



TOTAL REVENUE

Total revenue for FY2011 is projected at \$114,300,653, an increase of \$545,815, or 0.5%.

The property tax levy is projected to increase \$2,355,144, or 2.8%. Local receipts are projected to increase \$833,128 due to several factors, including the adoption of the optional meals tax and hotel taxes, higher than expected revenues from the motor vehicle excise taxes and building permits, and various departmental fee increases.

State aid is projected to decrease \$539,155, or 3.8%. This is based upon the Legislature's proposed budget, which cuts Chapter 70 and General Government Aid by 4%.

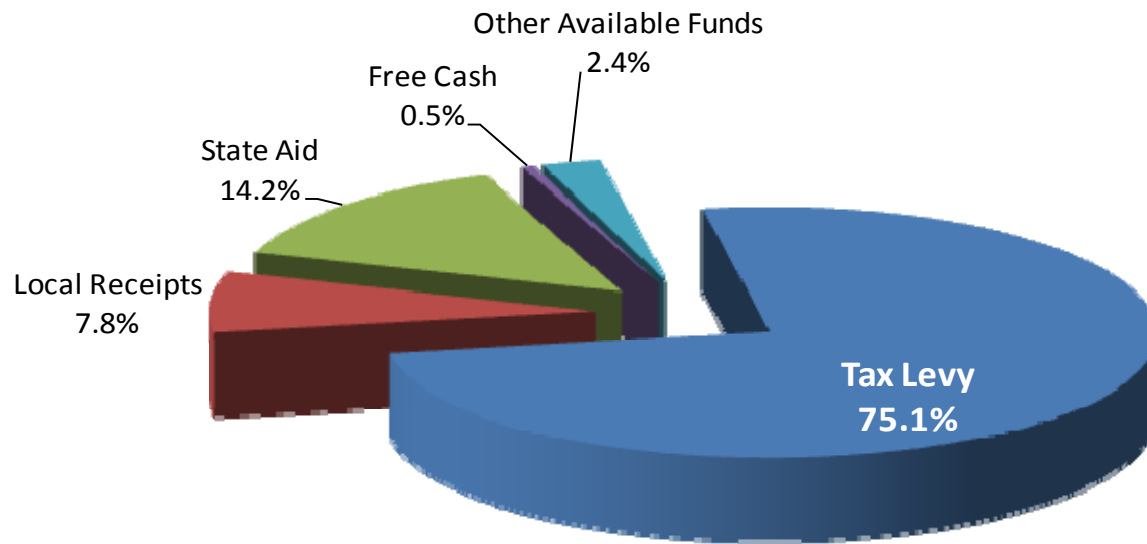
A total of \$582,050 in free cash is proposed to be used, which is a decrease of \$915,857 from FY2010. This represents 50% of the free cash balance, which is consistent with the Town's policy of using no more than 50% of the free cash balance.

Other available funds include \$500,000 in surplus tax abatement overlay funds, \$1,580,000, which is the remaining balance in the override stabilization fund, and \$719,928 in Federal IDEA grant funds. Overall the total is going down by \$1,191,775 due to a reduction in the available balance in the Override Stabilization Fund.

REVENUE SOURCE	FY2008 Actual	FY2009 Actual	FY2010 Budget	FY2011 Budget	Budget Change
Tax Levy	78,813,376	80,946,006	83,471,036	85,826,180	2,355,144
Local Receipts	9,024,278	8,715,308	8,026,872	8,860,000	833,128
State Aid	18,519,025	18,108,904	16,771,650	16,232,495	(539,155)
Free Cash	954,736	2,191,622	1,497,907	582,050	(915,857)
Other Available Funds	500,000	500,000	3,991,703	2,799,928	(1,191,775)
Total	107,811,415	110,461,840	113,759,168	114,300,653	541,485



REVENUE
\$114, 300, 653





Total General Fund Revenues

	<u>FY03</u> <u>Actual</u>	<u>FY04</u> <u>Actual</u>	<u>FY05</u> <u>Actual</u>	<u>FY06</u> <u>Actual</u>	<u>FY07</u> <u>Actual</u>	<u>FY08</u> <u>Actual</u>	<u>FY09</u> <u>Actual</u>	<u>FY10</u> <u>Budget</u>	<u>FY11</u> <u>Budget</u>
Tax Levy	56,730,196	58,706,143	60,616,241	68,050,315	71,185,238	73,220,264	75,352,894	77,877,924	80,233,068
Local Receipts	7,785,986	7,801,881	8,437,095	8,834,256	9,188,329	9,024,278	8,715,308	8,026,872	8,860,000
State Aid	16,775,516	13,945,694	14,046,847	14,790,887	15,600,746	15,972,745	15,568,470	14,240,565	13,701,410
Free Cash	2,767,285	1,774,342	1,414,803	1,614,155	1,939,695	954,736	2,191,622	1,497,907	582,050
Other Available Funds	500,000	500,000	500,000	400,000	400,000	500,000	500,000	3,991,703	2,799,928
Total	84,558,983	82,728,060	85,014,986	93,689,613	98,314,008	99,672,023	102,328,294	105,634,971	106,176,456

*Excludes MWRA debt on tax levy and school construction reimbursements

Annual Revenue Increases

	<u>FY03</u> <u>Actual</u>	<u>FY04</u> <u>Actual</u>	<u>FY05</u> <u>Actual</u>	<u>FY06</u> <u>Actual</u>	<u>FY07</u> <u>Actual</u>	<u>FY08</u> <u>Actual</u>	<u>FY09</u> <u>Actual</u>	<u>FY10</u> <u>Budget</u>	<u>FY11</u> <u>Budget</u>
Tax Levy	1,888,156	1,975,947	1,910,098	7,434,074	3,134,923	2,035,026	2,132,630	2,525,030	2,355,144
Local Receipts	90,423	15,895	635,214	397,161	354,073	(164,051)	(308,970)	(688,436)	833,128
State Aid	(498,063)	(2,829,822)	101,153	744,040	809,859	371,999	(404,275)	(1,327,905)	(539,155)
Free Cash	167,211	(992,943)	(359,539)	199,352	325,540	(984,959)	1,236,886	(693,715)	(915,857)
Other Available Funds	200,000	0	0	(100,000)	0	100,000	0	3,491,703	(1,191,775)
Total	1,847,727	(1,830,923)	2,286,926	8,674,627	4,624,395	1,358,015	2,656,271	3,306,677	541,485
Percent Increase	2.2%	-2.2%	2.8%	10.2%	4.9%	1.4%	2.7%	3.2%	0.5%

Percent of Total Revenue

	<u>FY03</u> <u>Actual</u>	<u>FY04</u> <u>Actual</u>	<u>FY05</u> <u>Actual</u>	<u>FY06</u> <u>Actual</u>	<u>FY07</u> <u>Actual</u>	<u>FY08</u> <u>Actual</u>	<u>FY09</u> <u>Actual</u>	<u>FY10</u> <u>Budget</u>	<u>FY11</u> <u>Budget</u>
Tax Levy	67.1%	71.0%	71.3%	72.6%	72.4%	73.5%	73.6%	73.7%	75.6%
Local Receipts	9.2%	9.4%	9.9%	9.4%	9.3%	9.1%	8.5%	7.6%	8.3%
State Aid	19.8%	16.9%	16.5%	15.8%	15.9%	16.0%	15.2%	13.5%	12.9%
Free Cash	3.3%	2.1%	1.7%	1.7%	2.0%	1.0%	2.1%	1.4%	0.5%
Other Available Funds	0.6%	0.6%	0.6%	0.4%	0.4%	0.5%	0.5%	3.8%	2.6%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%



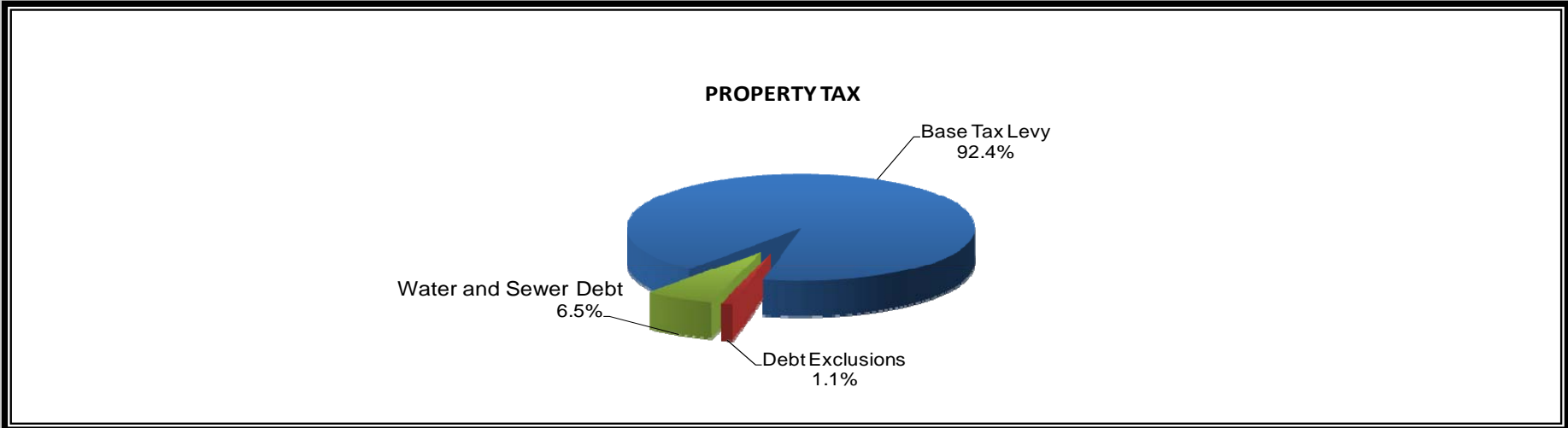
PROPERTY TAX LEVY

Property tax is the primary source of revenue for virtually every Massachusetts municipality. In Arlington, property taxes represent approximately 75% of annual operating revenues. Property taxes are levied on real property (land and buildings) and personal property (equipment) used by Arlington's non-manufacturing businesses. State law mandates that communities update their property values every three years and obtain State certification that such values represent full and fair cash value. A revaluation was conducted in FY2010. Under the Provisions of Proposition 2 ½, property taxes, in the aggregate, may not exceed 2 ½% of their "full and fair cash value." This limit is known as the "levy ceiling." Annual levy increases may not exceed 2 ½% of the previous year's levy plus the taxes added from any new or renovated property added to the tax rolls (known as new growth). Any Proposition 2 ½ override or debt exclusion amounts voted are added to the levy limit, while all related school construction reimbursements from the State are subtracted.

Property values and new growth for FY2011 are preliminary estimates used to project the levy limit. The FY2010 levy limit was \$76,865,559. The 2 ½% increase allowed for FY2011 is \$1,921,639. New growth from construction not previously on the tax rolls is expected to add \$500,000 to the FY2011 levy. An additional \$945,870 is added to the tax levy to cover the cost of debt service for projects approved by the voters as Proposition 2 ½ debt exclusion overrides. This added debt exclusion amount is net of state reimbursements estimated at \$1,672,226.

The Town has accepted the provisions of Chapter 110, whereby water and sewer debt costs are transferred to the real estate taxes. At the present time, the only water and sewer debt is from the MWRA. The Board of Selectmen voted to freeze the amount of MWRA debt shift at the FY2007 amount of \$5,593,112. Based on the above, the FY2011 tax levy is projected to total \$85,826,180 representing an increase of \$2,355,144 (2.8%) over the FY2010 levy.

PROPERTY TAX LEVY	FY2008 Actual	FY2009 Actual	FY2010 Budget	FY2011 Budget	Budget Change
Base Tax Levy	71,784,240	74,233,690	76,852,379	79,287,198	2,434,819
General Override	-	-	-	-	-
Debt Exclusion Overrides					
Brackett School	285,546	257,313	230,340	212,646	(17,694)
Hardy School	143,648	127,995	107,394	88,063	(19,331)
Bishop School	136,982	114,976	97,628	83,548	(14,080)
Peirce School	347,022	294,844	274,144	253,394	(20,750)
Dallin School	396,109	324,076	316,039	308,219	(7,820)
Stratton/Thompson Plans	126,717				
Sub-total Debt Exclusions	1,436,024	1,119,204	1,025,545	945,870	(79,675)
Water and Sewer Debt	5,593,112	5,593,112	5,593,112	5,593,112	-
Total	78,813,376	80,946,006	83,471,036	85,826,180	2,355,144

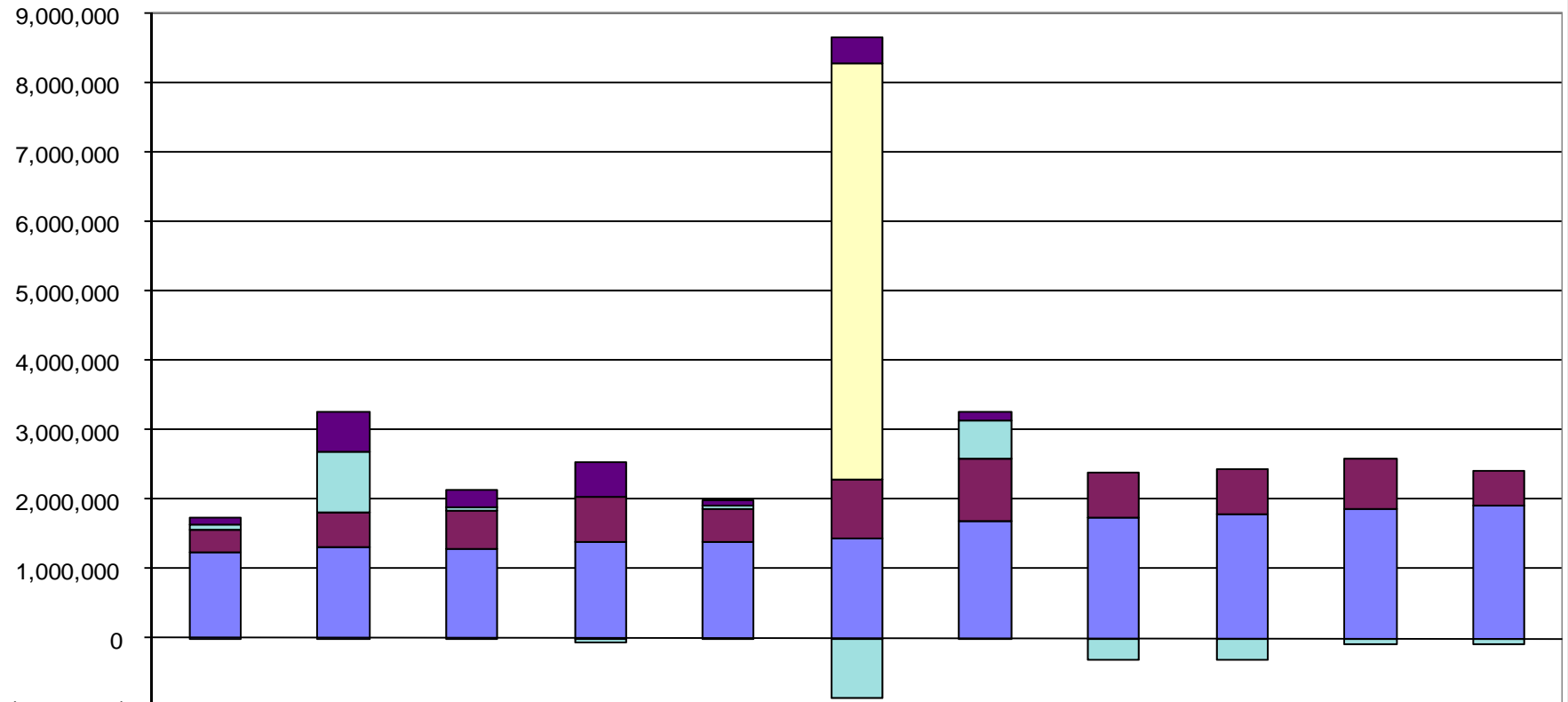


Fiscal Year	Real Estate & Personal Property Commitments	Abatements Granted	Tax deferral Abatements (Ch 41A)	Net Tax Levy	Net Collections	% of Collections	Amount transferred into tax title	Tax Title Balance as of June 30th	Tax Possession Balance as of June 30th	Tax Deferral Balance as of June 30th
2009	81,073,914	487,859	77,403	80,508,653	80,065,721	99.45%	480,507	707,146	396,784	393,703
2008	78,887,656	472,052	72,738	78,342,866	78,066,533	99.65%	276,333	471,583	396,784	377,006
2007	76,885,363	342,368	84,470	76,458,524	76,243,172	99.72%	216,092	339,191	396,784	390,472
2006	73,601,851	343,515	87,098	73,171,238	72,939,691	99.68%	231,490	324,281	396,784	380,257
2005	65,779,186	302,203	58,912	65,418,071	65,202,794	99.67%	234,667	339,307	396,784	285,068
2004	63,831,019	391,880	49,555	63,389,585	63,223,644	99.74%	165,941	258,630	396,784	274,115
2003	61,323,173	369,352	41,587	60,912,234	60,699,775	99.65%	212,459	317,178	397,922	247,856
2002	59,183,329	375,235	47,511	58,760,583	58,615,863	99.75%	144,721	216,588	397,922	347,817
2001	55,924,517	436,168	56,446	55,431,903	55,316,387	99.79%	115,516	181,873	397,716	354,376
2000	54,173,527	349,143	66,696	53,757,689	53,624,937	99.75%	132,752	196,204	397,716	338,813
1999	52,534,913	433,672	61,654	52,039,587	51,927,625	99.78%	173,617	187,455	383,234	338,142
1998	49,567,583	449,043	55,313	49,063,227	48,905,561	99.68%	157,667	284,218	407,244	286,763
1997	48,210,810	521,790	50,705	47,638,315	47,427,171	99.56%	211,144	432,743	393,123	239,349
1996	46,779,296	598,025	41,662	46,139,609	45,809,016	99.28%	331,883	714,391	616,013	242,191

The policy is to close out all real estate & personal property commitments in the same fiscal year. All collections, refunds, transfers into Tax Title all take place within the same fiscal year.



COMPONENTS OF TAX LEVY INCREASE



	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011
■ MWRA Debt	109,156	578,001	260,958	517,348	69,732	371,757	117,626	-	-	0	0
■ Debt Exclusion	58,861	861,310	44,571	(51,943)	56,628	(859,302)	558,473	(319,928)	(316,820)	(93,659)	(79,675)
■ General Override	0	0	0	0	0	6,000,000	0	0	0	0	0
■ New Growth	337,860	520,517	544,075	649,223	458,531	844,013	887,247	640,013	642,912	726,955	500,000
■ 2.5% Increase*	1,234,895	1,300,061	1,299,509	1,378,668	1,394,938	1,449,364	1,689,203	1,736,648	1,796,065	1,857,039	1,921,639



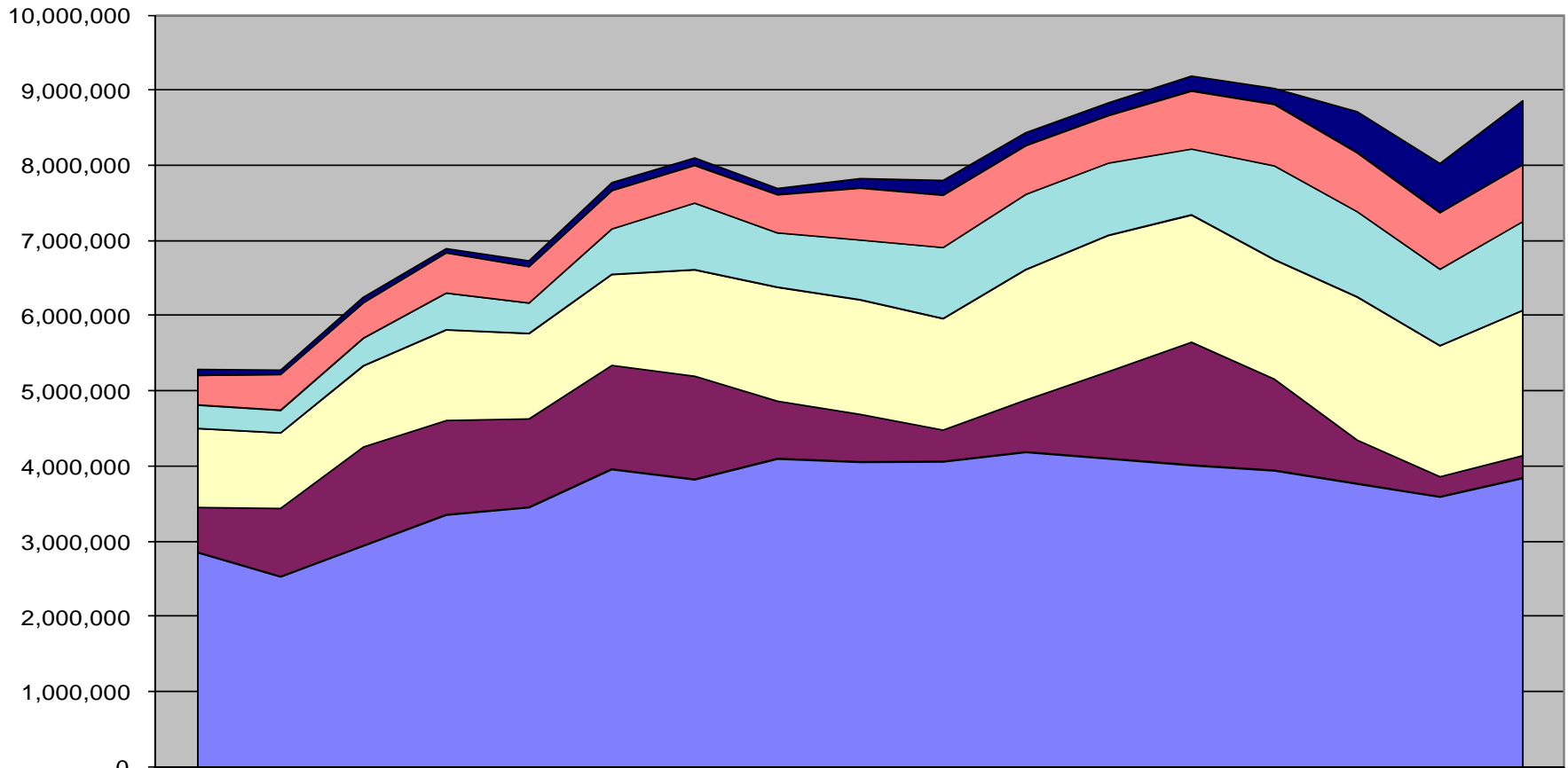
LOCAL RECEIPTS SUMMARY

Local receipts for FY2011 are projected to increase \$833,128 to a total of \$8,860,000. This is still only a slight increase over what was collected in FY2009, and a decrease of \$164,278 from what was collected in FY2008. The increase for FY2011 over FY2010 is due to a number of factors, including the adoption of the optional meals and hotel taxes, higher-than-projected receipts for motor vehicle excise taxes and building permits, and various departmental fee increases. The most dramatic change in local receipts is in investment income, which has dropped from a high of nearly \$1.5 million to a projected total of only \$130,000 in FY2011. This is due to the dramatic drop in interest rates and reduced available cash balances.

LOCAL RECEIPTS SUMMARY	FY2008 Actual	FY2009 Actual	FY2010 Budget	FY2011 Budget	Budget Change
Motor Vehicle Excise	3,951,802	3,775,638	3,600,000	3,850,000	250,000
Interest Income	1,216,410	582,123	270,000	300,000	30,000
Departmental Fees	1,586,298	1,900,729	1,740,000	1,930,000	190,000
Licenses and Permits	1,247,073	1,134,294	1,015,000	1,180,000	165,000
Rentals	818,608	783,600	753,000	756,000	3,000
Other	204,087	538,924	648,872	844,000	195,128
Total	9,024,278	8,715,308	8,026,872	8,860,000	833,128



Local Receipts History



	Actual FY95	Actual FY96	Actual FY97	Actual FY98	Actual FY99	Actual FY00	Actual FY01	Actual FY02	Actual FY03	Actual FY04	Actual FY05	Actual FY06	Actual FY07	Actual FY08	Actual FY09	Budget FY2010	Budget FY2011
Other	79,747	57,043	71,438	52,158	74,963	100,945	94,165	79,375	122,272	191,558	166,224	162,289	190,960	204,087	538,924	648,872	844,000
Rentals	391,759	475,385	470,238	534,943	482,727	508,819	500,978	506,840	690,231	696,252	648,334	632,505	771,319	818,608	783,600	753,000	756,000
Licenses and Permits	309,777	297,205	365,390	487,462	403,337	604,759	887,076	722,072	794,763	943,446	999,757	961,320	878,090	1,247,073	1,134,294	1,015,000	1,180,000
Fees/Departmental	1,047,991	1,002,385	1,077,431	1,202,822	1,134,166	1,206,792	1,412,070	1,512,748	1,520,578	1,480,066	1,731,991	1,808,831	1,689,345	1,586,298	1,900,729	1,740,000	1,930,000
Interest Income	602,716	913,448	1,318,396	1,257,417	1,178,868	1,382,410	1,374,590	765,790	634,352	421,000	693,999	1,159,204	1,636,644	1,216,410	582,123	270,000	300,000
Motor Vehicle Excise	2,858,747	2,535,529	2,947,864	3,360,273	3,459,778	3,968,543	3,832,194	4,108,738	4,064,678	4,069,559	4,196,714	4,110,106	4,021,994	3,951,802	3,775,638	3,600,000	3,850,000



MOTOR VEHICLE EXCISE

Motor vehicle excise tax receipts are expected to increase by \$250,000 to a total of \$3.85 million. Revenue in FY2009 was down by approximately \$175,000 from FY2008, and was originally projected to drop further in FY2010. Collections to date, however, indicate that revenue should come in at approximately \$3.85 million for FY2010. The same amount is estimated for FY2011. Revenue from this excise tax fluctuates up and down with the economy. The excise rate is \$25 per thousand and is assessed on 90% of the vehicle's value in the first year, 60% in the second year, 40% in the third year, 25% in the fourth year, and 10% thereafter. The actual billings are prepared by the Registry of Motor Vehicles and then turned over to the Town for printing, distribution, and collection. There are approximately 38,000 registered vehicles in Arlington. In the chart below, Levy Year 2009 is as of June 30, 2009.

MOTOR EXCISE BY FISCAL YEAR

Levy Year	Commitments	Collections	Refunds	Net Collections	Abatements	Balance	Collection %
2009	\$3,405,929	\$3,262,275	\$42,208	\$3,220,067	\$90,499	\$95,363	97.20%
2008	\$4,095,771	\$3,968,005	\$82,613	\$3,885,392	\$164,786	\$45,593	98.89%
2007	\$4,230,657	\$4,125,146	\$81,094	\$4,044,052	\$159,117	\$27,488	99.35%
2006	\$4,248,107	\$4,134,418	\$89,206	\$4,045,212	\$177,550	\$25,345	99.40%
2005	\$4,293,875	\$4,189,478	\$95,281	\$4,094,197	\$173,543	\$26,135	99.39%
2004	\$4,290,578	\$4,166,076	\$78,847	\$4,087,229	\$183,274	\$20,075	99.53%
2003	\$4,241,385	\$4,109,464	\$72,532	\$4,036,932	\$189,004	\$15,449	99.64%
2002	\$4,281,043	\$4,130,254	\$80,517	\$4,049,737	\$215,905	\$15,401	99.64%
2001	\$4,250,080	\$4,122,587	\$76,815	\$4,045,772	\$187,565	\$16,743	99.61%
2000	\$4,090,219	\$3,983,605	\$87,702	\$3,895,903	\$181,778	\$12,538	99.69%
1999	\$3,734,714	\$3,644,635	\$92,391	\$3,552,244	\$173,537	\$8,933	99.76%
1998	\$3,341,180	\$3,251,914	\$58,790	\$3,193,124	\$138,299	\$9,757	99.71%
1997	\$3,119,179	\$3,019,273	\$48,419	\$2,970,854	\$135,780	\$12,545	99.60%

MOTOR VEHICLE EXCISE	FY2008 Actual	FY2009 Actual	FY2010 Budget	FY2011 Budget	Budget Change
Motor Vehicle Excise	3,951,802	3,775,638	3,600,000	3,850,000	(250,000)



INTEREST INCOME

Interest Income is projected to increase by \$30,000 to a total of \$300,000. It is made up of two components: investment income and interest and penalties associated with delinquent tax payments.

Investment income can vary widely depending upon market interest rates, available cash balances, cash flows, and investment practices. Investment income has dropped from a high of nearly \$1.5 million in FY2007 to a projected amount of only \$130,000 in FY2011. This is due to the dramatic drop in interest rates and available cash balances.

Penalties and interest associated with delinquent tax payments are projected to remain stable at \$170,000.

INTEREST INCOME	FY2008 Actual	FY2009 Actual	FY2010 Budget	FY2011 Budget	Budget Change
Investment Income	1,030,216	410,117	100,000	130,000	30,000
Penalties & Interest	186,194	172,006	170,000	170,000	-
Total	1,216,410	582,123	270,000	300,000	30,000



DEPARTMENTAL FEES

Departmental fees are projected to increase by \$190,000 to a total of \$1.93 million. The major categories include ambulance fees, parking fines and meters, cemetery fees, tax collector fees, and school Medicaid reimbursements related to the special education program.

Ambulance fees are projected to increase by \$100,000 as a result of rate increases. Tax Collector fees, which include demand fees and municipal lien certificates (MLC), were expected to drop off more significantly in FY2010 but appear to be close to level at \$100,000, due to fee increases and a strong mortgage refinancing market. Thus, MLC fees remain steady.

Parking fines and parking meter revenue are both expected to increase by \$15,000. This brings the total for both to \$465,000.

DEPARTMENTAL FEES	FY2008 Actual	FY2009 Actual	FY2010 Budget	FY2011 Budget	Budget Change
Schools (Medicare Reimbursement)	186,745	209,034	185,000	190,000	5,000
Cemetery Revenue	280,400	308,350	300,000	300,000	-
Library Fees and Fines	53,057	63,432	60,000	60,000	-
Collector's Demand Fees	93,547	110,441	85,000	110,000	25,000
Town Clerk Fees	46,123	45,015	45,000	45,000	-
Parking Violations	307,609	424,428	375,000	390,000	15,000
Parking Meter Receipts	64,015	67,883	60,000	75,000	15,000
Fire Alarm Renewal Fee	15,275	16,575	15,000	15,000	-
Ambulance Fees	372,536	452,217	450,000	550,000	100,000
Other Departmental Revenue	166,991	203,354	165,000	195,000	30,000
Total	1,586,298	1,900,729	1,740,000	1,930,000	190,000



LICENSES AND PERMITS

Licenses and permits are comprised of several categories, issued by various departments. The most significant of these include parking permits and liquor licenses issued by the Selectmen, building permits, and fire permit fees, which include fire alarm connection fees.

For FY2011, the total revenue is expected to increase by \$165,000 to a total of \$1.18 million. A majority of the increase, \$145,000, is due to strong building permit activity. Parking permits and fire alarm permits are both expected to increase by \$10,000.

LICENSES AND PERMITS	FY2008 Actual	FY2009 Actual	FY2010 Budget	FY2011 Budget	Budget Change
Parking Permits	105,060	103,727	105,000	115,000	10,000
Liquor Licenses	71,185	73,055	70,000	70,000	-
Food Licenses	6,790	6,725	7,000	7,000	-
Food Permits	19,175	16,125	18,000	18,000	-
Tobacco Permits	14,610	14,190	14,000	14,000	-
Building Inspections	932,623	810,277	700,000	845,000	145,000
Fire Prevention Permits	33,128	38,383	35,000	45,000	10,000
Marriage Licenses	5,825	6,620	6,000	6,000	-
Other	58,677	65,192	60,000	60,000	-
Total	1,247,073	1,134,294	1,015,000	1,180,000	165,000



RENTAL INCOME

The Town derives income from the renting of several Town-owned properties including the Gibbs, Crosby, and Parmenter schools, the Mt. Gilboa house, the former Dallin Library, and former Parks Department buildings at Ryder Street.

Overall, revenue is projected to increase \$3,000 to a total of \$756,000.

The Ryder Street property is rented for a five-year period, generating an income of \$110,000 annually.

Parmenter School and Crosby School leases were renegotiated, resulting in rent increases. Previously, the rental income included reimbursement for prior year's operating expenses, such as electricity and heat. The new leases require the tenants to pay for their own utility costs directly. Projected rental income for the properties is \$173,000 and \$130,000 respectively. The leases for these two properties expire June 30, 2011. The sale of the properties is currently under consideration.

Similar to the Parmenter and Crosby Schools, the Gibbs tenants will now pay the utility cost directly rather than through their rents, which is why the rental income is expected to decrease in FY2011.

Dallin Library is currently leasing to the Arlington Community Media, Inc. (ACMI) with rental income projected at \$45,000. In FY2008 ACMI paid for the roof repairs and air conditioning units at the building in lieu of rent.

The Mt. Gilboa house is rented for \$18,000 per year.

RENTAL INCOME	FY2008 Actual	FY2009 Actual	FY2010 Budget	FY2011 Budget	Budget Change
Ryder St.	84,036	76,348	85,000	110,000	25,000
Parmenter	165,475	122,441	125,000	173,000	48,000
Crosby	187,879	106,469	105,000	130,000	25,000
Gibbs	358,101	416,299	375,000	280,000	(95,000)
Mt. Gilboa	19,205	16,500	18,000	18,000	-
Dallin Library	3,912	45,543	45,000	45,000	-
Total	818,608	783,600	753,000	756,000	3,000



OTHER LOCAL RECEIPTS

Other local receipts are projected to increase by \$195,128 to a total of \$844,000.

The major reason for the increase is due to the recent adoption by Town Meeting of the optional meals and hotel taxes. Last year the Legislature gave the authority to Town Meeting to adopt optional increases to the meals and hotel taxes. Currently, only the state collects revenue from the meals tax of 5%. Cities and towns were allowed to add an additional 0.75%. Also, the Town currently collects a room occupancy tax on hotels (there is only one hotel in Arlington) of 4%. The state allowed cities and towns to increase that by 1% to a total of 5%. Both of these optional taxes were adopted by Town Meeting last fall to go into effect January 1, 2010. For communities that adopted these taxes with this effective date, they will be allowed to estimate six months of collections in FY2010, eleven months in FY2011, and a full twelve months thereafter. For FY2011, the total estimated collections for both taxes are \$400,000, an increase of \$165,000 over FY2010.

The other major category of receipts is the Medicare Part D reimbursement. This is a reimbursement by the federal government due to the fact that Arlington, like most cities and towns, offers qualifying prescription drug coverage under its healthcare plan for retirees. While it is estimated at \$375,000 in FY2011, this could be subject to change and could drop by as much as \$50,000 due to cutbacks by the federal government.

Court fines, primarily for moving violations, are projected to increase by \$5,000 to a total of \$60,000.

OTHER LOCAL RECEIPTS	FY2008 Actual	FY2009 Actual	FY2010 Budget	FY2011 Budget	Budget Change
Meals Tax	-	-	115,000	220,000	105,000
Hotel Tax	123,522	136,490	120,000	180,000	60,000
Court Fines	54,484	61,871	55,000	60,000	5,000
Medicare Part D Reimbursement	-	327,937	350,000	375,000	25,000
Special Assessments	2,112	1,659	1,872	2,000	128
Payments In Lieu of Taxes	23,969	10,967	7,000	7,000	-
Total	204,087	538,924	648,872	844,000	195,128



STATE AID SUMMARY

While in January the Governor proposed to level fund local aid, the Legislature, reacting to recent negative revenue trends, has proposed to cut the main local aid accounts by 4%. The House Ways and Means Committee is due to report its recommendation on April 15. For Arlington, overall local aid is projected to decrease by \$539,155 (3.8%) to a total of \$13,701,410, exclusive of school construction aid. This is less local aid than the Town received in FY1988, some 23 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-18).

Since FY2002, Arlington has received the fifth largest percentage decrease in local aid out of 351 cities and towns, losing over \$3.6 million through FY2010 (see chart on p. II-17). Since FY2002, local aid for all municipalities initially dropped by approximately 8%, rebounded through FY2009 to a 20% increase, and then dropped in FY2010 to a cumulative increase of 8% 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, FY2010, aid is 16% below FY2002 while the average of all municipalities has seen an increase of 8%.

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.

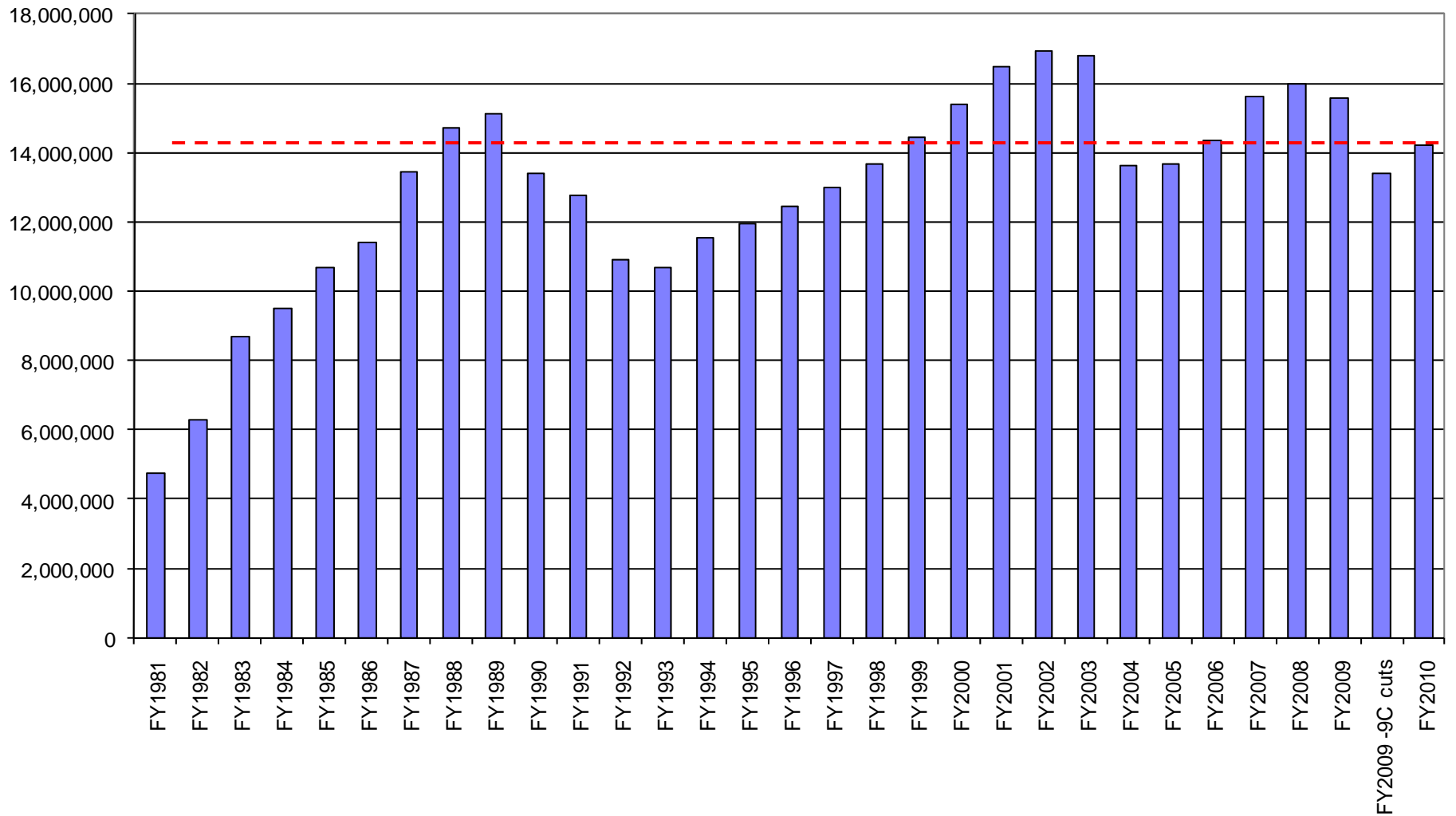
A majority of local aid increases over the last decade has been distributed through the Chapter 70 school aid formula. The formula works to the disadvantage of communities with relatively high incomes and property values. Arlington falls into this category, which means that we are a minimum aid community 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 FY2011, Arlington will receive the minimum, 17.5%.

STATE AID SUMMARY	FY2008 Actual	FY2009 Actual	FY2010 Budget	FY2011 Budget	Budget Change
Gen Government Aid	9,869,526	9,019,382	6,920,966	6,663,827	(257,139)
School Aid	5,832,596	6,280,215	7,071,095	6,788,427	(282,668)
School Construction	2,546,280	2,540,434	2,531,085	2,531,085	-
Tax Exemptions	191,559	188,896	187,014	190,609	3,595
Cherry Sheet Offsets	79,064	79,977	61,490	58,547	(2,943)
Total	18,519,025	18,108,904	16,771,650	16,232,495	(539,155)



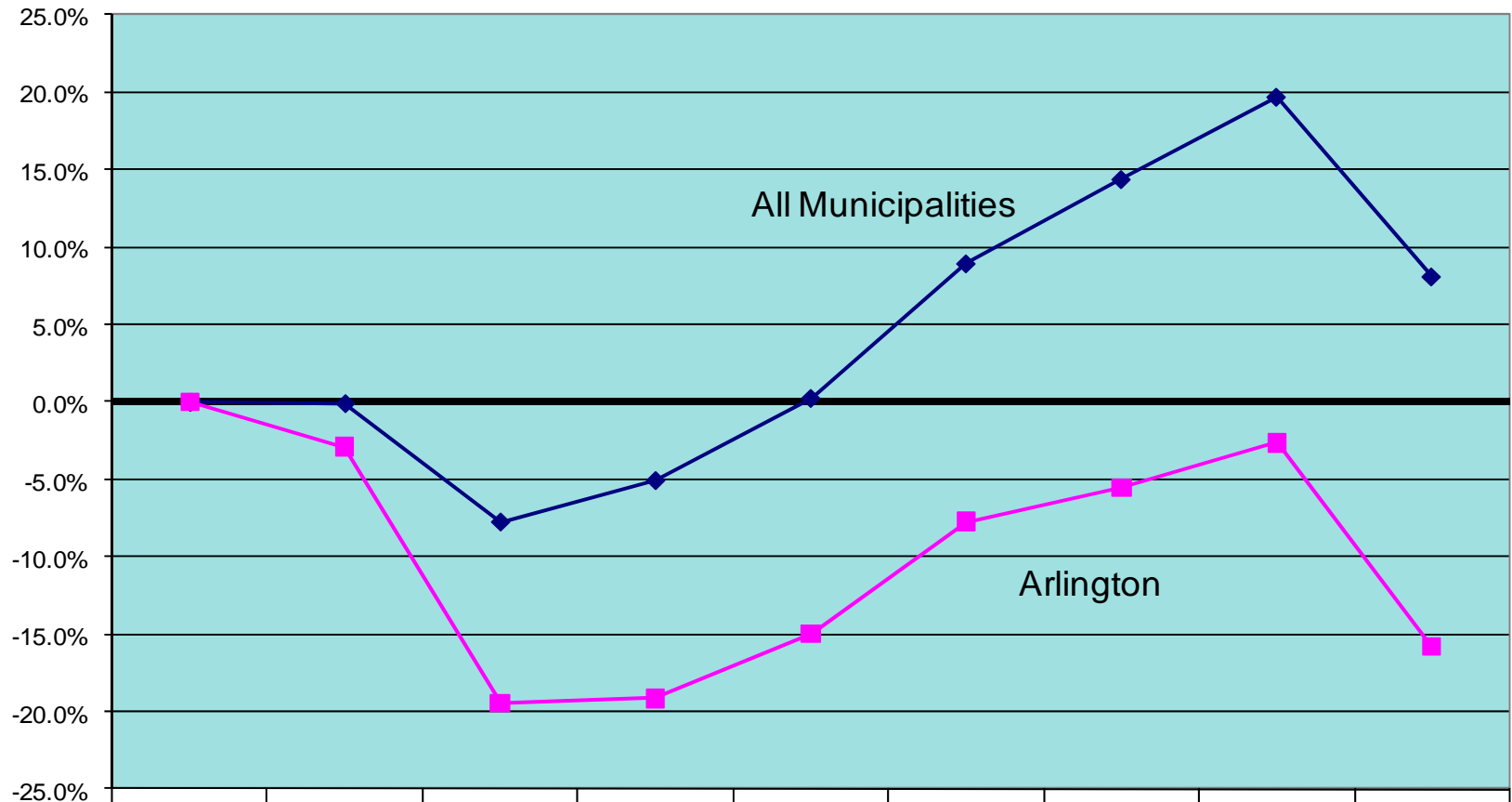
STATE AID RECEIPTS

(Numbers exclude School Construction and METCO reimbursements)





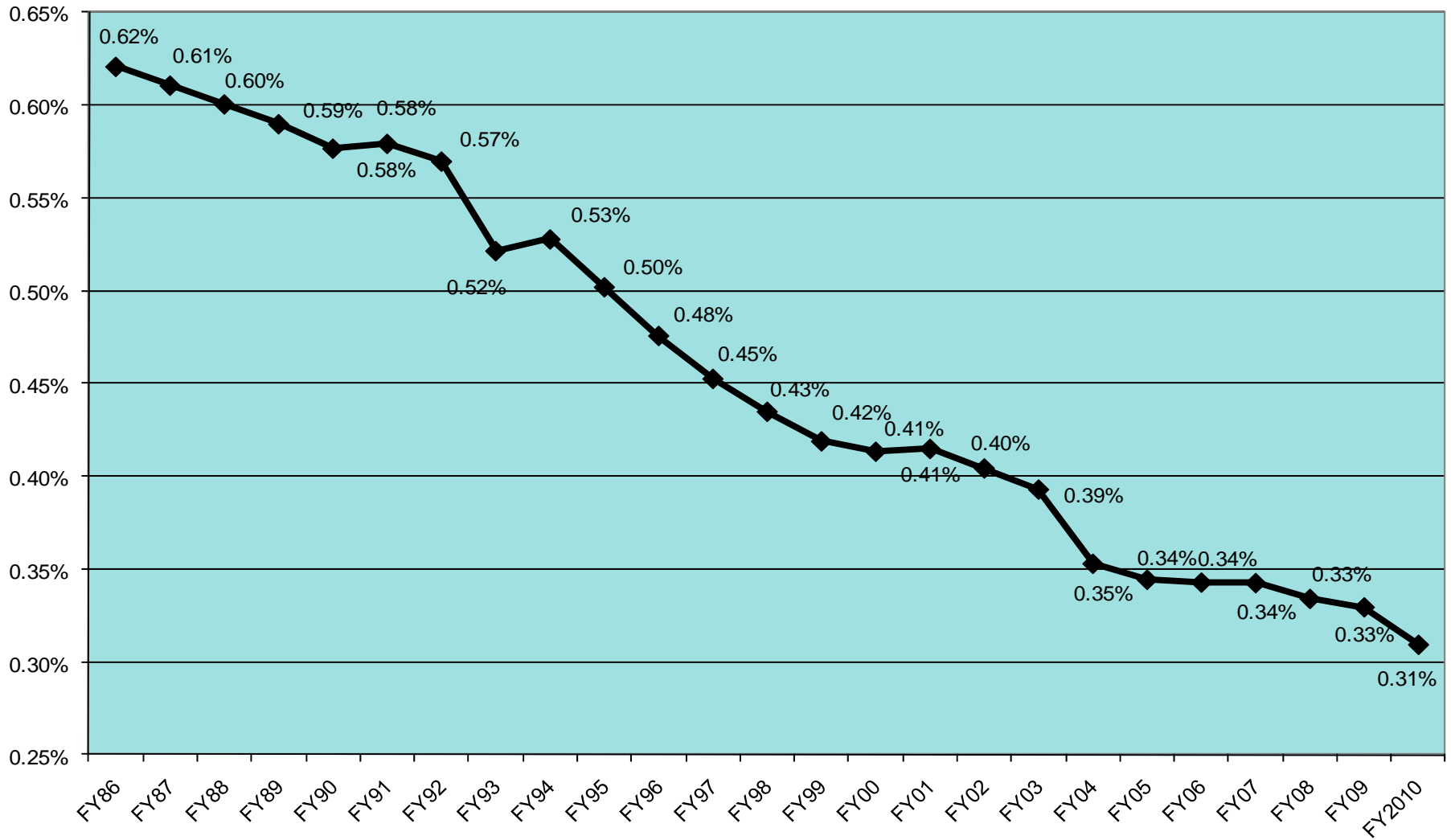
**State Aid Cumulative Percent Change
Since Fiscal Year 2002**
(Numbers exclude School Construction and METCO reimbursements)



◆ All Municipalities	0.0%	-0.1%	-7.7%	-5.1%	0.3%	8.9%	14.4%	19.7%	8.1%
■ Arlington	0.0%	-2.9%	-19.5%	-19.2%	-15.0%	-7.7%	-5.5%	-2.6%	-15.8%



Arlington's Percent of Total State Aid





GENERAL GOVERNMENT

ADDITIONAL ASSISTANCE

In FY2010, the Additional Assistance category was combined with Lottery Aid under a new category called Unrestricted General Government Aid. Between these two aid categories, Arlington received in excess of \$9.4 million in FY2008. In FY2011, this is anticipated to drop to just over \$6.4 million, or a reduction of \$3 million since FY2008. Additional assistance was distributed through a needs based formula to 159 of the neediest communities. Unfortunately, this was an aid category that has been targeted for reductions in recent years. Arlington relies heavily on this aid category, and its reduction has led to the overall state aid allocation to the Town being cut disproportionately.

Before the Education Reform Act of 1993 was passed, the Additional Assistance account and the “old” Chapter 70 School Aid account made up a category of aid called Resolution Aid. During the mid and late 1980s, cities and towns were guaranteed their previous year’s Resolution Aid as a base for the upcoming year’s calculation. In addition to this base amount a needs-based formula, which was calculated from a community’s ability to pay for an average level of local services, was applied to determine the increase in Resolution Aid funding for that year. Once the total amount of Resolution Aid was determined by the needs-based formula, it was allocated between Chapter 70 School Aid and Additional Assistance using the Chapter 70 School Aid formula at that time. The total amount of Resolution Aid, minus the Chapter 70 School Aid, equaled that year’s Additional Assistance.

The Additional Assistance program was impacted by the State budget cuts of the early 1990s. The program’s funding went from \$765 million in FY1989 to \$476 million in FY1992. The reduction in Additional Assistance funding came in two rounds of budget cuts. The first round of cuts occurred in FY1991 and resulted in a flat 4% reduction in every community’s Additional Assistance. The second round of cuts occurred in FY1992 and resulted in a \$345 million decrease in Resolution Aid. Most of the FY1992 reduction in Resolution Aid funding was taken from the Additional Assistance account. As a result of this second round of cuts, many communities’ Additional Assistance allocation dropped to zero. The reduction halfway through FY2003 included a cut of \$31 million in Additional Assistance, resulting in a reduced total of \$445 million. In FY2004, it was cut an additional \$67 million. Arlington’s funding went from \$5,652,310 in FY2002 to \$4,491,775 in FY2006, for a reduction of \$1,160,535. It remained level in FY2007, FY2008 and then was cut in FY2009 by \$37 million, with Arlington’s allocation being cut by \$437,706 to a total of \$4,054,069. In FY2010 the category was combined with Lottery Aid into a new category, which was further reduced by \$128 million statewide. In FY2011 a further cut of \$37.5 million is anticipated. Arlington’s reduction is expected to be \$267,371.

(Continued on page 20)

GENERAL GOVERNMENT	FY2008 Actual	FY2009 Actual	FY2010 Budget	FY2011 Budget	Budget Change
Additional Assistance	4,491,775	4,054,069	-	-	-
Lottery Distribution	4,950,398	4,468,011	-	-	-
Unrestricted General Government Aid	-	-	6,684,280	6,416,909	(267,371)
Veterans' Benefits	117,598	177,113	187,680	221,266	33,586
Police Career Incentive	309,755	320,199	49,006	25,652	(23,354)
Total	9,869,526	9,019,392	6,920,966	6,663,827	(257,139)



(Continued from page 19)

UNRESTRICTED GENERAL GOVERNMENT AID

In FY2011, Unrestricted General Government Aid is expected to be cut by \$37.5 million (4%). Arlington's allocation is expected to be cut by \$267,371 to a total of \$6,416,909. In FY2010, Lottery Aid and Additional Assistance were combined to create this new aid category, and were reduced from the FY2009 pre-9c cut level by over \$339 million.

LOTTERY

The lottery program was enacted in 1972 to provide financial assistance to municipalities on an equalizing basis. Communities with lower property values receive proportionately more aid than communities with higher values. The formula, which is based upon population and equalized property valuations, is as follows:

LOTTERY AID = (State Wide EQV Per Capita/Local EQV Per Capita) x 10 per Capita

For FY2010, total lottery revenues are expected to total \$937.5 million, approximately \$50 million greater than originally projected. Of this amount, \$759 million was dedicated for local aid.

VETERANS' BENEFITS

Chapter 115, Section 6, calls for the reimbursement to cities and towns of the costs of providing assistance to veterans and their dependents. Benefits paid out in accordance with state guidelines are eligible for 75% reimbursement. For FY 2011, the preliminary cherry sheet estimate is \$221,266—an increase of \$33,586. The increase reflects a rising number of veterans receiving some form of government assistance.

POLICE CAREER INCENTIVE REIMBURSEMENT (QUINN BILL)

In FY2010 this reimbursement program was all but eliminated. Arlington's reimbursement dropped from \$320,199 to \$49,006. In FY2011, funding is estimated to drop to \$25,652.

The purpose of this program was to encourage police officers in participating municipalities to earn degrees in law enforcement and criminal justice, and to provide educational incentives through salary increases. The State administers this optional education incentive program. The Massachusetts Board of Higher Education annually certifies police officers for Associate's, Bachelor's, or Master's degrees. Such officers are eligible to receive 10%, 20%, or 25% base salary pay increases. The participating municipalities pay each officer 100% of Incentive Pay each year the officer remains on the force, and subsequently the State will reimburse a proportion of these expenses as an incentive for communities to accept the commitment to participate in this program. The enabling legislation specified that reimbursement should equal 50% of the added annual salary costs (based on the incremental increase in the salaries of the officers that have attained degrees) incurred by participating police departments.

Unfortunately, the State reneged on its funding commitment, providing no recourse for municipalities to reduce the benefits and costs accordingly. This incentive pay has been part of the officers' base pay, so even if a municipality could have cut the payments, it would have been left in the untenable position of having to cut the base pay of its officers. A more reasonable approach would have been to freeze the payments and grandfather the officers currently in the program. The Legislature did at least change the law so that no new officers can participate in the program.



SCHOOL AID

SCHOOL AID - CHAPTER 70

Total statewide funding is \$3.28 billion, a decrease of \$130 million, or 4%. Of this amount, Arlington will receive \$6,761,798, a decrease of \$281,742, or 4%. The distribution formula calculates a foundation budget for each school district and then funds a percentage of the budget depending upon a number of factors, including community income levels and property wealth. For those communities determined to be relatively wealthy, the State will fund a maximum 17.5% of the school district's foundation budget. Arlington is one of 108 communities that fall within this category. Communities that are relatively poor receive significantly more than the 17.5% minimum. The maximum target is 85% with an average statewide target of approximately 60%. The State's plan was to reach each community's target percentage over several years. Arlington is already at its maximum of 17.5%, which is the State's minimum payment.

In FY2010 the State reduced its Chapter 70 funding and back filled it with \$159 million in federal stimulus funds to maintain foundation funding commitment. The Legislature has proposed a cut of 4%.

CHARTER SCHOOL TUITION ASSESSMENT REIMBURSEMENT

General Laws Chapter 71, Section 89 (nn) mandates that the State assess a municipality or regional school district for the costs associated with pupils attending a Charter School district and reimburse sending districts for the tuition they pay to Commonwealth charter schools. Municipalities and school districts are reimbursed for this assessment based on the following schedule: in year one, an amount equal to 100% of the assessment; in year two, an amount equal to 60% of the assessment; in year three, an amount equal to 40% of the assessment; after year three, no reimbursement. This reimbursement is, of course, subject to appropriation. If the account is not fully-funded, then the reimbursement is pro-rated. Based on the preliminary cherry sheets, the Town will receive \$26,629, a decrease of \$926.

SCHOOL AID	FY2008 Actual	FY2009 Actual	FY2010 Budget	FY2011 Budget	Budget Change
Chapter 70 School Aid	5,814,120	6,229,294	7,043,540	6,761,798	(281,742)
Charter School Tuition Reimbursement	18,476	50,921	27,555	26,629	(926)
Total	5,832,596	6,280,215	7,071,095	6,788,427	(282,668)



SCHOOL CONSTRUCTION AID

In July of 2004, the Governor signed Chapter 208 and Chapter 210 of the Acts of 2004 into law, which makes substantial changes to the School Building Assistance (SBA) Program. This legislation (Ch 208) transfers responsibility for the School Building Assistance Program from the Department of Education to the Massachusetts School Building Authority (MSBA), under the Office of the State Treasurer. The authority is a new and independent governing body comprised of seven members.

The reform legislation (Ch.210) dedicates one cent of the state sales tax to the new off-budget school building trust. This is projected to amount to \$620 million in FY2011. Funding will no longer be subject to an annual appropriation from the Legislature and approval of the Governor.

The MSBA funding commitments include \$11 billion for 1,156 projects authorized under the former SBA program, including \$5.1 billion for 728 prior grant projects that were already receiving funding, and \$5.5 million for 423 projects on a wait list. The remaining limited resources are being used to fund new projects. MSBA is projecting to spend \$2.5 billion over the next five years for new projects. Reimbursement rates are based on community factors and incentive points. The base percentage is 31%.

When the moratorium on new projects was lifted in July 1, 2007, the MSBA received 423 Statements of Interests from 163 school districts for various projects. Arlington submitted three projects: Thompson, Stratton and the High School. Only Thompson has been approved to move to the feasibility study phase.

The school construction aid the Town currently receives is for projects completed under the old SBA program. The amount is expected to remain level at \$2,531,085. The projects and their funding are as follows:

Peirce	\$ 521,056
Ottoson	858,859
Brackett	347,518
Bishop	322,764
Hardy	480,888
Total	\$2,531,085

SCHOOL AID	FY2008 Actual	FY2009 Actual	FY2010 Budget	FY2011 Budget	Budget Change
School Construction Aid	2,546,280	2,540,434	2,531,085	2,531,085	0



TAX EXEMPTION AID

There are several categories of property tax exemptions for which the State provides a partial reimbursement to municipalities. For FY2011, reimbursements are expected to increase by \$3,595 to a total of \$190,609. Veterans, blind persons, surviving spouses, and elderly who meet exemption requirements are eligible. Elderly persons (at least 65 years of age) who meet certain whole estate or total assets, annual income, and residency requirements, are eligible for an exemption. The number of exemptions granted is multiplied by the statutory reimbursement of \$500, subject to appropriation. However, if a municipality has adopted Clause 41B or 41C, (Arlington has adopted this section which increases exemption amount to \$1,300) the number of exemptions for which it is reimbursed cannot exceed the number reimbursed in the most recent year under Clause 41. In addition, municipalities that have adopted Clause 41B or 41C will be reimbursed for additional costs incurred in determining eligibility of applicants under these clauses in an amount not to exceed two dollars per exemption granted. For property tax exemptions granted to qualifying veterans, blind persons, surviving spouses, and elderly persons, the exemption and reimbursement amounts are as follows:

- Surviving spouses, minor children, elderly persons:
 Clause 17 - \$175, full reimbursement
 Clauses 17C, 17C^{1/2}, 17D - \$227.50, reimbursement cannot exceed the amount reimbursed on Clause 17.
- Veterans:
 Clause 22(a-f) - \$520 exempted, \$225 reimbursed
- Paraplegic veterans, surviving spouses:
 Full amount, 100% minus \$175 reimbursed (§8A)
- Veterans, loss of one arm, foot, or eye:
 Clause 22A - \$975 exempted, \$575 reimbursed
- Veterans, loss of two arms, two feet, one arm and one leg, or loss of sight:
 Clause 22B - \$1,625 exempted, \$1,075 reimbursed
- Veterans, special adapted housing:
 Clause 22C - \$1,950 exempted, \$1,325 reimbursed
- Veterans, surviving spouses of service members who died in combat zone or who are missing in action and presumed dead due to combat:
 Clause 22D - 100% exempted- 1st five years of exemption, \$2,500 thereafter
- Veterans, 100 percent disability:
 Clause 22E - \$1,300 exempted, \$825 reimbursed
- Blind persons:
 Clause 37A - \$650 exempted, \$87.50 reimbursed

TAX EXEMPTION AID	FY2008 Actual	FY2009 Actual	FY2010 Budget	FY2011 Budget	Budget Change
Tax Exemption Aid	191,559	188,896	187,014	190,609	3,595



CHERRY SHEET OFFSETS

Included in the estimated amount of aid to be received from the State are grant funds for the schools and libraries. These grants are reserved for direct expenditure by the departments and cannot be counted as general available revenues. Consequently, as part of the tax rate preparation process, whatever amount is included within the State Aid estimate is also included in the non-appropriated expense section as offsetting debits.

The Town receives two such annual grants—one for the school lunch and one for public libraries. The school lunch is actually a partial reimbursement for operating a school lunch program. This is expected to decrease \$4,179 to a total of \$16,604. The library grant is expected to increase slightly to \$41,943.

The library grant is actually three separate grants—the Library Incentive Grant (LIG), Municipal Equalization Grant (MEG) and the Nonresident Circulation Offset (NRC). The three funding formulas to determine amounts for each municipality are as follows:

1. The Library Incentive Grant (LIG) is distributed to municipalities as follows:
 - a. Population under 2,500: an amount equal to the amount appropriated for free public library service in the preceding year; distribution not to exceed \$1,250.
 - b. Population of 2,500 or over: up to \$.50 per capita, provided that at least \$1,250 was appropriated for public library service in the preceding year.
2. The Municipal Equalization Grant (MEG) distributes the balance in the LIG/MEG account according to the lottery formula so that municipalities with lower property values receive proportionately more aid than those with greater property values.
3. The Nonresident Circulation Offset (NRC) is distributed annually by the Board of Library Commissioners, based upon each community's share of the total Statewide-circulated items.

The Board of Library Commissioners measures compliance with all requirements before voting to certify or deny applicants for grant payments. To qualify for funding, certain requirements must be met and the municipal Library Director must submit an application to the Board of Library Commissioners each year. Requirements include:

- The city or town's appropriation to operate the public libraries must be equal to or greater than 102.5% of the average of the 3 preceding years' appropriations for free public library service. The Board of Library Commissioners may grant waivers of this requirement to a limited number of municipalities.
- The library must have complied with the minimum standards for free public library service in the preceding year. There are minimum standards in such areas as library director's education, number of hours open, and expenditures for library materials. The library must submit annual report data as specified by the Board of Library Commissioners.

Due to the economic crisis, the State cut back on its funding last year and, for the same reason, is being very liberal in allowing waivers to municipal spending requirements.

CHERRY SHEET OFFSETS	FY2008 Actual	FY2009 Actual	FY2010 Budget	FY2011 Budget	Budget Change
Lunch Programs (Schools)	20,794	19,261	20,783	16,604	(4,179)
Libraries	58,270	60,716	40,707	41,943	1,236
Total	79,064	79,977	61,490	58,547	(2,943)

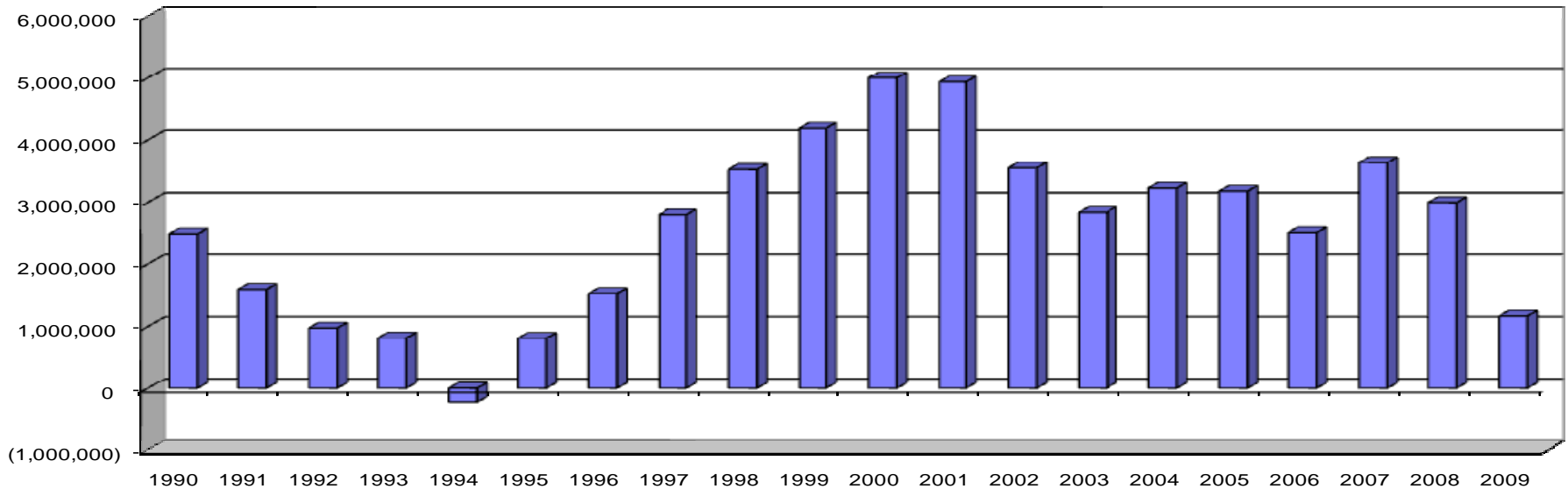


FREE CASH

Free Cash, which is certified as of July 1 each year by the Commonwealth's Department of Revenue (DOR), represents the portion of General Fund surplus revenue that is unrestricted and available for appropriation. These funds, once certified, may be used to support supplemental appropriations during the year, to support the ensuing fiscal year's budget, to reduce the tax levy, or to serve as emergency reserves. Free Cash is generated when the actual operating results compare favorably with the budget, such as when actual revenues exceed the original estimates and/ or when actual expenditures are less than appropriated. It is also affected by increases or decreases in uncollected property taxes, non- General Fund deficit balances, and any other legally incurred operating deficits, such as snow removal overdrafts.

The general fund free cash balance is currently \$1,164,101. It is recommended that one half of this amount , or \$582,050, be appropriated towards the FY2011 budget leaving a balance of \$582,051.

**CERTIFIED FREE CASH HISTORY
(July 1)**



FREE CASH	FY2008 Actual	FY2009 Actual	FY2010 Actual	FY2011 Actual	Budget Change
Free Cash Appropriated	954,736	2,191,622	1,497,907	582,050	(915,857)



OTHER REVENUE

The Other Revenue category includes Tax Abatement Overlay Reserve Surplus Funds, Override Stabilization Funds, and Federal Stimulus (IDEA) Funds. The total of the three funds for FY2011 is \$2,799,928. This is \$1,191,775 less than FY2010.

The Tax Abatement Overlay Reserve Surplus comes from funds set aside each year for property tax abatements and exemptions. Any funds remaining in the accounts that are no longer needed are declared surplus by the Board of Assessors and are made available for appropriation. For several years \$500,000 has been appropriated from prior year surpluses. Currently, the prior year surpluses amount to only \$300,000. Accessing the current year's overlay account is, for the first time, being proposed as a way to maintain the \$500,000 appropriation for FY2011.

The Override Stabilization Fund was created as a result of the 2005 Proposition 2 1/2 Override. The five year plan developed at that time projected that the first two years would have surplus funds to be put in an Override Stabilization Fund, the third year there would be no surplus, and the last two years the surplus funds would be drawn down to balance the budget. As a result of tight budget controls, there was no need to make any drawdown from the fund until the fifth year, FY2010. In that year, \$2,742,376 was appropriated. The remaining balance in the fund, which is \$1,580,000, is proposed to be appropriated in FY2011, the sixth year.

Federal Stimulus IDEA funds are grants provided to school districts. These grants are part of a two year funding program providing two allocations of \$749,327 and \$719,928, which may be used over FY2010 and FY2011. Activities funded through the ARRA-IDEA grant must be designed to help ensure that students with disabilities have access to a free and appropriate education (FAPE) to meet each student's unique needs, and to prepare each student for further education, employment, and independent living. The overall purposes of the ARRA federal grant programs is to invest quickly to save and create jobs, and to fund activities that support ARRA's long-term economic goals by: investing wisely, funding activities designed to strengthen education, driving reforms, and improving results for students.

OTHER REVENUE	FY2008 Actual	FY2009 Actual	FY2010 Budget	FY2011 Budget	Budget Change
Overlay Surplus	500,000	500,000	500,000	500,000	-
Override Stabilization Fund	-	-	2,742,376	1,580,000	(1,162,376)
Federal Stimulus Funds (IDEA)	-	-	749,327	719,928	(29,399)
Total	500,000	500,000	3,991,703	2,799,928	(1,191,775)