



Fiscal Year 2009 Financial Plan Budget Message

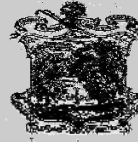
February 8, 2008

I hereby transmit to you the recommended FY2009 operating and capital budgets and the FY 2009-2013 capital plan. The budget, as proposed, totals \$111,681,873, which is an increase of 4,280,536, or 4%. A summary showing a comparison of FY2008 and FY2009 revenues and expenses is shown on page 2.

The budget has been developed in compliance with the commitments made as part of the Proposition 2 ½ override in 2005. The commitments may be summarized as follows:

1. Override funds will be made to last at least five years (FY2006-FY2010). No general override will be sought during this period.
2. Healthcare and pension costs will be limited to increases of no more than 7% and 4% respectively.
3. Town and school operating budgets will be limited to increases of no more than 4%. Should healthcare costs exceed the 7% limitation, operating budget increases shall be reduced below 4% accordingly.
4. Reserves shall be maintained in an amount equivalent to at least 5% of the budget.

FY2009 will be the fourth year of the five-year plan. The budgets have been managed very closely and are in line with the plan despite significant energy and healthcare cost increases. The FY2009 budget, which provides for level services, continues with a tight rein on expenses. A balance of \$598,035 is available to appropriate into the override stabilization fund. The projection for FY2010 includes a planned withdrawal from the override stabilization fund in order to be balanced in accordance with the five-year plan. In fact, we have been able to extend the utilization of the override stabilization fund into FY 2011.



Overall Budget Summary

	FY2008	FY2009	CHANGE	
			\$	%
Revenue				
Tax Levy	\$ 78,813,376	\$ 80,805,476	\$ 1,992,100	2.5%
Local Receipts	\$ 8,614,200	\$ 9,563,000	\$ 948,800	11.0%
State Aid - Cherry Sheet	\$ 15,972,745	\$ 16,462,088	\$ 489,343	3.1%
School Construction	\$ 2,546,280	\$ 2,532,522	\$ (13,758)	-0.5%
Free Cash	\$ 954,736	\$ 1,818,787	\$ 864,051	90.5%
Other Funds	\$ 500,000	\$ 500,000	\$ -	0.0%
Total Revenues	\$ 107,401,337	\$ 111,681,873	\$ 4,280,536	4.0%
Expenditures				
Municipal Departments	\$ 27,125,700	\$ 27,868,820	\$ 743,120	2.7%
School Department	\$ 36,775,603	\$ 37,878,871	\$ 1,103,268	3.0%
Minuteman School	\$ 3,276,622	\$ 3,153,412	\$ (123,210)	-3.8%
Non-Departmental (Healthcare & Pensions)	\$ 21,716,601	\$ 23,693,751	\$ 1,977,150	9.1%
Capital	\$ 8,352,746	\$ 8,308,980	\$ (43,766)	-0.5%
Warrant Articles	\$ 994,975	\$ 1,564,833	\$ 569,858	57.3%
Total Appropriations	\$ 98,242,247	\$ 102,468,667	\$ 4,226,420	4.3%
Non-Appropriated Expenses	\$ 9,159,090	\$ 9,213,206	\$ 54,116	0.6%
Surplus/ (Deficit)	\$ -	\$ -	\$ -	0.0%



Municipal Departmental Budgets

Under the five-year plan, the budgets would normally increase 4%. However, because the healthcare budget is projected to exceed the 7% cap, the departmental budgets are required to be reduced to 2.81% to stay within the overall expenditure limitations. As proposed, the municipal departmental budgets will increase 2.74% and the school budget will increase 3%.

The 2.74% increase in the municipal budget results in a total budget of \$27,868,820 which is an increase of \$743,120. The departmental budgets under the jurisdiction of the Town Manager are in compliance with an overall increase of 2.35%. Other appointing authorities' budget requests are approximately \$30,000 in excess of the cap. After this reduction, the overall increase for the appointing authorities will be 5.74%, the majority of which is for the extra elections scheduled in FY2009.

The budget, as proposed, calls for level services. Budget priorities have been retained—public safety and education being the top priorities. Both were provided with additional discretionary funding as a result of a reallocation of funds within the municipal budgets. An additional police officer position is added to assist in the area of criminal investigations and police overtime funds have been added for additional traffic enforcement. Additional overtime funds have also been added to the fire department to help maintain existing manning levels. The school budget was also reallocated some additional funds from the municipal budget so as to provide the schools with a full 3% increase.

In the public works budget, three positions have been eliminated. One position has been eliminated as the result of reorganization and two positions from cemeteries have been eliminated in anticipation of changes in maintenance service delivery that should result in productivity improvements.

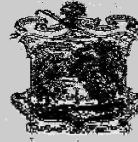
Overall, personnel complements in the municipal budget will be reduced by two positions. Most of the 2.74% increase in the municipal departmental budgets is consumed by wage adjustments. The major uncertainties contained in the FY2009 budget remain state aid and energy costs. The major budget changes are summarized in the chart at the right.

Municipal Departments Major Budget Increases

Total increase	\$743,120	(3.93%)
<i>Wages, Steps, & Benefits</i>	\$457,660	
<i>Reserve Fund</i>	\$ 50,000	
<i>Expenses</i>	\$235,460	
<i>Curbside collection</i>	\$65,065	
<i>Elections</i>	\$37,219	
<i>Youth Services (revenue loss)</i>	\$55,521	
<i>Overall Departmental expenses</i>	\$77,655	

Other Budget Increases

School	\$1,103,268	(3.00%)
Minuteman	(\$ 123,210)	(-3.76%)
Health & Other Insurance	\$1,760,355	(11.73%)
Pensions	\$ 216,795	(3.23%)
Capital	(\$ 43,766)	(-0.52%)
Warrant Articles	\$ 569,858	(57.27%)
Non-Appropriated	\$ 54,116	(1.52%)
Total Municipal & Other	4,280,536	(3.99%)



Energy

The Town has long-term supply contracts for both electricity and natural gas which should help stabilize a good portion of our energy budget. The electricity contract is a five-year contract ending in 2011 and provides for a rate of 10.505 per KWH. The current natural gas contract expires in January 2009 but a new two-year contract, January 2009 to January 2011, calls for a reduction in rates from the current \$1.285 per therm to \$1.149 per therm. Any savings here, however, will be more than offset by anticipated increases in heating oil and gasoline costs.

An energy working group has been formed to explore further options for reducing energy consumption and costs. The Town has also joined EPA New England's Community Energy Challenge and has committed to becoming an EPA Energy Star partner. The program challenges communities to save money and reduce air pollution by assessing their energy use, taking action to improve energy efficiency, and seeking out renewable energy alternatives. The EPA provides participating municipalities with free training and technical support of energy benchmarking software to assess performance and identify opportunities to improve energy efficiency through better facility management, upgrade to lighting, HVAC, controls, and other building systems and equipment.

A change in the leases for the Parmenter and Crosby Schools requires the tenants to directly pay for their own energy costs rather than the Town paying for them up front and then getting reimbursed. This eliminates the need for the town to budget for these uncertain costs over which it has no control. This resulted in an overall decrease of \$90,673 in the energy budget.

Collective Bargaining

Most contracts with employee groups will expire on June 30, 2008. These groups include 680, SEIU, and Police Ranking Officers. The contracts are two-year contracts that include increases in employee co-pays for healthcare coverage. The Firefighters Union and Professional Librarians Union have settled contracts through FY2009 that include a wage increase of 2.5%. The Patrolmen's Union is the only group that has not agreed to a new contract. Their contract expired June 30, 2006. We have jointly agreed to go to arbitration before the JLMC (Joint Labor-Management Committee).

Healthcare

Given the dramatic increases in healthcare costs, as illustrated in the appropriation history chart on the next page, working with our employees to explore all possible cost containment measures has been a top priority. The override commitment capping and linking operating budget increases (in large part wages) and healthcare cost increases makes this effort imperative.

The Town, like many other public and private employers, has had to contend with double-digit inflation of healthcare costs. Over the last few years, management and labor for both the Town and School have come together to work on the healthcare issue. Employee and retiree contribution rates have been increased, co-payments for medical services and prescriptions have been increased, and opt-out incentives have been implemented.



While these have helped to moderate the increase in the FY2008 budget to only 7%, the medical inflation rate continues to march along at double-digit rates resulting in a projected increase of 12.5% in FY2009.

A new state law recently enacted allows municipalities to join the state's healthcare program called the GIC. Because of the size and structure of the state program, it is able to offer more competitive rates. To join the program, municipalities must reach agreement to do so with its employee groups through a coalition bargaining process. Employee groups will be invited to participate in an interest-based bargaining process to determine the possible benefits for both the Town and its employees.

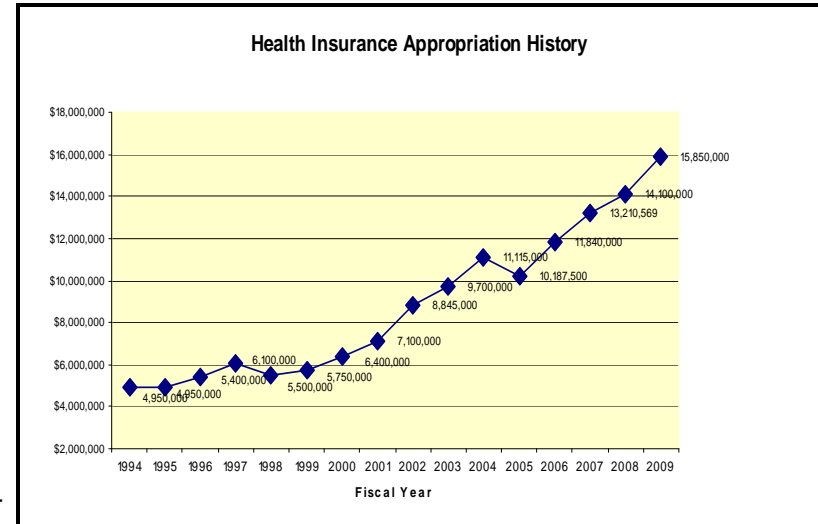
GASB 45: OPEB Obligation

GASB 45, a new accounting standard to be imposed on all municipalities throughout the country, requires municipalities to include on their balance sheets the accrued liability for their retiree healthcare costs. Several years ago private companies were required to do this. The result was great upheavals and drastic reductions in retiree healthcare benefits.

Currently retiree healthcare costs are funded on a pay-as-you-go basis, as is the case with social security, rather than fully funding the benefits as employees earn them. GASB 45 essentially says that when an employee retires, there should be sufficient funds in an account to pay for the retiree's healthcare costs throughout their retirement. The latest actuarial valuation of the Town's unfunded liability dated January 2005 placed it at approximately \$109 million.

This issue is nearly identical to the issue faced with pension systems back in the 1980's. At that time, cities and towns funded pension obligations on a pay-as-you-go basis. A new accounting standard then required that the accrued liability be carried on the balance sheet. Ultimately the Town is required by law to fully fund its pension obligations over a long period of time—roughly forty years. The Town is now 73.5% funded and is required to be fully funded by the year 2028. Over this forty-year period, the Town essentially has been paying off a mortgage for this debt. Once the mortgage is paid off, the Town's pension appropriation will drop significantly.

Arlington is one of the few communities in the state who have had special laws enacted for them to allow them to put funds aside to start funding this liability. Currently, the balance in the fund is in excess of \$2 million. While this is a token amount when compared to the liability, the Town has at least been out front in recognizing and beginning to address the problem. Much more will need to be done over the next several years to begin addressing this issue in a meaningful way. A committee set up by town meeting has made several recommendations on funding sources for this fund. First, going back over 10 years we have been contributing the difference between the non-contributory pension liability and \$500,000 (\$310,223). Second, as in FY 2008, it is recommended that the Medicare Part D reimbursement be appropriated to this fund (\$375,000). Third, the Selectmen





voted to recommend to the 2007 Annual Town Meeting that the difference in health care contributions that the retirees made by going from 10% to 15% for HMO's be appropriated to fund this liability (\$155,000). The recommended total to be appropriated in the FY 2009 budget is \$856,105.

The Town Treasurer has proposed that the Town consider issuing bonds (OPEB bonds) to finance some or all of the liability. The argument for doing this is that the interest earned from investing the proceeds of the bond will exceed the interest paid on the bonds. While this is generally the case, there is a risk that investment returns may underperform resulting in bond payments actually exceeding investment returns thereby increasing the liability instead of decreasing it. Because of the nature of these bonds, they are taxable, thus the arbitrage margin is that much narrower. The risks of issuing such bonds needs to be evaluated thoroughly before proceeding. Special legislation is required to authorize the Town to issue such bonds.

Cost Savings/Performance Strategies

The Town has continuously pursued numerous strategies for reducing costs and becoming more productive. The comparison spending charts on pages I-12 to I-14 clearly show that these efforts have produced results as Arlington's spending in most service categories are near the bottom.

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.

The Town is also evaluating the current service delivery methods for various services to determine the most cost effective way to deliver the services. Maintenance of cemetery grounds is currently being evaluated to determine whether it is more cost effective to perform this work in-house or by contracting it out.

The Town has also joined 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 also compare the year to year progress made by the Town itself in these service areas.

Though the next five-year plan (which begins with FY2011) is a few years off, we need to start planning for it now. Throughout 2007, the Board of Selectmen held a series of public forums (summits) to gather input from interested citizens on additional ideas for cutting costs and raising revenues. A number of ideas came out of those forums, all of which are currently being evaluated/pursued.

In order to increase productivity in the long run, the Town has to make better and more effective use of technology. This certainly is not unique to Arlington as any organization worldwide that does not keep up with the productivity enhancements to be gained through the effective use of technology will not be able to compete. A strategic IT plan is now being developed. The implementation of this plan will be a priority in the coming years.

Commercial Revitalization

One of the key goals of the Board of Selectmen and mine is to focus on the revitalization of our commercial districts. Working with the Redevelopment



Board, Planning and Community Development Department, Chamber of Commerce, and the business community in general, we have implemented and/or explored several programs to revitalize our commercial districts. Efforts have included innovative storefront loan programs, incentives through zoning, establishment of business improvement districts, and several other programs.

Federal funds have been allocated to do a study of the existing commercial districts and inventory the mix of businesses so as to develop appropriate strategies for reinvigorating what we have. In addition, analysis will be performed to determine what new businesses should be recruited to enhance the synergy between and among businesses. Networks with such sought after businesses will be developed. Also contingency plans will be developed should some key parcels come on the market so that we can work with the property owners with a plan in-hand providing guidance as to the most appropriate reuse of the property.

Congressman Markey assisted the Town in obtaining two separate federal grants to do an “extreme makeover” of the Mass Ave corridor from the Cambridge line to Pond Lane. This represents a tremendous opportunity to revitalize this whole corridor. It is the first phase of the project. Subsequent phases will go into the Center and beyond.

State Aid

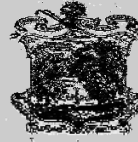
For FY2009, the Governor has proposed an increase of \$191.2 million or 6.1% in local aid (exclusive of regional school aid). Arlington is slated to receive an increase of \$475,585 (2.6%) which includes a decrease of \$13,758 in school construction reimbursement.

A majority of the increase is being 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). For FY09, Arlington will receive 16.4% of our foundation budget. The State plans on bringing the funding up to the target of 17.5% over five years, with this being the third year. See page II-21 on Chapter 70 aid for more details.

The biggest concern with the FY2009 local aid is the reduction of \$657,315 in lottery funds. The lottery game has seen a reduction of \$124 million in revenues. The Governor has proposed to offset this reduction through the sale of three casino licenses. The big question is whether the Legislature will approve the casino licenses, and even if they do, will it be done so that the revenues are realized in FY2009. Another concern is that this would be one-time revenue.

The Governor has also proposed several other steps, including closing the telecommunications tax loophole, to help provide additional funding for cities and towns. The Legislature needs to act expeditiously on these proposals to ensure that local aid is maintained at least at the levels proposed by the Governor.

Over the last several years, the distribution formulas used for the cut backs 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 that if your community has a relatively high median income and high property values, then the community doesn't need much state aid because it has the ability to raise revenues locally. The problem is communities don't have the ability to raise revenues through the income tax (the state takes all income tax). The only source



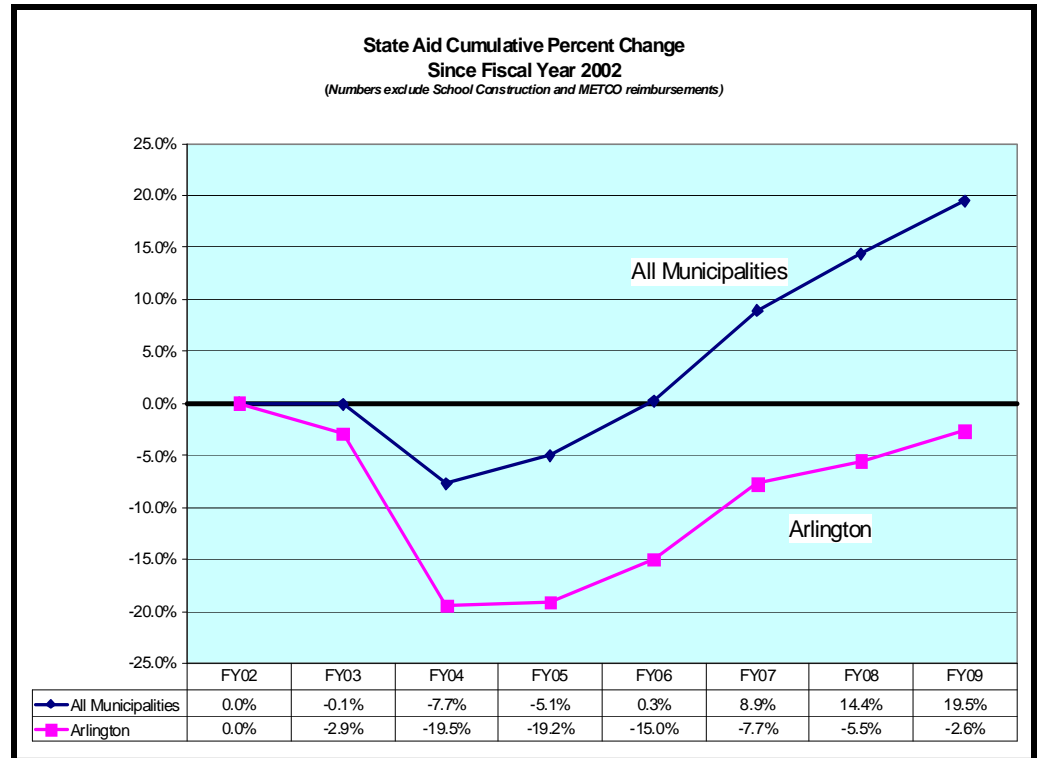
of revenue available to communities is the property tax, a regressive tax that hurts elderly and lower income residents disproportionately. Without a fair share of state aid, communities like Arlington are faced with the choice of raising property taxes through overrides or cutting services.

Since FY2002 state aid for all municipalities initially dropped approximately 8% but then rebounded so that today state aid is roughly 20% greater than in FY2002. For Arlington, however, state aid initially dropped 20% and today is still 3% below what it was in FY2002. Arlington's share of the state aid pie is one-half of what it once was. In fact, if Arlington received the same share of total state aid that it did in FY1986, it would be receiving an additional \$14.5 million in aid today.

Fairer distribution formulas and a more reasonable state-local revenue sharing plan need to be implemented. The report of the Municipal Finance Task Force, chaired by John Hamill, Chairman of Sovereign Bank New England, noted that "Massachusetts cities and towns are facing a long-term financial crunch caused by increasingly restricted and unpredictable local aid levels, constraints on ways to raise local revenue, and specific costs that are growing at rates far higher than the growth in municipal revenues. The Task Force recommended "...a revenue sharing policy that allocates a fixed percentage of state tax receipts to local aid".

Researchers at Northeastern University's Center for Urban and Regional Policy have documented the critical link between the financial health of municipalities and the future growth of the Massachusetts economy. They too have called for a new fiscal partnership between the State and local governments. The Mass Taxpayers Foundation has also recommended that 40% of annual revenues from the state income, sales and corporate taxes should be dedicated to local aid. This would result in more than a \$1 billion increase in local aid. The new revenue sharing policy would need to be phased in over several years given the magnitude of the dollars involved.

The State must implement a revenue sharing formula that provides more aid to cities and towns on a consistent, reliable basis. It must recognize the limited revenue raising opportunities of communities like Arlington. Even its own measure of a community's ability to raise revenues shows that Arlington's ability is extremely limited compared to that of other communities. This has to be recognized in future aid distribution formulas.



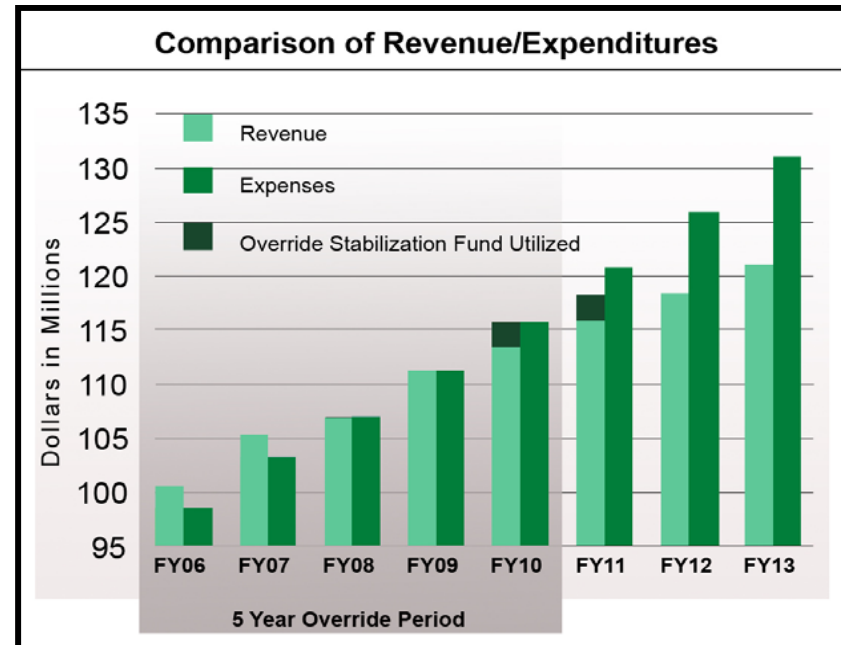


Town Financial Structure and Outlook

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 charts below. 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 FY 2005, 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 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. As previously stated, FY2009 is the fourth year of the five-year override plan. The plan is on target and has served the Town well. The plan requires tight controls over operating budgets and healthcare costs and provides a linkage between wages and healthcare costs. With these controls appropriately managed, the plan is designed to overcome the Town's structural deficit and provide sufficient resources to maintain services for at least the five year period. The Town's structural deficit still exists, it's just that the override provided more than enough funds in the first few years so that these surpluses could be used to fund the deficits of the latter years. After the five years, however, the deficits will reappear.

Typical Annual Growth	
Revenues	
Property Taxes	\$ 2,250,000
Local Receipts	\$ 50,000
State Aid	\$ <u>300,000</u>
Total	\$ 2,600,000
Expenditures	
Wage Adjustments	\$ 1,800,000
Health Insurance/Medicare	\$ 1,500,000
Pensions	\$ 300,000
Miscellaneous (<i>utilities, capital/debt, special education, other</i>)	\$ <u>1,000,000</u>
Total	\$ 4,600,000
Structural Deficit	\$ (2,000,000)





Override Stabilization Fund (OSF)

One of the key commitments made as part of the Proposition 2 ½ override was that the funds would be made to last at least five years and that no override would be requested during that time. In the first year, \$2.1 million of the \$6 million override funds was appropriated into the OSF. In the second year, FY2007, an additional \$2.1 million was appropriated into the fund. The third year \$100,000 was added to the fund. In the fourth year, FY2009, an additional \$598,035 is currently projected to be added to the fund. In the fifth year, however, it is projected that it will be necessary to draw down \$2.3 million. It is currently projected that approximately \$3.1 million will be available for use in the sixth year, FY2011. How these funds will be used is illustrated below:

Override Stabilization Fund						
	FIVE YEAR PLAN					
	2006	2007	2008	2009	2010	2011
Balance Forward:	0	2,064,528	4,247,109	4,428,747	5,203,932	3,093,980
Deposits	2,064,528	2,100,000	100,000	598,035		
Withdrawals					(2,318,109)	(3,093,980)
Future Interest at 4%		82,581	81,638	177,150	208,157	
Balance Forward:		4,247,109	4,428,747	5,203,932	3,093,980	0

If all the estimates hold, the override funds should enable the town to fund existing service levels through the five years (through FY2010) but only by using the early year surpluses to fund the last year. Originally it was anticipated that the surplus funds would be needed for the last two years, both FY2009 and FY2010.



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. State aid reductions have affected all municipalities, however, Arlington is among a small group of communities that were cut close to 20% as opposed to the state-wide average of 6%. Now, statewide, communities are 20% above the FY2002 level while Arlington is still 3% 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 next to last among a group of 20 comparable communities (see Table 3). It is less than one-half of the state-wide average. Another indicator of the Town's ability and opportunity to raise revenues is a measure developed by the Department of Revenue called Municipal Revenue Growth Factor (MRGF). It measures a community's ability to raise revenue taking into consideration a community's tax levy limit, new growth, state aid, and local receipts. As you can see from Table 4, the state-wide average and average of the twenty comparable communities MRGF is 6.1 and 5.0 respectively. Arlington's is 3.9, nearly 56% below other communities in terms of ability to raise revenue.

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 5.4% commercial/industrial tax base ranks it 16th out of 20 comparable communities. The average of these communities is 13%, nearly 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 at or below the average of the 20 comparable communities. In fact, the Town ranks 13th in taxes per capita, and 10th 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 17th and nearly 20% below the state-wide average (see Tables 9-11). 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 \$3.3 million reduction in state aid, left the Town in 2005 with only two choices— significant budget cuts with the resulting service reductions or the first Proposition 2 ½ general override since 1991.

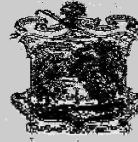


Table 1	
Municipality	Pop Per Square Mile
1 BROOKLINE	8,410
2 ARLINGTON	8,180
3 WATERTOWN	8,026
4 MEDFORD	6,851
5 MELROSE	5,780
6 BELMONT	5,190
7 SALEM	4,986
8 STONEHAM	3,614
9 WINCHESTER	3,446
10 WEYMOUTH	3,174
11 RANDOLPH	3,075
12 WOBURN	2,940
13 NORWOOD	2,727
14 WELLESLEY	2,614
15 READING	2,388
16 NEEDHAM	2,293
17 NATICK	2,133
18 MILTON	1,999
19 LEXINGTON	1,851
20 CHELMSFORD	1,495
Ave w/o Arlington	3,842
Arlington	8,180

Table 2	
Municipality	Households Per Sq Mile
1 BROOKLINE	3,890
2 ARLINGTON	3,746
3 WATERTOWN	3,652
4 MEDFORD	2,787
5 MELROSE	2,396
6 SALEM	2,243
7 BELMONT	2,141
8 STONEHAM	1,511
9 WEYMOUTH	1,327
10 WINCHESTER	1,310
11 WOBURN	1,214
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	3,746

Table 3	
Municipality	New Growth Ave Last 3 Yrs
1 WOBURN	3.1%
2 WATERTOWN	2.6%
3 LEXINGTON	2.5%
4 CHELMSFORD	2.3%
5 BROOKLINE	2.2%
6 NEEDHAM	2.1%
7 WELLESLEY	1.9%
8 WEYMOUTH	1.8%
9 WINCHESTER	1.7%
10 MILTON	1.7%
11 READING	1.6%
12 BELMONT	1.5%
13 NORWOOD	1.5%
14 RANDOLPH	1.4%
15 MEDFORD	1.4%
16 SALEM	1.3%
17 NATICK	1.2%
18 STONEHAM	1.2%
19 ARLINGTON	1.2%
20 MELROSE	1.0%
Ave w/o Arlington	1.8%
Arlington	1.2%
State-wide Ave	2.8%

Table 4	
Municipality	FY2007 Municipal Revenue Growth Factor
1 MILTON	6.5
2 CHELMSFORD	6.0
3 WOBURN	5.9
4 RANDOLPH	5.4
5 SALEM	5.4
6 READING	5.2
7 WATERTOWN	5.2
8 LEXINGTON	5.0
9 NATICK	5.0
10 WELLESLEY	4.9
11 NORWOOD	4.9
12 BROOKLINE	4.8
13 NEEDHAM	4.7
14 STONEHAM	4.7
15 WEYMOUTH	4.6
16 MEDFORD	4.5
17 WINCHESTER	4.4
18 BELMONT	3.9
19 ARLINGTON	3.9
20 MELROSE	3.8
Ave w/o Arlington	5.0
Arlington	3.9
State-wide Ave	6.1



Table 5	
Municipality	FY2007 Commercial/Industrial % of Total Value
1 WATERTOWN	32.4
2 WOBURN	27.0
3 NORWOOD	25.4
4 NATICK	20.2
5 CHELMSFORD	17.6
6 SALEM	16.9
7 WEYMOUTH	13.0
8 NEEDHAM	11.7
9 LEXINGTON	11.5
10 RANDOLPH	11.4
11 WELLESLEY	11.1
12 MEDFORD	10.8
13 STONEHAM	10.6
14 BROOKLINE	8.9
15 READING	7.3
16 ARLINGTON	5.4
17 BELMONT	5.2
18 WINCHESTER	5.0
19 MELROSE	4.7
20 MILTON	2.9
Ave w/o Arlington	13.3
Arlington	5.4
State-wide Ave	15.5

Table 6	
Municipality	FY2007 Taxes Per Cap
1 LEXINGTON	3,340
2 WELLESLEY	2,940
3 NEEDHAM	2,601
4 WINCHESTER	2,579
5 BELMONT	2,460
6 BROOKLINE	2,340
7 CHELMSFORD	1,991
8 READING	1,972
9 MILTON	1,971
10 NATICK	1,967
11 WOBURN	1,948
12 WATERTOWN	1,926
13 ARLINGTON	1,862
14 STONEHAM	1,587
15 NORWOOD	1,545
16 SALEM	1,480
17 MELROSE	1,444
18 MEDFORD	1,350
19 WEYMOUTH	1,255
20 RANDOLPH	1,185
Ave w/o Arlington	1,994
Arlington	1,862

Table 7	
Municipality	FY2007 Taxes Per Household As a % of 1999 Household Income
1 LEXINGTON	7.4%
2 WINCHESTER	7.0%
3 WELLESLEY	7.0%
4 BELMONT	6.8%
5 MILTON	6.7%
6 READING	6.2%
7 BROOKLINE	6.2%
8 NEEDHAM	6.2%
9 CHELMSFORD	6.1%
10 ARLINGTON	5.8%
11 SALEM	5.6%
12 STONEHAM	5.4%
13 NATICK	5.4%
14 MELROSE	5.0%
15 MEDFORD	4.9%
16 WATERTOWN	4.7%
17 RANDOLPH	4.5%
18 WOBURN	4.5%
19 WEYMOUTH	4.5%
20 NORWOOD	3.5%
Ave w/o Arlington	5.7%
Arlington	5.8%

Table 8	
Municipality	FY2006 Gen Gov Expenditures Per Cap
1 WINCHESTER	353
2 RANDOLPH	248
3 NATICK	158
4 BROOKLINE	152
5 NORWOOD	137
6 NEEDHAM	136
7 BELMONT	133
8 WELLESLEY	130
9 LEXINGTON	128
10 WATERTOWN	119
11 ARLINGTON	109
12 READING	100
13 CHELMSFORD	99
14 SALEM	89
15 WOBURN	85
16 WEYMOUTH	81
17 MELROSE	80
18 MILTON	79
19 STONEHAM	79
20 MEDFORD	64
Ave w/o Arlington	129
Arlington	109

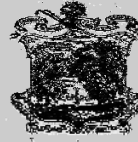


Table 9	
Municipality	FY2006 Public Safety Exp Per Cap
1 BROOKLINE	456
2 WATERTOWN	412
3 WOBURN	377
4 NORWOOD	373
5 NEEDHAM	372
6 MILTON	360
7 MEDFORD	360
8 BELMONT	354
9 NATICK	340
10 SALEM	335
11 WINCHESTER	334
12 WELLESLEY	330
13 WEYMOUTH	329
14 STONEHAM	323
15 LEXINGTON	309
16 READING	292
17 ARLINGTON	282
18 CHELMSFORD	274
19 RANDOLPH	272
20 MELROSE	256
Ave w/o Arling-	340
Arlington	282

Table 10	
Municipality	FY2006 Public Works Exp Per Cap
1 NORWOOD	619
2 RANDOLPH	235
3 WATERTOWN	221
4 WELLESLEY	220
5 LEXINGTON	211
6 READING	185
7 BELMONT	182
8 NATICK	175
9 BROOKLINE	169
10 CHELMSFORD	161
11 WINCHESTER	160
12 MEDFORD	160
13 WEYMOUTH	158
14 MILTON	155
15 WOBURN	139
16 SALEM	134
17 STONEHAM	134
18 ARLINGTON	134
19 NEEDHAM	130
20 MELROSE	122
Ave w/o Arlington	193
Arlington	134

Table 11	
Municipality	FY2006 School Per Pupil Exp
1 WATERTOWN	15,032
2 BROOKLINE	14,929
3 LEXINGTON	12,600
4 MEDFORD	12,233
5 WOBURN	12,225
6 WELLESLEY	11,494
7 NEEDHAM	11,291
8 NATICK	11,092
9 NORWOOD	11,015
10 WEYMOUTH	10,855
11 ARLINGTON	10,841
12 MILTON	10,585
13 BELMONT	10,374
14 WINCHESTER	10,139
15 RANDOLPH	10,032
16 READING	9,765
17 MELROSE	9,571
18 STONEHAM	9,359
19 CHELMSFORD	9,117
Ave w/o Arlington	11,206
Arlington	10,841
State-wide Ave	11,188

Table 12	
Municipality	FY2006 Total Exp Per Cap
1 LEXINGTON	3,706
2 WINCHESTER	3,149
3 WELLESLEY	3,129
4 NORWOOD	3,030
5 NEEDHAM	3,008
6 BROOKLINE	2,867
7 NATICK	2,794
8 BELMONT	2,768
9 READING	2,732
10 CHELMSFORD	2,589
11 WATERTOWN	2,495
12 MILTON	2,483
13 WOBURN	2,478
14 STONEHAM	2,274
15 SALEM	2,273
16 RANDOLPH	2,233
17 ARLINGTON	2,181
18 WEYMOUTH	2,135
19 MEDFORD	2,105
20 MELROSE	2,070
Ave w/o Arlington	2,648
Arlington	2,181
State-wide Ave	2,556



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 19. 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 increase 4% in FY 2009. Future year increases range from -.35% to 3.63% depending on our use of the Override Stabilization Fund.

- **Tax Levy** - Projected to increase 2.5% in FY 2009 and thereafter 2.7%.
 - Regular Levy - 2 ½ % plus new growth of \$450,000 in FY2009.
 - Debt Exclusion – Actual debt for Proposition 2 ½ debt exclusion school projects minus state reimbursements.
 - MWRA Water and Sewer Debt – Amount from FY2007 held level as voted by Board of Selectmen.

- **State Aid** – Projected to increase 3% in FY2009, based upon the Governor's budget, and then increased by \$300,000, or approximately 1.7% thereafter.

- **School Construction Reimbursement** – Projected to decrease \$13,758 in FY2009, due to final audit adjustments for several schools, and then the amount is held level.

- **Local Receipts** – Increased \$948,800 in FY2009 due to some extraordinary increases related to the Symmes redevelopment project and other items. Thereafter increases are estimated at \$50,000 per year.



- **Free Cash** – Typically appropriate one-half of certified amount. In FY2009 the amount used is \$1,818,787. Use is maintained at \$1 million each year thereafter in anticipation of smaller certified balances.
- **Overlay Reserve Surplus** – Use \$500,000 in FY2009 and FY2010, \$400,000 thereafter. There is a reasonably good chance that the actual surplus could be greater. If it is, it would simply serve to reduce the deficit in FY2011.
- **Other Revenues** – In FY2010, \$2.3 million is drawn down from the Override Stabilization Fund leaving a balance of \$3.1 million for FY2011. FY 2010 is the final year of the 5 Year Override Plan.

Expenditure assumptions include the following

- **School Budget** – In accordance with the override commitment, capped at 4% less any amount above a 7% increase for employee healthcare. In FY2009, the budget has been increased by 3% due to the 12.5% increase in health insurance costs.
- **Minuteman School** – In FY2009, decreased enrollment dropped our assessment by 3.76%. Thereafter, increases are projected at 4%.
- **Municipal Departments** - In accordance with the override commitment, capped at 4% less any amount above a 7% increase for employee healthcare. In FY2009, the budget has been increased by 2.74% due to the 12.5% increase in health insurance costs.
- **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 FY2009, the CIP calls for \$856,000 in cash-financed projects. Thereafter, amounts average over \$900,000.
- **MWRA Debt Shift** – The amount has been level funded at \$5,593,112.

- **Pensions** – In FY2009, increased 3%. Thereafter increased 4%.

- **Insurance (including healthcare)** – In FY2009 projected increase of 11.73%. Thereafter, capped at 7%. Any amount above 7% reduces municipal and school budgets.

- **State Assessments** – Based upon preliminary cherry sheets, increased .5% in FY2009. Thereafter, increased 2.5%.

- **Offset Aid** – These grants to schools and library are decreased slightly in FY 2009 based upon preliminary cherry sheets and thereafter held level.

- **Overlay Reserve** – This reserve for tax abatements is increased in revaluation years which is every three years,. The next revaluation is scheduled for FY2010. In non-revaluation years, including FY2009, it is reduced to \$600,000.

- **Other** – Court judgments or deficits, including snow removal, revenue, etc., are estimated at \$300,000.

- **Warrant Articles** – FY 2009 includes \$481,105 for Retiree Healthcare , \$375,000 for Medicare Part D reimbursements to be deposited in the OPEB Trust Fund, along with an allowance of approximately \$100,000 per year for typical warrant articles. This would also include any amount deposited into Override Stabilization Fund. In FY2009, \$598,035 is going into the Override Stabilization fund which is an increase of \$498,035 over FY2008. After FY2009, no funds are deposited.



Long Range Financial Projection

		FIVE YEAR PLAN							
		FY 2008	FY 2009	Dollar Change	Percent Change	FY 2010	FY 2011	FY 2012	FY 2013
I REVENUE									
A. State Aid		15,972,745	16,462,088	489,343	3.06%	16,762,088	17,062,088	17,362,088	17,662,088
	School Construction Aid	2,546,280	2,532,522	(13,758)	-0.54%	2,532,522	2,532,522	2,532,522	2,532,522
B. Local Receipts		8,614,200	9,563,000	948,800	11.01%	9,613,000	9,663,000	9,713,000	9,763,000
C. Free Cash		954,736	1,818,787	864,051	90.50%	1,000,000	1,000,000	1,000,000	1,000,000
D. Overlay Reserve Surplus		500,000	500,000	0	0.00%	500,000	400,000	400,000	400,000
E. Property Tax		78,813,376	80,805,476	1,992,100	2.53%	83,012,064	85,290,277	87,618,289	90,001,059
F. Override Stabilization Fund				0		2,318,109	3,093,980		
TOTAL REVENUES		107,401,337	111,681,873	4,280,536	3.99%	115,737,783	119,041,867	118,625,899	121,358,669
II APPROPRIATIONS									
A. Operating Budgets									
	School	36,775,603	37,878,871	1,103,268	3.00%	39,394,026	40,969,787	42,608,578	44,312,922
	Minuteman	3,276,622	3,153,412	(123,210)	-3.76%	3,279,548	3,410,730	3,547,160	3,689,046
	Town Personnel Services Expenses	20,926,813	21,270,739	343,926		22,121,568	23,006,431	23,926,688	24,883,756
		8,722,073	9,060,751	338,678		9,395,999	9,746,469	10,110,013	10,440,610
Less Offsets:									
	Enterprise Fund/Other	1,843,186	1,782,669	(60,517)		1,853,976	1,928,135	2,005,261	2,085,471
	Tip Fee Stabilization Fund	680,000	680,000	0		680,000	680,000	680,000	620,409
Net Town Budget		27,125,700	27,868,820	743,120	2.74%	28,983,591	30,144,765	31,351,440	32,618,486
	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	3,114,096	2,868,118	(245,978)	-7.90%	2,772,490	2,690,932	2,600,179	2,503,715
	Non-Exempt Service	4,431,942	4,584,862	152,920	3.45%	4,809,664	4,999,421	5,360,539	5,523,826
	Cash	806,708	856,000	49,292	6.11%	907,800	943,477	906,700	845,900
Total Capital		8,352,746	8,308,980	(43,766)	-0.52%	8,489,954	8,633,830	8,867,418	8,873,441
C. Pensions		6,706,716	6,923,511	216,795	3.23%	7,200,451	7,488,469	7,788,008	8,099,529
D. Insurance		15,009,885	16,770,240	1,760,355	11.73%	17,944,157	19,200,248	20,544,265	21,982,364
E. State Assessments		2,629,142	2,642,074	12,932	0.49%	2,708,126	2,775,829	2,845,225	2,916,355
F. Offset Aid - Library & School		79,064	78,020	(1,044)	-1.32%	78,020	78,020	78,020	78,020
G. Overlay Reserve		651,772	600,000	(51,772)	-7.94%	800,000	600,000	600,000	600,000
H. Other Crt Jdgmnts/ Snow Deficit		206,000	300,000	94,000	45.63%	300,000	300,000	300,000	300,000
I. Warrant Articles		894,975	966,798	71,823	8.03%	966,798	966,798	966,798	966,798
J. Override Stabilization Fund		100,000	598,035	498,035	498.04%				
K. TOTAL APPROPRIATIONS		107,401,337	111,681,873	4,280,536	3.99%	115,737,783	120,161,589	125,090,024	130,030,072
BALANCE		(0)	(0)			0	(1,119,722)	(6,464,126)	(8,671,403)
Reserve Balances									
	Free Cash	1,554,736	1,818,787			1,000,000	1,000,000	1,000,000	1,000,000
	Stabilization Fund	2,532,547	2,633,849			2,739,203	2,848,771	2,962,722	3,081,231
	Override Stabilization Fund	4,428,747	5,203,932			3,093,980	0	0	0
	Tip Fee Stabilization Fund	3,007,817	2,438,603			1,856,147	1,250,393	620,409	0
	Municipal Bldg Ins. Trust Fund	680,757	697,675			725,582	754,605	784,790	816,181
TOTAL:		12,204,603	12,792,846			9,414,912	5,853,770	5,367,920	4,897,412
% of General Fund Revenue		11%	11%			8%	5%	5%	4%



Capital Improvements Program

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

For FY 2009 funding for the capital budget is as follows:

Bonding -	\$3,875,734
Cash -	856,000
Other -	3,516,300

Our existing non-exempt debt is \$4,488,200. The additional new non-exempt debt service is estimated at \$96,662. The total capital budget for FY2009, including debt, is estimated at \$8,308,980.

Major projects to be funded in FY2009 include \$925,000 for a Quint fire apparatus which will replace both an engine and a ladder, \$370,000 for plans and design of the Central Fire Station, \$240,800 for other public safety vehicles and equipment, \$280,000 for public works vehicles and equipment, \$1,369,800 for building improvements, including \$370,000 for school buildings, \$233,000 for the Gibbs School, and \$335,000 for the Public Works Garage, \$1,200,000 for roads, sidewalks, and culvert, \$470,000 for park renovations including \$365,000 for Summer Street Playground and \$95,000 for Thorndike Field parking expansion, and \$312,650 for town and school technology software and hardware. Also included from the water and sewer enterprise fund is \$1,350,000 for water system rehabilitation and \$950,000 for sewer system rehabilitation including lift station upgrades.

Major capital expenditures in our 5-year plan include the fire station renovations, public safety building renovations, a commitment to upgrade our rink including replacement of the rink floor and boards and maintenance of our public buildings, facilities and infrastructure. The Veterans' Memorial Rink, which the Town leases from the State, is thirty-six years old and in need of significant renovations. Over the next year, I will be working with the Park and Recreation Commission, Recreation Director, State, and private groups with a goal to come up with a plan that will provide for a fully renovated facility that will operate on a sound financial footing, at little, if any, cost to the Town.

School Construction

The capital plan provides \$150,000 and \$120,000 per year for repairs to the Thompson and Stratton Schools respectively. These funds are intended to keep the schools going until we receive further clarification from the State MSBA as to the prospect of State funding for the renovation or rebuild of the schools. Over the next year, we hope to know the State's plans and can then develop long-range comprehensive renovation plans for the schools with or without the State.



It is clear at this point that the State will not fund any significant project for Stratton School. Consequently Stratton plans will have to be developed and funded by the Town without any involvement from the State. Thompson was selected by the State as one of 162 projects, out of 423 projects, that warranted further review. The 162 projects were divided into three categories: feasibility study invitation, project scope invitation, and planning. While Thompson was not selected for the first two categories (the most favorable categories), it was selected for the "planning" category which is nonetheless a positive indication that the project merits further review. The MSBA states that the "planning" category means that the "statement of interest submitted by the school district identified issues that may warrant action by MSBA, but were not clearly stated in the SOI or evident upon MSBA diagnostic investigations. Additional information from the district and/or further investigations by the MSBA may be required to establish the extent of the problem and identify the potential solution path, if needed. The next step is for the MSBA and the Town to meet to begin the process of understanding the issues within the school facilities and what the best plan of action is moving forward."

Conclusion

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

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

The document presented for your consideration is a product of a great deal of work. Our department heads, second to none in the Commonwealth in terms of professional competence and dedication to their tasks, provided invaluable input and assistance. Members of boards and commissions offered valuable assistance. In particular, I would like to thank the Board of Selectmen for its policy insights and leadership. I am most of all indebted to Deputy Town Manager Nancy Galkowski 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, Gloria Turkall, and Domenic Lazilliotti, who spent evenings and weekends assisting in producing this document.

Respectfully submitted,

Brian F. Sullivan

Town Manager