TOWN OF ARLINGTON

Fiscal Year 2007 Financial Plan

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TOWN OF ARLINGTON
FINANCIAL PLAN FISCAL YEAR 2007
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SECTION I

BUDGET MESSAGE

February 13, 2006

To: The Honorable Board of Selectmen and Finance Committee

I hereby transmit to you the recommended FY2007 operating and capital budgets and the FY 2007-2011 capital plan. The budget, as proposed, totals $105,518,046 which is an increase of $4,406,312, or 4.4%. A summary showing a comparison of FY2006 and FY2007 revenues and expenses is shown on page I-2.

The budget has been developed in compliance with the commitments made as part of the Proposition 2 ½ override passed last year. The commitments are 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 amount equivalent to at least 5% of the budget.

The budget, as proposed, provides for level services. Budget priorities have been retained—public safety and education being the top priorities. Overall personnel complements have been maintained at current levels. The major uncertainties contained within the FY2007 budget at this time include state aid, collective bargaining and healthcare, and energy costs.

<u>State Aid</u>

State Aid, based upon the Governor's proposed budget, is projected to increase a net of $555,371. This includes an increase of $1,050,136 in cherry sheet aid and a reduction of $494,765 in school construction aid. The Governor proposes to end, completely, the diversion of lottery funds from cities and towns. This restores $158 million to cities and towns including $ 641,953 for Arlington. Chapter 70 aid is proposed to be increased by $164 million of which Arlington would receive $359,429. While State revenues have improved to the tune of approximately $1 billion, some claim that this only backfills the use of reserves and should not be used for significant increases in spending, including local aid.

Cities and towns can rightfully argue that lottery funds should never have been withheld in the first place. The lottery program was sold on the basis that the proceeds would go to cities and towns. The increase in Chapter 70 School Aid is not that significant given the vastly improved State finances and the serious financial problems at the local level.

The recent 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, con-

Overall Budget Summary

	FY2006	FY2007	CHANGE $	%
Revenue				
Tax Levy	$ 73,525,801	$ 76,464,202	$ 2,938,401	4.0%
Local Receipts	$ 8,448,336	$ 8,768,336	$ 320,000	3.8%
State Aid - Cherry Sheet	$ 14,790,887	$ 15,841,023	$ 1,050,136	7.1%
School Construction	$ 2,332,555	$ 1,837,790	$ (494,765)	-21.2%
Free Cash	$ 1,614,155	$ 1,939,695	$ 325,540	20.2%
Other Funds	$ 400,000	$ 667,000	$ 267,000	66.8%
Total Revenues	$ 101,111,734	$ 105,518,046	$ 4,406,312	4.4%
Expenditures				
Municipal Departments	$ 25,405,304	$ 26,169,323	$ 764,019	3.0%
School Department	$ 34,280,903	$ 35,319,943	$ 1,039,040	3.0%
Minuteman School	$ 2,573,834	$ 2,764,825	$ 190,991	7.4%
Non-Departmental (Healthcare & Pensions)	$ 18,604,741	$ 20,414,241	$ 1,809,500	9.7%
Capital				
Exempt Debt	$ 3,231,757	$ 3,143,805	$ (87,952)	-2.7%
Non-Exempt Debt	$ 4,075,799	$ 4,280,106	$ 204,307	5.0%
Cash	$ 707,110	$ 637,458	$ (69,652)	-9.9%
Total Capital	$ 8,014,666	$ 8,061,369	$ 46,703	-7.6%
MWRA Debt	$ 5,475,486	$ 5,959,791	$ 484,305	8.8%
Warrant Articles	$ 2,314,174	$ 2,465,295	$ 151,121	6.5%
Total Appropriations	$ 96,669,108	$ 101,154,787	$ 4,485,679	4.6%
Non-Appropriated Expenses	$ 4,442,626	$ 4,363,259	$ (79,367)	-1.8%
Surplus/ (Deficit)	$0	$0	$0	0.0%

straints 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".

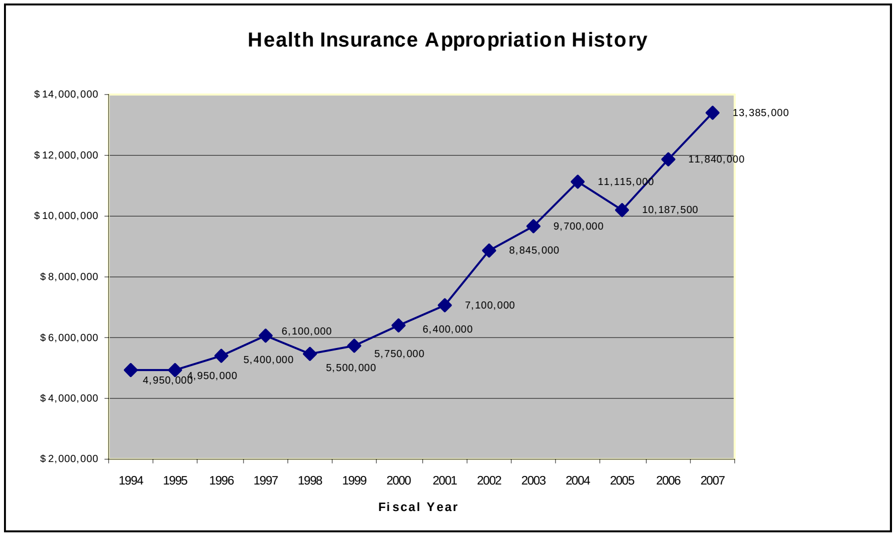
Researchers at Northeastern University's Center for Urban and Regional Policy have documented the critical link between the financial health of municipalities and the future growth of the Massachusetts economy. They too have called for a new fiscal partnership between the State and local governments.

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.

<u>Collective Bargaining and Healthcare</u>

Contracts with all the employee groups expire June 30, 2006. Healthcare cost controls will be the major issue for discussion in contract negotiations. Because employee healthcare cost increases are projected to consume a large portion of the available revenue increase, the funds available for wage adjustments amount to less than 1%.

With the passage of the Proposition 2 ½ override, the taxpayers of the Town made a significant sacrifice to retain employee positions and services. Likewise, the employees agreed in the last round of negotiations to increase their contributions towards their healthcare costs to help retain employee positions and services. This spirit of cooperation needs to continue.



With revenue growth of only 4%, which matches the budget growth cap of 4%, the budget cannot sustain double digit increases in costs for healthcare benefits and still provide wage adjustments to the same degree as it has in the past. The Town and School have made it a top priority to work with employee groups to explore options for reducing and/or controlling healthcare costs.

For FY2007, healthcare costs are projected to increase $1.6 million, or 13%, and will consume one-half of the entire revenue increase for the Town. The chart above shows the history of healthcare appropriation increases since 1994. During this period the increases averaged 8.19%.

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 last actuarial evaluation of the Town's unfunded liability placed it at approximately $77 million. An updated evaluation is currently being performed which could place the liability at close to $100 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, communities were required by law to fully-fund their pension obligations over a long period of time—roughly forty years. The Town's system is now 65% 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. There is approximately $1 million in the fund now. 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.

Energy

Energy costs are anticipated to skyrocket in FY2007. Currently the Town has very favorable long-term contracts for electricity and natural gas supplies. Those contracts, however, will expire next September and January respectively. At that time electricity supply costs are expected to double. The current contract rate is 4.7 cents per KWH versus the current market rate of 9.5 cents per KWH, more than double the current contract rates. For natural gas the current contract rate is $0.895 per therm versus the current market rate of $1.40 per therm. This is a 56% increase over current contract rates. Fuel oil and gasoline prices are projected to increase 5% over current contract rates. Town departmental energy costs, exclusive of schools, are projected to increase a total of $260,000. This is predicated upon current market rates. Given the volatility of the energy markets, however, the rates could change significantly. The Town needs to ensure it has adequate reserves to deal with such volatility.

Municipal Departmental Budgets

Municipal departmental budgets, as proposed, total $26,169,323, which is an increase of 764,019, or 3%. Of the increase, approximately $302,000 is for wages, $260,000 for energy cost increases, $102,000 for refuse collection contract, and $100,000 for election and revaluation expenses. The Comptroller's Office is proposing one additional position in Data Processing and the Treasurer's Office is proposing one less position in Payroll. Accordingly, there is no change in the overall personnel complement for municipal departments. The budget increase is less than 4% due to the fact that healthcare costs are projected to increase 13%, or $1.6 million, well in excess of its limit of 7%.

Municipal Departments Major Budget Increases

Total increase		$764,019	(3.0%)
Wages, Steps, & Benefits	*$302,000*		
Energy	*$260,000*		
Refuse Collection	*$102,000*		
Elections & Revaluation	*$100,000*		

Other Budget Increases

School	$1,039,040	(3.0%)
Minuteman	$190,991	(7.4%)
Health & Pensions	$1,809,500	(9.7%)
Capital	$46,703	(.58%)
Warrant Articles	$151,121	(6.5%)
Non-Appropriated	($79,367)	(-1.8%)
Total Municipal & Other	$3,922,007	(4.1%)

NESWC Disposal Costs

In FY2006, because of surplus revenues at NESWC, the first three months of disposal costs were free. Disposal costs in FY2006 are projected at $1,080,000 and $400,000 was used from the Tip Fee Stabilization Fund (TFSF) to offset these costs. Without the three free months in FY2007, disposal costs are projected to increase by $280,000 to a total of $1,360,000. A drawdown of $680,000 from the TFSF is recommended to offset the increase and to maintain a level-funded appropriation of $680,000.

Human Services Reorganization

Although it is not reflected in the proposed budget at this time, I will be proposing a reorganization of the Human Services Department. The major change will be to remove Recreation from Human Services and make it a separate department. I anticipate there will be a little, if any, budget impact as a result of the reorganization.

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 chart below.

Typical Annual Growth

Revenues	
Property Taxes	$ 2,100,000
Local Receipts	$ 50,000
State Aid	$ 600,000
Total	$ 2,750,000
Expenditures	
Wage Adjustments	$ 2,000,000
Health Insurance/Medicare	$ 1,300,000
Pensions	$ 300,000
Miscelleneous *(utilities, capital/debt, special education, other)*	$ 1,000,000
Total	$ 4,600,000
Structural Deficit	$ (1,850,000)

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. Given the structural deficit occurring each year, it will take fiscal discipline, tight cost controls, and reasonable increases in state aid to make the funds last five years without having to make service reductions.

Override Stabilization Fund (OSF)

As mentioned, in the first year, FY2006, $2 million has been put into an Override Stabilization Fund. In the second year, FY2007, it is recommended that an additional $2 million be put into the fund. In the third year, just under $400,000 is projected to be available to put into the fund. In the fourth year, it is estimated that approximately $1.4 million will need to be withdrawn from the fund to balance the budget. In the fifth year approximately $2.8 million is projected to be needed from the fund to balance the budget. After the fifth year, less than $1 million would be left to offset a projected deficit of more than $4 million leaving a projected net deficit in the sixth year, FY2011, of $3.2 million. How these funds will be used is illustrated below:

	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011
Balance Forward	0	2,064,528	4,382,401	4,945,878	3,665,656	903,395
Deposits	2,064,528	2,149,319	373,251	0	0	0
Withdrawals	0	0	0	(1,421,209)	(2,797,007)	(903,395)
Interest at 4%	0	168,554	190,226	140,987	34,746	0
Balance	**2,064,528**	**4,382,401**	**4,945,878**	**3,665,656**	**903,395**	**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 later year deficits.

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%.

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 dead last among a group of 20 comparable communities (see Table 3). It is less than one-half the average of this group and only a third 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 4.3 and 4.2 respectively. Arlington's is 2.9, nearly 50% 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 5.9% commercial/industrial tax base ranks it 16th out of 20 comparable communities. The average of these communities is 16%, 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 well below the average of the 20 comparable communities. In fact, the Town ranks 14th in taxes per capita, 16th in taxes per household, and 19th in taxes per household as a percent of median family 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 last year with only two choices— significant budget cuts with the resulting service reductions or the first Proposition 2 ½ general override since 1991.

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.

TABLE 1

	Municipality	Pop Per Square Mile
1	EVERETT	11,241
2	BROOKLINE	8,410
3	ARLINGTON	8,180
4	WATERTOWN	8,026
5	MEDFORD	6,851
6	MELROSE	5,780
7	BELMONT	5,190
8	WALTHAM	4,663
9	STONEHAM	3,614
10	WINCHESTER	3,446
11	WEYMOUTH	3,174
12	WOBURN	2,940
13	NORWOOD	2,727
14	FRAMINGHAM	2,664
15	BEVERLY	2,401
16	READING	2,388
17	NEEDHAM	2,293
18	MILTON	1,999
19	BURLINGTON	1,936
20	LEXINGTON	1,851
	Ave w/o Arlington	4,294
	Arlington	8,180

TABLE 2

	Municipality	Households Per Square Mile
1	EVERETT	4,701
2	BROOKLINE	3,890
3	ARLINGTON	3,746
4	WATERTOWN	3,652
5	MEDFORD	2,787
6	MELROSE	2,396
7	BELMONT	2,141
8	WALTHAM	1,880
9	STONEHAM	1,511
10	WEYMOUTH	1,327
11	WINCHESTER	1,310
12	WOBURN	1,214
13	NORWOOD	1,140
14	FRAMINGHAM	1,064
15	BEVERLY	981
16	READING	889
17	NEEDHAM	860
18	BURLINGTON	715
19	MILTON	703
20	LEXINGTON	691
	Ave w/o Arlington	1,782
	Arlington	3,746

TABLE 3

	Municipality	FY05 New Growth as a % of Levy
1	BEVERLY	3.54%
2	WALTHAM	3.42%
3	WOBURN	2.38%
4	WATERTOWN	2.31%
5	LEXINGTON	2.17%
6	BROOKLINE	2.11%
7	MILTON	2.05%
8	WINCHESTER	1.92%
9	NORWOOD	1.79%
10	NEEDHAM	1.70%
11	WEYMOUTH	1.63%
12	FRAMINGHAM	1.41%
13	READING	1.30%
14	BURLINGTON	1.26%
15	BELMONT	1.16%
16	MEDFORD	1.12%
17	MELROSE	1.05%
18	STONEHAM	1.05%
19	EVERETT	0.99%
20	ARLINGTON	0.81%
	Ave w/o Arlington	1.81%
	Arlington	0.81%
	State-wide Ave	2.43%

TABLE 4

	Municipality	FY2005 Municipal Revenue Growth Factor
1	WOBURN	6.6
2	WATERTOWN	6.1
3	NEEDHAM	4.9
4	BURLINGTON	4.8
5	WINCHESTER	4.7
6	WALTHAM	4.7
7	FRAMINGHAM	4.6
8	BROOKLINE	4.6
9	NORWOOD	4.2
10	LEXINGTON	4.1
11	EVERETT	4.0
12	BEVERLY	3.9
13	WEYMOUTH	3.5
14	STONEHAM	3.5
15	MILTON	3.4
16	BELMONT	3.4
17	ARLINGTON	2.9
18	MELROSE	2.9
19	MEDFORD	2.7
20	READING	2.6
	Ave w/o Arlington	4.2
	Arlington	2.9
	State-wide Ave	4.3

TABLE 5

	Municipality	FY2005 Commer-cail/ Indus-trial % of Total Value
1	BURLINGTON	32.7%
2	EVERETT	32.0%
3	WALTHAM	29.7%
4	WOBURN	28.7%
5	NORWOOD	27.3%
6	FRAMINGHAM	22.6%
7	WATERTOWN	18.8%
8	WEYMOUTH	13.3%
9	NEEDHAM	12.5%
10	BEVERLY	12.4%
11	LEXINGTON	12.2%
12	STONEHAM	11.2%
13	MEDFORD	11.1%
14	BROOKLINE	9.0%
15	READING	6.6%
16	ARLINGTON	5.9%
17	BELMONT	5.1%
18	WINCHESTER	5.1%
19	MELROSE	5.0%
20	MILTON	3.0%
	Ave w/o Arlington	15.7%
	Arlington	5.9%
	State-wide Ave	16.0%

TABLE 6

	Municipality	FY2005 Taxes Per Capita
1	LEXINGTON	2,997
2	BURLINGTON	2,529
3	WINCHESTER	2,382
4	BELMONT	2,259
5	NEEDHAM	2,220
6	BROOKLINE	2,133
7	FRAMINGHAM	1,914
8	WALTHAM	1,866
9	WOBURN	1,831
10	READING	1,809
11	WATERTOWN	1,745
12	MILTON	1,699
13	EVERETT	1,658
14	ARLINGTON	1,582
15	BEVERLY	1,484
16	STONEHAM	1,474
17	NORWOOD	1,403
18	MELROSE	1,303
19	MEDFORD	1,227
20	WEYMOUTH	1,159
	Ave w/o Arlington	1,847
	Arlington	1,582

TABLE 7

	Municipality	FY2005 Taxes Per House-hold
1	LEXINGTON	8,043
2	BURLINGTON	6,955
3	WINCHESTER	6,376
4	NEEDHAM	5,941
5	BELMONT	5,342
6	MILTON	4,796
7	READING	4,790
8	FRAMINGHAM	4,696
9	WALTHAM	4,628
10	BROOKLINE	4,538
11	WOBURN	4,455
12	EVERETT	3,877
13	WATERTOWN	3,790
14	BEVERLY	3,662
15	STONEHAM	3,456
16	ARLINGTON	3,386
17	NORWOOD	3,354
18	MELROSE	3,073
19	MEDFORD	2,931
20	WEYMOUTH	2,782
	Ave w/o Arlington	4,605
	Arlington	3,386

TABLE 8

	Municipality	Taxes Per Household As A % of Median Fam-ily Income
1	BURLINGTON	8.5%
2	EVERETT	7.8%
3	LEXINGTON	7.2%
4	WALTHAM	7.2%
5	FRAMINGHAM	7.0%
6	WOBURN	6.7%
7	WINCHESTER	5.8%
8	WATERTOWN	5.6%
9	BELMONT	5.6%
10	NEEDHAM	5.5%
11	BEVERLY	5.5%
12	READING	5.4%
13	MILTON	5.1%
14	BROOKLINE	4.9%
15	STONEHAM	4.8%
16	NORWOOD	4.8%
17	MEDFORD	4.7%
18	WEYMOUTH	4.3%
19	ARLINGTON	4.3%
20	MELROSE	3.9%
	Ave w/o Arlington	5.8%
	Arlington	4.3%

TABLE 9

	Municipality	FY2004 Total Expenditures Per Capita
1	NORWOOD	3,308
2	LEXINGTON	3,218
3	BURLINGTON	3,138
4	BROOKLINE	2,907
5	BELMONT	2,864
6	WINCHESTER	2,768
7	NEEDHAM	2,644
8	EVERETT	2,624
9	FRAMINGHAM	2,399
10	READING	2,298
11	WATERTOWN	2,233
12	WOBURN	2,204
13	MILTON	2,189
14	STONEHAM	2,165
15	WALTHAM	2,038
16	BEVERLY	2,019
17	ARLINGTON	1,986
18	MELROSE	1,919
19	MEDFORD	1,908
20	WEYMOUTH	1,898
	Ave w/o Arlington	2,460
	Arlington	1,986
	State-wide Ave	2,360

TABLE 10

	Municipality	FY2004 Public Safety Expenditures Per Capita
1	BURLINGTON	445
2	BROOKLINE	427
3	WALTHAM	420
4	BELMONT	383
5	WOBURN	374
6	EVERETT	372
7	WATERTOWN	366
8	MILTON	346
9	NORWOOD	345
10	MEDFORD	336
11	NEEDHAM	325
12	STONEHAM	319
13	WINCHESTER	308
14	FRAMINGHAM	291
15	WEYMOUTH	288
16	READING	268
17	BEVERLY	261
18	ARLINGTON	259
19	LEXINGTON	258
20	MELROSE	253
	Ave w/o Arlington	336
	Arlington	259
	State-wide Ave	329

TABLE 11

	Municipality	FY2004 General Gov Expenditures Per Capita
1	WINCHESTER	347
2	NEEDHAM	255
3	WALTHAM	172
4	BROOKLINE	168
5	BELMONT	148
6	BURLINGTON	145
7	NORWOOD	126
8	WATERTOWN	116
9	LEXINGTON	115
10	EVERETT	104
11	ARLINGTON	98
12	STONEHAM	91
13	READING	89
14	FRAMINGHAM	89
15	WEYMOUTH	83
16	WOBURN	82
17	BEVERLY	81
18	MILTON	81
19	MELROSE	79
20	MEDFORD	59
	Ave w/o Arlington	128
	Arlington	98
	State-wide Ave	122

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 15. 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 between 1% and 4.4%.

- **Tax Levy** - Projected to increase between 2.5% and 4%.
  - Regular Levy - 2 ½ % plus $450,000 new growth. Additional net new growth of $500,000 from Symmes project commencing in FY2010.
  - Debt Exclusion – Actual debt for Proposition 2 ½ debt exclusion school projects minus state reimbursements. Only BAN cost carried for Dallin School. Actual bond costs likely to be greater.
  - MWRA Water and Sewer Debt – Amount from FY2007 held level. Actual cost will likely increase.

- **State Aid** – Projected to increase 7% in FY2007, based upon the Governor's budget, and then increased approximately 3.5% thereafter.

- **School Construction Reimbursement** – Projected to decrease $494,765 in FY2007, due to a one-time double payment in FY2006 for Peirce School, and then held level. Potential increase for Ottoson School reimbursement listed under Other Revenues.

- **Local Receipts** – Increased $50,000 each year except in FY2007. In FY2007 and FY2008, $350,000 anticipated in both years for building permit fees for Symmes project. Originally anticipated $700,000 in FY2007.

- **Free Cash** – Typically appropriate one-half of certified amount. In FY2007, will use $1.9 million, $325,000 more than customary practice, to compensate for less than anticipated revenue in FY2007 from Symmes building permits. Use drops to $1 million each year thereafter in anticipation of smaller certified balances.

- **Overlay Reserve Surplus** – Use $400,000 in FY2007 and then held at $200,000 each year thereafter. There is a reasonably good chance that the actual surplus could be greater. If they are, it would simply serve to reduce the deficit in FY2011.

- **Other Revenues** – In FY2007, $267,000 from interest earned from bond proceeds for school projects is proposed to be applied against Dallin School costs. In FY2008, and each year thereafter, $437,717 is included from an anticipated increase in state reimbursements for Ottoson School. In FY2009, $1.4 million is drawn down from the Override Stabilization Fund. In FY2010, $2.8 million is drawn down from the Fund leaving a balance of less than $1 million for FY2011.

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 FY2007, only 3.03% available due to projected increase of 13% for healthcare costs.

- **Minuteman School** – In FY2007 increased enrollment pushes increase to 7.4%. Thereafter, increases 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 FY2007, only 3.03% available due to projected increase of 13% for healthcare costs.

- **Capital Budget** – Based upon 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. Dallin School costs include only BAN costs. Actual bond costs, when known, will be greater.
  - **Non-Exempt Debt** – Increasing approximately 5% a year.
  - **Cash** – In FY2007, CIP calls for $637,000 in cash-financed projects. Thereafter, amount averages approximately $900,000.
  - **MWRA Debt Shift** – In FY2007, estimated at $5.96 million. Amount held level, thereafter, however, amount likely to increase.

- **Pensions –** In FY2007 increased 3.2%. Thereafter increased 4%.

- **Insurance (including healthcare) –** In FY2007, projected increase of 13%. Thereafter, capped at 7%. Any amount above 7% reduces municipal and school budgets.

- **State Assessments –** Based upon preliminary cherry sheets, increased 3.8% in FY2007. Thereafter, increased 2.5%.

- **Offset Aid –** These grants to schools and library are held level from FY2007.

- **Overlay Reserve –** This reserve for tax abatements is increased in revaluation years which is every three years starting in FY2007. In non-revaluation years, it is reduced to $600,000.

- **Other –** Court judgments or deficits including snow removal, revenue, etc., are estimated at $300,000 in FY2007 and $200,000 thereafter.

- **Warrant Articles** – Includes an allowance of approximately $300,000 per year for typical warrant articles plus amount deposited into Override Stabilization Fund.

Long Range Financial Projection

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
REVENUE						
State Aid	14,790,887	15,841,023	16,441,023	17,041,023	17,641,023	18,241,023
School Construction Aid	2,332,555	1,837,790	1,837,790	1,837,790	1,837,790	1,837,790
Local Receipts	8,448,336	8,768,336	8,818,336	8,518,336	8,568,336	8,618,336
Free Cash	1,614,155	1,939,695	1,000,000	1,000,000	1,000,000	1,000,000
Overlay Reserve Surplus	400,000	400,000	200,000	200,000	200,000	200,000
Property Tax	73,525,801	76,464,202	78,511,864	80,526,701	83,228,465	85,522,474
Other Revenues	0	267,000	437,717	1,858,926	3,234,724	1,341,112
TOTAL REVENUES	101,111,734	105,518,045	107,246,730	110,982,776	115,710,338	116,760,735
APPROPRIATIONS						
Operating Budgets						
School	34,280,903	35,319,943	36,732,741	38,202,050	39,730,132	41,319,338
Minuteman	2,573,834	2,764,825	2,875,418	2,990,435	3,110,053	3,234,455
Town Personnel Services	19,289,018	19,413,834	20,190,387	20,998,003	21,837,923	22,711,440
Expenses	7,996,769	8,934,285	9,264,854	9,607,653	9,965,058	10,335,758
Less Offsets:						
Enterprise Fund/Other	1,486,247	1,498,796	1,558,748	1,621,098	1,685,942	1,753,379
Tip Fee Stabilization Fund	400,000	680,000	680,000	680,000	680,000	680,000
Net Town Budget	25,399,540	26,169,323	27,216,493	28,304,558	29,437,039	30,613,819
Capital budget						
Exempt Debt Service	3,231,757	3,143,805	2,748,750	2,533,477	2,449,378	2,374,928
Non-Exempt Debt Service	4,075,799	4,280,106	4,525,782	4,763,789	5,118,332	5,029,531
Cash	707,110	637,458	854,458	890,000	868,018	1,010,427
Total Capital	8,014,666	8,061,369	8,128,990	8,187,266	8,435,728	8,414,886
MWRA Debt Shift	5,475,486	5,959,791	5,959,791	5,959,791	5,959,791	5,959,791
Pensions	6,345,069	6,547,299	6,809,191	7,081,558	7,364,820	7,659,413
Insurance	12,259,672	13,866,942	14,837,628	15,876,262	16,987,600	18,176,732
State Assessments	2,543,085	2,639,139	2,705,117	2,772,745	2,842,064	2,913,116
Offset Aid - Library & School	497,260	524,120	524,120	524,120	524,120	524,120
Overlay Reserve	902,675	900,000	600,000	600,000	800,000	600,000
Other	499,606	300,000	200,000	200,000	200,000	200,000
Warrant Articles	2,319,938	2,465,294	657,241	283,990	318,990	283,990
TOTAL APPROPRIATIONS	101,111,734	105,518,045	107,246,730	110,982,776	115,710,338	119,899,659
BALANCE	0	0	0	0	0	(3,138,924)

Reserve Balances						
Free Cash	3,179,389	1,366,870	1,000,000	1,000,000	1,000,000	1,000,000
Stabilization Fund	2,215,051	2,303,653	2,395,799	2,491,631	2,591,297	2,694,949
Override Stabilization Fund	2,064,528	4,382,401	4,945,878	3,665,656	903,395	(0)
Tip Fee Stabilization Fund	3,722,075	3,190,958	2,638,597	2,064,141	1,466,706	845,374
Municipal Building Trust Fund	549,105	513,346	513,255	523,473	544,412	566,188
TOTAL:	11,730,149	11,692,156	11,425,853	9,674,518	6,432,612	5,106,511
% of General Fund Revenue	12%	11%	11%	9%	6%	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.Our existing non-exempt debt is $4,344,721 of which $111,877 is paid by the water/sewer enterprise fund. The additional new non-exempt debt service is estimated at $47,262. The total capital budget for FY2007 is estimated at $4,917,564. For FY 2007, expenditures for the capital budget are as follows:

Bonding -	$2,100,555
Cash -	637,458
Other -	4,873,000
Total	7,611,013

Major projects to be funded in FY2007 include $230,000 for public safety vehicles and equipment, $341,000 for public works vehicles and equipment, $680,000 for building repairs, $1,300,000 for roads, sidewalks, and culvert, $425,000 for park renovations including $235,000 for Menotomy Rocks Park, and $259,000 for town and school technology software and hardware. Also included from the water and sewer enterprise fund is $2,000,000 for the installation of a new remote automated meter reader system, $1,000,000 for water system rehabilitation and $748,000 for sewer system rehabilitation. Two studies proposed for funding include $25,000 for additional study related to the renovation/reconstruction of the Highland and Center Fire Stations and $20,000 to explore options for acquisition of additional land for the cemetery.

Major capital expenditures in our 5-year plan include the fire station renovations and a commitment to upgrade our rink including replacement of the rink floor and boards.

School Construction

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

The reform legislation (Ch. 210) dedicates one cent of the state sales tax to the new off-budget school building trust. This funding will be phased in between now and 2011. Funding will no longer be subject to an annual appropriation from the Legislature and approval of the Governor. The state is providing $1 billion in bond proceeds and an additional $150 million in cash. The new trust is responsible for paying old contract assistance totaling $5.5 billion over the next 20 years, while financing the current waiting list amount of $5.5 billion (and growing) over the next 3 years. A major feature of the new law is the up front cash grant program. When a project is approved for funding, the program will make a single payment for 75% of the full amount of the state's reimbursement. The balance of the state share will be paid when the project audit is completed. There are currently 425 school construction projects on the waiting list. The new legislation intends to fund all 425 projects in the next 3½ years.

Chapter 208 imposes a moratorium on the approval of new school construction projects by the MSBA until July 1, 2007. Communities may submit these projects for reimbursement at the close of the moratorium. Communities proceeding with construction during this period must consider the possibility that the MSBA may disapprove reimbursement of the project. At the conclusion of the three-year moratorium, the authority will use $500 million per year to finance new projects. Projects will be funded to the extent that money from the sales tax will allow. Projects that cannot be funded will be rejected and automatically reapplied for the following year. There will not be a waiting list. Reimbursement rates are based on community factors and incentive points. The base percentage is 39%.

The lack of a waiting list creates a major problem for cities and towns because now communities will have no idea whether their project will be funded. At least before, you were put on a list and knew that eventually you would receive funding. Given the lengthy moratorium, there is a growing backlog of projects that will be competing for limited dollars.

There are two schools remaining to be renovated under the school rebuilding program- the Thompson and Stratton Schools. From the original debt authorization of the voters there may be enough left to complete one of the schools assuming that State funding is available. Unfortunately, with the moratorium on State funding for school construction in place and with the backlog of waiting projects, it is unlikely that the Town will receive funding within the next few years, if ever. Given this uncertainty, it makes sense to consider making some interim improvements to the facilities including upgrading technology systems. Over the next several months, I will work with the Superintendent, School Committee, Board of Selectmen, and Finance Committee to develop a strategy to address this issue and identify funding sources.

Conclusion

The FY2007 budget, as presented, is in balance. 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, Domenic Lanzilotti, and Matthew Lehrich, who spent evenings and weekends assisting in producing this document.

Respectfully submitted,

Brian F Sullivan

Town Manager