



Town of Arlington • Office of the Town Manager

Adam W. Chapdelaine, Town Manager

January 15, 2016

To: The Honorable Board of Selectmen and Finance Committee

I hereby transmit to you the recommended FY2017 operating and capital budgets and the FY2017-2021 capital plan. The budget as proposed totals \$146,541,798 which is an increase of \$4,177,173 (2.9%) from the current budget. However, if the amount contributed to the Override Stabilization Fund is excluded, the proposed budget is an increase of \$4,876,713 (3.5%) from the current budget. A summary showing a comparison of the FY2016 and FY2017 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.

FY2016, the current fiscal year, is the second 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 State 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, the Group Insurance Commission (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 (LRPC) 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 (LRP) and thereby forestall the next

time an operating override would need to be considered. These discussions resulted in a number of recommendations being adopted for the FY 2016 budget based upon the following 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 LRP were adopted:

- Health insurance premium growth was projected at 5.25% annually, mirroring the 10 year average premium growth of the GIC.
- Free Cash was assumed to be certified each year at the 10-year average certified amount.
- The rate of growth in annual pension costs has been reduced from 6% to 5.5%.
- Annual budget growth for Town Departments was set at 3.25% for FY2016, and reduced to 3% for FY2017 and beyond.
- Annual budget growth for the general education portion of the School Department budget was maintained at 3.5% for FY2016, reduced to 3.25% for FY2017, and then reduced to 3% for FY2018 and beyond.

Beginning in the fall of 2015, the LRPC once again met to discuss the future of Town and School budgets. This discussion focused on the needs of the School Department and addressed the financial pressures caused by continued increases in enrollment, and further pressures from state imposed performance mandates. In acknowledgement of these needs, but also remaining aware of the need to adhere to the principles outlined above, this budget recommendation proposes a significant funding increase for the School Department in FY2017.

Continuing to Meet the Needs of a Growing School Population

In FY2015, the LRPC acknowledged that unanticipated growth in school enrollment had prompted the need to provide a funding allowance in recognition of the added resources necessary to educate a growing student population. At that time, the LRPC moved to increase school funding on an annual basis via a formula that provided 25% of the prior year's per pupil cost (PPC) as determined by the State's Department of Elementary and Secondary Education (DESE) multiplied by enrollment growth as reported on October 1st of each year. This resulted in additional increases of \$885,150 and \$530,069 in FY2015 and FY2016 respectively.

In the fall of 2015, the School Department expressed concern that 25% of PPC was not adequate to meet the needs of the district. In response to this concern, this budget proposes to increase the formula to represent 35% of PPC and for FY2017 look back to the previous

fiscal years that received 25% of PPC and bridge the gap between the funding amounts. This budget also recommends altering last year's recommendation to reduce the rate at which general education costs can grow, and maintain the previously utilized growth rate of 3.5%. Based on this, the budget recommendation is as follows:

	FY 2016	FY 2017	\$ Increase	% Increase
General Education Costs	\$ 34,572,590	\$ 36,331,252	\$ 1,758,662	5.09%
Special Education Costs	\$ 17,501,455	\$ 18,726,557	\$ 1,225,102	7.00%
Kindergarten Fee Offset	\$ 970,000	\$ 970,000	\$ -	0.00%
Growth Factor	\$ 530,069	\$ 973,524	\$ 443,455	83.66%
TOTAL SCHOOL BUDGET	\$ 53,574,114	\$ 57,001,333	\$ 3,427,219	6.40%

Growth Factor Breakdown	
FY 16 Enrollment Growth	84
DESE PPC for Arlington	\$ 13,085
35% of PPC for Arlington	\$ 4,579.75
Growth Factor (35% PPC x 84)	\$ 384,699
FY13 - FY15 Enrollment Growth	450
10% of PPC for Arlington	\$ 1,308.50
Gap Funding	\$ 588,825
Total FY 17 Growth Factor	\$ 973,524

In addition to this significant increase, this budget recommendation further proposes that any increase in Chapter 70 aid above what is currently estimated (\$126,000) be provided to the School Department. Standing alone, this budget recommendation provides a significant funding increase for the School Department, a 6.4% increase in an environment where property tax revenues are capped at an increase of 2.5%. With the addition of any not currently projected Chapter 70 aid, this recommendation holds the potential to provide a near historic funding increase to the School Department. Additionally, this proposal adds \$2.8 million in new school funding from FY2017 to FY2021 as compared to last year's Long Range Plan.

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 \$11.2 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	
	FY2016	FY2017	\$	%
Revenue				
Property Tax	\$ 108,977,901	\$ 111,932,682	\$ 2,954,781	2.7%
Local Receipts	\$ 8,896,000	\$ 8,971,000	\$ 75,000	0.8%
State Aid	\$ 18,230,105	\$ 18,426,043	\$ 195,938	1.1%
School Construction Aid	\$ 2,474,773	\$ 2,474,773	\$ -	0.0%
Free Cash	\$ 3,435,846	\$ 4,537,299	\$ 1,101,453	32.1%
Other Funds	\$ 350,000	\$ 200,000	\$ (150,000)	-42.9%
TOTAL REVENUES	\$ 142,364,625	\$ 146,541,798	\$ 4,177,173	2.9%
Expenditures				
Municipal Departments	\$ 32,376,144	\$ 33,325,405	\$ 949,261	2.9%
School Department	\$ 53,574,114	\$ 57,001,333	\$ 3,427,219	6.4%
Minuteman School	\$ 4,010,950	\$ 3,551,169	\$ (459,781)	-11.5%
Non-Departmental (Healthcare & Pensions)	\$ 25,499,823	\$ 26,573,343	\$ 1,073,520	4.2%
Capital (Includes Debt Service)	\$ 10,231,100	\$ 11,056,883	\$ 825,783	8.1%
MWRA Debt Shift	\$ 5,593,112	\$ 5,593,112	\$ -	0.0%
Warrant Articles	\$ 937,685	\$ 801,299	\$ (136,387)	-14.5%
Reserve Fund & Elections	\$ 1,287,760	\$ 1,422,610	\$ 134,849	10.5%
Override Stabilization Fund Deposit	\$ 2,782,763	\$ 2,093,085	\$ (689,679)	-24.8%
TOTAL EXPENDITURES	\$ 136,293,452	\$ 141,418,238	\$ 5,124,786	3.8%
Non-Appropriated Expenses	\$ 6,071,173	\$ 5,123,560	\$ (947,613)	-15.6%
Surplus / (Deficit)	\$ 0	\$ 0	\$ 0	0.0%

Departmental Budgets

Departmental operating budgets have been held to a 2.93% increase in accordance with the Long Range Plan. With respect to personnel costs, all collective bargaining units are under agreement (AFSCME agreement to be considered by Town Meeting on January 25th) through FY2018. Two full time positions have been added to the budget, and several part time positions have been incrementally increased, resulting in a net increase of four positions from FY2016 (see personnel chart on page 7). Some of the more significant budget changes include:

Assessors': +\$17,609

The expense budget for the Assessors' Office contains a funding increase (\$6,448) to fully fund the contract cost for the office's software package, Patriot Properties. The departmental budget also contains an \$11,161 increase in personnel costs associated with changes to the pay and classification plan.

Public Works: +\$305,149

The Public Works budget will see an overall increase this year, based on an increase (\$100,000) in the contracted services line item of the Natural Resources Division aimed at aiding the department to reduce a backlog of tree work requested by Town residents. The FY2017 budget also includes a \$75,000 increase in the Snow and Ice budget. The remainder of the increase is attributable to changes in the pay and classification plan and incremental increases in various expense line items.

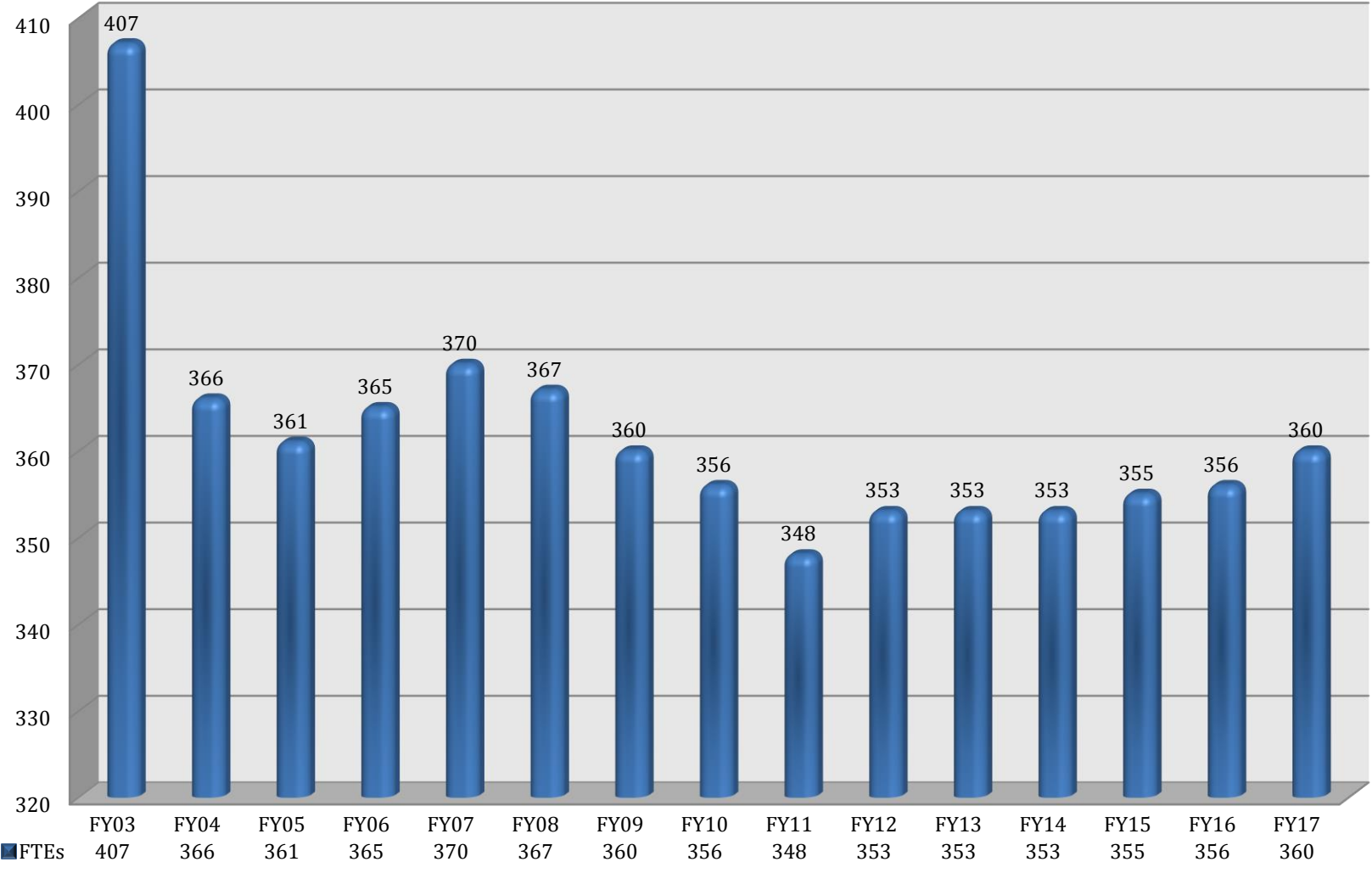
Facilities: +\$177,787

The FY2016 budget created a joint Town/School Facilities Department. The FY2017 budget begins to reallocate previously departmental maintenance personnel and expense budgets under the management of the Facilities Department and also fund certain expenses not previously funded. The result of this effort is a cumulative increase of \$43,374 in the Facilities expense budget that is offset by corresponding reductions in the Library and Rental Properties (Gibbs) budgets. The Facilities personnel budget is proposed to increase by \$134,313, as a result of the transfer of two custodial positions (Library & Police) to the Facilities Department and the addition of a departmental Administrative Assistant that is 50% funded by the School Department.

Police: +278,835

The Police Department budget is proposed to increase by \$278,835 for FY2017. This increase is driven by the addition of two police officers to the department's staffing. These officers are being added to allow for the creation of a dedicated traffic unit. The remainder of the increase is attributable to changes in the pay and classification plan and incremental increases in various expense line items.

Town Personnel Trends FY 2003 - FY2017 FTEs



Healthcare/Other Post-Employment Benefits (OPEB)

The cost of healthcare premiums is assumed to increase by 5.25% in the FY2017 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 FY2017 rates on March 1st. At that time, adjustments can be made to the healthcare budget accordingly.

In FY2017, 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 \$2,800,000. The FY2017 recommendation to fund OPEB with \$300,000 from the Health Claims Trust Fund is the fourth year in what is a recommendation to adopt this practice for the next ten years or until the Health Claims Trust Fund is exhausted. This \$300,000 contribution is in addition to the \$568,000 amount otherwise earmarked for appropriation into the OPEB Trust Fund, bringing the total proposed appropriation for FY2017 to \$868,000. 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

Two years ago, 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 release of Open Checkbook.

In 2015, multiple IT Strategic Plan projects were completed or brought very near to completion. Inspectional Services received custom development support for their permit tracking system. The Police Department received support in identifying and implementing Coplogic, a system for reporting minor crimes online. The IT Department is nearing completion of three projects that improve the overall health and speed of the Town's network, through hardware upgrades and reconfiguration, as well as installation of wireless internet access in town buildings. The IT Department is also developing a new IT request portal for staff and Human Resources received development support for an online job application portal. Both are expected to be launched in spring 2016.

Additionally, two long term projects kicked off in 2015. The Town began their effort to replace the Town's cash management and billing system and implement a new accounts receivable system. These projects will help modernize the architecture upon which the Town finances are managed and allow for improved resident services related to billing.

In FY2017 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.

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 is 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 four grant awards over the past four years, totaling \$938,000. The most recent grant award of \$240,000 came in 2015 and provided funding for numerous efficiency upgrades at various elementary schools, the Ottoson Middle School and Arlington High School. Also, this past year, the Town installed solar photovoltaic panels on six school roofs via a power purchase agreement with Ameresco. This installation, which has recently been completed, is estimated to produce 850,000 kWh in its first year of operation. Over the course of the 20 year agreement, the Town estimates a costs savings of approximately \$2,000,000. Further, the Town has recently completed the renovation of the Central Fire Station, which is expected to earn LEED Gold certification. Looking forward, the Town will continue to focus energy efficiency efforts and also begin to focus discussion on issues regarding climate change preparedness.

Collective Bargaining and Employee Relations

All Town and School employee unions have agreed to contracts through FY2018, with the AFSCME contract set to be considered for approval by Town Meeting on January 25th. This latest round of bargaining was guided by the recently completed Comparative Compensation Study.

State Aid

State aid is projected to increase by \$195,938 or 1.07% in FY2017. This projected increase is due to an assumption that the enrollment growth of 84 students in FY2016 will result in an increase in Chapter 70 funding of \$126,000. The remaining increase of \$69,938 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 January 27th, 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, the 2011 override funds are projected 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 FY2017 funding for the capital budget is as follows:

Bonding: \$10,377,229

Cash: \$1,977,625

Other: \$3,365,000

Our existing non-exempt debt is \$6,865,932 which is consistent with prior debt service projections for FY2017. The total capital budget for FY2017, including debt, is estimated at \$11 million. Major projects to be funded in FY2017 include: Stratton School building improvements, which has been budgeted for approximately \$12.8 million, the architectural design work for the Department of Public Works Facility, which has been budgeted at \$1 million, street and sidewalk work for approximately \$2.2 million, and water and sewer work for \$2.3 million. The capital budget also proposes \$1,200,000 for a new ladder truck for the Fire Department and \$131,000 for police cruiser replacement

Another significant project included within the five year capital plan is the renovation of the Public Works building. The current site and building conditions are poor and will need to be renovated to keep up with state and federal regulations. Site improvements and construction are programmed for FY2020, projected at a cost of \$10 million. The architectural design phase of the project is \$1 million and has been programmed for FY2017.

This fall, the Capital Planning Committee continued to consider the impact of the Community Preservation Act (CPA) funding on projects that have historically been funded through the capital budget, but could be eligible for CPA funding this fiscal year and beyond. The Committee has included the Robbins Farm project in the FY2017 capital budget but has recommended it for CPA funding. The Community Preservation Committee was formed this fall and is going through the beginning stages of setting up a formal process to review projects and make recommendations for CPA funding.

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. I especially want to express my gratitude to Treasurer/Collector Stephen Gilligan for agreeing to restructure his office staffing in order to provide the financial flexibility that was necessary to fund the addition of two new police officers.

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 Richard Viscay, Comptroller and Amy Fidalgo, Administrative Aide to the Planning Department for stepping up while the Deputy Town Manager position was vacant to create this budget document. They deserve special recognition 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 managed the Capital Budget and Plan as included in this budget submission. All three of these valuable team members spent evenings and weekends assisting in the production of this document.

Respectfully submitted,



Town Manager