supports the recommendation to appropriate 10% of Levy for capital spending in FY21. This level will be necessary in order to help finance debt service for the four major capital investments being proposed in the near future and address other essential capital needs.

Based on prudent fiscal management, the Council is concerned about the Other Post-Employment Benefits (OPEB) obligation, principally promises made to provide health insurance after retirement. An allocation of at least \$500,000 to the OPEB Trust Fund in the FY21 budget is recommended. The June 30, 2016, actuary report estimated the Town of Amherst's liability at \$100.5 million. By law, Amherst is required to fund pensions, but as of now, the OPEB obligation is not required. However, the Government Accounting Standards Board (GASB), rules 74 and 75, require that the Town report OPEB liabilities on the Town's Balance Sheet. This will be the final year when there will be Medicare Part D reimbursements to add to the OPEB Trust Fund because of the change in how the Town provides health insurance for employees. It is therefore important that the budget include a significant contribution to the OPEB Trust Fund in the FY21 budget.

Consistent with the Council's overall budget philosophy, if there is a change in revenue or the deficit otherwise remains as you develop the budget to present to the Council on May 1, the Council requests that the Budget Coordinating Group (BCG) convene and consider an adjustment strategy to recommend to you and the Council.

IV. Unmet Budget Needs

The Council recognizes that revenue is insufficient to address all needs of the Town. Finding a way to support something not previously funded requires difficult decisions. As noted in the section on overall budget philosophy, municipal services provided by the Town are valued and the Town has an obligation to address capital needs. The General Funds budget is divided into capital and operating budgets. As explained, it is recommended that the capital budget be increased to 10% of tax revenue. An increase in the proportion of the budget allocated to capital without an increase in the total budget by override, new growth, or an increase in state aid, will decrease the portion available for operating budgets. Regardless of the amount available for capital, the Town Manager and the Council must make difficult decisions about what to fund, and what not to fund.

Nevertheless, the Council would like to work with you to consider the need, cost, other challenges and benefits of addressing some important unmet needs. These needs include:

1. Staffing in our Fire/EMS services.
2. Reviewing the adequacy of compensation and benefits for long-term part-time employees including moving forthrightly to a \$15/hour minimum wage for our lowest paid employees.
3. Funding for sustainability initiatives, including steps needed to meet recently adopted Climate Action goals, reduce Greenhouse Gas Emissions, and eventually make Amherst a carbon neutral community.
4. Initiatives to increase the rate of housing production to meet the high housing demand and adjust to the rising housing costs to assure socio-economic diversity among Amherst residents.

5. Moving forward with the three recommendations of the Downtown Parking Working Group.
6. Assuring that we have adequate staff to advance our economic development needs.

Consistent with the Budget Philosophy discussed above, if additional funds become available the Council will want these issues considered as you develop a short and prioritized list for budget additions.

V. Budget process

With the experience of the FY20 budget process, the Council has the opportunity to consider ways to improve the process as it proceeds through the first budget year fully under the Charter and the Council. The timing with the municipal budget not released until May 1 provides you with the ability to adjust the budget after the House of Representatives completes its budget, including aid to local governments and regional schools. It also provides you with more time to develop a budget. But it reduces the time for Legislative review, which in the past began on January 20, more than three months before Town Meeting would consider the budget. Previously the Finance Committee would meet with the Library Director and Superintendent of Schools after budgets were approved by the Library Trustees and School Committee, usually in March.

In 2019, upon receipt of your proposed budget on May 1, the Finance Committee met twice weekly during May to review the budgets of each department and meet with department staff. The Finance Committee is prepared to do so again in May 2020. It would like to meet with the Library Director and Superintendent in April to review the budgets as approved by Library Trustees and School Committees. If these budgets change prior to your submission on May 1, there could be a second meeting in May.

The Council appreciates having a budget in the format of the FY 20 budget. For each department and function, that included: (1) the department's mission, long-term and short-term goals, basic functions and other relevant data; (2) summary for the next fiscal year, including relevant changes from the current year; (3) staffing for the next fiscal year and change from current year; (4) other information of interest.

The Finance Committee would also appreciate information about services provided by each department for other departments and whether the cost of those services is absorbed by the department providing the service. The Committee would also appreciate multi-year projections from Water and Sewer Enterprise Funds, especially early information on planned capital investments.

The most useful staffing data is "full-time-equivalent" (FTE) employees. It would be helpful if it is presented in a uniform way for all budget areas.

VI. Conclusion

The Council appreciates the collaboration on the budget and Town financial management between you and the Town Council during the first year under the Charter. It also appreciated the efforts of you, Sonia Aldrich and many other members of the staff to inform Councilors about the budget and the challenge to manage Town finances generate revenue to meet expenses and achieve the community's goals. The Council looks forward to continued collaboration as you develop and manage future budgets.