



Town of Arlington

Office of the Town Manager

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January 15, 2015

To: The Honorable Board of Selectmen and Finance Committee

I hereby transmit to you the recommended FY2016 operating and capital budgets and the FY2016-2020 capital plan. The budget as proposed totals \$140,935,623 which is an increase of \$3,347,686 (2.43%) from the current budget. However, if the amount contributed to the Override Stabilization Fund is excluded, the proposed budget is an increase of \$5,082,985 (3.81%) from the current budget. A summary showing a comparison of the FY2015 and FY2016 revenues and expenditures is shown on page 5. Also, this budget proposal has been input into the Town's online budget tool, Arlington Visual Budget. It can be viewed at arlingtonvisualbudget.org.

FY2015, the current fiscal year, is the first year beyond 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-FY2020.**
- 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 2.95% increase. Due to continuing enrollment growth, a school funding increase above 3.5% is proposed and discussed herein.**

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, employees, and retirees. – **The override period has been extended to nine 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. For future planning purposes, health care premiums are projected to grow at 5.25%, which more accurately reflects the historical average annual growth of Group Insurance Commission premiums.***

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 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 projected 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 designs which matched what 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 nine-year plan. We are mindful of the strong desire of residents to maintain quality services and the sacrifices 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.

Balancing Community Needs with Fiscal Prudence

Beginning in the fall of 2014, the Long Range Planning Committee held a series of discussions focused on the future of Town and School budgets and the amount by which they should grow on an annual basis. These discussions were prompted by the desire of committee members to explore strategies that could extend the life of the current Long Range Plan and thereby forestall the next time an operating override would need to be considered. These discussions focused the committee on a number of assumptions that are contained within the Long Range Plan and led to several changes in assumptions in an attempt to match future projections more closely with past performance. Also, committee discussions led to the recommendation contained within this budget submission to reduce the rate of Town budget growth in FY2016 and to begin reducing the rate of School budget growth in FY2017.

Overall, the recommendations were based on the following guiding principles:

- 1) Exercising fiscal prudence to maintain financial stability through the success of a future operating override.
- 2) Balancing prudence with recognition of the needs and expectations of Arlington residents and building Town and School budgets accordingly.
- 3) Committing to strategically address the findings of the Comparative Compensation Study within the confines of the proposed long range planning parameters.

Based upon these meetings and discussions, the following changes to Long Range Plan are being recommended:

- The rate of health insurance premium growth, previously projected at 7% annually, has been reduced to 5.25%, which mirrors the ten year average premium growth of the Group Insurance Commission.
- The amount of Free Cash assumed to be certified each year has been projected at the ten-year average certified amount, as opposed to the prior assumption of \$3,000,000.
- The rate of growth in annual pension costs has been reduced from 6% to 5.5% after discussions with the Arlington Retirement Board.
- Annual budget growth for Town Departments will be reduced from 3.5% to 3.25% for FY2016, and further reduced to 3% for FY2017 and beyond.
- Annual budget growth for the general education portion of the School Department budget will be maintained at 3.5% for FY2016, reduced to 3.25% for FY2017, and then reduced to 3% for FY2018 and beyond.

The inclusion of these changes in the Long Range Plan extends the plan through FY2020, with a deficit of \$11.6 million presenting itself in FY2021. An overview of the structural issues impacting Arlington's annual budget is included on page 10.

Meeting the Needs of a Growing School Population

In FY2015, the Long Range Planning Committee acknowledged that unanticipated growth in school enrollment had prompted the need to carefully consider a funding allowance in recognition of the added resources necessary to educate a growing student population. Such consideration was 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.

The FY2016 budget proposal continues to take into account enrollment growth, and uses FY2015's growth in enrollment (169 students) to calculate an adjusted budget for the School Department in FY2016. 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. The following tables demonstrate this approach:

	FY 2015	FY 2016	\$ Increase	% Increase
General Education Costs	\$ 32,518,318	\$ 34,572,590	\$ 2,054,272	6.32%
Special Education Costs	\$ 16,356,500	\$ 17,501,455	\$ 1,144,955	7.00%
Kindergarten Fee Offset	\$ 970,000	\$ 970,000	\$ -	0.00%
Growth Factor	\$ 885,150	\$ 530,069	\$ (355,081)	-40.12%
TOTAL SCHOOL BUDGET	\$ 50,729,968	\$ 53,574,114	\$ 2,844,146	5.61%

Growth Factor Breakdown	
FY 15 Enrollment Growth	169
DESE PPC for Arlington	\$ 12,546
25% of PPC for Arlington	\$ 3,136.50
Growth Factor (25% PPC x 169)	\$ 530,069

The implementation of this approach, based on current enrollment projections, still allows the current override period to be maintained through FY2020. However, in FY2021, the Town's structural deficit reemerges and is projected to be approximately \$11.6 million. The Town's structural deficit is discussed in greater detail on page 10 and the Town's Long Range Plan can be viewed on page 13.

Overall Budget Summary

			Change	
	FY2015	FY2016	\$	%
Revenue				
Property Tax	\$ 105,285,021	\$ 108,145,113	\$ 2,860,092	2.7%
Local Receipts	\$ 8,540,842	\$ 8,896,000	\$ 355,158	4.2%
State Aid	\$ 17,462,884	\$ 17,783,892	\$ 321,008	1.8%
School Construction Aid	\$ 2,906,266	\$ 2,474,773	\$ (431,493)	-14.8%
Free Cash	\$ 3,042,925	\$ 3,435,846	\$ 392,921	12.9%
Other Funds	\$ 350,000	\$ 200,000	\$ (150,000)	-42.9%
TOTAL REVENUES	\$ 137,587,937	\$ 140,935,623	\$ 3,347,686	2.4%
Expenditures				
Municipal Departments	\$ 31,392,491	\$ 32,320,070	\$ 927,579	2.95%
School Department	\$ 50,729,968	\$ 53,574,114	\$ 2,844,146	5.6%
Minuteman School	\$ 3,788,615	\$ 4,154,908	\$ 366,293	9.7%
Non-Departmental (Healthcare & Pensions)	\$ 24,050,099	\$ 25,356,999	\$ 1,306,900	5.4%
Capital (Includes Debt Service)	\$ 9,918,358	\$ 10,035,305	\$ 116,947	1.2%
MWRA Debt Shift	\$ 5,593,112	\$ 5,593,112	\$ -	0.0%
Warrant Articles	\$ 805,433	\$ 928,787	\$ 123,354	15.3%
Reserve Fund & Elections	\$ 1,131,005	\$ 1,093,980	\$ 37,025	3.3%
Override Stabilization Fund Deposit	\$ 4,310,362	\$ 2,575,062	\$ (1,735,300)	-40.3%
TOTAL EXPENDITURES	\$ 131,719,443	\$ 135,632,337	\$ 3,912,894	3.0%
Non-Appropriated Expenses	\$ 5,868,494	\$ 5,303,286	\$ (565,208)	-9.6%
Surplus / (Deficit)	\$ 0	\$ 0	\$ 0	0.0%

Departmental Budgets

Departmental operating budgets have been held to a 2.95% increase in accordance with the Long Range Plan. With respect to personnel costs, all collective bargaining agreements are currently under negotiation, so \$700,000 has been set aside for contract settlement. Only two part time positions have been added to the budget resulting in a net increase of one position from FY2015 (see personnel chart on page 7). Some of the more significant budget changes include:

Information Technology: +\$13,572

The expense budget for Information Technology contains a proposed new line item (\$23,000) funding implementation of the IT Strategic Plan. This increase is partially offset by a decrease of \$10,000 requested for computer maintenance.

Public Works: -\$326,336

The Public Works budget will see an overall decrease this year, based on a reduction in the amount budgeted for solid waste (\$33,512), and also a decrease in auto fuel cost (\$20,000). The budget also demonstrates a decrease due to the funding associated with the proposed Facilities Department being moved out of Public Works. The FY2016 budget also includes a \$75,000 increase in the Snow and Ice budget.

Facilities: +\$395,615

The FY2016 budget proposes the creation of a joint Town/School Facilities Department and the establishment of a Facilities Director position. The creation of a Facilities Department will assist in extending the asset life of existing facilities, add value to facilities by enhancing their condition, add additional reliability to capital budget requests and improve the operational efficiencies for the current level of maintenance expenses. This proposal is based upon the recommendation of the Building Maintenance Committee.

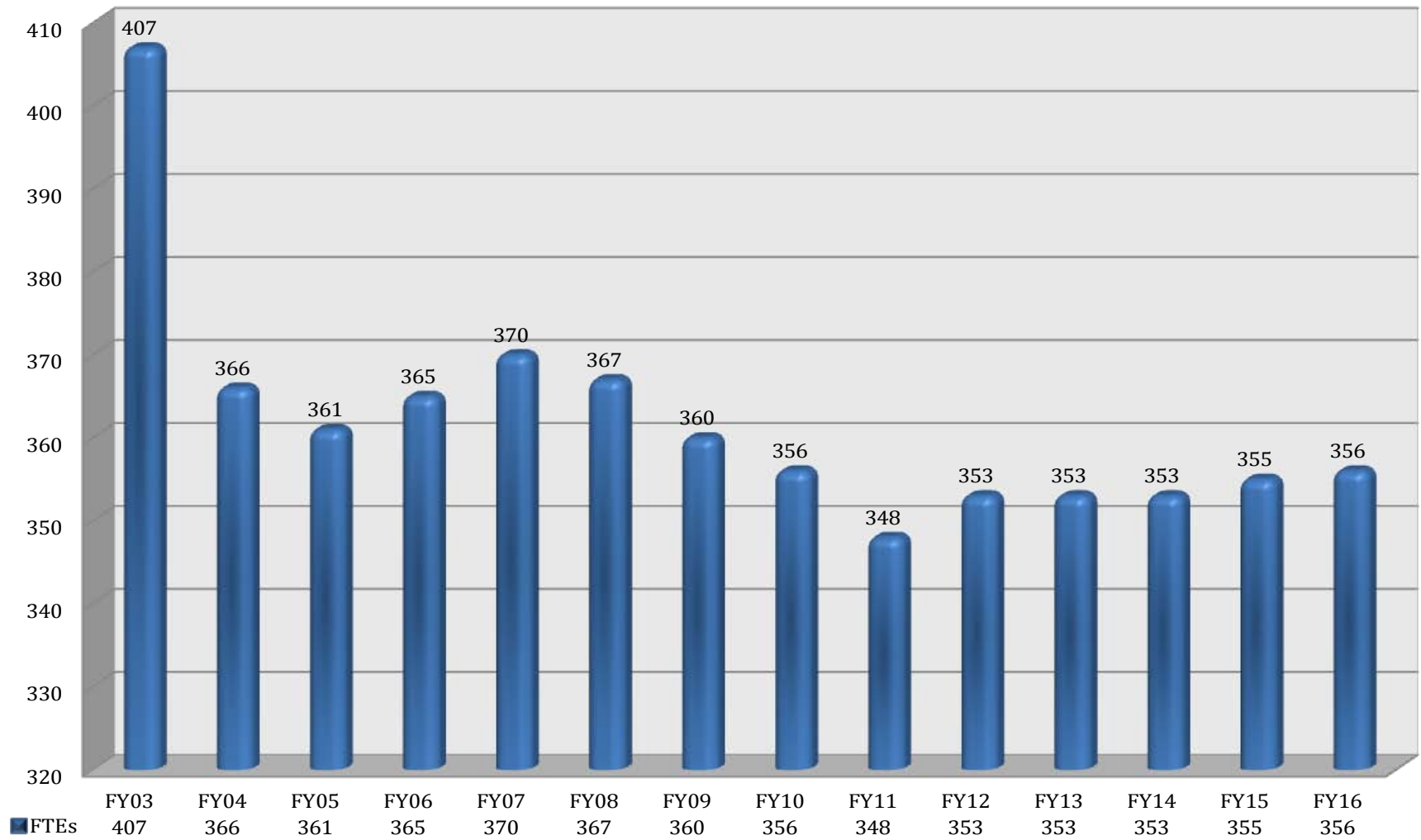
Health and Human Services: +94,244

In FY2016, the Health and Human Services Division contains a proposed budget increase of \$12,295 based on changes to the pay and classification plan (\$11,295) and an increase in the amount budgeted for mosquito control (\$1,000). The Council on Aging budget is proposed to increase by \$13,111, based upon changes to the pay and classification plan (\$4,351) and funding for reception support at the office's front desk (\$8,760). The Veterans' Service budget is proposed to increase by \$68,838, which a represents a decrease of \$3,200 in the pay and classification plan and an increase in \$72,038 in expenses. This expense increase is driven by a growing caseload of benefit eligible veterans being served.

Libraries: + \$30,200

In FY2016, the Library budget is receiving an increase of \$10,000 in order to support the new offering of Saturday hours in the summer. It is also proposed that a part time Technology Librarian be added to the budget at the cost of \$22,118.

Town Personnel Trends FY 2003 - FY2016 FTEs



Healthcare/Other Post-Employment Benefits (OPEB)

The cost of healthcare premiums is assumed to increase by 5.25% in the FY2016 budget. There is also an assumption of an increase in benefit eligible school department employees based on the previously discussed growth factor funding increase. This assumption is carried throughout the Long Range Plan. The actual cost of premiums will not be known until the Group Insurance Commission (GIC) releases FY2016 rates on March 1st. At that time, adjustments can be made to the healthcare budget accordingly.

In FY2016, the Town will once again ask for a direct appropriation from the Health Claims Trust Fund into the Town’s OPEB Trust Fund. The Town’s portion of the Health Claims Trust Fund has an approximate balance of \$3,000,000. The FY2016 recommendation to fund OPEB with \$300,000 from the Health Claims Trust Fund is the third year in what is a recommendation to adopt this practice for the next ten years or until the Health Claims Trust Fund is exhausted. Additionally, due to the Town departmental budgets being proposed at less than the 3.25% called for in the Long Range Plan, the difference between the actual budget proposal and 3.25% (\$92,677) is being proposed as an additional contribution to the Town’s OPEB Trust Fund. This combined \$392,677 contribution is in addition to the \$563,000 amount otherwise earmarked for appropriation into the OPEB Trust Fund, bringing the total proposed appropriation for FY2016 to \$955,677. The table below provides information regarding the Town’s OPEB Trust Fund and OPEB liability.

Town of Arlington OPEB Liability - As of January 1, 2014						
Active Employees (Future Retirees) Liability	% of Total Liability	Retiree Liability	% of Total Liability	Total Unfunded Liability	Accumulated Assets Towards the Liability	Total OPEB Liability
\$81,800,000	41%	\$116,000,000	59%	\$190,800,000	\$7,000,000	\$197,800,000

Cost Savings/Investment in Technology/Transparency

Last year, the Town released a Strategic Plan for Information Technology (IT Plan) as a result of a yearlong effort to develop a plan that would aid in enhancing the use of technology as a means of delivering more efficient and effective services to the residents of Arlington. Substantial progress has been made on the tasks and goals outlined in the plan, including the completion of a needs assessment across all Town departments. Notable accomplishments within the goals outlined are the launch of a digital meeting management solution for the Board of Selectmen and the planned release of Open Checkbook. The digital meeting management solution has dramatically streamlined the process of creating and distributing Board of Selectmen meeting packets, while also significantly enhancing governmental

transparency by making all meeting materials publicly available via a web portal on arlingtonma.gov. The impending launch of Open Checkbook will take another step toward enhanced transparency by making all Town and School spending data available to the public via an easy to use web application.

Another example of the Town's dedication to pursuing efficiency via innovation is found in the DPW's efforts to reduce salt usage in the winter. During FY2015, five DPW trucks were outfitted with a new salt spreader control system. The new system utilizes the vehicle's speed to regulate the rate of salt applied to winter road surfaces. Using speed and a predetermined amount of product to be spread per lane mile, the system adjusts conveyors and spinners accordingly to apply the desired amount of deicing material. Previously, the rate of application was set by the driver using an estimation of speed. Each unit costs approximately \$9,000 and can be reinstalled into new equipment as vehicles are replaced. It is projected that the units will reduce salt usage by up to 30%. Last winter, each truck spread about \$50,000 worth of salt. With a 30% reduction, the new system should pay for itself in the first year.

In FY2016 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.

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. More recently, Arlington was one of seven communities state wide that was honored by the Green Communities Division for having reached its 20% energy reduction goal within a five year time span. Arlington has substantially benefited from its cooperation with the Green Communities Division, having received three grant awards over the past four years, totaling \$698,082. The most recent grant award of \$247,894 came in 2014 and provided funding for numerous efficiency upgrades at the Ottoson Middle School and the installation of a new energy management system at Arlington High School. A great deal of this effort has been made possible via the efforts of the Town's Regional Energy Manager (REM) who is shared with the Town of Bedford. Looking forward, the Town is preparing to apply for yet another round of Green Communities grant funding in 2015 and is also preparing to sign a power purchase agreement with Ameresco for the installation of solar photovoltaic panels on six school roofs. The power purchase agreement projects to save the Town nearly \$2,000,000 over the course of the next twenty years.

Collective Bargaining and Employee Relations

All Town and School employee unions have contracts in place through FY2015, and bargaining is underway for contract extensions. This current round of bargaining is being guided by the recently completed Comparative Compensation Study.

State Aid

State aid is projected to increase by \$321,008 or 1.84% in FY2016. This projected increase is due to an assumption that the enrollment growth of 169 students in FY2015 will result in an increase in Chapter 70 funding of \$253,500. The remaining increase of \$67,508 is based on a projection of a 1% increase to the Town's prior base state aid allotment.

The Governor's budget, scheduled to be released March 4th, will be our first indication of what local aid may look like.

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 nine 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 13.

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 FY2016 funding for the capital budget is as follows:

Bonding:	\$13,232,350
Cash:	\$1,426,356
Other:	\$3,200,500

Our existing non-exempt debt is \$6,552,287 which is consistent with prior debt service projections for FY2016. The total capital budget for FY2016, including debt, is estimated at \$10 million. Major projects to be funded in FY2016 include: the third and final phase of the Community Safety Building Project, which has been budgeted at \$7.6 million, street and sidewalk work for approximately \$1.5 million, water and sewer work for \$2.4 million, and park renovation work for \$455,000. The FY2016 budget also includes \$500,000 for the replacement of the turf at Peirce Field, and \$131,000 in funding for new police cruisers.

The most significant project added to the five year capital plan is the renovation of the Stratton School. A Stratton Building Committee was convened in 2014 with the charge of working with a consultant to define the scope of a future Stratton Building Project and to recommend a cost proposal to the Capital Planning Committee. The projected construction cost for a single phased project is \$9.5 million and has been programmed for FY2017; \$785,000 has been requested in FY2016 for the design phase of the project. The Capital Planning Committee is recommending a funding strategy that includes the use of capital funds, funds from the 2000 school building debt exclusion, and funds from the sale of a Town owned asset.

Throughout the fall, the Capital Planning Committee considered the potential impact of future Community Preservation Act (CPA) funding on projects that have historically been funded through the capital budget, but could be eligible for CPA funding in FY2017 and beyond. The Committee decided to fund many of the projects requested in FY2016 that may have been CPA eligible in the future, however, did not recommend funding for those projects requested in years FY2017-FY2020. For the purposes of presentation and to identify the need for projects impacted by the CPA, they have been italicized in the five year Capital Plan. I expect that the Capital Planning Committee will work collaboratively with the Community Preservation Committee once it is established to decide how to fund these types of projects in the future.

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 Eve Margolis, Management Analyst, who spent evenings and weekends assisting in the production of this document.

Respectfully submitted,



Town Manager

