



SECTION II

REVENUE



TOTAL REVENUE

Total revenue for FY2007 is projected at \$105,518,046, an increase of \$4,406,312, or 4.4%.

The property tax levy is projected to increase \$2,938,401 or 4%. Local receipts are projected to increase \$320,000 due to projected building permit revenue from the Symmes redevelopment project.

State aid, exclusive of school construction reimbursement, is projected to increase \$1,050,136, or 7.1%. This is based upon the Governor's proposed budget. School construction reimbursement will decline by \$494,765 only because FY2006 reimbursements included two years of reimbursements for the Peirce School project. Together the overall state aid increase is \$555,371.

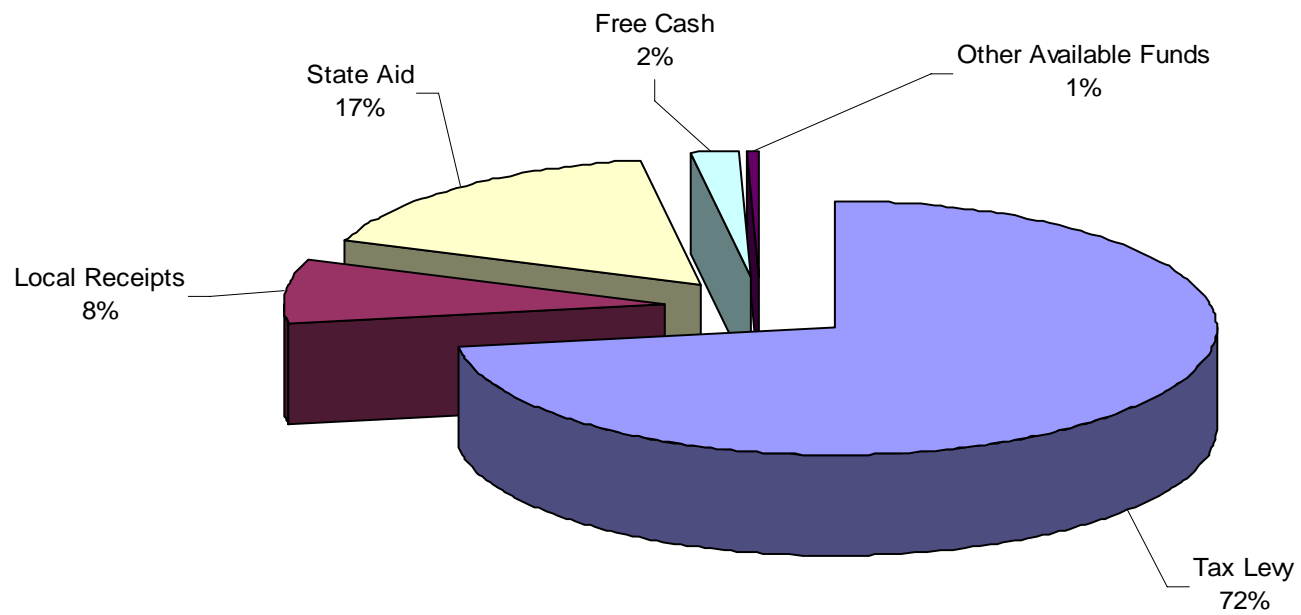
A total of \$1,939,695 in free cash is proposed to be used which is an increase of \$325,540.

Other funds total \$667,000, an increase of \$267,000 over FY2006. They include \$400,000 in surplus tax abatement overlay funds, which is the same amount used in FY2006, and \$267,000 in accumulated interest income earned from the investment of bond proceeds for school construction projects that will be applied to debt service costs for Dallin School.

REVENUE SOURCE					
	FY04 Actual	FY05 Actual	FY06 Budget	FY07 Budget	Budget Change
Tax Levy	63,704,140	65,719,969	73,525,801	76,464,202	2,938,401
Local Receipts	7,801,881	8,437,095	8,448,336	8,768,336	320,000
State Aid	15,275,285	15,389,872	17,123,442	17,678,813	555,371
Free Cash	1,774,342	1,414,803	1,614,155	1,939,695	325,540
Other Available Funds	1,852,258	1,700,000	400,000	667,000	267,000
Total	90,407,906	92,661,739	101,111,734	105,518,046	4,406,312



REVENUE





Total General Fund Revenues

	<u>FY96</u> <u>Actual</u>	<u>FY97</u> <u>Actual</u>	<u>FY98</u> <u>Actual</u>	<u>FY99</u> <u>Actual</u>	<u>FY00</u> <u>Actual</u>	<u>FY01</u> <u>Actual</u>	<u>FY02</u> <u>Actual</u>	<u>FY03</u> <u>Actual</u>	<u>FY04</u> <u>Actual</u>	<u>FY05</u> <u>Actual</u>	<u>FY06</u> <u>Budget</u>	<u>FY07</u> <u>Budget</u>
Tax Levy	44,076,596	45,244,721	46,538,575	49,196,020	50,528,536	52,160,152	54,842,040	56,730,196	58,706,143	60,616,241	68,050,315	70,504,411
Local Receipts	5,280,995	6,740,158	6,888,370	6,740,158	7,772,268	8,101,073	7,695,563	7,785,986	7,801,881	8,437,095	8,448,336	8,768,336
State Aid	12,656,331	13,195,192	13,880,462	14,637,670	15,600,835	16,813,955	17,273,579	16,775,516	13,945,694	14,046,847	14,790,887	15,841,023
Free Cash	0	439,518	766,488	1,394,641	1,929,512	2,127,548	2,600,074	2,767,285	1,774,342	1,414,803	1,614,155	1,939,695
Other Available Funds	0	200,000	100,000	100,000	300,000	475,000	300,000	500,000	500,000	500,000	400,000	667,000
Total	62,013,922	65,819,589	68,173,895	72,068,489	76,131,151	79,677,728	82,711,256	84,558,983	82,728,060	85,014,986	93,303,693	97,720,465

*Excludes MWRA debt on tax levy and school construction reimbursements

Annual Revenue Increases

	<u>FY97</u> <u>Actual</u>	<u>FY98</u> <u>Actual</u>	<u>FY99</u> <u>Actual</u>	<u>FY00</u> <u>Actual</u>	<u>FY01</u> <u>Actual</u>	<u>FY02</u> <u>Actual</u>	<u>FY03</u> <u>Actual</u>	<u>FY04</u> <u>Actual</u>	<u>FY05</u> <u>Actual</u>	<u>FY06</u> <u>Budget</u>	<u>FY07</u> <u>Budget</u>
Tax Levy	1,168,125	1,293,854	2,657,445	1,332,516	1,631,616	2,681,888	1,888,156	1,975,947	1,910,098	7,434,074	2,454,096
Local Receipts	1,459,163	148,212	(148,212)	1,032,110	328,805	(405,510)	90,423	15,895	635,214	11,241	320,000
State Aid	538,861	685,270	757,208	963,165	1,213,120	459,624	(498,063)	(2,829,822)	101,153	744,040	1,050,136
Free Cash	439,518	326,970	628,153	534,871	198,036	472,526	167,211	(992,943)	(359,539)	199,352	325,540
Other Available Funds	200,000	(100,000)	0	200,000	175,000	(175,000)	200,000	0	0	(100,000)	267,000
Total	3,805,667	2,354,306	3,894,594	4,062,662	3,546,577	3,033,528	1,847,727	(1,830,923)	2,286,926	8,288,707	4,416,772
Percent Increase	6.1%	3.6%	5.7%	5.6%	4.7%	3.8%	2.2%	-2.2%	2.8%	9.7%	4.7%

Percent of Total Revenue

	<u>FY96</u> <u>Actual</u>	<u>FY97</u> <u>Actual</u>	<u>FY98</u> <u>Actual</u>	<u>FY99</u> <u>Actual</u>	<u>FY00</u> <u>Actual</u>	<u>FY01</u> <u>Actual</u>	<u>FY02</u> <u>Actual</u>	<u>FY03</u> <u>Actual</u>	<u>FY04</u> <u>Actual</u>	<u>FY05</u> <u>Actual</u>	<u>FY06</u> <u>Budget</u>	<u>FY07</u> <u>Budget</u>
Tax Levy	71.1%	68.7%	68.3%	68.3%	66.4%	65.5%	66.3%	67.1%	71.0%	71.3%	72.9%	72.1%
Local Receipts	8.5%	10.2%	10.1%	9.4%	10.2%	10.2%	9.3%	9.2%	9.4%	9.9%	9.1%	9.0%
State Aid	20.4%	20.0%	20.4%	20.3%	20.5%	21.1%	20.9%	19.8%	16.9%	16.5%	15.9%	16.2%
Free Cash	0.0%	0.7%	1.1%	1.9%	2.5%	2.7%	3.1%	3.3%	2.1%	1.7%	1.7%	2.0%
Other Available Funds	0.0%	0.3%	0.1%	0.1%	0.4%	0.6%	0.4%	0.6%	0.6%	0.6%	0.4%	0.7%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%



PROPERTY TAX LEVY

Property tax is the primary source of revenue for virtually every Massachusetts municipality. In Arlington, property taxes represent approximately 79% of annual operating revenues. Property taxes are levied on real property (land and buildings) and personal property (equipment) used by Arlington's non-manufacturing businesses. State law mandates that communities update their property values every three years and obtain State certification that such values represent full and fair cash value. A revaluation is scheduled for FY2007. Under the Provisions of Proposition 2 ½, property taxes, in the aggregate, may not exceed 2 ½% of their "full and fair cash value." This limit is known as the "levy ceiling". Annual levy increases may not exceed 2 ½% of the previous year's levy plus the taxes added from any new or renovated property added to the tax rolls (known as new growth). Any Proposition 2 ½ override or debt exclusion amounts voted are added to the levy limit while all related school construction reimbursements from the State are subtracted.

Property values and new growth for FY2007 are preliminary estimates used to project the levy limit. The FY2006 levy limit was \$66,906,029. The 2 ½% increase allowed for FY2007 is \$1,672,651. New growth from construction not previously on the tax rolls is expected to add \$450,000 to the FY2007 levy. An additional \$1,475,731 is added to the tax levy to cover the cost of debt service for projects approved by the voters as Proposition 2 ½ debt exclusion overrides. This added debt exclusion amount is net of a state reimbursement of \$1,401,074. The debt exclusion amount drops in FY2006 then goes back up in FY2007 due to the fact that both the first and second years reimbursements for Peirce School arrived in FY2006. That double payment dropped the FY2006 amount by \$494,765 more than it would have been. In FY2007, it is proposed to use \$267,000 in accumulated investment earnings from bond proceeds to reduce the debt service costs for Dallin School.

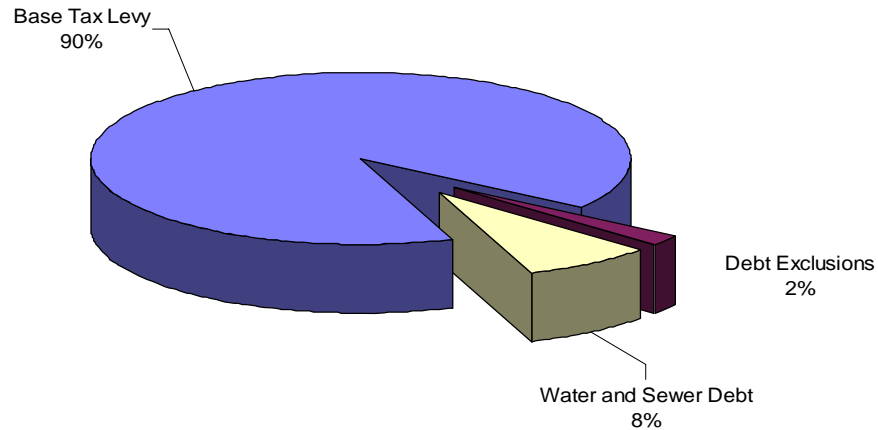
The Town has accepted the provisions of Chapter 110 whereby water and sewer debt costs are transferred to the real estate taxes. At the present time, the only water and sewer debt is from the MWRA which is projected to total \$5,959,791 for FY2007. Based on the above, the FY2007 tax levy is projected to total \$76,464,202 representing an increase of \$2,938,401 (4%) over the FY2006 levy.

PROPERTY TAX LEVY

	FY04 Actual	FY05 Actual	FY06 Budget	FY07 Budget	Budget Change
Base Tax Levy	56,705,990	58,559,459	60,852,836	69,028,680	8,175,844
General Override	0	0	6,000,000	0	(6,000,000)
Debt Exclusion Overrides					
Brackett School	305,444	276,228	257,650	235,981	(21,669)
Hardy School	478,704	381,388	365,580	348,062	(17,518)
Bishop School	297,528	278,652	265,030	249,354	(15,676)
Peirce School	906,889	949,714	(60,407)	413,767	474,174
Dallin School	6,119	59,048	375,883	365,879	(10,004)
Stratton/Thompson Plans	5,469	134,688	132,188	129,688	(2,500)
Bond Premium for Debt Exclusions	0	(22,937)	(138,445)	0	138,445
Investment Income Credit	0	0	0	(267,000)	(267,000)
Sub-total Debt Exclusions	2,000,153	2,056,781	1,197,479	1,475,731	278,252
Water and Sewer Debt	5,033,997	5,103,729	5,475,486	5,959,791	484,305
Total	63,740,140	65,719,969	73,525,801	76,464,202	2,938,401



PROPERTY TAX

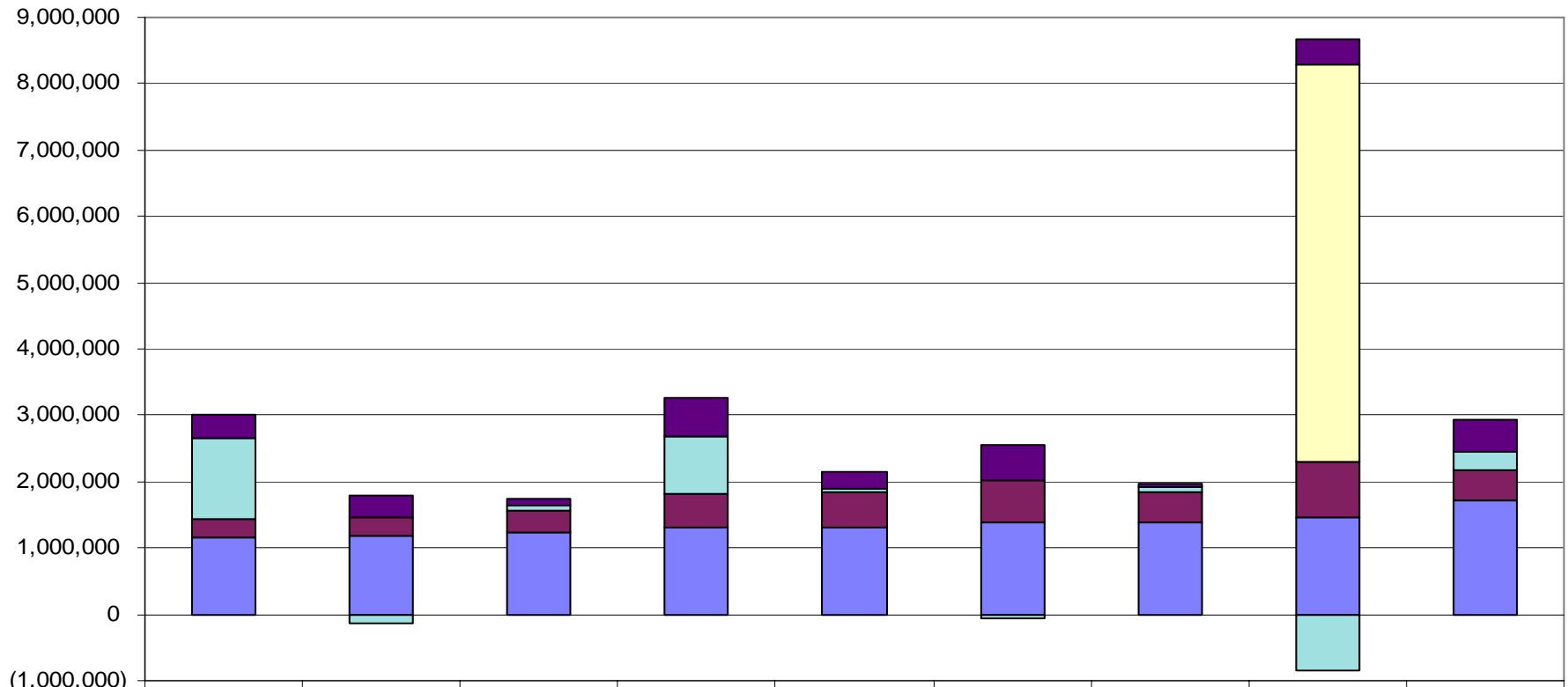


Fiscal Year	Real Estate & Personal Property			Tax			Amount transferred into tax title	Effective Collection Rate	Tax Title Balance as of June 30th	Possession Balance as of June 30th	Tax Deferral Balance as of June 30th
	Commitments	Abatements Granted	Tax deferral Abatements (Ch 41A)	Net Tax Levy	Net Collections	% of Collections					
2005	65,779,186	288,033	58,912	65,432,241	65,216,964	99.67%	234,667	100.03%	339,307	396,784	285,068
2004	63,831,019	382,922	49,555	63,398,543	63,232,602	99.74%	165,941	100.00%	258,630	396,784	274,115
2003	61,323,173	357,502	41,587	60,924,084	60,711,625	99.65%	212,459	100.00%	317,178	397,922	247,856
2002	59,183,329	372,149	47,511	58,763,669	58,618,949	99.75%	144,721	100.00%	216,588	397,922	347,817
2001	55,924,517	436,168	56,446	55,431,903	55,316,387	99.79%	115,516	100.00%	181,873	397,716	354,376
2000	54,173,527	349,143	66,696	53,757,689	53,624,937	99.75%	132,752	100.00%	196,204	397,716	338,813
1999	52,534,913	433,672	61,654	52,039,587	51,927,625	99.78%	173,617	100.12%	187,455	383,234	338,142
1998	49,567,583	449,043	55,313	49,063,227	48,905,561	99.68%	157,667	100.00%	284,218	407,244	286,763
1997	48,210,810	521,790	50,705	47,638,315	47,427,171	99.56%	211,144	100.00%	432,743	393,123	239,349
1996	46,779,296	598,025	41,662	46,139,609	45,809,016	99.28%	331,883	100.00%	714,391	616,013	242,191
1995	45,647,939	671,531	47,149	44,929,259	44,425,948	98.88%	550,460	100.10%	1,255,674	369,287	226,514

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



COMPONENTS OF TAX LEVY INCREASE



	FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007
■ MWRA Debt	346,107	321,935	109,156	578,001	260,958	517,348	69,732	371,757	484,305
■ Debt Exclusion	1,220,822	(133,468)	58,861	861,310	44,571	(51,943)	56,628	(859,302)	278,252
■ General Override	0	0	0	0	0	0	0	6,000,000	0
■ New Growth	275,652	282,718	337,860	520,517	544,075	649,223	458,531	844,013	450,000
■ 2.5% Inc	1,160,971	1,183,266	1,234,895	1,300,061	1,299,509	1,378,668	1,394,938	1,449,364	1,725,844



LOCAL RECEIPTS SUMMARY

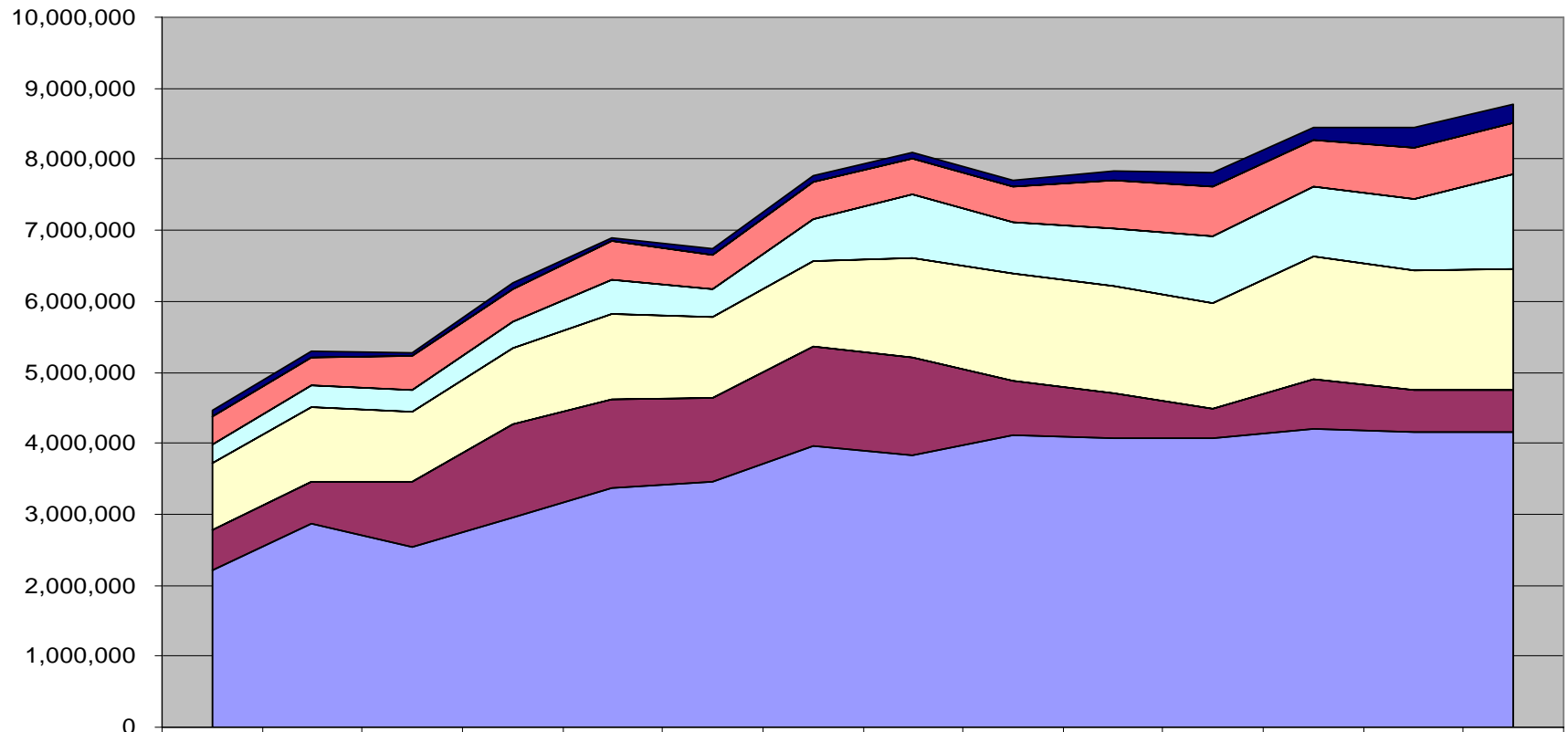
Local receipts are projected to increase \$320,000 to a total of \$8,768,336. The major changes include a \$350,000 increase in building permit fees for the Symmes redevelopment project and a reduction of \$35,000 in bond sale premiums paid to the town. Other than these two changes, local receipts are projected to remain relatively flat.

LOCAL RECEIPTS SUMMARY

	FY04 Actual	FY05 Actual	FY06 Budget	FY07 Budget	Budget Change
Motor Vehicle Excise	4,069,559	4,196,714	4,150,000	4,150,000	0
Interest Income	421,000	693,999	600,000	600,000	0
Fees/Departmental	1,480,067	1,689,748	1,690,000	1,695,000	5,000
Licenses and Permits	943,446	999,757	995,000	1,345,000	350,000
Rentals	696,252	648,334	721,500	721,500	0
Other	191,558	208,468	291,836	256,836	(35,000)
Total	7,801,883	8,437,019	8,448,336	8,768,336	320,000



Local Receipts History



	Actual FY94	Actual FY95	Actual FY96	Actual FY97	Actual FY98	Actual FY99	Actual FY00	Actual FY01	Actual FY02	Actual FY03	Actual FY04	Actual FY05	Budget FY06	Budget FY07
■ Other	94,413	79,747	57,043	71,438	52,158	74,963	100,945	94,165	79,375	122,272	191,558	166,224	291,836	256,836
■ Rentals	395,845	391,759	475,385	470,238	534,943	482,727	508,819	500,978	506,840	690,231	696,252	648,334	721,500	721,500
■ Licenses and Permits	261,538	309,777	297,205	365,390	487,462	403,337	604,759	887,076	722,072	794,763	943,446	999,757	995,000	1,345,000
■ Fees/Departmental	936,450	1,047,991	1,002,385	1,077,431	1,202,822	1,134,166	1,206,792	1,412,070	1,512,748	1,520,578	1,480,066	1,731,991	1,690,000	1,695,000
■ Interest Income	574,087	602,716	913,448	1,318,396	1,257,417	1,178,868	1,382,410	1,374,590	765,790	634,352	421,000	693,999	600,000	600,000
■ Motor Vehicle Excise	2,206,091	2,858,747	2,535,529	2,947,864	3,360,273	3,459,778	3,968,543	3,832,194	4,108,738	4,064,678	4,069,559	4,196,714	4,150,000	4,150,000



MOTOR VEHICLE EXCISE

Motor vehicle excise tax receipts are expected to remain flat at \$4.15 million. Revenue from this excise tax fluctuates up and down with the economy. The excise rate is \$25 per thousand and is assessed on 90% of the vehicle's value in the first year, 60% in the second year, 40% in the third year, 25% in the fourth year, and 10% thereafter. The actual billings are prepared by the Registry of Motor Vehicles and then turned over to the Town for printing, distribution, and collection. There are approximately 38,000 registered vehicles in Arlington.

MOTOR EXCISE BY LEVY YEAR

Levy Year	Commitments	Collections	Refunds	Net Collections	Abatements	Balance	Collections %
2005	4,002,485	3,818,414	45,524	3,772,891	123,288	106,306	97.34%
2004	4,276,460	4,136,172	73,658	4,062,514	172,233	41,713	99.02%
2003	4,241,385	4,102,460	71,141	4,031,318	187,187	22,880	99.46%
2002	4,281,043	4,126,790	80,380	4,046,410	216,696	17,938	99.58%
2001	4,250,080	4,121,654	76,815	4,044,839	189,053	16,187	99.62%
2000	4,090,219	3,982,715	87,702	3,895,013	181,960	13,246	99.68%
1999	3,734,714	3,643,580	92,391	3,551,188	173,357	10,169	99.73%
1998	3,341,180	3,251,533	58,790	3,192,743	137,983	10,454	99.69%
1997	3,119,179	3,018,990	48,419	2,970,572	135,387	13,220	99.58%

MOTOR VEHICLE EXCISE

	FY04 Actual	FY05 Actual	FY06 Budget	FY07 Budget	Budget Change
Motor Vehicle Excise	4,069,559	4,196,714	4,150,000	4,150,000	0



INTEREST INCOME

Interest Income is projected to remain flat at \$600,000. It is made up of two components: investment income and interest and penalties associated with delinquent tax payments.

Investment income can vary widely depending upon market interest rates, available cash balances, cash flows, and investment practices. The positive affects of increasing interest rates are expected to be offset by declining cash balances, particularly from capital projects.

Penalties and interest associated with delinquent tax payments are projected to remain flat at \$150,000.

INTEREST INCOME					
	FY04 Actual	FY05 Actual	FY06 Budget	FY07 Budget	Budget Change
Investment Income	290,942	555,994	450,000	450,000	0
Penalties & Interest	130,058	138,005	150,000	150,000	0
Total	421,000	693,999	600,000	600,000	0



DEPARTMENTAL FEES

Departmental fees are projected to remain relatively flat increasing only \$5,000 to a total of \$1,695,000. The major categories include ambulance fees, parking fines, and cemetery revenue.

Parking fine revenue is expected to increase \$28,000 to a total of \$470,000 due to increased enforcement resources and increased fine amounts.

Fire alarm renewal fees are projected to decrease by \$23,000 due to the fact that FY2005 fees were late and actually collected in FY2006 resulting in double collections in FY2006.

Ambulance fees were unusually high in FY2005 due to a one-time accounting adjustment transferring an accumulated surplus from the ambulance revolving account into the general fund.

DEPARTMENTAL FEES					
	FY04 Actual	FY05 Actual	FY06 Budget	FY07 Budget	Budget Change
Schools (Medicare Reimbursement)	140,144	191,687	180,000	180,000	0
Cemetery Revenue	257,900	283,350	258,000	258,000	0
Library Fees and Fines	66,140	60,434	70,000	70,000	0
Collector's Demand Fees	67,809	80,508	81,000	81,000	0
Town Clerk Fees	39,119	54,492	67,000	67,000	0
Parking Violations	336,457	340,099	442,000	470,000	28,000
Parking Meter Receipts	49,691	53,028	52,500	52,500	0
Fire Alarm Renewal Fee	27,145	1,415	50,000	27,000	(23,000)
Ambulance Fees	269,041	455,573	320,000	320,000	0
Public Works Revenues	23,215	33,229	34,500	34,500	0
Other Departmental Revenue	203,406	135,932	135,000	135,000	0
Total	1,480,067	1,689,748	1,690,000	1,695,000	5,000



LICENSES AND PERMITS

Licenses and permits are projected to increase \$350,000 to a total of \$1,345,000. The entire increase is due to building permit fees anticipated from the Symmes redevelopment project. Building permit fees which would otherwise total approximately \$700,000 are expected to be \$1,050,000 with this project.

Two other significant sources of revenue, parking fees and liquor license fees, are projected to remain flat at \$127,500 and \$56,000 respectively.

LICENSES AND PERMITS					
	FY04 Actual	FY05 Actual	FY06 Budget	FY07 Budget	Budget Change
Parking Permits	115,316	115,006	127,500	127,500	0
Liquor Licenses	61,500	61,500	56,000	56,000	0
Food Licenses	6,960	6,325	7,000	7,000	0
Food Permits	14,585	15,470	15,500	15,500	0
Tobacco Permits	14,500	14,500	14,500	14,500	0
Building Inspections	662,807	678,487	700,000	1,050,000	350,000
Fire Prevention Permits	23,950	27,663	28,500	28,500	0
Marriage Licenses	5,870	6,525	6,000	6,000	0
Other	37,958	74,282	40,000	40,000	0
Total	943,446	999,757	995,000	1,345,000	350,000



RENTAL INCOME

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

Overall revenue is projected to remain flat at \$721,500. Ryder Street rental income is projected to increase from \$80,000 to \$90,000. The future rental status of the Mt. Gilboa House is uncertain. A request from the Housing Authority to take over management of the property is currently under consideration. If this were to happen, rental income would go down but the Town would be relieved of maintenance responsibilities. To be conservative, a reduction of \$13,000 is currently projected.

RENTAL INCOME					
	FY04 Actual	FY05 Actual	FY06 Budget	FY07 Budget	Budget Change
Ryder St.	65,676	70,424	80,000	90,000	10,000
Parmenter	127,734	139,997	140,000	140,000	0
Crosby	127,083	102,496	125,000	128,000	3,000
Gibbs	354,326	326,515	350,000	350,000	0
Mt. Gilboa	20,408	7,102	25,000	12,000	(13,000)
Other	1,025	1,800	1,500	1,500	0
Total	696,252	648,334	721,500	721,500	0



OTHER LOCAL RECEIPTS

Other local receipts are projected to decline by \$35,000 due to an anticipated reduced amount of premiums from bond sales. FY2006 premiums are estimated at \$135,000. This is expected to be only \$100,000 in FY2007.

Hotel/motel excise tax revenue is derived primarily from the Hawthorne Suites. It also includes one bed and breakfast property but that property has now ceased operating which is why revenue in FY2006 and FY2007 is lower than in FY2005.

OTHER LOCAL RECEIPTS					
	FY04 Actual	FY05 Actual	FY06 Budget	FY07 Budget	Budget Change
Special Assessments	4,547	4,877	4,836	4,836	0
Court Fines	81,260	41,908	45,000	45,000	0
Hotel/Motel Excise Tax	85,606	113,104	100,000	100,000	0
Payment in Lieu of Taxes	20,145	6,336	7,000	7,000	0
Premium From Sale of Bonds/Notes	0	42,243	135,000	100,000	(35,000)
Total	191,558	208,468	291,836	256,836	(35,000)



STATE AID SUMMARY

After nearly a decade of annual increases in State aid, FY2003 marked the first year that State Aid was actually reduced. FY2004 saw an even greater reduction. From FY2002 to FY2004, the Town saw a reduction in excess of \$3.3 million, or 18%.

While there have been minor increases in State aid over the last two years, Arlington is still \$2.5 million below what was received in FY2002. Exclusive of school construction reimbursements, in FY2002, the Town received \$17.3 million. In FY2005 the Town received \$14.8 million.

In his proposed budget, the Governor has increased local aid by \$358 million, or 7%. Under this proposal, Arlington would see an increase of approximately \$1 million, or 7%. The two major increases proposed by the Governor are in Chapter 70 school aid (\$164 million) and Lottery (\$158 million). Under the Chapter 70 program, the Governor has proposed a new distribution formula and under the Lottery program, the Governor is proposing to end completely the diversion of lottery funds from cities and towns to the State.

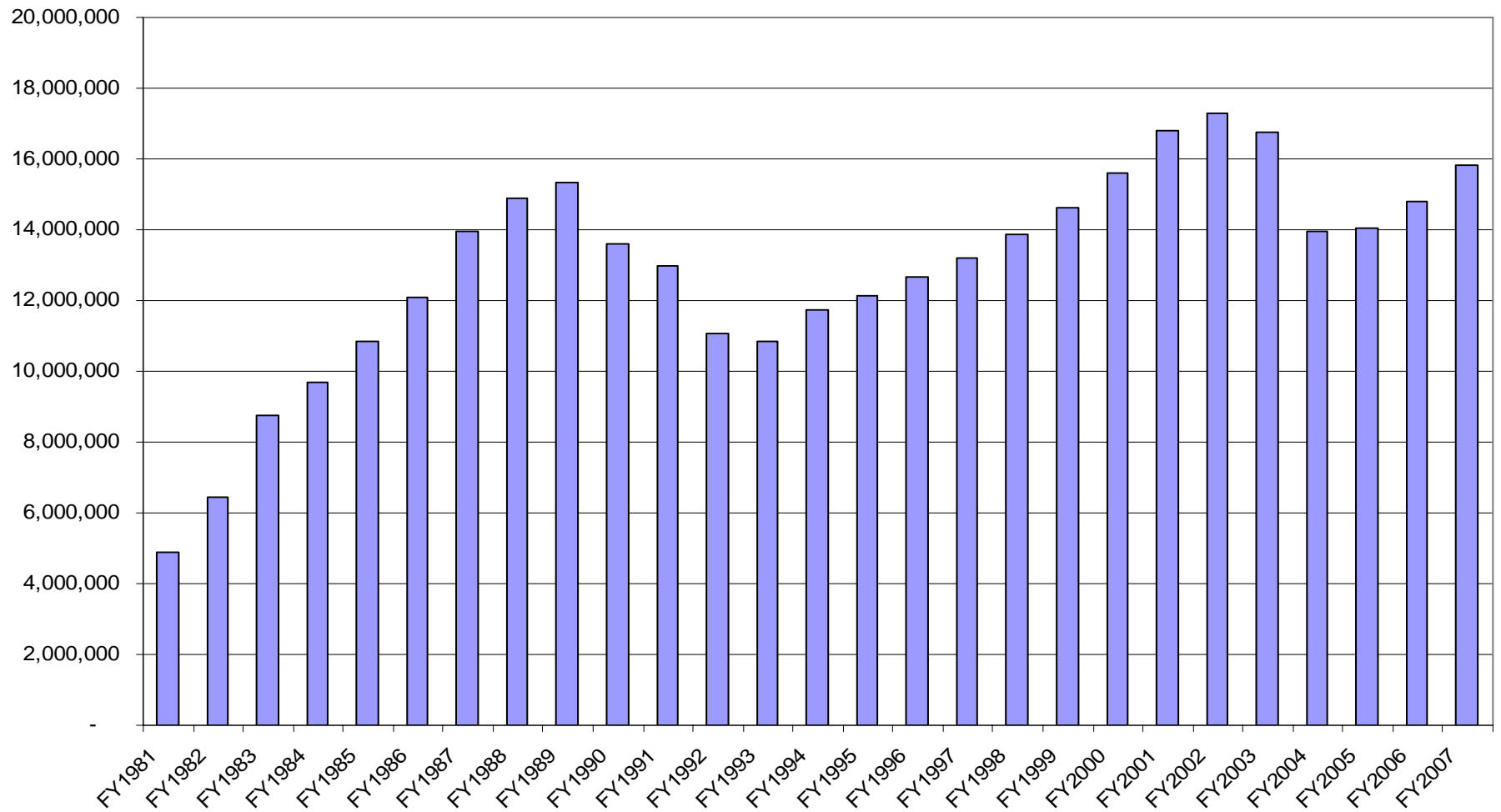
Overall, the Town's increase in State aid is \$555,371. This is due to the fact that it received a double reimbursement under school construction aid in FY2005 for the Peirce School. This was a one-time windfall which is why school construction aid will go down by \$494,765 in FY2007. Leaving this out, the true cherry sheet aid increase is \$1,050,136. It should be kept in mind that these are preliminary numbers based on the Governor's proposed budget. As the legislature develops its budget, these numbers could change.

STATE AID SUMMARY

	FY04 Actual	FY05 Actual	FY06 Budget	FY07 Budget	Budget Change
General Government Aid	8,626,647	8,630,364	9,116,202	9,754,840	638,638
School Aid	4,808,830	4,848,194	5,058,229	5,429,842	371,613
School Construction Aid	1,329,595	1,343,025	2,332,555	1,837,790	(494,765)
Tax Exemption Aid	112,205	117,705	119,196	132,221	13,025
Cherry Sheet Offsets (reserved for direct expenditure)	398,012	450,584	497,260	524,120	26,860
Total	15,275,289	15,389,872	17,123,442	17,678,813	555,371

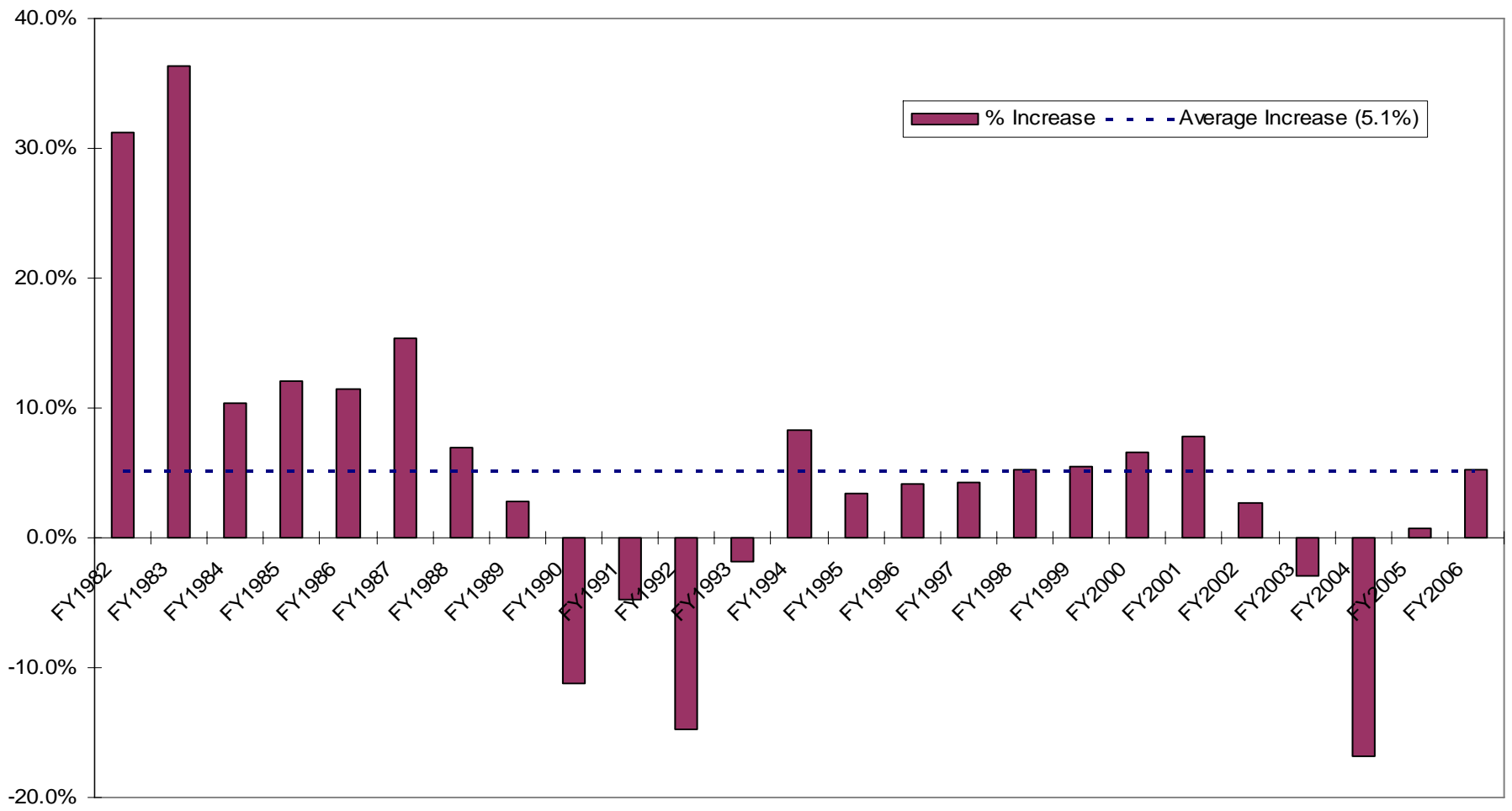


**STATE AID RECEIPTS
(Excluding School Construction Aid)**





STATE AID PERCENT INCREASES TO ARLINGTON FY1982-FY2006





GENERAL GOVERNMENT

ADDITIONAL ASSISTANCE

The Additional Assistance program currently provides aid to 159 communities. Until FY2003, this account was level-funded for a number of years. These aid amounts cannot be attributed to any one formula or factor, but rather, are the combined legacy of the following factors:

Before the Education Reform Act of 1993 was passed, the Additional Assistance account and the "old" Chapter 70 School Aid account made up a category of aid called Resolution Aid. During the mid and late 1980's, cities and towns were guaranteed their previous year's Resolution Aid as a base for the upcoming year's calculation. In addition to this base amount, a needs-based formula, which was calculated from a community's ability to pay for an average level of local services, was applied to determine the increase in Resolution Aid funding for that year.

Once the total amount of Resolution Aid was determined by the needs-based formula, it was allocated between Chapter 70 School Aid and Additional Assistance using the Chapter 70 School Aid formula at that time. The total amount of Resolution Aid, minus the Chapter 70 School Aid, equaled that year's Additional Assistance.

The Additional Assistance program was further impacted by the State budget cuts of the early 1990's. The program's funding went from \$765 million in FY1989 to \$476 million in FY1992. The reduction in Additional Assistance funding came in two rounds of budget cuts. The first round of cuts occurred in FY1991 and resulted in a flat 4% reduction in every community's Additional Assistance. The second round of cuts occurred in FY1992 and resulted in a \$345 million decrease in Resolution Aid. Most of the FY1992 reduction in Resolution Aid funding was taken from the Additional Assistance account. As a result of this second round of cuts, many communities' Additional Assistance allocation dropped to zero.

The recent reduction halfway through FY2003 included a cut of \$31 million in Additional Assistance resulting in a reduced total of \$445 million. In FY2004, it was cut an additional \$67 million. Arlington's funding went from \$5,652,310 in FY2002 to \$4,491,775 in FY2006 for a reduction of \$1,160,535. It is expected to remain level in FY2007.

(Continued on page 19)

GENERAL GOVERNMENT

	FY04 Actual	FY05 Actual	FY06 Budget	FY07 Budget	Budget Change
Additional Assistance	4,491,775	4,491,775	4,491,775	4,491,775	0
Lottery Distribution	3,833,185	3,833,185	4,242,362	4,884,315	641,953
Veterans' Benefits	44,187	40,051	94,978	72,711	(22,267)
Police Career Incentive	257,500	265,353	287,087	306,039	18,952
Total	8,626,647	8,630,364	9,116,202	9,754,840	638,638



(Continued from page 18)

LOTTERY

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

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

In FY1990, the State placed a cap on distributions to cities and towns and diverted the balance to the State budget in contravention of the law's original intent. As a result of intense lobbying by the municipalities, the State agreed to restore the full distribution to cities by FY2000, which they did. In FY2002 and FY2003, the lottery distribution was once again capped, this time at \$778 million Statewide. Shortly after taking office in January 2003, Governor Romney cut the FY2003 lottery distribution for FY2003 by \$73 million. In FY2004, the State cut lottery distributions by another \$117 million down to \$661 million. Funding was held level in FY2005. In FY 2006, funding was increased by \$100 million. For FY2007, the Governor has proposed to end the diversion of lottery funds and return full funding to cities and towns. This results in an increase of \$158 million to a total of \$920 million. Arlington would receive \$4,884,315, an increase of \$641,953.

VETERANS' BENEFITS

Chapter 115, Section 6, calls for the reimbursement to cities and towns of the costs of providing assistance to veterans and their dependents. Benefits paid out in accordance with state guidelines are eligible for 75% reimbursement. In FY2006 the Town received \$94,978. For FY2007, the preliminary cherry sheet estimate is \$72,711, a decrease of \$22,267. The decreased estimate is was due to a dispute over a portion of a reimbursement request which is expected to be resolved. The actual FY2007 reimbursement in all likelihood will be in excess of the FY2006 estimated amount.

POLICE CAREER INCENTIVE REIMBURSEMENT (QUINN BILL)

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

Participating police officers submit certificates of college completion to the Massachusetts Board of Higher Education, which certifies career incentive salary increases. The Board of Higher Education notifies police chiefs of the academic status attained by participating officers. By each September 1st, the police chief in each participating municipality certifies to the Board of Higher Education the added base salaries paid as a result of the program during the preceding year. The Executive Office of Public Safety determines the amount of reimbursement due to the municipality based on the total appropriation and certifies to the Comptroller the amounts to be reimbursed.

Costs and Reimbursements have been growing approximately 6% a year. For FY2007, a total of \$306,039 is projected, an increase of \$18,952.



SCHOOL AID

SCHOOL AID - CHAPTER 70

Total statewide funding is \$3.45 billion, an increase of \$164 million (5%) above the FY2006 level. In addition to an increase in funding, The Governor's budget includes a new distribution formula that uses a community's "relative wealth", measured by property values and personal income, to determine how much it should receive in state school aid. It also adds an inflation factor and directs more aid to communities that are growing the most. Under the proposal, 305 of the 328 school districts would realize increases. According to the Administration, without the additional funding, 190 districts would receive no increases in FY2007. For Arlington, Ch. 70 increases \$359,429 or 7.2%, to \$5.4 million. While this is welcome news, this would still leave Arlington more than \$600,000 below the FY2002 level.

Since additional funding was included along with the new formula, it is difficult to ascertain whether the Town benefits from the new formula. Further investigation is required. In fairness, no changes in the formula should be made until all communities are brought up to their FY2002 funding levels.

CHARTER SCHOOL TUITION ASSESSMENT REIMBURSEMENT

General Laws Chapter 71, Section 89 (nn) mandates that the State assess a municipality or regional school district for the costs associated with pupils attending a Charter School district and reimburse sending districts for the tuition they pay to Commonwealth charter schools. Municipalities and school districts are reimbursed for this assessment based on the following schedule: in year one, an amount equal to 100% of the assessment; in year two, an amount equal to 60% of the assessment; in year three, an amount equal to 40% of the assessment; after year three, no reimbursement. This reimbursement is, of course, subject to appropriation. If the account is not fully-funded, then the reimbursement is pro-rated. Based on the Preliminary Cherry Sheets, which are predicated upon the Governor's FY2007 budget proposal, the Town will receive \$43,072 to offset the costs of the Charter School Assessment.

CHARTER SCHOOL CAPITAL FACILITY ASSESSMENT REIMBURSEMENT

This revenue source is another component of the above detailed Charter School Tuition Reimbursement. This portion is to reimburse sending districts for the capital facilities tuition component they pay to Commonwealth charter schools for interest and principal payments on school buildings and land. The statewide average of what districts paid in the prior year (currently \$811 per pupil) for both principal and interest on land and buildings is applied to each pupil's tuition rate. For FY2007, the Town will receive \$8,064.

SCHOOL AID					
	FY04 Actual	FY05 Actual	FY06 Budget	FY07 Budget	Budget Change
Chapter 70 School Aid	4,802,777	4,802,777	5,019,277	5,378,706	359,429
Charter School Tuition Reimbursement	6,053	39,481	33,140	43,072	9,932
Charter School Capital Facility Reimbursement	0	5,936	5,812	8,064	2,252
Total	4,808,830	4,848,194	5,058,229	5,429,842	371,613



SCHOOL CONSTRUCTION AID

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

The reform legislation (Ch. 210) dedicates one cent of the state sales tax to the new off-budget school building trust. This 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 one billion dollars 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 \$4.5 billion 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, communities were put on a list and knew that eventually they would receive funding. Given the lengthy ongoing moratorium, there is a growing backlog of projects that will be competing for limited dollars. Under current regulations, communities could wait year after year for State approval of its application with no assurance that it will ever be approved.

The Town currently receives reimbursements totaling \$1,837,790 for Peirce, Brackett, Hardy, Bishop, and Ottoson Schools. In FY 2006, the Town received a double payment (the FY 2005 payment was received in FY 2006) for Peirce. The reimbursement for Ottoson is currently undergoing final audit and could potentially be increased beyond the current estimate. Dallin School is the first town project that is funded under the new regulations whereby the state funds its share in a lump sum payment at the conclusion of the project rather than spreading payments over the life of the bond financing.

SCHOOL AID

	FY04 Actual	FY05 Actual	FY06 Budget	FY07 Budget	Budget Change
School Construction Aid	1,329,595	1,343,025	2,332,555	1,837,790	(494,765)
Total	1,329,595	1,343,025	2,332,555	1,837,790	(494,765)



TAX EXEMPTION AID

There are several categories of property tax exemptions for which the State provides a partial reimbursement to municipalities. For FY2007, reimbursements are expected to increase by \$13,025 to a total of \$132,221. Veterans, blind persons, surviving spouses, and elderly who meet exemption requirements are eligible. Elderly persons (at least 70 years of age) who meet certain whole estate or total assets, annual income, and residency requirements, are eligible for an exemption. The number of exemptions granted is multiplied by the statutory reimbursement of \$500, subject to appropriation. However, if a municipality has adopted Clause 41B or 41C, (Arlington has adopted this section which increases exemption amount to \$1,000) the number of exemptions for which it is reimbursed cannot exceed the number reimbursed in the most recent year under Clause 41. In addition, municipalities that have adopted Clause 41B or 41C will be reimbursed for additional costs incurred in determining eligibility of applicants under these clauses in an amount not to exceed two dollars per exemption granted. For property tax exemptions granted to qualifying veterans, blind persons, surviving spouses, and elderly persons, the exemption and reimbursement amounts are as follows:

- Surviving spouses, minor children, elderly persons:
 Clause 17 - \$175, full reimbursement
 Clauses 17C, 17C^{1/2}, 17D - \$175, reimbursement cannot exceed the amount reimbursed on Clause 17.
- Veterans:
 Clause 22(a-f) - \$250 exempted, \$75 reimbursed
- Paraplegic veterans, surviving spouses:
 Full amount, 100% minus \$175 reimbursed (§8A)
- Veterans, loss of one arm, foot, or eye:
 Clause 22A - \$425 exempted, \$250 reimbursed
- Veterans, loss of two arms, two feet, one arm and one leg, or loss of sight:
 Clause 22B - \$775 exempted, \$600 reimbursed
- Veterans, special adapted housing:
 Clause 22C - \$950 exempted, \$775 reimbursed
- Veterans, surviving spouses:
 Clause 22D - \$250 exempted, \$250 reimbursed
- Veterans, 100 percent disability:
 Clause 22E - \$600 exempted, \$425 reimbursed
- Blind persons:
 Clause 37 - \$427.50 exempted, \$87.50 reimbursed
 Clause 37A - \$500 exempted, \$87.50 reimbursed

TAX EXEMPTION AID

	FY04 Actual	FY05 Actual	FY06 Budget	FY07 Budget	Budget Change
Vets, Blind, & Surviving Spouse	56,838	56,963	54,438	57,925	3,487
Elderly Exemption	55,367	60,742	64,758	74,296	9,538
Total	112,205	117,705	119,196	132,221	13,025



CHERRY SHEET OFFSETS

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

The Town received three such annual grants—one for the school METCO program, one for the school lunch and one for public libraries. Under the METCO program the Town accepts minority students from Boston to attend schools in Arlington. The State reimburses the Town for the incremental costs of participating in the program. The FY2007 reimbursement is estimated at \$450,000, an increase of \$28,750 over FY2006. The school lunch is actually a partial reimbursement for operating a school lunch program. This is expected to decrease slightly to a total of \$18,403.

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

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

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

- The city or town's appropriation to operate the public libraries must be equal to or greater than 102.5 of the average of the 3 preceding years' appropriations for free public library service. The Board of Library Commissioners may grant waivers of this requirement to a limited number of municipalities.
- The library must have complied with the minimum standards for free public library service in the preceding year. There are minimum standards in such areas as library director's education, number of hours open, and expenditures for library materials. The library must submit annual report data as specified by the Board of Library Commissioners. The estimated FY2007 grant of \$55,717 is \$1,026 less than what was received in FY2006.

CHERRY SHEET OFFSETS					
	FY04 Actual	FY05 Actual	FY06 Budget	FY07 Budget	Budget Change
Racial Equality (Schools)	329,321	377,696	421,250	450,000	28,750
Lunch Programs (Schools)	20,785	19,124	19,267	18,403	(864)
Libraries	47,906	53,764	56,743	55,717	(1,026)
Total	398,012	450,584	497,260	524,120	26,860

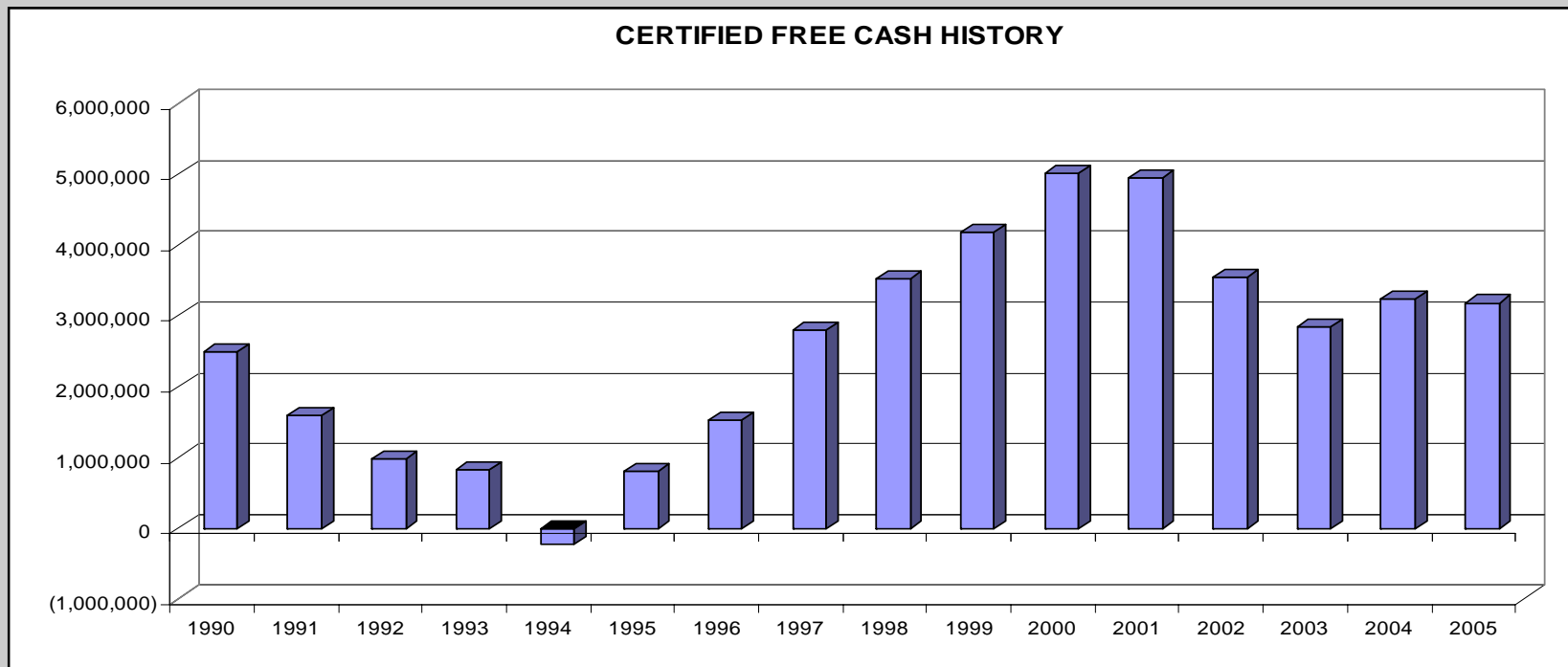


FREE CASH

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

The general fund free cash balance is currently \$3,179,389. It is recommended that \$1,939,695 of this amount be appropriated towards the FY2007 budget leaving a balance of \$1,239,694.

CERTIFIED FREE CASH HISTORY



FREE CASH

	FY04 Actual	FY05 Actual	FY06 Budget	FY07 Budget	Budget Change
Free Cash Appropriated	1,774,342	1,414,803	1,614,155	1,939,695	325,540



OTHER REVENUE

The Other Revenue category below includes revenue sources that are proposed to be used as general revenue or are to be used to fund a specific appropriation. Total Other Revenue is \$667,000, an increase of \$267,000 over FY2006.

Budget Offsets are shown here for informational purposes. They include revenue sources that are dedicated for specific purposes or costs incurred on behalf of enterprises that are charged off to those enterprises. They involve budgets or appropriations that are already netted of these funds so they are not counted here as revenue to avoid double counting these offsets.

OTHER REVENUE					
	FY04 Actual	FY05 Actual	FY06 Budget	FY07 Budget	Budget Change
Other Revenue					
Overlay Surplus	500,000	500,000	400,000	400,000	0
General Stabilization Fund	1,300,000	1,000,000	0	0	0
School Building Investment Income	52,258	0	0	267,000	267,000
Prior Year Closeout	0	200,000	0	0	0
Total Other Revenue	1,852,258	1,700,000	400,000	667,000	267,000
Budget Offsets					
Water & Sewer Enterprise Charge-Offs	1,835,977	2,006,416	2,058,262	2,113,738	55,476
Other Enterprise Charge-Offs	71,995	110,899	98,638	127,808	29,170
Tip Fee Stabilization Fund	2,121,460	2,537,230	400,000	680,000	280,000
Municipal Building Trust Fund	165,000	165,000	82,500	41,250	(41,250)
Cemetery Perpetual Care Fund	200,000	150,000	150,000	150,000	0
Cemetery Lots and Graves Fund	0	70,000	31,000	0	-31,000
State Recycling Grant	22,557	0	0	0	0
Antenna Rental Fund	150,000	100,000	140,000	0	-140,000
Central School Rental Fund	19,338	40,325	44,959	19,842	(25,117)
Community Development Block Grant	26,381	6,256	6,838	7,010	172
Conservation Commission Trust	0	5,900	3,000	0	-3,000
Total Budget Offsets	4,612,708	5,192,026	3,015,197	3,139,648	124,451
Total Other Revenue	1,852,258	1,700,000	400,000	667,000	267,000



TAX ABATEMENT OVERLAY SURPLUS

Each year funds are set aside to cover the costs for any tax abatements granted by the Assessors. Any funds not used are declared surplus and made available for appropriation by Town Meeting. For FY2007, the available surplus is estimated at \$400,000, the same amount as in FY2006.

SCHOOL BUILDING INVESTMENT INCOME

In accordance with the Town's home rule petition, enacted as Chapter 133 of the Acts of 1998, any interest earned from the investment of bond proceeds for any school building project must be used solely for school building costs. There is presently \$267,000 in this fund. It is proposed that this amount be appropriated to fund debt service costs for the Dallin School.

PRIOR YEAR CLOSEOUT

In order to balance the FY2005 budget, \$200,000 in FY2004 appropriations were transferred to the FY2005 budget. No prior year appropriations were used in FY2006 and none are proposed for FY2007.

WATER AND SEWER ENTERPRISE FUND CHARGE-OFFS

Several town departments provide services to and incur expenses on behalf of the water and sewer enterprise. Other examples include the healthcare and pension budgets. These costs are pulled out of the general fund budgets and charged to the enterprise. The total of such charge-offs for FY2007 is \$2,113,738.

OTHER ENTERPRISE CHARGE-OFFS

The other enterprise funds that incur general fund charge-offs or that have fee offsets are the Recreation, Ice Rink, and Youth Services enterprises. The total of such charge-offs or budget offsets for FY2007 is \$127,808.

TIP FEE STABILIZATION FUND

The Tip Fee Stabilization Fund (TFSF) was created to stabilize the refuse disposal costs under the NEWSC contract. FY2005 was the last year of the twenty-year NEWSC contract. Just over \$2.5 million was used from the stabilization fund to offset in part \$3,417,230 disposal costs. Tipping fees went from \$140 per ton to \$64 per ton in FY 2006. 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 is to be used from the TFSF to offset these costs. Without the three free months in FY2007 being free, 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.

The TFSF may now be appropriated by Town Meeting for any purpose by a two-thirds vote. At the conclusion of FY2006, the TFSF is projected to have a balance of \$3.7 million. It is recommended that this fund continue to be used only to offset refuse disposal costs. By freezing the annual drawdown at \$680,000, the fund will last at least five years and will serve as an emergency reserve during those years.

CEMETERY PERPETUAL CARE FUND

With the sale of each lot at the cemetery a \$300 perpetual care fee is charged. These fees are deposited into the Perpetual Care Trust Fund. The present balance in the fund is \$3,838,940. From time to time, a portion of the interest accrued from this fund is used to support the operating and maintenance cost of the cemetery. In FY2007, \$150,000 is proposed to be withdrawn which is the same amount as in FY2006.

CEMETERY LOTS AND GRAVES FUND

Cemetery lots are sold for \$1,500 for residents and \$3,000 for certain qualifying former residents. Funds from such sales are placed in a fund. Sales can vary 40 to 75 lots per year. Generally funds are drawn from this account to purchase necessary equipment for the maintenance of the cemetery. In FY2006, \$31,000 was used. No funds are proposed to be used in FY2007.

(Continued on page 27)



(Continued from page 26)

ANTENNA RENTAL FUND

In accordance with the Town's home rule petition, enacted as Chapter 44 of the Acts of 1998, the Town Manager is authorized to enter into long-term leases of town property to telecommunications companies for the location of wireless antennas. Funds are to be kept in a separate fund and may be appropriated only for the care and maintenance of parks, playgrounds and open space unless Town Meeting, by a two-thirds vote, votes to appropriate it for another purpose. Authorization for this fund expires in March 2008. In FY2006, \$140,000 was appropriated from the fund. The current balance is \$49,333. No appropriation is proposed for FY2007.

CENTRAL SCHOOL

The Central School is under the jurisdiction of the Redevelopment Board. It houses the Council on Aging, Health Department, and other public and non-profit agencies. Annual rental income approximates \$300,000. The Redevelopment Board uses these funds to cover the building's operating and maintenance costs. A portion of the funds is used to fund costs incurred in the Planning Department to oversee the operation of the building. In FY2006, \$44,959 was used to fund one-half the costs of a building maintenance position and one-half of a clerical position. In FY2007, \$19,842 funds one-half of a clerical position. The building maintenance position is now funded directly from the Central School account.

COMMUNITY DEVELOPMENT BLOCK GRANT

Seven percent of the Planning and Community Development Director's salary is charged off to the CDBG grant for his services in administering the grant. In FY2007, this amounts to \$7,010.

CONSERVATION COMMISSION TRUST

Fees collected by the Conservation Commission are put into a fund to be used to support open space and wetlands protection activities. In FY2006, \$3,000 was used from this fund to fund additional hours of the Conservation Administrator. The current balance is \$3,315. No drawdown is proposed for FY2007.