



Town of Arlington • Office of the Town Manager

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January 12, 2018

To: The Honorable Board of Selectmen and Finance Committee

I hereby transmit to you the recommended FY2019 operating and capital budgets and the FY2019-2023 capital plan. The budget as proposed totals \$161,013,030 which is an increase of \$6,076,495 (3.9%) from the current budget. FY2019 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 \$3,461,695. A summary showing a comparison of the FY2018 and FY2019 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 22nd. It can be viewed at arlingtonvisualbudget.org.

FY2018, the current fiscal year, is the fourth 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 3.23% 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.

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 FY2019 and beyond.

In addition to these commitments, the Town also maintains its commitment 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. Additionally, in recognition of the increased operating costs necessitated by the opening of the new Gibbs School for the start of the 2018-2019 school year, we have added a further \$1,300,000 to the school department budget. 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 FY2019, this calculation has been maintained. Based on this, the FY2019 budget recommendation is as follows:

	FY 2018	FY 2019	\$ Increase	% Increase
General Education Costs	\$ 38,787,542	\$ 41,318,307	\$ 2,530,765	6.52%
Special Education Costs	\$ 20,037,415	\$ 21,440,034	\$ 1,402,619	7.00%
Kindergarten Fee Offset	\$ 970,000	\$ 970,000	\$ -	0.00%
Gibbs Funding	\$ -	\$ 1,300,000	\$ 1,300,000	
Growth Factor	\$ 1,133,528	\$ 831,980	\$ (301,548)	-26.60%
TOTAL SCHOOL BUDGET	\$ 60,928,485	\$ 65,860,321	\$ 4,931,836	8.09%

Growth Factor Breakdown	
FY 18 Enrollment Growth	170
DESE PPC for Arlington	\$ 13,984
35% of PPC for Arlington	\$ 4,894.00
Growth Factor (35% PPC x 170)	\$ 831,980

This budget recommendation provides a significant funding increase for the School Department, a 8.09% increase in an environment where property tax revenues are capped at an increase of 2.5%.

Overall, the FY2019 budget proposal is a level services budget that maintains core municipal services (Police, Fire, DPW) at current levels. Targeted investments have been made to address community needs and the details of those changes are discussed on page 6 and beyond. 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 \$1.6 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 General Fund Budget Summary

	FY2016 Actual	FY2017 Budget	FY2018 Budget	FY2019 Budget	Change \$	%
Revenue						
Property Tax	\$ 108,977,901	\$ 112,439,838	\$ 117,255,201	\$ 121,235,963	\$ 3,980,762	3.4%
Local Receipts	\$ 11,071,191	\$ 8,971,000	\$ 9,071,000	\$ 9,171,000	\$ 100,000	1.1%
State Aid	\$ 18,373,581	\$ 18,828,545	\$ 19,207,063	\$ 19,394,662	\$ 187,599	1.0%
School Construction Aid	\$ 2,474,773	\$ 2,474,774	\$ 1,615,914	\$ 476,523	\$ (1,139,391)	-70.5%
Free Cash	\$ 3,435,846	\$ 4,537,299	\$ 4,850,566	\$ 4,593,375	\$ (257,191)	-5.3%
Other Funds	\$ 350,000	\$ 200,000	\$ 500,000	\$ 200,000	\$ (300,000)	-60.0%
Override Stabilization Fund	\$ -	\$ -	\$ -	\$ 3,461,695	\$ 3,461,695	100%
TOTAL TAXES, FEES, AID, AND OTHER SOURCES	\$ 144,683,292	\$ 147,451,456	\$ 152,499,744	\$ 158,533,218	\$ 6,033,474	4.0%
Transfers in (Offsets)		\$ 2,247,194	\$ 2,436,791	\$ 2,479,812	\$ 43,021	1.8%
TOTAL REVENUES		\$ 149,698,650	\$ 154,936,535	\$ 161,013,030	\$ 6,076,495	3.9%
Expenditures						
<i>Municipal Departments Appropriations *</i>	\$ 31,413,547	\$ 35,670,816	\$ 37,036,557	\$ 38,198,683	\$ 1,162,126	3.1%
Offsets	\$ -	\$ (2,247,194)	\$ (2,436,791)	\$ (2,479,812)	\$ (43,021)	1.8%
Municipal Departments (Taxation Total)	\$ 31,413,547	\$ 33,423,622	\$ 34,599,766	\$ 35,718,871	\$ 1,119,105	3.2%
School Department	\$ 53,574,114	\$ 57,172,443	\$ 60,928,485	\$ 65,860,321	\$ 4,931,836	8.1%
Minuteman School	\$ 4,010,950	\$ 3,649,349	\$ 4,291,333	\$ 4,960,808	\$ 669,475	15.6%
Non-Departmental (Healthcare & Pensions)	\$ 25,499,823	\$ 26,562,346	\$ 27,381,296	\$ 28,673,031	\$ 1,291,735	4.7%
Capital (Includes Debt Service)	\$ 10,231,100	\$ 11,192,533	\$ 11,523,825	\$ 10,356,564	\$ (1,167,261)	-10.1%
MWRA Debt Shift	\$ 5,593,112	\$ 5,593,112	\$ 5,593,112	\$ 5,593,112	\$ -	0.0%
Warrant Articles	\$ 937,685	\$ 802,224	\$ 1,319,355	\$ 928,503	\$ (390,852)	-29.6%
Reserve Fund & Elections	\$ 1,287,760	\$ 1,607,650	\$ 1,506,440	\$ 1,550,715	\$ 44,275	2.9%
Override Stabilization Fund Deposit	\$ 2,782,763	\$ 2,349,927	\$ 211,136	\$ -	\$ (211,136)	-100%
TOTAL EXPENDITURES	\$ 135,330,855	\$ 142,353,205	\$ 147,354,748	\$ 153,641,925	\$ 6,287,177	4.3%
Non-Appropriated Expenses	\$ 6,071,173	\$ 5,098,251	\$ 5,144,996	\$ 4,891,293	\$ (253,703)	-4.9%
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 3.23% increase in accordance with the Long Range Plan. With respect to personnel costs, all collective bargaining agreements are under negotiation, so \$720,000 has been set aside for contract settlement. One full time position has been added to the budget, and several part time positions have been incrementally increased, resulting in a net increase of three general fund positions from FY2018 (see personnel chart on page 7). There also is a reported increase of 5 new enterprise fund positions, though 4 of these are existing positions being reported in a different manner. Some of the more significant budget changes include:

Public Works (DPW): +\$247,409

The DPW budget proposes increases in solid waste hauling, solid waste disposal, and recycling costs in the amount of \$168,495 as a result of increases in solid waste tonnage and contractual obligations. The DPW budget also includes an increase in funding for tree planting (\$25,000) and an increase of \$21,861 due to making the Tree Warden position full time. There is also a proposed increase of \$45,000 in traffic signal maintenance to more accurately reflect historical spending in that category.

Planning & Community Development (PCD): +\$93,829

The PCD budget proposes the creation of a Senior Transportation Planner (\$78,089) position aimed at working to address increasing neighborhood traffic related concerns and also focused on working with the Transportation Advisory Committee on larger transportation projects across Town. The PCD budget also includes a \$15,000 expense increase in order fund planning services related to arts and culture efforts in Town. These proposed increases are offset by decreases in various expense line items that align proposed funding with historical spending.

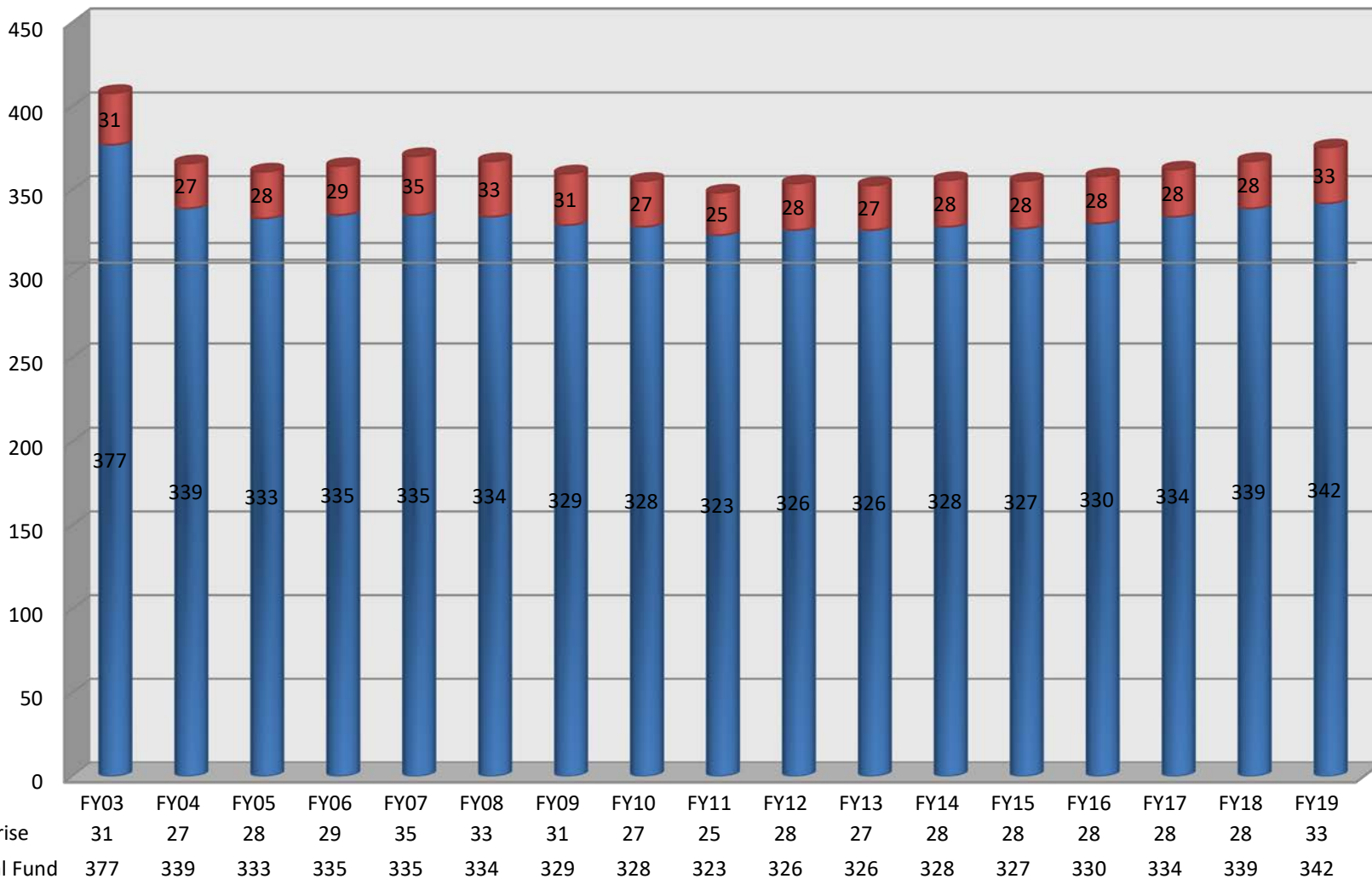
Libraries: +\$59,599

The Libraries budget proposes the creation of an Adult Services Librarian (\$52,015) position to more adequately meet the current needs of library users. This position will allow both the current Teen Librarian and Technology Librarian to focus on their subject matter area, thereby multiplying the productivity impact of this addition. The remaining increase is due to personnel turnover and changes in the pay and classification plan.

Health & Human Services (HHS): +\$45,342

The HHS budget proposes increasing the hours of the Council on Aging Social Worker by 7 hours per week at a cost of \$13,590. This will allow the COA to further increase the assistance it provides to seniors in accessing SNAP and other food benefits, housing, transportation, heating assistance, and medical support. The HHS budget also increases mosquito control funding by \$10,000 and rodent control funding by \$30,000 in direct response to increased complaints about the growing prevalence of these vectors of disease.

Town Personnel Trends FY 2003 - FY2019 FTEs



Healthcare/Other Post-Employment Benefits (OPEB)

Healthcare premiums are assumed to increase by 5.25% in the FY2019 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 FY2019 rates on March 1st. At that time, adjustments can be made to the healthcare budget accordingly.

In FY2019, 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 \$2,200,000. The FY2019 recommendation to fund OPEB with \$300,000 from the Health Claims Trust Fund is the sixth 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 \$636,982 amount otherwise earmarked for appropriation into the OPEB Trust Fund, bringing the total proposed appropriation for FY2019 to \$936,982. 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	\$8,9000,000	\$201,000,000

Planning Locally for a Changing Climate and a Changing World

The FY2019 budget contains several proposals and initiatives that have been prompted by the local impacts of climate change and rapidly evolving technology. The combination of these factors has created a dynamic in which the Town finds itself faced with the need to both respond to and plan for issues that have either not traditionally been a large focus of the local government or altogether new.

As mentioned earlier, the FY2019 budget is proposing an increase of \$40,000 to address increasing concerns caused by vectors of disease, both mosquitoes and rodents. Mosquitoes carry disease and are a threat to public health. As climate change has progressed, we have

started to see new species of mosquitos that were previously only considered a threat to southern parts of the North America. Warmer winters have also allowed mosquito populations to fair better over the winter, thereby increasing their population throughout the year. The requested funding will allow us to dredge mosquito breeding grounds to reduce their prevalence in Arlington. There has also been an increase in reported rodent activity in Town over the past three years. Part of this has been caused by the warmer winters as well. As rodents are also a threat to public health, the requested funding will allow the Town to work with residents on strategies for controlling rodent activity on private property and also allow the Town to address rodent activity on public property.

The FY2019 budget also proposes a significant increase in funding for both tree planting and for tree related planning and management via an increase in the Tree Warden's hours. This is in response to both resident demand and concern, but also in response to recent data compiled by the Tree Committee which show an increase in heat islands in Arlington that can be mitigated through a strategic expansion of Arlington's urban canopy.

Going further, the addition of Senior Transportation Planner position is partially prompted by the impact that Waze and other navigation apps are impacting traffic on residential streets. This is a matter that communities across the nation are facing and it is caused by the rapidly expanding capabilities of smart phones and their associated apps.

The combination of these issues and others has prompted the Town to work to both plan and operate in new and different ways. The Town is committed to this proactive approach to these matters as it works to ensure that Arlington maintain its quality of life and sense of community.

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. Arlington has substantially benefited from its cooperation with the Green Communities Division, having received six grant awards over the past seven years, totaling \$1,365,419. The most recent grant award of \$179,698 came in 2017 and provided funding for LED lighting at the Brackett, Dallin and Ottoson as well as HVAC improvements at the Dallin and the purchase of two electric vehicles for the Town fleet. 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.

Collective Bargaining and Employee Relations

All Town and School employee unions have contracts in place through the close of the current fiscal year, FY2018. Bargaining for successor agreements is underway and the recently updated Comparative Compensation Study will be used to guide collective bargaining efforts for contracts beginning in FY2019.

State Aid

State aid is projected to increase by \$187,599 or .98% in FY2019. This projected increase is due to an assumption that both Chapter 70 and Unrestricted General Government Aid (UGGA) will be increased by 1% and other state aid accounts will remain level. This assumption will result in an increase in Chapter 70 funding of \$111,809 and an increase of \$75,790 in the UGGA allocation.

The Governor's budget, scheduled to be released January 24th, 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 significant reduction 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 FY2019 funding for the capital budget is as follows:

Bonding: \$5,100,000

Cash: \$2,695,027

Other: \$3,615,000

Our existing non-exempt debt is \$6,629,730 which is consistent with prior debt service projections for FY2019. The total capital budget for FY2019, including debt, is estimated at \$10.4 million. Major projects to be funded in FY2019 include street and sidewalk work for approximately \$2.2 million, and water and sewer work for \$2.4 million. An additional \$1.5 million has been included in FY2019 for the Hardy School Expansion to cover the cost of the cafeteria and required accessibility renovations.

Site improvements and construction for the Senior Center Renovation have been budgeted for \$4 million within the five year capital plan. The Town has recently hired an OPM for this project. 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 budgeted for FY2020, projected at a cost of \$20 million, with \$13 million being supported in the five year capital plan, and \$7 million being supported by the Water and Sewer Enterprise Fund. The Town is currently in the design development phase of this project.

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 \$2.8 million of recreation, open space, and historic preservation projects in the five year capital plan that has been recommended for CPA funding. The Community Preservation Committee is currently reviewing final applications that have been submitted for the FY2019 funding cycle and will make recommendations for CPA funding at Town Meeting.

Conclusion

Along with the theme of this budget providing funding as the Town adjusts to the changing world, it is also important to call attention to the shifting governmental landscape at the state and federal level. We are less able to rely on other levels of government to either provide or assist the Town in providing the level and quality of services that Arlington residents have come to expect. This means that the Town will need to increasingly rely on its own resources to provide services, or consider altering the level of services provided. This consideration will influence how the Town plans both now and into the future.

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