Fiscal Year 2012 Financial Plan
Budget Message

February 18, 2011

To: The Honorable Board of Selectmen and Finance Committee

I hereby transmit to you the recommended FY2012 operating and capital budgets and the FY2012-2016 capital plan. The budget as proposed totals $113,954,730 which is a decrease of $84,532 (0.1%) from the FY2011 budget. A summary showing a comparison of the FY2011 and FY2012 revenues and expenses is shown on page 2.

FY2011, the current fiscal year, was the last year in which override stabilization funds were available to be used as operating revenue. This represented the sixth year of what was begun as a five year plan that incorporated the Proposition 2 ½ override of 2005 designed to carry the Town's budgets through FY2010. While it was known that at the conclusion of the five year plan the Town would be back to facing difficult financial and budget choices, the economic crisis, spawning a severe recession and high unemployment, has severely exacerbated the Town's financial position. The Town's reserves have plummeted; state aid was cut significantly in FY2009, FY2010, FY2011 and is expected to be cut again in FY2012. In FY2012, Arlington's state aid allocation will be actually less than it was in 1988. Later in this Budget Message I will describe in more detail the root cause and structural nature of the Town's budget squeeze.

As we look ahead to FY2012, the seventh year since the 2005 override, difficult budget choices will have to be made. The Town's departmental budgets are proposed to be reduced by 3.2%. Because the current school budget allocation included $489,000 of federal stimulus funds (IDEA and SFSF) that it will not be receiving in FY2012, the schools will receive an additional allocation of $489,000 of Town funds to replace this loss. The school's total allocation from the Town of $38,516,006 results in a decrease of 1.4% over the current year.

It is still early in the budget process and much can change over the next few months. The Governor's budget was released on January 26th, and this financial plan contains the local aid figures proposed therein. However, the Legislature (House and Senate) is expected to release its budget documents this spring, and the local aid figures proposed may be altered from the Governor's proposal.

Overall Budget Summary

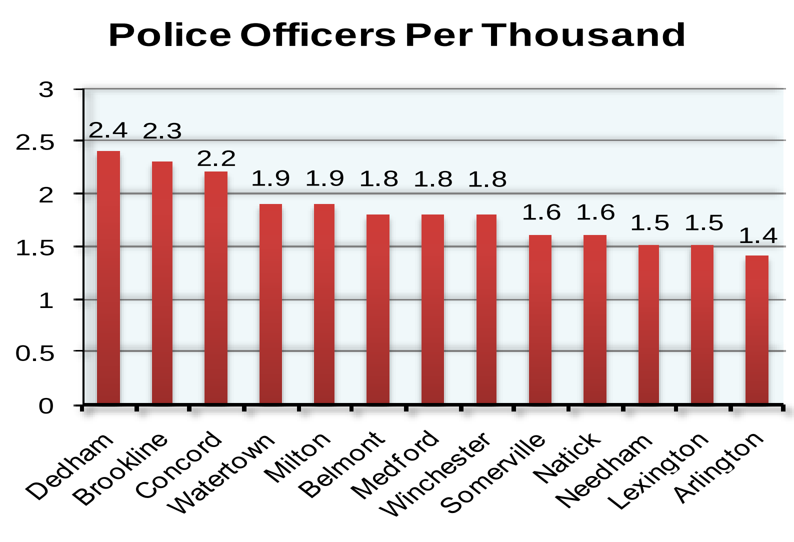
	FY2011	FY2012	Change $	Change %
Revenue				
Property Tax	$ 85,958,974	$ 88,587,262	$ 2,628,288	3.1%
Local Receipts	$ 8,820,707	$ 8,910,000	$ 89,293	1.0%
State Aid	$ 13,576,740	$ 13,341,134	$ (235,606)	-1.7%
School Construction Aid	$ 2,531,085	$ 2,531,085	$ -	0.0%
IDEA & SFSF Funds	$ 489,705	$ -	$ (489,705)	-100.0%
Free Cash	$ 582,051	$ 385,249	$ (196,802)	-33.8%
Other Funds	$ 2,080,000	$ 200,000	$ (1,880,000)	-90.4%
TOTAL REVENUES	$ 114,039,262	$ 113,954,730	$ (84,532)	-0.1%
Expenditures				
Municipal Departments	$ 27,815,520	$ 26,923,164	$ (892,356)	-3.2%
School Department (includes IDEA funds above)	$ 39,081,156	$ 38,516,006	$ (565,150)	-1.4%
Minuteman School	$ 2,739,795	$ 2,352,988	$ (386,807)	-14.1%
Non-Departmental (Healthcare & Pensions)	$ 26,375,704	$ 27,351,086	$ 975,382	3.7%
Capital	$ 7,974,393	$ 8,448,540	$ 474,147	5.9%
MWRA Debt Shift	$ 5,593,112	$ 5,593,112	$ -	0.0%
Warrant Articles	$ 567,465	$ 609,090	$ 41,625	7.3%
TOTAL EXPENDITURES	$ 110,147,146	$ 109,793,986	$ (353,160)	-0.3%
Non-Appropriated Expenses	$ 3,892,117	$ 4,160,744	$ 268,628	6.9%
Surplus/(Deficit)	$ (0)	$ (0)		0.0%

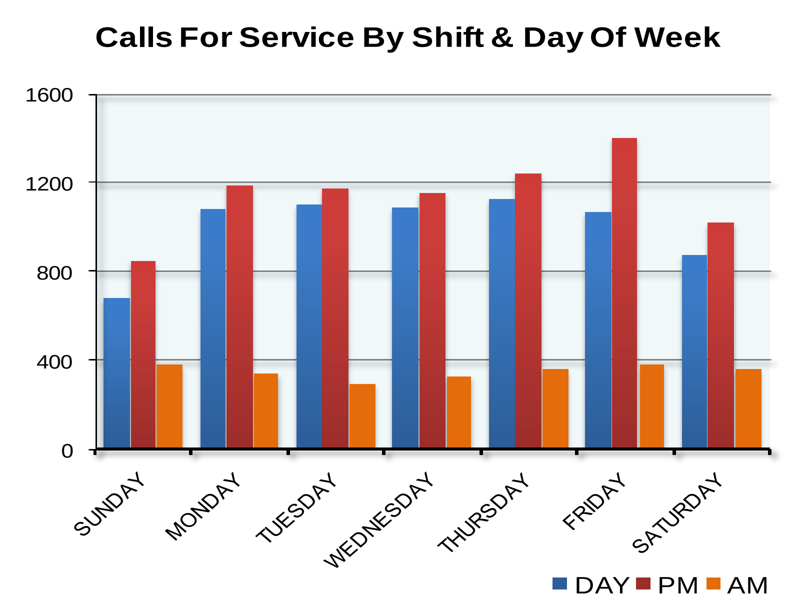
Municipal Departmental Budgets

The proposed FY2012 budget for municipal departments totals $26,923,164 which is a decrease of $892,356, or 3.2%, from the current fiscal year. The budgets for Arlington's Municipal departments are already at, or near, the bottom of its comparable communities. Consequently, these cuts are particularly painful and will have negative impacts on services. Municipal services are labor intensive, thus most of the budgets are for personnel related costs. Personnel levels are a direct reflection of the Town's ability to provide services and thus provide a good insight as to what is happening. Just since 2003 the Town has eliminated 75 (18%) positions, including the 15 proposed to be eliminated next year. The personnel chart on page 6 shows the significant reduction that has occurred over the last several years. The budget reductions have forced some difficult choices. The more significant reductions are as follows:

Police - $301,784 Cut 3 positions (including 1 captain) and reorganize structure of ranking officers

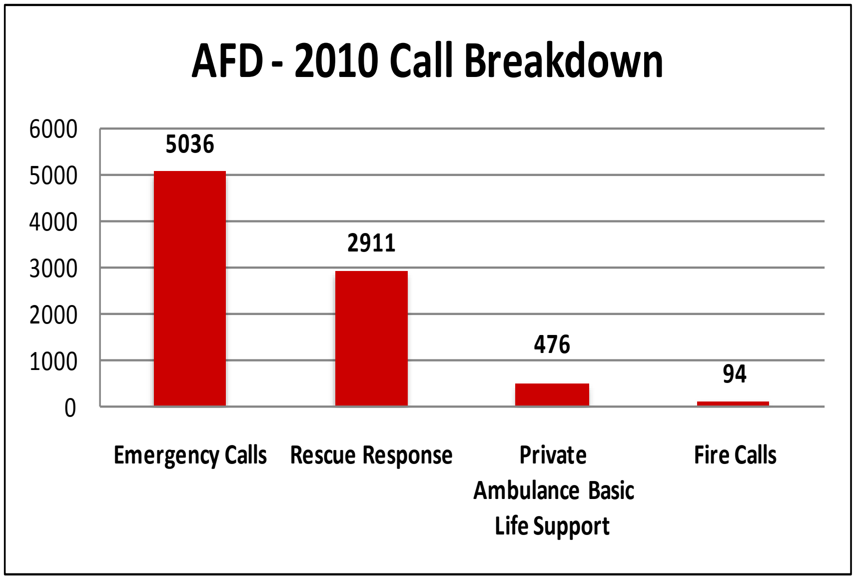
Notably, the Police Services budget cuts will lessen the ability of the police department to provide a proactive and problem solving model of community policing. Current minimum manning levels will be reduced on some late night shifts and specialist assignments will be reduced. The police department has provided a high level of service with scarce resources for many years, and were it not for grants and other alternative funding sources, the department would not be where it is today. In fact, Arlington's comparable communities staff their police departments with about 2 police officers per thousand residents while Arlington will staff its department in FY2012 with about 1.4 police officers per thousand residents. Arlington is already the lowest staffed police department on a per capita basis in the metropolitan area (see staffing chart right). That, combined with growing gang violence, increases in the volume and lethality of domestic violence cases, the frequency and complexity of identity theft investigations, and other crime and disorder threatening to spill over to Arlington, is a concern. The proposed staffing level is precariously low and may result in longer response times, less traffic enforcement, elimination of numerous community outreach initiatives, fewer follow up investigations, and a general reactive approach to policing in Arlington. With shrinking resources it will be more important than ever to maximize the use of technology and to analyze crime data so as to direct our limited resources in the most efficient and effective manner. Based upon the data analysis conducted (see service call chart right), the late night shift (AM) experienced the least calls for service so reducing manning on this shift was determined to have the least impact on services.

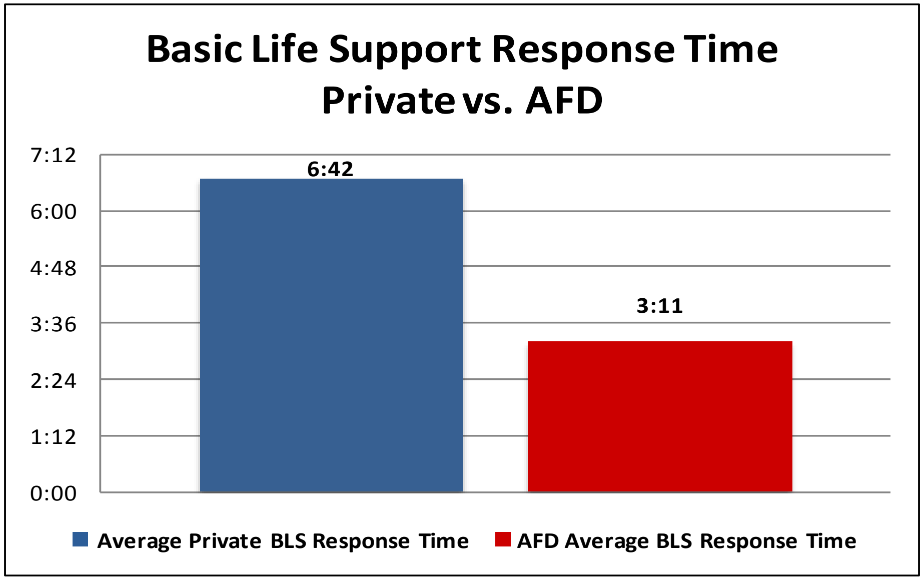




Fire - $290,424 Cut 4 firefighters and 1 lieutenant (2 positions to be restored through ambulance revolving fund fees)

The Fire Services budget reduction will result in the elimination of funding for 5 firefighting positions. The operation of a second ambulance will generate additional revenue to fund two of these positions through the ambulance revolving fund, but operating a second ambulance will reduce available engine company staffing thereby necessitating the deactivation of an engine company when the second ambulance is on a call. This reduction of minimum manning will directly impact the level of service to citizens. There will be occasions when response times will be longer and there will be fewer firefighters and equipment available in the initial stages of any fire. The availability of the Quint fire apparatus (combined engine/ladder vehicle) will provide some additional flexibility in the initial response.





Public Works is proposed to lose another 9 positions going from 63 to 54 (-14%). The department's staffing level has been cut by more than one-third just since FY2003 and by nearly two-thirds since FY1990. Service levels in all areas will be negatively impacted. Highways will lose 4 (-14%) more positions which will mean further reductions in maintenance of roads and sidewalks, less street sweeping resulting in dirtier streets, and slower and less thorough snow removal operations. Two positions (-12%) will be cut from Natural Resources resulting in further reductions to park and field maintenance, the elimination of field lining for various sports leagues, and reduced tree maintenance. Natural Resources is also responsible for shoveling sidewalks during the winter so the Town's ability to clear sidewalks on a timely basis will be negatively impacted. Cemeteries will lose two more positions which means it will have gone from 12 positions in FY2003 to 3.5 positions in FY2012. This will result in less maintenance of the cemetery and the elimination of graveside assistance. Administration will also lose an Office Manager position further straining the department's ability to manage the business side of the $24 million operation. Not staying on top of the management and administration of this large business operation can have a serious financial impact on the town.

Libraries

Budget reductions at the Library will result in closing the Robbins Library one additional evening per week, an 18% cut in the book and subscription budget, the necessity to close Fox Library an additional day (the Friends of Fox may fund this additional day), an 18% reduction in the page budget causing delays in returning materials to the shelves, and reduction in hours of library staff. The loss of evening hours will impact working people as well as groups who utilize the library's two meeting rooms. The reduction to the materials budget will result in fewer materials available for the public and cause an increase in the number of interlibrary loans requested from other libraries. The Town will not meet the state's municipal appropriation requirement and unless the state grants a waiver, the Town will face de-certification and the potential loss of borrowing privileges at local libraries.

Planning & Community Development

The position of Assistant Director has been eliminated which will seriously impact the department's ability to carry out its planning, economic development, and property management responsibilities. Due to cutbacks in CDBG federal funds, the Housing Director's position now needs to be funded 50% from the general fund thus offsetting a majority of the Assistant Director's savings. Consulting services have been increased to partially make up for the loss of the Assistant Director position.

Arlington Youth Counseling Center

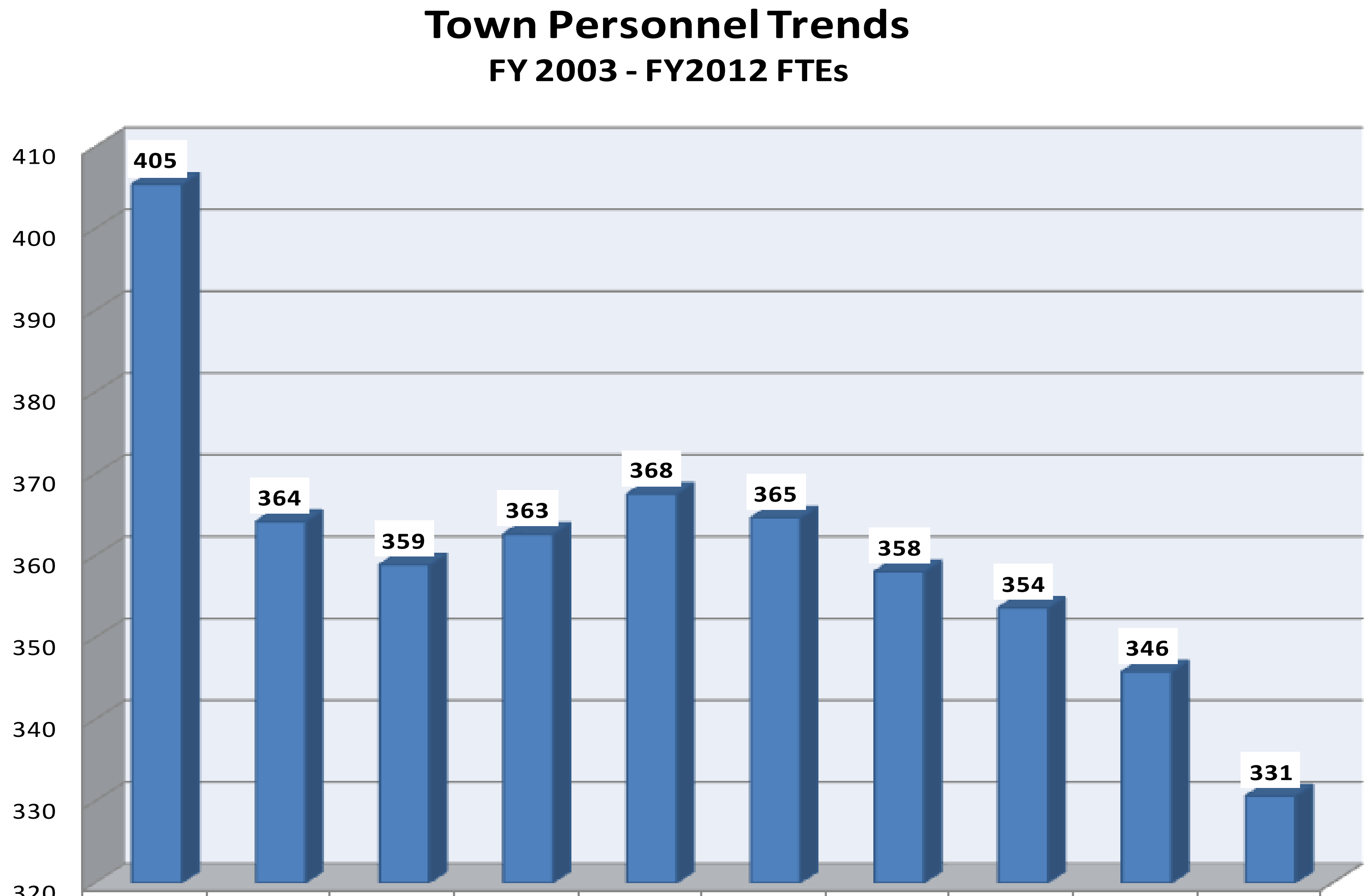
The AYCC Town subsidy is proposed to be cut another $100,000. The goal is to put the agency on a fully self-supporting basis and eliminate the Town subsidy completely. The Director and Youth Services Board have done a tremendous job in drawing in outside financial resources to achieve this goal. The Town subsidy has gone from $325,000 in FY2008 to only $89,066 in FY2012.

Health & Council on Aging

The Health department will lose a half-time Health Compliance Officer resulting in fewer health inspections and negatively impacting the department's ability to prevent health problems, particularly in the food service area. The Council On Aging will lose the currently vacant half-time Social Worker position that was approved in FY2011. With the growing elderly population and reduced social services available from other sources, this will negatively impact services to our most vulnerable population.

Internal Services & Other Appointing Authorities

Many of our management and administrative departments that oversee the management of the Town's $113 million operation and provide support services to the front line departments, have sustained significant cuts in the past and will once again experience further cuts. Cuts totaling $80,000 are proposed. This will further weaken the Town's ability to manage and oversee operations and finances which can have serious financial and operational consequences.



	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY 12
Total	405	364	359	363	368	365	358	354	346	331

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 17% 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). Revenue from growth in the tax base ranks near the bottom among a group of 20 comparable communities (see Table 3). It is less than two-thirds 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 2.85 and 3.1 respectively. Arlington's is a 1.77 and 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 less than 6% of the total. Table 5 shows that Arlington's commercial/industrial tax base ranks it 17th out of 20 comparable communities. The average of these communities is 20.8%, 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 11th in taxes per capita, and 11th in taxes per household as a percent of median household income. 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. In overall expenditures per capita, the Town ranks 16th and nearly 17% below the state-wide average (see Tables 8-12).With spending well below the state-wide average and below comparable communities, and with revenue growth opportunities well below the statewide average and 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, coupled with a $5.3 million reduction in state aid since 2002, has left the Town with only two choices— significant budget cuts with the resulting service reductions or Proposition 2 ½ general overrides.

Table 1

	Municipality	Pop Per Square Mile
1	BROOKLINE	8,085
2	ARLINGTON	7,914
3	WATERTOWN	7,875
4	MEDFORD	6,827
5	MELROSE	5,695
6	SALEM	5,093
7	BELMONT	4,998
8	WINCHESTER	3,492
9	STONEHAM	3,491
10	WEYMOUTH	3,131
11	RANDOLPH	2,987
12	WOBURN	2,910
13	NORWOOD	2,692
14	WELLESLEY	2,676
15	READING	2,321
16	NEEDHAM	2,265
17	NATICK	2,114
18	MILTON	2,008
19	LEXINGTON	1,846
20	CHELMSFORD	1,519
	Ave w/o Arlington	3,791
	Arlington	7,914

Table 2

	Municipality	Households Per Sq Mile
1	BROOKLINE	3,890
2	ARLINGTON	3,747
3	WATERTOWN	3,652
4	MEDFORD	2,787
5	MELROSE	2,398
6	SALEM	2,244
7	BELMONT	2,142
8	STONEHAM	1,510
9	WEYMOUTH	1,327
10	WINCHESTER	1,309
11	WOBURN	1,215
12	RANDOLPH	1,145
13	NORWOOD	1,140
14	READING	889
15	NATICK	886
16	WELLESLEY	870
17	NEEDHAM	860
18	MILTON	703
19	LEXINGTON	691
20	CHELMSFORD	575
	Ave w/o Arlington	1,591
	Arlington	3,747

Table 3

	Municipality	New Growth Ave '09-'11
1	LEXINGTON	2.76%
2	NATICK	2.57%
3	NEEDHAM	2.50%
4	NORWOOD	2.10%
5	WOBURN	2.07%
6	WELLESLEY	1.84%
7	SALEM	1.74%
8	CHELMSFORD	1.38%
9	MEDFORD	1.28%
10	BROOKLINE	1.26%
11	WATERTOWN	1.25%
12	MELROSE	1.20%
13	RANDOLPH	1.19%
14	BELMONT	1.09%
15	READING	1.06%
16	WINCHESTER	0.96%
17	ARLINGTON	0.91%
18	STONEHAM	0.89%
19	WEYMOUTH	0.88%
20	MILTON	0.86%
	Ave w/o Arlington	1.52%
	Arlington	0.91%
	State-wide Ave	1.52%

Table 4

	Municipality	FY2011 Municipal Revenue Growth Factor
1	NORWOOD	6.93
2	LEXINGTON	5.13
3	NEEDHAM	4.49
4	CHELMSFORD	3.96
5	BROOKLINE	3.47
6	WELLESLEY	3.46
7	WOBURN	3.44
8	NATICK	3.14
9	BELMONT	3.11
10	MEDFORD	2.72
11	RANDOLPH	2.70
12	MILTON	2.61
13	MELROSE	2.53
14	WATERTOWN	2.50
15	WINCHESTER	2.15
16	SALEM	2.00
17	ARLINGTON	1.77
18	STONEHAM	1.44
19	READING	1.43
20	WEYMOUTH	1.05
	Ave w/o Arlington	3.1
	Arlington	1.77
	State-Wide Ave	2.85

Table 5

Municipality	FY2010 Commercial/ Industrial % of Total Value
1 WOBURN	50.94
2 NORWOOD	44.49
3 WATERTOWN	33.16
4 SALEM	29.49
5 WEYMOUTH	23.98
6 NATICK	23.81
7 MEDFORD	23.12
8 NEEDHAM	22.21
9 RANDOLPH	22.19
10 LEXINGTON	21.44
11 CHELMSFORD	19.40
12 STONEHAM	17.37
13 BROOKLINE	16.18
14 WELLESLEY	11.64
15 READING	9.26
16 MELROSE	8.76
17 ARLINGTON	5.95
18 BELMONT	5.92
19 MILTON	5.86
20 WINCHESTER	5.28
Ave w/o Arlington	20.8
Arlington	5.95

Table 6

Municipality	FY2010 Taxes Per Cap
1 LEXINGTON	4019
2 WELLESLEY	3455
3 CHELMSFORD	3191
4 WOBURN	3167
5 NEEDHAM	3075
6 WINCHESTER	2928
7 BROOKLINE	2781
8 BELMONT	2762
9 MEDFORD	2712
10 NATICK	2088
11 ARLINGTON	2036
12 WATERTOWN	2028
13 MILTON	1886
14 NORWOOD	1821
15 STONEHAM	1761
16 SALEM	1699
17 MELROSE	1639
18 READING	1549
19 WEYMOUTH	1357
20 RANDOLPH	875
Ave w/o Arlington	2,357
Arlington	2,036

Table 7

Municipality	FY2010 Taxes Per Household As a % of 1999 Household Income
1 LEXINGTON	8.9%
2 WELLESLEY	8.5%
3 WINCHESTER	8.1%
4 MILTON	8.0%
5 BELMONT	7.7%
6 BROOKLINE	7.5%
7 NEEDHAM	7.3%
8 READING	6.8%
9 CHELMSFORD	6.6%
10 NATICK	6.4%
11 ARLINGTON	6.4%
12 SALEM	6.4%
13 STONEHAM	6.1%
14 RANDOLPH	5.8%
15 MELROSE	5.8%
16 MEDFORD	5.4%
17 WATERTOWN	5.3%
18 WOBURN	5.1%
19 WEYMOUTH	5.0%
20 NORWOOD	4.2%
Ave w/o Arlington	6.6%
Arlington	6.4%

Table 8

Municipality	FY2009 Gen Gov Expenditures Per Cap
1 LEXINGTON	419
2 WINCHESTER	312
3 WELLESLEY	236
4 NEEDHAM	193
5 BELMONT	181
6 BROOKLINE	167
7 NORWOOD	154
8 NATICK	133
9 READING	131
10 ARLINGTON	124
11 WATERTOWN	117
12 SALEM	104
13 MELROSE	102
14 STONEHAM	87
15 WOBURN	85
16 MILTON	84
17 RANDOLPH	77
18 WEYMOUTH	76
19 CHELMSFORD	68
20 MEDFORD	63
Ave w/o Arlington	147
Arlington	124
State-wide Ave	142

Table 9

	Municipality	FY2009 Public Safety Exp Per Cap
1	WOBURN	418
2	WEYMOUTH	324
3	NORWOOD	451
4	BROOKLINE	496
5	WATERTOWN	529
6	NEEDHAM	411
7	MEDFORD	391
8	BELMONT	396
9	SALEM	380
10	WELLESLEY	371
11	LEXINGTON	349
12	WINCHESTER	375
13	NATICK	382
14	MILTON	392
15	MELROSE	275
16	ARLINGTON	316
17	READING	328
18	CHELMSFORD	270
19	STONEHAM	295
20	RANDOLPH	316
	Ave w/o Arlington	376
	Arlington	316
	State-wide Ave	395

Table 10

	Municipality	FY2009 Public Works Exp Per Cap
1	NORWOOD	733
2	WINCHESTER	379
3	WATERTOWN	277
4	LEXINGTON	269
5	WOBURN	259
6	WELLESLEY	246
7	BELMONT	232
8	READING	224
9	NATICK	216
10	CHELMSFORD	212
11	BROOKLINE	200
12	ARLINGTON	181
13	WEYMOUTH	178
14	MEDFORD	176
15	MILTON	174
16	MELROSE	171
17	NEEDHAM	171
18	STONEHAM	147
19	SALEM	88
20	RANDOLPH	76
	Ave w/o Arlington	233
	Arlington	181
	State-wide Ave	170

Table 11

	Municipality	FY2009 School Per Pupil Exp
1	BROOKLINE	16,847
2	WATERTOWN	16,277
3	LEXINGTON	15,368
4	SALEM	14,746
5	WELLESLEY	14,330
6	RANDOLPH	14,393
7	WOBURN	13,909
8	MEDFORD	13,269
9	NORWOOD	12,993
10	NEEDHAM	12,955
11	NATICK	12,926
12	ARLINGTON	11,813
13	BELMONT	11,653
14	MILTON	11,473
15	STONEHAM	11,400
16	WINCHESTER	11,373
17	WEYMOUTH	11,196
18	READING	10,742
19	MELROSE	10,288
20	CHELMSFORD	10,221
	Ave w/o Arlington	12,966
	Arlington	11,813
	State-wide Ave	13,006

Table 12

	Municipality	FY2009 Total Exp Per Cap
1	LEXINGTON	3,764
2	NORWOOD	3,607
3	WELLESLEY	3,694
4	WINCHESTER	3,484
5	NEEDHAM	3,450
6	BROOKLINE	3,281
7	READING	3,239
8	NATICK	2,999
9	CHELMSFORD	2,760
10	WATERTOWN	2,853
11	BELMONT	2,880
12	WOBURN	2,809
13	MILTON	2,696
14	SALEM	2,551
15	STONEHAM	2,458
16	ARLINGTON	2,240
17	RANDOLPH	2,378
18	WEYMOUTH	2,046
19	MELROSE	2,175
20	MEDFORD	1,943
	Ave w/o Arlington	2,898
	Arlington	2,240
	State-wide Ave	2,704

Cost Savings/Performance Strategies

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 regionalizing opportunities are being evaluated at the ongoing monthly meetings of this consortium.

As a result of discussions, facilitated by the Metropolitan Area Planning Council (MAPC), the Town has entered into an agreement through which it provides Sealer, Weights & Measures services for a fee to Belmont. This agreement is viewed as a step toward a continued pursuit of a regional health department. The Town has also been evaluating the current service delivery methods for various services to determine the most cost effective way to deliver these services. Cemetery grounds maintenance was successfully contracted out two years ago after such an evaluation. Other areas for which Requests for Proposals (RFP's) are being advertised are grounds maintenance on Town properties and tree services.

The Town also remains a member of a consortium of six other communities, under the auspices of the International City Manager's Association (ICMA), to gather and compare performance data for various services. It is helpful to not only measure and compare performance data with comparable communities, but to compare the year-to-year progress made by the Town itself in these service areas.

In order to increase productivity in the long run, the Town has to make better and more effective use of technology. Investment in the proper technological solutions is one of the primary means by which a community such as Arlington can sustain productivity while operating in an environment of scarce resources. To that end, the Town, through the efforts of the Information Technology (IT) department has applied for a "Smarter Cities" grant through IBM. This application is aimed at enhancing the delivery of key municipal services through technological solutions. The Town is also continuing its commitment to investing in geographic information systems (GIS). Town government is a geographically based service model, with almost all services being generated by address. Implementation of GIS in Town stands to not only enhance the productivity and capacity of departments such as Planning, Engineering, Police, Public Works, and Schools, but also other service delivery departments that will be able to better manage their workload through utilization of GIS. Enhancement of the Town's website and Request/Answer Center is another example of using technology to make departments more productive and improve services to the public despite reduced resources.

Town 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. The result has been a gradual erosion of services. The nature of the Town's structural deficit is illustrated in the table to the right. It's not anyone's fault that the Town faces an annual structural deficit; it's basic economics. On average, over the last five years, the annual growth in expenses has outpaced the growth in revenues by nearly $3 million. Going forward, even assuming level state aid and improvements in a few other areas, the annual deficit is projected to be at least $2.5 million.

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. The major expenditure drivers are largely out-

Typical Annual Growth

Revenues	
Property Taxes	$ 2,400,000
Local Receipts	$ 50,000
State Aid	$ (-250,000)
Total	$ 2,200,000
Expenditures	
Wage Adjustments	$ 1,800,000
Health Insurance/Medicare	$ 2,000,000
Pensions	$ 400,000
Miscellaneous (utilities capital/debt, special education, other)	$ 1,000,000
Total	$ 5,200,000
Structural Deficit	$(3,000,000)

side of the control of the Town and include health care 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. Second, the Town has experienced a disproportionate cut in its state aid. As noted earlier, in a comparison of new growth in the tax base of 20 comparable communities, Arlington was near the bottom.

The Town's fiscal condition was exacerbated in FY2003 and FY2004 as a result of state aid reductions in excess of $3.3 million. After major budget reductions and the depletion of reserves, which carried the Town through FY2005, the Town was facing a deficit of approximately $4 million in FY2006. The passage of a $6 million Proposition 2 ½ override in 2005 for FY2006 covered the $4 million deficit and allowed the Town to put into reserve the remaining $2 million. One of the key commitments made as part of the Proposition 2 ½ override was that the funds would be made to last five years and that no override would be requested during that time. We are now heading into our seventh year.

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%**

The plan served the Town well. It required tight controls over operating budgets. With these controls appropriately managed, the plan overcame the Town's structural deficit and provided sufficient resources to maintain services for the five year period. The departmental budget increases over this five year period are shown on the next page. The school department increases were larger than the municipal departments in recognition of some extraordinary special education cost increases.

The Town's structural deficit still exists. With the help of $3.2 million in one-time funds, including federal stimulus funds and the remaining balance of $1.6 million in the override stabilization fund, the Town was able to balance the FY2011 budget without major cuts in services. Without the $3.2 million being available in FY2012, the projected deficit for FY2012 is approximately $4 million. Knowing this deficit was looming, we have worked for the last two years with the employee unions on ways to reduce the Town's largest cost driver – health care.

The Health Care Challenge

With health care costs growing an average of 11% per year, or an annual increase of $2 million, this cost increase alone eats up nearly the entire annual revenue growth of $2.2 million. Costs have gone from $6.6 million in 2000 to $19 million in 2010 (10% of the total budget to 16%). It is by far the Town's largest cost driver and must be addressed. While no one, including the Town's employee unions, is to blame for the Town's deficit problems, the unions have to be part of the solution, particularly with regard to health care.

Nearly every employer has had to implement cost controls including, health care changes to adapt to today's harsh economic realities. I know many residents have experienced increased health care contributions and/or co-pays and deductibles. No employer wants to make such changes, but they need to do so for the organization's survival. The Town is facing the same financial crisis and needs to make similar changes to ensure its sustainability.

Health Care Proposals

The proposal to join the State's group health care program (GIC) would have saved $4.7 million. After deducting the increased co-pay and deductible costs, the net savings was $4.0 million. While some would argue that all of the net savings should go to reduce the deficit, it would be unreasonable to expect that employees would voluntarily agree to give up their veto power over future changes to plan design and go without wage increases for several years. In the end, we put our best possible proposal on the table.

(continued on next page)

The Health Care Challenge (continued)
In brief, management proposed of the $4 million net savings, $2.65 million would benefit employees and their families through reduced healthcare premiums and modest wage increases. The balance of $1.35 million would be available to the Town to save jobs and services. To address union concerns over perceived volatility of the GIC's costs, the Town agreed to pick up all cost increases above 12% for premiums and $100 for deductibles. This meant that our employees would be paying significantly less than state employees for the same coverage and would have a guaranteed cap on premiums and deductible increases. This proposal was rejected along with a more modest proposal to consolidate coverage under a single provider, Harvard Pilgrim (the number one rated provider in the country), with minor co-pay changes resulting in much smaller total savings of only $1.5 million.

In the end, employees exercised their bargaining rights and rejected our proposal. Municipal unions were granted this right by the Legislature and they are simply exercising that right. Health insurance coverage can be complex and confusing so the natural inclination is to just keep the status quo. Unfortunately, this time, the status quo will result in lost jobs and services.

Health Care Law for Municipalities Needs to Change
There is absolutely no justification for the double standard whereby the State retains authority over its employee health care program, but denies that same authority to cities and towns. It is time to change the law! The Legislature must remove the handcuffs it has placed on cities and towns preventing them from exercising effective control over their largest cost. To put it simply, Massachusetts cities and towns are being crushed under a two-tiered system.

The Legislature does not require the state to bargain health care plan design changes with state employees, but mandates this requirement on cities and towns. So while the State does not bargain with its employees over health care changes, and has made changes, the Legislature and Governor have up to this point somehow rationalized that municipalities should not be able to make any health care changes unless the municipal unions agree. Insult is added to injury with the imposition of unfunded state and federal changes to health care law without resources to implement those changes.

The call for municipal health insurance reform has been endorsed by organizations such as the Massachusetts Taxpayers Foundation, Associated Industries of Massachusetts, the Mass Municipal Association, the Boston Foundation, the Boston Municipal Research Bureau, local chambers of commerce, and virtually every newspaper across Massachusetts, including the Boston Globe. Municipalities are not looking to balance their budgets on the backs of their employees. They are simply looking for the same rights as the State and other employers to make reasonable adjustments to the health care plans they offer their employees.

Recently, Speaker of the House Robert DeLeo has publicly stated his strong support for municipal health insurance reform, insisting that action be taken early in this year's legislative session. Also, as part of his FY2012 budget proposal, Governor Deval Patrick filed legislation that would allow municipalities to access the GIC outside of collective bargaining. Though no action has been taken on this legislation to date, it is an encouraging sign that our state's leaders are beginning to demonstrate an understanding of the need for reform. It is possible that legislative action will be taken in the upcoming months that may have an impact on the FY2012 budget.

For FY2012, health care rates will increase nearly 9%. However, the decreased enrollments occurring as a result of FY2011 reductions, combined with a projected $400,000 reimbursement from the Early Retirement Reimbursement Program, the FY2012 health care appropriation is projected to grow by only 3%.

Collective Bargaining

Contracts with all bargaining units have been settled through June 30, 2009. Negotiations are ongoing for agreements through FY2011. Due to a number of factors, including the economic crisis forcing drastic budget reductions, an inflation rate at near zero, and the annual increase in healthcare benefits, no cost of living increases are proposed for FY2010, FY2011, and FY2012. Until there are agreements with all the unions for significant health care changes, any collective bargaining agreements are unlikely.

State Aid

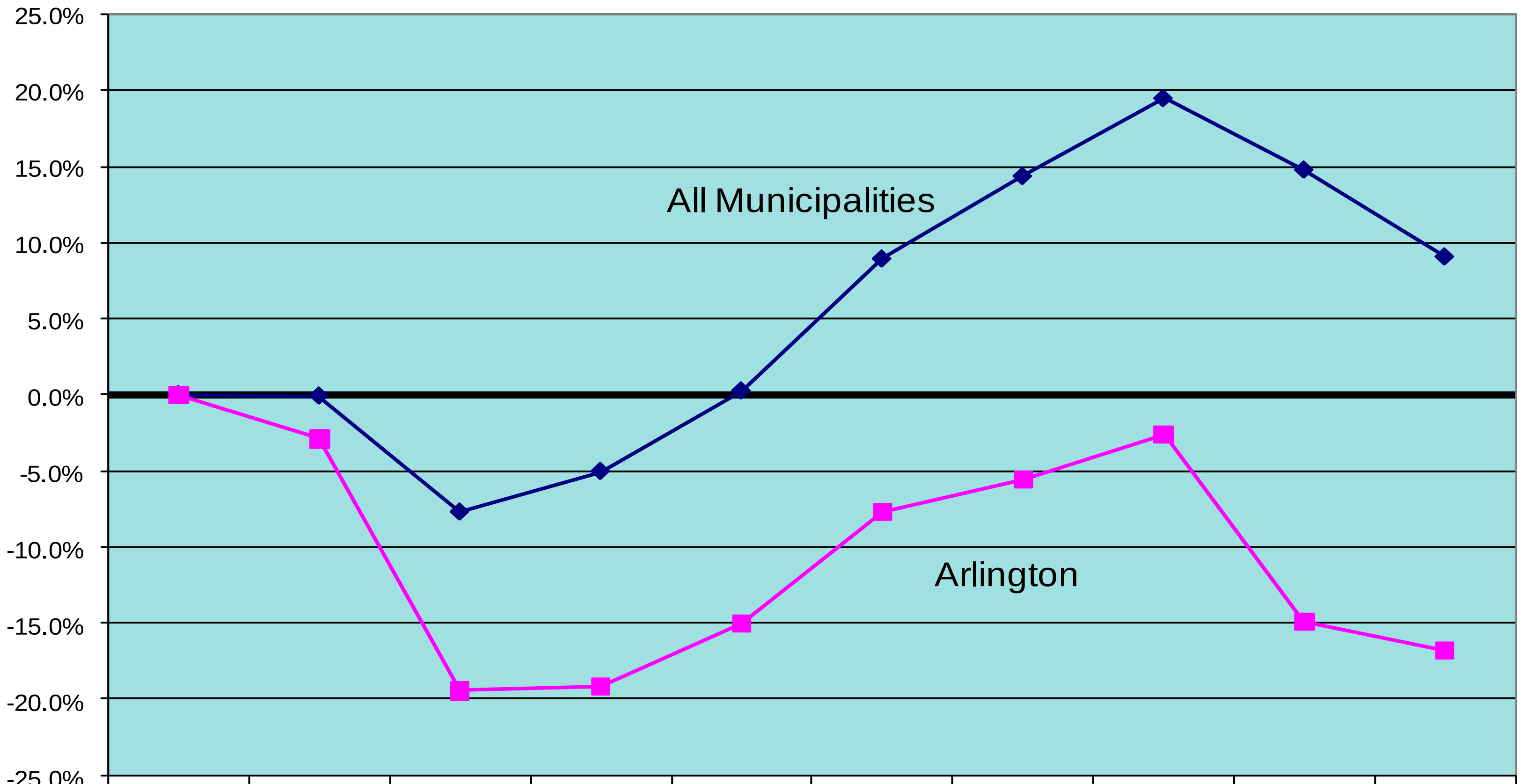
In January, Governor Patrick proposed to reduce local aid cherry sheet funding to Arlington, by 1.7%. This reduction manifested itself in a 3.7% increase in Chapter 70 (School Aid), set against a 7% reduction in General Government Aid. The House Ways and Means Committee is due to report its recommendation in mid- April, however, as has been the case in prior years, both the House and Senate may agree upon a local aid resolution prior to the issuance of their comprehensive budget proposal. After adding in the $489,705 reduction in IDEA and State Fiscal Stabilization Funds that were distributed by the State in FY2011, the total state aid reduction is $725,311, bringing down the total state aid, exclusive of school construction aid, to $13,341,134. This is less local aid than the Town received in FY1988, some 24 years ago (see chart on p. II-16). During this period, Arlington has seen its share of the local aid “pie” cut in half (see chart on p. II-17).

Since FY2002, Arlington’s total state aid has decreased by 16.8%, losing over $5.5 million through FY2011 (see chart on p. II-15). Since FY2002, local aid for all municipalities initially dropped by approximately 8%, rebounded through FY2009 to a 20% increase, and then dropped in FY2011 to a cumulative increase of 9.1% from FY2002. 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 the current year, FY2011, aid is 17% below FY2002 while the average of all municipalities has seen an increase of 9.1%.

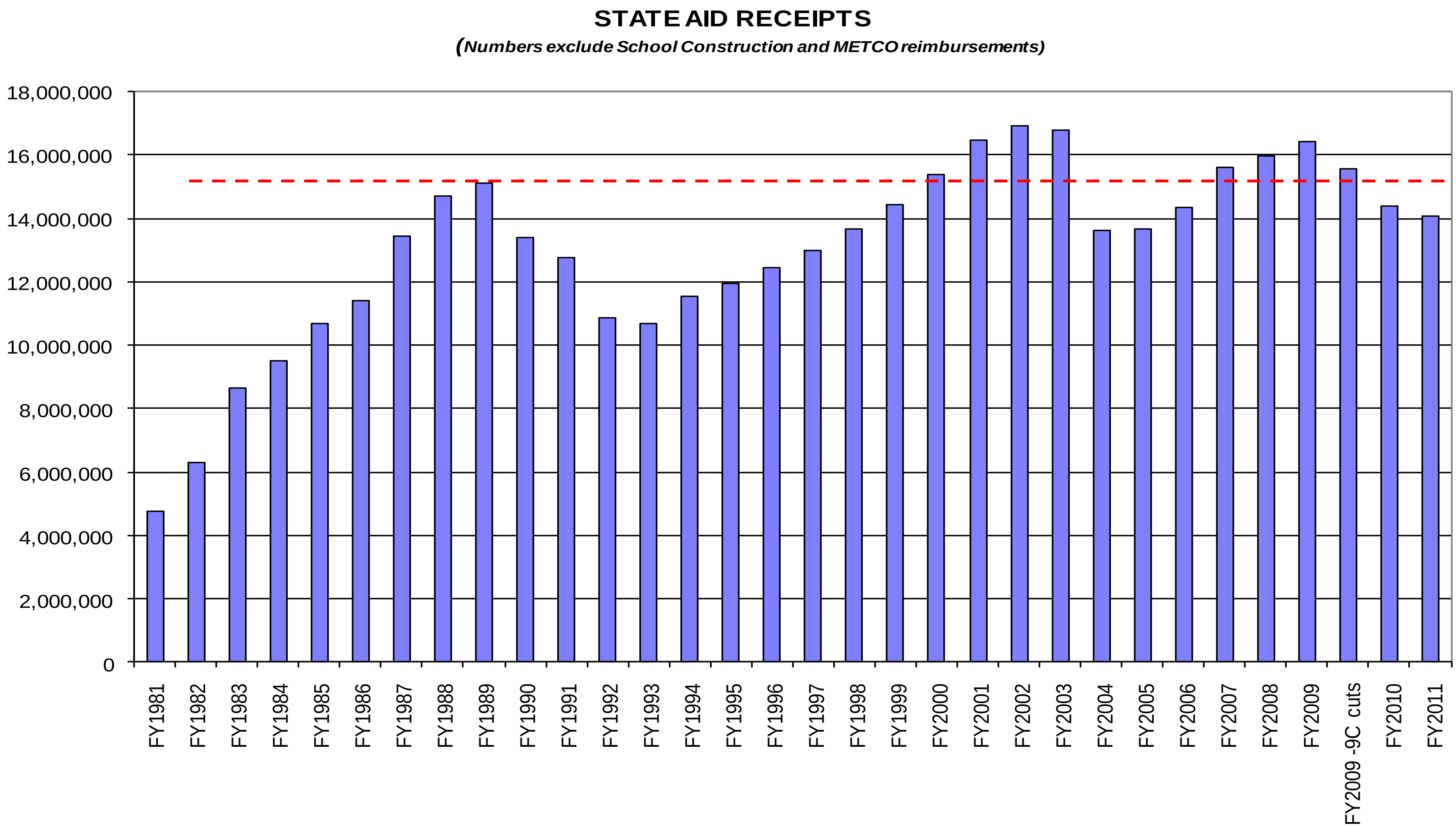
Over the last several years, the distribution formulas used for the cutbacks in state aid—and the subsequent restoration of those cuts—have not been implemented fairly, nor have they recognized the needs of communities like Arlington. The policy has essentially been this: communities with relatively high median income levels and high property values are assumed to have a greater ability to raise revenue locally, and therefore to 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.

A majority of local aid increases over the last decade have been distributed through the Chapter 70 school aid formula. The formula works to the disadvantage of communities with relatively high incomes and property values. Arlington falls into this category, which means that we are a minimum aid community and are calculated to receive only 17.5% of our school foundation budget (the amount that the state calculates that we should be spending on schools). Some communities receive as much as 85%, with the average targeted at 60%. For FY2012, Arlington will receive the minimum, 17.5%.

State Aid Cumulative Percent Change
Since Fiscal Year 2002
(Numbers exclude School Construction and METCO reimbursements)



	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY2010	FY2011
All Municipalities	0.0%	-0.1%	-7.7%	-5.1%	0.3%	8.9%	14.4%	19.5%	14.8%	9.1%
Arlington	0.0%	-2.9%	-19.5%	-19.2%	-15.0%	-7.7%	-5.5%	-2.6%	-14.9%	-16.8%


STATE AID RECEIPTS
(Numbers exclude School Construction and METCO reimbursements)
18,000,000
16,000,000
14,000,000
12,000,000
10,000,000
8,000,000
6,000,000
4,000,000
2,000,000
0
FY1981
FY1982
FY1983
FY1984
FY1985
FY1986
FY1987
FY1988
FY1989
FY1990
FY1991
FY1992
FY1993
FY1994
FY1995
FY1996
FY1997
FY1998
FY1999
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FY2003
FY2004
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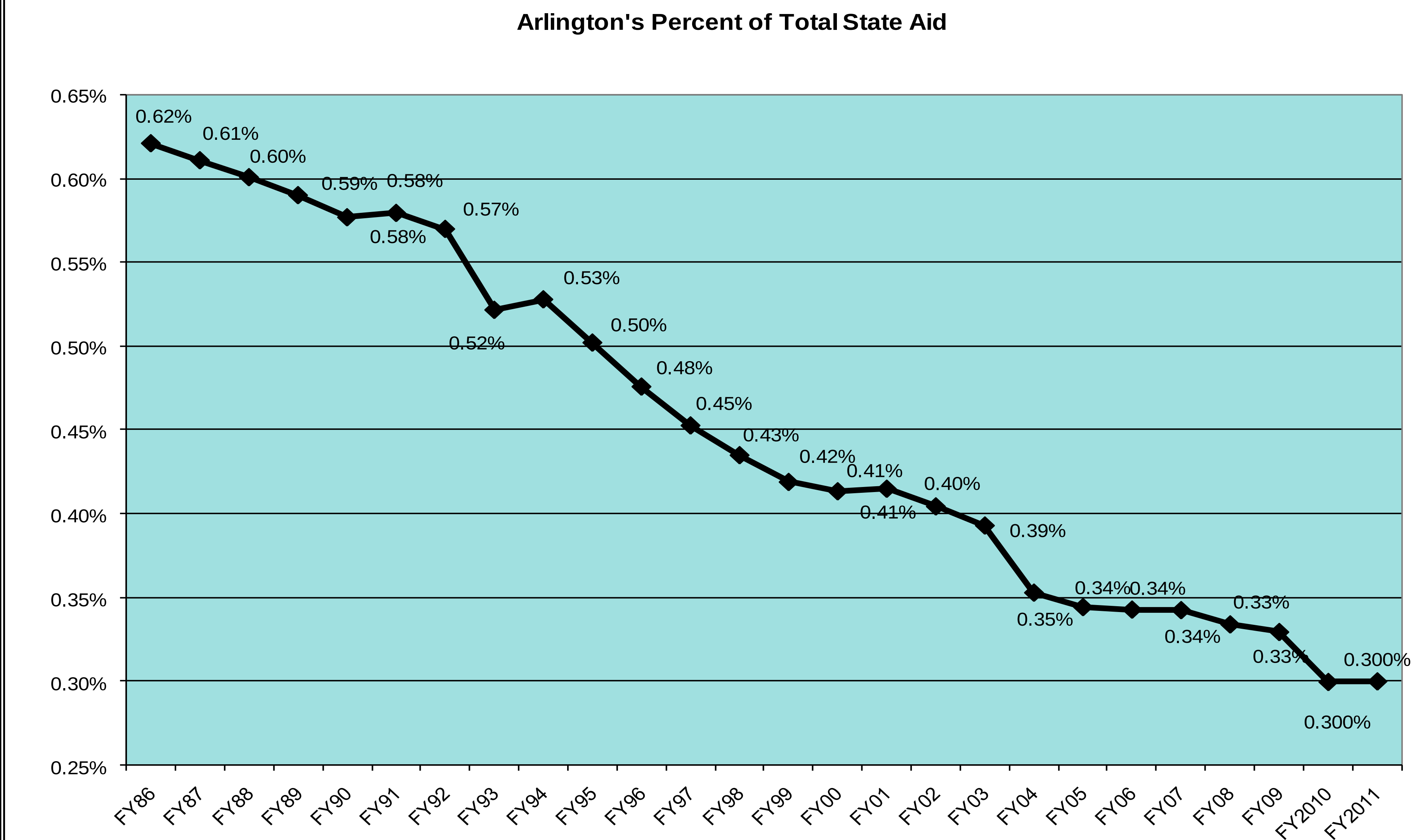
FY2009
FY2009 -9C cuts
FY2010
FY2011


Arlington's Percent of Total State Aid
0.65%
0.60%
0.55%
0.50%
0.45%
0.40%
0.35%
0.30%
0.25%
0.62%
0.61%
0.60%
0.59%
0.58%
0.58%
0.57%
0.52%
0.53%
0.50%
0.48%
0.45%
0.43%
0.42%
0.41%
0.41%
0.40%
0.39%
0.35%
0.34%
0.34%
0.34%
0.33%
0.33%
0.300%
0.300%
FY86
FY87
FY88
FY89
FY90
FY91
FY92
FY93
FY94
FY95
FY96
FY97
FY98
FY99
FY00
FY01
FY02
FY03
FY04
FY05
FY06
FY07
FY08
FY09
FY2010
FY2011

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. FY2012 funding for the capital budget is as follows:

Bonding	$ 1,249,530
Cash	$ 618,400
Other	$ 3,509,105

Our existing non-exempt debt is $5.1 million, which is slightly higher than in FY2011. The total capital budget for FY2012, including debt, is estimated at $8.2 million. Major projects to be funded in FY2012 include: design work to be performed for the envelope repairs to the Community Safety building, sidewalk and road work for approximately $1 million, and water and sewer work for $2.35 million. The continuing Stratton School renovation project involves three phases totaling $2.4 million, most of which will be bonded. The Town has also applied for and is currently under consideration to receive MSBA Green Repair Grant funding to supplement the improvements being made at Stratton. The debt service for this will be financed with the annual appropriation of $150,000 already factored into the capital plan.

The Massachusetts School Building Authority (MSBA) has approved the rebuild of the Thompson School and has authorized the Town to proceed with the schematic design process. The MSBA is anticipated to provide funding for approximately 47% of the project costs as approved by the MSBA. Consideration is currently being given to seeking a bond authorization of $20 million for the project at a Special Town Meeting this May. Funding would come from a combination of sources including a prior Proposition 2 $^{1/2}$ debt exclusion vote.

Long Range 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 on 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.

On the revenue side, we have made the following assumptions:

Revenue Assumptions—

- **Overall revenues** are expected to decrease 0.1% in FY2012. Future year increases range from 1.89% to 2.09%. FY2012 is the lowest due to the drop in available reserves and other previously available federal stimulus funding.
- **Tax Levy** - Projected to increase approximately 2.6% per year.
  - Regular Levy - 2 ½ % plus new growth of $400,000 in FY2012, and then new growth $350,000 each year thereafter.
  - Debt Exclusion – Actual debt for Proposition 2 ½ debt exclusion school projects minus state reimbursements. FY2012 includes excluded debt of $307,130 relative to the Symmes Urban Renewal project. Nothing has been factored in for a possible bond authorization for the rebuild of the Thompson School.
  - MWRA Water and Sewer Debt – Amount from FY2007 held level as voted by Board of Selectmen.
- **State Aid** – Projected to decrease 1.7% in FY2012, and remain flat in FY2013 through FY2016.
- **School Construction Reimbursement** - Projected to remain the same $2,531,085.
- **Local Receipts** – Local Receipts are estimated to increase by $89,293 in FY2012, and then by $50,000 increments from FY2013 through FY2016.
- **Free Cash** – Typically appropriate one-half of certified amount. In FY2012 the amount used is $385,249. This lower amount was caused by the FY2010 School Department deficit . Use is increased to $500,000 each year thereafter in anticipation of larger certified balances.
- **Overlay Reserve Surplus** – Use $200,000 in FY2012 and each year thereafter.

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, less any amount above a 7% increase for employee healthcare.
- **Minuteman School** – In FY2012, decreased enrollment dropped our assessment by 14%. Thereafter, increases are projected at 3.5%.
- **Municipal Departments** - Going forward, expenditures are capped at 3.5% less any amount above a 7% increase for employee healthcare.
- **Capital Budget** – Based upon the 5 year plan that calls for dedicating approximately 5% of revenues to capital spending.
  - **Exempt Debt** – Actual cost of debt service for debt exclusion projects. Declining debt service over the next several years.
  - **Non-Exempt Debt** – Increasing based on major projects over next several years including the fire stations.
  - **Cash** – In FY2012, the CIP calls for $618,400 in cash-financed projects. Thereafter, amounts average approximately $700,000
- **MWRA Debt Shift** – The amount has been level funded at $5,593,112.
- **Pensions –** In FY2012 an increase of 5.42%, and thereafter, increased 6%.
- **Insurance (including healthcare) –** In FY2012 projected increase of 3%. Thereafter, capped at 7%. Any amount above 7% reduces municipal and school budgets.
- **State Assessments –** Based upon preliminary cherry sheets, increased 1.86% in FY2012. Thereafter, increased 2.5%.
- **Offset Aid –** These grants to schools and library are increased slightly in FY2012 based upon preliminary cherry sheets and thereafter held level.
- **Overlay Reserve –** This reserve for tax abatements is increased in revaluation years, which are every three years. The next revaluation is scheduled for FY2013. In non-revaluation years, including FY2012, it is reduced to $600,000.
- **Other –** Court judgments or deficits, including snow removal, revenue, etc., are estimated at $784,400 in FY 2012, and $700,000 thereafter.
- **Warrant Articles** – In FY2012 Warrant Articles are estimated to total $609,090 and thereafter $646,515 each year.

Conclusion

Every effort has been made to implement all appropriate measures that will both 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 coming weeks, 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 who deserves the credit for the quality of the budget document including the information and the data contained herein. I also want to extend a special word of thanks to my office staff, Eileen Messina, Domenic Lanzillotti, and Theo Kalivas who spent evenings and weekends assisting in producing this document.

Respectfully submitted,

Brian F. Sullivan

Town Manager

Long Range Financial Projection

			FY 2011	FY 2012	Dollar Change	Percent Change	FY 2013	FY 2014	FY 2015	FY 2016
I	**REVENUE**									
A.	State Aid		13,576,740	13,341,134	*(235,606)*	*-1.74%*	13,341,134	13,341,134	13,341,134	13,341,134
		School Construction Aid	2,531,085	2,531,085	*0*	*0.00%*	2,531,085	2,531,085	2,531,085	2,531,085
		SFSF	129,741		*(129,741)*					
		IDEA Funds	359,964		*(359,964)*	*-100.00%*				
B.	Local Receipts		8,820,707	8,910,000	*89,293*	*1.01%*	8,960,000	9,010,000	9,060,000	9,110,000
C.	Free Cash		582,051	385,249	*(196,802)*	*-33.81%*	500,000	500,000	500,000	500,000
D.	Overlay Reserve Surplus		500,000	200,000	*(300,000)*	*-60.00%*	200,000	200,000	200,000	200,000
E	Property Tax		85,958,974	88,587,262	*2,628,288*	*3.06%*	90,581,274	92,935,055	95,362,821	97,843,822
F	Override Stabilization Fund		1,580,000		*(1,580,000)*					
	TOTAL REVENUES		114,039,262	113,954,730	*(84,532)*	*-0.07%*	116,113,493	118,517,274	120,995,040	123,526,041
II	**APPROPRIATIONS**									
A.	Operating Budgets									
	School									
		General Education Costs	27,894,961	25,164,230	*(2,730,731)*	*-9.79%*	26,044,978	26,956,552	27,900,032	28,876,533
		Special Education Costs	11,186,195	13,351,776	*2,165,581*	*19.36%*	14,286,400	15,286,448	16,356,500	17,501,455
		Net School Budget	**39,081,156**	**38,516,006**	*(565,150)*	*-1.45%*	**40,331,378**	**42,243,001**	**44,256,531**	**46,377,987**
	Minuteman		2,739,795	2,352,988	*(386,807)*	*-14.12%*	2,435,343	2,520,580	2,608,800	2,700,108
	Town	Personnel Services	21,013,819	19,846,658	*(1,167,161)*		20,746,173	21,528,986	22,351,377	23,409,557
		Expenses	9,110,916	9,160,916	*50,000*		9,210,916	9,260,916	9,310,916	9,360,916
		Less Offsets:								
		Enterprise Fund/Other	1,629,215	1,634,410	*5,195*	*0.32%*	1,691,614	1,750,821	1,812,100	1,875,523
		Tip Fee Stabilization Fund	680,000	450,000	*(230,000)*	*-33.82%*	400,000	198,315	0	0
		Net Town Budget	**27,815,520**	**26,923,164**	*(892,356)*	*-3.21%*	**27,865,475**	**28,840,766**	**29,850,193**	**30,894,950**
		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	2,618,094	2,836,327	*218,233*	*8.34%*	2,434,589	2,332,724	2,243,452	2,243,452
		Non-Exempt Service	4,935,652	5,183,113	*247,461*	*5.01%*	5,192,797	5,461,404	5,259,657	5,422,991
		Cash	934,947	618,400	*(316,547)*	*-33.86%*	703,150	630,500	670,300	789,500
		Minus Capital Carry Forward	(514,300)	(189,300)						
		Total Capital	***7,974,393***	***8,448,540***	*474,147*	*5.95%*	***8,330,536***	***8,424,628***	***8,173,409***	***8,455,943***
C.	Pensions		6,952,841	7,329,440	*376,599*	*5.42%*	7,769,206	8,235,359	8,729,480	9,253,249
D.	Insurance		19,422,863	20,021,646	*598,783*	*3.08%*	21,423,161	22,922,783	24,527,377	26,244,294
E.	State Assessments		2,664,789	2,714,259	*49,470*	*1.86%*	2,782,115	2,851,668	2,922,960	2,996,034
F.	Offset Aid - Library & School		58,547	62,085	*3,538*	*6.04%*	62,085	62,085	62,085	62,085
G.	Overlay Reserve		670,331	600,000	*(70,331)*	*-10.49%*	800,000	600,000	600,000	800,000
H.	Other	Crt Jdgmnts/ Deficit/ Symmes	498,449	784,400	*285,951*	*57.37%*	700,000	700,000	700,000	700,000
I.	Warrant Articles		567,465	609,090	*41,625*	*7.34%*	646,515	646,515	646,515	646,515
J.	Override Stabilization Fund									
K.	**TOTAL APPROPRIATIONS**		114,039,262	113,954,730	*(84,532)*	*-0.07%*	118,738,927	123,640,496	128,670,463	134,724,277
	BALANCE		**0**	**0**			**(2,625,434)**	**(5,123,222)**	**(7,675,423)**	**(11,198,236)**
	Increase in Deficit from Prior Year						**(2,625,434)**	**(2,497,788)**	**(2,552,201)**	**(3,522,813)**