



Town of Arlington

Office of the Town Manager

Adam W. Chapdelaine, Town Manager

Sandy Pooler, Deputy Town Manager

January 13, 2017

To: The Honorable Board of Selectmen and Finance Committee

I hereby transmit to you the recommended FY2018 operating and capital budgets and the FY2018-2022 capital plan. The budget as proposed totals \$151,404,149 which is an increase of \$3,952,695 (2.68%) from the current budget. FY2018 is the first year, following the override passed in 2011 in which a withdrawal from the Override Stabilization Fund is proposed, in the amount of \$360,107. A summary showing a comparison of the FY2017 and FY2018 revenues and expenditures is shown on page 5. Also, this budget proposal will be made available via the Town's online budget tool, Arlington Visual Budget, by January 20th. It can be viewed at arlingtonvisualbudget.org.

FY2017, the current fiscal year, is the third 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 3.15% 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 FY2016 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.

Adherence to these principles guided the creation of the FY2016 budget, the FY2017 budget, and this FY2018 budget proposal. Based upon these principles, and the ongoing discussion of the Long Range Planning Committee, the following commitments are being maintained within the Long Range Plan:

- Health insurance premium growth is projected at 5.25% annually, mirroring the 10 year average premium growth of the GIC.
- Free Cash is assumed to be certified each year at the 10-year average certified amount.
- The rate of growth in annual pension costs is maintained at or below 5.5%.
- Annual budget growth for Town Departments is set at 3.25% for FY2018 and beyond.
- Annual budget growth for the general education portion of the School Department budget is maintained at 3.5% for FY2018 and beyond.

In addition to these commitments, the Town has also committed to addressing the financial pressures associated with Arlington's growing student enrollment. A funding formula, referred to as "Growth Factor" was first implemented in FY2015, continued through FY2017, and is once again proposed as part of the FY2018 budget proposal. The details of this formula and its budgetary impact are described below.

Continuing to Meet the Needs of a Growing School Population

In its initial implementation, the Growth Factor multiplied the amount of new students as of October 1st each year by 25% of DESE certified per pupil costs (PPC). Beginning in FY2017, this amount was increased to represent 35% of PPC as certified by DESE. For FY2018, this calculation has been maintained. Based on this, the FY2018 budget recommendation is as follows:

	FY 2017	FY 2018	\$ Increase	% Increase
General Education Costs	\$ 36,502,362	\$ 38,787,542	\$ 2,285,180	6.26%
Special Education Costs	\$ 18,726,557	\$ 20,037,415	\$ 1,310,858	7.00%
Kindergarten Fee Offset	\$ 970,000	\$ 970,000	\$ -	0.00%
Growth Factor	\$ 973,524	\$ 1,133,528	\$ 160,004	16.44%
TOTAL SCHOOL BUDGET	\$ 57,172,443	\$ 60,928,485	\$ 3,756,042	6.57%

Growth Factor Breakdown	
FY 17 Enrollment Growth	242
DESE PPC for Arlington	\$ 13,383
35% of PPC for Arlington	\$ 4,684
Growth Factor (35% PPC x 242)	\$ 1,133,528

In addition to this significant increase, this budget recommendation further proposes that any increase in Chapter 70 aid above what is currently estimated (\$363,000) be provided to the School Department. Standing alone, this budget recommendation provides a significant funding increase for the School Department, a 6.57% increase in an environment where property tax revenues are capped at an increase of 2.5%.

Committing to an Age Friendly Arlington

Along with making an important, continued investment in Arlington schools, the FY2018 budget also proposes an investment in enhancing Arlington's attractiveness as an Age Friendly community. This terminology, coined by the AARP, describes a community that is welcoming to people of all ages. Specifically, the FY2018 budget proposes an investment in the Council on Aging with an increase in social worker staff time and the FY2018 – FY2022 Capital Plan contains an investment in a major renovation of the Town's Senior Center. Going further, the FY2018 capital budget proposes investing \$500,000 in sidewalk improvements, which is aimed at improving accessibility and mobility throughout the community.

Overall, the FY2018 budget proposal is a level services budget that maintains core municipal services (Police, Fire, DPW) at current levels. However, targeted investments have been made to address community needs and the details of those changes are discussed on page 6. This approach 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 \$4.5 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

	FY2017	FY2018	Change \$	%
Revenue				
Property Tax	\$ 112,439,838	\$ 115,955,338	\$ 3,515,500	3.1%
Local Receipts	\$ 8,971,000	\$ 9,071,000	\$ 100,000	1.1%
State Aid	\$ 18,828,545	\$ 19,264,490	\$ 435,945	2.3%
School Construction Aid	\$ 2,474,774	\$ 1,615,915	\$ (858,859)	-34.7%
Free Cash	\$ 4,537,299	\$ 4,537,299	\$ -	0.0%
Other Funds	\$ 200,000	\$ 600,000	\$ 400,000	200.0%
	\$ -	\$ 360,107	\$ 360,107	
TOTAL REVENUES	\$ 147,451,456	\$ 151,404,149	\$ 3,952,693	2.7%
Expenditures				
Municipal Departments	\$ 33,423,622	\$ 34,476,822	\$ 1,053,200	3.2%
School Department	\$ 57,172,443	\$ 60,928,485	\$ 3,756,042	6.6%
Minuteman School	\$ 3,649,349	\$ 4,099,059	\$ 449,710	12.3%
Non-Departmental (Healthcare & Pensions)	\$ 26,562,346	\$ 27,790,127	\$ 1,227,781	4.6%
Capital (Includes Debt Service)	\$ 11,192,533	\$ 10,913,823	\$ (278,710)	-2.5%
MWRA Debt Shift	\$ 5,593,112	\$ 5,593,112	\$ -	0.0%
Warrant Articles	\$ 802,224	\$ 1,353,426	\$ 551,202	68.7%
Reserve Fund & Elections	\$ 1,607,650	\$ 1,574,028	\$ (33,622)	-2.1%
Override Stabilization Fund Deposit	\$ 2,349,927	\$ -	\$ (2,349,927)	
TOTAL EXPENDITURES	\$ 142,353,205	\$ 146,728,882	\$ 4,375,677	3.1%
Non-Appropriated Expenses	\$ 5,098,251	\$ 4,675,267	\$ (422,984)	-8.3%
Surplus / (Deficit)	\$ -	\$ -	\$ -	-

Departmental Budgets

Departmental operating budgets have been held to a 3.15% increase in accordance with the Long Range Plan. With respect to personnel costs, all collective bargaining units are under agreement 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 six positions from FY2017 (see personnel chart on page 7). Some of the more significant budget changes include:

Planning & Community Development (PCD): +\$69,340

The PCD budget proposes upgrading the Conservation Administrator position to a full time Environmental Planner position. This upgrade will enable the department to better develop and implement plans to improve and protect Arlington's natural resources while still performing regulatory and administrative duties by serving as the town's Conservation Commission agent. The additional increases are attributable to reductions in funds available from CDBG to support planning efforts, and changes to the pay and classification plan.

Information Technology (IT): +\$103,999

The IT Budget proposes the creation of an Assistant Director of IT position and the creation of a MUNIS Systems Analyst. The impact of these positions is discussed on page 6 under the Cost Savings section. The remainder of the increase is attributable to changes in the pay and classification plan and incremental increases in various expense line items.

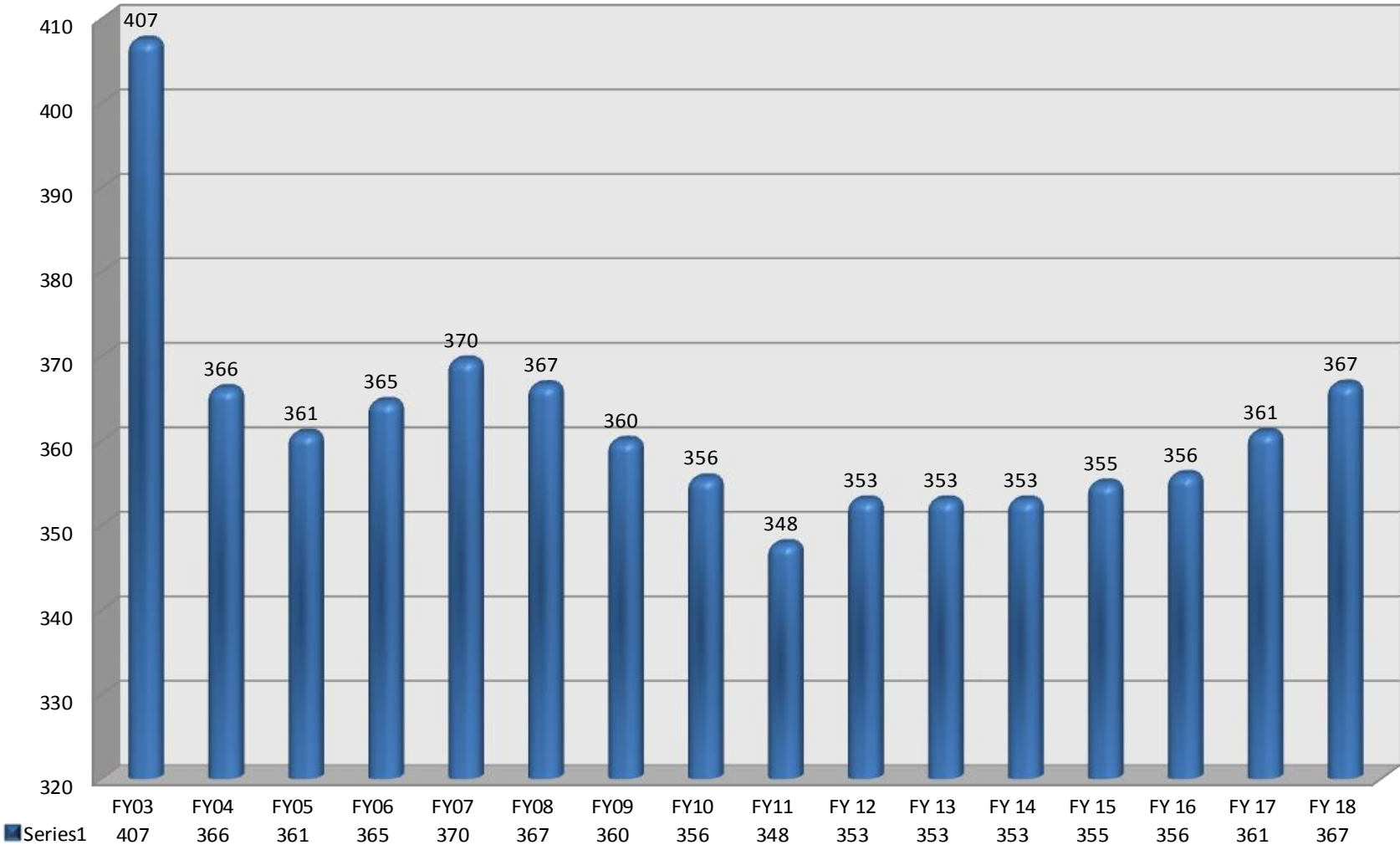
Inspectional Services: +\$69,640

The Inspectional Services budget is proposed to increase by \$69,640 to fund an additional full time Building Inspector position. The addition of this position will allow the Inspectional Services Department to increase the quantity of safety inspections it performs on an annual basis and also allow implementation and enforcement of the Construction Control Agreement being proposed by the Residential Study Group. The remainder of the increase is attributable to changes in the pay and classification plan.

Health & Human Services (HHS): +\$133,063

The HHS budget is proposed to increase by \$133,063 for FY2018. This includes a proposed increase in hours for the part time Council on Aging Social Worker and the transition of the Project Manager position to a Public Health Director position. The additional social work hours will aid in assisting seniors by creating a more accessible schedule, enabling an opportunity to host additional social work interns allowing increased outreach opportunities, doubling individual contacts and maximizing programming to reach under-served populations. Upgrading a position to serve as the Director of Public Health will enable the department to respond more efficiently to the growing community demands, including environmental health issues such as dust control and noise abatement.

Town Personnel Trends FY 2003 - FY2018 FTEs



Healthcare/Other Post-Employment Benefits (OPEB)

The cost of healthcare premiums is assumed to increase by 5.25% in the FY2018 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 FY2018 rates on March 1st. At that time, adjustments can be made to the healthcare budget accordingly.

In FY2018, 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 FY2018 recommendation to fund OPEB with \$300,000 from the Health Claims Trust Fund is the fifth year in what is a recommendation to adopt this practice for a ten year period or until the Health Claims Trust Fund is exhausted. This \$300,000 contribution is in addition to the \$573,734 amount otherwise earmarked for appropriation into the OPEB Trust Fund, bringing the total proposed appropriation for FY2018 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, 2016						
Active Employees (Future Retirees) Liability	% of Total Liability	Retiree Liability	% of Total Liability	Total Unfunded Liability	Accumulated Assets Towards the Liability	Total OPEB Liability
\$87,300,000	44%	\$111,700,000	56%	\$192,100,000	\$8,900,000	\$201,000,000

Cost Savings & Productivity Gains via Investment in Technology

Three 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, and the Town is soon to begin the process of updating and reissuing a new three year strategic plan for IT. As referenced on page 6, the FY2018 budget proposal includes the creation

of an Assistant Director of IT. This position is being recommended in order to aid in the completion of projects outlined in the strategic plan, but also with an eye toward the management of IT infrastructure installation in future building projects, most notably, the renovation/reconstruction of Arlington High School.

Currently, the Town is in the process of fully updating its financial software, MUNIS, and is also in the process of transferring its cash management, billing, and accounts receivable software to the MUNIS platform. The completion of these projects will help modernize the architecture upon which the Town finances are managed and allow for improved resident services related to billing. As mentioned on page 6, this project has prompted the creation of a MUNIS System Analyst position which will be taking the place of a Desktop Support position.

The Town has also recently implemented a new web hosted work order system for the Facilities Department and is investigating software linked to the Town's GIS system aimed at upgrading the work order system used by the Department of Public Works. Both of these projects are aimed at increasing efficiency within the departments, while also enhancing the long term maintenance of the Town's buildings and infrastructure.

In FY2018 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. Arlington has substantially benefited from its cooperation with the Green Communities Division, having received five grant awards over the past five years, totaling \$1,185,943. The most recent grant award of \$247,943 came in 2016 and provided funding for numerous efficiency upgrades at various elementary schools, the Ottoson Middle School, the Ed Burns Arena and Town Hall. Also, in 2015, the Town installed solar photovoltaic panels on six school roofs via a power purchase agreement with Ameresco. This installation produced 793,180 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 Police Headquarters, which is expected to earn LEED Silver 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. Town management, working in cooperation with union representatives, is initiating an update to the Comparative Compensation Study which will be used to guide collective bargaining efforts for contracts beginning in FY2019.

State Aid

State aid is projected to increase by \$435,945 or 2.31% in FY2018. This projected increase is due to an assumption that the enrollment growth of 242 students in FY2017 will result in an increase in Chapter 70 funding of \$363,000. The remaining increase of \$72,945 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 26th, 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 future financial liabilities associated with the reconstruction/renovation of Arlington High School. There are many decisions yet to be made in regard to this project, but nevertheless, it 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 FY2018 funding for the capital budget is as follows:

Bonding: \$5,080,000

Cash: \$3,881,928

Other: \$3,571,500

Our existing non-exempt debt is \$7,192,219 which is consistent with prior debt service projections for FY2018. The total capital budget for FY2018, including debt, is estimated at \$10.9 million. Major projects to be funded in FY2018 include the Hardy School Expansion which has been budgeted for approximately \$3.5 million, street and sidewalk work for approximately \$2.2 million, and water and sewer work for \$2.5 million. The FY2018 capital budget includes \$1,451,000 for the replacement of various vehicles in the Fire Department, Police Department, Public Works Department, and Facilities Department. Senior Center Architectural Plans have been budgeted for \$400,000 in FY2018 in order to begin the design phase of the Senior Center Renovation. Site improvements and construction for the Senior Center Renovation have been budgeted for \$4 million within the five year capital plan.

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. The Town is currently working to prepare a scope of services solicitation for an Owner's Project Manager to begin the design phase of this project.

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 Arlington Reservoir and Master Plan project (\$100,000) in the FY2018 capital budget but has recommended it for CPA funding. The Community Preservation Committee is currently reviewing final applications that have been submitted for the FY2018 funding cycle and will make recommendations for CPA funding at Town Meeting.

Conclusion

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

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

The document presented for your consideration is a product of a great deal of work. Our department heads, second to none in the Commonwealth in terms of professional competence and dedication to their tasks, provided invaluable input and assistance. Members of boards and commissions also offered valuable assistance. In particular, I would like to thank the Board of Selectmen for its policy insights and leadership. I am most of all indebted to Sandy Pooler, Deputy Town Manager and Amy Fidalgo, Management Analyst for the production of 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,



Town Manager