

The "Five Year Plan" (Part 1):

Recent Trends in the Gill-Montague Regional School District Budget and "Road Maps" For Future Fiscal Stability

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Consultant's "Analysis and Recommendations" as a separate document

Introduction

This study evaluates the historical origins of the structural budget crisis that has plagued the Gill-Montague Regional School District and the member towns for the past decade. It then uses the historical analysis to create a road map for resolving that crisis.

The first part of this report focuses on revenue and spending increases during the 1990s, the era of education reform, and how they created a structural budget gap in the years that followed (1999-2008). The analysis attempts to pinpoint the key sources of the structural crisis and its historical dynamic.

The second section presents a number of scenarios, projecting revenues and expenditures into the future (FY09 to FY14). The last scenario is an effort to envision a template for fiscal stability. It is certainly not the only road to stability and of necessity would require some radical policy changes. But the data should serve as a benchmark for policy decisions, both educational and fiscal.

The third section of the study contains a number of appendixes presenting data and analysis on key issues that could not be developed in the main report. One goal is to present some initial data on policy questions that require more research if the dynamics of local school budgets are to be better understood.

Finally, the report contains a section entitled "Consultant's Analysis and recommendations." Some of the conclusions presented in this section reflect consensus on the oversight committee that monitored the progress of this study. Others have proven to be more controversial and are here presented as views of the consultant. It is hoped that the reader will engage this entire section with a critical but open mind.

This report is a study of budgets. It does not focus on "educational" variables as measured by standardized test scores, evaluations by teachers, the experiences of students themselves, the reputation of the district in local communities or the opinions of parents who are the "market" for the system. The analysis does not discuss implicit or explicit educational policies or the "vision" that guides the district. However, as has often been stated, one can not separate financial from educational considerations when evaluating our schools.

It is often argued that a certain amount of funding is needed to provide high quality education "for every child." Yet there is little consensus regarding what this level of funding should be. There should, however, be a consensus that an educational system that is constantly destabilized by prolonged budget crises will not be an effective system. Institutional instability not only impacts the education of children but has profound effects on the entire local community.

That is the belief that motivated the school district and the member towns to embark on this study.

Historical Analysis: **The Origins of the Crisis in Local Education Finance**

GMRSD Revenue Data

Table 1 shows the primary sources of revenue for the Gill-Montague Regional School District -state aid under the “Chapter 70” program and local revenues, primarily property taxes, often called “local assessments.”¹

“Other” revenue sources, including federal Medicaid reimbursements, state transportation aid, charter school reimbursements and the tuition paid for students from the town of Erving, are not included in the estimates.¹ Changing accounting procedures and inconsistent data made it difficult to create a reliable time series for these diverse sources of revenue. With the possible exception of transportation aid and the “Circuit Breaker” program for high special education placements, they did not have a significant impact on budget growth or retrenchment.²

GMRSD Expenditure Data

Table 2 shows the annual expenditures of the Gill-Montague Regional School District from 1990 to 2008. There are two sources for this data – school district reports contained in the “Annual Reports” of the town of Montague (1990 through 1997) and budget summaries presented to annual town meetings (T1T2, 1997 through 2008). In all cases, “actual” expenditures for previous years are used, rather than budgeted amounts or budget requests prior to town meeting. There is no data in the town reports for 1992 or 1995.

¹ The GMRSD is an independent budget-making entity. The district develops a budget, subtracts projected state aid, and then “assesses” member towns for the balance. The fact that this process assumes state revenues as a given but local revenues as the subject of much negotiation may be one of the key sources of conflict over the local budget.

² At the start of the FY 2009 budget process the district estimated these revenue sources, excluding school choice “in” payments, special education “circuit breaker” reimbursements and grants, totaled approximately \$1.2 million out of a total budget request of over \$17 million. State reimbursements for high special education placements (currently called “Circuit Breaker”) do not appear under “other” revenue sources but rather reduces budget expenditures for this line item. The failure of the state to fully fund transportation aid “promised” to school districts when they regionalized decades ago has been a persistent complaint by both the GMRSD and member towns. During the period under study, regional transportation reimbursements have increased to nearly 85% of qualified students. However, there is no evidence that this has had a significant impact on the fiscal problems confronting the school district or member towns. For the FY09 budget, the district estimated the transportation reimbursement would total just over \$289,000.

In addition to annual “totals,” the table shows various categories of expenditures, similarly derived from annual reports. Key categories include:

**Administration* – administrative costs and services, primarily central office staff.

* *Instruction* - the largest category, including teachers salaries, textbooks and technology.

**Other School Services* - includes transportation, nurses, food service and athletics.

**Operations and Maintenance* - includes custodial services, heat and utilities, maintenance of grounds.

**Fixed Charges* – largest categories are health insurance for active and retired employees and pensions.

**Community Services* - a category not used since 2002.

**Acquisition of Equipment* – substantial equipment purchases.

**Debt Retirement* -includes retirement of the debt incurred by the high school building project (2004 to 2008)

**Programs with Others* - primarily public and private out-of-district special education placements. Accounting for this part of the budget, and the state reimbursement process, has changed over time. Right now public and private tuitions appear as separate totals but they are combined here.

**Tuitions* -school choice and charter school tuition payments.³

Totals in the right hand column include an estimate that subtracts the cost of the high school renovation debt payments in order to obtain a more accurate estimate of trends in the operating budget.⁴

³ Accounting for this category has changed over time in response to changing state policies. Currently the school choice portion of the total is “net” of losses and gains (students in and out). The charter school total, on the other hand, is the total payment, with reimbursement subtracted as income in the calculation of the town assessments.

⁴ The high school renovation was financed, in part, by a Proposition 2 ½ debt exclusion. In calculating the impact of local assessment increases, “debt” was subtracted from assessments during the course of the project.

Table 1:GMRSD Revenues, 1990-2008
(all in thousands of dollars)

Year		State	Local	Less Debt	Local % Budget*
1990		\$3,421	\$2,307		42%
1991		3,282	2,532		
1992		3,251			
1993		3,476	3,109		
1994		4,052	2,964		
1995	NA	4,321			
1996	4,638	4,638	3,632		40
1997		4,962	3,962		
1998		5,199	4,147		
1999		5,856	4,551		40
2000		6,076	4,810		
2001		6,335	5,353		
2002		6,419	5,646		42
2003		6,450	6,360	6,149	
2004		5,837	6,633	6,291	
2005		5,837	7,702	6,351	48
2006		5,898	7,767	6,851	
2007		6,226	8,790	7,403	
2008		6,375	8,427	8,133	
2009	Proposed	6,433	9,452	9,196	55

Source: Town Reports, 1990-1999, GMRSD Assessment Calculations, 2000-2008 (actuals)

Note: Outside Revenues (Erving Tuition, Medicaid, Charter Reimbursements, Transportation Not Included). *Local % is percent total budget inc. outside revenues.

Table 2: GMRSD Expenditures, 1990-2008
(all in thousands of dollars)

Source/ Year	Admin	Instruction	Other School Serv.(Trans)	Operations Maintenance	FixedCost Health etc	Community Services	Acq. Of Equipment	Debt	Programs w Others	Tuitions	Total	Less Debt *
1990	258	4,042	475	626	667	0.2	21	23	54		5,526	
1991	286	4,475	473	659	781	0.1	0	28	87		6,821	
1992	NA											
1993	286	4,788	451	663	896	0.6	29	4	100		7,219	
1994	318	5,000	502	796	932	0.9	45	32	84		7,714	
1995	NA											
1996	288	5,890	620	882	1,167	0.7	30	76	188		9,142	
1997	320	6,202	666	869	1,206	0.7	10	149	390		9,802	
1998	314	6,737	695	828	1,170	1.9	0	142	461		10,348	
1999	404	7,351	771	922	1,305	2.4	2.8	136	531		11,425	
2000	394	7,734	838	935	1,510	1.1	0	140	652		12,204	
2001	418	7,645	1,006	950	1,775	0.3	0	143	930	324	13,172	
2002	457	7,549	1,088	874	1,833	0	0	183	1072	390	13,448	13,265
2003	498	6,988	1,043	870	2,037	0	0	197	1030	512	13,274	13,077
2004	468	6,017	957	951	2,142	0	0	308	988	408	12,239	11,932
2005	526	7,011	902	1,121	2,452	0	0	719	822	410	13,964	13,245
2006	548	7,347	1,068	1,274	2,924	0	0	914	701	657	15,434	14,520
2007	559	7,310	932	1,314	3,165	0	0	1,386	809	645	16,137	14,751
2009	628	7,580	1,026	1,492	3,665	0	0	293	801	796	16,181	15,888

Sources: GMRSD Reports in Montague Town Reports, 1990-1999; GMRSD Budget "Totals" (T1T2) 1999-2008 ("actuals")

Revenue and Spending Trends: Three Periods

In order to evaluate the key factors producing spending growth during the period, average spending and revenue increases for three key periods have been calculated. These periods include 1) 1990 to 1999, the period of maximum education reform funding; 2) 1999-2002, the period when state funding slowed and the structural budget gap first emerged; 3) 2002 to 2008, a period marked by spending cuts associated with state aid cuts, an effort by the school district to restore services, and a dramatic widening of the structural budget gap.

These broad revenue and spending “trends” are shown in Tables 3 and 4. The top numbers in each category show the total increase and percentage increase for the period under consideration. The second numbers represent annual average spending and annual average percentage increases.

1.1990 through 1999: The Era of “Education Reform”

This was the period of significant increases in state aid to education, caused primarily by the passage of “education reform” in 1993 and its implementation the following year. During this period, state aid increased by an average of 7.1%, or approximately \$271,000 each year. Education reform also encouraged significant growth of local spending, increasing the local revenues flowing into the Gill-Montague Regional School district by \$249,000, or approximately 10.8%, annually.

It should be noted that while state aid increases averaged between \$200,000 and \$300,000 for the period, there were very large increases in fiscal years 1994 (nearly \$600,000), the first year of “ed reform” and 1999 (over \$650,000), the last year of significant state revenue growth. This phenomenon may have created “boom and bust” cycles, as well as abrupt changes in revenue patterns that discouraged long-term planning.

How were these new revenues reflected in the regional school district budget? Tables 2 and 4 show that the total budget for the school district is estimated to have increased by an annual average of \$544,000, or 8.3%, annually. The major source of this increase is the cost of “instruction,” which grew at an annual average of \$367,000 dollars during the period. This increase may reflect growth in the number of teachers or in teachers’ salaries, probably both. However, we do not have data on either factor for the 1990s.

The other two major cost increases in the 1990s were for “Fixed Costs” and “Programs with Other Districts.” Fixed Costs, primarily health insurance and pensions, increased by over 600%, or an average increase of nearly \$96,000 annually. “Programs With Others,” (out-of-district special education placements) rose by nearly 900% or an annual average of \$53,000, during the period.

Table 3: GMRSD Revenue Trends, 1990-2008

Year	State Ch 70	% Inc	Local Assessment s	% Inc
1990-1999	2,435	71	2,244	97
/Year	271	8	249	10.8
1990-1996	1,217	35	1,325	57.4
/Year	204	6	221	9.66
1996-1999	1,218	26%	919	25.3
/Year	406	8.8	306	8.4
1999-2002	563	8.7	1095	24.1
/Year	188	2.9	365	8
2002--2008	-44	-0.7	2660	48.6
/Year	-7	-0.1	443	8.1
2002-2004	-582	-9.1	818	14.9
/Year	-291	-4.5	409	7.4
2004-2008	538	9.2	1,839	29.3
/Year	135	2.3	460	7.3

Source: See Table 1

Table 4: GMRSD Expenditure Trends, 1990-2008 (Selected Expenditures)

	Instructi on	%Increase	Fixed Cost (Health Ins)	% Increase	Programs With Others	%Increase	Tuitions	% Increase	Ma
1990-'99	3,309	819	638	70.9	477	883			
/Year	367	9.1	95.7	10.6	53	98			
1990-1996	1848	45.7	500	75	134	248			
/Year	308	7.6	83.3	12.5	22.3	41.7			
1996-'99	1,461	24.8	138	11.8	343	182			
/Year	487	8.3	46	4	114.3	60.8			
1999-'02	198	2.7	528	40.5	541	102			
/Year	66	0.9	176	13.53	180.3	34			
2002-'08	31	0.4	1,832	99.9	-271	-25.3	406	104	
/Year	5.2	0.07	305	16.7	-45.2	4.2	68	17.4	
2002-'04	-1,532	-20.3	309	16.9	-84	-7.8	18	4.6	
/Year	-766	-10.2	155	8.4	-42	-3.9	9	2.3	
2004-'08	1563	26	1,523	71.1	-187	-18.9	388	95.1	
/Year	391	4.3	381	17.8	-47	-4.7	97	23.7	

Sources: See Table 2

In sum, education reform encouraged a major expansion of local spending in the Gill-Montague regional school district in the 1990s.⁵ While we need better data on staffing levels during the period, the trends appear to show that much of this new money was spent on increasing staff wages, increases in health care costs and the rising cost of special education services.

These trends merit further critical analysis, particularly if they are typical of school districts across the state. Were these increases in wages, benefits and special education consistent with the goals of education reform? Did they result in significant improvement in the quality of education, as experienced by most students and parents, observed by taxpayers or measured by standardized tests? Did spending increases in these areas undermine central assumptions of the foundation budget and the formula for local aid?⁶

Most importantly, for the purposes of this study, did spending increases generate continual “fixed cost”⁷ increases that could not be financed once state aid stopped increasing at the levels of the education reform period?

2. 1999 to 2002: The End of Education Reform and The Beginning of the Local Fiscal Crisis

These dates cover the period between the end of “Ed Reform” spending increases and the recession-induced cuts of FY 2003 (the recession actually occurred in the spring and summer of 2001 but did not impact state aid and local budgets until the next year). Table 3 shows the significant moderation of state aid increases during these years. From an annual average of 8.8% from 1996 to 1999, annual state aid increases fell to an average of 2.9% (\$188,000) during these fiscal years.

At the same time, certain basic cost increases continued to rise at the levels of the 1990s. The school district budget as a whole increased by an annual average of 5.9%, or

⁵ The analysis here suggests that a good deal of the increase in the school district budget was revenue driven. However, there certainly would have been increases in health care and special education costs in the absence of education reform funding. It would also be a mistake to suggest there were no problems financing public education in Massachusetts prior to education reform. In fact one could argue that fiscal problems, perhaps associated with the recession of the early 1990s, were a cause of reform.

⁶ Similar questions about the assumptions underpinning the foundation budget have been raised by a recent report of the state education department (DESE). Massachusetts Department of Elementary and Secondary Education, Office of Strategic Planning, Research and Evaluation, “Preliminary Report on Current Fiscal Conditions in Massachusetts School Districts” (January, 2008), pp. 3, 9-14.

⁷ The term “fixed cost increases” is used here to refer to those increases built into the budget that do not reflect increases in services. That is, they are cost increases needed to maintain a “level services” budget. The term is not used to suggest that the district has no control over these costs. The GMRSD budget has a “fixed cost” category that essentially accounts for employee benefits. Special education is included in fixed costs even though an increase may reflect an increase in services for the students involved.

\$674,000, during this period. Employee benefits, primarily for health care, rose by an average of \$176,000, or over 13%, annually. The cost of out-of-district special education services doubled, with average increases exceeding \$180,000. Thus the rising cost of out-of-district special education placements nearly equaled annual increases in state aid.

A key area that was impacted by the slowing revenues and rising fixed costs of these years was spending for “instruction” (teachers’ wages). This portion of the GMRSD budget increased by less than 1%, or \$66,000 annually, a dramatic decline from the levels of the 1990s. Data collected by the Department of Elementary and Secondary Education (DESE) suggests that virtually all this slow spending growth was the result of staff cuts, as the number of “full time equivalents” was reduced by approximately 7% (See Appendix B). Wage levels reported to the DESE increased during the first year of the period but then were level-funded.

Slowing state aid growth and rising fixed costs led to increased demands on the member towns. Table 3 shows that local assessments increased by an average of \$365,000 during these three years. It is important to emphasize, however, that these final local assessment totals were the result of a good deal of conflict between the school district and member towns. Initial assessment requests from the school district to the towns were considerably higher than the final totals would suggest.

In the spring of 2000, for example, the district, seeking to maintain the gains made during the education reform period, requested an assessment increase of over \$800,000. Member towns, particularly Montague, rebelled against an amount that was significantly above local revenue increases. The Montague Finance Committee recommended a significantly lower assessment to the town meeting. There followed weeks of public debate, including threats of cuts in key programs, layoffs and school closings. In the end, a compromise produced a budget that did not meet district expectations and an assessment increase that many town officials felt was unaffordable.⁸ A pattern had been set, soon to be exacerbated by the national recession and its aftermath.

3. 2003-2008: Recession And Its Aftermath Magnifies the Fiscal Crisis

The relatively short recession in 2001 had a significant impact on state aid to Massachusetts’ local school districts in fiscal years 2003 and 2004. Chapter 70 aid statewide was nearly level-funded in the first year and was cut by 4.5% in the latter. State aid increases the next two years (FY05 and 06) were well below the norms that had prevailed during the period of education reform and even during the 1999-2002 period. Overall, the level of state aid to the district did not increase during this period.

As Table 1 notes, Chapter 70 aid to the Gill-Montague Regional School District was cut by nearly \$600,000, or over 8%, in fiscal 2004 and level funded the next year. Overall, the district budget saw a total cut of over \$1,300,000 for the period 2002 to 2004.

⁸ See materials, including clips and budget analysis, in consultant’s files for the spring and summer of 2000.

Instruction costs, reflecting teacher layoffs, bore the brunt of these cuts. This category was reduced by nearly \$1,500,000 during the period and staff was reduced by approximately 30 full-time equivalents.⁹ These state revenue cuts, spending cuts and teacher layoffs coincided with a major enrollment decline (160 students in FY 04).

The impact of these developments on the district can not be overstated. Budget cuts coincided with (and probably helped cause) large enrollment declines and significant losses to school choice and charter schools. The dynamic created a fiscal and educational “downward spiral” for the district. These developments also coincided with declines in standardized test scores and increasing scrutiny by the state. Both the fiscal/institutional problems and the low test scores eventually led the district to be declared “underperforming” by the state Department of Education (now DESE) in 2007.

It is important to stress once again that the fiscal and institutional crisis actually preceded the state aid cuts. As we have noted, slowing state aid growth and rising costs had already created a major local conflict over the fiscal year 2001 budget. Perhaps to avoid another protracted local battle over “the schools,” district officials made what now appear to be excessively optimistic spending projections for the next fiscal year (2002). Out-of-district special education costs, in particular, were seriously under-funded. As a result, a new district administrative team found itself with a major budget crisis soon after it took charge. One result was a significant budget cut in Fiscal Year 2003, leading to the layoff of over twenty teachers. This staff cut was actually *larger* than that which took place in response to the state aid reductions the next year.

The argument, here, is not that the recession-induced cuts were insignificant or that the problem was one of local incompetence. Rather, the argument is that the crisis facing the school district during these years was of a structural (and perhaps political) nature with its roots in the 1990s. This existing structural crisis was exacerbated by the recession-induced cuts.

Following the cuts of FY 2004, the district experienced small increases in state aid. The overall increase was approximately \$538,000 between FY04 and 08, for an annual average of just over \$135,000. However the district budget increased by nearly \$4,000,000 during this period, an annual average of approximately \$989,000.

School district officials have sometimes explained these large cost increases as efforts to recover from the recession-induced cuts. While it is true that approximately 16 new positions were added in FY 05, nearly half of these were cut the following year. In fact, recent budget increases have been caused by “fixed cost” increases rather than the

⁹ Most of this staff reduction occurred in FY03, the year before the state aid cut, and reflected the structural budget crisis that preceded the cut in state aid. The budget reductions appear to have reflected excessively conservative revenue assumptions, partially a reaction to the under-funding special education accounts under a previous administration. The district’s FY04 Excess and Deficiency account was certified to contain over \$1.4 million at the end of FY04. Since this was well above the state-mandated 5% E and D limit, funds were returned to the towns and the next few fiscal years were financed in part by these reserves.

restoration of programs. Instruction costs, which increased by just over \$390,000 annually during the FY04 to 08 period, appear to have been primarily driven by negotiated wage increases. These have coincided with exploding health care costs. Benefit costs (labeled “fixed costs” in Tables 2 and 4)have increased by over \$380,000 annually.

Another major cost driver has been school choice losses and charter school tuition increases, both of which appear in the spending tables as “tuitions.” The annual increase for this category totals approximately \$97,000.

The period saw out-of district-special education costs within the budget stabilize. Appendix C analyzes this phenomenon in greater detail. The stability of out-of-district costs in Tables 2 and 4 is partly a product of increased state aid in the form of the “Circuit Breaker” program. The numbers in the data are “net” of (after subtracting) state aid and thus do not reflect the overall trend in this area. Also the district has reduced out-of-district costs – and no doubt overall costs - by serving more students within the district. Yet the budgetary impact of this policy has been mitigated by increased in-district cost. (See appendix)

Given relatively small increases in state aid, the magnitude of these budget increases has greatly increased local assessment requests (and the conflicts with local officials these requests produce). During the entire 2002-2008 period, local allocations to the school district increased by 8.1%, or by over \$443,000 annually. Much of this increase occurred during the latter three years of the period. From 2005 to 2008 assessments have jumped to average increases of nearly \$600,000 annually. It must be stressed once again that this average does not reflect initial assessment requests from the district to the towns. These were significantly higher, approaching \$1 million or more.

Recent assessments have meant that virtually all local growth revenues have been allocated to the school district. As a result, rising educational assessments have exacerbated the fiscal problems of member towns. Conflicts over the school budget, a feature of local politics since the late 1990s, have intensified. Two Proposition 2.5 overrides to fund the district have failed and there has been one “district meeting” (2007) to approve a budget rejected by member towns.

This study is, in part, a response to these developments.

Three Scenarios: Roads Maps for the Future

This section of the report uses the historical analysis to present three scenarios for the future of the district budget. The scenarios make a variety of revenue and spending assumptions for fiscal years 2009 through 2014.

The first scenario evaluates the potential impact of the school district's current "turnaround plan" assuming two potential state aid projections. The second scenario assumes the school district spending increases by 4.75%, the average inflation factor used by the Department of Elementary and Secondary Education from FY 06 to FY 08 (sometimes called the "implicit price deflator" or IPD) ¹⁰

The first two scenarios create large gaps between revenues and expenditures. If the recent past is a precedent, these gaps would be narrowed by a combination of destabilizing budget cuts on the school district side and higher (and increasingly unsupportable) allocations from member towns. A third scenario envisions fiscal stability, at least in the area of local educational finance. It assumes a level of spending and state aid that allows member towns to allocate a reasonable level of resources to the school district.

All scenarios hold assessments to the towns of Gill and Montague constant at half of their revenue growth. These growth estimates are derived from projections made by the Gill and Montague town administrators in collaboration with this consultant. (See Appendix A). Assessment increases of this magnitude are, of course, well below the averages for the study period. Given recent levels of state aid and school spending, this allocation would at first appear to be unrealistic, and perhaps even unfair, to the district.

However, this report is designed to present options that stabilize the financing of both the school district and the member towns. Allocating half of all local revenue growth to the school district still creates significant fiscal challenges. In the case of Montague, for example, it leaves less than an estimated \$250,000 annually to fund a range of expenditures, including wage and benefit increases for town employees, assessments to the regional technical school and capital needs. Furthermore, the assumption that half of all local revenue growth is a viable allocation to the school district creates a simple benchmark around which different spending and state aid assumptions can be evaluated.

¹⁰ See Department of Elementary and Secondary Education "Chapter 70 Foundation Budget Inflation Rates" <http://finance1.doe.mass.edu/chapter70/chapter09inflation.xls>. The selection of the average from FY06 to FY08 was designed to create a mid-level number for the projections. Using the period FY07 to FY09 would have produced a higher inflation factor while including earlier years would have significantly lowered the projection. The inflation rate for FY09 was 5.18. See also Department of Revenue, Division of Local Services, Municipal Data Bank/Local Aid Section, "Implicit Price Deflator, 1980-2008."

Table 5: GMRSD “Turnaround” Estimate - Scenario #1

7% Budget Increase 09-011
 4.75% (IPD) 12-14
 Gap Assumes 50% Projected town Revenues
 Local Assessments = 50% New Revenues
 All in Thousands of Dollars

	Budget	Increase	Local 50% New Revs	State Aid Inc. 1%	Gap	State Aid Inc. 4.75%	Gap
FY08 7%	15,888						
FY09	17,000	1,112	270	64	778	303	-539
FY10	18,190	1,190	275	64	851	317	-598
FY11	19,463	1,273	282	65	926	332	659
FY12 4.75%	20,387	924	288	66	570	348	288
FY13	21,355	968	296	66	606	365	307
FY14	22,369	1,014	303	67	644	382	329

Scenario 1 The GMRSD “Turnaround Plan”

Scenario 1 presents an estimate of the cost of implementing the “Turnaround Plan” presented by Interim School Superintendent Ken Roche to the Department of Elementary and Secondary Education in March, 2008. (See appendix) It assumes that district spending will increase by the “Implicit Price Deflator” (IPD) average of 4.75% (see footnote 10). In addition, an average increase of 2.25% is assumed for fiscal years 2009 through 2011 to fund the staffing increases required under the turnaround plan. This brings the total increase for the first three years of the period to 7% annually. From fiscal years 2012 to 2014 the budget increases by the inflation estimate (4.75%).

As stated above, the scenario assumes that total local assessments will equal half of growth revenues for the towns of Gill and Montague, using this “constant” as a basis for measuring potential funding gaps. Two scenarios are assumed for state aid. The first assumes continuation of state aid increases at the FY09 level, approximately 1%. The second assumes a level of state aid consistent with the inflation factor average, 4.75%.

Based on these assumptions, the GMRSD budget increases by an average of just under \$1.2 million from 2009 through 2011. For the next three years, when the price deflator average is used, the district budget grows by approximately \$970,000 annually. Assuming state aid increases by only 1% annually, budget gaps averaging over \$850,000 are projected for the first three years and of approximately \$610,000 in the last three years of the period. Assuming a level of state aid that increases with the average price deflator, the funding gaps are reduced to an average of approximately \$605,000 in the first three years of the period and \$315,000 during the last three.

These funding gaps suggest that without a significant increase in state aid and local assessments, it will not be possible to finance the proposed turnaround plan.

Scenario 2: School District Spending and the “Implicit Price Deflator”

A second scenario, or set of scenarios, assumes that the school budget increases by the IPD inflation factor of 4.75%. School budget increases under this scenario are above the average for the final period of the historical analysis (2002 to 2008) but below the average increases since the recession-induced budget cuts of FY04. This produces GMRSD budget increases that range from approximately \$755,000 in FY 09 to \$952,000 at the end of the period.

Again, we assume that Gill and Montague allocate 50% of growth revenues to the school district. We also make the same assumptions regarding state aid as in scenario 1, a 1% increase and a 4.75% increase. In this scenario the budget gaps narrow considerably. The 1% state aid scenario would require increases in local contributions and/or cuts in the district budget ranging from \$421,000 to \$582,000. The 4.75 % scenario creates gaps ranging from \$182,000 to \$267,000.

Table 6: Scenario 2: GMRSD Budget Inc. With Inflation Factor (4.75%)

Revenues: Local Inc 50% Growth Revenues
State Inc 1% And 4.75%

	GMRSD Budget 4.75% Less Debt	Increase	Local 50% New Revenues	State @ 1% (FY09 Inc)	Gap	State @4.75%	Gap
FY08	15,888						
FY09	16,643	755	270	64	-421	303	-182
FY10	17,433	791	275	64	-452	317	-199
FY11	18,261	828	282	65	-481	332	-214
FY12	19,129	867	288	66	-513	348	-231
FY13	20,037	909	296	66	-547	365	-248
FY14	20,989	952	303	67	-582	382	-267

Eliminating these gaps seems almost achievable through a combination of increased assessments and budget cuts by the school district. It should be kept in mind, however, that unless new revenues are found, any increase in local assessments above the estimate will put the towns at extreme risk. It should also be pointed out that school district budget cuts of this magnitude might require staff reductions well below the levels the district currently believes is acceptable.

In short, even under these more favorable scenarios, annual revenue gaps would continue to produce the budget dynamic which has characterized school finance in the district since the late 1990s – annual battles between “the schools” and “the towns” over assessments requests that significantly exceed available local revenues.

Table 7: GMRSD Budget/Revenue Scenario
#3: Fiscal Stability

Budget increase = 3.3% (02-08 Ave)
State Aid = 4.75 % (06-08 Ave State Deflator)
Local Contribution = 50% Revenue Growth
All Numbers in Thousands of Dollars

	Budget 3.3%	Increase	Local 50% New Revs	State Aid IPD 4.75%	Total Revenues	Gap
FY08	15,888					
FY09	16,412	524	270	303	573	49
FY10	16,959	542	275	317	592	50
FY11	17,513	559	282	332	614	55
FY12	18,091	578	288	348	636	58
Fy13	18,688	597	296	365	661	64
FY14	19,304	616	303	382	685	68

Scenario 3: Local School Finance Approaches Fiscal Stability

Under this scenario, school spending increases by only 3.3%. This is the level of increase for the years of the historical period 02 through 08 and approximately the level of increase of new growth revenues experienced by Gill and Montague. Local assessments are pegged at 50% of growth revenues. State aid increases by the price deflator estimate, 4.75%. Under this scenario the budget gap is eliminated and small surpluses appear.

This scenario, of course, assumes school spending increases low and state aid increases high compared to recent experience. Still, if aggregate wage and benefit increases were pegged to the overall budget increase desired and enrollment stabilized, the scenario might be viable. Stable enrollment could both increase state aid and eliminate increases in school choice and charter school payments (the system being at equilibrium). The district would also need to stabilize special education costs and the towns would probably need modest increases in growth revenues over the amounts assumed.

Conclusion: Do We Have A Choice?

Can a strategy for fiscal stability be implemented? To those who have experienced the local school budget conflicts of recent years this might seem an impossibility. The tendency has been to simply throw up our collective hands and call for a state takeover (or some radical form of regionalization). However, if school districts in the region are to avoid complete fiscal collapse, we will need to implement the measures that this last scenario requires. Even a state takeover or a regional mega-district would need to address the core issues raised in this report.

In short, fiscal stability will require an increase in revenues and a cut in annual fixed cost increases. The former will require a level of Chapter 70 aid that matches or exceeds the fixed cost increases of local districts. It may also mean periodic Proposition 2 1/2 overrides. On the spending side, more modest budget increases will require reducing wage/benefit increases, stabilizing the cost of special education, and reaching an equilibrium with regard to school choice losses, charter school payments and general enrollments.

Achieving this goal will require a much higher level of planning and collaboration than currently exists. A consensus plan for fiscal stability, approved by the school district, the state and the member towns, will be required. While this plan may involve forms of regional collaboration and consolidation, it must clearly address the central issues raised in this study: inadequate revenues and unsupportable cost increases identified in the previous paragraph.

There are significant institutional and political obstacles to developing such a plan. But the alternative is continued institutional instability which undermines education and the support for it in our local communities.

Do we have a choice?

Appendix A: Montague and Gill Revenue Projections

Table 8 Shows revenue projections for the member towns in the Gill-Montague Regional School District. The Montague projections were made by this consultant and Montague Town Administrator Frank Abbondanzio in conjunction with a “five year fiscal plan” for the town of Montague. The Gill Projections were made in consultation with Gill Town Administrative Assistant Tracy Rogers for this report. The projections show three sources of revenue which may be used to finance local district assessments: property taxes, state aid and "local receipts." Other sources of local revenue, such as state Chapter 90 highway aid, sewer user fees and grants targeted to specific programs, are not included.

1. Property taxes.

Montague currently generates approximately \$11 million annually in property tax revenue. Gill is supported by nearly \$1.74 million. Growth rates are restricted by the state law known as Proposition 2 1/2.

Property tax increases for both towns are calculated as the annual increase of 2.5% plus "new growth" allowed by state law (Proposition 2 1/2). The calculation to the 2.5 “levy limit” is a straightforward annual exercise. "New growth" is less certain and can vary significantly from year to year. Both estimates are consistent with trends over the previous five years. In the case of Montague, taxes to the levy limit plus "new growth" are assumed to increase from just under \$407,000 to over \$460,000. Gill property taxes are estimated to increase by approximately \$9.00 to \$78.00.

2. State Aid

Montague's level of state aid is currently just over \$1.7 million while that of Gill is just over \$290,000. The towns are thus significantly less dependent on state aid than the school district but state aid cuts or increases have historically had an impact on local budgets. The historical experience in this area has been mixed. During the state fiscal crisis associated with the 2001 recession, lottery funds were diverted to the state budget and aid to cities and towns declined. When the lottery was fully funded there was a significant increase in state aid.

The estimates for both towns assume very small increases in state aid. We are assuming that the lottery will continue to be fully funded but also that there will be no “windfalls” for the towns. For Montague, state aid increases are projected to be from just over \$42,000 to just over \$48,000 per year. For Gill the aid is assumed to increase by an average of \$6,100 annually.

3. Local Receipts.

This is a diverse category that includes the auto excise tax, permits and fees. Currently Montague receives approximately \$1.3 million in this area while income from this source is approximately \$290,000 in Gill. As with state aid, this is a much less significant revenue source than property taxes but increases or cuts can have an impact on annual budget balances.

Montague's revenue increases from this source have been relatively small and are projected in the town administrator's study to continue at a rate of approximately \$12,000 per year. Gill's local receipts have been more variable in recent years. An increase has been projected for FY09 but then revenue in this area is projected to be virtually "flat."

4. Growth Revenue and the GMRSD Budget

In recent years, district assessments have been considerably above the estimate of 50% of growth revenues used in the scenarios one through three. For example, Montague's total assessments for the GMRSD have increased by over \$350,000 annually since 2002. In some years assessments have exceeded growth revenues, leaving no funds for town operating budgets, capital needs and other assessments.

From the point of view of the GMRSD, the fifty percent assumption may well provide inadequate revenues. However, that estimate also leaves under \$300,000 for budget increases in the member towns, a level significantly below current rates of increase. Thus any scenario for fiscal stability will require budget austerity in both the school district and member towns.

Table 8: Montague and Gill Growth Revenue Projections, FY09-FY14

	Montague Taxes*			Gill Taxes			Total Gill			
	2.5 Plus	Local	Total	2.5 Plus	State Aid	Local	Total	Total Gill		
	New Growth	Receipts	Montague	New Growth		Receipts	Gill	Montague	50%	
FY09	407,192	42,482	12,296	461,970	68,555	5,796	3,919	78,270	540,240	270,120
FY10	417,372	43,544	12,419	473,335	70,269	5,912	0	76,181	549,516	274,758
FY11	427,806	44,633	12,544	484,983	72,026	6,030	0	78,056	563,039	281,520
FY12	438,501	45,749	12,669	496,919	73,826	6,151	0	79,977	576,896	288,448
FY13	449,464	46,893	12,796	509,153	75,672	6,274	0	81,946	591,099	295,550
FY14	460,700	48,065	12,924	521,689	77,564	6,399	0	83,963	605,652	302,826

Source: Estimates based on historical experience, FY2000 to FY08. Made in consultation with the Montague Town Administrator Frank Abbondanzio and the Gill Administrative Assistant Tracy Rogers. See Montague Report (29-32) and Gill Report (17-19)

Appendix B: Wages and Benefits

The data presented in the historical section of this study showed total costs for instruction and administration and other personnel services. Although these categories are certainly heavily impacted by wage increases or declines, they are also influenced by expansion or cuts in personnel. To gain a better understanding of the impact of wages and benefits on the GMRSD budgets, data contained in "budget assumptions" and collected by the state were reviewed.

Table 9 is an estimate of total wage and benefit increases contained in the FY08 budget. The source of this estimate is the "budget assumptions" provided by the district in May of 2007 (see attached assumptions on the following page). The totals combine wages and benefits for both union employees and non-union administrative personnel. The assumption is that this represents the total "labor cost" increase that results from a negotiated contract or contracts.

The analysis shows that the total wage and benefit increase in the FY08 budget exceeded \$600,000. At the bottom of the page, an estimate is made of the impact of a 50% reduction in the benefit/health care increase due to joining the state Group Insurance Commission. The estimated impact of the GIC reduces the total increase to just over \$500,000.

Table 10 shows total and average teachers' salaries for the period FY 1997 to FY 2006. Data on the number of teachers (actually "full time equivalents," a unit of measure that includes part-time staff) and enrollments is shown.

Average teachers' salaries have increased by over 50% during this period. The average salary in the district is now much nearer the state average. If the goal of district wage policy has been to bring teachers here into parity with others in the state, it appears to have partially succeeded.

The data also shows that the district has "downsized" with the decline in enrollment. The number of "Full Time Equivalents" has declined by 21% in response to an enrollment decline of approximately 25%. However, wage increases have caused total cost for "instruction" to increase and these data do not include significant additional increases in benefits. Thus wage and benefit increases have negated potential impacts of staff cuts, creating the impression that the district has not responded to enrollment declines.

The data also suggests that the assumptions in the Chapter 70 state aid formula about the budgetary impacts of enrollment declines may not be valid. Wage and benefit increases appear to negate staff cuts in response to enrollment declines.

**Table 9: GMRSD Wage and Benefit
Increases – FY08**

Source: GMRSD "FY08 Budget Assumptions" (5/30/07)

Administration		
Staff and Supply Increases (\$11,180)		\$10,000 (Est-JS)
Instruction		
Contracted STEPS (3%) and COLA (3%) Teachers, Guidance, Psych, Library		\$248,089
Supervision (Principals, Sped) 3%		\$11,655
Support Staff Contracted	PARAs 2-5%	\$30,000 add days (?)
	Clerks 2-5%	\$20,000
Operations and Maintenance		
Staff Contract STEPS (2%) and COLA(3%)		\$18,537
Fixed Charges		
Health Insurance (Active and Retiree) 20%	\$321,000	
Retirement Assessment		\$24,000
<hr/> Total		\$683,291
Assume 50% GIC Health savings		\$522,791

Table 10

Gill-Montague Regional School District: Enrollment, Number of Teachers, Salaries FY 97-FY06

FY	Total Salaries	Total Teachers	Ave. Salaries	Enrollment
FY97	4,472,000	132.1	33,853	1627
FY98	4,686,116	137.3	34,130	1635
FY99	4,984,797	135.2	36,870	1562
FY00	5,259,127	127.6	41,216	1540
FY01	4,952,801	119.7	41,373	1483
FY02	5,149,624	125.3	41,098	1474
FY03	4,507,395	104.2	43,270	1425
FY04	4,755,710	95.7	49,699	1265
FY05	5,336,668	111.2	48,000	1218
FY06	5,378,742	104.1	51,669	1225

% Inc. -21% -25%

Average salaries (State) FY97=\$42,874; FY06=\$56,352

Notes:

1. Number of teachers is shown in full-time equivalents (FTEs). For example, a teacher who worked half-time would count as .5 "FTE".
2. DOE Source: End of Year Pupil and Financial Reports, submitted to DOE by school superintendents.

Sources:

a. Salaries, FTEs:

Massachusetts Department of Education, " Average Teacher Salaries, Massachusetts Public Schools, FY97 to FY03"

<http://finance1.doe.mass.edu/schfin/statistics/salary9703>

Massachusetts Department of Education, "Average Teacher Salaries, Massachusetts Public Schools, FY04 to FY06"

<http://finance1.doe.mass.edu/schfin/statistics/salary.aspx?D=674>

b. Enrollment:

Massachusetts Department of Education, "School Finance: Statistical Comparisons: Long-term trends in individual districts' grade PK to 12 enrollment" (Gill- Montague)

http://finance1.doe.mass.edu/schfin/statistics/enroll_grades.aspx?ID=674

Appendix C: Special Education

The historical data used in this study to evaluate the impact of special education on the GMRSD budget is limited to spending for out-of-district placements. The data showed a big increase in spending in this category in the 1990s, rising from under \$100,000 at the beginning of the decade to over \$500,000 by 1999. By 2002, out of district special education costs exceeded \$1,000,000. Between 2002 and 2008, spending in this category appears to have stabilized and even declined somewhat. Between 2002 and 2006 the cost of these services declined 30% but then began to rise again. Budgeted spending is predicted to exceed \$900,000 in the FY09 budget.

As stated, this data includes only out-of-district spending, not spending for special education students within the district. Furthermore, the totals represent “net” expenditures after state reimbursements. Thus, the data does not necessarily reflect trends in total expenditures for special education.

This appendix shows data from the Department of Elementary and Secondary Education on total spending for special education between 1998 and 2007. (See Table 11). It includes spending within the district. The totals for out-of-district expenditures include amounts reimbursed by the state.

Total spending for special education increased from \$1.7 to \$3.7 million from 1998 to 2007. Total spending increased between 2002 and 2007 from \$2.8 million to \$3.7 million. Thus total special education expenditures did not decline as the historical data suggests (Table 2).

Some of this increase can be accounted for by in-district expenditures not reflected in the historical data. Expenditures within the district rose from \$1.6 million to \$2.2 million from 2002 to 2007. Secondly, the historical data used previously reflects the impact of the state “circuit breaker” program, thus creating the appearance of a reduction in costs. In fact, out-of-district expenditures, including state reimbursements, rose from \$1.2 million to \$2.4 million during this period. If the state and local data sets are accurate, this suggests the state circuit breaker program had a significant impact in reducing the increase in out-of-district costs to the district and member towns. At the same time, the data suggests that efforts to reduce out-of-district placements may have increased in-district district costs.

Table 12 shows special education expenditures as a percent of the total school budget and the percentage of special education students in selected districts in the state. The percentage of low income students is also shown, since it is sometimes suggested that special education costs are a function of the class and income profile of the district.

Expenditures in the Gill-Montague regional school district, as a percentage of the total budget, were nearly 25% above the state average in 2007. By this measure, they were comparable to Mohawk regional district, with a lower percentage of low-income students, and significantly above those of Greenfield, with a higher percentage of low income students. The percentage of special education *students* in the GMRSD, however, was comparable to the state average. The percentage of students was lower than Mohawk, which had a lower percentage of low income students, and comparable to Greenfield, which had a higher percentage of low income students.

In sum, the number of special education students in the GMRSD in 2007 was at the state average despite the high number of low-income students. On the other hand, special education spending, as a percentage of the school budget, was significantly higher than the state average, suggesting that the district provides more generous services to these students.

Is the level of spending on special education in the district a product of the “population the district serves,” as is commonly suggested? Table 12 shows significant variation in special education expenditures between districts, variation that may not be entirely correlated, with levels of “need.” (if we assume that income is one measure of need). An extreme example is shown by the comparison between Holyoke and Lexington. Holyoke has fifteen times the number of low income students as Lexington but spends a lower percentage of its budget for special education.

The comparative data presented in this appendix is designed to be suggestive. The goal is to put special education policy in the GMRSD in a broader context. It suggests that we need to be cautious in explaining the causes of rising special education costs here and around the state. It also suggests that, although the high cost of special education is not a problem unique to the GMRSD, local efforts to control those expenditures can have an impact.

Table 11: Gill-Montague Special Education Expenditures, 1998-2007

Year	<u>In District</u>		<u>Out of District</u>		Total	% Budget
	Teaching	Other Inst	In State	Out of State		
1998	1,077,137	128,834	470,103	0	1,676,074	17.20
1999	1,067,966	141,742	150,453	382,007	1,742,168	16.90
2000	1,399,610	131,107	126,313	557,875	2,214,905	19.80
2001	1,313,936	211,841	131,909	889,240	2,546,926	21.30
2002	1,353,829	210,070	1,193,722	0	2,757,621	22.90
2003	1,328,501	164,364	1,247,406	0	2,740,271	23.20
2004	1,479,056	267,118	1,434,682	0	3,180,856	29.40
2005	1,592,175	352,197	989,776	1,424,343	4,358,491	32.60
2006	1,923,087	532,064	354,393	1,176,349	3,985,893	28.00
2007	1,956,436	199,553	406,368	1,107,786	3,670,143	25.20

Source: DESE, School Finance, “Direct Special Education Expenditures As A Percentage of School Budgets2007” at <http://finance1.doe.mass.edu/schfin/spedexpbudget.axp>

District Name	-- In-District Instruction--		FY07 - Out-of-District Tuition -		Combined Special Ed Expenditures (A+B+C+D)	Total School Operating Budget	Special Education Percentage of Budget (E as % of F)	Pupils Percent of District 2007-08	
	Teaching	Other Instructional	Mass. Public Schools and Collaboratives	Mass Private and Out-of- State Schools				Sped %	Low Income%
GIILL MONTAGUE	1,955,755	199,550	406,368	1,107,786	3,669,459	14,540,986	25.2	19	43
MOHAWK TRAIL	2,004,281	846,938	95,371	659,409	3,605,999	14,059,354	25.6	21	32
GREENFIELD	2,197,626	427,976	474,219	1,393,244	4,493,065	20,793,297	21.6	19	56
PIONEER	1,119,458	291,997	109,441	463,573	1,984,469	11,259,546	17.6	18	21
FRONTIER (HS)	693,104	162,309	393,587	385,060	1,634,060	8,205,964	19.9	20	15
SUNDERLAND (ELEM)	403,308	68,183	66,187	1,350	539,028	2,445,368	22.0	13	16
WHATELY (ELEM)	112,255	51,397	18,240	47,133	229,025	1,490,937	15.4	9	9
LEVERETT (ELEM)	191,029	80,604	0	40,404	312,037	1,798,275	17.4	19	20
AMHERST (ELEM)	3,470,680	523,506	83,116	159,963	4,237,265	20,239,502	20.9	17	29
HOLYOKE	6,514,702	2,192,788	593,197	6,276,475	15,577,162	75,843,663	20.5	23	77
LEXINGTON	10,897,251	982,213	1,113,119	5,015,831	18,008,414	77,921,076	23.1	16	5
state total all operating districts	1,042,764,294	195,101,560	204,000,161	420,287,438	1,862,153,453	9,613,769,881	19.4	17	30

Source: DESE data on special education and school district profiles.

Appendix D: GMRSD Turnaround Plan

This appendix includes the portions of the GMRSD Turnaround Plan that were used to calculate the budget increases in Scenario 1. The turnaround plan itself was a response to the school district being declared “underperforming” by the state Department of Elementary and Secondary education in June of 2007. In the fall of 2007, a team was sent by the state to evaluate the district:

“[The] three-member team of independent evaluators examined the district’s leadership capacity and governance practices, assessing the strengths of the Superintendent, the School Committee, key central office staff, and building-level leaders. Their District Leadership Evaluation report was provided to Gill Montague Regional School District in November of 2007.” (Turnaround Plan, p. 1)

In short, while the district’s underperforming status was a product of low test scores and fiscal problems, the consultants were tasked to focus on “leadership capacity and governance practices.” The DESE report emphasized resolving an on-going controversy over consolidation of the elementary schools, stabilizing administrative capacity and centralizing curriculum coordination.¹¹

The turnaround plan, first presented to the DESE by the GMRSD Superintendent Ken Roche in March of 2008 (and revised in May), was framed by the consultant’s report. It focuses on efforts to resolve the elementary school issue, stabilize administration and improve curriculum coordination. The plan also proposed a significant expansion of staff and services, many of them targeted to underperforming or “at risk” students. District officials have, justified these increases as needed to “restore” services eliminated during the recession-induced cuts of 2003/2004.

The following portion of the turnaround plan includes these services. They appear primarily in “goals” D and E. Implementation is generally described as “pending funding.” Scenario A in this report was designed to project costs for these services in the context of future expenditures and revenues

For two versions of the Turnaround Plan see: <http://www.gmrtd.org>

¹¹ Commonwealth of Massachusetts, Department of Education, “District Leadership Evaluation Report: Gill-Montague Regional School District (October, 2007), 12-13. See also, Commonwealth of Massachusetts, Office of Educational Quality and Accountability, “How is Your School District Performing? Gill-Montague Regional School District, 2002-2005.” According to the EQA report, “Although the communities were expending 50 percent and 60 percent of their revenues on the district’s educational programs, and both communities were at their levy limit, the funds were not sufficient to ensure educationally sound programs to meet the needs of all students.” (18)

Goal A: Resolve elementary configuration question

Status: can accomplish with FY09 budget plan

Objectives:

- Establish broad grade-span configuration for all district elementary schools
- Consolidate educational resources at Sheffield
- Free district leadership to focus on educational and fiscal issues
- Re-establish leadership credibility in eyes of community and towns

Priority Goal A: Resolve the elementary configuration question in order to realize fiscal efficiencies that will free up resources to support the district's educational needs.		Status
A.	Change processes by which: a) school buildings are closed; and b) grade levels are transferred.	
1	Amend regional agreement to lower threshold for closing a school from 8/9 at school committee level, to a 2/3 school committee vote followed by majority votes in each town.	approved by DSC and towns: submitted to DESE
2	Amend district policy to raise threshold for transferring grade-levels from building to building within a member town from simple majority to 2/3 majority, in order to reduce likelihood of subsequent reversal of vote.	approved by school committee
B.	Initiate a plan to consolidate elementary education in Town of Montague at Sheffield Elementary.	
1	Move all 1st & 2nd grade students from Hillcrest to Sheffield, to establish broad grade-span configuration	students will be in Sheffield for September 2008
2	Perform architectural study to determine costs of making 'old' side of Sheffield Elementary fully accessible	planning
3	Perform architectural study to determine costs of making 'old' side of Sheffield Elementary appropriate for pre-K and K	planning
C.	Create a process and a plan to determine future of Montague Center School	
1	Plan for possible transfer of MC grades 1-3 to Sheffield and K to Hillcrest	transition planning
2	Implement process to determine viability of MC plans	done
3	Review plans according to set timeline, school committee makes final decisions	school committee rejected both plans
4	Implement plan to move MC grades 1-3 to Sheffield, K to Hillcrest for Sept. 2008	in process
D.	Create staffing plan and budget for consolidated Sheffield for SY08-09	
1	design and staff behavioral and special education consolidated programs	in process
2	consolidate classrooms	in process
3	modify building as needed to accommodate new students and programs	in process

Goal B: Reorganize central office and educational administrative staffing

Status: can accomplish with FY09 budget plan (GIC gains)

Objectives

- To provide significantly increased central office capacity to design, implement and monitor curriculum development, professional development, and new program development.
- To increase district capacity to provide effective supervision and evaluation of teachers in all district schools.
- To provide district capacity to engage in long-term strategic planning, focusing on leadership, educational achievement, and fiscal sustainability.
- To improve district ability to manage data, technology and train staff
- To stabilize district leadership team and retain highly qualified district administrators
- To provide full-time principals at each school

Priority Goal B: Reorganize central office and educational administrative staffing in order to increase capacity to provide effective management, supervision and oversight of educational improvement		Status
A.	Plan educational administrative staffing for SY08-09	
1	Hire superintendent for FY09	waiver issued: contract in negotiation
2	Determine administrative staffing plan for SY08-09	in progress
3	Hire Director of Elementary Education	done
4	Hire principal for consolidated Sheffield Elementary	interviews scheduled
5	Hire principal for Hillcrest Early Childhood Center	done
6	Expand principal position at Gill from .5 to 1.0 FTE: hire	interviews scheduled
7	Hire Director of Student Services and Special Education	interviews scheduled
8	Review administrative needs of PPS and SPED	in progress
9	Add grant-funded .5 nurse/leader position	in progress
10	Explore need for SPED district-wide team leader	
11	Hire all administrative staff for MS/HS	in progress
B.	Re-do all administrative contracts	
1	Write job descriptions for new / changed positions	in progress
2	Perform county-wide compensation survey	done
3	Determine cost of indexing admin salaries to county average	in progress
4	Negotiate contracts indexed to county average	in progress
C.	Add central office capacity to manage data, technology and IT training of staff	
1	Determine optimal central office staffing for IT	in progress
2	Write job descriptions for new / changed positions	in progress
3	Negotiate contracts / hire new as needed	in progress

Goal C: Create an educationally sound and fiscally sustainable budget for FY09 and beyond

Status: in progress

Objectives:

- Find cost economies for FY09 budget and beyond
- Work with member towns to forecast sustainability of future budgets
- Identify strategies for increasing school revenue streams

Priority Goal C: Create an educationally sound and fiscally sustainable budget for FY09 and beyond		Status
A.	Create room in FY09 budget for restoration of educational programs and services	
1	Join GIC to reduce health insurance costs	done
2	Regain lost economies-of-scale through elementary school building consolidation	decisions made, in progress
3	Negotiate teachers' contracts within budget parameters	in progress
4	Reduce out-of-district SPED costs through increased monitoring	on-going
5	Explore possible collaboration with neighboring districts on special programs for middle and high school students	beginning discussions
B.	Develop inflation index-linked budget for FY09	
1	Calculate net savings through GIC	GIC rates set in March, sign-up in May
2	Estimate net changes in revenue streams	estimating
3	Determine net savings available for restoration of educational programs and services	on-going
4	Issue preliminary budget	towns will vote on May 3rd and May 5th
5	Calculate net assessment to member towns	done
C.	Work with member towns to develop 5-year fiscal sustainability plan for district and towns	
1	Secure funding for study	done
2	Determine scope of work	done
3	Hire consultant to do study	preliminary report in progress

Goal D: Restore and improve elementary educational programs and services

Status: Restoration of key positions and initiatives will be dependent upon funding

Objectives:

- To provide sufficient social and emotional support to students to overcome obstacles to learning
- To provide sufficient academic support to students to enable them to achieve their potential
- To provide appropriate academic coaching to teachers to increase their ability to help students improve understanding of core academic subjects
- To provide computer technology learning experiences to elementary students
- Extend Responsive Classroom model to all elementary classrooms and schools
- Establish Math Expressions as core math curriculum
- Maintain and expand reading and literacy initiatives
- Explore Expanded Learning Time models
- Map and align elementary curriculum

Goal D: Restore and improve elementary educational programs and services			Status
A.	Restore elementary educational programs and services		
	1	Increase .5 Gill nurse position to FT	Shift .5 position from Montague Center
	2	Shift Reading Specialist position from Reading First Grant to general operating budget	in budget
	3	Shift Title I teaching position from Title I grant to general operating budget	in budget
	4	Purchase new computer lab for elementaries	done
	5	Hire additional .5 ELL teacher	dependent upon funding
	6	Hire additional elementary social worker / counselor	
	7	Hire additional school psychologist, for testing, diagnostic and clinical intervention services to preK/K and 1-5 students	
	8	Hire math coach for Math Expressions curriculum	
	9	Hire computer technology teacher for elementaries; train teachers in Galileo	
B.	Improve elementary education		
	1	Extend Responsive Classroom model to all elementary classrooms and schools	all initiatives in progress and will continue in FY09, with existing funding; extended professional development for teachers dependent upon additional funding
	2	Establish Math Expressions as core math curriculum	
	3	Maintain and expand reading and literacy initiatives	
	4	Map and align elementary curriculum, identify power standards, translate into student-friendly language	
	5	Explore Expanded Learning Time models	

Goal E: Restore middle school and high school programs and services

Status: Curriculum initiatives will continue with FY09 budget; additional positions and professional development dependent upon funding

Objectives:

- To provide academic support to students
- To provide social and emotional support to students to overcome obstacles to learning
- To provide appropriate academic coaching to teachers
- Extend the 9th Grade Academy concept to 10th Grade
- To establish programs that will encourage and enable students to stay in school until graduation
- Extend Developmental Designs model to middle school classrooms
- Maintain and expand reading and literacy initiatives
- Explore Expanded Learning Time models
- Map and align middle school and high school curriculum

Priority Goal E: Restore and improve secondary programs and services		Status
A. Restore middle school and high school educational programs and services		
1	Add .5 ELL teacher	from GIC gains
2	Provide MS/HS summer school programs	
3	Add 9th and 10th grade team leaders	
4	Continue to fund peer mediation coordinator (50% grant funded)	
5	Add afternoon/evening receptionist security position for building safety	
6	Add middle school reading specialist	
7	Add middle school math specialist	dependent upon funding
8	Add math/science instructor at high school	
9	Add high school career / guidance counselor	
10	Add middle school guidance counselor	
B. Improve secondary education		
1	Continue to train teachers in curriculum mapping and standards-based assessments	all initiatives in progress and will continue in FY09, with existing funding; extended professional development for teachers dependent upon additional funding
2	Continue to train staff in Developmental Designs model	
3	Explore Expanded Teaching & Learning Time initiative	
4	Maintain and expand Reconnecting Youth drop-out prevention program	
5	Continue Sedita Literacy Initiative for MS and HS staff	
6	Train teachers in use of Galileo software to improve continuous assessment & remediation	
7	Explore expansion of 9th Grade Academy to 10th Grade	
8	Explore Collins Writing Program for middle school	

The “Five Year Plan” Part 2:

**Recent Trends in the Montague Budget and Scenarios
For Fiscal Stability**

October, 2008

Jeff Singleton

Introduction

Part two of the Gill-Montague budget study, popularly known as the “Five Year Plan” follows the same general format as part one of the study of the Gill-Montague Regional School District budget. It evaluates the recent history of revenues and expenditures in the town of Montague and then uses the historical analysis to create scenarios for the future. This study, however, is an edited and revised version of the study produced by the Montague Town Administrator Frank Abbondanzio in the spring of 2007. It does not attempt to project revenues back to the 1990s but rather creates a historical time series that covers the years 2000 to 2008. The projections for the future, covering Fiscal Years 2009 to 2014, have been simplified. Rather than predict a number or revenue scenarios, I have focused on one, a version of the town administrator’s “Most Likely” scenarios. I have then varied the expenditure assumptions to produce three projections.

The conclusions of this study suggest that radical policy changes are needed to produce fiscal stability. For example, it is assumed that assessment increases to the regional school district will need to be held to half of growth revenues and wage increases must be held to 2%. These two findings alone may cause the reader to feel that “this will never happen” and place the study deep in a file cabinet. This sentiment will be compounded by shifts in expenditures and revenues that do not precisely follow the projections. A looming recession and cuts in revenue, for example, may cause local policymakers to immediately abandon long-term planning for crisis management.

However, this study can still provide a road map for sound policy decisions even with significant year-to-year variations from the projected norms. For example, the historical analysis shows that budget cuts during the 2003-2004 created pent-up demand for wage, benefit, and program increases in the years that followed. This dynamic produced a spending binge on both the school and town side of the budget that quickly outstripped revenues. The town of Montague came increasingly to rely on reserves to fund both the operating budget and school assessments, a dangerous practice that is bringing the town to the brink of bankruptcy on the eve of another recession.

Using historical analysis and future benchmarks on a consistent basis does not create the programs, capital projects and revenues we desire. But it can help us make good decisions avoid counter-productive choices. If one includes the operating budget, school assessments and the pollution control system, Montague is a sixteen million dollar business. Such a business would make projections and use them to inform budgetary decisions. We owe it to citizens and taxpayers to do the same.

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Historical Analysis of Montague Budget: FY 2000 – FY 2008

The first section of this report is an analysis of revenue and expenditure patterns of the Town of Montague during the period from FY 2000 – FY 2008. The analysis examines those factors that have influenced the development of the budget during this period. The central goal is to analyze fiscal trends in an effort to explain a structural imbalance that currently exists between town revenues and expenditures. While the causes of these imbalances are well known (and are discussed with frustration every budget season) the relative importance of various factors and how they impact the budget process over time has not been described.

On the revenue side of the equation, the analysis examines:

- **Property Taxes** – How has the growth in property taxes figured in the funding of the town’s budget in recent years; and how important has “new growth” been to the overall growth of property tax revenues? What factors contribute to healthy new growth?
- **State Aid** – What are the trends that have been apparent over the past eight years? What do these trends tell us about the reliability of this source of revenue? This analysis will examine State Aid to both the Town and to the Gill-Montague Regional School District. (Note: the expenditure analysis will analyze the impacts of State Aid on overall spending patterns.)
- **Local Receipts** – Why has the town been able to rely so little on locally generated receipts as an expanding source of revenue, at a time when state aid has proven to be so unreliable and the property tax inadequate to fund town budgets? Is there any flexibility that would enable the town to generate more revenues locally?
- **Available Funds** –In recent years, the town has managed to balance its annual budget by being fortunate enough to receive one-time only revenues. Is this a viable way to address structural imbalances? Does the use of short-term windfalls in fact exacerbate those imbalances?
- **Reserves** Traditionally, the town has used reserves, including free cash and stabilization funds, to balance the budget and finance capital expenditures. In recent years, however, the use of reserves has increased significantly, creating the potential for a major fiscal collapse. What are the reasons for this trend and how can it be reversed?

On the expenditure side, the analysis focuses on the following factors:

- **Personnel** – This segment includes an analysis of efforts made by the town to increase the town’s competitiveness in the employment market through the implementation of the Pay and Classification Plan. How has the implementation of the plan impacted the town’s budget? What changes, if any, does the town need to make in its collective bargaining agreements to keep the cost of wages and salaries affordable? At the same time, how have budget cuts impacted staffing and the ability of town departments to function efficiently?
- **Health Insurance** - How has the rising cost of health insurance impacted Montague’s budget during the study period; and what options are available to the town to get control of these costs?
- **School Assessments** – There is a broad consensus that educational expenditures have played a key role in producing structural budget imbalances. Why have educational expenditures taken up an increasing portion of revenue growth and what is their relative importance in producing chronic budget shortfalls?
- **Capital Spending** – How responsive has the town been to its capital needs? Have we kept on top of facility and equipment needs? How is this reflected in the amount of the budget dedicated to “pay as you go” capital projects, and to the level of debt incurred to address long-term capital needs?

A central assumption of this study is that a more careful analysis of these variables, and how they influence the budget process over time, will inform the long-term planning necessary to address the local fiscal crisis.

REVENUE HISTORY

Table 1 is a detailed analysis of the three main sources of revenue for the town during the historical period.

Property Taxes

Between FY 2000 and FY 2008, the town's "total net levy" grew from approximately \$7.3 million to just over \$10.4 million. If we discount allowances for abatements and exemptions and subtract "debt exclusions" targeted to particular projects, amounts available to fund the town's operating budget rose from \$7,340,356 in FY 2000 to \$10,441,711 in FY08. This was a total increase of just over \$3 million and an average annual increase of approximately \$388,000. This latter amount is the main revenue source the town has used to finance its own budget, various assessments (including the regional school district assessment), and many smaller capital expenditures.

There are two main components to the town's annual property tax revenue increase. The first is the increase to 2 1/2 percent above the previous year's "levy limit." The levy limit is the total amount of property revenue the town can raise in a given year under state law, as certified by the state Department of revenue.¹² This steadily increasing amount averaged approximately \$215,000 during the study period. The other component of property tax revenues is so-called "new growth." This includes new residential and commercial construction. New growth increased by an average of just over \$170,000 per year and represented 45% of the total annual growth in property taxes during the study period.

New growth has varied significantly from year to year. Residential new growth has generally averaged about \$70,000 per year. It has been low in the past two years, however, as a result of a slumping housing market. Commercial/industrial growth averaged just under \$100,000 per year during the study period, but varied significantly from year to year, with a high year of \$218,417 and a low year of \$53,489.

¹²For a definition of "levy limit" and other terms related to municipal finance see Massachusetts Department of Revenue, Municipal Knowledge Base: "Municipal Finance Glossary" at <http://www.mass.gov/?pageID=dorsubtopic&L=4&L0=Home&L1=Local+Officials&L2=Municipal+Data+and+Financial+Management&L3=Municipal+Knowledge+Base&sid=Ador>

Table 1 : REVENUE HISTORY

CATEGORY	FY00 -FY 08								
	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08
PROPERTY TAX									
Prior Year	\$7,038,946	\$7,340,346	\$7,652,577	\$7,984,639	\$8,389,516	\$8,942,632	\$9,332,944	\$9,654,205	\$10,058,097
Plus 2-1/2	\$175,974	\$183,509	\$191,314	\$199,616	\$209,738	\$223,566	\$233,324	\$241,483	\$251,452
Plus New Growth	\$125,426	\$128,722	\$140,748	\$205,261	\$343,378	\$166,746	\$87,937	\$162,409	\$132,162
New Levy Limit	\$7,340,346	\$7,652,577	\$7,984,639	\$8,389,516	\$8,942,632	\$9,332,944	\$9,654,205	\$10,058,097	\$10,441,711
<i>(Increase: 2.5 +Growth)</i>		<i>(\$312,231)</i>	<i>(\$332,062)</i>	<i>(\$404,877)</i>	<i>(\$553,116)</i>	<i>(\$390,312)</i>	<i>(\$321,261)</i>	<i>(403,892)</i>	<i>(\$383,614)</i>
Plus Overrides	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Debt Exclusion	\$148,472			\$1,020,164	\$1,006,997	\$457,946	\$385,167	\$90,686	\$73,925
Max. Allowable Levy	\$7,488,818	\$7,984,639	\$7,984,639	\$9,409,680	\$9,949,629	\$9,790,890	\$10,039,372	\$10,143,675	\$10,516,456
Less Abatements	245023	245023	245023	\$251,244	\$247,048	\$198,116	\$101,244	\$119,566	\$73,925
Total Net Levy	\$7,739,616	\$7,739,616	\$7,739,616	\$9,158,436	\$9,702,581	\$9,592,774	\$9,938,128	\$10,024,109	\$10,411,851

STATE AID

RECEIPTS

Lottery	\$1,069,724	\$1,158,065	\$1,235,980	\$1,235,980	\$1,050,583	\$1,050,583	\$1,241,050	\$1,544,040	\$1,573,485
Highway Funds	\$131,753	\$131,753	\$32,938						
Police Career Incentives	\$33,978	\$33,277	\$34,502	\$34,049	\$33,825	\$30,956	\$29,052	\$30,430	\$37,325
CATEGORY	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08
Exemptions, Vets, Blind	\$9,950	\$10,031	\$8,987	\$10,717	\$11,943	\$11,515	\$11,800	\$12,376	\$24,286
Exemptions, Elderly	\$11,546	\$13,554	\$13,170	\$11,160	\$11,370	\$10,542	\$10,040	\$10,542	\$11,044
State Owned Land	\$49,037	\$155,617	\$47,509	\$31,563	\$25,361	\$39,793	\$50,882	\$98,493	\$110,043
Housing Incentive (01)									
Offsets – Public Libraries	\$13,410	\$13,071	\$12,188	\$10,277	\$9,631	\$12,689	-\$14,865	-\$15,605	\$16,378
Sub-Total State Receipts	\$1,331,794	\$1,529,351	\$1,458,217	\$1,350,837	\$1,149,301	\$1,171,697	\$1,372,535	\$1,731,046	\$1,785,396

CHARGES

Ret. Teachers Health	\$11,228	\$24,424	\$28,268	\$25,788	\$24,369	\$22,502	\$31,076	\$17,845	\$8,931
Air Pollution Dist.	\$1,741	\$1,764	\$1,728	\$1,762	\$1,678	\$1,702	\$1,705	\$1,749	\$1,788
RMV Surcharge					\$11,140	\$10,120	\$9,000	\$10,360	\$9,960
Sub-Total State Charges	\$12,969	\$26,188	\$29,996	\$27,550	\$37,487	\$34,324	\$41,781	\$29,954	\$20,679

(No. FRTA)*

Total Net State

Revenue	\$1,318,825	\$1,503,163	\$1,428,221	\$1,323,287	\$1,112,114	\$1,137,373	\$1,330,754	\$1,701,092	\$1,764,717
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LOCAL RECEIPTS

M.V. Excise	\$659,028	\$532,467	\$566,490	\$629,860	\$629,294	\$690,721	\$711,979	\$622,330	\$619,141
Other Excise	\$2,707	\$2,123	\$2,966	\$3,627	\$2,810	\$2,336	\$2,450	\$4,083	\$2,496
Pen & Int. on Taxes	\$59,080	\$67,135	\$61,636	\$83,175	\$85,957	\$85,287	\$121,165	\$177,950	\$93,766
PILOT & Excises	\$7,560	\$14,475	\$15,552	\$16,924	\$16,701	\$15,054	\$14,912	\$7,848	\$7,560

Charges - Water									
Charges - Sewer									
Charges - Hospital									
Charges - Trash	\$116,869	\$159,749	\$178,514	\$190,760	\$219,981	\$221,490	\$220,888	\$212,449	\$226,720
Other Charges	\$6,331	\$9,770							
Fees	\$11,265	\$2,558							
Rentals									

Other Dept. Rev.	\$42,342	\$24,081	\$52,679	\$66,813	\$64,116	\$63,712	\$78,052	\$68,008	\$63,105
Licenses & Permits	\$100,177	\$138,545	\$115,938	\$113,660	\$108,330	\$136,338	\$133,694	\$128,103	\$114,505
Special Assessments	\$382	\$367	\$352	\$337	\$120	\$116	\$411	\$106	\$101
Fines & Forfeits	\$21,924	\$19,187	\$18,701	\$18,640	\$21,508	\$28,685	\$34,649	\$36,659	\$32,081
Inv. Income	\$85,830	\$121,223	\$58,393	\$19,865	\$26,240	\$49,791	\$82,550	\$103,105	\$75,236
Misc. Recurring	\$61,076	\$66,058	\$97,827	\$91,096	\$107,027	\$119,043	\$96,536	\$93,605	\$109,363
Misc. Non Recurring	\$544,945	\$279,171	\$48,994	\$24,624	\$42,712	\$556,066	\$284,212	\$33,994	\$77,976

Total Local Receipts \$1,719,516 \$1,436,909 \$1,218,042 \$1,259,381 \$1,324,796 \$1,968,639 \$1,781,498 \$1,488,240 \$1,422,050

Free Cash	\$290,883	\$220,000	\$220,000	\$400,000	\$300,000	\$300,000	\$320,333	\$300,000	\$647,586
Overlay Surplus									\$274,626

SEWER USER FEES	\$1,288,723	\$1,356,681	\$1,332,748	\$1,320,560	\$1,406,917	\$1,385,069	\$1,424,542	\$1,516,315	\$1,657,264
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Total Revenue 11,926,439 11,926,439 11,926,439 13,448,387 13,836,777 14,371,166 14,780,390 15,014,142 16,178,074

Montague's economic development efforts, including the liberal use of "tax increment financing," have been a pivotal factor in driving much of this growth. Due to tax exemptions contained in tax increment financing agreements (TIF's), some of this property tax growth is yet to hit the tax base in its entirety. No attempt has been made in this analysis to calculate its impact on the revenue stream.

During the study period the town levied to within \$3,800 of its maximum levy limit every year except one (FY 2002), when it had \$48,723 in excess taxing capacity. While it makes good financial management sense to maintain excess taxing capacity as a hedge against future financial downturn, the town has found it difficult to fund its budget without exhausting every potential revenue dollar.

The property tax represents the only significant source of revenue over which the town exercises some degree of control. During periods of declining state aid, towns have few choices other than to increase the property tax levy through a Proposition 2 ½ over ride, or to make budget cuts. During the study period the Town increasingly resorted to the latter alternative, and no tax over rides were voted. To over rides for education assessments were defeated. However, three tax increases above the 2 ½ limit for specific projects, known as "debt exclusions," were approved.¹³

State Aid

Currently, direct state aid to the town of Montague averages just over \$1.7 million per year. This accounts for approximately 13% of revenues available to fund the operating budget and assessments. While this is a relatively small percentage, fluctuations in aid from year to year have had a major impact on the town's finances. During the entire study period, state aid has increased by a total just under \$446,000 or approximately \$56,000 per year. However, the revenue trend has been unpredictable and uneven.

The major component of state aid is revenue generated by the lottery, which comprises almost 90% of the total. During the recession-induced state fiscal crisis of 2003/2004, the state legislature diverted lottery funds to help address major state budget deficits. As a result, the town lost a total of \$445,663 or 27.9% of its state aid during these years. Given the relatively small marginal revenue increases that must finance local fixed cost growth, these cuts generated a real crisis in the town budget. Between FY 2005 and FY 2007, on the other hand, state aid to the town increased by \$558,312 or 47.6% to its present level. This helped the town to fund budget and school assessment increases that may not have been sustainable in the long term.

¹³ Debt exclusions were approved for the Turners Falls High School/Middle School Renovation, the Sewer Upgrade ("Combined Sewer Overflow") and a new police station.

Local Receipts

Local receipts have historically been flat, and the study period was no exception. The appearance of a decline in this category is produced a large one-time windfall in the first year of the period. The motor vehicle excise tax, over which the town exercises no control, represents a major source of revenue to the town. During the study period these revenues fell by approximately \$40,000.. However, virtually all of this decline occurred in FY 2001, probably as a result of the recession of that year. Excise tax revenues increased from FY01 to FY06 but then declined in 07 and 08 probably in response to economic trends. The excise tax is particular sensitive to trends in the business cycle.

Another relatively large source of revenue is receipts from the sale of trash stickers. These receipts currently bring in about \$227,000 (landfill fees raising an additional \$20,000). Due to increases in the trash sticker fees in 2004, the town was able to increase local receipts by about \$40,000 per year. This was accomplished through a 50 cent increase per sticker. In 2008 the town raised the sticker cost by another 50 cents. Trash sticker revenues currently fall far short of offsetting costs incurred for the service.

Trash stickers are one of the only areas where the town can realize a significant increase through changes in its fee structure. Smaller increases might be realized through more frequent updating of departmental license and permit fees, though many are regulated by Massachusetts. General Laws.

The relatively flat revenue trend in local receipts masks significant variation from year to year. The primary reason for this statistical decline and the annual variation is abrupt changes in “miscellaneous non-recurring” receipts. The town has made a successful effort to avoid using one time “windfalls” to fund operating budget increases. From a budgetary planning standpoint, we should consider local receipts as a revenue source to be relatively “flat,” with attention paid to the impact of economic trends on motor vehicle excise tax revenue.

"Reserves": Free Cash /Stabilization/Assessor’s Overlay

“Free cash” reflects end-of-the year budget surpluses available for appropriation when certified by the state. The town has relied on the use of free cash to “reduce the tax rate” throughout the study period. This policy is a remnant of the use of free cash to balance a budget in the early 1990s and shows how difficult it is to reduce the use of reserves once they are used as a revenue source to balance the operating budget. During most of this study period, the town used an average of between \$250,000 to \$350,000 per year for this purpose.

In recent years, there has been increasing use of reserves (particularly the two stabilization funds) to finance on-going “pay go” capital expenditures. Table 2 , "Capital Budget Financing" shows this pattern for the study period. The Education Stabilization Fund was created just prior to FY06 with funds returned to the town from excess school

district reserves (E and D). The last year substantial growth revenues, in this case the property tax, were used to finance smaller annual capital projects was FY2005.

In 2008 there was an abrupt increase in the use of reserves to fund the town budget, educational assessments and capital projects. The town used over \$240,000 in the assessors' "overlay" (balances in the assessors account not used for tax abatements, exemptions and court cases) to fund the town operating budget. In addition, nearly \$300,000 in free cash was used in FY08 to fund an increase in the school district assessment. Over \$800,000 in reserves was thus used to fund the town operating budget and district assessment. If the funds used to finance capital projects are added, total use of reserves exceeded \$1 million.

The reasons for the over-reliance on reserves will be discussed in more detail in the section on expenditures. However, it must be stressed here that using reserves to fund annual operating budget and school assessment increases undermines fiscal stability. Such a "strategy," if one could call it that, raises the budget "base" without raising the on-going revenue stream. Reserves can be used to fund one-time projects or expenditures or cushion cyclical declines. But as a recipe for dealing with structural budget imbalances it is highly counterproductive. It simply magnifies those imbalances by raising the budget "base" with an equivalent increase in the on-going revenue stream.

This report is part of an effort to reverse the trend toward the use of reserves.

Sewer User Fees

The town funds most of the spending needed to operate and maintain the Water Pollution Control Facility through sewer user fees. The sewer budget is operated as a true enterprise fund, meaning that all expenses must be paid for out of revenues obtained from the users of the system.

However, property tax revenues are diverted to the sewer enterprise fund to cover the cost of treating infiltration and inflow (I&I), both at the Montague Water Pollution Control Facility, and at the Millers Falls-Erving Treatment Facility. These costs currently average about \$200,000 per year, or about 11% of total WPCF costs. These tax payments reduce the percentage of tax dollars that would otherwise be available to fund non-sewer spending. One way of reducing this "tax surcharge"e to fund the sewer system would be to implement programs that reduce infiltration and inflow.

Table 2: Capital Expenditure Funding

FUNDING SOURCE	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY 2008
Property Tax	\$304,516	\$186,705	\$92,300	\$68,551	\$62,820	\$211,906	\$0	\$61,484	\$0
Misc. Available Funds/Balances	\$18,081	\$0	\$7,500	\$21,000	\$9,973	\$51,000	\$104,883	\$20,000	\$37,440
Stabilization	\$10,000	\$0	\$220,000			\$20,000	\$201,351*	\$156,440	\$400,000
Education Stabilization							\$245,383	\$132,000	
Free Cash	\$0	\$154,500	\$30,074	\$4,735			\$4,000		
Excess Lottery	\$38,875	\$0							
CDBG (Program Income)	\$13,000	\$0							
Machine Earnings	\$0	\$43,788	\$32,161			\$2,602			
Overlay Reserve						\$57,000	\$43,000		\$46,499
Chapter 90	\$53,750	\$0	\$70,000	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000	
SUF						\$17,740	\$17,740	\$17,740	
Borrowing									\$158,000
TOTAL	\$438,222	\$384,993	\$452,035	\$119,286	\$97,793	\$367,508	\$641,357	\$394,924	\$641,939

town is currently pursuing a more aggressive policy in identifying potential sources of I&I, and implementing measures that could eliminate or reduce the amount entering the system.

Gill-Montague Regional School District Revenues

This report focuses on the revenues and expenditures of the Montague town budget. However, the revenue trends of the Gill-Montague Regional School District have had a major impact on town fiscal policy. Trends in expenditures for education are shown in the next section and there is a separate report on the financial history of the GMRSD. It is instructive to show the changing revenues patterns of the school district in this report.

Table 3 shows the shifting role of state and local revenues to the school district during the study period. The table shows the relative importance the primary source of state aid, so-called "Chapter 70 aid, and local assessments, funded primarily from growth revenues. The totals in table 3 include assessments to both member towns, Gill and Montague. Other revenues, such as tuition received from Erving, federal grants and state reimbursements for transportation and special education, are not shown.

At the beginning of the study period, state Chapter 70 aid financed approximately half of all school expenditures. Local taxes, on the other hand, financed just over forty percent. (The remainder was financed by the grants and reimbursements cited above). By the end of the study period, local revenues financed nearly 55% of all school spending, while chapter 70 funded less than 40%. Even if we include increased state reimbursements for transportation, charter schools and special education, the relative roles of state and local government in the school revenue picture have nearly reversed.

The primary reason for this revenue shift has been state chapter 70 aid that has been virtually flat. Between FY 2000 and FY2008, state aid has increased by an annual average of less than 1% or approximately \$37,000 per year. The school district budget, on the other hand, has increased by just over 4% or \$478,000 per year .

The result has been that school assessments have, at times, consumed virtually all of the town's growth revenues. This was particularly true during the last three years of the study, FY05 through FY08. During the entire study period GMRSD assessments to Montague have increased by an annual average of approximately \$375,000, or three-quarters of the town's revenue growth.

Table 3 GMRSD Revenues 1990 -2008

(Amount in Thousands of Dollars)

Year	State Ch. 70	Local	Less Debt	Local % Total Budget*
1990	3,421	2,307		42%
1991	3,282	2,532		
1992	3,251			
1993	3,476	3,109		
1994	4,052	2,964		
1995	NA	4,321		
1996	4,638	3,632		40
1997		3,962		
1998		4,147		
1999		4,551		40
2000		4,810		
2001		5,353		
2002		5,646		42
2003		6,360	6,149	
2004		6,633	6,291	
2005		7,702	6,351	48
2006		7,767	6,851	
2007		8,790	7,403	
2008		8,427	8,133	53%
2009 Proposed				

Sources:

State: Annual "Cherry Sheets"Chapter 70

Local: 1990-1999 School Finance Reports in Annual Reports (Town of Montague)

2000-2008 GMRSD Assessment Calculations (Previous Year Actuals Except 2009)

**% Total Budget" is local % of total budget less HS debt.

Local percent total budget less than local percent above chapter 70/local revenues because total budget includes other revenues (Erving tuition, state transportation and charter school reimbursement

EXPENDITURE HISTORY

During the study period, total town expenditures grew from nearly \$11.8 million to just under \$17 million (see Table 4). However, these totals aggregate expenditures for a range of programs financed by a variety of revenue sources. The water pollution control facility, for example, is funded primarily by sewer user fees that flow into a separate “enterprise fund”. The educational assessments include expenditures for the Turners Falls High School building renovation that was funded by a special debt exclusion reserve. It also should be noted that Montague contains “prudential” fire and water districts whose expenditures do not even appear in this report.

This analysis will focus on expenditures for the town operating budget, educational assessments and capital projects. It is these expenditures that are primarily financed by the main sources of growth revenue described in the previous section – property taxes, state aid and local receipts

Town Operating Budget: General

During the period from FY 2000 to FY 2008, the town operating budget increased from approximately \$5.2 million dollars to over \$6.4 million. The total increase was \$1,229,869 or 23%. The annual average increase was nearly \$154,000 or 2.9%. These overall increases are consistent with increases in growth revenues described in the previous section. However, breaking the time period into two segments (FY00 to FY04 and FY04 to FY08) shows that the trends are more complex. In fact, virtually all the increase came during the last four years of the period.

Between FY2000 and FY2004 the town operating budget barely increased. The total increase for these four years was approximately \$117,000, or 2.3%. The annual average was just under \$30,000 or .6%. In fiscal years 2001 and 2004 the operating budget was reduced. The primary causes of these trends were cuts in state lottery aid and the rising expenditures for education. State lottery aid was level funded in 2003 and reduced in FY 2004. Meanwhile, assessments for the Gill-Montague Regional School District and the Franklin County Technical School rose at an average of over \$400,000 per year [net of debt]. These two trends, combined with “fixed cost” increases, particularly for health care, put tremendous pressure on the town operating budget.

Between FY04 and FY08, on the other hand, the town budget increased by just over \$1.1 million dollars. The average annual increase was nearly \$278,888 or 5.2%. The primary reasons for this increase were 1) increases in benefits, particularly the rising cost of health

**Table 4: Montague Expenditures
FY2000 –2008**

CATEGORY	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08
TOWN	\$5,239,391	\$5,155,148	\$5,296,766	\$5,460,316	\$5,357,350	\$5,525,493	\$5,933,706	\$6,172,755	\$6,469,206
WPCF	\$1,253,809	\$1,398,890	\$1,451,227	\$1,452,954	\$1,498,898	\$1,459,905	\$1,552,476	\$1,643,774	\$1,808,292
EDUCATION	\$4,276,514	\$4,862,172	\$5,218,268	\$5,947,403	\$6,136,692	\$6,528,982	\$7,188,887	\$8,225,803	\$7,806,227
CAPITAL	\$438,222	\$384,943	\$452,040	\$119,290	\$97,793	\$384,948	\$641,057	\$412,664	\$641,939
OTHER LOCAL	\$570,000	\$287,311	\$289,493	\$1,103,976	\$1,175,504	\$2,451,229	\$162,390	\$165,125	\$196,709
TOTAL	<u>\$11,777,936</u>	<u>\$12,088,464</u>	<u>\$12,707,794</u>	<u>\$14,083,939</u>	<u>\$14,266,237</u>	<u>\$16,350,557</u>	<u>\$15,478,516</u>	<u>\$16,620,121</u>	<u>\$16,922,373</u>
Town and Ed Less TFHS Debt									

Sources: Records of Town Meetings (Montague Town Clerk’s Office); Gill-Montague Regional School District Assessment Calculations (GMRSD Business Office).

care (see analysis below) 2) the long-awaited implementation of the “Pay and Classification Study”, which increased wages for targeted positions to make them consistent with others in the region and 3) a dramatic increase in state lottery aid. Lottery aid increased by over \$650,000 during the period, as the state stopped diverting funds to the state budget and “fully funded” this form of local aid.

In essence, an increase in state lottery aid and a commitment to using growth revenues to finance wage increases caused a significant increase in the town operating budget in the last four years of the period. As a result, town operating expenditures consumed more than half of all growth revenues.

However, lottery increases of this magnitude ended in FY08 with the “full funding” of local lottery aid. In that year, state aid increased by only \$80,000 and local receipts were flat. Town revenue increases, driven mainly by predictable property tax increases, returned to a “norm” of approximately \$450,000 annually. Yet the town operating budget continued to grow at the previous rate (approximately 5%) and educational expenditures had increased dramatically. This produced a large budget shortfall that was financed by town reserves (free cash, stabilization and the Assessor’s overlay reserve).

The Operating Budget in Detail

Table 5 breaks down the operating budget by general categories of expenditures, rather than by departments as during the budget process. (One conclusion of this report is that the town needs to rethink the budget process to pay more attention to these categories).

Town Personnel Costs

Personnel costs, defined as wages and salaries for staff, currently account for 47% of the town’s operating budget, as compared to 52% of the total budget that was adopted in FY 2000. Had the town maintained the higher (FY 2000) percentage, personnel costs would be \$285,767 higher today (i.e. FY 2007) than they currently are. However, an important factor in the changing ratio of personnel costs to total costs is the dramatic increase in health care benefits for employees.

Overall personnel costs increased between FY 2000 and FY 2008 by approximately \$347,000, or 13%. This is a very modest increase of 1.6% per year. However, if we break the study period into two segments as in the previous analysis, trends are a more complex. In the first four years of the period, personnel costs actually declined by \$140,000. Staff reductions carried out in various departments including the department of public works (5 people), Police Department (2 people), Accounting (1 person) help to explain the reduction in the percentage of budget claimed by personnel. In FY 2004 alone,

Table 5: Montague Operating Budget, FY2000-FY2008

	FY2000	2001	2002	2003	2004	2005	2006	2007	2008
Salaries/Wages	2,704,050	2,743,843	2,760,784	2,743,382	2,566,983	2,608,056	2,835,971	2,924,066	3,050,875
Expenses	1,009,513	1,021,705	1,040,503	1,016,879	976,092	1,019,362	1,112,096	1,201,987	1,305,207
Debt (Not Excluded)	306,060	284,485	280,750	302,560	289,850	262,100	212,800	182,626	273,132
Intergovernmental	122,169	127,218	124,319	121,070	117,525	120,544	118,986	130,915	87,039
Misc (Benefits, Ins.)	1,097,599	977,897	1,090,410	1,276,425	1,406,900	1,515,431	1,653,853	1,733,161	1,752,953
Total	5,239,391	5,155,148	5,296,766	5,460,316	5,357,350	5,525,493	5,933,706	6,172,755	6,469,206

Source: Town Administrator’s Calculations Based on Town Meeting Appropriations.

town-side personnel costs declined by \$176,300 or 6.4%, as the town implemented an early retirement program.

During the last four years, however, that trend was reversed. Personnel costs increased by a total of 483,892 or approximately \$121,000 per year during this period. When combined in the increase in employee benefits (\$90,000 average per year during these four years) total personnel and benefit increases averaged \$211,000 per year. Thus wage and benefit increases accounted for nearly 40 % of growth revenues during these years. With the slowing of state lottery aid increases (FY08), wages and benefits may consume an even larger portion of growth revenues. .

Departmental Expenses

In an effort to balance the budget, the town has required all departments to hold increases in spending on expenses to a minimum in the good years. In the “bad years” expenses have been cut. During one year departments cut their expense budgets by as much as 21%.

Over the entire period, expenses have increased by just over 20%, or an annual average increase of 2.6%. However, if we control for the dramatic increase in energy costs during in the past two years there has been very little growth on the expense side of the budget equation.

All departments have been repeatedly asked to level fund or cut expenses, year in, year out, to the point where they have not able to keep up with inflation. The decline in resources available to the departments has begun to seriously erode their ability to deliver programs and services.

Employee Benefits

The dramatic growth in the cost of employee benefits/insurances was unquestionably the biggest “budget buster” during the study period. Miscellaneous costs (employee benefits, including among other things pensions, health insurance and other insurances) rose \$658,324 (60%) or 7.5% per year. This category currently claims over 28% of total spending, up from approximately 21% in FY 2000. The benefits portion of “miscellaneous” grew by approximately \$612,000 or an annual average of nearly \$77,000 per year.

As in most municipalities, health insurance was the big driver of benefit increases. Between FY 2001 and FY 2008, health insurance costs increased from \$392,440 to \$900,000, an increase of 129% or approximately 18% per year. As stated in the section on personnel costs, the rising cost of benefits, when combined with recent wage increases, means that total personnel costs (wages and benefits) now consume approximately 40% of growth revenues.

Debt Service

During most of the period, debt service costs declined. Between FY 2000 and FY 2007 debt service fell from \$306,060 (12.1% of budget) to \$182,626 (5.6% of budget). However, there was a significant increase in debt service in the FY08 budget to over \$273,000.

The town has authorized borrowing for a significant amount of capital spending, some of which has already been expended. Some of this debt is in the Water Pollution Control Facility budget, including \$3.4 million for the sewer upgrade (“Combined Sewer Overflow”) and \$1.2 million for other Water Pollution Control facilities and equipment. Once all of this other debt reaches the permanent financing stage, the sewer users will experience a significant, debt-related increase in rates.

School Assessments

Educational assessments during the study period increased significantly at both the Franklin County Technical School (FCTS) and the Gill Montague Regional School District (See Table 6). The total increase in these assessments (not including debt) was over \$3.3 million or 80%. This is an average of approximately \$420,000. This is virtually identical to the annual total increase of growth revenues during the period. In some years, the increase in educational assessments exceeded growth revenues.

The FCTS assessment grew by \$392,293 or 135% between FY 2000 and FY 2008. This is an annual average of approximately \$49,000 or 17%. Much of this increase occurred during the first four years of the study period and was heavily impacted by an increase in enrollment of students from Montague. The increases during these years put considerable pressure on the town’s revenues. In one year (FY01) the FCTS assessment grew by over \$150,000 or approximately 52%.

Table 6: Montague Educational Assessments: Gill-Montague Regional and Franklin County Technical Schools

	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08
GMRSD	3,985,423	4,419,960	4,676,332	5,335,747	5,508,362	5,962,472	6,536,021	7,579,092	7,122,843
FCTS	291,091	442,212	541,936	611,656	628,330	566,510	652,866	646,711	683,384
Total	4,276,514	4,862,172	5,218,268	5,947,463	6,136,692	6,528,982	7,188,887	8,225,803	7,806,227
GMRSD									
Debt	79,987	86,272	127,173	161,863	268,337	599,299	779,562	1,315,681	251,057
Ed Total									
Less debt	4,196,527	4,775,900	5,091,095	5,785,600	5,868,355	5,929,683	6,409,325	6,910,122	7,555,170
GMRSD									
Less Debt	3,905,436	4,333,688	4,549,159	5,173,884	5,240,025	5,363,173	5,756,459	6,263,411	6,871,786
Total Ed									
Increase		579,373	315,195	694,505	82,755	61,328	479,642	500,797	645,048
GMRSD Increase									
.Less Debt		428,252	215,471	624,725	66,141	123,148	393,286	506,952	608,375

Sources: GMRSD: Annual Assessment Calculations (“actual”).FCTS: Montague town meeting appropriations

During the last four years of the study period the FCTS assessment increased by a modest annual average of \$13,764 or 2.2 %. This reflects stability in the number of Montague students attending the school. It also reflects the fact that Chapter 70 state aid has been more closely correlated to the school's budget increases than is the case with the Gill-Montague Regional District. More adequate state aid leaves less of a burden to the member towns.. Furthermore, the tech school does not have to fund school choice or charter school losses through its budget and is able to administer a much more modest special education program.

The Gill Montague Regional School District assessments, net of debt, grew by \$2,966,350 or approximately \$371,000 per year during the study period. In some years, the district assessment grew by over \$500,000 annually consuming virtually all of the town's growth revenues.

The GMRSD budget is analyzed in greater detail in a separate report. In general, two factors have contributed to the increase in the Montague assessment to the school district. First, the GMRSD budget has increased at an annual average of \$478,000, or 4% per year. Even if state aid increases supported half of this growth, the town would struggle to fund both this increase and that of the regional technical school within its growth revenues. This has been particularly true during the latter part of the study period.

The main factor producing large assessment increases has been inadequate Chapter 70 state aid to the GMRSD. During the study period, such aid has increased by an annual average of \$37,000 or less than 1%. In FY 2000, state Chapter 70 aid financed approximately 50% of the school budget. By 2008, it financed less than 38%. Meanwhile the portion financed by local property taxes (Gill and Montague) has risen from approximately 40% to nearly 55%.

No plan for fiscal stability can succeed without significantly lowering educational assessment increases and/or generating new growth revenues to pay for them. Educational assessment increases are the main cause, although not the only cause, of the structural budget crisis in Montague.

Capital Spending

Capital spending, not including that financed through borrowing, was significant considering the competing demands for funds between FY 2000 and FY 2008. Spending on "pay go" projects totaled over \$3.5 million or an average of over \$446,000 per year.. Average annual spending for this period is skewed downward to some extent by the inclusion of FY 2003 and FY 2004, years in which capital spending was minimal. Due to serious budget constraints in those two fiscal years, the town was forced to defer all but essential capital spending. On the other hand, the average is skewed upward by the inclusion of the stabilization of the Strathmore mill building in FY2008.

D.P.W vehicles and equipment was the greatest beneficiary of capital spending claiming over \$1 million during the study period. Much of this is accounted for by annual leases on such items as the "sewer vac" truck and the 10 wheel dump truck.. School facilities claimed the next highest amount, nearly \$750,000. Much of this spending being capitalized by the newly created "educational stabilization fund" in FY 2006. Town facilities at \$396,265, Landfill spending including both the burn dump closure (\$220,000) and engineering in support of landfill development (\$40,000), and Police vehicles at \$229,095 account some of the other larger capital spending items during the study period.

The method used by the town to finance this capital program is also illustrative of the creativity required to meet capital needs during a period of scarce resources. Property taxes, which funded \$304,516 or 69% of all "pay go" projects in FY 2000, was used increasingly less in subsequent years, declining to \$61,484 or 14.9% in FY 2007. In its place, the town has relied more and more on available funds including the Stabilization Fund or Educational Stabilization Fund. The peak use of the Stabilization Funds was in FY 2006, when this source of revenue was used to fund 69% of all projects. The Town has also used a variety of available funds including Chapter 90, Excess Lottery, unexpended fund balances and the Overlay Reserve to fund capital projects.

Conclusion: Growth Revenues, Montague Budget and Educational Assessments

This conclusion summarizes the history of the Montague budget in terms of the concept of "growth revenues." Growth revenues are defined as those revenue increases available to fund increases in the operating budget and school assessments. They are also used to fund increases in the tax portion of the sewer budgets and capital costs approved by town meeting special articles..

As stated in the historical narrative, growth revenues include

5. Property taxes to the 2 1/2 % levy limit and new growth. Taxed raised by debt exclusions for particular projects are not included.
6. State aid, primarily distributions of state lottery revenue.
7. Local receipts, including auto excise tax receipts and a variety of smaller items.

The Montague operating budget is divided into five sections.

1. "Wages/Salaries" represents personnel costs. Changes in this item reflect both wage increases (or cuts) and changes in staffing levels
2. "Expenses" are the non-personnel costs of operating the town, excluding debt and payments to other governmental agencies.
3. Debt not including debt payments for specific projects funded by debt exclusions
4. Intergovernmental payments for services from other government agencies.
5. "Miscellaneous," which includes employ health insurance, retirement and general insurance

Analysis

Table 7 shows Montague's growth revenues plus annual increases in educational assessments and the Montague budget. Table 8 estimates average annual increases during the eight year period. The average annual increases are divided into two sections, FY2000 to 2004 and FY 2004 to 2008.

*During the eight year period growth revenues increased by approximately 4.6% or an average of just over \$460,000 annually. It is thus not entirely accurate to say, as is sometimes claimed, that local expenditures are limited to 2 1/2% each year. While the tax limitations of Proposition 2 1/2 may play a role in producing inadequate revenues for local government, actual revenues are much close to the level of inflation in local spending.

*The Montague operating budget increased by an annual average of \$153,000 or 2.9% per year during the period. Thus it would appear that operating budget increases stayed well within available revenue increases. However, a closer analysis of the data reveals that this is not entirely true. The primary reason for the low annual budget increases is spending cuts (and layoffs) from FY01 through FY04. During the last four years of the period the operating budget increased by an annual average of 5% or \$277,964. This was above the increase in available revenues to fund the budget.

*As stated previously, educational assessments were the main cause of budget instability. Total educational assessments increased by \$419,830 per year or 10%. These increases

Table 7: Montague Growth Revenues, Educational Assessments and the Montague Operating Budget Annual Increases

	FY01	FY02	FY03	FT04	FY05	FY06	FY07	FY08
Property Taxes 2.5 + New Growth	312,231	332,062	404,877	553,116	390,312	321,261	403,892	383,614
State Aid	184,338	74,949	-104,193	-211,173	25,259	193,381	370,338	63,625
Local Receipts	-16,883	11,310	65,709	47,327	130,489	84,713	-43,040	-110,072
Growth Revs Annual Inc	479,736	268,430	365,652	389,270	546,060	599,355	731,190	337,167
Ed Asmnt. Annual Inc	579,373	315,195	694,505	82,755	61,328	479,642	500,797	645,058
GMRSD Asmnt Ann. Inc	428,252	215,471	624,725	66,141	123,148	393,286	506,952	608,375
Montague Budget Inc.	-84,243	141,618	163,550	-102,966	168,143	408,213	239,049	296,451

**Table 8: Montague Growth Revenues, Educational Assessments, Operating Budget, GMRSD Budget, State Aid
Fiscal Trends, FY2000-2008**

		00-08		00-04		00-08	
		Amount	Percent	Amount	Percent	Amount	Percent
Growth Revenue Increase	Total	3,716,760	38%	1,503,088	15%	2,213,672	20%
	Per Yr.	464,595	4.7%	375,722	3.8%	524,821	4.90%
ED Asmnt Increase	Total	3,358,643	80%	1,671,828	37%	1,686,815	29%
	Per Year	419,830	10%	417,957	9.3%	421,704	7.2%
GMRSD Asmnt Increase	Total	2,966,350	76%	1,334,589	34%	1,631,761	31%
	Per Yr	370,793	9.5%	333,647	8.5%	407,940	7.8%
Montague Budget	Total	1,229,815	23%	117,959	2%	1,111,856.00	21%
	Per Yr.	153,727	2.9%	29,490	0.6%	277,964.00	5%
GMRSD Budget, Chapter 70 Aid							
GMRSD Budget	Total	3,824,378	32%	-132,334	-1.1%	3,956,712	33%
	Per Year	478,047	4%	-33,084	-0.3%	989,178	8.3%
Ch 70 Aid	Total	299,165	5%	-239,032	-4%	538,197	9.2%
	Per Year	37,396	0.6%	-59,758	-1%	134,549	2.3%

were over 80% of revenue growth. The Gill-Montague Regional School assessments increased by over \$370,000 annually or approximately three quarters of total revenue growth. In the first four years of the period, assessments for the Franklin County Technical School, driven partially by increased enrollment, were a major cause of high local educational assessments. During the last four years they played a relatively small role.

*The primary cause of high educational assessments has been inadequate state aid to the Gill-Montague regional school district. The budget of the Gill-Montague Regional School District increased by an annual average of approximately 4% or \$478,047. If state aid had remained at approximately at the level at the beginning of the period (50% of the operating budget see Table 3), assessments would have increased by approximately half of the town's growth revenues (Assuming the Montague accounted for 85% of total assessments.) However, state aid to the district was nearly level funded, increasing by an average of only.6% per year.

*As in the case of the Montague operating budget, the analysis becomes more complex when we break the period into two sections. Between 2000 and 2004, the regional school district budget actually declined by approximately 1.1%. However, local payments to the district increased by over \$300,000 annually during these years.¹⁴ Between 2004 and 2008, on the other hand, school district budgets increased by over 8%. Thus in the latter part of the period school budget increases as well as inadequate state aid contributed to high assessment increases.¹⁵

*Although the cost of education was the main cause of fiscal instability during the period, increases in the town operating budget were also unsustainable. This reality was masked by layoffs, primarily during the first four years of the period. During the latter four years of the period, however, town budget increases exceeded available revenues. The primary cause was implementation of the Pay and Classification study, negotiated wage increases and health care inflation. Total wage/salary and benefit increases averaged over \$200,000 Between FY2004 and FY2008.

*The combination of unsupportable educational assessments and town operating budget increases led to increasing use of reserves to fund needed annual capital expenses. By the end of the period, virtually no tax revenue was available for these capital costs. Furthermore in the last year of the period even the town operating budget and school assessments were being funded by reserves.¹⁶ In Fiscal Year 2008, Montague used over

¹⁴ This may well have contributed to radically different perceptions of the school budget on the part of those within the school district and member towns. The former saw budget cuts and inadequate funds for education while the latter saw school district spending, as measured by assessments, as out of control.

¹⁵ This may also have been true during the earlier four years of the period as well. The final budget (and assessment) numbers reflect months of negotiation and budget adjustments. Initial budget requests were generally much higher than the final numbers would indicate. Budget increases were only reduced by layoffs. The analysis of the school district budget shows that increases in benefits (primarily health care) and special education drove budget increases between 2000 and 2004.

¹⁶ Montague has, since the early 1990s, used between \$300,000 and \$350,000 in free cash to "reduce the tax rate," a policy which essentially uses reserves to fund all town expenditures.

one million dollars in reserves to fund the town operating budget, school assessments and smaller capital needs.

Chronic and increasing budget imbalances have produced great institutional instability in both the town of Montague and the Gill-Montague Regional School District. This historical analysis is designed to identify the cause of those imbalances. The next section of this report will present potential remedies

Montague Projections: Revenue-Expenditure Scenarios

Introduction

This section of the report presents three revenue/expenditure scenarios for the town of Montague for the period between Fiscal Year 2008 and Fiscal Year 2014. They are based on the projections Montague Town Administrator Frank Abbondanzio made in the spring of 2007. However, the baseline is now FY 2008. Although some of the assumptions have changed and the data is presented in a somewhat different form, the basic conclusions have remained the same.

Unlike the original report, this analysis contains only one revenue series. This is the “most likely” revenue projection in the town administrator's report. I have decided that keeping revenues constant and varying expenditures simplifies the analysis with a clearer set of benchmarks and potential decisions. Also, with the exception of over rides or a major economic development project, it is more difficult for local policymakers to influence revenue growth. Expenditures, on the other hand, reflect budgetary choices made annually.¹⁷

¹⁷ However this does not mean we should ignore mechanisms for generating new revenues. The "Consultants Recommendations and Conclusions" will discuss revenue-generating measures, including more aggressive industrial/commercial development options, the landfill and Proposition 2 1/2 over rides.

Revenues

Th revenue estimates presented here are a version of the “most likely scenario” in the original Town Administrator's report. This analysis uses a modified version of this scenario to construct a series of “growth revenue” projections. "Growth revenues" are here defined as those new revenues available for the town budget, educational expenditures, other assessments and other capital expenditures financed by town meeting “special articles. These include revenues include increases in property taxes, state aid and local receipts:

1. Property taxes

As stressed in the historical section, this is the main source of revenue growth for the town. Tax growth is calculated as the increase to the 2 1/2“levy limit” plus “new growth” allowed under the state law. The 2 1/2 % increases is a straightforward.

Table 9: Montague Revenue Projections
FY08-FY14

Category	FY08	FY09	FY10	FY11	FY12	FY13	FY14	09 Budget*
Property Tax								
Prior Year	10,058,097	10,436,311	10,843,503	11,260,875	11,688,680	12,127,181	12,576,645	10,436,311
Plus 2.5	251,472	260,908	271,088	281,522	292,217	303,180	314,416	260,908
New Growth H	126,742	146,284	146,284	146,284	146,284	146,284	146,284	200,000
New Levy	10,436,311	10,843,503	11,260,875	11,688,680	12,127,181	12,576,645	13,037,345	10,897,219
Plus Overrides								
Plus Debt Exclusions								
Less Abatements								
Total Net Levy								
State Aid 2.5%	1,699,292	1,741,774	1,785,319	1,829,952	1,875,700	1,922,593	1,970,658	1,711,801
Less Receipts								
Inc FRTA								
Local Receipts 1%	1,229,644	1,241,940	1,254,360	1,266,903	1,279,572	1,292,368	1,305,292	1,240,435
Less misc non-recurring								
Total Growth Revenues	13,365,247	13,827,218	14,300,553	14,785,536	15,282,454	15,791,606	16,313,295	13,849,455

*09 Budget: projections for May, 2008 Town Meeting. Not “actuals.”

Table 10: Growth Revenue Projections: Ave. Annual Increase

Growth Revs		FY08	FY09	FY10	FY11	FY12	FY13	FY14	09 Budget
Increase									
Property Tax			407,192	417,372	427,806	438,501	449,464	460,700	\$460,908
State Aid	2.5%		42,482	43,544	44,633	45,749	46,893	48,065	12,509
<u>Local Receipts</u>	<u>1%</u>		12,296	12,419	12,544	12,669	12,796	12,924	10,791
Total			461,970	473,335	484,983	496,919	509,153	521,689	\$484,208

calculation of the percentage growth above the previous year's levy limit as certified by the state Department of Revenue. I have calculated "new growth" as the average amount from the historical period (2000-2008) minus one exceptionally high growth year (2004) which will probably not be repeated. For all years except for 2008 (the base year uses "actual" or "budgeted" revenues) estimated growth is \$146,284.

2. State aid

State aid is primarily influenced by lottery revenue. The period 2000 to 2008 saw an average annual growth rate of 4%. However, some of this was the result of a large increase due to "full funding" of lottery aid in 2007. These large increases in the lottery will not continue. We are projecting an annual average growth rate of 2.5% over the entire five-year projection, emphasizing that there could be level funding or even cuts in state aid the case of a recession and a larger percentage increase after the recession. This was the pattern in the historical period. State aid is projected to increase by approximately \$45,000 annually.

3. Local Receipts

The average annual growth rate in this category, subtracting non-recurring receipts, was 1%. This is the annual percentage increase used to calculate annual growth revenue increases. However, this revenue category, influenced by motor vehicle excise taxes, is sensitive to fluctuations in the economy. There is a strong possibility that local receipts will decline if there is a recession.¹⁸

Total growth revenues for the period increased from \$13,365,247 in 2008 to \$16,313,295 in 2014. Increases ranged from \$461,971 in 2009 to \$521,689 in 2014. These estimates will be used in the revenue/expenditure series that follows. However, if the historical period is a guide, true revenue growth may range from \$400,000 to \$600,000 in any given year.

Three Expenditure/ Revenue Scenarios

All three expenditure/revenue scenarios divide the town operating budget into five sections – wages/salaries, expenses, non-excluded debt, intergovernmental (assessments etc), miscellaneous (includes benefits and insurance). Education spending includes assessments from the Gill-Montague Regional School District and the Franklin County Technical School. The tax portion of the budget for the water pollution control facility is also estimated. At the bottom of each page, total expenditures for the town operating

¹⁸ Data from the historical period suggests that the timing of economic fluctuations on revenues may vary. For example, the impact of the 2001 recession on excise taxes was immediate whereas there was a time lag in of the impact on state aid,

budget, educational expenditures and the tax share of the WPCF are shown and compared with the estimate of growth revenues.

The projections include capital expenditures not financed by debt, most of which appear as "special articles" voted by the Montague Town Meeting. Although previously often funded by taxation, these crucial expenditures are currently funded primarily by reserves (Free Cash, the Stabilization Fund, and the Assessor's Overlay excess reserve. The expenditure series assumes that this will continue to be town policy so no effort is made to calculate moving these expenditures back to growth revenue funding. However, the estimates provide a way of estimating potential fiscal impacts if this shift from recent funding patterns were made a policy goal.

Capital projects like the combined sewer overflow project (CSO), police station project and the Turners Falls High School (TFHS) renovation are also shown but not included in the estimate of expenditure increases funded by "growth revenues." This is because these projects are funded by previously approved "debt exclusions," revenues not available for the town budget, educational assessments and the town share of the WPCF)

Scenario 1: Least Cost Control (E5 in town administrator's report)

This scenario assumes spending patterns of the past few years continue. It is essentially an effort to predict the near-term fiscal impact of current policies.

In the town operating budget, wages increase by a total of 5%, wage increases negotiated the contracts prevailing in FY08.¹⁹ This assumes an aggregate 2% for "Step" increases (increases for years of employment) and a 3% COLA (cost of living allowance). Expenses are calculated to increase by 5%. The level of debt and "intergovernmental" expenses (2.5%) are projected as in all the scenarios.

Similarly, educational assessments reflect recent trends. The assessment for the Gill-Montague Regional School District increases by an average of 7% and the Franklin County Technical School assessment rises by 5% annually (this is well below the FY2000 to 2008 average but higher than in the past four years.

The town tax share of the WPC is projected to increase by .5% annually in all the scenarios.²⁰

Total expenditure increases under this scenario increase from just over \$873,000 in FY08 to over \$1,197,000 in FY14. Meanwhile, annual revenue growth averages approximately half this amount. Revenue/expenditure gaps range from \$410,000 in FY09 to over \$670,000 in FY14. These estimates clearly suggest that recent patterns of spending are not viable.

¹⁹ Contracts have recently been negotiated with town unions that provide for lower increases consistent with Scenario 2.

²⁰ This projection, made in consultation with WPCF Directory Robert Trombley, is somewhat less than the experience of the past five years.

It is noteworthy that these gaps between spending and revenues are approximately of the magnitude the town experienced in FY 2008, leading to the excessive and dangerous use of reserves to balance the budget. These projected gaps and the experience of FY08 show how quickly current reserves will be eliminated if the town continues to use reserves to fund the town operating budget, educational assessments and capital projects.

Scenario 2 Moderate Cost Control

This scenario labeled "Most Realistic" in the town administrator's report, assumes more modest growth rates. In the town budget, the wage increase has been lowered to 3.5% by assuming a negotiated cost of living increase of 1.5%. Expense increases remain at 5%. Debt and "Intergovernment" increases remain as in Scenario 1, The scenario assumes that "Miscellaneous" costs increases decline to 6% as a result of employees joining the state health insurance group, the Group Insurance Commission.

Educational assessments are lower as well. The GMRSD assessment is pegged at an annual increase of 4.75%, an average of the inflation factor used to calculate local school aid (see the school district finance portion of this study). FCTS assessments are lowered to 3.5%, closer to the average over the past four years.

These scenarios produce annual budget plus assessment increases ranging from just under \$600,000 in FY09 to \$736,600 in FY 20014. The average gap between expenditures and revenues is lowered to approximately \$200,000²¹ annually. Still, this gap would need to be addressed by either major spending cuts and/or a significant Proposition 2 1/2 override on an annual basis.

Scenario 3 Austerity Budget ("Greatest Cost Control in town admin report)

Under this scenario, salaries and wages for Montague town staff increase by only 2%. This would probably mean a STEP increase but no COLA (or a 1% step and 1% COLA). All the other increases in the town budget are the same as in Scenario 2, including the assumption that the town employees join the Group Insurance Commission.

In the area of education assessments, the Gill Montague School District is allocated half of the town's growth revenues. This is based on the "plan for fiscal stability" in the fiscal study of the GMRSD. The FCTS increase is 3.5% as in the previous scenario.

This set of assumptions essentially produces total town and educational expense increases (averaging \$500,000) that nearly match revenue growth (averaging \$490,000).

²¹ Expenditure/revenue gap estimates in this and the following scenario are highly sensitive to the estimate of changes in non-excluded debt costs in the town operating budget. This is less true in Scenario 1 where the total gap is much greater.

Capital Costs

All scenarios note the cost of capital projects and equipment but do not include them in expenditures funded by growth revenues. These are shown near the bottom of each page. Annual costs of capital projects funded by debt exclusions (Turners Falls High School/Middle School, the tax portion of sewer system upgrade (Combined Sewer Overflow) and the Police Station are shown.

Smaller capital projects and equipment purchases approved by town meeting special articles are also shown but are not included in calculation of projects funded by growth revenues. As not in the historical summary, these projects are currently funded by reserves, a policy which is probably not sustainable in the long run.

Scenario 1 Montague Expenditure Projections Least Cost Control

Town		FY08	FY09	FY10	FY11	FY12	FY13	FY14
Salaries/Wage	5%	3,050,875	3,203,419	3,363,590	3,531,769	3,708,358	3,893,776	4,088,464
Expenses	5%	1,305,207	1,370,467	1,438,991	1,510,940	1,586,487	1,665,812	1,749,102
Debt (not excluded)		273,132	243,768	236,423	187,625	173,155	168,620	112,478
Intergovernmental	2.5%)	87,039	89,215	91,445	93,731	96,075	98,477	100,939
Misc (Benefits etc)	9%	1,752,953	1,910,719	2,082,683	2,270,125	2,474,436	2,697,135	2,939,878
Total		6,469,206	6,817,588	7,213,132	7,594,191	8,038,511	8,523,819	8,990,861
Increase			348,382	395,544	381,059	444,320	485,308	467,041
GMRSDNetDebt	7%	6,860,998	7,341,268	7,855,157	8,405,018	8,993,369	9,622,905	10,296,508
FCTS	5%	683,384	717,553	753,431	791,102	830,658	872,190	915,800
Total Ed		7,544,382	8,058,821	8,608,587	9,196,120	9,824,026	10,495,095	11,212,308
Ed Increase			514,439	549,766	587,533	627,906	671,069	717,213
WPCF Town		206,407	216,727	227,564	238,942	250,889	263,433	276,605
Capital Special Articles		\$641,939	\$350,000	\$350,000	\$350,000	\$350,000	\$350,000	\$350,000
Capital	TFHS	164,557	160,337	156,341	152,432	148,657	144,883	140,441
Debt Exclusion	CS0	65,299	101,173	101,172	101,173	101,174	101,174	101,173
	Police Station	0	0	0	400,000	402,500	399,500	401,250
	Total							
Total Town+Education Inc.			862,821	945,311	968,591	1,072,226	1,156,377	1,184,254
Town +Ed+WP CF Inc			873,141	956,147	979,969	1,084,173	1,168,922	1,197,426
Growth Revs Increase			461,971	473,335	484,982	496,919	509,152	521,689

Scenario 2 Montague Expenditure Projections E2 Moderate Cost Control

		FY08	FY09	FY10	FY11	FY12	FY13	FY14
Salaries/Wage	3.5%	3,050,875	3,157,656	3,268,174	3,382,560	3,500,949	3,623,482	3,750,304
Expenses	5%	1,305,207	1,370,467	1,438,991	1,510,941	1,586,488	1,665,812	1,749,103
Debt (not excluded)		273,132	243,768	236,423	187,625	173,155	168,620	112,478
Intergovernmental	2.5%	87,039	89,215	91,445	93,731	96,075	98,477	100,939
Misc (Benefits etc)	6%	1,752,953	1,858,130	1,969,618	2,087,795	2,213,063	2,345,847	2,486,597
Total		6,469,206	6,719,236	7,004,651	7,262,652	7,569,729	7,902,238	8,199,421
Increase			250,030	285,415	258,001	307,078	332,508	297,183
GMRSDNetDebt	4.75%	6,860,998	7,186,895	7,528,273	7,885,866	8,260,445	8,652,816	9,063,824
FCTS	3.5%	683,384	707,302	732,058	757,680	784,199	811,646	840,053
Total Ed		7,544,382	7,894,198	8,260,331	8,643,546	9,044,643	9,464,461	9,903,878
Ed Increase			349,816	366,133	383,215	401,097	419,818	439,416
WPCF Town		206,407	216,727	227,564	238,942	250,889	263,433	276,605
Capital Special Articles		\$641,939	\$350,000	\$350,000	\$350,000	\$350,000	\$350,000	\$350,000
Capital Debt Exclusions								
TFHS		164,557	160,337	156,341	152,432	148,657	144,883	140,441
CSO		65,299	101,173	101,172	101,173	101,174	101,174	101,173
Police Station		0	0	0	400,000	402,500	399,500	401,250
Total Town+Education Inc.			599,846	651,548	641,216	708,175	752,326	736,600
Town+Ed+WPC F			610,166	662,385	652,594	720,122	764,871	749,771
Growth Revs Increase			461,971	473,335	484,982	496,919	509,152	521,689

Scen. 3: Montague Expenditure Projections: E1 Highest Cost Control

Town		FY08	FY09	FY10	FY11	FY12	FY13	FY14
Salaries/Wages	2%	3,050,875	3,111,893	3,174,130	3,237,613	3,302,365	3,368,413	3,435,781
Expenses	5%	1,305,207	1,370,467	1,438,991	1,510,941	1,586,488	1,665,812	1,749,103
Debt (not excluded)		273,132	243,768	236,423	187,625	173,155	168,620	112,478
Intergovernment	2.5%	87,039	89,215	91,445	93,731	96,075	98,477	100,939
Misc (Benefits)	6%	1,752,953	1,858,130	1,969,618	2,087,795	2,213,063	2,345,847	2,486,597
Total		6,469,206	6,673,473	6,910,607	7,117,705	7,371,145	7,647,168	7,884,897
Increase			204,267	237,134	207,098	253,440	276,023	237,729
GMRSD Net Debt	50%Revs	6,860,998	7,091,984	7,328,651	7,571,142	7,819,602	8,074,178	8,335,022
FCTS	3.5%	683,384	707,302	732,058	757,680	784,199	811,646	840,053
Total Ed		7,544,382	7,799,286	8,060,709	8,328,822	8,603,800	8,885,823	9,175,075
Ed Increase			254,904	261,423	268,113	274,978	282,023	289,252
WPCF Tax Share		206,407	216,727	227,564	238,942	250,889	263,433	276,605
Capital Special Articles		\$641,939	\$350,000	\$350,000	\$350,000	\$350,000	\$350,000	\$350,000
Capital Debt Exclusions								
TFHS		164,557	160,337	156,341	152,432	148,657	144,883	140,441
CSO		65,299	101,173	101,172	101,173	101,174	101,174	101,173
Police Station		0	0	0	400,000	402,500	399,500	401,250
Total Town+Education Inc.			459,171	498,557	475,211	528,418	558,046	526,981
Total Town + Ed +WPCF Inc			469,491	509,394	486,589	540,365	570,590	540,153
Growth Revs Increase			461,971	473,335	484,982	496,919	509,152	521,689

Conclusion

Some version of Scenario 3 will be required if the Montague budget is able to achieve fiscal balance. This assumes wages increases perhaps unrealistically low and a level of school district (GMRSD assessments far below prevailing trends. The town administrator's original report, recognizing these difficulties, projected using reserves to fund a town operating budget closer to Scenario 2.

Another option would be to increase salaries and wages to 3.5% as in the current union contract but cut other expenditures to fund these wage increases. This would mean an annual expenditure cut averaging between \$45,000 and \$60,000 during the period.²² Assuming that this cut would be in the town operating budget, this would mean the layoff of one employee per year for all each year of the period.

Controlling health care costs is one key to fiscal stability. Both the town administrator's report and this report assumed that town employees would need to join the state Group Insurance Commission to achieve needed cost controls. Historically, the GIC has significantly lower cost increases than cities and towns, including Montague, because 1) it is a larger group able to bargain lower rates and 2) it does not need to negotiate "plan design" (copayments, deductibles etc) with employee unions.

Montague town employees rejected joining the GIC in the fall of 2007 and the issue is, as of this writing, "on hold." The town has recently changed the town share of employee health care costs from 90% to 80%. The Montague Selectboard has voted to endorse joining the GIC but now appears to be waiting for more information about cost controls in its current health group (Hampshire Group –Blue Cross).

It is difficult to see how the town can achieve fiscal stability without holding the Gill-Montague Regional School District's allocation to approximately half of the town's revenue growth. This perhaps somewhat arbitrary allocation leaves the town with an average of well under \$250,000 in growth revenues annually to fund its activities. Benefits alone would increase by an average of nearly \$100,000 under the most optimistic scenario.

This allocation to the GMRSD is far below the levels of the historical period. Between FY2000 and FY 2008 school district assessments averaged approximately three-quarters of total revenue growth. The report on the school budget argues that the primary cause of these unaffordable assessment increases is a level of state aid well below the real cost of funding education in the district. The report also argues that school budget increases are unaffordable even if the level of state aid more closely matched inflation.²³

²² This is calculated by taking 1.5% of each year's total salary/wage cost.

²³ See for example scenario 2, where both state aid and school budget increases are estimated at the inflation factor of 4.75%

This conclusion leaves out the issue of the cost of smaller capital projects and equipment purchases that used to be funded partially through taxation and but more recently through the use of reserves. To return funding of this portion of the budget to taxation will require either 1) a targeted over-ride or capital exclusion 2) a major cut in the town budget and/or school assessment, with funds permanently reallocated to capital expenditures or 3) a new revenue source such as the landfill. A combination of these three revenue sources is another possible option. In theory, once a constant annual amount allocated for these projects is built into the budget base, they would not impact the calculation of expenditures

While this consultant will leave recommendations on implementation to a separate section of this report, it is urged that town officials make concrete, long-term policy decisions in these areas before the next budget cycle. This is particularly true with regard to wages and benefits, a reasonable level of expense increases, educational assessments and a plan for capital needs. The danger is that, because the conclusions of this report suggest changes that are both fiscally and politically difficult, there will be a tendency to simply conclude that "this will never happen" and go back to short-term patching with no long-term plan.

The tendency for crisis management to trump long-term planning will be magnified by the current state of the national economy and the perception that fiscal stability locally will require major changes in state and federal policy. While this perception reflects a reality, it should not be a reason to accept wage increases we can not afford, a costly health group when better options are available, school assessments above reasonable revenue growth, or a lack of planning for capital needs.

The failure to address these issues led Montague to use over \$1 million in FY08 in reserves to fund the town budget and the regional school district assessment. Continuing in this direction should not be an option.

The "Five Year Plan" Part 3:

**Recent Trends in the Gill Budget and Scenarios For
Fiscal Stability**

Jeff Singleton
January, 09

Introduction

The following analysis of the Gill town budget is the third report of the so-called "Five Year Plan." This project was originally undertaken to find solutions to the annual conflicts over the Gill-Montague Regional School District budget and assessment. During the planning process the project was expanded to include analyses of the budgets of the member towns, Montague and Gill.

The analysis of the Gill budget follows the same methodology as the study of Montague. It begins with an evaluation of revenue and expenditure growth from fiscal years 2000 to 2008. Then a number of scenarios are projected for fiscal years 2008 to 2014 based on the historical experience. The goal is to create a model for fiscal stability that will inform policy decisions.

The central framework for the analysis is the concept of "growth revenues." These are defined as those revenues that can be used to finance the town operating budget, school assessments and other expenditures. Growth revenues include property taxes, state aid and so-called "local receipts." Historically, a "structural budget gap" emerges when expenditure increases consistently exceed revenue growth. Fiscal stability is produced when projected expenditure increases match increases in growth revenues.

As in the case of Montague (and many cities and towns), the Gill budget history shows a growing tendency towards structural imbalance. The causes of this imbalance also follow a common pattern – "fixed cost" increases for wages, benefits and school assessments that do not match revenue increases, limited by inadequate state aid and the restrictions of Proposition 2 1/2.

Unlike Montague, Gill has been able to increase the level of services (through increases in staff hours) to residents despite these fiscal constraints. Gill has benefited from a number of unexpected revenue "windfalls" and has approved one large Proposition 2 1/2 over ride. School assessment increases have consumed a somewhat smaller portion of revenue growth than in the case of Montague

However, Gill has also used increasing amounts of reserves (free cash) to fund its operating budget and assessments. Furthermore, school assessments now appear to be consuming nearly all of Gill's revenue growth. Unless Gill continues to experience revenue windfalls and to pass over rides, the current level of expenditure growth can not be sustained. (See Scenario 1, p. 21). Assuming the historical level of revenue growth, less windfalls and over rides, the Gill operating budget and school assessments can not increase by more than 4% annually. (See Scenarios 2 and 3, pp. 22-23). Given the depth of the current recession and its impact on state aid, this level of expenditure growth may well be optimistic.

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Gill Revenues, 2000-2008

Tale 1 shows the increase in Gill revenues from FY 2000 to FY2008, The main revenues sources available to fund the operating budget are derived from property taxation state aid and local receipts. Gill also has used a range of smaller revenue sources listed under "particular purposes" (for example sewer user fees to fund the sewer system) and has used considerable amounts of "free cash" (positive balances from the previous year) to fund the budget.

This analysis focuses primarily on the three primary funding sources. The central goal is to estimate total revenue growth, average annual growth and the degree of annual variation from year to year.

Property Taxes

As with all cities and towns in the Commonwealth, Gill funds its local services primarily through the property tax. In fiscal 2008, for example, property taxes accounted for approximately sixty-seven percent of the town's revenues.

This analysis focuses on those property tax revenues available to finance the town operating budget and educational assessments, the so-called "levy limit." The levy limit for any given year is defined as the limit of the previous year plus a 2 1/2% increase plus taxation on "new growth." The limit also includes any so-called "overrides" (Gill passed one in 2004). It does not include property tax "debt exclusions" to fund particular projects (for example. the Gill Elementary School renovation) because these do not add to revenue available to finance the operating budget or school assessments.

Property tax revenues available to fund the town operating budget and school assessments in Gill have increased from \$1,136, 954 in FY 2000 to \$1,782,205 in 2008 an increase of \$645,251 or 57%. The average annual increase is approximately \$81,000. However, this includes an over-ride of \$110,000 in FY04, followed by an under-ride the following year. It also includes a very high amount of "new growth" (approximately \$123,000) in fiscal year 2008. If we exclude these amounts, the "normal" property tax revenue growth for the town was approximately \$55,000 annually.

The annual allowable increase of 2 1/2% has accounted for most of the potential property tax increase. The other component of property taxation, "new growth" has averaged just over \$20,000 annually if we ignore the very large increase in FY08. New growth revenues have varied considerably over the years, with a low of just under \$14,000 in FY02 to over \$36,000 in FY 05 to over \$122,000 in FY08.

Table 1: Gill "Growth Revenues" FY2000 to FY 2008

	<u>FY00</u>	<u>FY01</u>	<u>FY02</u>	<u>FY03</u>	<u>FY04</u>	<u>FY05</u>	<u>FY06</u>	<u>FY07</u>	<u>FY08</u>
Property Tax									
(Levy Limit)	1,136,954	1,183,843	1,227,240	1,284,480	1,442,305	1,503,781	1,561,448	1,619,053	1,782,205
State Aid	240,803	259,982	243,764	228,047	195,395	196,393	227,697	280,876	289,797
Local Receipts	210,273	283,431	245,613	268,791	314,488	363,828	351,691	348,113	294,081
Total	1,588,030	1,727,256	1,716,617	1,781,318	1,952,188	2,064,002	2,140,836	2,248,042	2,366,083

Annual Increase

Growth Revs	Annual Inc	139,226	(10,639)	64,701	170,870	111,814	76,834	107,206	118,041
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Other Revenues

Part Purpose	135,465	1,500	84,673	173,000	170,743	169,663	319,027	338,608	119,064
Free Cash	91,000	100,000	134,650	210,000	122,875	190,000	170,000	220,000	194,268

Note: Growth Revenues" defined as property taxes, state aid and local receipts.

"Other Revenues" include Free Cash and Revenues allocated by town meeting for "particular purposes."

As stated above, Gill's actual taxation was nearly always slightly below this levy limit, creating what is called "excess capacity." By the end of the period, however, Gill was taxing at the levy limit.

State Aid

State Aid to Gill averaged just over \$240,000 annually during the period, representing about 14% of its total revenues. The largest component has been lottery distributions, which generally account for over ninety percent of state aid.

During the period, there was a small increase in total state aid of nearly \$50,000, which produces an annual increase of just over \$6,000. However this calculation masks the real trend of aid. Between FY 2000 and 2004 state aid was reduced by nearly \$45,000, a decline of nearly 20%. This was primarily due to a cut in lottery aid, as lottery funds were diverted to reduce a state budget deficit. Beginning in 2006, the state legislature restored these funds. By 2007, state aid had increased to \$280,000, an increase of nearly \$85,000 over a two-year period. This added over \$30,000 in revenue growth to the Gill revenue stream in Fiscal Year 2006 and nearly \$55,000 in 2007. By the end of the period state aid stabilized as the lottery was now "fully funded."

Local Receipts

"Local Receipts," a diverse category of revenues collected locally, account for approximately 12% of all Gill revenues in FY 2008. Receipts averaged about \$298,000 during the period, increasing by about \$84,000 or nearly \$11,000 per year. However, as in the case of state aid, this number masks a good deal of variation from year to year. Unlike the case of state aid, this variation does not show a clear pattern. For example in Fiscal Year 2002, receipts totaled \$246,000 where as in Fiscal Year 2005, nearly \$364,000 was collected.

There are two reasons for the large variation in local receipts. The first is variation in "licenses and permits" issued by the town. The second is assorted "miscellaneous non-recurring" revenues. In 2005, for example, there was an increase of over \$20,000 in the first category and approximately \$45,000 in the second. For a town whose revenues generally increase by about \$85,000, this has caused considerable variation from the mean.

Total "Growth Revenues"

Overall, available property tax revenues, state aid and local receipts have increased by approximately 50% during the period. Revenue growth averaged approximately \$97,000 annually. However, if we eliminate the FY 2004 over-ride, the average is closer to

\$85,000. Again, these totals mask variation from year to year. For example, in Fiscal Year 2002 revenues declined while in the last four years of the period revenues increased by well over \$100,000. These variations are caused by variations in property tax "new growth," state aid, licenses/permits, and miscellaneous non-recurring local receipts.

Particular Purposes

The category "Particular Purposes" represents a range of revenue transfers, generally approved by the Gill town meeting. Examples include transfers from the sewer fund to the operating budget/Riverside sewer system; transfers from trash sticker revenues to solid waste disposal; and transfers of revenues returned from the Gill-Montague regional school district for capital appropriations. Some of these transfers finance the operating budget and school assessments. Others do not.

Overall, allocations for particular purposes have increased during the period. During the first four years (FY00-FY003) spending averaged just under \$100,000; during the last four years the average was just under \$237,000. A good deal of this increase can be accounted for by transfers of excess funds returned from the Gill-Montague regional school district, as well as transfers from the "debt reserve" dedicated to the Turners Falls High School/Middle School renovation.

Free Cash

"Free Cash" represents surpluses from previous years' budgets certified by the state Department of Revenue for current use. Free cash generally results from conservative estimates of revenues and liberal estimates of expenditures, providing towns with a "cushion" against unexpected shortfalls. However, many towns tend to rely on a certain amount of free cash each year to balance the budget. .

Overall, Gill's use of free cash more than doubled during the period, from approximately \$91,000 in Fiscal Year 2000 to over \$194,000 in Fiscal Year 2008. During the first four years of the period free cash usage averaged approximately \$134,000 while in the last four years it averaged nearly \$195,000. The increased use of free cash appears to have begun in FY 2003, coinciding with two years of very slow revenue growth associated with cuts in state aid. However, it has continued during the latter part of the period when state aid was restored.

The increasing use of free cash and other "reserves" to address chronic budget shortfalls can be a dangerous practice. The practice tends to widen structural gaps between revenues and expenditures, creating a potential crisis when large amounts of free cash reserves are no longer available.

Gill Expenses: Operating Budget and Educational Assessments

The following analysis focuses on expenditures primarily financed by Gill's "growth revenues" described in the previous section. These expenditures include the Gill town operating budget and educational assessments for the Gill-Montague Regional School District and the Franklin County Technical School. (See Table 2)

The analysis does not include expenditures funded by special debt exclusions, such as the Turner's Falls High School/Great Falls Middle School renovation. Such expenses are not a charge against normal growth revenues. It should also be noted that some expenditures in the town operating budget such as solid waste disposal and the sewer system, have been financed by fees not included in "growth revenues." These sources are appropriated by town meeting and appear under the category "particular purposes." (See Table 1).

Budget Analysis

Between 2000 and 2008 the Gill operating budget increased from \$740,452 to \$1,231,389. The total increase was \$490,937 or about \$61,367 (6.5%) by per year. During the same period, assessments to the Gill-Montague Regional School District and Franklin County Technical School (again not including debt exclusions) increased from \$794,520 to \$1,353,621. This was an increase of approximately \$560,000 or nearly \$70,000 (6.7%) per year.

Thus total expenditures from growth revenues for the town budget and educational assessments increased by a total of \$1,050,038, or over \$131,000 per year. Total growth revenues to fund these expenditures grew by just over \$796,000 or approximately \$100,000 per year. The gap is partially explained by the increasing use of reserves (primarily free cash), by increases in user fees not counted under "growth revenues" and by a tendency to tax to the levy limit in the later years. However, the gap does suggest that Gill finances may have experienced a structural imbalance by the end of the period.

The estimate of average annual expenditure growth masks significant variation from year to year. For example, in fiscal year 2001, the town operating budget increased by over \$124,000 or approximately 17%. In that same year, educational assessments increased by over \$95,000. In total the operating budget and assessments increased by nearly \$220,000. The next fiscal year (FY 2002) there was a significant reduction in the town operating budget while educational assessment rose by over \$72,000. The overall increase in FY 2002 (operating budget and educational assessments) was just under \$50,000, less than one-quarter of the increase of the previous year.

The annual variations in spending have been primarily a response to 1) abrupt changes in revenues and 2) abrupt increases or declines in educational assessments from the Gill-Montague Regional School District and the Franklin County Technical School.

**Table 2: Gill Expenditures, FY 2000 – 2008
(Town Operating Budget and Education)**

	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008
Town Operating Budget									
General Government	111,495	122,343	126,851	145,338	150,581	164,590	188,248	198,839	200,773
Public Safety	113,869	183,045	176,124	203,169	173,240	221,337	247,089	276,191	246,396
Public Works	307,627	363,242	365,362	362,200	330,694	359,046	400,965	396,710	407,240
Health/Human Services	17,400	19,455	12,552	14,561	14,920	18,393	16,936	17,406	19,314
Culture/Recreation	11,980	16,434	16,809	17,039	18,353	19,143	19,932	20,706	22,355
Fixed Cost (Ins/.COG)	178,081	160,391	144,641	151,144	178,196	186,572	210,333	251,412	335,311
Total Town Operating	740,452	864,910	842,339	893,451	865,984	969,081	1,083,503	1,161,264	1,231,389
Educational									
GMRSD Less HS Loan	788,658	885,224	923,026	967,959	1,051,211	988,535	1,095,041	1,165,805	1,276,079
FCTS	5,862	4,665	39,335	46,133	55,994	75,577	74,149	96,462	77,542
Elementary Renovation	42,353	40,695	39,037	37,379	35,722	34,064	32,406	0	0
TFHS/GFMS Renovation				13,523	166,261	166,261	107,980	191,285	27,659
FCTS Capital	8,316	7,883	10,171	10,262	6,614	5,480	6,696	0	
Total Education	845,189	938,467	1,011,569	1,075,256	1,315,802	1,269,917	1,316,272	1,453,552	1,381,280
Education Less Debt and other	794,520								1,353,621
Total Town +Education	1,585,641	1,803,377	1,853,908	1,968,707	2,181,786	2,238,998	2,399,775	2,614,816	2,612,669

Line items in the operating budget are divided into six broad categories: General Government, Public Safety, Public Works, Health and Human Services, Culture and Recreation and Fixed Costs.

General Government

"General Government" includes salaries and expenses for a range of town administrative functions (administrative assistant, treasurer, tax collector, clerk, assessors' assistant), stipends for oversight boards and heating/maintenance of town buildings

Currently the town employs a staff of three in town hall. There is a full time administrative assistant who serves as assistant to the Selectboard. There is a position combining tax collector and treasurer and a combined assessors' assistant/town clerk position. At the beginning of the period there was a part-time accountant. However, this position was eliminated and the service purchased from the Franklin Regional Council on Governments in FY 2008.

In FY 2008 general government expenditures account for approximately 17% of the total operating budget. Between 2000 and 2008 this section of the budget increased by nearly \$90,000 (80%) or approximately \$11,160 per year. Some of this increase reflects wage increases for staff but there has also been an increase in the number of hours. In 2003, for example, the hours of all town hall staff positions appear to have increased and this portion of the budget rose by nearly 15%. There were similar increases in FY06. It was not possible, given the limitations of the data, to calculate the relative impact of wage increases as opposed to increases in the number of hours allocated to these positions.

It should also be noted that the cost of operating town hall and the town garage/public safety facility increased from \$22,000 to approximately \$46,000 during the period.

Public Safety

The "Public Safety" category includes police and fire departments. The police department accounts for slightly over 70% of public safety expenditures. In FY08 the department employed three full-time officers and part-time back-up staff. The Gill Fire Department is very nearly a volunteer department, employing only a chief for nine hours a week.

Overall, the public safety category has increased more than any other portion of Gill operating budget. Total expenditures for public safety have more than doubled, rising from \$113,869 in FY 2000 to \$246,396 in FY08. Most of this reflects increases in the police department budget. Expenditures for police salaries more than doubled in Fiscal Year 2001. There was a significant reduction in the department budget in FY 2004 followed by an increase of over 20% the following year. It appears that the town has struggled to maintain the staffing level it established at the beginning of the period.

Fire department expenditures, which totaled just over \$68,000 in FY08, increased by approximately 90% during the period. Wages, which account for less than half of the department's total budget, have increased by approximately 45%, with the largest increase coming in FY 2003.

Public Works

The "Public Works" portion of the town budget includes the highway department and the "snow and ice" budget (winter road maintenance). It also includes the operation of the sewer system, solid and hazardous waste disposal and recycling. This is the largest portion of the Gill budget but its increase during the period has been relatively modest. In Fiscal Year 2008 its expenditures were \$407,240, an increase of approximately one-third from fiscal year 2000.

In FY08, the highway department budget (\$261,467) represented over sixty percent of the total DPW budget. The department employs three full-time employees and per diem staff during plow season. These same employees are also employed under the "snow and ice" budget for winter plowing and maintenance. The snow and ice budget was included within the highway budget until 2003 when it was broken out as a separate line-item. In 2008 snow and ice expenditures were once again folded into the highway budget.

The public works category also includes a wide variety of expenditures for waste disposal recycling, and cemetery maintenance. Both the Sewer Budget (\$61,516 in Fiscal Year 08) and the Solid Waste Budget (\$66,200) have increased by over fifty percent since FY2000. Most of the funding for these line items come from user fees appropriated by town meeting and appear as "particular purposes" in the analysis of revenues.

Health and Human Services

This portion of the budget includes the Board of Health, the Council on Aging and Veterans Benefits, as well as the Historical Commission. The Council on Aging appropriation is paid to the Montague Senior Center which serves residents of Gill. Veterans benefit appropriations reflect an assessment from the regional veterans program.

This relatively small category of the budget accounted for \$19,314 in expenditures in Fiscal Year 2008, up from \$17,400 in FY 2000. However the small size of the increase is partly the product of a significant reduction in veterans' benefits during the period. The cost of the Board of Health (stipends for board members and a part-time clerk) increased by over 40% during the period and the Council on Aging budget doubled.

Culture and Recreation

This category consists of the library and the recreation departments. Spending for these functions rose from \$11,980 in 2000 to \$22,355 in 2008. The main cause of this increase was the cost of running the town's library, which rose by nearly \$10,000 during the

period. The library director and assistant currently work 32 hours combined per week. Summer stipends for the recreation program, which totaled \$4,000 in 2008 account for most of the rest of the increase during the period.

Fixed Costs

This category includes a variety of expenditures ranging from employee benefits (health insurance, retirement); targeted debt (garage, fire truck, recycling truck etc); and payments for services from the Franklin Regional Council of Governments. This category of town expenditures rose from \$178,081 in FY 2000 to \$335,311 in 2008, This was an overall increase of nearly 90% or over \$19,000 per year.

The largest increase in this category is payments to the Franklin Regional Council of Governments (COG) for services. COG assessments increased from \$12,030 to \$81,761 during the period. Much of this increase occurred in Fiscal Year 2008 as functions such as inspections (\$35,841 in 2007) and accounting (\$20,655) have been contracted to the agency. The COG assessment increased by over \$63,000 in FY08. Town officials interviewed for this study did not believe that contracting such services had reduced their cost, but they argued that this policy has produced more efficient and professional service delivery.

The other large cost in the "Fixed Cost" category is for employee health insurance. Health insurance costs increased by approximately 300% from \$21,000 to \$88,000. The average increase was approximately \$8,000 per year. Some of this increase is accounted for by increasing the number of benefited positions or eligible employees taking advantage of benefits. The rising cost of health insurance premiums was the other factor. Another large cost increase has been for retirement benefits, which rose from just under \$25,000 to nearly \$58,000 during the period.

In total, the cost of employee benefits rose by nearly \$100,000 during the period, accounting for approximately 20% of the total town operating budget cost increase.

Salaries and Expenses

Another way to evaluate the growth of Gill town operating budget expenditures during the period is to divide the budget into personnel and non-personnel expenditures, This analysis could help shed light on the local decisions that produced budget growth. Were budget increases the result of adding staff, wage and benefit increases or increases in non-personnel expenses (utilities, maintenance of equipment, legal costs etc)?

Table 3 shows the Gill operating budget divided into three categories – salaries, non-personnel department expenses and fixed costs (the same category described above). Much of the increase in the Gill budget occurred in the "salaries" category, which more than tripled during the period. Non-personnel departmental expenses, on the other hand, remained nearly flat. Finally, fixed costs, as noted above, increased by nearly 90%.

It should be stressed, however, that the data set exaggerates the impact of personnel cost increases and minimizes the increase in expenses. This is because personnel costs for public works were initially listed under "expenses" in the budget. On the other hand several positions which contributed to personnel costs are now contracted with the regional Council on Governments appear under the "fixed costs" category.'

Despite these caveats, it is clear that Gill, despite its budgetary constraints and the consolidation of positions, has been able to increase wages and the number of hours worked by employees.

Table 3: Gill Salaries, Expenses, Fixed Costs FY 2000-2008

	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08
Salary	146,711	222,966	221,262	388,524	329,701	380,103	462,395	542,281	466,327
Expense	415,660	481,553	476,436	353,783	358,087	402,406	410,775	367,572	429,751
Fixed Cost	178,081	160,391	144,641	151,144	178,196	186,572	210,333	251,412	335,311
Total Town	740,452	864,910	842,339	893,451	865,984	969,081	1,083,503	1,161,265	1,231,389
Education	845,189	938,467	1,011,569	1,075,256	1,315,802	1,269,917	1,316,272	1,453,552	1,381,280
Total	1,585,641	1,803,377	1,853,908	1,968,707	2,181,786	2,238,998	2,399,775	2,614,817	2,612,669

Educational Expenditures

Table 2 shows Gill's educational expenditures, which are divided into six categories. The main categories are expenditures for the Gill-Montague Regional School District assessment (less excluded debt), the Franklin Regional Technical School (less capital). Educational expenditures also include appropriations for the Gill Elementary School renovation, the Turners Falls High School roof, the Turners Falls High School Middle School Renovation, and the Regional Technical School capital assessment.

Between FY 2000 and FY 2008 Gill's total education expenditures increased by \$536,091 or \$67,011 annually (excluding debt and the capital categories).²⁴ Gill payments to the Gill-Montague Regional School District and Franklin County Technical School increased from a total of \$794,520 in Fiscal Year 2000 to \$1,353,621 in Fiscal year 2008. This was an increase of approximately \$560,000 (70%) or nearly \$70,000 (6.7%) per year.

Focusing on the Gill-Montague Regional School District, assessments (less excluded debt) increased by \$487,421 or approximately \$61,000 (6.2%) per year during the period. However, this average masks significant variation from year to year. In Fiscal Years 2006 and 2008 GRMSD assessments increased by over \$100,000. In 2002 and 2003 assessments increased by less than \$50,000 and in 2005 the assessment actually declined. It should also be noted that in 2004 Gill passed an override of approximately \$110,000 to fund the GMRSD. The next year the town received money back due to an excess in the district's budget balances above the statutory limit.

Assessments paid to the Franklin County Technical School increased by \$71,680 or an annual average of \$8,960 during the period. Much of the increase occurred during the first four years, particularly in 2003 when the assessment increased by nearly \$35,000. Assessment increases have been erratic during the past two years increasing by over \$22,000 in FY07 and decreasing by \$19,000 the next fiscal year,

As far as excluded debt is concerned, payments for the elementary school renovation, which averaged between thirty and forty thousand dollars during the first six years of the period, ended in FY06. Payments for the high school/middle school renovation peaked in 2004 and 2005.

²⁴ The lower amount for total costs, including excluded debt, reflects the higher level of debt payments in FY2000 due to the Gill Elementary School renovation. These payments ended in FY2006. Although high total educational expenditures in some years of the series reflected payments for the Turners Falls High School/Great Falls Middle School renovation, most of this debt had been paid by 2008.

Conclusion of Historical Analysis

*During the period from 2000, to 2008 the town of Gill has struggled to fund its local budget with available revenues. There is a significant gap between revenues and expenditures.. In "normal" years revenues have increased by approximately \$80,000 while expenditures have increased by over \$100,000.²⁵

*Gill has been able to balance its budget by 1) passing an override of approximately \$100,000 in 2004, 2) experiencing a very large "new growth" increase in 2008 (\$122,676); 3) using funds returned by the Gill-Montague Regional School District in 2005 and 4) increasing the use of reserves (free cash) to balance the budget. Gill has also benefited from two large increases in local receipts (2001, 2004) and the decision of the state to fully fund lottery aid (2006 and 2007).

*Despite these budget constraints, Gill has managed to increase staffing levels in its major departments. Furthermore, more staff are currently utilizing health insurance than at the beginning of the period. As a result, personnel costs increased significantly during the period and the level of services financed by the operating budget has increased.

*The budget of the police department has experienced the most instability, with the town struggling to maintain three police officers. The highway department budget has been more stable, although accounting for the "snow and ice" line item has changed several times. A number of positions in town hall have been consolidated yet savings may not have been achieved due to increased use of health insurance. The town now purchases accounting and inspection services from the regional council of governments. This may have improved service delivery but does not appear to have reduced expenditures.

*Total educational assessment increases have consumed more than half of total revenue growth (not including the over ride). In the earlier years, increased assessments from the Franklin County Technical School had a major impact on expenditure growth. Between 2005 and 2008 assessments for the Gill-Montague Regional School District have increased by an average of over \$90,000 annually, consuming a significant portion of Gill's revenue growth. This level of increase does not appear sustainable.

*Both revenues and assessments from the Gill-Montague Regional School District have been erratic and unpredictable. In four years of the period growth revenues increased by over \$100,000 while in the other four years revenues were under \$80,000. Similarly, school district assessments ranged from reduction of over \$60,000 in 2005 to increases of over \$80,000 in 2001, 2004 and 2008.

*The wide swings in revenues and assessments require Gill to keep a significant "free cash" balance from year to year. The town has also tried to tax below its levy limit, maintaining a certain amount of "excess capacity." Both of these policies have helped the

²⁵ "Normal" revenues are calculated as the average for the period less the 2004 over ride and the big increase in new growth in 2008. It is also assumed that spending increases would have been significantly lower without these revenues.

town deal with abrupt budget increases significantly above revenue growth. *However, there is evidence that the increasing use of free cash during the last years of the period and a need to tax to the levy limit has significantly reduced the town's flexibility.*

*Looking forward, it is not clear that the factors that have created some measure of fiscal stability for the town will continue over the next five years. Again, the town was able to deal with a structural imbalance with several unusually large increases in local receipts, new growth and state revenues. The town also received a significant "rebate" from the school district and made extensive use of free cash balances. The town has also passed one large over-ride. If these revenues are not available, the town will have to reduce annual expenditure increases to under \$80,000 or pass over rides to support current levels of spending.

*If the current ratio of educational assessment increases to town operating budget increases continues, this projection will require total educational assessments to increase by no more than \$43,000 and total operating budget increases of no more than \$37,000. Using these benchmarks, the Gill-Montague assessment can increase by an average of no more than \$37,000 during the coming five-year period.²⁶ To sustain higher increases, the town would have to maintain a healthy free cash balance during the "good" revenue years.

²⁶ These estimates assume an annual revenue increase averaging \$80,000. This is slightly below the "normal" revenue increase for the FY2000 to FY 2008 period (less the over ride and the large increase in new growth in FY2008). Due to the recent recession, revenue growth may be below this level. During the period FY 2000 to FY 2004, which included the budgetary impacts of the recession of 2001, revenues increased by an average of under just \$70,000. During the last four years of the period they increased by just under \$95,000.

Gill Revenue and Expenditure Projections, FY08 to FY14

The following analysis creates revenue and expenditure projections for the period FY08 through FY14. As of this writing Gill has completed half of fiscal year 2009. While it may have been possible to make the current fiscal year (FY09) the base year for projections, this analysis uses Fiscal Year 2008 as in the original study proposal.

As will be stressed in the conclusions, revenue and expenditure projections produce annual estimates which increase or decrease at a constant rate. An estimated increase of \$60,000 for the entire six-year period produces average annual increases of approximately \$10,000 in the projections. Of course this is not how revenues and expenditures act in the real world. Rarely do they increase (or decrease) at precisely the predicted level.

However, projecting revenue and expenditure trends can provide benchmarks for policy decisions (for example re staffing levels, wage increases, Proposition 2.5 overrides and the use of reserves) that are often driven by short-term considerations.

Revenue Projections

Table 4 shows three revenue projections – conservative, optimistic, and very optimistic- for the period FY2008 to FY2014.

Conservative (3%) Annual Ave Inc. = \$79,372

The first projection (3%) is based on the Gill's recent historical experience. The "growth revenue" calculations are shown at the top of the table.

*Property taxes are assumed to increase to the 2.5% limit. New growth is held constant at the average of the FY2000 to FY2008 period less the large FY2008 increase.

*State Aid is assumed to increase at 2%, somewhat less than the FY2000-2008 average (approximately 3%). (In fact there will probably be a cut in state aid in FY10 and FY11 but an increase the following years if the recession abates by the end of 2009).

*Local receipts are level funded at the 2000 to 2008 average.

In this case total revenues increase from \$2,366,083 to \$2,844,476. The annual increase to fund increases in expenditures averages \$79,372. This is approximately the same as the annual increase for the period 2000 to 2008, less the 2004 override and the large 2008 "new growth" increase.

Table 4: Gill Revenue Projections, 2008-2014

3% Calculation:

	FY08	FY09	FY10	FY11	FY12	FY13	FY14
Prev. Levy	1,619,053	1,782,205	1,850,760	1,921,029	1,993,055	2,066,881	2,142,553
2.5% Inc	40,476	44,555	46,269	48,026	49,826	51,672	53,564
New Growth	122,676	24,000	24,000	24,000	24,000	24,000	24,000
Levy Limit	1,782,205	1,850,760	1,921,029	1,993,055	2,066,881	2,142,553	2,220,117
State Aid	289,797	295,593	301,505	307,535	313,686	319,959	326,358
Local Receipts	294,081	298,000	298,000	298,000	298,000	298,000	298,000

Scenarios:

Low: 3%	2,366,083	2,444,353	2,520,534	2,598,590	2,678,567	2,760,513	2,844,476	Ave Inc
Annual Inc		78,270	76,181	78,056	79,977	81,946	83,963	79,732
Optimistic		2,460,726	2,559,155	2,661,522	2,767,982	2,878,702	2,993,850	
4% Annual Inc		94,643	98,429	102,366	106,461	110,719	115,148	104,628
Very Optimistic		2,484,387	2,608,607	2,739,037	2,875,989	3,019,788	3,170,778	
5% Annual Inc.		118,304	124,219	130,430	136,952	143,799	150,989	134,116

3% Assumptions:

New Growth: 00-08 average less 08

State aid: 2% annual inc. (00-08 was 3% average)

Local receipts: 00-08 average

Optimistic (4%): Annual Ave. Inc. = \$104,628

This projection simply increases the FY08 revenues (\$2,366,083) by 4%. This produces an average annual increase of approximately \$104,628. This increase is just a bit higher than the FY2000 to FY2008 increase including the override and the high FY08 new growth. This would require a total increase of approximately \$150,000 in revenue during the period above the 3% increase.

Very Optimistic (5%) Annual Ave Inc = \$134,116

This scenario assumes an annual percentage increase (5%) roughly the same as the period FY2000 to 2008. This produces annual revenue increases that average just over \$134,000. This total revenue increase is over \$300,000 higher for the period than that produced by the 3% increase. Without large increases in new growth, state aid and probably a large Proposition 2.5 override this level of revenue growth could not be achieved.

Expenditure-Revenue Scenarios

Three expenditure scenarios are evaluated in the context of these revenue estimates. The first is a projection of expenditures based on historical experience. The second ("Moderate") reduces the expenditure increase to 4%. The final "Austerity" Budget reduces expenditure increases to 3.5%.

These estimates are then evaluated in the context of the revenue estimates in the previous section (see the box in the middle of each table).

Scenario 1: Historical Expenditure Increase

This scenario assumes that the town operating budget increases by an annual average of 6.5%, roughly the average for the period FY2000 to FY 2008. The Gill-Montague Regional School District assessment is assumed to increase by an annual average of 6%, approximately, the average for the period FY2004 to FY2008. The Franklin County Technical School assessment was assumed to increase by \$22,000 to fund an increased overall assessment and an increase from currently ten to twelve students.

In this scenario, total expenditures funded by growth revenues increase by a total of approximately \$1,120,000, from approximately \$2.6 million to over \$3.7 million.

Evaluating this increase against various revenue projections produces large shortfalls under every scenario. The 3% revenue scenario creates shortfalls of between \$182,002

and \$131,816 annually. Under the 4% scenario, shortfalls range from \$65,629 to \$100,642. The 5% revenue scenario reduces shortfalls to from \$41,968 to \$64,081. However, even this last revenue scenario would require overrides totaling \$300,000 (or a very large increase in the use of free cash) to achieve budget balance.

Scenario 2: Moderate Expenditure Increase (4%)

Under this scenario, expenditures for the operating budget and school assessments increase from \$2,585,010 to \$3,272,291. This is a total increase of just under \$700,000, with annual increases averaging \$114,000.

Evaluating this level of expenditures against potential revenues reduces budget shortfalls considerably. Under the 3% revenue scenario, shortfalls range from \$25,696 to \$41,723. The 4% revenue scenario produces shortfalls averaging around \$10,000. If growth revenues increased by 5%, shortfalls would be eliminated.

Table 5: Historical Budget Projected

	FY08	FY09	FY10	FY11	FY12	FY13	FY14
Oper. Budget @6.5%	1,231,389	1,311,429	1,396,672	1,487,456	1,584,141	1,687,110	1,796,772
GMRSD@6%	1,276,079	1,352,644	1,433,802	1,519,831	1,611,020	1,707,682	1,810,142
FCTS@\$22,000 Total Inc.	77,542	81,209	84,876	88,543	92,210	95,877	99,544
Town + education	2,585,010	2,745,282	2,915,351	3,095,829	3,287,371	3,490,668	3,706,458
Town +Ed Increase		160,272	170,069	180,479	191,541	203,297	215,790
Growth Rev. Increase@3%		78,270	76,181	78,056	79,977	81,946	83,973
Shortfall		82,002	93,888	102,423	111,564	121,351	131,817
Growth Rev Increase@4%		94,643	98,429	102,366	106,461	110,719	115,148
Shortfall		65,629	71,640	78,113	85,080	92,578	100,642
Growth Rev Increase@5%		118,304	124,219	130,430	136,952	143,799	150,989
Shortfall		41,968	45,850	50,049	54,589	59,498	64,801

Table 6: Moderate Expenditure Increase (4%)

	FY08	FY09	FY10	FY11	FY12	FY13	FY14
Oper. Budget @ 4%	1,231,389	1,280,645	1,331,870	1,385,145	1,440,551	1,498,173	1,558,100
GMRSD@4%	1,276,079	1,327,122	1,380,207	1,435,415	1,492,832	1,552,545	1,614,647
FCTS@\$22,000	77,542	81,209	84,876	88,543	92,210	95,877	99,544
Town + education	2,585,010	2,688,976	2,796,953	2,909,103	3,025,593	3,146,595	3,272,291
Town +Ed Increase		103,966	107,978	112,150	116,489	121,002	125,696
Growth Rev Increase @3%		78,270	76,181	78,056	79,977	81,946	83,973
Shortfall		25,696	31,797	34,094	36,512	39,056	41,723
Growth Rev Increase@4%		94,643	98,429	102,366	106,461	110,719	115,148
Shortfall		9,323	9,549	9,784	10,028	10,283	10,548
Growth Rev Increase@5%		118,304	124,219	130,430	136,952	143,799	150,989
Shortfall		-14,338	-16,241	-18,280	-20,463	-22,797	-25,293

Table 7: Austerity Budget-Town and Education 3.5% Increase

	FY08	FY09	FY10	FY11	FY12	FY13	FY14
Oper. Budget @3.5%	1,231,389	1,274,488	1,319,095	1,365,263	1,413,047	1,462,504	1,513,691
GMRSD@3.5%	1,276,079	1,320,742	1,366,968	1,414,812	1,464,330	1,515,582	1,568,627
FCTS@\$22,000	77,542	81,209	84,876	88,543	92,210	95,877	99,544
Town + education	2,585,010	2,676,438	2,770,938	2,868,618	2,969,587	3,073,962	3,181,862
Town +Ed Increase		91,428	94,500	97,679	100,970	104,375	107,900
Growth Rev crease @3% Increase		78,270	76,181	78,056	79,977	81,946	83,973
Shortfall		13,158	18,319	19,623	20,993	22,429	23,927
Growth Rev Increase@4%		94,643	98,429	102,366	106,461	110,719	115,148
Shortfall		-3,215	-3,929	-4,687	-5,491	-6,344	-7,248
Growth Rev Increase@5%		118,304	124,219	130,430	136,952	143,799	150,989
Shortfall		-26,876	-29,719	-32,751	-35,982	-39,424	-43,089

Thus if expenditure increases could be held to 4% and revenues increased by an optimistic 4% annually, an over ride of \$60,000 would balance the budget.²⁷ This would, however, require that the amount of free cash and other funding sources (trash stickers etc) be maintained at FY08 levels.

Scenario 3: Austerity Budget (3.5%)

Under this scenario, 3.5% annual expenditure increases range from \$91,428 to \$107,900. This scenario with a 3 % revenue increase produces shortfalls ranging from just over \$13,000 to just under \$24,000. This is a total shortfall of approximately \$120,000. Thus an austerity budget combined with a relatively pessimistic revenue scenario for Gill would require overrides totaling \$120,000 during the period.

If the revenue increase under this scenario were "optimistic" (4%), shortfalls would be eliminated. A "very optimistic" (5%) revenue scenario produces significant surpluses during the period.

²⁷ Clearly we are starting with a gap of approximately \$9,000. Gap is explained by the fact that the FY08 budget is not in fact in balance. That budget is financed by a considerable amount of free cash, as well as sewer user fees and other funds appropriated for "particular purposes. Therefore a 4% increase in growth revenues is inadequate to fund a 4% increase in the budget.

Conclusion

*If the Gill budget is to achieve structural balance over the next half decade, expenditure increases for both the operating budget and school assessments will have to be held to at least a 4% increase annually. Even this expenditure level could prove to be inadequate if Gill's revenues do not increase by at least 4%.

*Under the 4% revenue/expenditure scenario Gill will need to approve overrides totaling \$60,000 and maintain FY08 levels of free cash usage. Any decline in free cash use over FY08 will require either a larger override or a budget reduction. Since Gill may be counting on higher free cash balances than can reasonably be projected, a higher override or budget reduction may be necessary. The town may also need to consider diverting more of its free cash to the stabilization fund to serve as a "rainy day fund."

*To achieve structural fiscal balance, the level of services provided by the operating budget will probably have to remain stable at the FY08 level during the period. Budget cuts in response to a cyclical downturn (caused by recession-induced revenue losses) can perhaps be restored but budget cuts in response to a structural gap larger than the 4%/4% scenario can not be restored without maintaining structural imbalances.

*School assessments must not increase by over 4% annually. Any increase above this level will have to be matched by a significantly lower increase during another fiscal year. As with the town budget, higher assessment increases in response to cyclical state revenue declines may, within limits, be viable. Assessment increases above the 4% level in response to structural budget imbalances are not viable (See FY08).

GMRSD Study Part IV: Consultant's Analysis And Recommendations

“The central recommendation of this section of the report is that some version of Scenario Three will be required to produce fiscal, institutional and educational stability. The political and policy obstacles to implementing such a long-term plan are formidable. They will require a much higher level of collaboration between state government, the school district and the member towns. To quote the conclusion of Scenario 3: **“A consensus plan for fiscal stability, approved by the school district, the state and the member towns, will be required.”**”

“It is often argued that a certain amount of funding is needed to provide high quality education ‘for every child.’ Yet there is little consensus regarding what this level of funding should be. There should, however, be a consensus that an educational system that is constantly destabilized by prolonged budget crises will not be an effective system. Institutional instability not only impacts the education of children but also has profound effects on the entire local community.”

Historical Analysis

1. 1990s: The Impact of Education Reform

- a. Education reform produced a significant increase in the budget of the Gill-Montague Regional School District. The result was a level of per-capita student expenditures equal to or above that of other districts in the state. If one of the goals of education reform was to produce greater funding equity between “wealthy” and “poor” school districts, this goal appears to have been at least partially achieved in this case.²⁸
- b. However, spending increases associated with education reform helped generate a major fiscal crisis in the district and member towns. The influx of state and local funds encouraged “fixed cost” increases for wages, benefits and special education.²⁹ Spending in these areas continued to rise after the period of state education reform spending had ended. This placed a large residual burden on towns in the district and led to annual conflicts over the school budget.³⁰ These conflicts destabilized the district and undermined local support for public education.

²⁸The GMRSD reported per-capita student expenditures for “day programs” in 1994 of \$4,343. That year the state average was \$5,235. By 1999, the reported GMRSD per-capita expenditure was \$7,075, while the state average was \$6,692. In 2007, the GMRSD reported per-capita student expenditures of approximately \$13,300. The state average for that year was \$11,869. Department of Elementary and Secondary Education, Per Pupil Expenditure Reports, 1994-2007 at <http://finance1.doe.mass.edu/statistics/>.

For a discussion of spending equity and the goals of education reform see the Report of Judge Margot Botsford in *Hancock v. Driscoll* (2005) pp. 34-36: <http://finance1.doe.mass.edu/chapter70/McDuffy.html>. Responding to evidence that education reform had produced greater equity in spending, Botsford argued that “the issue here is not spending equity but educational adequacy: whether the plaintiff students are receiving an education in their respective public school districts.” P. 35 FN 33. In the court’s final decision, however, Chief Justice Marshall used gains in funding equity to find in favor of the state.

²⁹ This is not to suggest that education reform was the only cause of budget growth. There would no doubt have been increases in spending for health insurance and special education without the influx of state and local dollars in the 1990s. The availability of new funds, however, initially allowed local school districts to increase budgets without generating a major fiscal crisis. Similarly, at the state-level “Ed Reform” and expansions of health care (Masshealth) were financed by the economic expansion during the decade. The term “fixed costs” is used here to refer to those cost increases which do not reflect increases in staff or programs. That is, they reflect cost increases required to maintain a “level services” budget. This is not to suggest that these costs are “fixed” in the sense that the school district has no control over them. The term is applied here to special education even though a spending increase may reflect an increase in staff or services. The GMRSD budget itself applies the term “fixed costs” to the benefits portion of its budget.

³⁰ See, Jeff Singleton, “Ed Reform Creates a Wrecking Ball For Local Government,” *The Montague Reporter* (March 15, 22, 2007). Also on <http://www.montaguema.net/pages.cfm?gpt=34%g=196&ID=107>.

- c. Increases in wages, benefits and special education may not have appeared to produce improvements in the quality of education, particularly when the district was cited for low scores on standardized tests (MCAS) were reported in 2006.³¹ This raises an important policy question about the relationship between spending increases associated with education reform and the key tool (MCAS) used to measure the effectiveness of those spending increases.
- d. Spending increases for these “fixed costs” also raise questions about the “foundation budget” created to implement education reform and currently used to calculate state aid to the district. By the late 1990s, the budget of the Gill-Montague Regional School district was well above the foundation budget and local spending significantly above the “minimum local contribution” set by the state. By the late 1990s the foundation budget does not appear to have accurately reflected the cost of educating students in the district.³²
- e. “Fixed cost” increases for wages, benefits and special education (and later school choice/charter school losses) appear to undermine a central assumption of Chapter 70 formula – that “declining enrollments” should allow the district to level-fund its budget.

2. The Local Education Fiscal Crisis, 1999-2008

- a. During this period, the Gill-Montague Regional School district has been in continual fiscal crisis. This has taken the form of levels of Chapter 70 state school aid significantly below the “fixed cost” increases of local school districts. This dynamic, in turn, has led to unsupportable assessment requests to the member towns, producing divisive budget battles that destabilize district and undermine local support for public education.
- b. Although inadequate state aid was the main cause of the school budget crisis, the data indicates that even with more adequate levels of aid, recent school budget increases would be unaffordable to the member towns.³³ Thus it is reasonable to

³¹ This is not to argue that better wages for teachers or better services for students with special needs can not be justified. Rather, it is to suggest that large budget increases, which placed so much pressure on the member towns, may not have appeared to produce tangible improvements in the quality of education.

³² See Massachusetts Department of Elementary and Secondary Education, Office of Strategic Planning, Research and Evaluation, “Preliminary Report on Current Fiscal Conditions in Massachusetts School Districts” (January, 2008), pp. 3, 9-14.

³³ The initial budget of the GMRSD for FY 2009 increased by over 900,000. Even if state aid increased to cover half of this amount, the remainder could barely be financed by the total growth revenues of the member towns, leaving nothing for their own budgets. Scenario 2-B assumes that both the school district

- conclude that spending increases were also a major factor in producing the fiscal crisis. Spending increases were driven, as previously noted, by wage and benefit increases, increases in the cost of special education and, payments for school choice losses and charter schools (which appear as budget line-items).
- c. Spending increases for these “fixed costs” explain why recent GMRSD budgets have increased despite enrollment declines and despite staff cuts in response to those enrollment declines.
 - d. School officials have tended to blame recession-induced cuts for the problems of the district. They have explained recent budget increases as efforts to recover from these cuts. Although losses of state aid in 2003 and 2004 certainly had a major impact on the district, the central dynamics of the fiscal crisis preceded the cuts in state aid. Furthermore, recent budget and assessment increases have mainly sustained fixed cost increases and level services budgets, not returned staffing and programs to previous levels.³⁴
 - e. Prolonged local budget battles have created a “downward spiral” wherein the district loses students to other districts (school choice) and to charter schools. Enrollment losses also negatively impact the level of state aid. Thus enrollment losses both increase budgets and reduce revenues, a key dynamic producing unsupportable local assessment requests.

budget and state aid increase at 4.75%. This is a significant increase in state aid over current levels. Still, this scenario would require local assessments nearly double projected available local revenues.

³⁴ The district’s tendency to explain budget increases in terms of efforts to reconstitute programs has, in the view of the author of this report, created much local confusion about the central dynamics of GMRSD budgets. It has also has created the impression that the district has increased staff despite declining enrollments.

Scenarios: Road Maps for Fiscal And Educational Stability

A central assumption of this report is that fiscal stability is necessary to produce educational and institutional stability. Fiscal stability and more realistic local assessment requests are also necessary to increase support for the district in the member towns. The tendency to contrast educational needs with fiscal realities is a false dichotomy.

This report has evaluated three revenue and expenditure scenarios for the next six fiscal years (2009-2014). All three were developed in conjunction with this study's oversight committee.

The first scenario assumes implementation of the initial recommendations of the school district's turnaround plan presented in March of 2008. This projection suggests that the improvement plan, as currently envisioned, would require a very large increase in state aid and/or unsupportable assessment requests to the member towns.

The second scenario assumes that the school district budget increase by 4.75%, an average of the inflation factor used by the state to determine Chapter 70 aid. Even with a significant increase in state aid over current levels, such a spending increase would require total local assessments approximately double projected revenues. Without frequent Proposition 2 1/2 property tax over-rides, this level of spending could not be maintained and the current budget dynamic would continue.

Only Scenario 3 approaches fiscal stability. It contains a level of state aid (4.75%) that is consistent with the inflation factor and a spending increase (3.3%) consistent with the district's experience since 2002. However, achieving a version of this scenario would require major changes in state and local policy. State aid would need to increase with the normal inflation rate of local spending. The district would need to reduce cost increases, focusing on the major sources of budget instability. It would need to negotiate much more moderate wage and benefit increases, stabilize or reduce special education spending and end annual increases in school/charter school losses.

A more realistic version of Scenario 3 would probably require periodic Proposition 2 1/2 overrides for the school district. Current local revenue estimates suggest that the district and towns can not fund basic services under the constraints of the tax cap. However, at the present time it is vital that the member towns stabilize their own financing, reversing structural imbalances created in part by unsupportable school assessment requests.

Recommendations

A. State Policy

1. Adequate Chapter 70 Aid

- a. A central argument of this report is that increases in state aid must be closely related to the cost increases of local school districts like the GMRSD. Annual state aid increases well below this level are the most important causes of the fiscal crisis the school district currently finds itself in.
- b. The above conclusion raises doubts about an influential plan to target forty percent of state growth revenues to local aid.³⁵ This proposal, advocated by a coalition of legislators, policy experts and municipal leaders, would appear to assume that state education aid should be based on state revenues rather than the costs of local education. One danger is that the effort to implement this goal will simply recreate the dynamic of education reform – a sudden increase in state aid followed by increases that do not match fixed cost increases.
- c. The foundation budget and the level of chapter 70 aid currently assume that the GMRSD budget can be level-funded due to declining enrollments.(See FY09 level of Chapter 70 aid) This assumption is not supported by the data in this report. State officials need to explain to local school districts how they can thrive and implement state educational requirements within the constraints of these state aid assumptions.
- d. The analysis in this report supports the observations of a recent state study which suggests that the foundation budget may not accurately reflect the real costs of local school districts.³⁶ This is particularly true in the areas of teachers' wages, health care benefits, special education and school choice/charter school payments.
- e. However, recent history suggests that changes in the foundation budget and Chapter 70 "formula" should be approached with great caution. The Gill-Montague Regional School District is experiencing a major crisis now. If the past is prologue, a study of the funding formula, followed by a

³⁵ See Geoff Beckwith "Revenue Sharing A Goal For Lagging State Economy" *The Beacon* (September, 2007).

³⁶ DESE, "Preliminary Report on Current Fiscal Conditions in Massachusetts School Districts" (January, 2008).

lengthy legislative debate over proposed changes, may not benefit the district and region.³⁷ Furthermore, the Chapter 70 formula, despite its importance to local communities, is now so complex as to be virtually incomprehensible. Efforts to update the formula run the risk of increasing this complexity.

The most important immediate task is to revisit the assumption that declining enrollments should produce equivalent declines in budgets and Chapter 70 aid. This assumption is simply not supported by the evidence in the study. School spending is far less “elastic” than the state aid formula assumes.

2. Special Education: Put Radical Policy Change on the Agenda

The data in this study suggests that the state “Circuit Breaker program” has helped stem the increase in the district’s most expensive out-of-district special education costs. However, the cost of special education continues to rise, driving unsupportable assessment requests and draining resources from other programs. The reality is, special education can not be funded by the property tax. Public officials need to put a radical policy change on the agenda – the federal and state governments should pay for and administer their special education mandate!

3. Review School Choice/Charter School Funding and Implementation

- a. The state needs to continue to review charter school and school choice policies and their impacts on local budgets. These policies have been designed, in part, to encourage school districts to innovate in order to “compete” for students. However, the budgetary impacts of school choice and charter school losses seriously undermine the ability of local districts to innovate.³⁸
- b. There appears to be no mechanism in place to encourage local districts like the GMRSD to learn from the best practices of charter schools and school choice receiving schools. Recent state evaluations of the school district have made no mention of this problem and appear to ignore state-funded research on effective schools.³⁹

³⁷ During the crisis produced by the state aid cuts of 2003/2004, changes in “the formula” were frequently put forward as the solution to the district’s fiscal problems. However, when the new formula was finally implemented, it appeared to penalize school districts in Franklin County with declining enrollments.

³⁸ There have been a number of proposals to ameliorate the impacts of school choice and charter school losses. The Gill-Montague School District Turnaround plan suggests a moratorium on school choice for underperforming districts. A plan promoted by members of the Amherst school committee would reimburse charter schools at the same level as school choice receiving schools.

³⁹ It is rather striking, for example, that the most recent state evaluation of the district made no use of recent state-funded research on effective schools produced by the nearby University of Massachusetts Donahue

B. Local Policy

The data strongly suggests that while major changes in state and federal policy are required, fiscal stability will also require considerable change in local policy as well. In particular, the GMRSD and member towns need to do more to address the causes of unsupportable budget increases.

1. Wage and Benefit Increases Consistent With Revenue Projections

Increases in employee wages and benefits have had a big impact on the budgets of the Gill-Montague Regional School Districts and member towns. The school district and the teachers union recognized this reality when they took the important step of joining the state health plan, the Group Insurance Commission (GIC). However, the data in appendix B suggests that even with lower health care increases from the GIC, the current level of negotiated wages and benefits is not affordable.

Despite the importance of these labor costs, sound fiscal planning in this area has been minimal. Public discussion (or even discussion in private "executive sessions") of the issue has been virtually forbidden. It appears that the school committee enters wage negotiations without a consensus view of what the district can afford. Furthermore there is strong sentiment that teachers and other public employees "deserve" wage increases and that these increases (or lack thereof) are a sign of the value placed on their work.⁴⁰ Finally, district officials are concerned that stagnant wages will cause the district to lose qualified staff.

While these concerns are certainly valid, they are not necessarily a justification for wage and benefit increases that exceed projected revenues. Wages and benefits that can not be supported will lead to layoffs and service cuts.

At the minimum both the school district (and member towns in the case of town contracts) should project the aggregate cost of proposed wage and benefit increases in the

Institute. To further heighten the irony, the project was managed by a parent of a student in the GMRSD!. See University of Massachusetts, Donahue Institute, "Gaining Traction: Urban Educators Perspectives on the Critical Factors Influencing Student Achievement in High and Low Performing Public Schools." (April, 2007). The findings of this report would seem to contrast rather sharply with the factors used in state evaluations of the district, which focus on overall district management. It is not at all clear how these management variables either improve student performance or stabilize the district financially. See, for example, Massachusetts Office of Quality and Accountability, "How is Your District Performing? (Gill-Montague Regional School District, 2002-2005), p. 7.

⁴⁰ The view that wage levels reflect the value society places on work is not, of course, limited to public education. However, discussions of teachers' wages (and school budgets in general) often quickly degenerate into moralistic arguments. Defenders of current union contracts often suggest that questions about their fiscal impact reflect a lack of "appreciation" of the teaching profession.

context of projected revenues for the life of a contract.⁴¹ This evaluation should occur before contract negotiations take place and should involve the entire school committee. Currently the committee appears to be delegating all responsibility to the Superintendent and a subcommittee, who enter negotiations with no school committee consensus on what the district can afford.

This consultant also recommends that the school district and the member towns coordinate policies on wages and benefits. Real or perceived inequities between “the schools” and “the towns” complicate both contract negotiations and the budget process. The district has argued that such collaboration may be illegal under collective bargaining law. This issue should be resolved with a written legal opinion.⁴²

2. Stabilize Special Education Costs

The historical analysis has shown that the rising cost of special education is a major cause of budget increases in the Gill-Montague regional school district. In recent years the district has effectively worked to reduce the increasing cost of out-of-district special education placements but this may have increased in-district costs.⁴³

This conclusion argues that the central problem is that special education is a state/federal mandate that can not be funded by the property tax. We need to do much more to put this reality on the national agenda. However, this does not mean that local school districts are completely helpless, waiting for radical policy changes at the federal level. There is evidence of significant variation in special education spending at the local level, variation not well correlated with the level of need.

The recent history of the GMRSD suggests that much emphasis has been placed on serving the most needy students, a human services approach to education. This emphasis, in another form, can be seen in the current district turnaround plan, which focuses almost exclusively on increased spending for “ancillary services” to improve low MCAS scores and to serve students at risk of dropping out. The district needs to re-evaluate its current focus on targeted programs. While such programs will continue to be an important part of

⁴¹ This calculation should include not only the cost of a projected wage benefit increase for union employees but also for non-union employees (See the rough calculation in table 9) The projection should include these aggregate costs and projected revenues for the life of the contract period.

⁴² The current tendency to rely on poorly supported unwritten legal opinions to influence policy should be eliminated.

⁴³ Dealing with these cost increases is difficult in part because special education is an awkward and divisive issue. District officials tend to explain rising expenditures as a to response the “population” the district serves, the increasing needs of students, and the fact that special education is virtually a legal entitlement over which the district has limited control. Many taxpayers, particularly those who experienced education before the special needs era, complain of the proliferation of support staff (“aides”) to assist students with behavioral problems. On the other hand many taxpayers, including those who voice these complaints, have relatives who receive special education services. These perspectives are frequently raised during budget debates.

the services the district provides, they should not be a central focus of the district's mission.

3. Reduce School Choice/Charter School/Enrollment Losses

School choice/charter school losses and enrollment declines in general have had a big impact on the fiscal condition of the school district. They increase budgets and reduce state aid. Unfortunately, there is no consensus within the district on what to do about the problem. Some argue that such declines are inevitable and the district should simply downsize with good planning. Others argue that the district should actively improve the quality of education to retain students. In general, there is a tendency to resent those who "choice out" to other districts or attend charter schools. There is a strong sentiment that perhaps these programs should not exist or be entirely funded by the state.

As recommended above, the state needs to revisit funding for the charter school and school choice programs. However, state policy changes are not the only answer. District officials and the school committee need to be more open-minded about why so many students are leaving the district. They need to listen to the concerns of the parents of these students, rather than resenting them. The district should also be more open to the reasons why charter school and school choice receiving schools are popular. The answer may not only be found in the resources of receiving schools (money!) but also in their appealing mission-driven school cultures.

5. Reduce Enrollment Declines and Improve Education Within Fiscal Constraints With a focus on School Culture and Mission-Driven Schools

A central argument of this conclusion is that the district needs to create mission-driven schools that draw on the best practices of charter schools, school choice receiving schools and the effective school research. This could allow the district to improve and innovate within its current budget constraints. Mission-driven schools could reduce school choice/charter school and enrollment losses.

This consultant believes that to achieve this goal, the district needs to reevaluate its district turnaround plan and the current "Responsive Classroom" model that frames its curriculum.⁴⁴ The district improvement plan envisions putting significant resources into targeted programs for at risk students. The data in this report suggests that attempting to fund these programs would simply exacerbate the district's fiscal problems.⁴⁵

⁴⁴ For the district improvement, or Turnaround, Plan, see appendix of the main report and <http://www.gmrtd.org/index.html>. For the responsive classroom model, including its guiding principles and practices, see <http://www.responsiveclassroom.org/about/aboutrc.html>.

⁴⁵ The Turnaround Plan is also based on the assumption that the budget cuts of 2003 and 2004 are a central cause of the problems which produced the negative state evaluations and that "restoring" services should be a key goal of the district. This conclusion argues that while the cuts of these years had a significant fiscal, educational and psychological impact on the district, its core fiscal and education problems preceded the cuts in state aid. It is also not clear that the proposed turnaround plan fact restores services or in fact adds new ones (e.g. central curriculum coordination, math tutors, dropout prevention specialists).

Furthermore, the plan continues the district's focus on targeted programs for specific needy students rather than improving school cultures as a whole.

It is not clear that the Responsive Classroom model, which has been recently extended to all schools in the district, has been embraced (or well understood) by teachers, parents, or the community at large. As an identity or mission for the district and its schools, this "social curriculum" needs to be better explained and more clearly justified. Neither of the state reports or the district improvement plan explained or discussed the role of the Responsive Classroom model. Neither did the district Turnaround Plan.

6. School Committee Reform

Currently, the GMRSD school committee is an elected body. In theory, the committee should serve a dual function on fiscal matters: 1) advocate for public education within the member towns and 2) represent the interests of the member towns, including financial interests. In practice, most school committee members tend to emphasize the former over the latter. Indeed many school committee members appear to feel it is a "moral imperative" to support current assessment requests, even though they are far beyond the fiscal capacity of the towns.

In the ideal world, the solution would be to elect school committee members more willing to articulate (and vote for) the interests of member towns. Yet the electoral process may not be suited to accomplish this goal. Understandably, those who run for the committee tend to be directly connected to the district (parents, former students, related to staff) and see themselves as advocates for it.

Many local committees that play crucial policy roles have appointed members. This consultant suggests that the district and member towns seriously consider revising the district agreement so that the committee includes some members appointed by town Selectboards. The same recommendation would apply to any new super-regional school district.

Other reforms should also be considered, including revisions of the budget process and the process for determining the financial viability of union contracts.

C. State-Local Collaboration

1. Central Recommendation of Report

The central recommendation of this section is that some version of Scenario Three will be required to produce fiscal, institutional and educational stability. The political and policy obstacles to implementation of such approach will require a much higher level of collaboration between state government, the school district and the member towns. To quote the conclusion of Scenario Three: **“A consensus plan for fiscal stability, approved by the school district, the state and the member towns, will be required.”**

2. State Evaluations

Evaluating the progress of dozens of local school districts poses serious challenges for the state. Consultants are hired who, within a few weeks, must evaluate complex local conditions and make recommendations that are fiscally and politically viable. However, it is important for the state, working with local officials, to establish a better framework for such evaluations. There appears to be a tendency to avoid core fiscal and educational issues in favor of narrow, technocratic remedies (school consolidation, hiring a few more professionals in the central office, better use of data etc⁴⁶).

In the case of the GMRSD, state evaluations virtually ignored the fiscal problems described in this report. Neither gave any indication of how the district could achieve its goals with the level of Chapter 70 aid the district is currently receiving. Nor did the state reports address the key factors that drive budget increases (wages and benefits, special education, school choice/charter school losses etc).

Instead, the second report argued that resolving a debate over the organization of the elementary schools (essentially closing a school) would help solve the district’s problems by improving the reputation of the school committee (This was the report’s primary recommendation!!!)⁴⁷ However, the final school consolidation plan put into effect only alienated a large segment of the community and did not appease critics of the district for its unsupportable annual assessment requests. In short, elementary consolidation, whether necessary or not, was a “lose-lose” proposition that did not address the core fiscal problem dividing the member towns.

The reports also stressed the need for centralized curriculum coordination and better use of data to evaluate students’ performance on standardized tests. The emphasis on narrow

⁴⁶ The argument, here, is not that these recommendations are wrong in all cases but that they tend to be overemphasized. This seems to result, in part, from excessive emphasis on improvement in standardized test scores. This leads to a focus on management variables, better use of data etc.

⁴⁷ It is not at all clear as of this writing that the decision to close a school (Montague Center School) has had an impact on the district’s fiscal problems. The emphasis on this issue by the state and some local officials is consistent with the view that consolidation addresses core budget problems. As stated below, there is as yet little concrete evidence to support this view.

technocratic and bureaucratic remedies would appear to ignore the factors which make charter schools and school choice receiving schools effective and popular. They ignore state-funded research on the importance of mission-driven school cultures.⁴⁸

3. Regional Consolidation

As of this writing, state and local officials in Franklin County have embarked on an effort to investigate regional cooperation and even consolidation. This consultant strongly supports the effort as a potential model for collaboration between local communities and the state. The local fiscal crisis in education funding described in this report was a major impetus for the regional project. Given the extreme nature of this crisis and the political/fiscal obstacles to resolving it, everything should be “on the table.”

At the same time, there is little evidence, so far, that regionalization will address the central fiscal dynamic described in this study. Indeed the current regional planning effort appears to take these fiscal problems – inadequate state aid, large fixed cost increases, unsustainable local assessments – as a given.⁴⁹ There is also a tendency for local and state officials, when confronted with the seemingly intractable fiscal problems identified in this study, to throw up their hands and declare “we’ll just have to regionalize.” In this way, the concept of regionalization becomes an exercise in magical thinking.

The regional planning effort needs to more clearly address the root causes of the local fiscal crisis in its discussions and research. The current assumption that simply lowering per-capita student costs through administrative consolidation will address core fiscal problems needs to be investigated, not assumed

Yet regional consolidation and collaboration may produce some unintended benefits. Regionalization may be a way of overcoming the political obstacles to addressing the issues discussed in this study. Perhaps the state will “reward” districts who regionalized and reduced per capita expenditures with more adequate levels of state aid. A large regional district might also create more effective and stable administration (high turnover in the GMRSD is a serious problem) A regional system might be more effective in bargaining sustainable wage and benefit increases for staff and reducing school choice/charter school losses. Regionalization might also improve the reputations of district administrations and school committees, leading to more local support for public education.

In the end, the regional effort will need to resolve a key contradiction in the rationale for regionalization. On the one hand, it is argued that regionalization is necessary to reduce costs and address the local funding crisis. On the other hand it is argued that

⁴⁸. University of Massachusetts, Donahue Institute, “Gaining Traction: Urban Educators Perspectives on the Critical Factors Influencing Student Achievement in High and Low Performing Public Schools.” (April, 2007).

⁴⁹ See for example, Greenfield Community College Foundation “Creating A Sustainable and Quality Education System For Franklin County: Request For Proposal” (June 22, 2007), pp. 1-2; “How Can We Make Schools Work,” *The Greenfield Recorder* (June 23, 2007).

consolidation will free funds for needed programs. These are contradictory goals. This consultant believes that in order for the regional effort to succeed, it must offer something *better* for communities in the region. That will probably mean redirecting resources and focusing more attention on the best practices of charter schools and school choice receiving schools.⁵⁰ A regionalization effort that simply combines staff and programs to reduce per-capita costs by a small amount will simply drive students and parents from the districts.

¹ This analysis is consistent with the initial report of the regional study group, which emphasized the need for small, mission-driven schools.

⁵⁰ This analysis is consistent with the initial report of the regional study group, which emphasized the need for small, mission-driven schools.