



A Resident's Guide to the Budget

Welcome! 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 and Finance Committee. 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. The Finance Committee reviews the Annual Budget January through April when the Committee submits its recommendations to Town Meeting. Town Meeting then adopts both the operating and capital budgets in May. During the fiscal year, budgetary transfers may be made with the approval of both the Board of Selectmen and the Finance Committee. Amendments to appropriations must be made by Town Meeting.

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 at the end of this document.

For past budgets and plans, plus additional financial documents please visit arlingtonma.gov/financial.

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

FY2016 Average Single Family Tax Rate: \$12.80 per \$1,000

FY2016 Ave. Single Family Home Value: \$585,361

Coordinates: 42°24'55"N 71°09'25"W

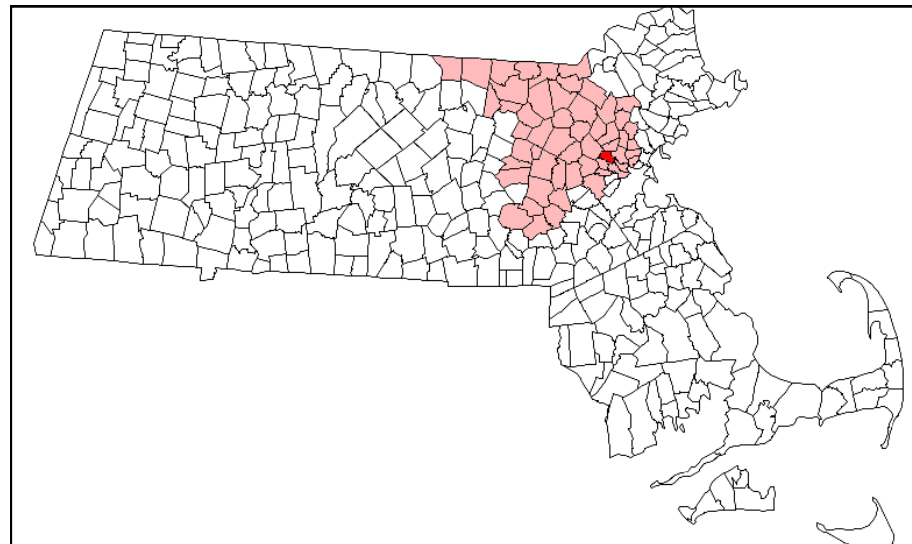
Address:

Arlington Town Hall
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 Arlington, MA 02476
 Phone: (781) 316-3000
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.





GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished
Budget Presentation
Award*

PRESENTED TO

**Town of Arlington
Massachusetts**

For the Fiscal Year Beginning

July 1, 2015

A handwritten signature in black ink, appearing to read "Jeffrey R. Egan".

Executive Director



Fiscal Year 2017 Annual Budget & Financial Plan Budget Message

April 1, 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 \$146,749,254 which is an increase of \$4,384,629 (3.1%) from the current budget. However, if the amount contributed to the Override Stabilization Fund is excluded, the proposed budget is an increase of \$4,775,499 (3.4%) from the current budget. A summary showing a comparison of the FY 2015, FY2016 and FY2017 revenues and expenditures is shown on page 8. 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 3.24% 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 FY2018 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 balanced 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 to 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%. It also recommends maintaining the growth rate for Town budgets at 3.25% for FY2017. 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

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%. 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 \$8 million. The Town's structural deficit is discussed in greater detail on page 18 and the Town's Long Range Plan can be viewed on page 25.



Overall General Fund Budget Summary

	FY2015 Budget	FY2016 Budget	FY2017 Budget	Change \$	%
Revenue					
Property Tax	\$ 105,285,021	\$ 108,977,901	\$ 111,926,606	\$ 2,948,705	2.7%
Local Receipts	\$ 8,540,842	\$ 8,896,000	\$ 8,971,000	\$ 75,000	0.8%
State Aid	\$ 17,462,884	\$ 18,230,105	\$ 18,639,576	\$ 409,471	2.2%
School Construction Aid	\$ 2,906,266	\$ 2,474,773	\$ 2,474,773	\$ -	0.0%
Free Cash	\$ 3,042,925	\$ 3,435,846	\$ 4,537,299	\$ 1,101,453	32.1%
Other Funds	\$ 350,000	\$ 350,000	\$ 200,000	\$ (150,000)	-42.9%
TOTAL REVENUES	\$ 137,587,937	\$ 142,364,625	\$ 146,749,254	\$ 4,384,629	3.1%
Expenditures					
Municipal Departments	\$ 31,392,491	\$ 32,376,144	\$ 33,425,116	\$ 1,048,972	3.24%
School Department	\$ 50,729,968	\$ 53,574,114	\$ 57,001,333	\$ 3,427,219	6.4%
Minuteman School	\$ 3,788,615	\$ 4,010,950	\$ 3,649,349	\$ (361,601)	-9.0%
Non-Departmental (Healthcare & Pensions)	\$ 24,050,099	\$ 25,499,823	\$ 26,562,327	\$ 1,062,504	4.2%
Capital (Includes Debt Service)	\$ 9,918,358	\$ 10,231,100	\$ 11,192,534	\$ 961,434	9.4%
MWRA Debt Shift	\$ 5,593,112	\$ 5,593,112	\$ 5,593,112	\$ -	0.0%
Warrant Articles	\$ 805,433	\$ 937,685	\$ 811,299	\$ (126,386)	-13.5%
Fixed Costs- Reserve Fund & Elections	\$ 1,131,005	\$ 1,287,760	\$ 1,585,257	\$ 297,497	23.1%
Override Stabilization Fund Deposit	\$ 4,310,362	\$ 2,782,763	\$ 2,391,893	\$ (390,870)	-14.0%
TOTAL EXPENDITURES	\$ 131,719,443	\$ 136,293,451	\$ 142,212,220	\$ 5,918,768	4.3%
Non-Appropriated Expenses	\$ 5,868,494	\$ 6,071,173	\$ 4,537,034	\$ (1,534,139)	-25.3%
Surplus / (Deficit)	\$ 0	\$ 0	\$ 0	\$ 0	0.0%



Departmental Budgets

Departmental operating budgets have been held to a 3.24% increase in accordance with the Long Range Plan. With respect to personnel costs, all collective bargaining units are under agreement through FY2018. Three full time positions have been added to the budget, and several part time positions have been incrementally increased, resulting in a net increase of five positions from FY2016 (see personnel chart on page 10). Some of the more significant budget changes include:

Town Manager: +\$145,513

The Town Manager's budget is proposed to increase by \$145,513 in FY2017 primarily due to the addition of an Assistant Town Manager position. This position will be focused on project management, customer service, and departmental operations.

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

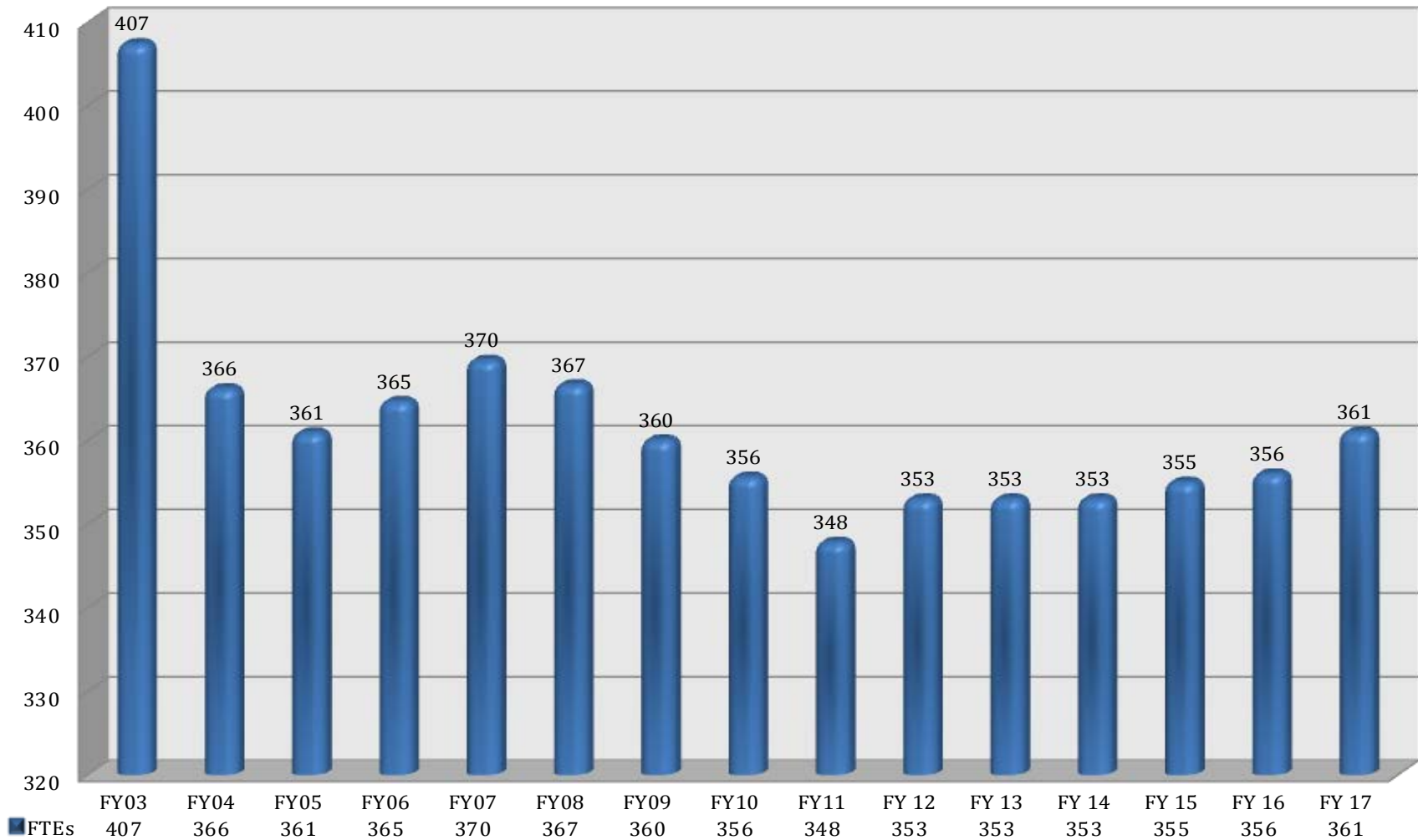
The FY2016 budget created a joint Town/School Facilities Department. The FY2017 budget begins to reallocate previously departmental maintenance personnel and expense budgets under the management of the Facilities Department and also fund certain expenses not previously funded. The result of this effort 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 actual cost of healthcare premiums is increasing by 4.3% in the FY2017 budget. This is lower than the 5.25% amount projected within the Long Range Plan, and also lower than the prior benchmark of 7%. The total health insurance cost is also based upon 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.

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 OPEB Liability	Accumulated Assets Towards the Liability	Total Unfunded Liability
\$81,800,000	43%	\$116,000,000	61%	\$197,800,000	\$7,000,000	\$190,800,000

Cost Savings/Performance Strategies/Investment in Technology

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.



Cost Savings/Performance Strategies/Investment in Technology (continued)

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.

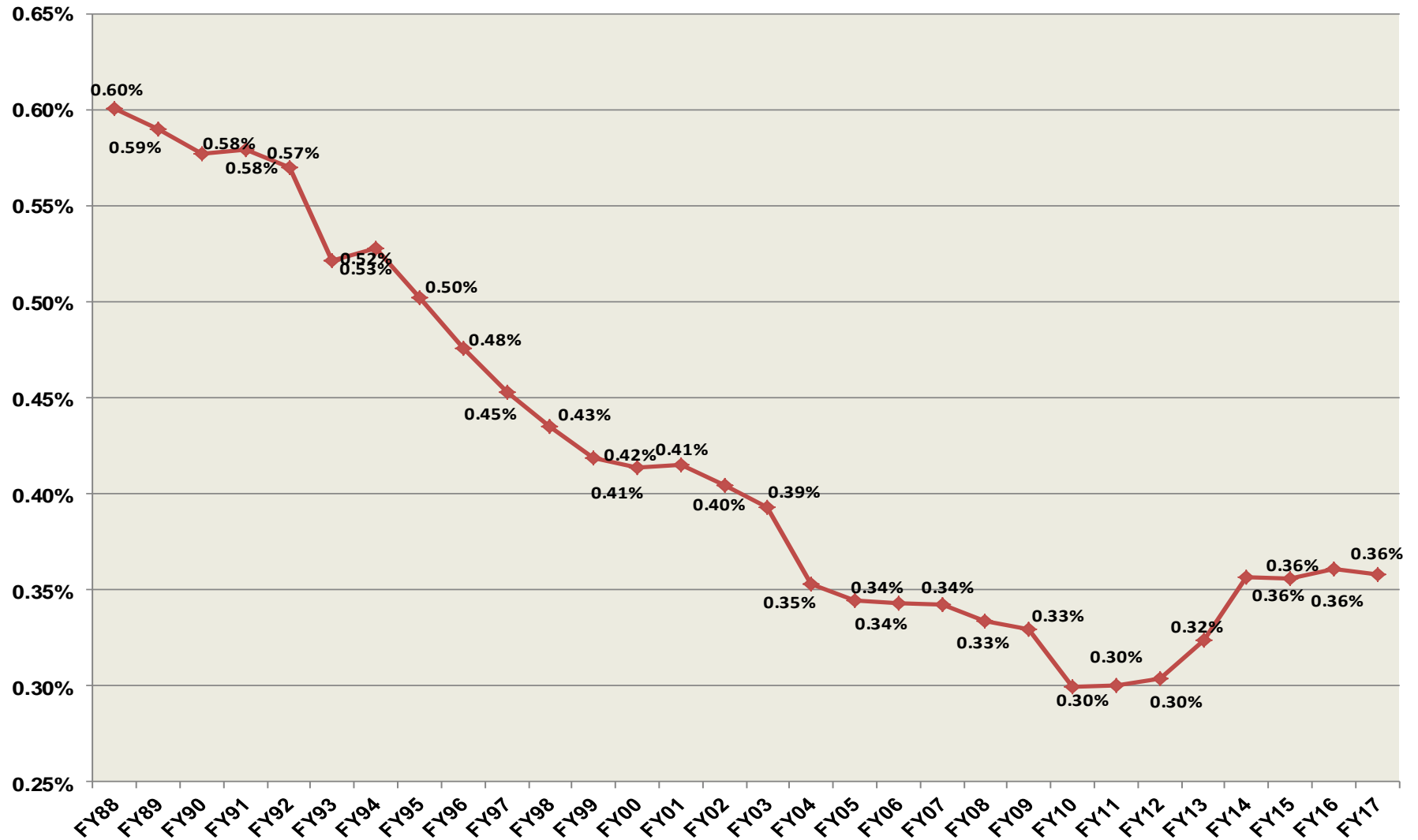
In FY2017 and beyond, the Town will also remain committed to finding other means of reducing costs which may include, but will not be limited to, regionalization of services.

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 has earned 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.



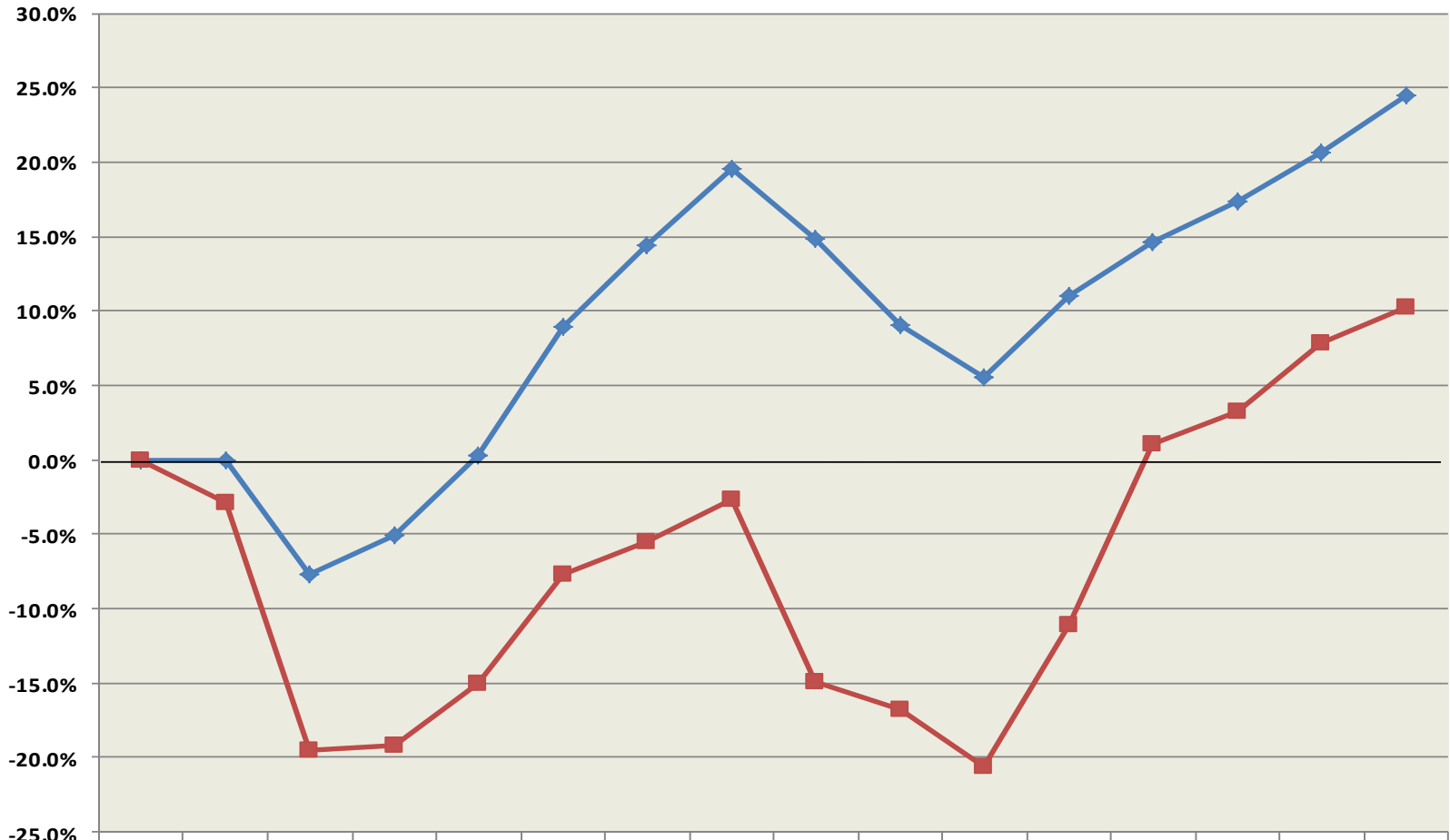
Arlington's Percent of Total State Aid





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%	11.0%	14.7%	17.4%	20.7%	24.5%
■ Arlington	0.0%	-2.9%	-19.5%	-19.2%	-15.0%	-7.7%	-5.5%	-2.6%	-14.9%	-16.8%	-20.6%	-11.0%	1.1%	3.3%	7.8%	10.2%



Comparative Data

The FY2017 Annual Budget & Financial Plan includes a 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 5 among a group of 13 comparable communities (see Table 3), which is higher than last year, yet remains under 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 twelve other comparable communities' MRGF is 4.09 and 4.07 respectively. Arlington's is 3.89, which is below the state average and ranks near the middle of the comparable communities.

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 slightly more than 6% of the total. Table 5 shows that Arlington's commercial/industrial tax base ranks 11th out of 13 comparable communities. The average of these communities is 15.94%, more than two times 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 11th in taxes per household as a percent of median household income (Table 7). This is despite the fact that Arlington's tax levy includes more than \$5 million in MWRA water and sewer debt.

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 11th out of 13 comparable communities in overall expenditures per capita (see Table 8). The spending average of the other comparable communities is approximately 15% greater than Arlington.

With spending below average for comparable communities, and with revenue growth opportunities below the statewide and comparable communities average, 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 modest 10.2% increase 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 '13-'15	Municipality	FY2016 Municipal Revenue Growth Factor
1 BROOKLINE	8,708	1 BROOKLINE	3,890	1 NEEDHAM	3.30	1 NEEDHAM	5.51
2 ARLINGTON	8,500	2 ARLINGTON	3,747	2 WATERTOWN	2.50	2 WATERTOWN	4.69
3 WATERTOWN	8,028	3 WATERTOWN	3,652	3 NATICK	1.90	3 READING	4.58
4 MEDFORD	7,023	4 MEDFORD	2,787	4 READING	1.65	4 NATICK	4.58
5 MELROSE	5,904	5 MELROSE	2,398	5 ARLINGTON	1.41	5 WINCHESTER	4.07
6 BELMONT	5,436	6 BELMONT	2,142	6 NORTH ANDOVER	1.39	6 MILTON	4.01
7 WINCHESTER	3,655	7 STONEHAM	1,510	7 WINCHESTER	1.32	7 ARLINGTON	3.89
8 STONEHAM	3,534	8 WINCHESTER	1,309	8 BROOKLINE	1.26	8 BELMONT	3.88
9 READING	2,551	9 READING	889	9 BELMONT	1.17	9 NORTH ANDOVER	3.82
10 NEEDHAM	2,358	10 NATICK	886	10 MELROSE	1.10	10 BROOKLINE	3.71
11 NATICK	2,335	11 NEEDHAM	860	11 MEDFORD	0.92	11 STONEHAM	3.54
12 MILTON	2,091	12 MILTON	703	12 STONEHAM	0.87	12 MEDFORD	3.52
13 NORTH ANDOVER	1,096	13 NORTH ANDOVER	373	13 MILTON	0.69	13 MELROSE	2.92
Ave w/o Arlington	4,393	Ave w/o Arlington	1,783	Ave w/o Arlington	1.51	Ave w/o Arlington	4.07
Arlington	8,500	Arlington	3,747	Arlington	1.41	Arlington	3.89
				State-Wide Ave	1.77	State-Wide Ave	4.09



Table 5		Table 6		Table 7		Table 8	
Municipality	FY2016 Commercial/Industrial/Personal % of Total Tax Levy	Municipality	FY2016 Taxes Per Cap	Municipality	FY2016 Taxes/ Household as % of 09-13 median income	Municipality	FY2014 Total Exp Per Cap
1 WATERTOWN	33.02%	1 NEEDHAM	\$4,012	1 NEEDHAM	8.4%	1 NEEDHAM	\$4,068
2 NEEDHAM	24.62%	2 WINCHESTER	\$3,478	2 BROOKLINE	7.6%	2 WINCHESTER	\$3,910
3 NATICK	22.37%	3 BROOKLINE	\$3,299	3 NATICK	7.4%	3 BROOKLINE	\$3,583
4 MEDFORD	21.05%	4 BELMONT	\$3,272	4 BELMONT	7.4%	4 NATICK	\$3,392
5 STONEHAM	17.52%	5 NATICK	\$2,835	5 WINCHESTER	7.3%	5 BELMONT	\$3,093
6 BROOKLINE	17.15%	6 WATERTOWN	\$2,759	6 WATERTOWN	6.7%	6 READING	\$3,083
7 NORTH ANDOVER	17.12%	7 MILTON	\$2,610	7 MILTON	6.6%	7 WATERTOWN	\$3,028
8 READING	8.25%	8 ARLINGTON	\$2,475	8 STONEHAM	6.4%	8 STONEHAM	\$2,722
9 MELROSE	8.21%	9 READING	\$2,467	9 NORTH ANDOVER	6.4%	9 MILTON	\$2,698
10 MILTON	6.19%	10 NORTH ANDOVER	\$2,297	10 READING	6.2%	10 MELROSE	\$2,686
11 ARLINGTON	6.01%	11 STONEHAM	\$2,116	11 ARLINGTON	6.1%	11 ARLINGTON	\$2,661
12 BELMONT	5.26%	12 MELROSE	\$1,929	12 MEDFORD	5.7%	12 NORTH ANDOVER	\$2,452
13 WINCHESTER	4.51%	13 MEDFORD	\$1,764	13 MELROSE	5.3%	13 MEDFORD	\$2,281
Ave w/o Arlington	15.94%	Ave w/o Arlington	\$2,736	Ave w/o Arlington	6.8%	Ave w/o Arlington	\$3,083
Arlington	6.01%	Arlington	\$2,475	Arlington	6.1%	Arlington	\$2,661



Collective Bargaining and Employee Relations

All Town and School employee unions have agreed to contracts through FY2018. This latest round of bargaining was guided by the recently completed Comparative Compensation Study.

State Aid

State aid is projected to increase by \$409,471 or 2.2% in FY2017. This projected increase is based on the Governor's budget which was released on January 27th. This increase includes a 4.2% increase in Unrestricted General Government Aid, representing \$300,732 and a also a 1% increase in Chapter 70 funding, representing \$108,040.

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 25.

It is also important to note the financial liabilities associated with the reconstruction/renovation of Arlington High School, the proposed expansion/renovation of space to accommodate elementary and middle school enrollment growth, and the proposed building project at Minute-man 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:	\$11,150,000
Cash:	\$2,469,625
Other:	\$3,330,000

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 \$11.1 million. Major projects to be funded in FY2017 include: Stratton School building improvements, which has been budgeted for approximately \$15.7 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 in FY2017 and beyond. The Community Preservation Committee was formed this fall and has gone through the beginning stages of setting up a formal process to review projects and make recommendations for CPA funding to Town Meeting this Spring.

The Capital Planning Committee also focuses on funding capital improvements and acquisitions that can lead to more efficient departmental operations and thereby lead to corresponding savings in the operating budget. The primary area for this investment is in sustainable building practices and fuel efficient automobile purchases. The recently renovated Fire Department Headquarters has been certified as LEED Gold, and the Police Department is purchasing hybrid vehicles for all non-emergency response vehicles. Both of these initiatives will provide operating budget savings through reduced utility and fuel costs.



Five Year Financial Plan 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 25. 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 3.08% in FY2017. Future year increases range from -0.86% to 4.14%, which occurs in FY2020 depending on the reliance on funds from the Override Stabilization Fund. In FY2021, revenue is projected to decrease by 2.68%. This is a result of projecting to have insufficient revenues in FY2021. It is anticipated that an operating override will be considered at this time.
- **Tax Levy** – The FY2017 tax levy is projected to increase by approximately 2.71%. Future year increases are projected to be between approximately 2.66% and 2.85% 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 \$900,000 to \$1,000,000 each year. Beginning in FY2015 property tax payments from Symmes fully covered the Symmes debt and therefore, no funds are needed to be raised on the tax rate to offset Symmes debt service.
- **State Aid** – Based on the Governor's budget, state aid is projected to increase 2.25%. This increase is inclusive of a 1%, or a \$108,040 increase in Chapter 70 funding and a 4.2% or \$300,732 increase in Unrestricted General Government Aid. In out years, increases are projected between 1% and 2% depending on projected school enrollment growth.
- **School Construction Reimbursement** - MSBA reimbursements are projected to remain level \$2,474,773 for FY2017. School construction reimbursements will decrease to \$1,615,914 in FY2018 which will reflect the last reimbursement for the Ottoson School construction project and will decrease further to \$476,523 in FY2019, which is reflective of the reimbursement only for the Peirce Elementary School. FY2021 will be the last year of the Peirce reimbursement.
- **Local Receipts** – Local Receipts are estimated to increase by \$75,000 in FY2017 due to projected increases in Motor Vehicle Excise tax collections. It is anticipated that Local Receipts will continue to grow by \$75,000 increments thereafter.



Free Cash – In FY2017, \$4,537,299 is proposed to be appropriated, which is 50% of the Town's available free cash balance. For FY2018 and in each subsequent year, \$2,264,103 is proposed to be appropriated. This is reflective of 50% of the ten year average.

- **Other Available Funds** – A transfer of \$200,000 from surplus tax abatement overlay reserve funds is projected in FY2017. 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 six years of the override (FY2012-2017) funds will be deposited into the Fund, resulting in an balance of approximately \$23.1 million. In FY2018, a drawdown of \$2,817,299 will be required to balance the budget. In FY2019 a drawdown of \$6.4 million will be needed to close the budget gap leaving approximately \$13.9 million in the Fund to apply to a budget gap of approximately \$9.3 million in FY2020 (the ninth year of the override) and \$12.6 million in FY2021. This will leave an approximate balance of \$4.6 million which will offset the shortfall in FY2021. The remaining projected deficit in FY2021 is \$7.9 million. It is important to note that these numbers are projections at this time and may vary significantly in future years.

Expenditure assumptions include the following:

- **School Budget** – In FY2017 expenditures are capped at 3.5% for general education costs and 7% for special education costs. However, the FY2015 School Budget includes a growth factor that is aimed to offset the expenses attributable to enrollment growth for the previous years. In future years, the growth factor is included in the following year's general education budget which results in increases ranging from 5.29% to 6.17%. The growth factor is explained in greater detail earlier in the Town Manager's Budget Message.
- **Minuteman School** – In FY2017 the Town's assessment will decrease by \$361,601 (-9.02%). Thereafter, increases are projected at 3.5%.
- **Municipal Departments** - Expenditures for municipal departments will increase by 3.24% in FY2017. In FY2018 and going forward, expenditures are capped at 3%.



- **Capital Budget** – Capital policies call for dedicating approximately 5% of net revenues to capital spending inclusive of non-exempt debt. The Capital Budget fluctuates in future years due to the retirement of exempt debt.
 - **Exempt Debt** – This includes the actual cost of debt service for debt exclusion projects which include all of the school projects, except the Ottoson. Exempt debt is projected to decrease in each year, with significant decreases in FY2019 and FY2022 as debt associated with the school projects is retired. Not included in the exempt debt projections is the use of excluded debt from the 2000 Debt Exclusion that may be utilized to offset the costs associated with the renovation of the Stratton Elementary School.
 - **Non-Exempt Debt** – This debt will fluctuate over the next several years but will average approximately \$7 million per year. Some of the recent major projects funded by non-exempt debt include the Highland & Central Fire Stations and the Community Safety building.
 - **Cash** – In FY2017 \$2,469,625 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 FY2017 the pension appropriation will increase 5.49% and thereafter, increases 5.5% annually.
- **Insurance (including healthcare)** – Health care and insurance costs are expected to increase by 3.43%. Actual employee premiums (GIC rates) increases varied based on the sixteen different plans offered by the GIC. The overall health insurance rate increase for Arlington is projected to be 4.3%. In outgoing years costs are projected to increase from 5.72% to 6.26% per year depending on the continuance of enrollment growth in the school department.
- **State Assessments** – In FY2017, the MBTA assessment, which is the largest assessment, is projected to increase by \$28,113 (0.9%). Overall, state assessments are projected to decrease by .30%, and increase by 2.50% annually thereafter.
- **Offset Aid** – Assistance to Libraries is expected to increase slightly in FY2017.
- **Overlay Reserve** – This reserve for tax abatements is increased in revaluation years, which occur every three years. For the revaluation years FY2019 and FY2022, the reserve is increased to \$800,000. In non-revaluation years it is reduced to \$600,000.



- **Fixed Costs** – Fixed costs include the Elections budget and the Operating Reserve Fund. In FY2017 and in each year thereafter the Reserve Fund is budgeted at 1% of operating revenues. The elections budget fluctuates by approximately \$100,000 per year depending on the number of scheduled elections.
- **Other** – This includes court judgments (\$100,000) and Symmes property taxes reserved for Symmes debt (677,875). The estimate fluctuates with actual Symmes debt service payments.
- **Warrant Articles** – Appropriations for miscellaneous warrant articles have been estimated at \$811,299 in FY2017 and thereafter held level.
- **Override Stabilization Fund** – The appropriations into the fund in FY2017 is \$2.4 million. After FY2017 it is projected that drawdowns 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. 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 would also like to thank Richard Viscay, Comptroller and Amy Fidalgo, Administrative Aide to the Planning Department for stepping up while the Deputy Town Manager position was vacant and who created the underlying budget on which this document is based. I am most of all indebted to Sandy Pooler, Deputy Town Manager and Eve Margolis, Management Analyst for the creating this budget document. They deserve special recognition for the quality of the budget document and the information and the data contained herein. Both of these valuable team members spent evenings and weekends assisting in the production of this document.

Respectfully submitted,

Adam W. Chapdelaine

Town Manager



Long Range Financial Projection

	FY 2016	FY 2017	Dollar Change	Percent Change	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
I REVENUE									
A. State Aid	18,230,105	18,639,576	409,471	2.25%	19,006,521	19,363,696	19,694,607	19,916,762	20,228,169
School Construction Aid	2,474,773	2,474,773	0	0.00%	1,615,914	476,523	476,523	476,523	0
B. Local Receipts	8,896,000	8,971,000	75,000	0.84%	9,046,000	9,121,000	9,196,000	9,271,000	9,346,000
C. Free Cash	3,435,846	4,537,299	1,101,453	32.06%	2,264,103	2,264,103	2,264,103	2,264,103	2,264,103
D. Overlay Reserve Surplus	350,000	200,000	(150,000)	-42.86%	200,000	200,000	200,000	200,000	200,000
E. Property Tax	108,977,901	111,926,606	2,948,705	2.71%	114,918,471	118,192,550	121,373,232	124,627,031	127,940,206
F. Override Stabilization Fund					2,817,299	6,436,059	9,311,849	4,618,926	
TOTAL REVENUES	142,364,625	146,749,254	4,384,629	3.08%	149,868,309	156,053,931	162,516,314	161,374,345	159,978,479
II APPROPRIATIONS									
A. Operating Budgets									
School	53,574,114	57,001,333	3,427,219		60,515,490	64,166,465	67,911,880	71,506,591.0	75,553,527
General Education Costs	34,572,590	36,331,252	1,758,662	5.09%	38,610,443	40,890,857	43,217,905	45,541,079.0	47,599,541
Special Education Costs	17,501,455	18,726,557	1,225,102	7.00%	20,037,415	21,440,035	22,940,837	24,546,696	26,264,965
Kindergarten Fee Offset	970,000	970,000	0	0.00%	970,000	970,000	970,000	970,000	970,000
Growth Factor	530,069	973,524			897,631	865,573	783,137	448,816	719,021
Net School Budget	53,574,114	57,001,333	3,427,219	6.40%	60,515,490	64,166,465	67,911,880	71,506,591	75,553,527
Minuteman	4,010,950	3,649,349	(361,601)	-9.02%	3,777,076	3,909,274	4,046,098	4,187,712	4,334,282
Town Personnel Services	24,990,292	25,796,480	806,188	3.23%	26,570,374	27,367,486	28,188,511	29,034,166	29,905,191
Expenses	9,523,893	9,875,830	351,937	3.70%	10,172,105	10,477,268	10,791,586	11,115,334	11,448,794
Less Offsets:									
Enterprise Fund/Other	2,138,041	2,247,194	109,153	5.11%	2,314,610	2,384,048	2,455,569	2,529,237	2,605,114
Net Town Budget	32,376,144	33,425,116	1,048,972	3.24%	34,427,869	35,460,706	36,524,527	37,620,263	38,748,871
MWRA Debt Shift	5,593,112	5,593,112	0	0.00%	5,593,112	5,593,112	5,593,112	5,593,112	5,593,112
B. Capital budget									
Exempt Debt Service	2,635,325	2,518,645	(116,680)	-4.43%	2,409,917	1,376,498	1,320,729	1,246,829	668,104
Non-Exempt Service	6,770,886	7,132,448	361,562	5.34%	7,013,380	7,294,274	6,940,975	7,177,525	7,177,525
Cash	1,426,356	2,469,625	1,043,269	73.14%	1,467,595	1,622,177	1,910,679	1,745,960	1,404,679
Offets/Capital Carry Forward	(601,468)	(928,184)	(326,716)	54.32%	(435,603)	(490,365)	(474,996)	(405,973)	(455,562)
Total Capital	10,231,100	11,192,534	961,434	9.40%	10,455,289	9,802,584	9,697,387	9,764,341	8,794,746
C. Pensions	9,140,241	9,641,763	501,522	5.49%	10,172,060	10,731,523	11,321,757	11,944,454	12,601,399
D. Insurance	16,359,582	16,920,564	560,982	3.43%	17,980,501	19,095,229	20,257,141	21,414,911	22,695,030
E. State Assessments	3,113,547	3,104,201	(9,346)	-0.30%	3,181,806	3,261,351	3,342,885	3,426,457	3,512,118
F. Offset Aid - Assistance to Libraries	54,299	54,958	659	1.21%	54,958	54,958	54,958	54,958	54,958
G. Overlay Reserve	1,746,721	600,000	(1,146,721)	-65.65%	600,000	800,000	600,000	600,000	800,000
H. Fixed Costs - Res. Fund & Elections	1,287,760	1,585,257	297,497	23.10%	1,520,510	1,596,179	1,582,045	1,667,554	1,649,785
I. Other Crt Jdgmnts/ Deficit/ symmes	1,156,606	777,875	(378,731)	-32.75%	778,338	771,250	773,225	771,950	767,450
J. Warrant Articles	937,685	811,299	(126,386)	-13.48%	811,299	811,299	811,299	811,299	811,299
K. Override Stabilization Fund	2,782,763	2,391,893							
L. TOTAL APPROPRIATIONS	142,364,625	146,749,254	4,384,629	3.08%	149,868,309	156,053,931	162,516,314	169,363,602	175,916,577
BALANCE	0	0			0	0	0	(7,989,257)	(15,938,098)



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