



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

FY2017 Average Single Family Tax Rate: \$12.56 per \$1,000

FY2017 Ave. Single Family Home Value: \$621,249

Coordinates: 42°24'55"N 71°09'25"W

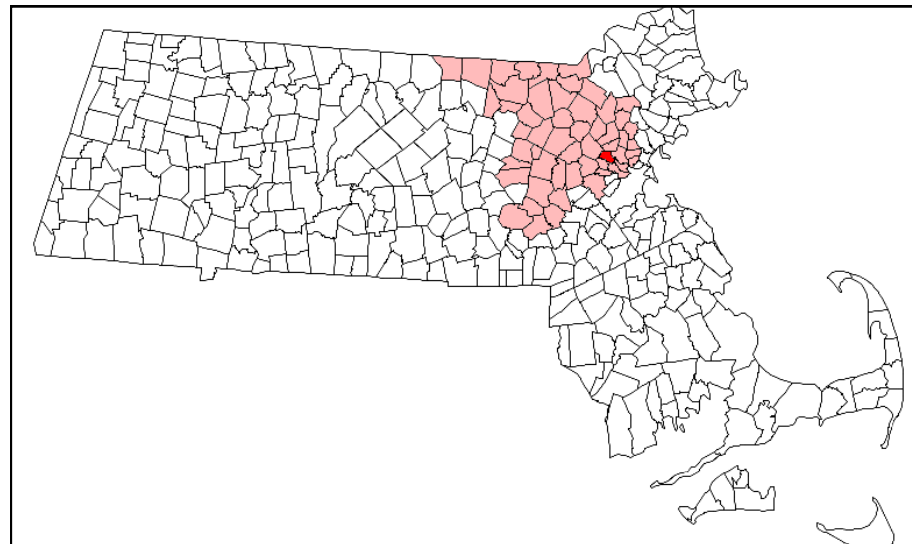
Address:

Arlington Town Hall
 730 Massachusetts Avenue
 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, 2016

A handwritten signature in cursive script, appearing to read "Jeffrey R. Green".

Executive Director



Fiscal Year 2018 Annual Budget & Financial Plan Budget Message

July 1, 2017

To: The Honorable Board of Selectmen and Finance Committee

I hereby transmit to you the FY2018 operating and capital budgets and the FY2018-2022 capital plan. The budget as proposed totals \$151,978,207 which is an increase of \$4,526,751 (3.07%) from the current budget. A summary showing a comparison of the FY2017 and FY2018 revenues and expenditures is shown on page 8. Also, this budget proposal will be made available via the Town's online budget tool, Arlington Visual Budget. 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 3.25% 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. 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 9. 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 \$6.6 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

	FY2016 Actual	FY2017 Budget	FY2018 Budget	Change \$	%
Revenue					
Property Tax	\$ 108,977,901	\$ 112,439,838	\$ 116,719,375	\$ 4,279,537	3.8%
Local Receipts	\$ 11,071,191	\$ 8,971,000	\$ 9,071,000	\$ 100,000	1.1%
State Aid	\$ 18,373,581	\$ 18,828,545	\$ 19,221,352	\$ 392,807	2.1%
School Construction Aid	\$ 2,474,773	\$ 2,474,774	\$ 1,615,914	\$ (858,860)	-34.7%
Free Cash	\$ 3,435,846	\$ 4,537,299	\$ 4,850,566	\$ 313,267	6.9%
Other Funds	\$ 350,000	\$ 200,000	\$ 500,000	\$ 300,000	150.0%
Override Stabilization Fund	\$ -	\$ -	\$ -	\$ -	-
TOTAL TAXES, FEES, AID, AND OTHER SOURCES	\$ 144,683,292	\$ 147,451,456	\$ 151,978,207	\$ 4,526,751	3.1%
Transfers in (Offsets)		\$ 2,247,194	\$ 2,436,791	\$ 189,597	8.4%
TOTAL REVENUES		\$ 149,698,650	\$ 154,414,998	\$ 4,716,348	3.2%
Expenditures					
<i>Municipal Departments Appropriations *</i>	\$ 31,413,547	\$ 35,670,816	\$ 37,036,557	\$ 1,365,741	3.8%
<i>Offsets</i>	\$ -	\$ (2,247,194)	\$ (2,436,791)	\$ (189,597)	8.4%
Municipal Departments (Taxation Total)	\$ 31,413,547	\$ 33,423,622	\$ 34,599,766	\$ 1,176,144	3.5%
School Department	\$ 53,574,114	\$ 57,172,443	\$ 60,928,485	\$ 3,756,042	6.6%
Minuteman School	\$ 4,010,950	\$ 3,649,349	\$ 4,291,333	\$ 641,984	17.6%
Non-Departmental (Healthcare & Pensions)	\$ 25,499,823	\$ 26,562,346	\$ 27,381,296	\$ 818,950	3.1%
Capital (Includes Debt Service)	\$ 10,231,100	\$ 11,192,533	\$ 11,523,825	\$ 331,292	3.0%
MWRA Debt Shift	\$ 5,593,112	\$ 5,593,112	\$ 5,593,112	\$ -	0.0%
Warrant Articles	\$ 937,685	\$ 802,224	\$ 1,246,731	\$ 444,507	55.4%
Reserve Fund & Elections	\$ 1,287,760	\$ 1,607,650	\$ 1,579,064	\$ (28,586)	-1.8%
Override Stabilization Fund Deposit	\$ 2,782,763	\$ 2,349,927	\$ 211,136	\$ (2,138,791)	-91.0%
TOTAL EXPENDITURES	\$ 135,330,855	\$ 142,353,205	\$ 147,354,748	\$ 5,001,543	3.5%
Non-Appropriated Expenses	\$ 6,071,173	\$ 5,098,251	\$ 4,623,459	\$ (474,792)	-9.3%
Surplus / (Deficit)	\$ 3,281,264	\$ -	\$ -	\$ -	-

*The FY17 and FY18 Budgets reflect showing offsets as a revenue source, per guidance from the Department of Revenue.



Departmental Budgets

Departmental operating budgets have been held to a 3.5% increase in accordance with the Long Range Plan. With respect to personnel costs, all collective bargaining units are under agreement through FY2018. Four 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 10). 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 11 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: +\$73,640

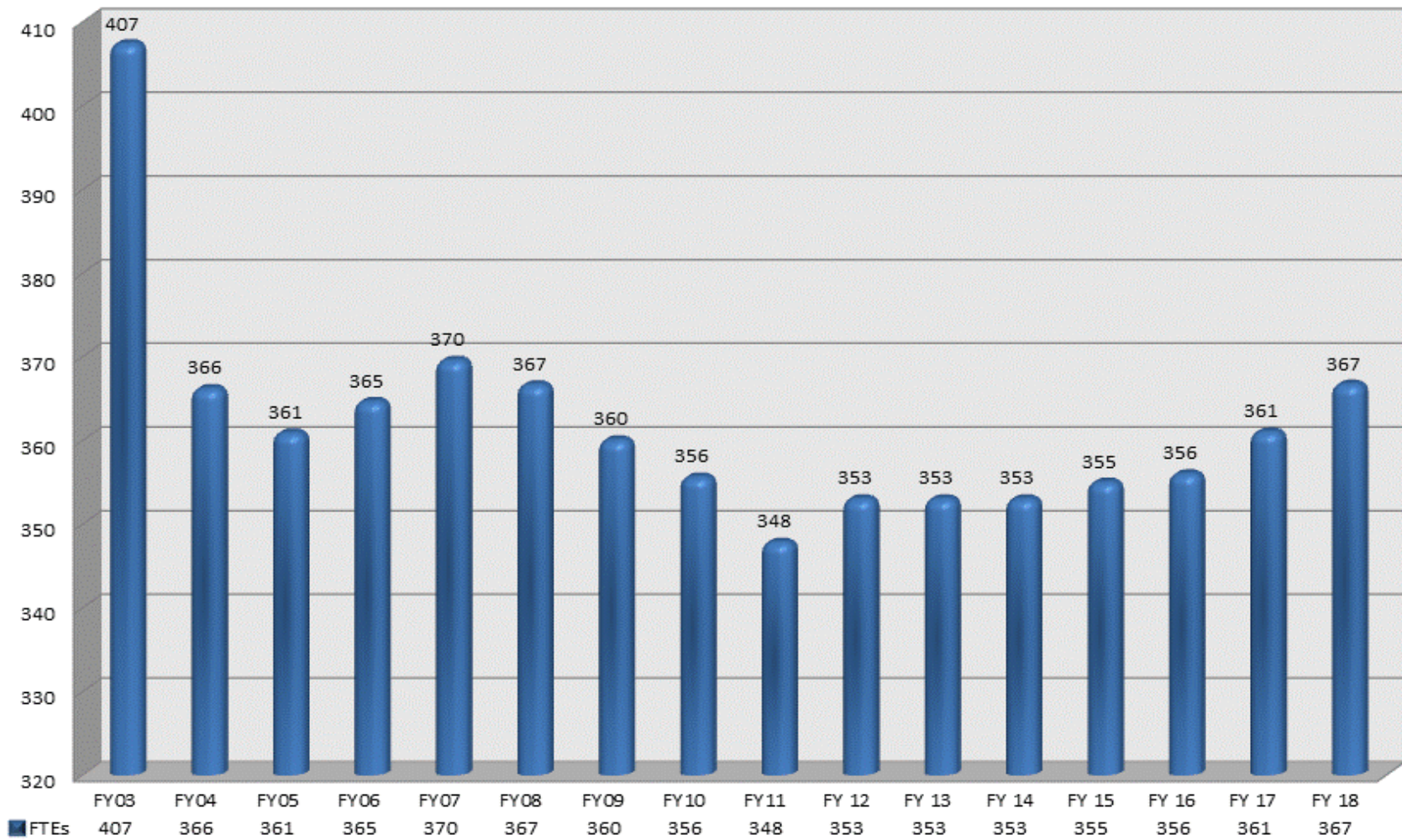
The Inspectional Services budget is proposed to increase by \$73,640 to fund an additional full time Building Inspector position. The addition of this position will allow the Inspectional Services Department to increase the quantity of safety inspections it performs on an annual basis and also allow 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): +\$138,063

The HHS budget is proposed to increase by \$138,063 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 will increase by 1.62% 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.

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 \$599,678 amount otherwise earmarked for appropriation into the OPEB Trust Fund, bringing the total proposed appropriation for FY2018 to \$899,678. 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 9, 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.



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

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 9, 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.

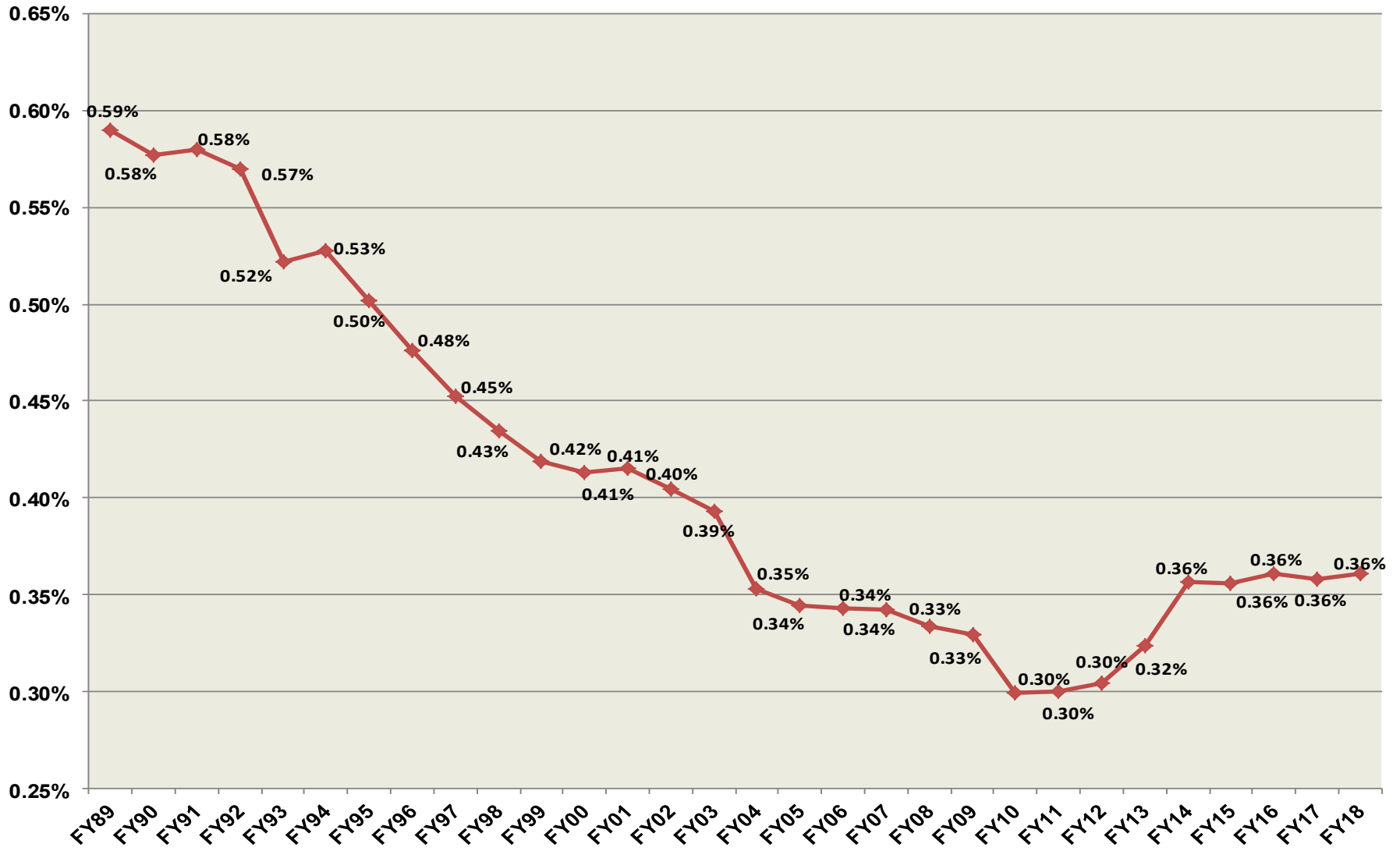
In FY2018 and beyond, the Town will also remain committed to finding other means of reducing costs which may include, but will not be limited to, regionalization of services.

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.



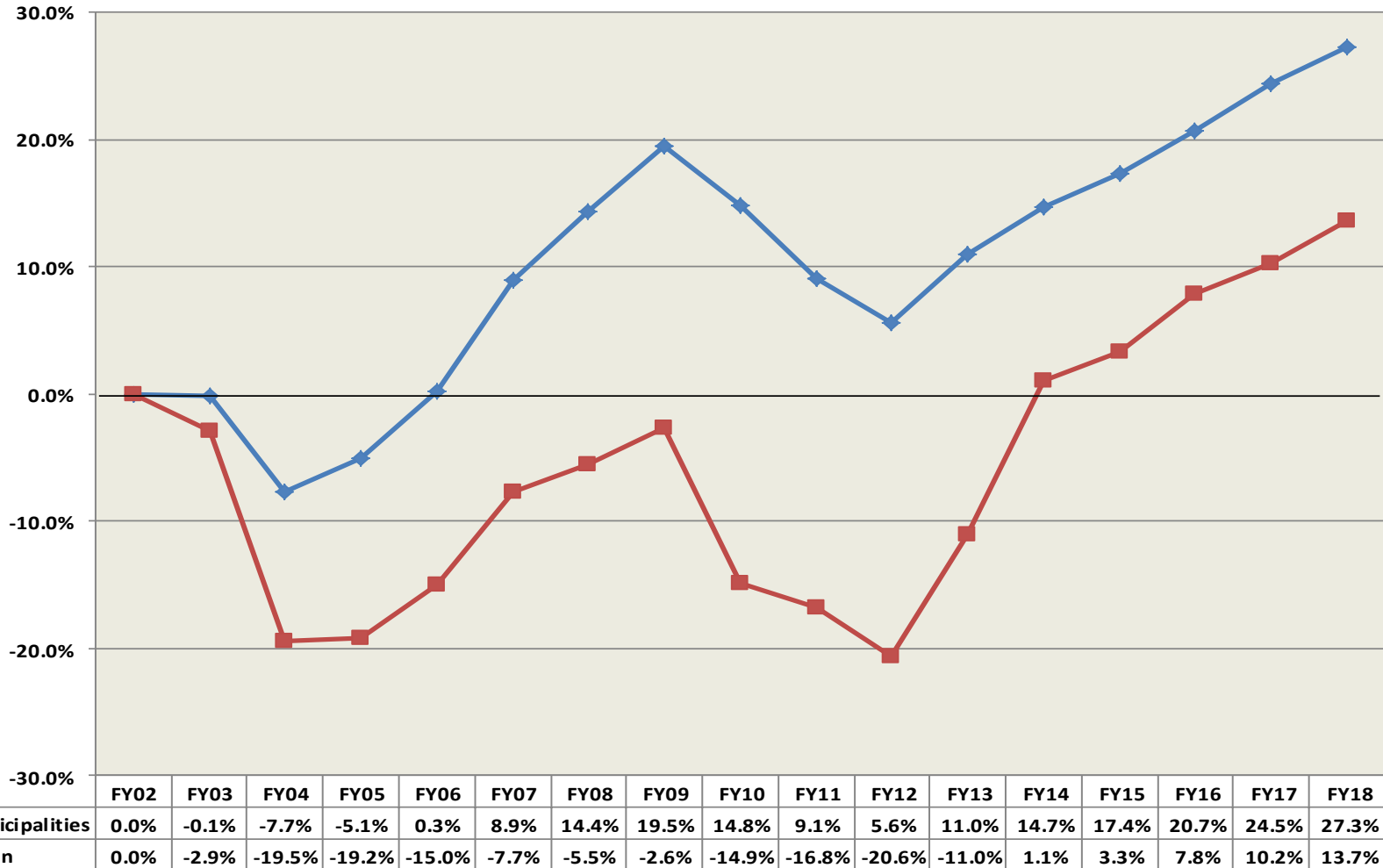
Arlington's Percent of Total State Aid





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

(Numbers Exclude School Construction and METCO Reimbursements)





Comparative Data

The FY2018 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 3.94 and 4.01 respectively. Arlington's is 4.30, which is above the state average.

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 15.67%, 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 9th 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 9th out of 13 comparable communities in overall expenditures per capita (see Table 8). The spending average of the other comparable communities is approximately 13% 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 '14-'16	Municipality	FY2017 Municipal Revenue Growth Factor
1 BROOKLINE	8,708	1 BROOKLINE	3,890	1 NEEDHAM	3.79	1 NEEDHAM	6.20
2 ARLINGTON	8,500	2 ARLINGTON	3,747	2 WATERTOWN	2.68	2 WATERTOWN	4.72
3 WATERTOWN	8,028	3 WATERTOWN	3,652	3 READING	1.82	3 ARLINGTON	4.30
4 MEDFORD	7,023	4 MEDFORD	2,787	4 NATICK	1.78	4 MELROSE	4.26
5 MELROSE	5,904	5 MELROSE	2,398	5 ARLINGTON	1.64	5 READING	4.16
6 BELMONT	5,436	6 BELMONT	2,142	6 NORTH ANDOVER	1.34	6 NATICK	4.04
7 WINCHESTER	3,655	7 STONEHAM	1,510	7 MELROSE	1.26	7 WINCHESTER	3.89
8 STONEHAM	3,534	8 WINCHESTER	1,309	8 WINCHESTER	1.25	8 BELMONT	3.80
9 READING	2,551	9 READING	889	9 BROOKLINE	1.25	9 BROOKLINE	3.59
10 NEEDHAM	2,358	10 NATICK	886	10 MEDFORD	1.25	10 STONEHAM	3.47
11 NATICK	2,335	11 NEEDHAM	860	11 BELMONT	1.07	11 NORTH ANDOVER	3.35
12 MILTON	2,091	12 MILTON	703	12 STONEHAM	0.97	12 MEDFORD	3.14
13 NORTH ANDOVER	1,096	13 NORTH ANDOVER	373	13 MILTON	0.85	13 MILTON	3.09
Ave w/o Arlington	4,393	Ave w/o Arlington	1,783	Ave w/o Arlington	1.61	Ave w/o Arlington	4.01
Arlington	8,500	Arlington	3,747	Arlington	1.64	Arlington	4.30
				State-Wide Ave	1.92	State-Wide Ave	3.94



Table 5	
Municipality	FY2017 Commercial/ Industrial/ Personal % of Total Tax Levy
1 WATERTOWN	32.48%
2 NEEDHAM	24.05%
3 NATICK	22.09%
4 MEDFORD	19.99%
5 STONEHAM	17.57%
6 BROOKLINE	17.37%
7 NORTH ANDOVER	16.72%
8 READING	8.12%
9 MELROSE	8.03%
10 MILTON	6.21%
11 ARLINGTON	5.86%
12 BELMONT	5.20%
13 WINCHESTER	4.38%
Ave w/o Arlington	15.67%
Arlington	5.86%

Table 6	
Municipality	FY2017 Taxes Per Cap
1 NEEDHAM	\$4,197
2 WINCHESTER	\$3,823
3 BROOKLINE	\$3,451
4 BELMONT	\$3,376
5 NATICK	\$2,951
6 WATERTOWN	\$2,901
7 MILTON	\$2,713
8 READING	\$2,561
9 ARLINGTON	\$2,554
10 NORTH ANDOVER	\$2,388
11 STONEHAM	\$2,181
12 MELROSE	\$1,997
13 MEDFORD	\$1,837
Ave w/o Arlington	\$2,865
Arlington	\$2,554

Table 7	
Municipality	FY2017 Taxes/ Household as % of 09-13 median income
1 NEEDHAM	8.8%
2 WINCHESTER	8.1%
3 BROOKLINE	8.0%
4 NATICK	7.7%
5 BELMONT	7.6%
6 WATERTOWN	7.0%
7 MILTON	6.9%
8 NORTH ANDOVER	6.6%
9 STONEHAM	6.6%
10 READING	6.4%
11 ARLINGTON	6.3%
12 MEDFORD	5.9%
13 MELROSE	5.5%
Ave w/o Arlington	7.1%
Arlington	6.3%

Table 8	
Municipality	FY2015 Total Exp Per Cap
1 NEEDHAM	\$4,600
2 WINCHESTER	\$4,382
3 BROOKLINE	\$3,881
4 BELMONT	\$3,776
5 NATICK	\$3,565
6 MILTON	\$3,390
7 WATERTOWN	\$3,377
8 READING	\$3,301
9 ARLINGTON	\$3,094
10 NORTH ANDOVER	\$2,900
11 MELROSE	\$2,855
12 STONEHAM	\$2,774
13 MEDFORD	\$2,438
Ave w/o Arlington	\$3,457
Arlington	\$3,094



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 decrease by \$466,057 or 2.19% in FY2018. This projected decrease is a combination of increased aid for Chapter 70 Education Aid and General Government Aid along with a decrease in school construction aid.

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 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: \$5,520,000

Cash: \$4,441,928

Other: \$3,571,500

Our existing non-exempt debt is \$7,281,819 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.



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 3.07% in FY2018. Future year increases range from -2.23% to 4.52%, which occurs in FY2021 depending on the reliance on funds from the Override Stabilization Fund. In FY2021, revenue is projected to increase by only 0.24%. This is a result of projecting to have insufficient revenues that year, because the Override Stabilization Fund will have been depleted by then. It is anticipated that an operating override will be considered at this time.
- **Tax Levy** – The FY2018 tax levy is projected to increase by approximately 3.81%. Future year increases are projected to be between approximately 2.63% and 2.77% per year. New growth is projected at \$650,000 per year. Debt payments for Proposition 2½ debt exempted school projects minus state reimbursements are included and amount to approximately \$1,600,000 to \$1,750,000 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 2.09%. This increase is inclusive of a 1%, or a \$112,140 increase in Chapter 70 funding and a 3.9% or \$284,486 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 will decrease to \$1,615,914 in FY2018, which will reflect the end of reimbursement for the Ottoson School construction project and will decrease further to \$476,523 in FY2019, which will consist only of reimbursement for the Peirce Elementary School. FY2021 will be the last year of the Peirce reimbursement.
- **Local Receipts** – Local Receipts are estimated to increase by \$100,000 in FY2010 due to projected increases in Motor Vehicle Excise tax collections. It is anticipated that Local Receipts will continue to grow by \$100,000 increments thereafter.



Free Cash – FY2018 Free Cash use is \$4,850,566, which is 50% of the Town's available free cash balance. For FY2019 and in each subsequent year, \$2,623,868 is proposed to be appropriated. This is reflective of 50% of the ten year average certified Fee Cash.

- **Other Available Funds** – A transfer of \$500,000 from surplus tax abatement overlay reserve funds is projected in FY2018. 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 \$23.5 million. In FY2019, a drawdown of \$6,478,849 will be required to balance the budget. In FY2020 a drawdown of \$10 million will be needed to close the budget gap leaving approximately \$6.8 million in the Fund to apply to a budget gap of approximately \$6.8 million in FY2021 (the tenth year since the last override) and \$17.7 million in FY2022. The remaining projected deficit in FY2023 is \$20.5 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 included 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 FY2018 the Town's assessment will increase by \$641,984 (17.59%). Thereafter, increases are projected at 3.5% including \$214,568 for debt service.
- **Municipal Departments** - Expenditures for municipal departments will increase by 3.52% in FY2018 due to an increased snow and ice budget. In FY2019 and going forward, expenditures are capped at 3.25%.



- **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 slightly less than \$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 FY2018 \$4,441,928 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 FY2018 the pension appropriation will increase 5.45% and thereafter, increases 5.5% annually.
- **Insurance (including Healthcare)** – Health care and insurance costs are expected to increase by 1.89%. 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 1.62%. In outgoing years costs are projected to increase from 5% to 6% per year depending on the continuance of enrollment growth in the school department.
- **State Assessments** – In FY2018, the MBTA assessment, which is the largest assessment, will increase by \$33,345 (1.2%). Overall, state assessments will increase by .7%, and increase by 2.50% annually thereafter.
- **Offset Aid** – Assistance to Libraries will increase \$3,676.
- **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 (\$678,338). The estimate fluctuates with actual Symmes debt service payments.
- **Warrant Articles** – Appropriations for miscellaneous warrant articles have been estimated at \$1,246,731 in FY2018 and thereafter held level.
- **Override Stabilization Fund** – The appropriation into the fund in FY2018 is \$211,731. Beginning in FY2019 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.

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,

Adam W. Chapdelaine

Town Manager



Long Range Financial Projection

	FY 2017	FY 2018	Dollar Change	Percent Change	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
I REVENUE									
A. State Aid	18,828,545	19,221,352	392,807	2.09%	19,408,951	19,598,426	19,789,795	19,983,079	20,178,295
School Construction Aid	2,474,774	1,615,914	(858,860)	-34.70%	476,523	476,523	476,523	0	0
B. Local Receipts	8,971,000	9,071,000	100,000	1.11%	9,171,000	9,271,000	9,371,000	9,471,000	9,571,000
C. Free Cash	4,537,299	4,850,566	313,267	6.90%	2,623,686	2,623,686	2,623,686	2,623,686	2,623,686
D. Overlay Reserve Surplus	200,000	500,000	300,000	150.00%	200,000	200,000	200,000	200,000	200,000
E. Property Tax	112,439,838	116,719,375	4,279,537	3.81%	119,956,117	123,255,875	126,566,803	129,889,585	133,379,809
F. Override Stabilization Fund	0	0			6,478,849	10,038,988	6,835,466	0	0
TOTAL REVENUES	147,451,456	151,978,207	4,526,752	3.07%	158,315,126	165,464,498	165,863,273	162,167,350	165,952,790
II APPROPRIATIONS									
A. Operating Budgets									
General Education Costs	36,502,362	38,787,542	2,285,180	6.26%	42,318,307	44,851,451	47,478,102	49,794,307	52,307,931
Special Education Costs	18,726,557	20,037,415	1,310,858	7.00%	21,440,034	22,940,836	24,546,695	26,264,964	28,103,511
Kindergarten Fee Offset	970,000	970,000	0	0.00%	970,000	970,000	970,000	970,000	970,000
Growth Factor	973,524	1,133,528	160,004	16.44%	1,016,428	1,021,112	632,340	744,756	454,348
Net School Budget	57,172,443	60,928,485	3,756,042	6.57%	65,744,769	69,783,399	73,627,137	77,774,027	81,835,790
Minuteman	3,649,349	4,291,333	641,984	17.59%	4,441,530	4,596,984	4,757,878	4,924,404	5,096,758
Town Personnel Services	25,796,486	26,722,171	925,685	3.59%	27,590,642	28,487,338	29,413,176	30,369,104	31,356,100
Expenses	9,874,330	10,314,386	440,056	4.46%	10,649,604	10,995,716	11,353,077	11,722,052	12,103,019
<i>Less Offsets: Enterprise Fund/Other</i>	<i>2,247,194</i>	<i>2,436,791</i>	<i>189,597</i>	<i>8.44%</i>	<i>2,515,987</i>	<i>2,597,757</i>	<i>2,682,184</i>	<i>2,769,355</i>	<i>2,859,359</i>
Net Town Budget	33,423,622	34,599,766	1,176,144	3.52%	35,724,259	36,885,297	38,084,069	39,321,801	40,599,760
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	2,518,645	3,175,427	656,782	26.08%	1,938,973	1,871,604	1,781,204	1,191,079	1,159,032
Non-Exempt Service	7,132,448	7,281,819	149,371	2.09%	6,628,508	6,588,606	6,987,440	6,628,352	6,628,352
Cash	2,469,625	3,941,928	1,472,303	59.62%	2,268,309	2,539,701	2,206,035	2,700,544	2,700,544
Offets/Capital Carry Forward	(928,185)	(2,875,349)	(1,947,164)	209.78%	(422,280)	(412,558)	(347,721)	(375,770)	(375,770)
Total Capital	11,192,533	11,523,825	331,292	2.96%	10,413,510	10,587,353	10,626,958	10,144,205	10,112,158
C. Pensions	9,641,782	10,141,735	499,953	5.19%	10,699,530	11,288,004	11,908,844	12,563,830	13,254,841
D. Insurance	16,920,564	17,239,561	318,997	1.89%	18,337,275	19,499,673	20,651,008	21,890,261	22,977,103
E. State Assessments	3,163,446	3,187,048	23,602	0.75%	3,266,724	3,348,392	3,432,102	3,517,905	3,605,852
F. Offset Aid - Assistance to Libraries	54,397	58,073	3,676	6.76%	58,073	58,073	58,073	58,073	58,073
G. Overlay Reserve	1,202,533	600,000	(602,533)	-50.11%	800,000	600,000	600,000	800,000	600,000
H. Fixed Costs - Res. Fund & Elections	1,607,650	1,579,064	(28,586)	-1.78%	1,618,363	1,604,255	1,690,278	1,671,673	1,759,528
I. Other Crt Jdgmnts/Deficit/Symmets	677,875	778,338	100,463	14.82%	771,250	773,225	771,950	767,450	100,000
J. Warrant Articles	802,224	1,246,731	444,507	55.41%	846,731	846,731	846,731	846,731	846,731
K. Override Stabilization Fund	2,349,927	211,136			0	0	0	0	0
L. TOTAL APPROPRIATIONS	147,451,456	151,978,207	4,526,753	3.07%	158,315,126	165,464,498	172,648,140	179,873,473	186,439,706
BALANCE	0	0			0	0	(6,784,867)	(17,706,123)	(20,486,916)



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