



## A Resident's Guide to the Budget

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

### THE BUDGET PROCESS

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

In accordance with Section 32 of the Town Manager Act, the Town Manager must annually submit a budget to the Board of Selectmen. Arlington has had a long tradition of developing a budget that clearly defines departmental goals and objectives and includes detailed trend analysis and long-term projections. The annual operating and capital budgets are submitted as part of the Town Manager's Annual Budget & Financial Plan. It is important to note that the financial and budgetary information presented in the Annual Budget & Financial Plan are projections and are subject to change prior to Town Meeting. For definitions of terms used in the Annual Budget & Financial Plan, see the Glossary on page 207.

For past budgets and plans, plus additional financial documents please visit [arlingtonma.gov/budgets](http://arlingtonma.gov/budgets).

### BUDGET CALENDAR

**July**

Fiscal Year begins July 1st

**September**

*Capital Budget* requests due to Town Manager

**November**

*Operating Budget* requests due to Town Manager by November 30th

**January**

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

**January/April**

Finance Committee hearings on budget

**March**

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

**April**

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

**May**

Town Meeting adopts *Operating and Capital Budgets*

**June**

Fiscal Year ends June 30th



## Community Profile

**Name:** Town of Arlington

**Settled:** 1635 (as Village of Menotomy)

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

**Total Area:** 5.5 Sq. Miles

**Land:** 5.2 Sq. Miles

**Water:** 0.3 Sq. Miles

**Elevation:** 46 Feet

**Public Roads:** 95.27 Miles

**County:** Middlesex

**Population:** 42,844 (2010 Census)

**Form of Government:** Representative Town Meeting

**School Structure:** K-12

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

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

**Coordinates:** 42°24'55"N 71°09'25"W

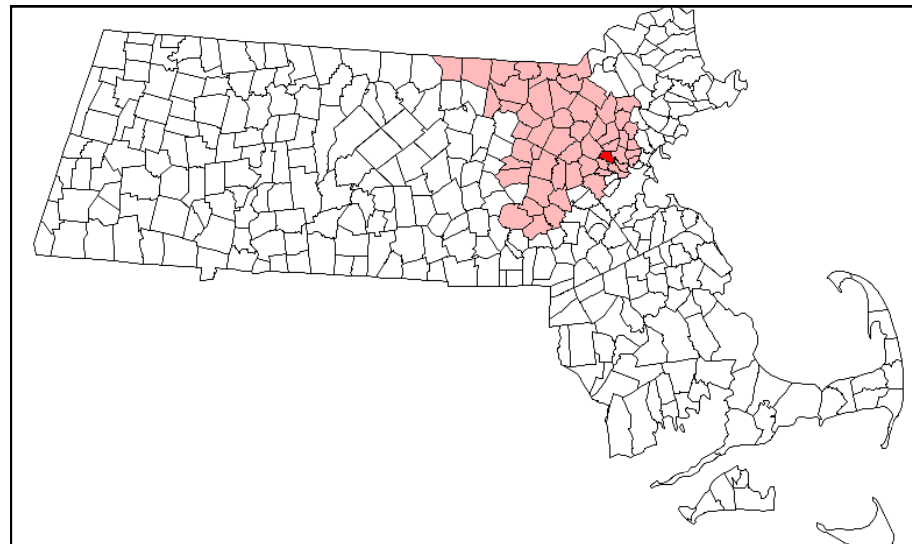
**Address:**

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 730 Massachusetts Avenue  
 Arlington, MA 02476  
 Phone: (781) 316-3000  
[www.arlingtonma.gov](http://www.arlingtonma.gov)

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

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

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





## Fiscal Year 2014 Annual Budget & Financial Plan Budget Message

April 1, 2013

To: The Honorable Board of Selectmen and Finance Committee

I hereby transmit to you the recommended FY2014 Operating and Capital budgets and the FY2014-2018 Capital Plan. The budget as proposed totals \$132,036,277 which is an increase of \$6,287,049 (5.0%) from the current budget. However, if the amount contributed to the Override Stabilization Fund is excluded, the proposed budget is an increase of \$4,009,322 (3.2%) from the current budget. A summary showing a comparison of the FY2013 and FY2014 revenues and expenses is shown on page 5.

FY2013, the current fiscal year, is the second year of what was initially intended to be a three-year plan that incorporated the Proposition 2 ½ override of 2011 designed to carry the Town's budgets through FY2014. The key commitments along with updates on the status of meeting the commitments of that three-year plan are listed as follows with updates listed in bold:

- 1) *Override funds will be made to last at least three years (FY2012-FY2014). No general override will be sought during this period.* – **Current projections have extended the plan to cover FY2012-FY2018.**
- 2) *If the override passes there will be no 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 projects to reduce 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 is being held below the 3.5% cap at 3.34%.**



- 4) *Health care cost increases will be programmed at 7%. Should actual increases exceed this amount, the Town and School budget totals shall be proportionately decreased by the excess amount. Should actual increases be less than this amount as a result of negotiated health care savings, the extra savings will be:*
  - a) *Deposited into the override stabilization fund to extend the three year override period;*
  - b) *Used to preserve services; and*
  - c) *To satisfy any and all negotiated items between the Town Manager, its employees, and its retirees. – The override period has been extended to six years from the original three-year period based to a large degree on health care savings. The first year health care savings also supported FY2012 wage settlements with employee bargaining units. Actual health care cost increases will be approximately 3.5% in FY14. The difference between the initial projections and the actual cost will be deposited into the override stabilization fund.*
- 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.*

As you recall, in 2005 when the Town was facing a projected \$4 million deficit for FY2006, a five-year plan was put together which included an override and commitments to budget constraints similar to the aforementioned commitments. The 2005 override, which was projected to last five years, was stretched to last six years despite the economic crisis and cuts in state aid.

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

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



**Overall Budget Summary**

			Change	
	FY2013	FY2014	\$	%
<b>Revenue</b>				
Property Tax	\$ 98,009,381	\$ 101,039,058	\$ 3,029,677	3.1%
Local Receipts	\$ 8,455,000	\$ 8,505,000	\$ 50,000	0.6%
State Aid	\$ 15,040,051	\$ 16,505,918	\$ 1,465,867	9.7%
School Construction Aid	\$ 2,474,796	\$ 2,474,773	\$ (23)	0.0%
Free Cash	\$ 1,570,000	\$ 3,411,528	\$ 1,841,528	117.3%
Other Funds	\$ 200,000	\$ 100,000	\$ (100,000)	-50.0%
<b>TOTAL REVENUES</b>	<b>\$ 125,749,228</b>	<b>\$ 132,036,277</b>	<b>\$ 6,287,049</b>	<b>5.0%</b>
<b>Expenditures</b>				
Municipal Departments	\$ 30,057,059	\$ 31,060,702	\$ 1,003,643	3.3%
School Department	\$ 45,612,598	\$ 47,675,113	\$ 2,062,515	4.5%
Minuteman School	\$ 3,022,146	\$ 3,336,935	\$ 314,789	10.4%
Non-Departmental (Healthcare & Pensions)	\$ 22,815,979	\$ 22,899,397	\$ 83,418	0.4%
Capital (Includes Debt Service)	\$ 9,343,820	\$ 9,831,310	\$ 487,490	5.2%
MWRA Debt Shift	\$ 5,593,112	\$ 5,593,112	\$ 0	0.0%
Warrant Articles	\$ 794,269	\$ 1,049,213	\$ 254,945	32.1%
Override Stabilization Fund Deposit	\$ 3,879,357	\$ 6,157,085	\$ 2,277,728	58.7%
<b>TOTAL EXPENDITURES</b>	<b>\$ 121,118,340</b>	<b>\$ 127,602,868</b>	<b>\$ 6,484,528</b>	<b>5.4%</b>
<b>Non-Appropriated Expenses</b>	<b>\$ 4,630,888</b>	<b>\$ 4,433,409</b>	<b>\$ (197,479)</b>	<b>-4.3%</b>
<b>Surplus / (Deficit)</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>0.0%</b>



### Departmental Budgets

Departmental operating budgets have been held to a 3.34% increase in accordance with the commitments made as part of the tax override. With respect to personnel costs, all but one collective bargaining unit (Patrol) is settled for FY2014, so an allowance has been made for a potential settlement. There have been a number of changes in personnel; however these changes result in a net increase of only one position from FY2013 (see personnel chart on p. 6). Some of the more significant budget changes include:

**Selectmen: -\$28,008**

Included within the budget for the Board of Selectmen are expenses for the operation of elections within the Town. The proposed FY2014 budget is being reduced due to the need for one fewer election as compared to FY2013.

**Town Manager: +\$31,863**

The part-time Management Analyst position within the Town Manager's office and the part-time Property Management position formerly within the Planning and Community Development Department have been combined into one position which in FY2014 is budgeted within the Town Manager's Office.

**Information Technology: +107,713**

In FY2014, a Systems Analyst position is being proposed for the IT Department. Also, the Administrative Assistant who was formerly shared between the IT Department and the Comptroller's Office is being moved entirely to the IT Department's budget.

**Planning & Community Development: -\$13,335**

As addressed earlier, the part-time Property Management position budgeted last year within this department has been combined with the Management Analyst position in the Town Manager's Office and budgeted there for FY2014.

**Public Works: +\$504,278**

The increase in Public Works is primarily driven by the decrease in the amount of funds available from the Tip Fee Stabilization Fund to offset solid waste disposal costs (\$236,000). Further increases include investment in tree replanting (\$40,000) in response to the damage caused by the microburst and Hurricane Sandy, increases in Highway Division expenses (\$24,584), and projected increases in yard waste disposal cost (\$40,000). There is also a decrease in the water/sewer offset to the Highway Division (\$70,000) which impacts the appropriation.

**Community Safety: +\$365,503**

For the FY2014 budget proposal, Community Safety Administration and Community Safety Support have been eliminated as separate budgets and their costs have been allocated accordingly into both the Police and the Fire budgets. This will better align budget responsibility with day-to-day management responsibility. The remaining increase is reflective of wage settlements with public safety bargaining units and corresponding increases to salary related line items.

**Inspections: -\$27,514**

The FY2013 Inspections budget included a \$40,000 salary appropriation to cover increased costs associated with inspections at the Symmes site. This amount has been removed in FY2014.

**Street Lights: - \$63,000**

The Town's conversion from High Pressure Sodium street lights to LED street lights is expected to be completed prior to the start of FY2014 and the corresponding reduction in electricity usage and maintenance costs allows for a \$53,000 reduction in this budget. The remaining \$10,000 reduction is attributable to a cost reduction for fire alarm systems.

**Libraries: + \$26,110**

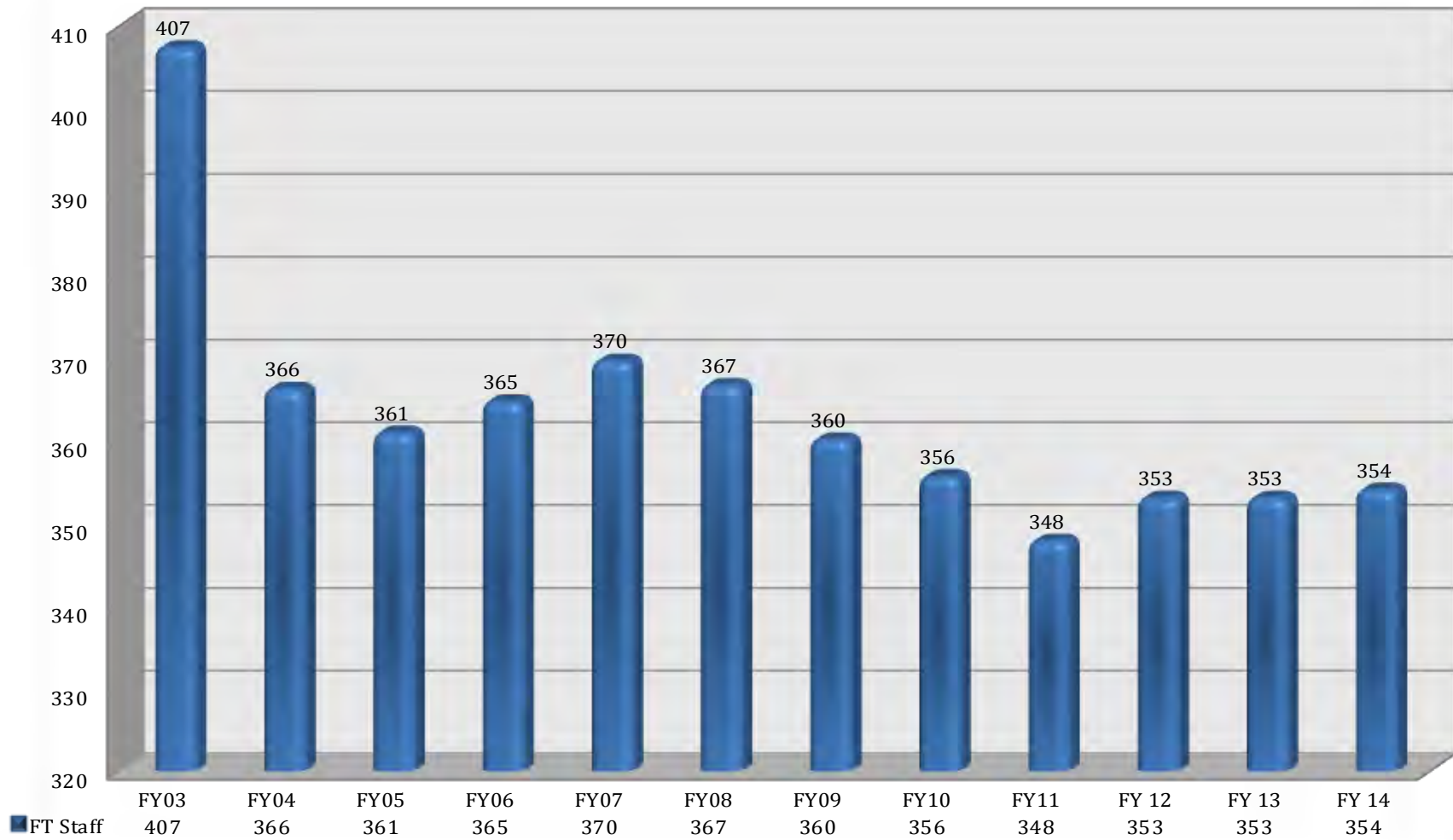
The increase in the library budget is driven primarily by miscellaneous expenses and wage adjustments. The remaining increases are the result of the reorganization of staff that has allowed for the reinstatement of the Head of Adult Services position that was eliminated prior to the last override.

**Recovering from Microburst and Hurricane Sandy**

FY2013 has been a year in which Arlington faced several severe weather events which caused significant damage to Town infrastructure and assets. One of these events (July 2012 microburst) was unique to Arlington and the other (Hurricane Sandy) affected millions of people on the eastern seaboard and caused billions of dollars in property damage. One of the major Town assets that was significantly impacted by both events was our tree population. The Town lost nearly 200 trees through the combined impact of these two storms. In an effort to recover from this impact, the FY2014 budget proposal includes an additional \$40,000 appropriation for tree replanting. This is intended to be part of a multiyear effort to replant trees and replenish the Town's overall tree cover which was diminished via storm damage. This additional appropriation will increase the amount of trees planted by the Town on annual basis from approximately 100 to approximately 220 trees.



### Town Personnel Trends FY 2003 - FY2014 FTEs







### **Healthcare/Other Post-Employment Benefits (OPEB)**

The cost of healthcare premiums was initially assumed to increase by 7% in the FY2014 budget. However, the actual cost of premiums will be approximately 3.5%. The difference between initial projections and actual costs will result in an increased deposit to the Override Stabilization Fund.

The FY2014 healthcare budget proposal also includes a \$300,000 offset from the Town's Health Claims Trust Fund. This offset is included as a means of increasing the Town's contribution toward defraying its OPEB liability by a corresponding \$300,000 amount. The Town's Health Claims Trust Fund has an approximate balance of \$3,000,000 and these funds are limited by statute to pay for health insurance claims, or in the absence of claims, pay for health insurance premiums. The FY2014 recommendation to increase the OPEB contribution by \$300,000 is the first year in what is a recommendation to adopt this practice for the next ten years or until the Health Claims Trust Fund is exhausted.

### **Cost Savings/Performance Strategies**

The Town has continuously pursued numerous strategies for reducing costs and becoming more productive. Recently the Town hosted a regionalization forum which was attended by officials from Bedford, Belmont, Burlington, Lexington, and Winchester. This forum was facilitated by the Metropolitan Area Planning Council (MAPC) and resulted in several areas where regional efforts are being set for further research and discussion. These areas included animal control, public transportation, and e-government initiatives. In addition to this, the Town currently has many service and purchasing contracts that are being implemented regionally.

Over the winter, the Town was awarded a grant for performance management through the Collins Center for Public Management at UMass Boston. With funding from the Commonwealth, the Collins Center will be facilitating the Municipal Performance Management Program which will offer technical assistance to participating municipalities. This innovative program will provide assistance to cities and towns looking to establish a performance management program or to improve their usage of data in management and policy-making.

Through the program, Arlington will receive the assistance of a trained analyst for roughly one day per week for five months to support the Town's efforts in developing a comprehensive performance management program. While the Town has had the systems in place to effectively collect and report data, we have not had the resources to build the framework for a performance management program. I am hopeful that by participating in this program, Arlington will build a system that will enable staff and departments to better utilize data in a meaningful way that will help guide service level decisions. This effort will help the Town to continue to evaluate current methods of service delivery and ensure that the most productive and cost effective methods are being deployed.



Most recently, the Town has entered into an agreement with Bedford to hire a Regional Energy Manager. This position will work with both Arlington and Bedford in meeting their goals as Green Communities.

The Town has also continued moving forward with its implementation of a GIS Strategy. Since the hiring of the GIS Coordinator, the Town has saved a significant amount of funding due to expanded internal capacity. As GIS moves toward full implementation, it is anticipated that it will continue to provide annual improvements in productivity and property address based data tracking.

In order to increase productivity each year, the Town must continue to make better and more effective use of technology. This certainly is not unique to Arlington as any organization worldwide that does not keep up with productivity enhancements gained through the effective use of technology will not be able to compete. To meet this need, the FY2014 budget proposes the addition of a Systems Analyst to the Information Technology Department. This position is added with the goal of enhancing the Town's ability to analyze vendor applications which may increase departmental efficiency as well as expand internal development capacity also aimed at updating the business practices of our departments. These efforts are undertaken in cooperation with the Information Technology Advisory Committee (ITAC) and are focused on investigating other new advances in technology that can enhance the efficiency and effectiveness of the Town's service delivery.

### **Energy**

In 2010, Arlington was named a Green Community by the State's Green Communities Division and received a \$200,188 grant for several energy efficiency projects. This honor recognized 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. These plans are directed at attaining a 20% reduction in energy usage by the end of FY2014, using FY2009 as a baseline. As of the end of FY2012, the Town has reduced energy usage by 19%. This is a result of a number of energy conservation measures (ECM's) being implemented throughout the Town's buildings, which have leveraged both state and federal grant awards along with rebates and incentives from the utilities. Most recently in 2012, Arlington was awarded a \$250,000 grant from the Green Communities Division to install variable speed drives at multiple town and school facilities as well as upgrade the HVAC system on the sixth floor of Arlington High School. This spring, the Town plans to complete the retrofit of its street lights to LED technology, which will allow for a reduction of \$53,000 in the FY2014 street lighting budget. The Town also plans to begin implementing further ECM's by utilizing the \$200,000 appropriation that Town Meeting approved in 2012 earmarked for energy efficiency projects.

### **Collective Bargaining**

All Town and school employee unions have contracts in place through FY2015 with the exception of the Patrol union, whose current contract expires at the close of the current fiscal year (FY2013). Negotiations with the Patrol union are underway for a FY2014 – FY2015 contract.



### State Aid

In January, Governor Patrick proposed a \$226 million increase in Chapter 70 School Aid and level-funding for General Government Aid. Based upon the Governor's proposed budget and the Town's conservative estimates, state aid, exclusive of school construction aid, is projected to increase \$1,465,867, or 9.75%. As a result of eliminating Kindergarten fees this past fall, the Town is able to include Kindergarten students in the total enrollment projections submitted to the state. As a result, Chapter 70 funding is expected to increase approximately \$1,488,918. Overall FY2014 state aid, as used to balance the Town Manager's budget, will increase \$1,465,844 to a total of \$18,980,691. This total is inclusive of \$2,474,773 in school construction aid.

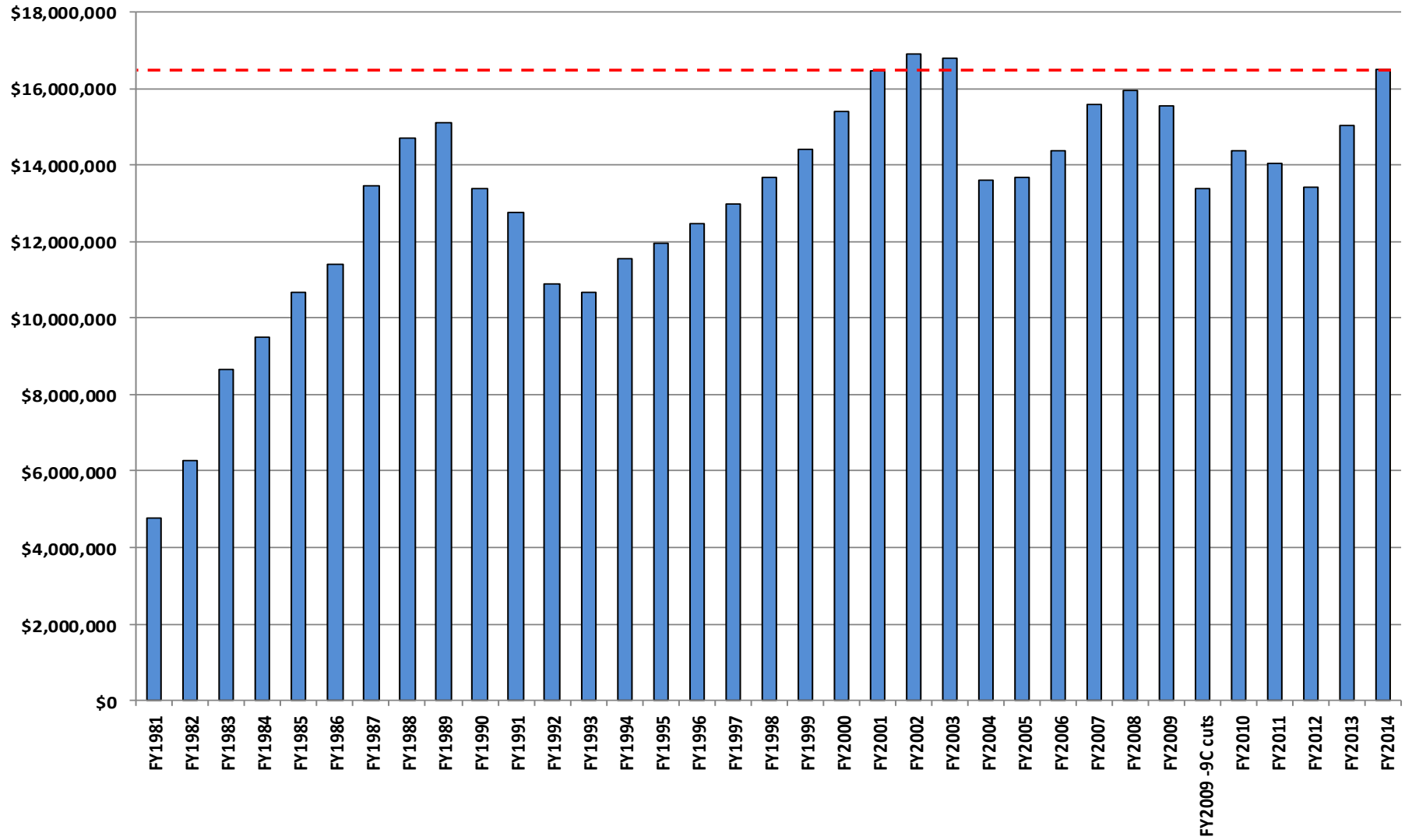
In FY2014 Unrestricted General Government Aid (UGGA) is expected to remain level at \$6,416,909. The Governor's budget proposes funding a new Cherry Sheet municipal aid account which will be allocated using a formula based on income and property wealth factors. This account is referred to as "Formula Aid." The Governor's proposed budget is contingent on a significant amount of new revenues. Given the uncertainty of Legislative approval of these new revenues, the Town Manager's budget does not include any additional revenue from the new Formula Aid account.

Exclusive of school construction aid, Arlington's projected state aid for FY2014 is less in real dollars than it received in FY2002, 12 years ago (see Chart on p. 12). Since 1987, Arlington has seen its share of total state aid cut by approximately 45% (see Chart on p. 13). Just since FY2002 Arlington's total state aid has decreased 19%. A look at the cumulative year-to-year increases and decreases since FY2002 (see Chart on p. 14) also shows how Arlington has been disproportionately cut. Since FY2002 local aid for all municipalities initially dropped by approximately 8%, rebounded through FY2009 to a 20% increase, and in FY2014 ends in a cumulative increase of 16%. Arlington, on the other hand, has never experienced an increase above FY2002. In fact, in FY2006, Arlington was 15% below FY2002, while the average of all municipalities saw a slight increase. In FY2013 the cumulative year-to-year change since FY2002 was a decrease of 13.8%, however in FY2014, Arlington remains disproportional from other municipalities despite a significant increase in state aid. To further illustrate this impact, the average state aid for municipalities in Massachusetts has increased 16.4% from FY2002, while in FY2014 Arlington's cumulative year-to-year change since FY2002 is a decrease of 2.4%



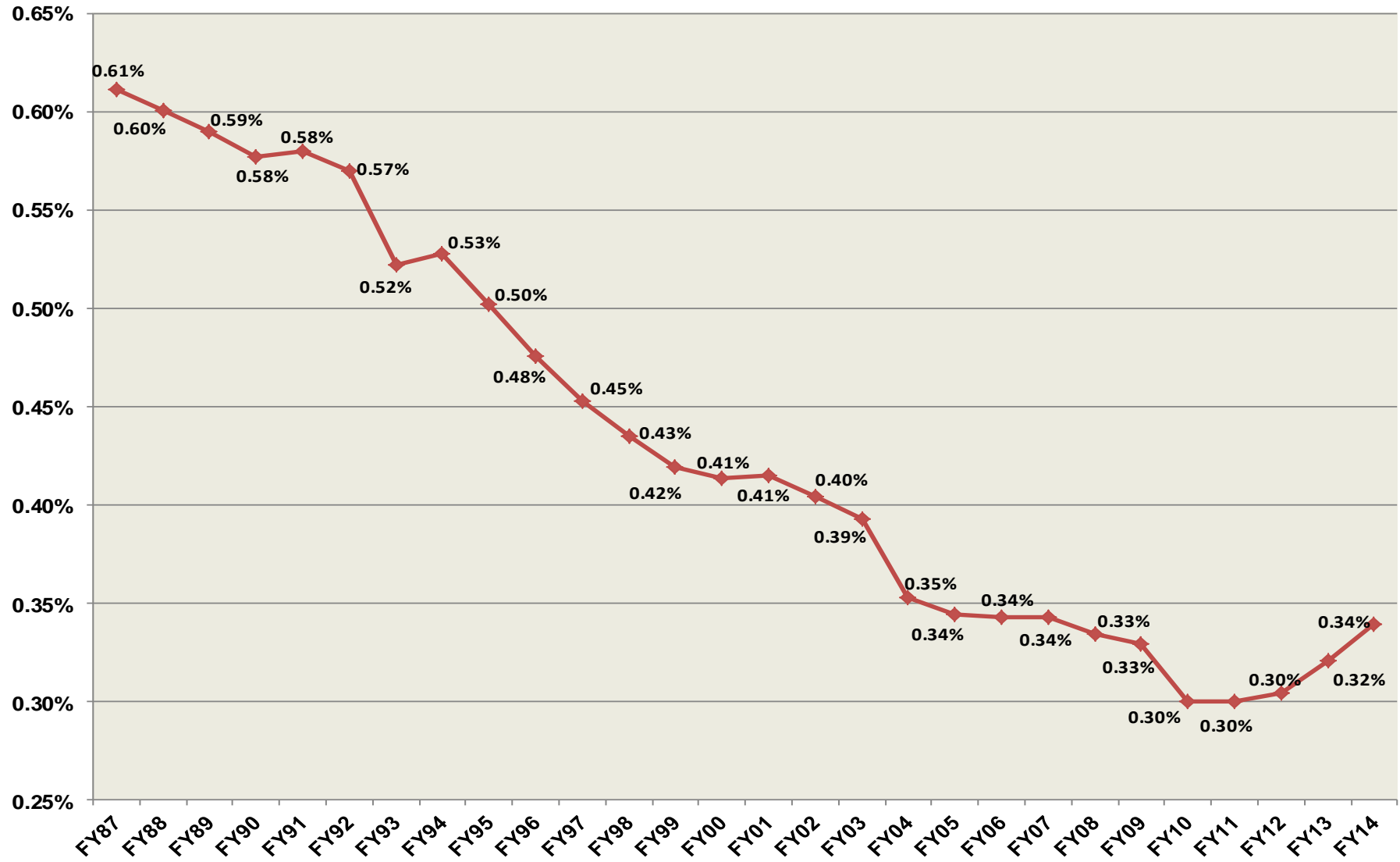
**STATE AID RECIPITS**

*(Numbers exclude School Construction and METCO reimbursements)*





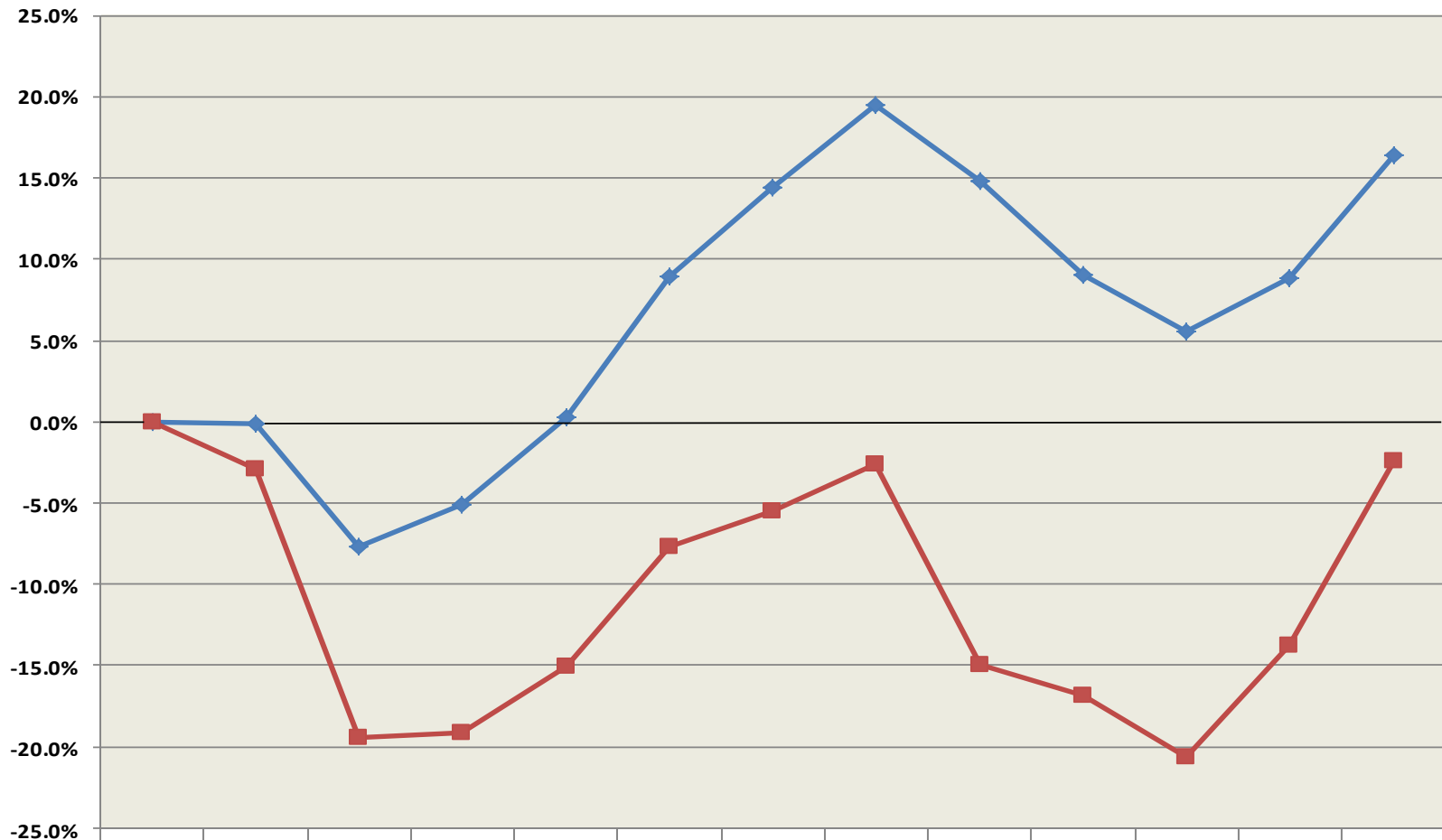
Arlington's Percent of Total State Aid





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

*(Numbers Exclude School Construction and METCO Reimbursements)*



◆ All Municipalities	0.0%	-0.1%	-7.7%	-5.1%	0.3%	8.9%	14.4%	19.5%	14.8%	9.1%	5.6%	8.8%	16.4%
■ Arlington	0.0%	-2.9%	-19.5%	-19.2%	-15.0%	-7.7%	-5.5%	-2.6%	-14.9%	-16.8%	-20.6%	-13.8%	-2.4%



### Comparative Data

The FY2014 Annual Budget & Financial Plan includes a new set of comparable communities that includes Belmont, Brookline, Medford, Melrose, Milton, Natick, Needham, North Andover, Reading, Stoneham, Watertown, and Winchester. These communities were selected by Town, School, and Union leadership. These communities were identified based on a number of factors including; population, 5 year average municipal growth factor, population per square mile, median income per capita, median income per household, single family median home value, average family tax bill, total tax levy, excess capacity as a percentage of maximum levy and residential valuation as a percentage of the total tax levy.

There are a number of factors that contribute to Arlington's structural deficit – some common among all municipalities and some relatively unique to Arlington. Some of the factors particular to Arlington include the fact that Arlington is a densely populated, fully built-out community (see Tables 1 and 2 on page 16). Revenue from growth in the tax base ranks near the bottom among a group of 13 comparable communities (see Table 3). It is slightly greater than one-half of the state-wide average. Another indicator of the Town's ability and opportunity to raise revenue is a measure developed by the Department of Revenue called Municipal Revenue Growth Factor (MRGF). It measures a community's ability to raise revenue, taking into consideration a community's tax levy limit, new growth, state aid, and local receipts. As you can see from Table 4, the state-wide average and average of the thirteen comparable communities MRGF is 3.77 and 3.38 respectively. Arlington's is 3.47, which is below the state average and only recently has increased beyond 3.0 as a result of moderate growth in local receipts.

Another factor affecting the Town's financial structure is its tax base. The Town's tax base is nearly all residential—the commercial/industrial sector makes up only 6% of the total. Table 5 shows that Arlington's commercial/industrial tax base ranks 10th out of 13 comparable communities. The average of these communities is 16.1%, almost 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 below the average of the 13 comparable communities. In fact, the Town ranks 8th in taxes per capita (Table 6), and 10th in taxes per household as a percent of median household income (Table 7). This despite the fact that Arlington's tax levy includes more than \$5 million in MWRA water and sewer debt that only one other community includes on its levy.

A look at how the Town's spending levels impact the Town's financial position shows that the Town's spending per capita is well below the state average and the average of the 13 comparable communities. Arlington ranks 12th out of 13 comparable communities in overall expenditures per capita (see Table 8). The spending average of the other comparable communities is 30% greater than Arlington as is the state-wide spending average.

With spending well below the state-wide average and comparable communities, and with revenue growth opportunities well below the statewide average and nearly at the bottom of comparable communities, it is clear that the structural problem with the Town's finances lies with the revenue side of the equation as opposed to the spending side. Limited growth in the tax base, a tax base almost all residential, coupled with a 2.4% reduction in state aid just since 2002, has left the Town with only two choices—significant budget cuts resulting in service reductions or Proposition 2 ½ general overrides.



Table 1		Table 2		Table 3		Table 4	
Municipality	Pop Per Square Mile	Municipality	Households Per Sq Mile	Municipality	New Growth Ave '10-'12	Municipality	Municipal Revenue Growth Factor
1 BROOKLINE	8,650	1 BROOKLINE	3,890	1 NEEDHAM	2.36	1 NEEDHAM	4.92
2 ARLINGTON	8,271	2 ARLINGTON	3,747	2 NATICK	1.79	2 NATICK	3.82
3 WATERTOWN	7,765	3 WATERTOWN	3,652	3 NORTH ANDOVER	1.37	3 BROOKLINE	3.77
4 MEDFORD	6,901	4 MEDFORD	2,787	4 BROOKLINE	1.32	4 NORTH ANDOVER	3.76
5 MELROSE	5,753	5 MELROSE	2,398	5 WATERTOWN	1.21	5 WINCHESTER	3.50
6 BELMONT	5,307	6 BELMONT	2,142	6 MEDFORD	1.06	6 ARLINGTON	3.47
7 WINCHESTER	3,539	7 STONEHAM	1,510	7 READING	1.06	7 READING	3.29
8 STONEHAM	3,486	8 WINCHESTER	1,309	8 BELMONT	1.03	8 STONEHAM	3.15
9 READING	2,492	9 READING	889	9 WINCHESTER	1.03	9 WATERTOWN	3.10
10 NEEDHAM	2,291	10 NATICK	886	10 MELROSE	0.95	10 MELROSE	3.00
11 NATICK	2,189	11 NEEDHAM	860	11 ARLINGTON	0.91	11 BELMONT	2.98
12 MILTON	2,071	12 MILTON	703	12 MILTON	0.81	12 MEDFORD	2.97
13 NORTH ANDOVER	1,064	13 NORTH ANDOVER	373	13 STONEHAM	0.61	13 MILTON	2.33
Ave w/o Arlington	4,292	Ave w/o Arlington	1,783	Ave w/o Arlington	1.22	Ave w/o Arlington	3.38
Arlington	8,271	Arlington	3,747	Arlington	0.91	Arlington	3.47
				State-Wide Ave	1.59	State-Wide Ave	3.77





<b>Table 5</b>		<b>Table 6</b>		<b>Table 7</b>		<b>Table 8</b>	
<b>Municipality</b>	<b>Commercial/ Industrial/ Personal % of Total Tax</b>	<b>Municipality</b>	<b>FY2013 Taxes Per Cap</b>	<b>Municipality</b>	<b>Per Household as % of 07-11 median</b>	<b>Municipality</b>	<b>FY2011 Total Exp Per Cap</b>
1 WATERTOWN	32.93	1 NEEDHAM	3,477	1 NEEDHAM	7.6%	1 NEEDHAM	3,533
2 NATICK	23.28	2 WINCHESTER	3,243	2 NATICK	7.4%	2 WINCHESTER	3,379
3 MEDFORD	22.29	3 BELMONT	2,914	3 BELMONT	7.3%	3 BROOKLINE	2,976
4 NEEDHAM	22.13	4 BROOKLINE	2,897	4 WINCHESTER	6.9%	4 NATICK	2,891
5 STONEHAM	17.80	5 NATICK	2,706	5 MILTON	6.8%	5 READING	2,857
6 NORTH ANDOVER	17.08	6 WATERTOWN	2,456	6 WATERTOWN	6.8%	6 WATERTOWN	2,801
7 BROOKLINE	16.43	7 MILTON	2,406	7 BROOKLINE	6.6%	7 BELMONT	2,678
8 READING	10.12	<b>8 ARLINGTON</b>	<b>2,288</b>	8 NORTH ANDOVER	6.5%	8 STONEHAM	2,442
9 MELROSE	8.90	9 READING	2,226	9 READING	6.3%	9 MELROSE	2,435
<b>10 ARLINGTON</b>	<b>6.26</b>	10 NORTH ANDOVER	2,167	<b>10 ARLINGTON</b>	<b>5.9%</b>	10 MILTON	2,372
11 MILTON	6.26	11 STONEHAM	1,907	11 STONEHAM	5.7%	11 NORTH ANDOVER	2,293
12 BELMONT	5.67	12 MELROSE	1,779	12 MEDFORD	5.5%	<b>12 ARLINGTON</b>	<b>2,029</b>
13 WINCHESTER	5.05	13 MEDFORD	1,601	13 MELROSE	5.0%	13 MEDFORD	1,815
Ave w/o Arlington	16.18	Ave w/o Arlington	2,481	Ave w/o Arlington	6.5%	Ave w/o Arlington	2,706
Arlington	6.26	Arlington	2,288	Arlington	5.9%	Arlington	2,029
						State-Wide Ave	2,781



**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 community with little growth in its tax base and sustaining the massive cuts in state aid (Arlington receives less real dollars in state aid than it did in 2002), 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. In 2005 an override was passed based upon a plan that would cover the annual deficit for five years. Despite substantial cuts to state aid and a collapse of the global economy, with tight budget constraints, the funds were made to last six years. The override passed in 2011 was based upon a three-year plan.

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 override funds can be stretched to last seven years rather than only three. This will still require tight constraints on budgets. Despite fixed cost increases and federal and state mandates, Arlington's increase is being held to 3.34%.

**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 FY2014 funding for the capital budget is as follows:

Bonding:	\$3,575,500
Cash:	\$1,450,700
Other:	\$3,506,000

Our existing non-exempt debt is \$5,664,135 which is consistent with prior debt service projections for FY2014. The total capital budget for FY2014, including debt, is estimated at \$9.8 million. Major projects to be funded in FY2014 include: architectural design plans for the Central Fire Station at \$450,000, street and sidewalk work for approximately \$1.5 million, water and sewer work for \$2.5 million, and park renovation work for \$486,250. The FY2014 budget also includes \$200,000 for a new Rescue/Ambulance, and \$131,000 in funding for new police cruisers.



### Five Year Financial Projection

The cornerstone of our strategic budgeting process is the long-range financial projection. Based upon analysis of internal and external factors impacting the Town's operations and finances, we have prepared the long-range projection found on page 23. These projections will, of course, have to be modified as events unfold, but we believe that they are reasonable for fiscal planning purposes.

Revenue assumptions include the following:

- **Overall revenues** are expected to increase 5.0% in FY2014. Future year increases range from 0.84% to 3.97%. FY2016 increases 2.63% due to the initial use of override stabilization funds to cover increased debt service costs and an increased tax abatement reserve because it is a revaluation year. In the FY2017 and FY2018, the overall increases are 3.99% and 3.84% respectively. This is a result of the increased use of override stabilization funds to balance the budget.
- **Tax Levy** – The FY2014 tax levy is projected to increase by approximately 3.09%, a higher than normal increase which is attributable to the first full debt service payment for the Thompson School. Future year increases are projected to be between approximately 2.7% per year. New growth is projected at \$450,000 per year. Actual debt for Proposition 2 ½ debt exclusion school projects minus state reimbursements are included and amount to approximately \$1 million each year. FY2014 includes excluded debt of approximately \$300,000 relative to the Symmes Urban Renewal project. After FY2014 property tax payments from Symmes are expected to cover the Symmes debt.
- **State Aid** – Due to the elimination of kindergarten fees which resulted in an increase in student enrollment, the Town expects to receive a Chapter 70 increase of \$1,474,476 in FY2014 resulting in an overall state aid increase of \$1,465,867 (9.75%). Thereafter, increases are projected at only 1%.
- **School Construction Reimbursement** - Projected to decrease by \$23 in FY2014 to \$2,474,773 due to bond refinancing.
- **Local Receipts** – Local Receipts are estimated to increase by \$50,000 in FY2014 due to projected increases in Motor Vehicle Excise tax collections, interest income and an increase in Payments in of Lieu of Taxes from the new owners of the Crosby School. It is anticipated that Local Receipts will continue to grow by \$50,000 increments thereafter.
- **Free Cash** – In FY2014, \$3,411,528 is proposed to be appropriated, which is 50% of the Town's available free cash balance. For FY2015 and in each subsequent year, \$1,500,000 is proposed to be appropriated.
- **Other Available Funds** – A transfer of \$100,000 from surplus tax abatement overlay reserve funds is projected in FY2014. Transfers of \$200,000 from surplus tax abatement are projected in each year of the plan thereafter.
- **Override Stabilization Fund** – For at least the first four years of the override (FY2012-2015) funds will be deposited into the Fund, resulting in an balance of approximately \$16.2 million. In FY2016, a draw down of \$529,607 will be required to balance the budget.



In FY2017 a draw down of \$2.9 million will be needed to close the budget gap leaving approximately \$12.8 million in the Fund to apply to a budget gap of approximately \$6 million in FY2018 (the seventh year of the override). The remaining balance in the fund will be approximately \$6.7 million and will be used to offset the FY2019 projected deficit. These numbers are projections at this time and may vary significantly in future years.

Expenditure assumptions include the following:

- **School Budget** – Going forward, expenditures are capped at 3.5% for general education costs and 7% for special education costs.
- **Minuteman School** – In FY2014 the Town's assessment will increase by \$314,789 (10.42%) as a result of a decrease in regional enrollment which has increased Arlington's percentage of the school's total enrollment. Thereafter, increases are projected at 3.5%.
- **Municipal Departments** - Expenditures for municipal departments will increase by 3.34% in FY2014. In FY2014 and going forward, expenditures are capped at 3.5%.
- **Capital Budget** – Capital policies call for dedicating approximately 5% of net revenues to capital spending inclusive of non-exempt debt. Annual increases average approximately 3.5%.

**Exempt Debt** – This includes the actual cost of debt service for debt exclusion projects which include school projects and the Symmes project. The first full debt service payment for the Thompson School is included in the FY2014 budget. The Symmes debt service, at approximately \$300,000, is expected to be fully covered by Symmes property tax payments starting in FY2015.

**Non-Exempt Debt** – This debt will fluctuate over the next several years but will average approximately \$6 million per year. Some of the recent major projects covered by exempt debt include the Stratton School, Highland & Park Circle Fire Stations, and the Community Safety building.

**Cash** – In FY2014 \$1,450,700 in cash funded capital projects is included. This amount fluctuates in future years.

- **MWRA Debt Shift** – The amount has been level funded at \$5,593,112.
- **Pensions** – In FY2014 the pension appropriation will increase of 5.83%, and thereafter, increases 6% annually.
- **Insurance (including healthcare)** – Health care and insurance costs are expected to decrease by 2.42%. Actual employee premiums are projected to increase by 3.5%, but a \$300,000 reduction in the appropriation to the employee mitigation fund and a \$300,000 offset to the group insurance budget, which will enable the Town to increase the appropriation to the OPEB fund has resulted in an overall decrease of 2.42%. Without the reduction to the employee mitigation fund and the impact of the OPEB offset, insurance costs would increase by a modest 1.5%. Thereafter costs are projected to increase 7% per year.



- **State Assessments** – In FY2014, the MBTA assessment, which is the largest assessment, is projected to increase by \$29,453 (1%) and the Charter School Sending Tuition assessment is projected to increase by \$47,990 (24%) due to increased number of students attending charter schools. Overall, state assessments are projected to increase by 2.78%, and 2.50% annually thereafter.
- **Offset Aid** – These grants to schools and the library are decreased slightly in FY2014 based upon preliminary cherry sheets and thereafter held level.
- **Overlay Reserve** – This reserve for tax abatements is increased in revaluation years, which occur every three years. For the revaluation years FY2013 and FY2016, the reserve is increased to \$800,000. In non-revaluation years, FY2014 included, it is reduced to \$600,000.
- **Other** – This includes court judgments, deficits such as snow removal and Symmes property taxes reserved for Symmes debt. The estimate is \$700,000 for each year.
- **Warrant Articles** – Appropriations for miscellaneous warrant articles have been estimated at between \$650,000 and \$700,000 each year. In FY2014 however, the warrant article appropriation increases by \$254,945 (32.1%) for a total of \$1,049,213 as a result of increasing the appropriation to the OPEB fund by \$300,000.
- **Override Stabilization Fund** – Appropriations into the fund in FY2014 and FY2015 are projected at approximately \$6.1million, and \$2.2 million respectively. After FY2015 it is projected that draw downs from the fund will be necessary.



**Conclusion**

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

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

The document presented for your consideration is a product of a great deal of work. Our department heads, second to none in the Commonwealth in terms of professional competence and dedication to their tasks, provided invaluable input and assistance. Members of boards and commissions 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 my office staff, Michael Bouton, Eileen Messina, Domenic Lanzilliotti, and Joan Roman, who spent evenings and weekends assisting in the production of this document.

Respectfully submitted,

*Adam W. Chapdelaine*

Town Manager



### Long Range Financial Projection

	FY 2013	FY 2014	Dollar Change	Percent Change	FY 2015	FY 2016	FY 2017	FY 2018
<b>I REVENUE</b>								
A. State Aid	15,040,051	16,505,918	1,465,867	9.75%	16,665,927	16,827,536	16,990,761	17,155,618
School Construction Aid	2,474,796	2,474,773	(23)	0.00%	2,474,773	2,474,773	2,474,773	1,615,914
B. Local Receipts	8,455,000	8,505,000	50,000	0.59%	8,555,000	8,605,000	8,655,000	8,705,000
C. Free Cash/Muni Building Trust	1,570,000	3,411,528	1,841,528	117.29%	1,500,000	1,500,000	1,500,000	1,500,000
D. Overlay Reserve Surplus	200,000	100,000	(100,000)	-50.00%	200,000	200,000	200,000	200,000
E. Property Tax	98,009,381	101,039,058	3,029,677	3.09%	103,746,727	106,509,027	109,343,710	112,262,563
F. Override Stabilization Fund						529,607	2,907,855	6,083,233
<b>TOTAL REVENUES</b>	<b>125,749,228</b>	<b>132,036,277</b>	<b>6,287,049</b>	<b>5.00%</b>	<b>133,142,427</b>	<b>136,645,943</b>	<b>142,072,100</b>	<b>147,522,328</b>
<b>II APPROPRIATIONS</b>								
A. Operating Budgets								
School	45,612,598	47,675,113	2,062,515		49,844,818	52,127,914	54,530,992	57,061,056
General Education Costs	30,356,198	31,418,665	1,062,467	3.50%	32,518,318	33,656,459	34,834,436	36,053,641
Special Education Costs*	14,286,400	15,286,448	1,000,048	7.00%	16,356,500	17,501,455	18,726,557	20,037,415
Kindergarten Fee Offset	970,000	970,000	0	0.00%	970,000	970,000	970,000	970,000
<b>Net School Budget</b>	<b>45,612,598</b>	<b>47,675,113</b>	<b>2,062,515</b>	<b>4.52%</b>	<b>49,844,818</b>	<b>52,127,914</b>	<b>54,530,992</b>	<b>57,061,056</b>
Minuteman	3,022,146	3,336,935	314,789	10.42%	3,453,728	3,574,608	3,699,719	3,829,210
Town								
Personnel Services	22,935,142	23,064,316	129,174	0.56%	24,000,133	25,140,194	26,321,907	27,546,729
Expenses	9,210,916	9,951,601	740,685	8.04%	10,001,601	10,051,601	10,101,601	10,151,601
<b>Less Offsets:</b>								
Enterprise Fund/Other	1,688,999	1,791,215	102,216	6.05%	1,853,908	1,918,794	1,985,952	2,055,460
Tip Fee Stabilization Fund	400,000	164,000	(236,000)	-59%	0	0	0	0
<b>Net Town Budget</b>	<b>30,057,059</b>	<b>31,060,702</b>	<b>1,003,643</b>	<b>3.34%</b>	<b>32,147,827</b>	<b>33,273,000</b>	<b>34,437,556</b>	<b>35,642,870</b>
MWRA Debt Shift	5,593,112	5,593,112	0	0.00%	5,593,112	5,593,112	5,593,112	5,593,112
B. Capital budget								
Exempt Debt Service	2,800,366	3,018,625	218,259	7.79%	2,935,213	2,816,405	2,708,203	2,610,621
Non-Exempt Service	5,184,894	5,747,610	562,716	10.85%	5,817,502	6,187,350	6,402,112	6,261,419
Cash	1,462,356	1,450,700	(11,656)	-0.80%	1,330,450	1,322,256	1,337,025	1,230,863
Minus Capital Carry Forward	(103,796)	(385,625)	(281,829)	271.52%	(180,600)	(130,600)	(130,600)	(130,600)
<b>Total Capital</b>	<b>9,343,820</b>	<b>9,831,310</b>	<b>487,490</b>	<b>5.22%</b>	<b>9,902,565</b>	<b>10,195,411</b>	<b>10,316,740</b>	<b>9,972,303</b>
C. Pensions	7,710,766	8,160,032	449,267	5.83%	8,649,634	9,168,612	9,718,729	10,301,852
D. Insurance	15,105,214	14,739,366	(365,848)	-2.42%	15,771,122	16,875,100	18,056,357	19,320,302
E. State Assessments	2,989,683	3,072,843	83,160	2.78%	3,149,664	3,228,406	3,309,116	3,391,844
F. Offset Aid - Library & School	61,138	60,566	(572)	-0.94%	60,566	60,566	60,566	60,566
G. Overlay Reserve	1,454,204	600,000	(854,204)	-58.74%	600,000	800,000	600,000	600,000
H. Other	125,863	700,000	574,137	456.16%	700,000	700,000	700,000	700,000
I. Warrant Articles	794,269	1,049,213	254,945	32.10%	1,049,213	1,049,213	1,049,213	1,049,213
J. Override Stabilization Fund	3,879,357	6,157,085			2,220,179			
<b>K. TOTAL APPROPRIATIONS</b>	<b>125,749,228</b>	<b>132,036,277</b>	<b>6,287,049</b>	<b>5.00%</b>	<b>133,142,427</b>	<b>136,645,943</b>	<b>142,072,100</b>	<b>147,522,328</b>
<b>BALANCE</b>	<b>0</b>	<b>0</b>			<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>



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