



Fiscal Year 2013 Financial Plan Budget Message

February 15, 2012

To: The Honorable Board of Selectmen and Finance Committee

I hereby transmit to you the recommended FY2013 operating and capital budgets and the FY2013-2017 capital plan. The budget as proposed totals \$124,186,075 which is an increase of \$3,640,297 (3%) from the current budget. A summary showing a comparison of the FY2012 and FY2013 revenues and expenses is shown on page 2.

FY2012, the current fiscal year, is the first year of the three year plan that incorporated the Proposition 2 ½ override of 2011 which was designed to carry the Town's budgets through FY2014. The key commitments of the three year plan were as follows:

- 1) *Override funds will be made to last at least three years (FY2012-FY2014). No general override will be sought during this period.*
- 2) *If the override passes there will be no PAYT fee implemented in FY2012, but the placement of a ballot question regarding a revenue neutral PAYT option will be considered in FY2013.*
- 3) *Town and School operating budget increases will be capped at 3.5% per year. An additional allowance of up to 7% shall be allowed for documented special education cost increases. Should actual special education cost increases exceed this amount, the remaining School budget shall be decreased by the difference.*
- 4) *Health care cost increases will be programmed at 7%. Should actual increases exceed this amount, the Town and School budget totals shall be proportionately decreased by the excess amount. Should actual increases be less than this amount as a result of negotiated health care savings, the extra savings will be:*
 - a) *Deposited into the override stabilization fund to extend the three year override period,*
 - b) *Used to preserve services; and*
 - c) *To satisfy any and all negotiated items between the Town Manager, its employees, and its retirees.*
- 5) *An additional \$600,000 shall be appropriated for the School Department in FY2012 and \$400,000 shall be appropriated each year in addition to the amount currently appropriated in the capital budget for road improvements.*
- 6) *Reserves shall be maintained in an amount equivalent to at least 5% of the budget.*



Overall Budget Summary

			Change	
	FY2012	FY2013	\$	%
Revenue				
Property Tax	\$ 95,002,494	\$ 97,746,811	\$ 2,744,317	2.9%
Local Receipts	\$ 8,910,000	\$ 8,590,000	\$ (320,000)	-3.6%
State Aid	\$ 13,420,743	\$ 14,574,468	\$ 1,153,725	8.6%
School Construction Aid	\$ 2,531,085	\$ 2,474,796	\$ (56,289)	-2.2%
Free Cash	\$ 481,456	\$ 600,000	\$ 118,544	24.6%
Other Funds	\$ 200,000	\$ 200,000	\$ 0	0.0%
TOTAL REVENUES	\$ 120,545,778	\$ 124,186,075	\$ 3,640,297	3.0%
Expenditures				
Municipal Departments	\$ 29,072,058	\$ 30,089,580	\$ 1,017,522	3.5%
School Department	\$ 42,681,436	\$ 44,642,598	\$ 1,961,162	4.6%
Minuteman School	\$ 2,352,988	\$ 3,087,595	\$ 734,607	31.2%
Non-Departmental (Healthcare & Pensions)	\$ 23,812,549	\$ 23,439,736	\$ (372,813)	-1.6%
Capital (Includes Debt Service)	\$ 8,844,825	\$ 9,156,250	\$ 311,425	3.5%
MWRA Debt Shift	\$ 5,593,112	\$ 5,593,112	\$ 0	0.0%
Warrant Articles	\$ 657,311	\$ 691,242	\$ 33,931	5.2%
Override Stabilization Fund Deposit	\$ 3,401,602	\$ 2,954,555	\$ (447,047)	-13.1%
TOTAL EXPENDITURES	\$ 116,415,881	\$ 119,654,668	\$ 3,238,787	2.8%
Non-Appropriated Expenses	\$ 4,129,897	\$ 4,531,407	\$ 401,510	9.7%
Surplus / (Deficit)	\$ 0	\$ 0	\$ 0	0.0%



As you recall, in 2005 when the Town was facing a projected \$4 million deficit for FY2006, a five year plan was put together which included an override and commitments to budget constraints similar to the aforementioned commitments. The override, which was projected to last five years, was stretched to last six years despite the economic crisis and cuts in state aid.

At the time that this most recent override was proposed, the Town was facing a projected deficit of \$6 million. Also at that time the Legislature was discussing giving municipalities more authority to control their health care plans and costs. Municipalities were required to obtain union approval before they could make even the slightest change to their health care plans. After years of unsuccessful attempts to get the Legislature to act, there was a little reason to expect that there would be any significant change. Optimistically it was assumed that some changes would be made to allow the Town to save \$1 million. The proposed override was then set at \$6.49 million, an amount that enabled the Town to maintain service levels at approximately the current levels for three years. While all would have preferred a five year plan, the override amount required would have been too great.

Approximately a month after the override passed, the Legislature and the Governor, to their credit, approved a significant health care reform law for municipalities that gives them complete authority to make health care plan design changes up to the level the State provides to its employees and also authorizes municipalities to join the State's health care plan. As a result, Arlington has now joined the State's health care plan (GIC) and is projecting to make significant savings which will enable the Town to stretch the three year plan to a five year plan. We are mindful of the strong desire of residents to maintain quality services and the sacrifices that they have made by supporting the override. We are committed to pursue all appropriate productivity improvements and cost reduction measures in order to sustain these quality services.

Departmental Budgets

Departmental operating budgets have been held to a 3.5% increase in accordance with the commitments made as part of the tax override. With respect to personnel costs, all collective bargaining contracts are open for FY2013 so an allowance has been made for collective bargaining and wage adjustments. No new full-time positions have been added to the budget although there have been a number of changes in personnel. Most involve part-time positions with the net result of a level amount of positions from FY2012 (see personnel chart on p. 5). Overall expenses have been held essentially level. Some of the more significant budget changes include:

Police: +\$44,736

Two part-time custodial positions have been added to provide custodial coverage for the community safety building.

Fire: +\$75,728

In the past, several of the department's personnel line item costs such as vacation buyback and personal time were not funded which created difficulties to maintain manning and stay within the budget. These personnel cost items are now funded. No change in personnel is proposed.



Planning & Community Development: +\$78,703

Due to cuts in federal CDBG funds and the tightening up of allowable expenses under this program, the Town will have to pick up a greater share of the personnel costs for two existing positions. Also, funds for the property management function will be moved from contract services to salaries as this function will be added to the duties of an existing part-time position.

Assessors: -\$34,119

As a result of reorganization, a part-time clerical position will be eliminated. Personnel fixed costs are also reduced.

Inspectional Services: +\$40,627

In anticipation of a substantial increase in workload associated with inspections and monitoring of the Symmes construction project, \$40,000 has been added.

Library: +\$65,422

The Library budget is increased \$65,422 so as to meet the minimum appropriation for certification. The focus of the additional funding is on books and materials and on building maintenance.

Energy: -\$74,582

Over the last few years a great deal has been accomplished to save on energy costs. For next year, the street lighting budget alone is expected to go down by \$77,000 due to new LED lights. Much more needs to be done. To enhance current efforts, a part-time Energy Coordinator position is proposed. The funding for the current part-time Recycling Coordinator position is proposed to be moved from general funds to the Recycling Revolving Fund to free up the funds for the Energy position.

Solid Waste: -\$12,792

As a result of new favorable bids received for solid waste collection services, it is anticipated that the cost can be reduced by \$68,292 while at the same time significantly enhancing service. A new weekly recycling collection service is proposed instead of the current bi-weekly collection. To make this option viable, the vendor has proposed a limit of three barrels per week for regular trash. For anything over the three barrel limit there would be a charge paid directly to the vendor. The solid waste disposal budget is projected to increase \$55,500 due primarily to a reduction in the Tip Fee Stabilization Fund offset.

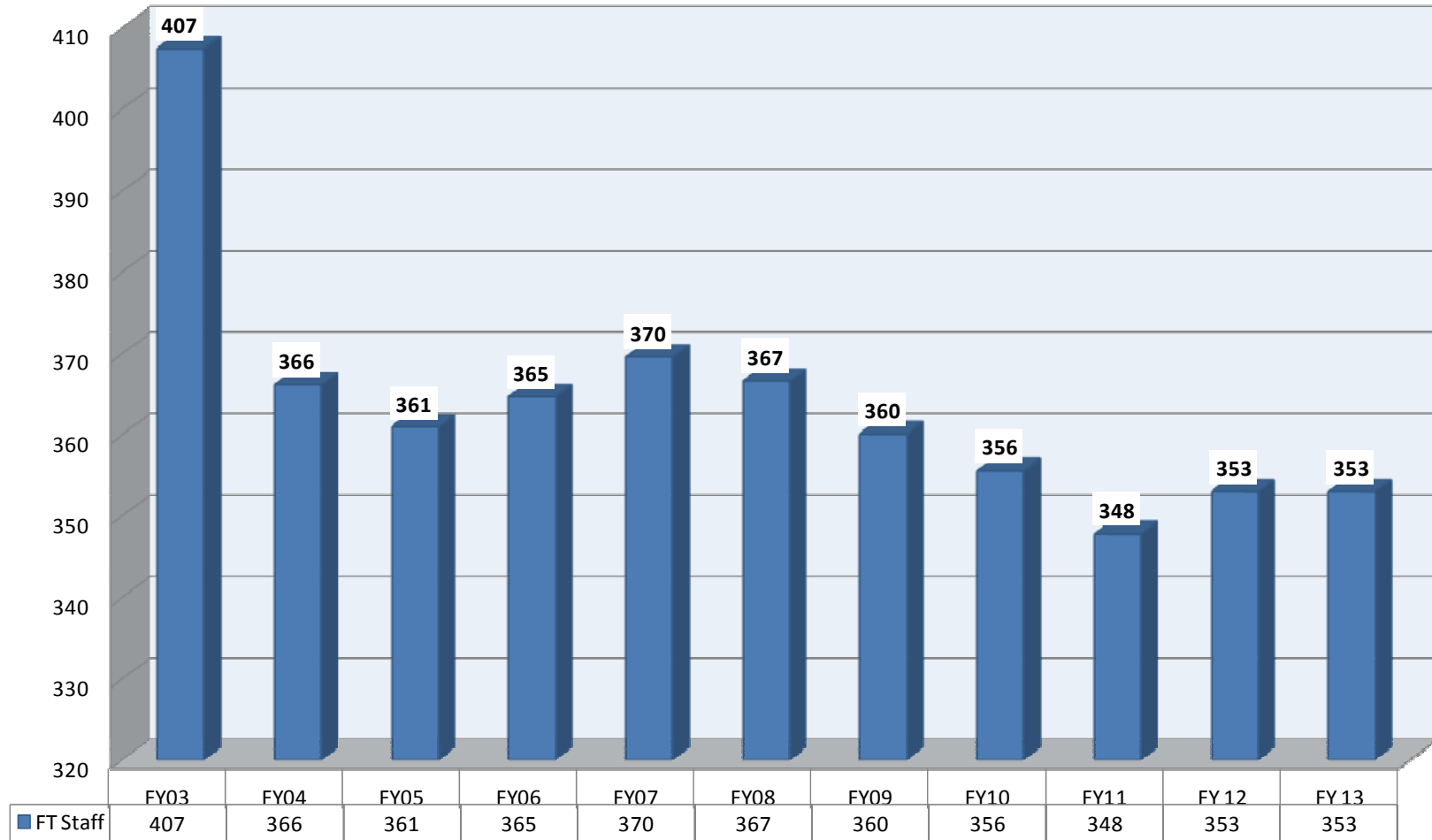
Public Works: Trees

Although no new funding is proposed, it is worthy to note that there will be a shift of some of the contract services funding to forestry to bring in contract tree crews to supplement the Town's tree crew to help address the sizable backlog of tree work.



Town Personnel Trends

FY 2003 - FY2013 FTEs





Cost Savings Initiatives

The Town has continuously pursued numerous strategies for reducing costs and becoming more productive. Recently the Town has participated in a consortium of about a dozen area communities to pursue regionalization opportunities. Many service and purchasing contracts are being implemented regionally. Additional regionalization opportunities are being evaluated at the ongoing monthly meetings of this consortium.

Most recently, the Town has entered into an agreement with Belmont to provide Sealer, Weights and Measures services. This agreement allows Arlington’s Sealer to perform inspections for Belmont, and Belmont pays Arlington for the services performed. Currently, the Town is considering the benefits of forming of a Veterans’ Services District with neighboring communities. Discussions with both Somerville and Lexington have taken place and further research into this possibility is being conducted.

The Town has also moved forward with the hiring of a GIS Coordinator and the implementation of a GIS Strategy. Since his hiring, the GIS Coordinator has begun to implement the structure and framework of GIS for Arlington and has already saved the Town a significant amount of funding due to expanded internal capacity. These savings (cost avoidance for outside services and software purchases) are summarized in the chart to the right. Once GIS is fully implemented, it will provide annual improvements in productivity and address-based data tracking.

GIS Projects	
Project	Estimated Cost Savings
School Redistricting	\$12,500
Cemetery Mapping	\$15,000
Stormwater Plan Conversions	\$19,000
Health Inspection Software	\$25,000
Master Address Table	\$2,000
Total	\$73,500

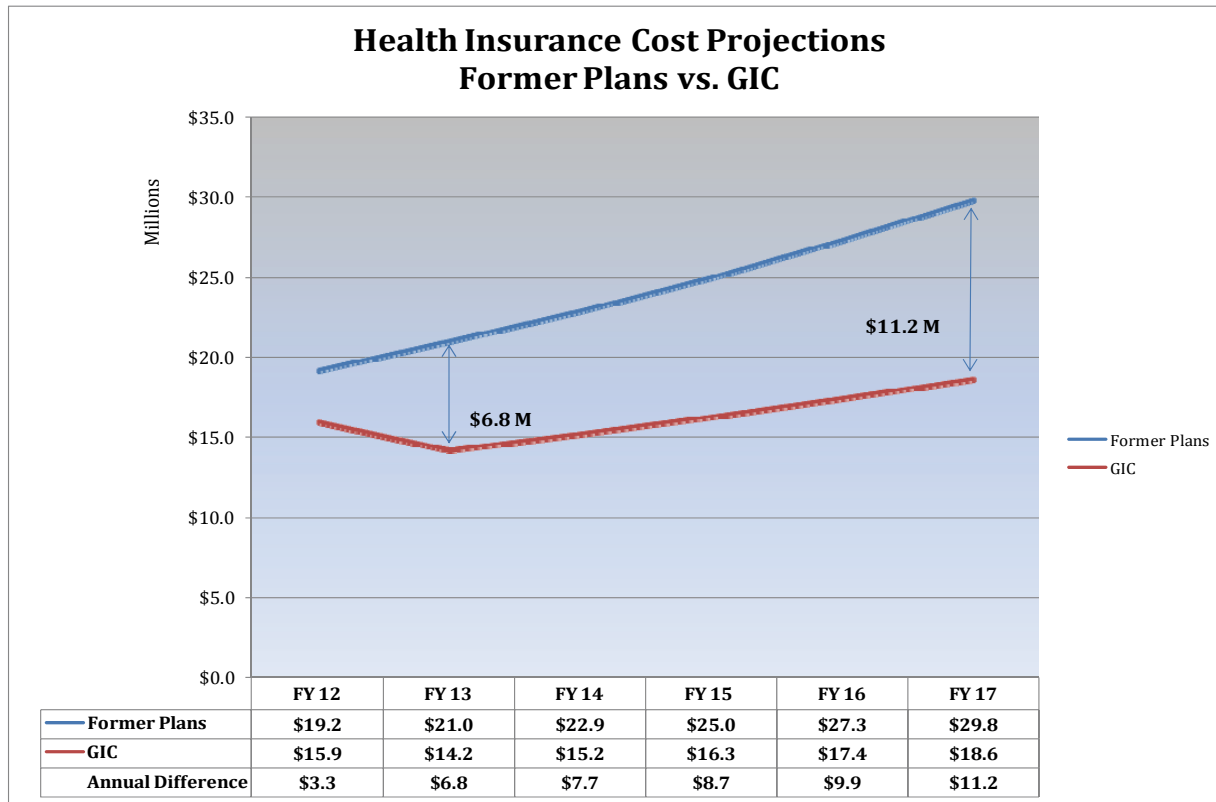
The Request/Answer Center, the Town’s online customer service center, continues to deliver information and services to residents while providing efficiencies for staff. An average of 100,000 Answers are viewed on the service annually, yet less than .5% of questions are submitted to staff for a response. The Request/Answer Center was also utilized to streamline requests for overnight on-street parking waivers, diverting those requests away from APD dispatch. At the end of FY2011 over 3,000 requests were submitted directly into the system by the public. No longer are dispatchers interrupted by these frequent calls and can now focus on their main concern - handling critical public safety calls. Additionally, APD can track these requests for future analysis and trending. This illustrates that residents are getting what they need without having to call the Town. If phone calls average 5 minutes per call, then the Town preserved 8,316 staff hours or the equivalent of 4.5 FTEs in FY2011 on these two features alone.

In order to increase productivity each year, the Town must continue to make better and more effective use of technology. This certainly is not unique to Arlington as any organization that does not keep up with productivity enhancements, gained through the effective use of technology, will not be able to compete. The Town continues to investigate these and other advances in technology that can greater enhance the efficiency and effectiveness of the Town’s service delivery.



Healthcare Breakthrough

As mentioned previously, through the municipal health reform law enacted in July 2011, the Town's employees have entered the state run health group known as the Group Insurance Commission (GIC) as of January 1, 2012. The savings produced by this have allowed for the three year override period to be extended to five years. As demonstrated in the graph on page 7, the move to the GIC produces a significant savings when compared to health care cost projections based on no plan design changes being made. The annual difference, as represented in the graph, highlights the health care costs that will now be avoided due to the move to the GIC.





Energy

In 2010 Arlington was named a Green Community by the State's Green Communities Division and received a \$200,188 grant for several energy efficiency projects. This honor was both recognition of the work that Arlington has done in the past to reduce energy usage, but also of the plans it has to further reduce energy use in the future. These plans are directed at attaining a 20% reduction in energy usage by FY2014, using FY2009 as a baseline. As of the end of FY2011 the Town has reduced energy usage by 6%. This is a result of a number of energy conservation measures (ECM's) being implemented throughout the Town's buildings, which have leveraged both state and federal grant awards along with rebates and incentives from the utilities. Next year, the Town plans to continue changing all its street lights to LED technology, continue the purchase of fuel efficient vehicles, and install variable frequency drives for HVAC systems as funding allows. To date, the LED street light changeover has allowed for a reduction of \$77,000 in the FY2013 street lighting budget and projects to save an additional \$70,000 once fully implemented. This year, as a means of making more ECM's possible, an energy efficiency fund is being proposed. This fund would be initially capitalized with an appropriation of \$200,000 from supplementary local aid, and then recapitalized in the future by depositing energy rebates earned from projects back into the fund. Such a fund would allow for ECM's to be implemented in an expedited fashion, and thereby quicken the process of reducing overall energy usage.

Collective Bargaining

All Town and school employees unions have contracts in place through FY2012 with the exceptions of Police and Fire. The Patrolmen and Ranking Officers contracts expired at the end of FY2010 and the Firefighters contract expired at the end of FY2009. The two police unions are in arbitration. Negotiations with all the other unions are ongoing.



State Aid

In January, Governor Patrick proposed a \$145 million increase in Chapter 70 School Aid and level-funding for general Government Aid. Based upon the Governor's proposed budget, state aid is projected to increase \$1,097,436, or 6.9%. Because Arlington's foundation budget is increasing 5% and it has reached its maximum required municipal contribution, under the Chapter 70 formula the State picks up the difference between Arlington's maximum municipal contribution and its foundation budget. This required the unusually large increase of \$1,222,363 in Chapter 70 school aid.

In FY2013 Unrestricted General Government Aid (UGGA) is expected to remain level at \$5,952,940. In FY2012 this aid was cut \$463,969 for Arlington and by \$65 million statewide. The Legislature and Governor agreed that if there were sufficient surplus funds left over at year end from the FY2011 state budgets that they would restore the \$65 million cut by making a supplemental payment at the end of October 2011. While that supplemental payment of \$463,969 was made to Arlington this past October, it could not be counted on when determining budgets last spring. This extra one-time payment is available for appropriation in FY2012 or otherwise will flow to free cash. The Governor has proposed the same arrangement for FY2013. If there is a sufficient surplus at the end of FY2012, they will make this same \$463,969 payment in October 2012. Unfortunately we can not count on it at this time. We are urging the Governor and Legislature to commit to this additional amount without any contingencies.

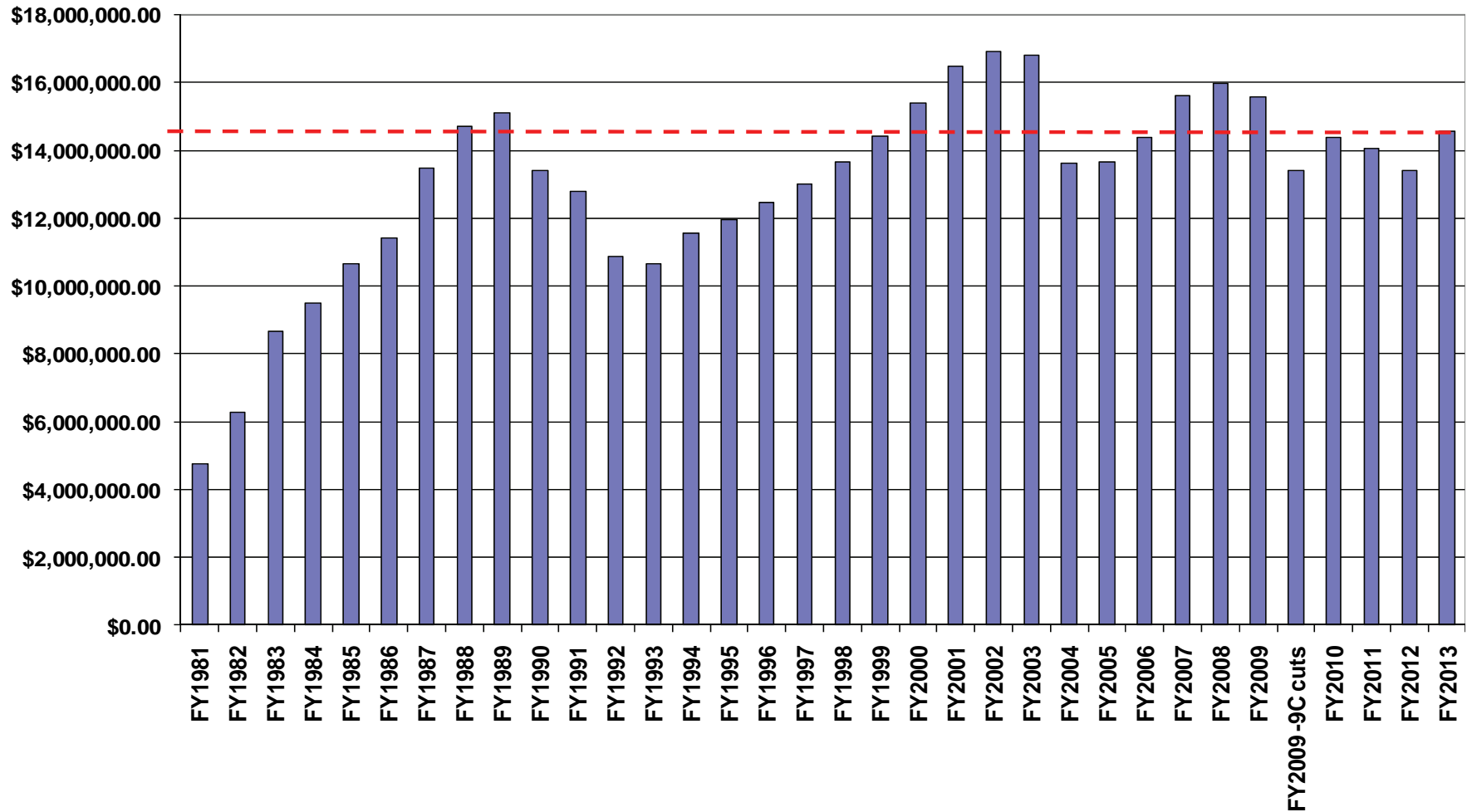
Exclusive of school construction aid, Arlington's projected state aid for FY2013 is less in real dollars than it received in FY1988 some 25 years ago (see chart on next page). During this period Arlington has seen its share of state aid cut in half (see chart on p. I-11). Just since FY2002 Arlington's total state aid has decreased by 22%, losing over \$4 million. A look at the cumulative year-to-year increases and decreases since FY2002 also shows how Arlington has been disproportionately cut (see chart on p. I-12). Since FY2002 local aid for all municipalities initially dropped by approximately 8%, rebounded through FY2009 to a 20% increase, and in FY2013 ends in a cumulative increase of 9%. Arlington, on the other hand, has never experienced an increase above FY2002. In fact, in FY2006, Arlington was 15% below FY2002, while the average of all municipalities saw a slight increase. In FY2013 the cumulative year-to-year change since FY2002 is a decrease of 14%.

Over the last several years, the distribution formulas used for the cutbacks in state aid—and the subsequent restoration of those cuts—have not been implemented fairly, nor have they recognized the needs of communities like Arlington. The policy has essentially been this: communities with relatively high median income levels and high property values are assumed to have a greater ability to raise revenue locally, and therefore, have less of a need for state aid. The problem is that communities don't have the ability to tax incomes (the state takes all income tax). The only source of revenue available to communities is the property tax, a regressive tax that hurts elderly and lower income residents disproportionately. Without a fair share of state aid, communities like Arlington are faced with the difficult choice of either raising property taxes through overrides or cutting needed services.



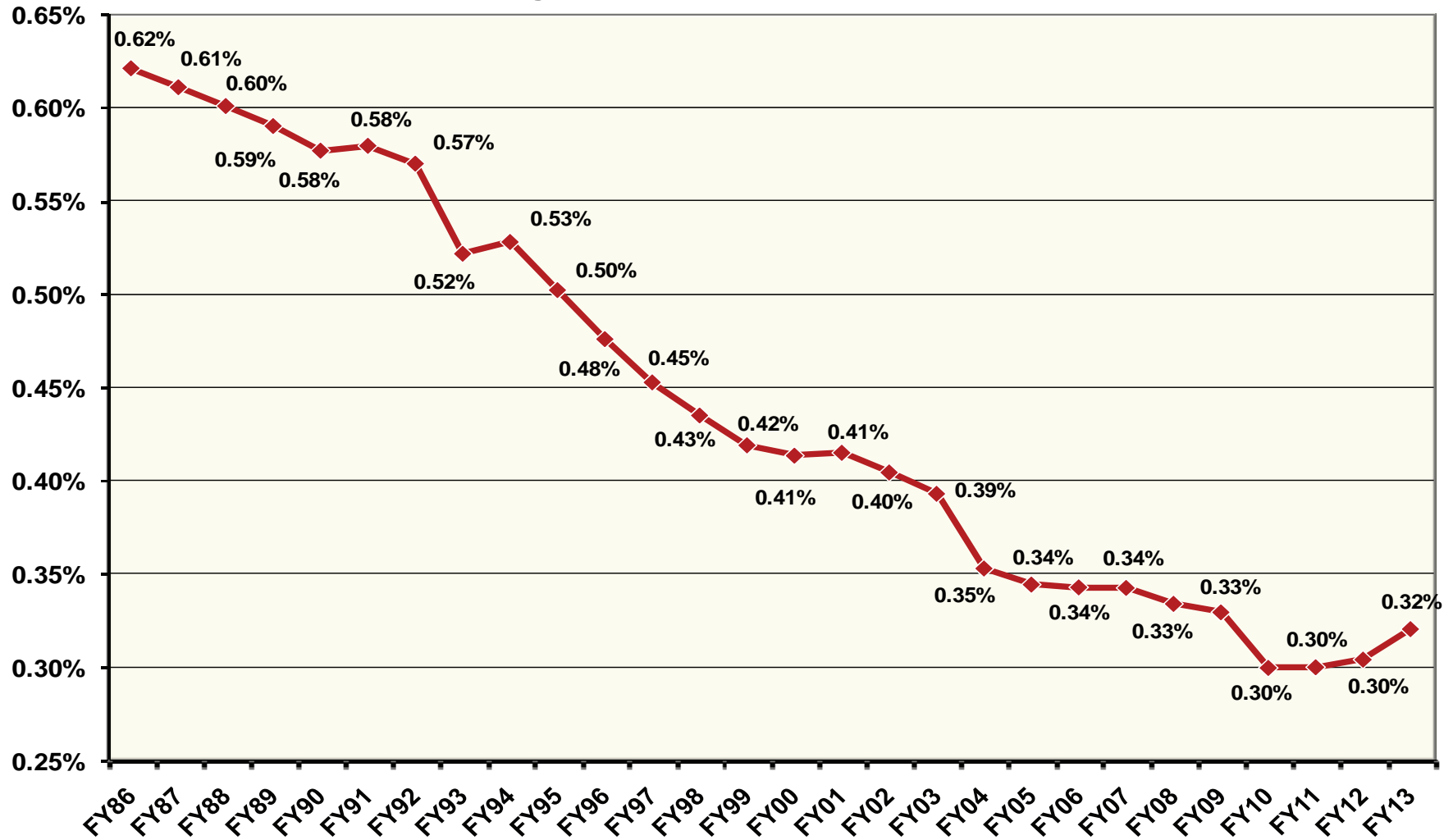
STATE AID RECEIPTS

(Numbers exclude School Construction and METCO reimbursements)





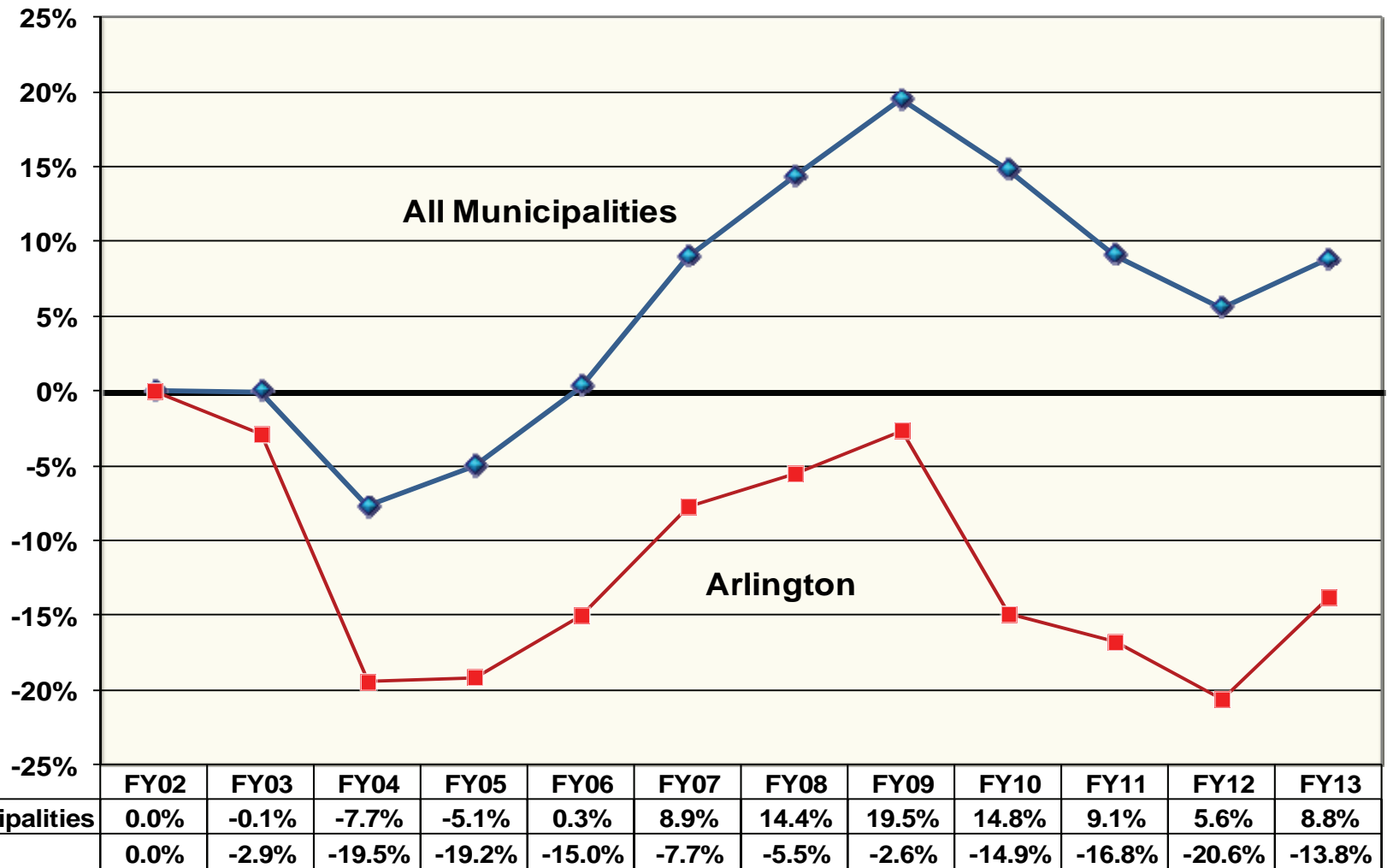
Arlington's Percent of Total State Aid





State Aid Cumulative Year-to-Year Percent Change Since Fiscal Year 2002

(Numbers Exclude School Construction and METCO Reimbursements)





Comparative Data

There are a number of factors that contribute to Arlington's structural deficit—some common among all municipalities and some relatively unique to Arlington. Double digit increases in employee healthcare costs and energy costs affect all municipalities. Arlington has been penalized by an unfair state aid distribution formula. Statewide, communities are 9% above the FY2002 level while Arlington is still 22% below FY2002.

Some of the factors particular to Arlington include the fact that Arlington is a densely populated, fully built-out community (see Tables 1 and 2 on the next page). Revenue from growth in the tax base ranks near the bottom among a group of 20 comparable communities (see Table 3). It is one-half of the state-wide average. Another indicator of the Town's ability and opportunity to raise revenues is a measure developed by the Department of Revenue called Municipal Revenue Growth Factor (MRGF). It measures a community's ability to raise revenue, taking into consideration a community's tax levy limit, new growth, state aid, and local receipts. As you can see from Table 4, the state-wide average and average of the twenty comparable communities MRGF is 2.99 and 3.3 respectively. Arlington's is 2.48, fourth from the bottom of the 20 communities.

Another factor affecting the Town's financial structure is its tax base. The Town's tax base is nearly all residential—the commercial/industrial sector makes up only 6% of the total. Table 5 shows that Arlington's commercial/industrial tax base ranks 18th out of 20 comparable communities. The average of these communities is 20.9%, more than triple that of Arlington. This affects not only the Town's ability to raise revenue, it places a heavier tax burden on the residential sector as there is almost no commercial/industrial sector with which to share the tax burden. Notwithstanding this, the tax burden, when measured several different ways, is below the average of the 20 comparable communities. In fact, the Town ranks 13th in taxes per capita (Table 6), and 17th in taxes per household as a percent of median household income (Table 7). This despite the fact that Arlington's tax levy includes more than \$5 million in MWRA water and sewer debt that only one other community includes on its levy.

A look at how the Town's spending levels impact the Town's financial position shows that the Town's spending per capita is well below the state average and the average of the 20 comparable communities. Arlington ranks 18th out of 20 comparable communities in overall expenditures per capita (see Table 8). The spending average of the other comparable communities is 30% greater than Arlington and the state-wide spending average is 20% greater.

With spending well below the state-wide average and comparable communities, and with revenue growth opportunities well below the state-wide average and nearly at the bottom of comparable communities, it is clear that the structural problem with the Town's finances lies with the revenue side of the equation as opposed to the spending side. Limited growth in the tax base, a tax base almost all residential, couple with a \$4 million reduction in state aid just since 2002, has left the Town with only two choices—significant budget cuts resulting in service reductions or Proposition 2 ½ general overrides.



Table 1		Table 2		Table 3		Table 4	
Municipality	Pop Per Square Mile	Municipality	Households Per Sq Mile	Municipality	New Growth Ave '10-'12	Municipality	FY2012 Municipal Revenue Growth Factor
1 BROOKLINE	8,649	1 BROOKLINE	3,889	1 LEXINGTON	2.63	1 NORWOOD	7.53
2 ARLINGTON	8,267	2 ARLINGTON	3,841	2 NORWOOD	2.30	2 LEXINGTON	5.39
3 WATERTOWN	7,765	3 WATERTOWN	3,801	3 NEEDHAM	2.17	3 NEEDHAM	3.75
4 MEDFORD	6,901	4 MEDFORD	2,969	4 WOBURN	1.93	4 CHELMSFORD	4.11
5 MELROSE	5,748	5 MELROSE	2,500	5 WELLESLEY	1.69	5 BROOKLINE	2.89
6 BELMONT	5,305	6 SALEM	2,362	6 NATICK	1.68	6 WELLESLEY	4.40
7 SALEM	5,101	7 BELMONT	2,167	7 SALEM	1.36	7 WOBURN	3.41
8 WINCHESTER	3,540	8 STONEHAM	1,550	8 CHELMSFORD	1.35	8 NATICK	4.97
9 STONEHAM	3,487	9 WEYMOUTH	1,381	9 BROOKLINE	1.23	9 BELMONT	3.37
10 RANDOLPH	3,189	10 WINCHESTER	1,309	10 WATERTOWN	1.21	10 MEDFORD	1.78
11 WEYMOUTH	3,160	11 WOBURN	1,284	11 RANDOLPH	1.10	11 RANDOLPH	2.16
12 WOBURN	3,008	12 RANDOLPH	1,189	12 MEDFORD	1.06	12 MILTON	2.32
13 WELLESLEY	2,749	13 NORWOOD	1,188	13 MELROSE	0.95	13 MELROSE	2.73
14 NORWOOD	2,728	14 READING	971	14 BELMONT	0.92	14 WATERTOWN	2.71
15 READING	2,493	15 NATICK	935	15 WINCHESTER	0.91	15 WINCHESTER	2.54
16 NEEDHAM	2,291	16 WELLESLEY	901	16 READING	0.86	16 SALEM	3.34
17 NATICK	2,188	17 NEEDHAM	883	17 ARLINGTON	0.83	17 ARLINGTON	2.48
18 MILTON	2,071	18 MILTON	746	18 WEYMOUTH	0.82	18 STONEHAM	2.48
19 LEXINGTON	1,914	19 LEXINGTON	733	19 MILTON	0.68	19 READING	1.73
20 CHELMSFORD	1,493	20 CHELMSFORD	611	20 STONEHAM	0.61	20 WEYMOUTH	1.44
Ave w/o Arlington	3,883	Ave w/o Arlington	1,651	Ave w/o Arlington	1.34	Ave w/o Arlington	3.3
Arlington	8,267	Arlington	3,841	Arlington	0.83	Arlington	2.48
				State-wide Ave	1.53	State-Wide Ave	2.99



Table 5	
Municipality	FY2012 Commercial/ Industrial / Personal % of Total Tax Levy
1 WOBURN	52.53
2 NORWOOD	45.55
3 WATERTOWN	33.41
4 SALEM	28.34
5 WEYMOUTH	24.03
6 NATICK	23.37
7 RANDOLPH	22.86
8 MEDFORD	22.83
9 LEXINGTON	22.27
10 NEEDHAM	22.18
11 CHELMSFORD	19.55
12 STONEHAM	17.46
13 BROOKLINE	16.35
14 WELLESLEY	11.20
15 READING	9.94
16 MELROSE	8.76
17 MILTON	6.10
18 ARLINGTON	6.05
19 BELMONT	6.03
20 WINCHESTER	5.06
Ave w/o Arlington	20.9
Arlington	6.10

Table 6	
Municipality	FY2011 Taxes Per Cap
1 LEXINGTON	4075.802
2 WELLESLEY	3578.921
3 NEEDHAM	3222.036
4 WINCHESTER	3012.244
5 BELMONT	2736.284
6 BROOKLINE	2688.114
7 NATICK	2413.052
8 MILTON	2288.696
9 WATERTOWN	2266.387
10 CHELMSFORD	2259.072
11 WOBURN	2200.519
12 READING	2089.794
13 ARLINGTON	2006.325
14 NORWOOD	1911.466
15 STONEHAM	1805.461
16 SALEM	1754.529
17 MELROSE	1672.26
18 MEDFORD	1501.514
19 WEYMOUTH	1450.518
20 RANDOLPH	1262.833
Ave w/o Arlington	2,326
Arlington	2,006

Table 7	
Municipality	FY2011 Taxes Per Household as% of '08-'10 median income
1 LEXINGTON	8.4%
2 WELLESLEY	7.5%
3 WOBURN	7.5%
4 NEEDHAM	7.3%
5 SALEM	7.1%
6 WINCHESTER	6.6%
7 BELMONT	6.6%
8 RANDOLPH	6.6%
9 NATICK	6.4%
10 NORWOOD	6.3%
11 MILTON	6.2%
12 BROOKLINE	6.2%
13 WATERTOWN	6.2%
14 CHELMSFORD	6.1%
15 STONEHAM	5.5%
16 READING	5.4%
17 ARLINGTON	5.2%
18 MEDFORD	5.2%
19 WEYMOUTH	5.1%
20 MELROSE	4.6%
Ave w/o Arlington	6.4%
Arlington	5.2%

Table 8	
Municipality	FY2010 Total Exp Per Cap
1 WELLESLEY	3,861
2 LEXINGTON	3,758
3 NORWOOD	3,638
4 NEEDHAM	3,514
5 WINCHESTER	3,495
6 BROOKLINE	3,242
7 NATICK	3,010
8 READING	2,989
9 BELMONT	2,817
10 CHELMSFORD	2,773
11 SALEM	2,770
12 WOBURN	2,730
13 WATERTOWN	2,686
14 MILTON	2,498
15 MELROSE	2,430
16 STONEHAM	2,429
17 RANDOLPH	2,415
18 ARLINGTON	2,232
19 WEYMOUTH	1,983
20 MEDFORD	1,904
Ave w/o Arlington	2,892
Arlington	2,232
State-wide Ave	2,681



Capital Improvements Plan

The Town's capital improvements program policies call for the allocation of approximately 5% of the general fund revenues to the capital budget. This is exclusive of dedicated funding sources such as enterprise funds, grants, and proposition 2 ½ debt exclusion projects. For FY2013 funding for the capital budget is as follows:

Bonding	\$ 6,476,650
Cash	\$ 1,391,682
Other	\$ 3,219,000

Our existing non-exempt debt is \$5.1million, which is virtually level as compared to FY2012. The total capital budget for FY2013, including debt, is estimated at \$9.1 million. Major projects to be funded in FY2013 include: phase 2 renovation of the Community Safety Building for \$2.2 million, replacement of the 1892 and 1931 roofs on the Robbins Library for \$406,000, purchase and installation of energy efficient LED streetlights for \$625,000, streets and sidewalks work for approximately \$1.5 million, water and sewer work for \$2.5 million, and parks renovation work for \$445,750. The FY2013 budget also includes \$600,000 for a new Fire Engine, and \$131,000 in funding for new police cruisers.

The renovation/rebuild of the Thompson School has been approved by the MSBA and funding was appropriated by Town Meeting in the spring of 2011. The total project budget for the Thompson Rebuild is \$20,773,363. This project total is funded via both exempt and non-exempt borrowing, MSBA reimbursements, and revenues associated with the sale of the Crosby School and the lease increases for the Parmenter School.



Financial Structure and Outlook

Each year, for several years, the Town has had a structural deficit whereby the growth in revenues has not kept pace with the growth in costs necessary to maintain a level service budget. This has happened despite a reduction of nearly 50% in the Town's workforce and spending near the bottom of its comparable communities. The annual structural deficit is estimated at approximately \$2.5 million (see chart to the right).

It's not anyone's fault that the Town faces an annual structural deficit; it's basic economics. Arlington's spending, by any measure, is well below that of our comparable communities and is not a contributor to the structural deficit. Just the opposite, municipal departmental budgets grew an average of only 2.01% over the last six years (see chart lower right). The major expenditure drivers are largely outside of the control of the Town and include cost-of-living increases for employees, health care cost increases, pension obligations, and special education costs. The main cause of the annual structural deficit is revenue based. The Town's revenue growth is at the bottom of our comparable communities for two reasons. First, Arlington is essentially a fully built out community with limited new growth in its tax base, a base that is 94% residential. As noted earlier, in a comparison of new growth in the tax base of 20 comparable communities, Arlington was near the bottom. Second, the Town has experienced massive, disproportionate cuts in its state aid. Arlington receives less real dollars in state aid than it did in 1988. These two factors have made it necessary for the Town to rely on periodic tax overrides to sustain service levels. Still, in the 30 years of Proposition 2 ½, there have been only three general tax overrides.

Typical Annual Growth	
Revenues	
Property Taxes	\$ 2,700,000
Local Receipts	\$ 50,000
State Aid	\$ 150,000
Total	\$ 2,900,000
Expenditures	
Wage Adjustments	\$ 2,000,000
Health Insurance/Medicare	\$ 1,200,000
Pensions	\$ 500,000
Special Education	\$ 900,000
Miscellaneous (utilities capital/debt, other)	\$ 600,000
Total	\$ 5,400,000
Structural Deficit	\$ 2,500,000

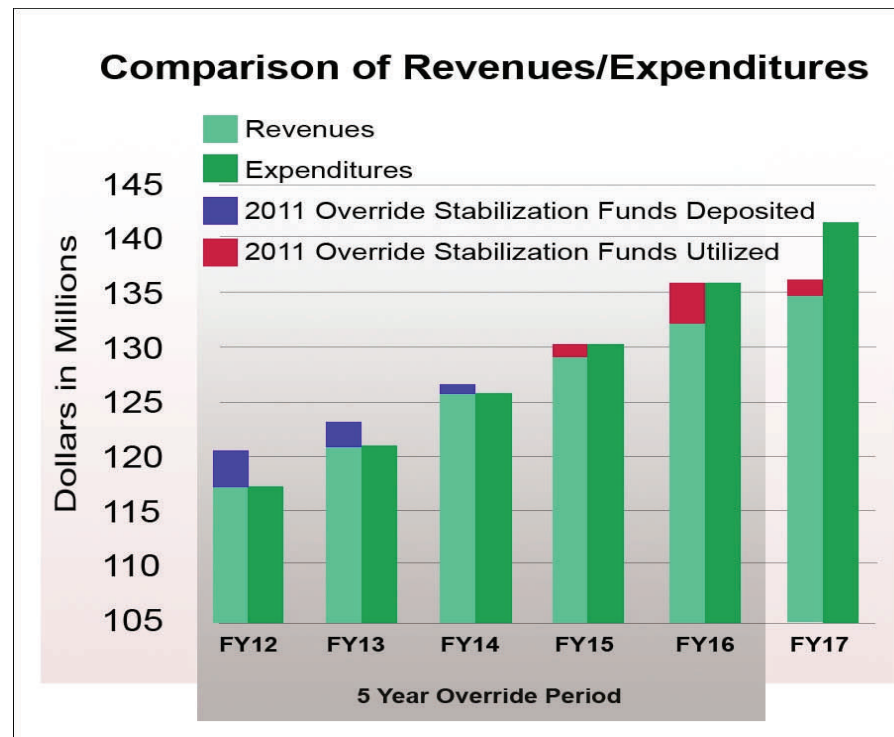
Operating Budget Increases		
FY 2006 - FY 2011		
	Town	School
FY 2006	2.94%	6.17%
FY 2007	2.76%	3.16%
FY 2008	3.93%	3.99%
FY 2009	2.02%	2.46%
FY 2010	0.91%	2.06%
FY 2011	-0.46%	2.66%
Avg. Increase	2.01%	3.41%



In 2005, an override was passed based upon a plan that would cover the annual deficit for five years. Despite substantial cuts to state aid and a collapse of the global economy, with tight budget constraints, the funds were made to last six years. As noted above, over these six years municipal departmental budgets grew by an average of only 2.01% a year. The override passed this past spring was based upon a three year plan. As a result of a recent change to the Town's employee health care program, which will provide significant savings, it is now projected that the override funds can be stretched to last five years rather than only three. This will still require tight constraints on budgets. It is interesting to note recently that a neighboring community, which already spends at levels significantly above Arlington's, is holding its budget increase to 6%.

Despite fixed cost increases and federal and state mandates, Arlington's increase is being held to 3.5%.

The current plan, which is now a five year plan covering the years FY2012 through FY2016, is illustrated in this chart which projects the revenues and expenditures for the five year period. Note that in the sixth year the deficits return.





Five Year Financial Projection

The cornerstone of our strategic budgeting process is the long-range financial projection. Based upon analysis of internal and external factors impacting the Town's operations and finances, we have prepared the long-range projection found page 22. These projections will, of course, have to be modified as events unfold, but we believe that they are reasonable for fiscal planning purposes.

Revenue assumptions include the following:

- **Overall revenues** are expected to increase 3% in FY2013. Future year increases range from 2.5% to 4.3%. FY2016 increases 4.3% due to greater use of override stabilization funds to cover increased debt service costs and an increased tax abatement reserve because it is a revaluation year. In the remaining years, the overall increases are under 2.75%.
- **Tax Levy** - Projected to increase between 2.6% and 2.9% per year. New growth is projected at \$450,000 per year. Actual debt for Proposition 2 ½ debt exclusion school projects minus state reimbursements are included and amount to approximately \$1 million each year. FY2013 and FY2014 include excluded debt of approximately \$300,000 relative to the Symmes Urban Renewal project. After FY2014 property tax payments from Symmes are expected to cover the Symmes debt. Nothing has been factored in at this time for a bond authorization for the rebuild of the Thompson School which will include some exempt debt.
- **State Aid** – Due to a provision in the Chapter 70 school aid formula which caps the Town's minimum required contribution towards the Town's school foundation budget, the Town expects to receive a Chapter 70 increase of \$1,222,363 in FY2013 resulting in an overall state aid increase of \$1,153,725 (8.6%). Thereafter, increases are projected at only 1%.
- **School Construction Reimbursement** - Projected to remain the same at \$2,474,796.
- **Local Receipts** – Local Receipts are estimated to decrease by \$320,000 in FY2013 due to the loss of Medicare Part D reimbursements from the federal government. They will decline slightly further in FY2014 due to reductions in building permit fees from the Symmes project, and grow by \$50,000 increments thereafter.
- **Free Cash** – In FY2013, \$600,000 is proposed to be appropriated, which is an increase of \$118,544 over the prior year. For FY2014 \$1,000,000 is proposed to be used, and thereafter \$750,000 each year.
- **Other Available Funds** – A transfer of \$200,000 from surplus tax abatement overlay reserve funds is projected for each year.
- **Override Stabilization Fund** – For at least the first three years of the override (FY2012-FY2014) funds will be deposited into the Fund building up to close to \$8 million. Then in FY2015 a draw down of \$839,000 will be required to balance the budget.



In FY2016 a draw down of \$3.55 million will be needed to close the budget gap leaving approximately \$3.4 million in the Fund to apply to a budget gap of approximately \$6.3 million in FY2017 (the sixth year of the override). The resulting projected deficit for FY2017 is approximately \$2.9 million. All these numbers are projections at this time and may vary significantly up or down.

Expenditure assumptions include the following:

- **School Budget** – Going forward, expenditures are capped at 3.5% for general education costs and 7% for special education costs.
- **Minuteman School** – In FY2013 an increase in enrollment will drive our assessment up by \$734,607 (31.2%). Thereafter, increases are projected at 3.5%.
- **Municipal Departments** - Going forward, expenditures are capped at 3.5%.
- **Capital Budget** – Capital policies call for dedicating approximately 5% of net revenues to capital spending inclusive of non-exempt debt. Annual increases average approximately 3.5%.

Exempt Debt – This includes the actual cost of debt service for debt exclusion projects which include school projects and the Symmes project. The Thompson School debt service has not been factored into this projection at this time. The Symmes debt service, at approximately \$300,000, is expected to be fully covered by Symmes property tax payments starting in FY2015.

Non-Exempt Debt – This debt will fluctuate over the next several years but will stay at around \$5.2 million per year. Some of the recent major projects that it covers include the Stratton School, fire stations, and Community Safety building.

Cash – In FY2013 \$1,391,682 in cash funded capital projects is included. Each year thereafter the amount remains approximately the same.

- **MWRA Debt Shift** – The amount has been level funded at \$5,593,112.
- **Pensions** – In FY2013 the pension appropriation will increase of 5.2%, and thereafter, increases 6% annually.
- **Insurance (including healthcare)** – Due to the transfer of employees into the State's GIC health care program, costs went down in FY2012 and are expected to decrease another \$754,139 in FY2013. Thereafter costs are projected to increase 7% per year except in FY2014 where there will still be some residential savings from the transfer to GIC thus keeping this increase to 4.8%.
- **State Assessments** – These assessments are generally capped at a 2.5% increase which is what has been projected. In FY2013 however, the MBTA assessment, which is the largest assessment, is projected to increase by \$201,550, or 8%, due to Arlington's population increase and a greater service level compared to other MBTA communities.



- **Offset Aid** – These grants to schools and library are decreased slightly in FY2013 based upon preliminary cherry sheets and thereafter held level.
- **Overlay Reserve** – This reserve for tax abatements is increased in revaluation years, which occur every three years. For the revaluation years FY2013 and FY2016, the reserve is increased to \$800,000. In non-revaluation years it is reduced to \$600,000.
- **Other** – This includes court judgments, deficits such as snow removal, revenue, etc., and Symmes property taxes reserved for Symmes debt. The estimate is \$700,000 for each year.
- **Warrant Articles** – Appropriations for miscellaneous warrant articles are estimated at between \$650,000 and \$700,000 each year.
- **Override Stabilization Fund** – Appropriations into the Fund for FY2012, FY2013, and FY2014 are projected at approximately \$3.4 million, \$3 million, and \$1.4 million respectively. After FY2014 it is projected that draw downs from the Fund will be necessary.

Conclusion

Every effort has been made to implement all appropriate measures that will maximize the productivity of our organization and deliver the highest quality of services within available resources. Our entire management team has worked collectively to implement creative ways of doing more with less. We remain committed to maintaining the high quality of life our residents expect and deserve.

As the budget process evolves and additional information becomes available over the next few months, the estimates and recommendations contained herein will be adjusted as required. You will then be able to make operating and capital budget adjustments as deemed advisable prior to Town Meeting.

The document presented for your consideration is a product of a great deal of work. Our department heads, second to none in the Commonwealth in terms of professional competence and dedication to their tasks, provided invaluable input and assistance. Members of boards and commissions offered valuable assistance. In particular, I would like to thank the Board of Selectmen for its policy insights and leadership. I am most of all indebted to Deputy Town Manager Adam Chapdelaine and Public Information Officer Joan Roman who deserve the credit for the quality of the budget document and the information and the data contained herein. I also want to extend a special word of thanks to my office staff, Eileen Messina, Domenic Lanzilliotti, and Will Nguyen, who spent evenings and weekends assisting in producing this document.

Respectfully submitted,

Brian F. Sullivan

Town Manager



Long Range Financial Projection

	FY 2012	FY 2013	Dollar Change	Percent Change	FY 2014	FY 2015	FY 2016	FY 2017
I REVENUE								
A. State Aid	13,420,743	14,574,468	1,153,725	8.60%	14,715,027	14,856,991	15,000,375	15,145,193
School Construction Aid	2,531,085	2,474,796	(56,289)	-2.22%	2,474,796	2,474,796	2,474,796	2,474,796
B. Local Receipts	8,910,000	8,590,000	(320,000)	-3.59%	8,505,000	8,555,000	8,605,000	8,655,000
C. Free Cash/Muni Building Trust	481,456	600,000	118,544	24.62%	1,000,000	750,000	750,000	750,000
D. Overlay Reserve Surplus	200,000	200,000	0	0.00%	200,000	200,000	200,000	200,000
E. Property Tax	95,002,494	97,746,811	2,744,317	2.89%	100,373,525	103,085,285	105,854,055	108,696,422
F. Override Stabilization Fund						839,064	3,548,148	3,388,209
TOTAL REVENUES	120,545,778	124,186,075	3,640,297	3.02%	127,268,348	130,761,136	136,432,374	139,309,620
II APPROPRIATIONS								
A. Operating Budgets								
School	42,681,436	44,642,598	1,961,162	4.59%	46,705,113	48,874,818	51,157,914	53,560,992
General Education Costs	29,329,660	30,356,198	1,026,538	3.50%	31,418,665	32,518,318	33,656,459	34,834,436
Special Education Costs*	13,351,776	14,286,400	934,624	7.00%	15,286,448	16,356,500	17,501,455	18,726,557
Net School Budget	42,681,436	44,642,598	1,961,162	4.59%	46,705,113	48,874,818	51,157,914	53,560,992
Minuteman	2,352,988	3,087,595	734,607	31.22%	3,195,661	3,307,509	3,423,272	3,543,086
Town								
Personnel Services	21,995,552	22,970,278	974,726	4.43%	23,812,134	24,733,894	25,875,462	27,058,736
Expenses	9,160,916	9,210,916	50,000	0.55%	9,260,916	9,310,916	9,360,916	9,410,916
Less Offsets:								
Enterprise Fund/Other	1,634,410	1,691,614	57,204	3.50%	1,750,821	1,812,100	1,875,523	1,941,166
Tip Fee Stabilization Fund	450,000	400,000	(50,000)	-11.11%	179,514	0	0	0
Net Town Budget	29,072,058	30,089,580	1,017,522	3.50%	31,142,715	32,232,710	33,360,855	34,528,485
MWRA Debt Shift	5,593,112	5,593,112	0	0.00%	5,593,112	5,593,112	5,593,112	5,593,112
B. Capital budget								
Exempt Debt Service	2,836,327	2,680,466	(155,862)	-5.50%	2,579,598	2,495,587	2,398,691	2,303,751
Non-Exempt Service	5,184,398	5,187,898	3,500	0.07%	5,717,785	5,557,330	5,816,402	6,346,016
Cash	1,033,400	1,391,682	358,282	34.67%	1,330,106	1,396,650	1,370,956	1,296,625
Minus Capital Carry Forward	(209,300)	(103,796)			(125,200)	(127,216)	(152,005)	(159,938)
Total Capital	8,844,825	9,156,250	311,425	3.52%	9,502,289	9,322,351	9,434,044	9,786,454
C. Pensions	7,329,440	7,710,766	381,326	5.20%	8,173,412	8,663,817	9,183,646	9,734,664
D. Insurance	16,483,109	15,728,970	(754,139)	-4.58%	16,484,604	17,638,526	18,873,223	20,194,349
E. State Assessments	2,846,071	2,970,269	124,198	4.36%	3,044,526	3,120,639	3,198,655	3,278,621
F. Offset Aid - Library & School	62,085	61,138	(947)	-1.53%	61,138	61,138	61,138	61,138
G. Overlay Reserve	600,000	800,000	200,000	33.33%	600,000	600,000	800,000	600,000
H. Other Crt Jdgmnts/ Deficit/ symm	621,741	700,000	78,259	12.59%	700,000	700,000	700,000	700,000
I. Warrant Articles	657,311	691,242	33,931	5.16%	646,515	646,515	646,515	646,515
J. Override Stabilization Fund	3,401,602	2,954,555			1,419,263			
K. TOTAL APPROPRIATIONS	120,545,778	124,186,075	3,640,297	3.02%	127,268,348	130,761,135	136,432,374	142,227,417
BALANCE	0	0			0	0	0	(2,917,797)