



A Resident's Guide to the Budget

Welcome! If you are reading this it means you are interested in better understanding one of the most important documents produced by your community. The Annual Budget & Financial Plan document is much more than just a collection of numbers; it is a reflection of our community's values, priorities, and goals. The Budget document serves as a policy document, a financial guide, and a communications device to its residents. To this end, it is designed to be as user-friendly as possible. This Annual Budget & Financial Plan was created to help orient readers by providing a brief overview of the budget process, as well as an explanation of the organization of the budget document itself. We hope you find the introductory guide a useful tool as you better acquaint yourself with the latest financial and planning information for the Town of Arlington.

THE BUDGET PROCESS

The Town of Arlington is governed by the "Town Manager Act of the Town of Arlington, Massachusetts," by which a popularly elected, five-member Board of Selectmen appoint a professional manager to administer the daily operation of the Town. The Town's legislative body is a representative Town Meeting, which consists of 252 members elected from their home precincts. There are 21 precincts in Arlington. The Town Manager is the chief executive officer of the Town, managing the day-to-day business of Town departments.

In accordance with Section 32 of the Town Manager Act, the Town Manager must annually submit a budget to the Board of Selectmen and Finance Committee. Arlington has had a long tradition of developing a budget that clearly defines departmental goals and objectives and includes detailed trend analysis and long-term projections. The annual operating and capital budgets are submitted as part of the Town Manager's Annual Budget & Financial Plan. The Finance Committee reviews the Annual Budget January through April when the Committee submits its recommendations to Town Meeting. Town Meeting then adopts both the operating and capital budgets in May. During the fiscal year, budgetary transfers may be made with the approval of both the Board of Selectmen and the Finance Committee. Amendments to appropriations must be made by Town Meeting.

It is important to note that the financial and budgetary information presented in the Annual Budget & Financial Plan are projections and are subject to change prior to Town Meeting. For definitions of terms used in the Annual Budget & Financial Plan, see the Glossary on page 207.

For past budgets and plans, plus additional financial documents please visit arlingtonma.gov/financial.

BUDGET CALENDAR

July

Fiscal Year begins July 1st

September

Capital Budget requests due to Town Manager

November

Operating Budget requests due to Town Manager by November 30th

January

Budget books distributed to Board of Selectmen and Finance Committee by January 15th

January/April

Finance Committee hearings on budget

March

Financial Plan distributed to Board of Selectmen and Finance Committee by the end of March

April

Finance Committee recommended budget submitted to Town Meeting by April 20th

May

Town Meeting adopts *Operating and Capital Budgets*

June

Fiscal Year ends June 30th



Community Profile

Name: Town of Arlington

Settled: 1635 (as Village of Menotomy)

Incorporated: 1807 (as West Cambridge) Renamed Arlington in 1867

Total Area: 5.5 Sq. Miles

Land: 5.2 Sq. Miles

Water: 0.3 Sq. Miles

Elevation: 46 Feet

Public Roads: 95.27 Miles

County: Middlesex

Population: 42,844 (2010 Census)

Form of Government: Representative Town Meeting

School Structure: K-12

FY2013 Average Single Family Tax Rate: \$13.61 per \$1,000

FY2013 Ave. Single Family Home Value: \$502,753

Coordinates: 42°24'55"N 71°09'25"W

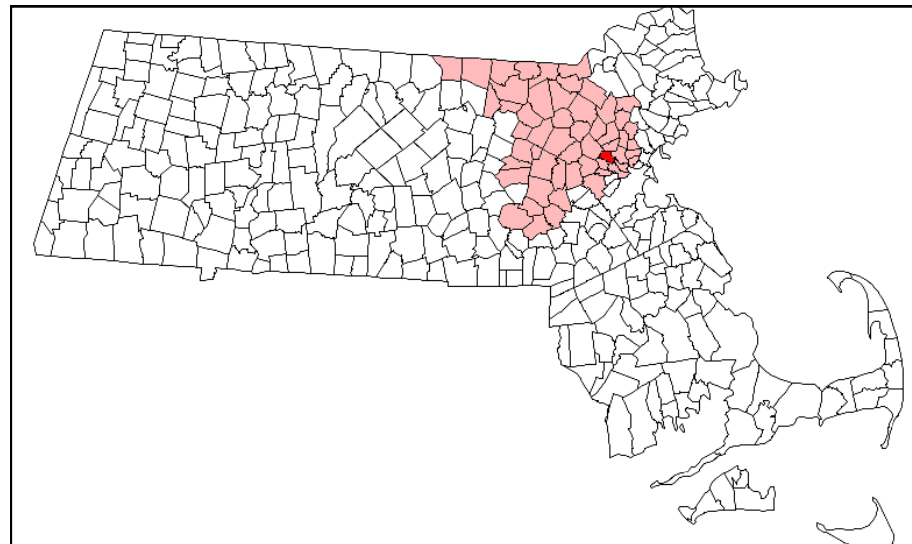
Address:

Arlington Town Hall
 730 Massachusetts Avenue
 Arlington, MA 02476
 Phone: (781) 316-3000
www.arlingtonma.gov

The Town of Arlington is located six miles northwest of Boston and is home to over 42,000 residents living in a compact urban community of 5.5 square miles. Because of its proximity to Boston, Arlington residents are able to enjoy its diverse neighborhoods, active civic life, and good public transportation options. Arlington is more affordable than many of its neighbors and thereby attracts residents who value its geographic location and quality-of-life.

The Town of Arlington was originally settled in 1635 as a village named Menotomy, meaning "swift running water." In 1807, the name was changed to West Cambridge and renamed Arlington in 1867 in honor of the Civil War heroes buried in Arlington National Cemetery.

Arlington, which offers a diverse mix of residential settings and popular retail and entertainment options, has steadily evolved from a working-class community to a more affluent suburban town. Residents have a lot invested in the Town and come to expect excellent municipal services for a reasonable tax bill. The community has a strong history of supporting specific initiatives to improve the quality of these services. This support is evidenced by recent tax override initiatives to upgrade all the school facilities, and to maintain quality services.





GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished
Budget Presentation
Award*

PRESENTED TO

**Town of Arlington
Massachusetts**

For the Fiscal Year Beginning

July 1, 2013

A handwritten signature in cursive script, reading "Jeffrey R. Egan".

Executive Director



Fiscal Year 2015 Annual Budget & Financial Plan Budget Message

April 1, 2014

To: The Honorable Board of Selectmen and Finance Committee

I hereby transmit to you the recommended FY2015 operating and capital budgets and the FY2015-2019 capital plan. The budget as proposed totals \$136,721,171 which is an increase of \$3,646,104 (2.74%) from the current budget. However, if the amount contributed to the Override Stabilization Fund is excluded, the proposed budget is an increase of \$4,843,546 (3.80%) from the current budget. A summary showing a comparison of the FY2014 and FY2015 revenues and expenditures is shown on page 7. Also, this budget proposal has been input into the Town's new online budget tool, Arlington Visual Budget. It can be viewed at arlingtonvisualbudget.org.

FY2014, the current fiscal year, is the third and final year of what was initially intended to be a three-year plan that incorporated the Proposition 2 ½ override of 2011 designed to carry the Town's budgets through FY2014. The key commitments along with updates on the status of meeting the commitments of that three-year plan are listed as follows:

- 1) *Override funds will be made to last at least three years (FY2012-FY2014). No general override will be sought during this period. – Current projections have extended the plan to cover FY2012-FY2018.*
- 2) *If the override passes there will be no Pay As You Throw (PAYT) fee implemented in FY2012, but the placement of a ballot question regarding a revenue neutral PAYT option will be considered in FY2013. - This ballot question was not advanced due to the Town's implementation of a mandatory recycling program in FY2013 which has stabilized both hauling and waste disposal costs.*
- 3) *Town and School operating budget increases will be capped at 3.5% per year. An additional allowance of up to 7% shall be allowed for documented special education cost increases. Should actual special education cost increases exceed this amount, the remaining School budget shall be decreased by the difference. – This commitment has been maintained and this year's Town operating budget proposes a 3.5% increase. Due to enrollment growth, a school funding increase above the 3.5% is proposed and discussed in this message.*



4) *Health care cost increases will be programmed at 7%. Should actual increases exceed this amount, the Town and School budget totals shall be proportionately decreased by the excess amount. Should actual increases be less than this amount as a result of negotiated health care savings, the extra savings will be:*

a) Deposited into the override stabilization fund to extend the three year override period;

b) Used to preserve services; and

*c) To satisfy any and all negotiated items between the Town Manager, its employees, and its retirees. – **The override period has been extended to seven years from the original three-year period based to a large degree on health care savings and the first year health care savings also supported FY2012 wage settlements with employee bargaining units.***

5) *An additional \$600,000 shall be appropriated for the School Department in FY2012 and \$400,000 shall be appropriated each year in addition to the amount currently appropriated in the capital budget for road improvements. – **This commitment has been met.***

6) *Reserves shall be maintained in an amount equivalent to at least 5% of the budget. – **This commitment is being maintained.***

At the time that the 2011 override was proposed, the Town was facing a projected deficit of \$6 million. Also at that time, the Legislature was discussing giving municipalities more authority to control their health care plans and costs. Optimistically, it was assumed that some changes would be made to allow the Town to save \$1 million. The proposed override was then set at \$6.49 million, an amount that enabled the Town to maintain current service levels for three years.

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

Moving Forward/Adapting to Existing Conditions

FY2015 is the first fiscal year occurring beyond the intended three year override period. Nonetheless, the Town, through the work of the Long Range Planning Committee, remains dedicated to the commitments of the three-year plan. This means that the cost controls and other funding commitments of the three-year plan will be adhered to both in FY2015 and in the future. However, unanticipated growth in school enrollment has prompted the need to carefully consider a funding allowance in recognition of the added resources necessary to educate a growing student population. Such consideration is warranted based upon the fact that the original three-year plan assumed a stable enrollment total for the School Department throughout the life of the override period.



This budget proposal takes into account enrollment growth in both FY2013 (147 students) and FY2014 (134 students) and uses those figures to calculate an adjusted budget for the School Department in FY2015. Going forward, the long range plan allots an annual amount (growth factor) to the School Department based upon the enrollment growth as reported on October 1st of each year. The growth factor will be equivalent to 25% of the prior year's per pupil cost (PPC) as determined by the State's Department of Elementary and Secondary Education (DESE). This percentage is being used as a straightforward manner of projecting future School Department budget needs, which is based upon the incremental cost of accommodating increased enrollment in the school district. It is recommended that this approach be added as a new commitment to be maintained as part of the long range plan. The following tables demonstrate this proposal:

	FY 2014	FY 2015	\$ Increase	% Increase
General Education Costs	\$ 31,418,665	\$ 32,518,318	\$ 1,099,653	3.50%
Special Education Costs	\$ 15,286,448	\$ 16,356,500	\$ 1,070,052	7.00%
Kindergarten Fee Offset	\$ 970,000	\$ 970,000	\$ -	
Growth Factor		\$ 885,150	\$ 885,150	
TOTAL SCHOOL BUDGET	\$ 47,675,113	\$ 50,729,968	\$ 3,054,855	6.41%

Growth Factor Breakdown	
FY 13 Enrollment Growth	147
FY 14 Enrollment Growth	134
Two Year Total	281
DESE PPC for Arlington	\$ 12,600
25% of PPC for Arlington	\$ 3,150
Growth Factor (25% PPC x 281)	\$ 885,150

The implementation of this proposal, based on current enrollment projections, still allows the current override period to be maintained through FY2018. However, in FY2019, the Town's structural deficit reemerges and is projected to be approximately \$281,735 before substantially increasing to \$12.8 million in FY2020. The Town's structural deficit is discussed in greater detail on page 18 and the Town's long range plan can be viewed on page 24.



Overall General Fund Budget Summary

	FY2013 Budget	FY2014 Budget	FY2015 Budget	Change \$	%
Revenue					
Property Tax	\$ 98,009,381	\$ 101,737,509	\$ 104,560,424	\$ 2,822,915	2.8%
Local Receipts	\$ 8,455,000	\$ 8,158,000	\$ 8,821,000	\$ 663,000	8.1%
State Aid	\$ 15,040,051	\$ 17,093,258	\$ 17,472,050	\$ 378,792	2.2%
School Construction Aid	\$ 2,474,796	\$ 2,474,773	\$ 2,474,773	\$ -	0.0%
Free Cash	\$ 1,570,000	\$ 3,411,528	\$ 3,042,925	\$ (368,604)	-10.8%
Other Funds	\$ 200,000	\$ 200,000	\$ 350,000	\$ 150,000	75.0%
TOTAL REVENUES	\$ 125,749,228	\$ 133,075,068	\$ 136,721,171	\$ 3,646,103	2.7%
Expenditures					
Municipal Departments	\$ 30,057,059	\$ 31,164,902	\$ 32,255,496	\$ 1,090,594	3.5%
School Department	\$ 45,612,598	\$ 47,675,113	\$ 50,729,968	\$ 3,054,855	6.4%
Minuteman School	\$ 3,022,146	\$ 3,336,935	\$ 3,788,615	\$ 451,680	13.5%
Non-Departmental (Healthcare & Pensions)	\$ 22,815,979	\$ 22,899,398	\$ 24,070,099	\$ 1,170,701	5.1%
Capital (Includes Debt Service)	\$ 9,343,820	\$ 9,831,310	\$ 9,918,750	\$ 87,440	0.9%
MWRA Debt Shift	\$ 5,593,112	\$ 5,593,112	\$ 5,593,112	\$ -	0.0%
Warrant Articles	\$ 794,269	\$ 1,112,692	\$ 788,715	\$ (323,977)	-29.1%
Override Stabilization Fund Deposit	\$ 3,879,357	\$ 5,773,873	\$ 4,576,430	\$ (1,197,443)	-20.7%
TOTAL EXPENDITURES	\$ 121,118,340	\$ 127,387,335	\$ 131,721,185	\$ 4,333,850	3.4%
Non-Appropriated Expenses	\$ 4,630,888	\$ 5,687,733	\$ 4,999,986	\$ (687,747)	-12.1%
Surplus / (Deficit)	\$ 0	\$ 0	\$ 0	\$ 0	0.0%



Departmental Budgets

Departmental operating budgets have been held to a 3.5% increase in accordance with the commitments made as part of the tax override. With respect to personnel costs, all collective bargaining units are settled for FY2015. Only one full time position has been added to the budget although there have been a number of changes in personnel. These changes result in a net increase of two positions from FY2014 (see personnel chart on page 7). Some of the more significant budget changes include:

Selectmen: +\$59,778

Included within the budget for the Board of Selectmen are expenses for the operation of elections within the Town. The proposed FY2015 budget is being increased due to the need for one more election as compared to FY2014.

Human Resources: +\$29,699

As part of the Town's soon to be released Strategic Plan for Information Technology the training line item in the Human Resources budget has been increased by \$20,000 in order to support the implementation of technology training for Town staff. This portion of the Strategic Plan has been identified as one of the biggest needs to be met in order to advance the use of technological solutions within Town departments.

Planning & Community Development: +\$49,585

In FY2015, the Conservation Administrator position is being increased by seven hours per week (\$14,484) in order to better meet all of the statutory requirements of the Conservation Commission. The Planning and Community Development expense budget is also being increased by \$8,385 in order to invest in a series of online data tools which will enhance the capability of the Department's economic development efforts.

Public Works: +\$309,957

FY2014 was the final year that funds from the Tip Fee Stabilization Fund were available to offset solid waste disposal costs. Due to this, the increase in Public Works is primarily driven by the need for the general fund to support the costs formerly supported by the Tip Fee Stabilization Fund (\$164,000). A large portion of the departmental increase is also attributable to the 2% contractual increase (\$43,860) due to the Town's waste hauler. The Snow & Ice budget was also increased by \$29,000 to \$753,000. The remaining departmental increases are primarily driven by increasing personnel costs attributable to changes in the pay and classification plan.

**Police Department: +\$305,240**

The FY2015 Police Department expense budget is increasing by a total of \$54,200 with training (\$14,000), vehicle maintenance (\$10,000), and software and technology costs (\$15,000) representing the most significant increases. The remainder of the departmental increase (\$251,040) is primarily driven by increasing personnel costs attributable to changes in the pay and classification plan.

Fire Department: +\$256,105

For the FY2015 budget proposal, the Fire Department budget is adding an additional Fire Captain position at the cost of \$78,855. This position is being added in order to improve the department's ability to professionally manage the increasingly complex business of providing emergency medical service. The addition of this position will also allow the Town to more adequately consider the possibility of offering a paramedic level of service, which will in turn increase revenue collected by the Town. The department's expense budget is decreasing by \$9,500 for FY2015 and the remainder of the departmental increase (\$186,750) is primarily driven by increasing personnel costs attributable to changes in the pay and classification plan.

Street Lights: - \$38,000

The Town's conversion from High Pressure Sodium street lights to LED street lights has been completed and the corresponding reduction in electricity usage and maintenance costs allows for a \$20,000 reduction in this budget. The remaining \$18,000 reduction is attributable to a cost reduction for fire alarm systems and traffic signal maintenance.

Libraries: + \$73,829

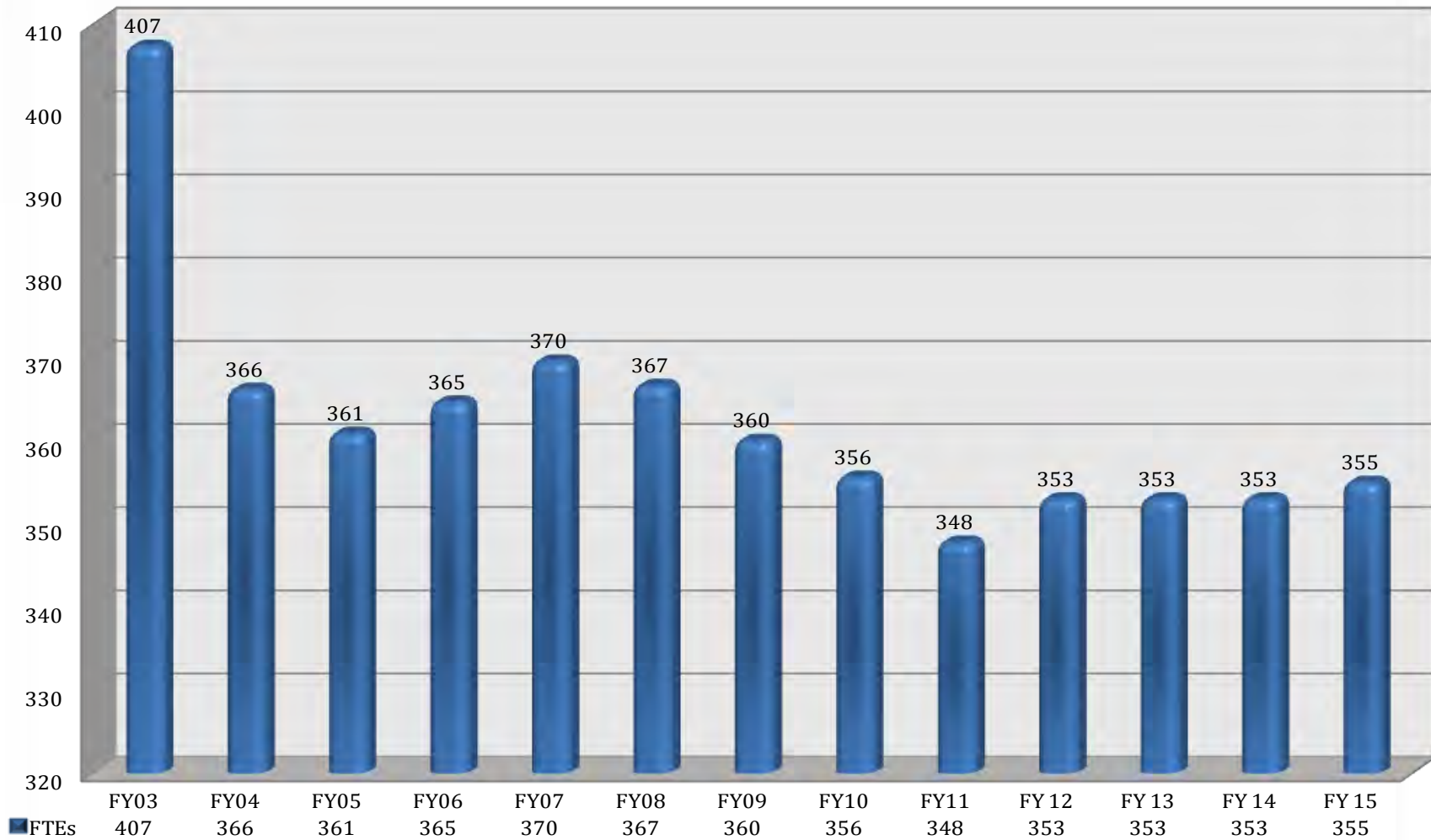
In FY2015, the Library budget is receiving an increase of \$38,500 in order to support the continuation of Sunday hours that were formerly supported by private donations. There is also \$65,828 of increasing personnel costs attributable to changes in the pay and classification plan. The Library's overall expense budget is decreasing by \$6,800, and within this is contained an increase for materials (\$7,700) and other purchased services (\$12,100) along with a decrease in gas and electric costs of \$30,000. These utility decreases have been made possible by the implementation of several energy conservation measures that will be described in more detail later in this message.

Health and Human Services: + \$44,173

The increase in the FY2015 Health and Human Services budget is due to an increase in mosquito control funding (\$4,710), a projected increase in veterans' benefits (\$13,000) and an expansion of hours of the principal clerk in the Council on Aging (\$6,393). The remaining increase is attributable to changes in the pay and classification plan.



Town Personnel Trends FY 2003 - FY2015 FTEs





Healthcare/Other Post-Employment Benefits (OPEB)

The increase in healthcare premiums through the GIC has been set at 1% for FY2015. There is also an assumption of an increase in benefit eligible school department employees based on the previously discussed growth factor funding increase. The combination of these costs result in a 4.53% increase in health insurance costs for FY2015. The assumption regarding the growth factor is carried throughout the long range plan and results in projections that exceed the 7% growth cap in future years.

The FY2014 healthcare budget proposal included a \$300,000 offset from the Town’s Health Claims Trust Fund. This offset was included as a means of increasing the Town’s contribution toward defraying its OPEB liability by a corresponding \$300,000 amount. In FY2015, due to a change in policy by the Department of Revenue, the Town will ask for a direct appropriation from the Health Claims Trust Fund into the Town’s OPEB Trust Fund. Therefore, the use of these funds as an offset in the FY2015 Health Insurance budget is not necessary. The Town’s portion of the Health Claims Trust Fund has an approximate balance of \$3,000,000. The FY2015 recommendation to fund OPEB with \$300,000 from the Health Claims Trust Fund is the second year in what is a recommendation to adopt this practice for the next ten years or until the Health Claims Trust Fund is exhausted. This \$300,000 contribution is in addition to the \$547,877 amount otherwise earmarked for appropriation into the OPEB Trust Fund. The table below provides further information in regard to the Town’s OPEB liability.

Town of Arlington OPEB Liability - As of January 1, 2012						
Active Employees (Future Retirees) Liability	% of Total Liability	Retiree Liability	% of Total Liability	Total Unfunded Liability	Accumulated Assets Towards the Liability	Total OPEB Liability
\$75,177,056	43%	\$98,885,496	57%	\$167,454,100	\$6,608,452	\$174,062,552

Cost Savings/Performance Strategies/Investment in Technology

The Town has recently released a new Strategic Plan for Information Technology (IT Plan) which is the result of a yearlong effort to develop a plan that will aid the Town in enhancing its use of technology as a means of delivering more efficient and more effective services to the residents of Arlington. One key part of enabling the implementation of this plan was the addition of a Systems Analyst to the Information Technology Department in the FY2014 budget. The hiring process resulted in the promotion of the Town’s GIS Coordinator to the position of Systems Analyst/Director of GIS.



Cost Savings/Performance Strategies/Investment in Technology (continued)

The first step that is recommended by the IT Plan is the performance of a needs assessment across all departments in order to determine priority areas for investment in technology. This needs assessment has been led by the Systems Analyst/Director of GIS in cooperation with the Town's Director of Information Technology and the Town Manager. Also, the Systems Analyst/Director of GIS has begun working with both the Board of Selectmen and the School Committee in order to analyze and implement a digital solution for meeting materials. Such a solution will be focused on achieving cost savings attributable to the reduction of paper use and also the increased transparency of making documents available online for the public.

In FY2015 and beyond, the Town will also remain committed to finding other means of reducing costs which may include, but will not be limited to, regionalization of services and the outsourcing of certain municipal functions.

State Aid

Based on a Local Aid Resolution passed by the House of Representatives and the Senate, state aid is projected to increase by \$378,792 or 2.22% in FY2015. This increase includes a \$185,602 increase in Chapter 70 funding and a \$182,159 increase in Unrestricted General Government Aid (UGGA).

Sustainability/Energy Conservation

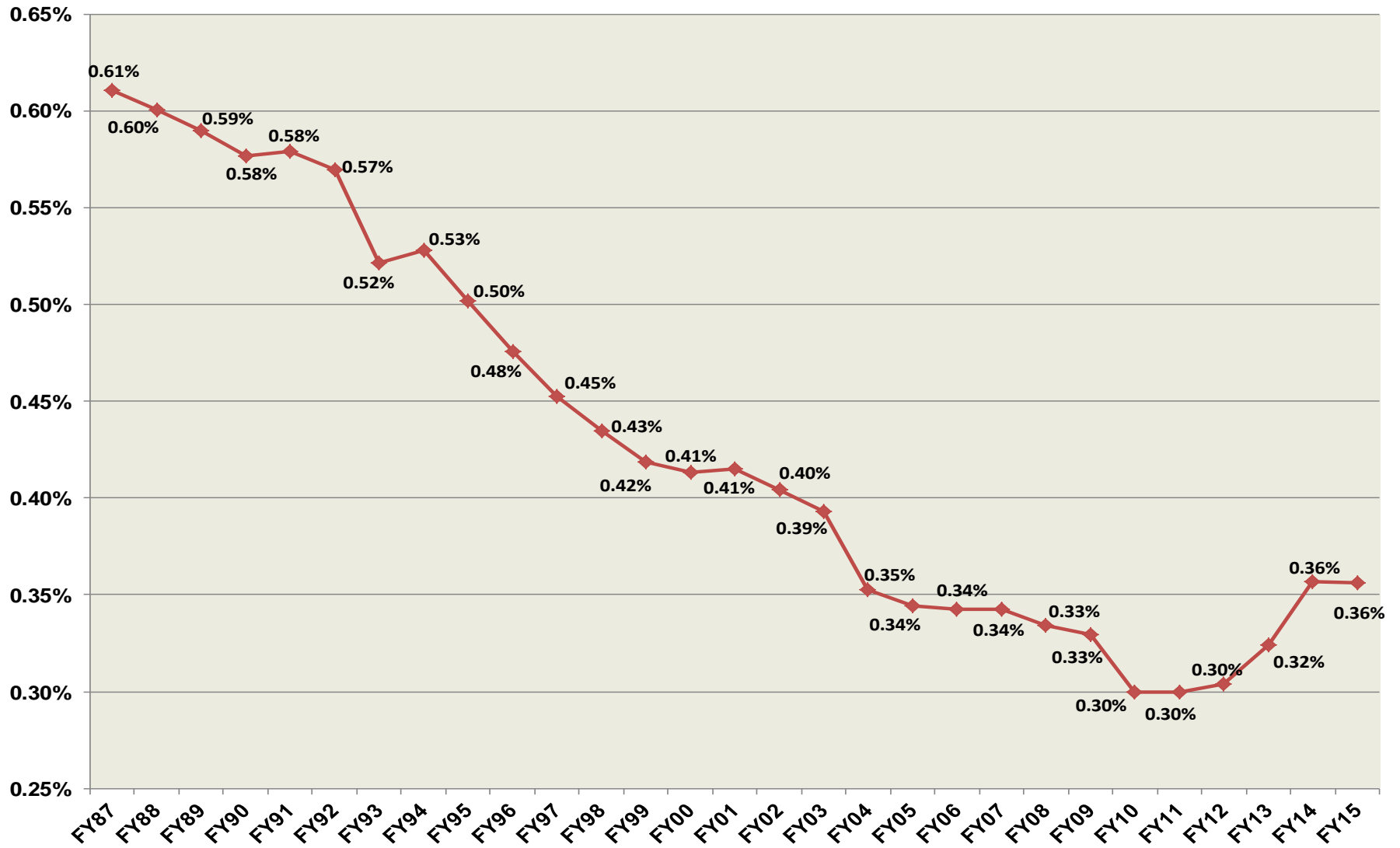
In 2010, Arlington was named a Green Community by the State's Green Communities Division in recognition of the work that Arlington has done in the past to reduce energy usage, and the plans it has to further reduce energy use in the future. In 2013, based on significant fulfillment of these plans, the State's Department of Energy Resources (DOER) honored Arlington with the "Leading By Example" award. This award is given to only four municipalities on an annual basis, and Arlington was proud to have earned the designation. Also in 2013, the Town hired a Regional Energy Manager (REM) in cooperation with the Town of Bedford. The REM works two days per week in Arlington, and has already demonstrated tremendous value through the implementation of a number of energy conservation measures (ECM) and through the successful submission of several grant applications on behalf of the Town. Using a portion of the \$200,000 appropriated by Town Meeting in 2012 for the implementation of ECM's, the REM has successfully managed the installation of new energy efficient boilers in the Robbins Library, a lighting retrofit/occupancy sensor project at the Robbins Library, and a lighting retrofit/occupancy sensor project at the DPW facility on Grove Street. All of these projects have a payback of less than five years, and also serve to reduce the Town's greenhouse gas emissions. In regard to successful grant applications, through the work of the REM, the Town has received a grant from DOER to hire an Owner's Agent to manage the process of installing solar panels on municipal and school buildings, a grant from DOER to install an electric vehicle charging station and assist in the purchase of an electric vehicle, and additional grants to allow the Town to assess the energy performance of Town Hall and both the Town and School server rooms.

Collective Bargaining and Employee Relations

All Town and school employee unions have contracts in place through FY2015. The Town and school have also recently completed a comprehensive compensation study that will be used by both management and employees during future rounds of bargaining.



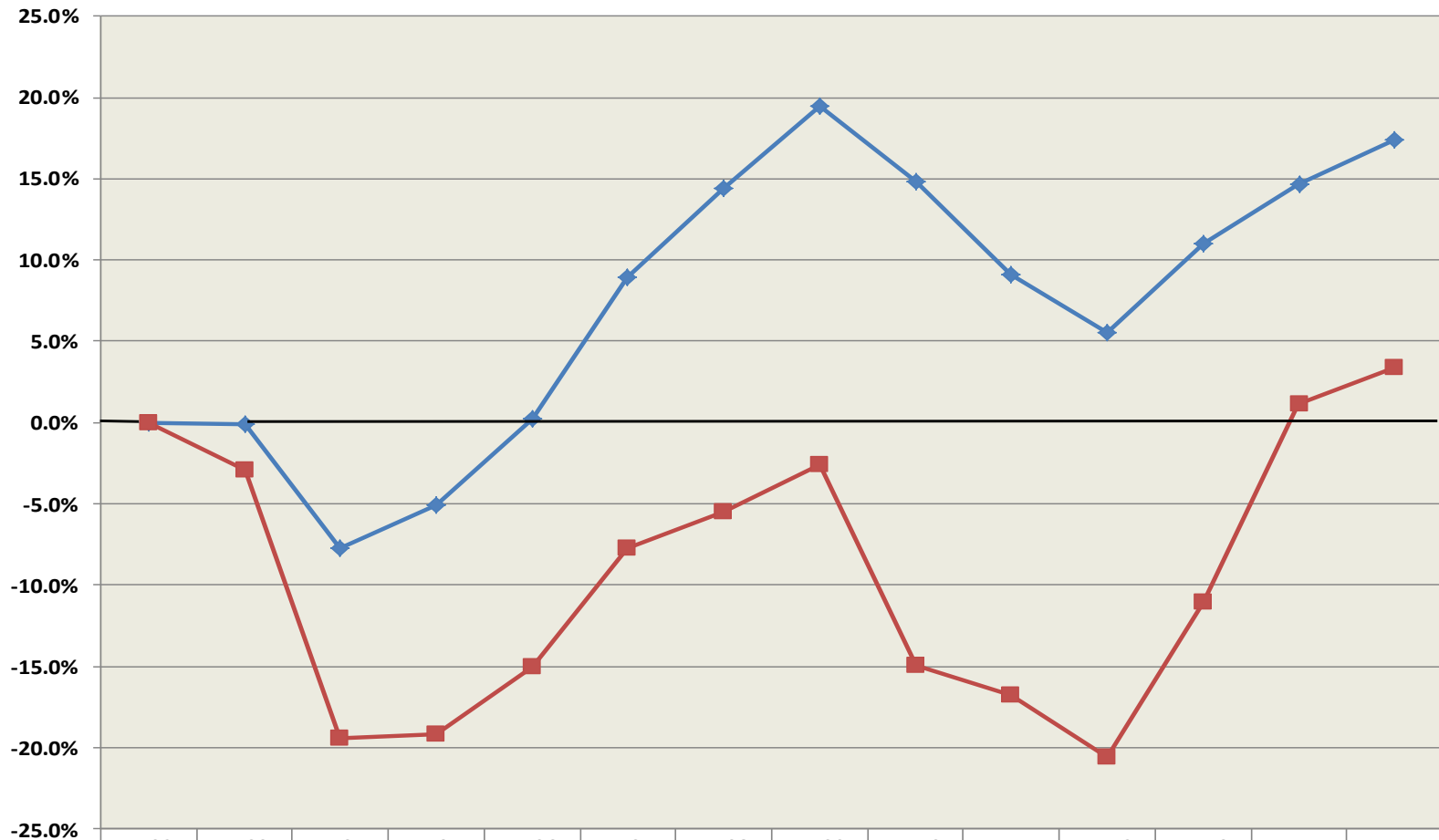
Arlington's Percent of Total State Aid





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

(Numbers Exclude School Construction and METCO Reimbursements)



◆ All Municipalities	0.0%	-0.1%	-7.7%	-5.1%	0.3%	8.9%	14.4%	19.5%	14.8%	9.1%	5.6%	11.0%	14.7%	17.4%
■ Arlington	0.0%	-2.9%	-19.5%	-19.2%	-15.0%	-7.7%	-5.5%	-2.6%	-14.9%	-16.8%	-20.6%	-11.0%	1.1%	3.3%



Comparative Data

The FY2015 Annual Budget & Financial Plan includes a set of comparable communities that includes Belmont, Brookline, Medford, Melrose, Milton, Natick, Needham, North Andover, Reading, Stoneham, Watertown, and Winchester. These communities were selected by Town, School, and Union leadership. These communities were identified based on a number of factors including; population, 5 year average municipal growth factor, population per square mile, median income per capita, median income per household, single family median home value, average family tax bill, total tax levy, excess capacity as a percentage of maximum levy and residential valuation as a percentage of the total tax levy.

There are a number of factors that contribute to Arlington's structural deficit – some common among all municipalities and some relatively unique to Arlington. Some of the factors particular to Arlington include the fact that Arlington is a densely populated, fully built-out community (see Tables 1 and 2 on page 16). Revenue from growth in the tax base ranks near the bottom among a group of 13 comparable communities (see Table 3). It is slightly greater than one-half of the state-wide average. Another indicator of the Town's ability and opportunity to raise revenue 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 twelve other comparable communities' MRGF is 3.54 and 3.38 respectively. Arlington's is 2.52, which is below the state average and ranks last among the comparable communities.

Another factor affecting the Town's financial structure is its tax base. The Town's tax base is nearly all residential — the commercial/industrial sector makes up only slightly more than 6% of the total. Table 5 shows that Arlington's commercial/industrial tax base ranks 10th out of 13 comparable communities. The average of these communities is 16.15%, more than two and a half times that of Arlington. This affects not only the Town's ability to raise revenue, it places a heavier tax burden on the residential sector as there is almost no commercial/industrial sector with which to share the tax burden. Notwithstanding this, the tax burden, when measured several different ways, is below the average of the 13 comparable communities. In fact, the Town ranks 8th in taxes per capita (Table 6), and 10th in taxes per household as a percent of median household income (Table 7). This despite the fact that Arlington's tax levy includes more than \$5 million in MWRA water and sewer debt that only one other community includes on its levy.

A look at how the Town's spending levels impact the Town's financial position shows that the Town's spending per capita is well below the state average and the average of the 13 comparable communities. Arlington ranks 11th out of 13 comparable communities in overall expenditures per capita (see Table 8). The spending average of the other comparable communities is nearly 30% greater than Arlington.

With spending well below the state-wide average and comparable communities, and with revenue growth opportunities well below the statewide average and nearly at the bottom of comparable communities, it is clear that the structural problem with the Town's finances lies with the revenue side of the equation as opposed to the spending side. Limited growth in the tax base, a tax base almost all residential, coupled with a modest 3.3% increase in state aid just since 2002, has left the Town with only two choices — significant budget cuts resulting in service reductions or Proposition 2 ½ general overrides.



Table 1	
Municipality	Pop Per Square Mile
1 BROOKLINE	8,706
2 ARLINGTON	8,438
3 WATERTOWN	7,996
4 MEDFORD	7,007
5 MELROSE	5,850
6 BELMONT	5,409
7 WINCHESTER	3,621
8 STONEHAM	3,513
9 READING	2,537
10 NEEDHAM	2,329
11 NATICK	2,239
12 MILTON	2,083
13 NORTH ANDOVER	1,066
Ave w/o Arlington	4,363
Arlington	8,438

Table 2	
Municipality	Households Per Sq Mile
1 BROOKLINE	3,890
2 ARLINGTON	3,747
3 WATERTOWN	3,652
4 MEDFORD	2,787
5 MELROSE	2,398
6 BELMONT	2,142
7 STONEHAM	1,510
8 WINCHESTER	1,309
9 READING	889
10 NATICK	886
11 NEEDHAM	860
12 MILTON	703
13 NORTH ANDOVER	373
Ave w/o Arlington	1,783
Arlington	3,747

Table 3	
Municipality	New Growth Ave '11-'13
1 NEEDHAM	2.24
2 WATERTOWN	1.52
3 NORTH ANDOVER	1.33
4 BROOKLINE	1.31
5 WINCHESTER	1.18
6 NATICK	1.13
7 READING	1.03
8 BELMONT	1.03
9 MEDFORD	0.88
10 ARLINGTON	0.84
11 MELROSE	0.81
12 MILTON	0.77
13 STONEHAM	0.63
Ave w/o Arlington	1.16
Arlington	0.84
State-Wide Ave	1.60

Table 4	
Municipality	Municipal Revenue Growth Factor
1 NEEDHAM	4.60
2 NORTH ANDOVER	4.11
3 BROOKLINE	3.71
4 WINCHESTER	3.58
5 BELMONT	3.57
6 MILTON	3.42
7 WATERTOWN	3.33
8 MELROSE	3.07
9 MEDFORD	3.00
10 READING	2.87
11 NATICK	2.74
12 STONEHAM	2.60
13 ARLINGTON	2.52
Ave w/o Arlington	3.38
Arlington	2.52
State-Wide Ave	3.54



Table 5	
Municipality	Commercial/ Industrial/ Personal % of Total Tax Levy
1 WATERTOWN	33.75%
2 NEEDHAM	23.10%
3 NATICK	23.03%
4 MEDFORD	21.89%
5 STONEHAM	17.54%
6 NORTH ANDOVER	17.03%
7 BROOKLINE	16.82%
8 READING	9.15%
9 MELROSE	8.53%
10 ARLINGTON	6.14%
11 MILTON	6.09%
12 BELMONT	5.62%
13 WINCHESTER	5.06%
Ave w/o Arlington	16.15%
Arlington	6.14%

Table 6	
Municipality	FY2014 Taxes Per Cap
1 NEEDHAM	\$3,610
2 WINCHESTER	\$3,281
3 BROOKLINE	\$2,974
4 BELMONT	\$2,936
5 NATICK	\$2,768
6 WATERTOWN	\$2,512
7 MILTON	\$2,473
8 ARLINGTON	\$2,328
9 READING	\$2,241
10 NORTH ANDOVER	\$2,232
11 STONEHAM	\$2,003
12 MELROSE	\$1,813
13 MEDFORD	\$1,631
Ave w/o Arlington	\$2,539
Arlington	\$2,328

Table 7	
Municipality	FY2014 Taxes/ Household as % of 08-12 median income
1 NEEDHAM	8.2%
2 WINCHESTER	7.4%
3 BELMONT	7.3%
4 BROOKLINE	7.3%
5 NATICK	7.2%
6 WATERTOWN	7.1%
7 MILTON	6.9%
8 STONEHAM	6.6%
9 NORTH ANDOVER	6.4%
10 ARLINGTON	6.1%
11 READING	6.0%
12 MEDFORD	5.6%
13 MELROSE	5.1%
Ave w/o Arlington	6.8%
Arlington	6.1%

Table 8	
Municipality	FY2011 Total Exp Per Cap
1 READING	\$3,967
2 NEEDHAM	\$3,749
3 WINCHESTER	\$3,716
4 BROOKLINE	\$3,297
5 NATICK	\$3,231
6 BELMONT	\$2,862
7 WATERTOWN	\$2,839
8 STONEHAM	\$2,746
9 MELROSE	\$2,740
10 NORTH ANDOVER	\$2,365
11 ARLINGTON	\$2,304
12 MILTON	\$2,250
13 MEDFORD	\$1,988
Ave w/o Arlington	\$2,979
Arlington	\$2,304
State-Wide Ave	\$2,780



Financial Structure and Outlook

Each year, for several years, the Town has had a structural deficit whereby the growth in revenues has not kept pace with the growth in costs necessary to maintain a level service budget. This has happened despite a reduction of nearly 50% in the Town's workforce and spending levels near the bottom of its comparable communities.

The annual structural deficit is estimated between \$2.0 and \$2.5 million. As a result of being a built out (further density being the only real growth opportunity) community with limited available growth in its tax base and only recent improvement in its state aid, the Town has had to rely on periodic tax overrides to sustain service levels. Still, in the 30 years of Proposition 2 ½, there have been only three general tax overrides.

As a result of the change to the Town's employee health care program, which has provided significant savings, it is now projected that the 2011 override funds can be stretched to last seven years rather than only three. These projections take into account the growth factor for the School Department which has been previously discussed. The Town's long range plan is provided on page 24.

It is also important to note the potential financial liabilities associated with the reconstruction/renovation of Arlington High School and the proposed building project at Minuteman Vocational Technical High School. There are many decisions yet to be made in regard to these projects, but nevertheless, they will have a substantial impact on the Town's long range financial planning.

Capital

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 FY2015 funding for the capital budget is as follows:

Bonding:	\$10,593,105
Cash:	\$1,554,300
Other:	\$5,680,000

Our existing non-exempt debt is \$5,628,578 which is consistent with prior debt service projections for FY2015. The total capital budget for FY2015, including debt, is estimated at \$9.8 million. Major projects to be funded in FY2015 include: construction of the Central Fire Station at \$6,050,000, street and sidewalk work for approximately \$1.5 million, water and sewer work for \$4.4 million (including water meter replacement), and park renovation work for \$592,500. The FY2015 budget also includes \$500,000 for a Voice over Internet Protocol (VOIP) phone system for the Town and School, and \$131,000 in funding for new police cruisers.



Five Year Financial Projection

The cornerstone of our strategic budgeting process is the long-range financial projection. Based upon analysis of internal and external factors impacting the Town's operations and finances, we have prepared the long-range projection found on page 24. These projections will, of course, have to be modified as events unfold, but we believe that they are reasonable for fiscal planning purposes.

Revenue assumptions include the following:

- **Overall revenues** are expected to increase 2.74% in FY2015. Future year increases range from 0.95% to 4.38%, which occurs in FY2017 due to the initial use of override stabilization funds to balance the budget. In FY2018 and FY2019, the overall increases are 3.76% and 3.35% respectively. This is a result of the increased use of override stabilization funds to balance the budget.
- **Tax Levy** – The FY2015 tax levy is projected to increase by approximately 2.77%, a higher than normal increase which is attributable to the first full debt service payment for the Thompson School. Future year increases are projected to be between approximately 2.64% and 2.85% per year. New growth is projected at \$450,000 per year. Actual debt for Proposition 2 ½ debt exclusion school projects minus state reimbursements are included and amount to approximately \$900,000 to \$1,000,000 each year. Beginning in FY2015 property tax payments from Symmes are expected to cover the Symmes debt and therefore, no funds are needed to be raised on the tax rate to offset Symmes debt service.
- **State Aid** – Overall, state aid is projected to increase 2.2%. This increase is inclusive of a 1.8%, or a \$185,602 increase in Chapter 70 funding and a 2.8% or \$182,159 increase in Unrestricted General Government Aid. In outgoing years, increases are projected between 1% and 2% depending on projected school enrollment growth.
- **School Construction Reimbursement** - Projected to remain level at \$2,474,773 in FY2015. School construction reimbursements will decrease to \$1,615,914 in FY2018 which will reflect the last reimbursement for the Ottoson School construction project and will decrease further to \$476,523 in FY2019 which is reflective of only the reimbursement for the Peirce Elementary School.
- **Local Receipts** – Local Receipts are estimated to increase by \$663,000 in FY2015 due to projected increases in Motor Vehicle Excise tax collections, Meals & Hotel local option taxes, Licenses and Permits, and Penalties & Interest. The significant increase from FY2014 is a result of having to adjust FY2014 projections downward at the time in which the tax rate was set. It is anticipated that Local Receipts will continue to grow by \$50,000 increments thereafter.



- **Free Cash** – In FY2015, \$3,042,925 is proposed to be appropriated, which is 50% of the Town's available free cash balance. For FY2016 and in each subsequent year, \$1,500,000 is proposed to be appropriated.
- **Other Available Funds** – A transfer of \$350,000 from surplus tax abatement overlay reserve funds is projected in FY2015. Transfers of \$200,000 from surplus tax abatement are projected in each year of the plan thereafter.
- **Override Stabilization Fund** – For at least the first five years of the override (FY2012-2016) funds will be deposited into the Fund, resulting in an balance of approximately \$18.2 million. In FY2017, a drawdown of \$2,914,002 will be required to balance the budget.

In FY2018 a drawdown of \$6 million will be needed to close the budget gap leaving approximately \$9.3 million in the Fund to apply to a budget gap of approximately \$9.5 million in FY2019 (the eighth year of the override). This final drawdown will exhaust the Overall Stabilization Funds. The projected deficit in FY2020 is \$12.8 million. It is important to note that these numbers are projections at this time and may vary significantly in future years.

Expenditure assumptions include the following:

- **School Budget** – In FY2015 expenditures are capped at 3.5% for general education costs and 7% for special education costs. However, the FY2015 School Budget includes a growth factor which is aimed to offset the expenses attributable to enrollment growth for the previous years. In future years, the growth factor is included in the following year's general education budget which results in increases ranging from 4.19% to 6.32%. The growth factor is explained in greater detail earlier in the Town Manager's Budget Message.
- **Minuteman School** – In FY2015 the Town's assessment will increase by \$451,680 (13.54%) as a result of enrollment growth. Thereafter, increases are projected at 3.5%.
- **Municipal Departments** - Expenditures for municipal departments will increase by 3.5% in FY2015. In FY2016 and going forward, expenditures are capped at 3.5%.



- **Capital Budget** – Capital policies call for dedicating approximately 5% of net revenues to capital spending inclusive of non-exempt debt. The Capital Budget fluctuates in future years due to the retirement of exempt debt.
 - **Exempt Debt** – This includes the actual cost of debt service for debt exclusion projects which include all of the school projects, except the Ottoson. The first full debt service permanently financed payment for the Thompson School is included in the FY2015 budget. This payment represents 21.6% of the Town’s total exempt debt of \$2,771,358.
 - **Non-Exempt Debt** – This debt will fluctuate over the next several years but will average approximately \$6.2 million per year. Some of the recent major projects covered by non-exempt debt include the Stratton School, Highland & Park Circle Fire Stations, and the Community Safety building.
 - **Cash** – In FY2015 \$1,554,300 in cash funded capital projects is included. This amount fluctuates in future years.
- **MWRA Debt Shift** – The amount has been level funded at \$5,593,112.
- **Pensions** – In FY2015 the pension appropriation will increase of 6.17%, and thereafter, increases 6% annually.
- **Insurance (including healthcare)** – Health care and insurance costs are expected to increase by 4.53%. Actual employee premiums (GIC rates) increased by 1%, but a \$254,914 “Growth Factor” was built into the budget to account for the anticipated new employees in the school department resulting from the enrollment growth. In addition, due to changes in accounting procedures, the \$300,000 OPEB offset included in the FY2014 budget was eliminated and which further contributes to the year over year increase in FY2015. Thereafter costs are projected to increase from 7.14% to 7.64% per year depending on the continuance of enrollment growth in the school department.
- **State Assessments** – In FY2015, the MBTA assessment, which is the largest assessment, is projected to increase by \$45,210 (1.6%) and the Charter School Sending Tuition assessment is projected to increase by \$15,758 (9.2%) due to increased number of students attending charter schools. Overall, state assessments are projected to increase by 2.08%, and 2.50% annually thereafter.
- **Offset Aid** – These grants to schools and the library are increased slightly in FY2015 based upon preliminary cherry sheets and thereafter held level.
- **Overlay Reserve** – This reserve for tax abatements is increased in revaluation years, which occur every three years. For the revaluation years FY2016 and FY2019, the reserve is increased to \$800,000. In non-revaluation years, FY2015 included, it is reduced to \$600,000.



- **Other** – This includes court judgments (\$100,000), deficits such as snow removal (\$500,000) and Symmes property taxes reserved for Symmes debt (677,750). The estimate fluctuates with actual Symmes debt service payments.
- **Warrant Articles** – Appropriations for miscellaneous warrant articles have been estimated at \$788,715 in FY2015 and thereafter held level. This represents a \$323,977 decrease from FY2014 as a result in a reduction in the OPEB warrant article.
- **Override Stabilization Fund** – Appropriations into the fund in FY2015 and FY2016 are projected at approximately \$4.5 million, and \$170,600 respectively. After FY2016 it is projected that drawdowns from the fund will be necessary.



Conclusion

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

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

The document presented for your consideration is a product of a great deal of work. Our department heads, second to none in the Commonwealth in terms of professional competence and dedication to their tasks, provided invaluable input and assistance. Members of boards and commissions also 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 Andrew Flanagan who deserves the credit for the quality of the budget document and the information and the data contained herein. I also want to extend a special word of thanks to Michael Bouton, Management Analyst, who spent evenings and weekends assisting in the production of this document.

Respectfully submitted,

Adam W. Chapdelaine

Town Manager



Long Range Financial Projection

	FY 2014	FY 2015	Dollar Change	Percent Change	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
REVENUE									
State Aid	17,093,258	17,472,050	378,792	2.22%	17,661,058	17,879,240	18,068,104	18,346,158	18,545,406
School Construction Aid	2,474,773	2,474,773	0	0.00%	2,474,773	2,474,773	1,615,914	476,523	476,523
Local Receipts	8,158,000	8,821,000	663,000	8.13%	8,871,000	8,921,000	8,971,000	9,021,000	9,071,000
Free Cash/Muni Building Trust	3,411,528	3,042,925	(368,604)	-10.80%	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
Overlay Reserve Surplus	200,000	350,000	150,000		200,000	200,000	200,000	200,000	200,000
Property Tax	101,737,509	104,560,424	2,822,915	2.77%	107,319,687	110,176,763	113,118,652	116,347,737	119,482,300
Override Stabilization Fund						2,914,002	6,011,112	9,315,265	
TOTAL REVENUES	133,075,068	136,721,171	3,646,104	2.74%	138,026,518	144,065,780	149,484,783	155,206,683	149,275,229
APPROPRIATIONS									
Operating Budgets									
School									
General Education Costs	47,675,113	50,729,968	3,054,855		53,299,194	56,058,267	58,893,786	62,060,278	65,219,739
Special Education Costs*	31,418,665	32,518,318	1,099,653	3.50%	34,572,590	36,046,711	37,634,370	39,212,393	41,038,002
Kindergarten Fee Offset	15,286,448	16,356,500	1,070,052	7.00%	17,501,455	18,726,557	20,037,415	21,440,035	22,940,837
Growth Factor	970,000	970,000	0	0.00%	970,000	970,000	970,000	970,000	970,000
Net School Budget	47,675,113	50,729,968	3,054,855	6.41%	53,299,194	56,058,267	58,893,786	62,060,278	65,219,739
Minuteman	3,336,935	3,788,615	451,680	13.54%	3,921,217	4,058,459	4,200,505	4,347,523	4,499,686
Town	Personnel Services								
Expenses	23,064,316	23,991,930	927,614	4.02%	25,890,465	27,080,949	28,314,850	29,593,687	30,919,034
Less Offsets:	Enterprise Fund/Other								
Tip Fee Stabilization Fund	9,305,801	9,501,933	196,132	2.11%	9,551,933	9,601,933	9,651,933	9,701,933	9,751,933
Net Town Budget	1,791,215	1,988,367	197,152	11.01%	2,057,960	2,129,988	2,204,538	2,281,697	2,361,556
MWRA Debt Shift	164,000	0	(164,000)	-100%	0	0	0	0	0
Net Town Budget	31,164,902	32,255,496	1,090,594	3.50%	33,384,438	34,552,894	35,762,245	37,013,924	38,309,411
Capital budget									
Exempt Debt Service	5,593,112	5,593,112	0	0.00%	5,593,112	5,593,112	5,593,112	5,593,112	5,593,112
Non-Exempt Service	3,018,625	2,771,358	(247,267)	-8.19%	2,635,325	2,524,722	2,424,741	1,396,516	1,335,235
Cash	5,747,610	5,798,692	51,082	0.89%	6,329,814	6,891,105	6,107,989	6,087,773	6,087,773
Minus Capital Carry Forward	1,450,700	1,554,300	103,600	7.14%	1,369,400	1,407,525	1,250,963	1,389,577	1,389,577
Total Capital	(385,625)	(205,600)	180,025	-46.68%	(422,600)	(430,600)	(130,600)	(130,600)	(130,600)
Pensions	8,160,032	8,663,368	503,336	6.17%	9,183,170	9,734,160	10,318,210	10,937,302	11,593,541
Insurance	14,739,366	15,406,731	667,365	4.53%	16,500,707	17,732,368	19,039,212	20,493,083	22,008,044
State Assessments	2,998,089	3,060,588	62,499	2.08%	3,137,103	3,215,530	3,295,919	3,378,316	3,462,774
Offset Aid - Library & School	60,566	61,648	1,082	1.79%	61,648	61,648	61,648	61,648	61,648
Overlay Reserve	1,019,663	600,000	(419,663)	-41.16%	800,000	600,000	600,000	800,000	600,000
Other Crt Jdgmnts/ Deficit/ symmes	1,609,415	1,277,750	(331,665)	-20.61%	1,274,675	1,277,875	1,278,338	1,271,250	1,273,225
Warrant Articles	1,112,692	788,715	(323,977)	-29.12%	788,715	788,715	788,715	788,715	788,715
Override Stabilization Fund	5,773,873	4,576,430			170,600				
TOTAL APPROPRIATIONS	133,075,068	136,721,171	3,646,104	2.74%	138,026,518	144,065,780	149,484,783	155,488,418	162,091,880
BALANCE	0	0			0	0	0	(281,735)	(12,816,650)
Surplus / (deficit) to carryover to next year	0	0			0	0	0	(281,735)	(12,816,650)