



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

October

Long-Rant Plan Updated Initial Revenue and Expenditure Forecast

November

Operating Budget requests due to Town Manager

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

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

FY2018 Average Single Family Tax Rate: \$12.13 per \$1,000

FY2018 Ave. Single Family Home Value: \$655,985

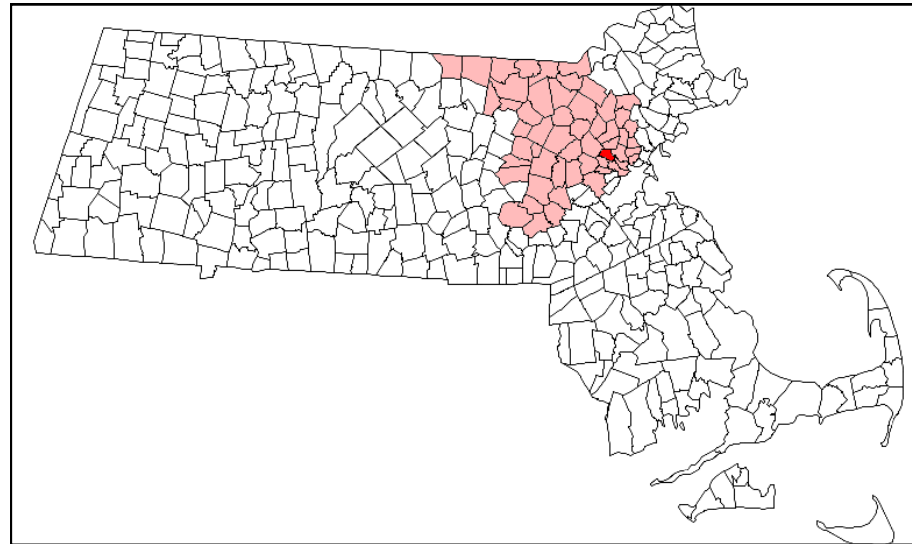
Coordinates: 42°24'55"N 71°09'25"W

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, 2017

Christopher P. Morill

Executive Director



Fiscal Year 2019 Annual Budget & Financial Plan Budget Message

July 1, 2018

To: The Honorable Board of Selectmen and Finance Committee

I hereby transmit to you the FY2019 operating and capital budgets and the FY2019-2023 capital plan as voted by Town Meeting. The budget as proposed totals \$160,907,698 which is an increase of \$8,407,954 (5.5%) 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 \$2,768,331. A summary showing a comparison of the FY2018 and FY2019 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, by April 6th. 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.*

Fiscal Year 2019 Budget



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:

- Exercising fiscal prudence to maintain financial stability through the success of a future operating override.
- Balancing prudence with recognition of the needs and expectations of Arlington residents and building Town and School budgets accordingly.
- 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:

Fiscal Year 2019 Budget



	FY 2018	FY 2019	\$ Increase	% Increase
General Education Costs	\$ 38,787,542	\$ 41,711,008	\$ 2,923,466	7.54%
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	\$ 66,253,022	\$ 5,324,537	8.74%

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 8.74% increase in an environment where property tax revenues are capped at an increase of 2.5%. This increase is made up of the usual 3.5% increase in General Education Costs, including the previous year's enrollment Growth Factor, a 7% increase in Special Education Costs, and this year's enrollment Growth Factor. In addition, there is \$1,300,000 more in the School budget to account for the increased costs associated with opening the Gibbs School. Finally, these figures assume an increase in Chapter 70 School Aid at the level recommended in the Governor's budget. This increase to the School budget is predicated on the Legislature increasing Chapter 70 aid at the same level. Details of the School Department Budget can be found at <http://www.arlington.k12.ma.us/administration/budget/>.

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 FY2021. However, in FY2022, the Town's structural deficit reemerges and is projected to be approximately \$14.5 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.

Fiscal Year 2019 Budget



Overall General Fund Budget Summary

	FY2017 Budget	FY2018 Budget	FY2019 Budget	Change \$	%
Revenue					
Property Tax	\$ 112,439,838	\$ 117,255,201	\$ 123,722,451	\$ 6,467,250	5.5%
Local Receipts	\$ 8,971,000	\$ 9,071,000	\$ 9,171,000	\$ 100,000	1.1%
State Aid	\$ 18,828,545	\$ 19,207,063	\$ 19,958,018	\$ 750,955	3.9%
School Construction Aid	\$ 2,474,774	\$ 1,615,914	\$ 476,523	\$ (1,139,391)	-70.5%
Free Cash	\$ 4,537,299	\$ 4,850,566	\$ 4,593,375	\$ (257,191)	-5.3%
Other Funds	\$ 200,000	\$ 500,000	\$ 200,000	\$ (300,000)	-60.0%
Override Stabilization Fund	\$ -	\$ -	\$ 2,786,331	\$ 2,786,331	100%
TOTAL TAXES, FEES, AID, AND OTHER SOURCES	\$ 147,451,456	\$ 152,499,744	\$ 160,907,698	\$ 8,407,954	5.5%
Transfers in (Offsets)	\$ 2,247,194	\$ 2,436,791	\$ 2,490,562	\$ 53,771	2.2%
TOTAL REVENUES	\$ 149,698,650	\$ 154,936,535	\$ 163,398,260	\$ 8,461,725	5.5%
Expenditures					
<i>Municipal Departments Appropriations *</i>	\$ 35,670,816	\$ 37,036,557	\$ 38,214,820	\$ 1,178,263	3.2%
<i>Offsets</i>	\$ (2,247,194)	\$ (2,436,791)	\$ (2,490,562)	\$ (53,771)	2.2%
Municipal Departments (Taxation Total)	\$ 33,423,622	\$ 34,599,766	\$ 35,724,258	\$ 1,124,492	3.2%
School Department	\$ 57,172,443	\$ 60,928,485	\$ 66,253,022	\$ 5,324,537	8.7%
Minuteman School	\$ 3,649,349	\$ 4,291,333	\$ 4,936,724	\$ 645,391	15.0%
Non-Departmental (Healthcare & Pensions)	\$ 26,562,346	\$ 27,381,296	\$ 27,924,645	\$ 543,349	2.0%
Capital (Includes Debt Service)	\$ 11,192,533	\$ 11,523,825	\$ 12,857,157	\$ 1,333,332	11.6%
MWRA Debt Shift	\$ 5,593,112	\$ 5,593,112	\$ 5,593,112	\$ -	0.0%
Warrant Articles	\$ 802,224	\$ 1,319,355	\$ 1,153,137	\$ (166,218)	-12.6%
Reserve Fund & Elections	\$ 1,607,650	\$ 1,506,440	\$ 1,553,287	\$ 46,847	3.1%
Override Stabilization Fund Deposit	\$ 2,349,927	\$ 211,136	\$ -	\$ (211,136)	-100%
TOTAL EXPENDITURES	\$ 142,353,205	\$ 147,354,748	\$ 155,995,342	\$ 8,640,594	5.9%
Non-Appropriated Expenses	\$ 5,098,251	\$ 5,144,996	\$ 4,912,356	\$ (232,640)	-4.5%
Surplus / (Deficit)	\$ -	\$ -	\$ -	\$ -	-

*The FY17, 18, and 19 Budgets reflect 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 10). 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): +\$239,854

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): +\$90,829

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

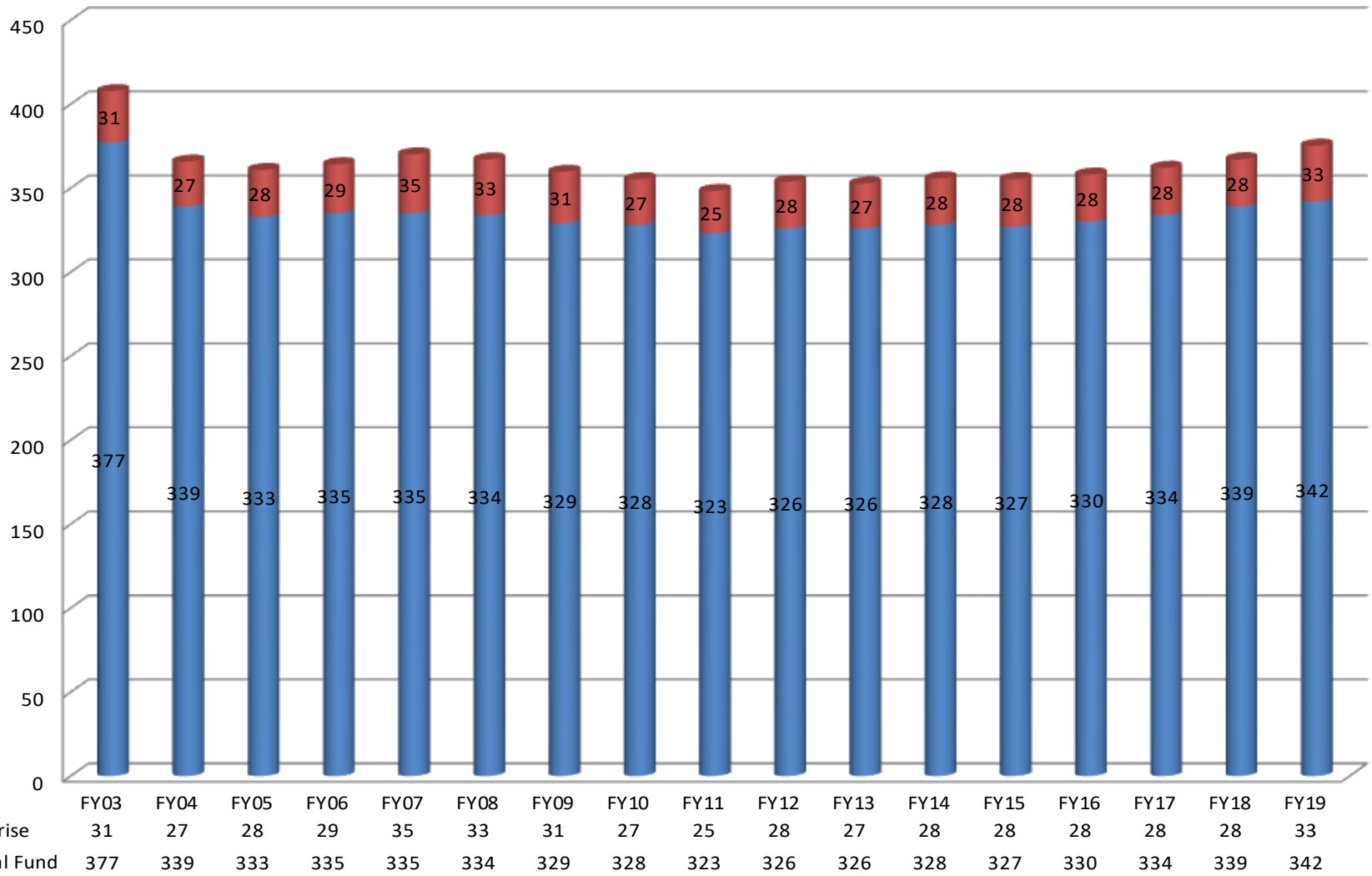
The Libraries budget proposes the creation of an Adult Services Librarian (\$52,015) position to more adequately meet the current needs of library users. This position will allow both the current Teen Librarian and Technology Librarian to focus on their subject matter area, thereby multiplying the productivity 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)

The General Fund Health Insurance appropriation will decrease by \$80,461, because the rates from the State Group Insurance Commission were essentially flat in the FY2019 budget. This decrease is happening even though the budget assumes an increase in benefit eligible school department employees based on the student enrollment growth.

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	\$8,900,000	\$201,000,000

Planning Locally for a Changing Climate and a Changing World

The FY2019 budget contains several proposals 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 are altogether new. The FY2019 budget proposes an increase of \$40,000 to address increasing concerns caused by disease vectors, 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 fare 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 both public and private property.



Planning Locally for a Changing Climate and a Changing World (*continued*)

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.

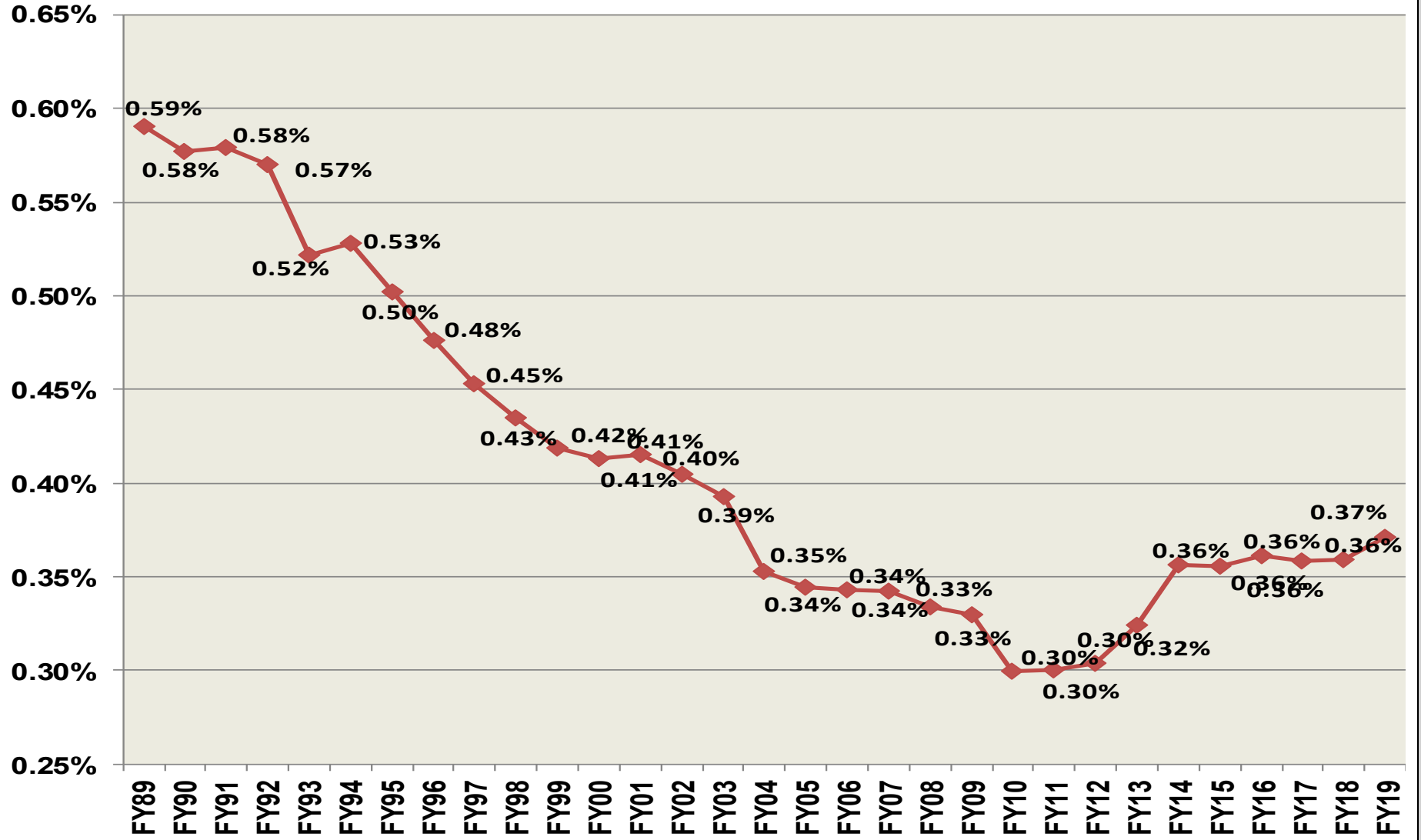
The combination of these issues and others has prompted the Town to work to both plan and operate in new and different ways. The Town is committed to this proactive approach to these matters as it works to ensure that Arlington maintain its quality of life and sense of community.

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.



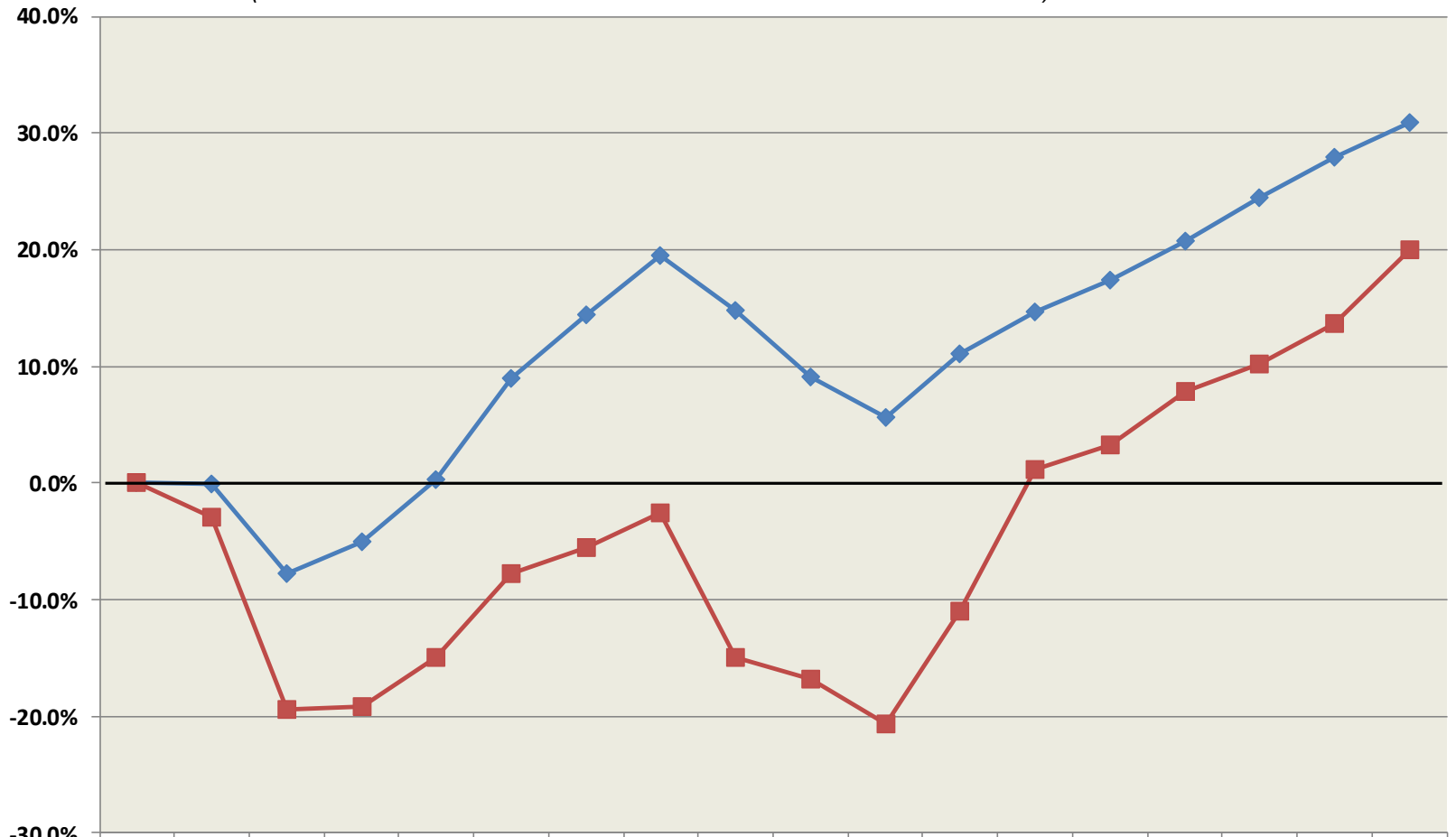
Arlington's Percent of Total State Aid





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

(Numbers Exclude School Construction and METCO Reimbursements)



◆ All Municipalities	0.0%	-0.1%	-7.7%	-5.1%	0.3%	8.9%	14.4%	19.5%	14.8%	9.1%	5.6%	11.0%	14.7%	17.4%	20.7%	24.5%	27.9%	30.9%
■ Arlington	0.0%	-2.9%	-19.5%	-19.2%	-15.0%	-7.7%	-5.5%	-2.6%	-14.9%	-16.8%	-20.6%	-11.0%	1.1%	3.3%	7.8%	10.2%	13.7%	20.0%



Comparative Data

The FY2019 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 unique to Arlington. Some 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 7 among a group of 13 comparable communities (see Table 3), and remains under the state-wide average. Another indicator of the Town's ability to and opportunity to raise revenue is a measure developed by the Department of Revenue called Municipal Revenue Growth Factor (MRGF). It measures a community's ability to raise revenue, taking into consideration a community's tax levy limit, new growth, state aid, and local receipts. As you can see from Table 4, the state-wide average and average of the twelve other comparable communities' MRGF is 4.41 and 4.20 respectively. Arlington's is 4.03, below the comparable communities' and state averages.

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 slightly less 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 15.62%, more than two times that of Arlington. This affects not only the Town's ability to raise revenue, it places a heavier tax burden on the residential sector as there is almost no commercial/industrial sector with which to share the tax burden. Notwithstanding this, the tax burden, when measured several different ways, is below the average of the 13 comparable communities. In fact, the Town ranks 8th in taxes per capita (Table 6), and 11th in taxes per household as a percent of median household income (Table 7). This is despite the fact that Arlington's tax levy includes more than \$5 million in MWRA water and sewer debt.

A look at how the Town's spending levels impact the Town's financial position shows that the Town's spending per capita is well below the state average and the average of the 13 comparable communities. Arlington ranks 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.

Fiscal Year 2019 Budget



Table 1		Table 2		Table 3		Table 4	
Municipality	Pop Per Square Mile	Municipality	Households Per Sq Mile	Municipality	New Growth Avg. '15-'17	Municipality	FY2019 Municipal Revenue Growth Factor
1 BROOKLINE	8,708	1 BROOKLINE	3,890	1 NEEDHAM	3.79	1 NEEDHAM	6.40
2 ARLINGTON	8,500	2 ARLINGTON	3,747	2 WATERTOWN	2.68	2 NATICK	5.70
3 WATERTOWN	8,028	3 WATERTOWN	3,652	3 MEDFORD	1.82	3 STONEHAM	4.10
4 MEDFORD	7,023	4 MEDFORD	2,787	4 STATEWIDE	1.78	4 READING	4.08
5 MELROSE	5,904	5 MELROSE	2,398	5 READING	1.64	5 BELMONT	4.08
6 BELMONT	5,436	6 BELMONT	2,142	6 BROOKLINE	1.34	6 ARLINGTON	4.03
7 WINCHESTER	3,655	7 STONEHAM	1,510	7 ARLINGTON	1.26	7 MEDFORD	3.93
8 STONEHAM	3,534	8 WINCHESTER	1,309	8 NATICK	1.25	8 MELROSE	3.84
9 READING	2,551	9 READING	889	9 WINCHESTER	1.25	9 NORTH ANDOVER	3.77
10 NEEDHAM	2,358	10 NATICK	886	10 NORTH ANDOVER	1.25	10 WATERTOWN	3.75
11 NATICK	2,335	11 NEEDHAM	860	11 SONTEHAM	1.07	11 WINCHESTER	3.71
12 MILTON	2,091	12 MILTON	703	12 BELMONT	0.97	12 BROOKLINE	3.57
13 NORTH ANDOVER	1,096	13 NORTH ANDOVER	373	13 MILTON	0.85	13 MILTON	3.51
Ave w/o Arlington	4,393	Ave w/o Arlington	1,783	Ave w/o Arlington	1.64	Ave w/o Arlington	4.20
Arlington	8,500	Arlington	3,747	Arlington	1.26	Arlington	4.03
				State-Wide Ave	1.78	State-Wide Ave	4.41

Fiscal Year 2019 Budget



Table 5		Table 6		Table 7		Table 8	
Municipality	FY2018 Commercial/Industrial/Personal % of Total Tax Levy	Municipality	FY2018 Taxes Per Cap	Municipality	FY2018 Taxes/Household as % of 12-16 median income	Municipality	FY2015 Total Exp Per Cap
1 WATERTOWN	33.70%	1 NEEDHAM	\$4,457	1 NEEDHAM	8.5%	1 NEEDHAM	\$4,666
2 NEEDHAM	23.08%	2 WINCHESTER	\$4,018	2 WINCHESTER	7.4%	2 WINCHESTER	\$4,528
3 NATICK	20.99%	3 BROOKLINE	\$3,575	3 BROOKLINE	7.8%	3 BROOKLINE	\$4,124
4 MEDFORD	19.32%	4 BELMONT	\$3,495	4 NATICK	7.3%	4 BELMONT	\$3,961
5 BROOKLINE	17.48%	5 WATERTOWN	\$3,069	5 BELMONT	7.6%	5 WATERTOWN	\$3,646
6 STONEHAM	17.47%	6 NATICK	\$3,050	6 WATERTOWN	7.1%	6 NATICK	\$3,638
7 NORTH ANDOVER	16.78%	7 MILTON	\$2,917	7 MILTON	6.7%	7 READING	\$3,395
8 MELROSE	8.30%	8 ARLINGTON	\$2,663	8 NORTH ANDOVER	6.5%	8 MILTON	\$3,300
9 READING	8.00%	9 READING	\$2,656	9 STONEHAM	6.2%	9 ARLINGTON	\$3,209
10 MILTON	6.13%	10 NORTH ANDOVER	\$2,492	10 READING	6.4%	10 NORTH ANDOVER	\$2,953
11 ARLINGTON	5.97%	11 STONEHAM	\$2,258	11 ARLINGTON	6.0%	11 MELROSE	\$2,900
12 BELMONT	5.93%	12 MELROSE	\$2,067	12 MEDFORD	5.7%	12 STONEHAM	\$2,854
13 WINCHESTER	4.25%	13 MEDFORD	\$1,914	13 MELROSE	5.6%	13 MEDFORD	\$2,517
Ave w/o Arlington	15.62%	Ave w/o Arlington	\$2,997	Ave w/o Arlington	6.9%	Ave w/o Arlington	\$3,540
Arlington	5.86%	Arlington	\$2,663	Arlington	6.0%	Arlington	\$3,209



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, exclusive of school construction aid, is projected to increase by \$600,252 or 3.13% in FY2019. This projected increase is based on state aid figures in Governor Baker's FY2019 State budget, released in January. That budget contains increase for Arlington's Chapter 70 school aid of 3.2% and Unrestricted General Government Aid (UGGA) of 3.5%. This assumption will result in an increase in Chapter 70 funding of \$353,807 and an increase of \$265,265 in the UGGA allocation. These increases are subject to approval by the Legislature. The House of Representatives will release its version of the FY2019 State budget in April.

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 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 Budget FY2019 and Capital Plan FY2019-FY2023

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:	\$5,275,000
Cash:	\$2,795,027
Other:	\$3,615,000

Our existing non-exempt debt is \$6,624,043 which is consistent with prior debt service projections for FY2019. The total capital budget for FY2019, including debt, is estimated at \$12.8 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 \$1.3 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.



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 5.5% in FY2019. Future year increases range from -4.17% to 4.46%, which occurs in FY2020 depending on the reliance on funds from the Override Stabilization Fund. In FY2022, revenue is projected to decrease by 4.17%. This is a result of projecting to have insufficient revenues that year, because the Override Stabilization Fund will have been depleted. It is anticipated that an operating override will be proposed to avoid this deficit and the resulting cuts to Town and School services.
- **Tax Levy** – The FY2019 tax levy is projected to increase by approximately 5.5%. Future year increases are projected to be between approximately 2.55% and 2.66% per year. New growth is projected at \$650,000 this year. Debt payments for Proposition 2½ debt exempted school projects minus state reimbursements are included and amount to approximately \$3,500,000 to \$4,200,000 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 House budget, state aid is projected to increase 3.13%. In out years, increases are projected between 1% and 2% depending on projected school enrollment growth.
- **School Construction Reimbursement** - MSBA reimbursements will decrease to \$476,523 in FY2019, which 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 FY2019 due to projected increases in Motor Vehicle Excise tax collections. It is anticipated that Local Receipts will continue to grow by \$100,000 annually thereafter.



- **Free Cash** – FY2019 Free Cash use is \$4,593,375, which is 50% of the Town’s available free cash balance. For FY2020 and in each subsequent year, \$2,901,145 is proposed to be appropriated. This is of 50% of the ten year average of certified Fee Cash.
- **Other Available Funds** – A transfer of \$200,000 from surplus tax abatement overlay reserve funds is projected in FY2019. 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 (FY2012-2018) funds were be deposited into the Fund, resulting in an balance of approximately \$23.5 million. In FY2019, a drawdown of \$2,786,331 will be required to balance the budget. In FY2020 a drawdown of \$8 million and in FY2021 a drawdown of \$11.5 will be needed to close the budget gaps, leaving \$1.3 million in the Fund to apply to a budget gap of approximately \$14.3 million in FY2022 (the tenth year since the last override) and \$18.5 million in FY2023. 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 were 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 school budget increases ranging from 5.49% to 6.01%. The growth factor is explained in greater detail earlier in the Town Manager’s Budget Message.
- **Minuteman School** – In FY2019 the Town’s Minuteman Technical Vocational Regional High School assessment will increase by \$645,391 (15.04%). This most of this increase is due to assessments to pay for debt services for the new Minuteman High School construction project. In future years, those capital assessments will continue to increase as the construction project moves forward. Also, in future years operating increases for Minuteman are projected at 3.5% per year.
- **Municipal Departments** - Expenditures for municipal departments will increase by 3.25% in FY2019 in line with Town policy. Going forward, Town expenditure increases 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 most school projects, except the Ottoson and the Hardy Schools. Exempt debt, also sometimes referred to as Excluded Debt, is debt service that is added to the tax levy above the normal limits of Proposition 21/2.
 - **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 FY2019 \$2,795,027 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 FY2019 the pension appropriation will increase 6.15% and thereafter, increases 5.5% annually.
- **Insurance (including Healthcare)** – Health care and insurance costs are expected to decrease by 0.47%. Employee premiums (GIC rates) increases and decreases varied based on the sixteen different plans offered by the GIC. The overall health insurance rate decrease for Arlington is projected to be –2.15%. In outgoing years costs are projected to increase from 5% to 6% per year depending on enrollment growth in the School Department.
- **State Assessments** – In FY2019, the MBTA assessment, which is the largest assessment, will increase by \$72,838 (2.5%). Overall, state assessments will increase by 3.1%, and increase by 2.50% annually thereafter.
- **Offset Aid** – Assistance to Libraries will increase \$185.
- **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.



- **Reserve Fund** – The Reserve Fund is budgeted at 1% of operating revenues.
- **Other** – This includes court judgments (\$100,000) and Symmes property taxes reserved for Symmes debt (\$671,250). The estimate fluctuates with actual Symmes debt service payments.
- **Warrant Articles** – Appropriations for miscellaneous warrant articles have been estimated at \$1,127,628 in FY2019 and thereafter held level. It includes the Elections budget, which fluctuates by approximately \$100,000 per year depending on the number of scheduled elections.
- **Override Stabilization Fund** – There is no appropriation into the Override Stabilization Fund in FY2019 or subsequent years..



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,

Adam W. Chapdelaine

Town Manager

Fiscal Year 2019 Budget



Long Range Financial Projection

	FY 2018	FY 2019	Dollar Change	Percent Change	FY 2020	FY 2021	FY 2022	FY 2023
I REVENUE								
A. State Aid	19,207,063	19,958,018	750,955	3.91%	20,153,315	20,350,564	20,549,786	20,751,000
School Construction Aid	1,615,914	476,523	(1,139,391)	-70.51%	476,523	476,523	0	0
B. Local Receipts	9,071,000	9,171,000	100,000	1.10%	9,271,000	9,371,000	9,471,000	9,571,000
C. Free Cash	4,850,566	4,593,375	(257,191)	-5.30%	2,901,145	2,901,145	2,901,145	2,901,145
D. Overlay Reserve Surplus	500,000	200,000	(300,000)	-60.00%	200,000	200,000	200,000	200,000
E. Property Tax	117,255,201	123,722,451	6,467,250	5.52%	126,997,516	130,309,348	133,629,852	137,074,705
F. Override Stabilization Fund	0	2,786,331	2,786,331		8,061,167	11,545,483	1,299,231	0
TOTAL REVENUES	152,499,744	160,907,698	8,407,954	5.51%	168,060,666	175,154,063	168,051,014	170,497,850
II APPROPRIATIONS								
A. Operating Budgets								
General Education Costs	38,787,542	43,011,008	4,223,466	10.89%	45,377,493	47,943,306	50,254,483	52,833,967
Special Education Costs	20,037,415	21,440,034	1,402,619	7.00%	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
Growth Factor	1,133,528	831,980	(301,548)	-26.60%	944,542	611,750	792,828	665,584
Net School Budget	60,928,485	66,253,022	5,324,537	8.74%	70,232,871	74,071,751	78,282,275	82,573,062
Minuteman	4,291,333	4,936,724	645,391	15.04%	5,109,509	5,288,342	5,473,434	5,665,004
Town Personnel Services	26,722,171	27,620,241	898,070	3.36%	28,517,899	29,444,731	30,401,685	31,389,740
Expenses	10,314,386	10,594,579	280,193	2.72%	10,938,903	11,294,417	11,661,486	12,040,484
<i>Less Offsets: Enterprise Fund/Other</i>	<i>2,436,791</i>	<i>2,490,562</i>	<i>53,771</i>	<i>2.21%</i>	<i>2,571,505</i>	<i>2,655,079</i>	<i>2,741,369</i>	<i>2,830,463</i>
Net Town Budget	34,599,766	35,724,258	1,124,492	3.25%	36,885,297	38,084,069	39,321,802	40,599,761
MWRA Debt Shift	5,593,112	5,593,112	0	0.00%	5,593,112	5,593,112	5,593,112	5,593,112
B. Capital budget								
Exempt Debt Service	3,175,427	4,432,143	1,256,716	39.58%	4,273,079	4,114,929	3,452,179	3,352,632
Non-Exempt Service	7,281,819	6,624,043	(657,776)	-9.03%	6,558,240	6,937,624	7,307,245	7,051,990
Cash	3,941,928	2,795,027	(1,146,901)	-29.09%	2,676,735	2,419,060	2,225,544	2,213,383
Offets/Capital Carry Forward	(2,875,349)	(994,056)	1,881,293	-65.43%	(361,629)	(317,138)	(387,057)	(351,743)
Total Capital	11,523,825	12,857,157	1,333,332	11.57%	13,146,425	13,154,475	12,597,911	12,266,262
C. Pensions	10,141,735	10,765,545	623,810	6.15%	11,357,650	11,982,321	12,641,349	13,336,623
D. Insurance	17,239,561	17,159,100	(80,461)	-0.47%	18,236,212	19,311,408	20,482,783	21,694,587
E. State Assessments	3,240,429	3,341,106	100,677	3.11%	3,423,233	3,507,412	3,593,697	3,682,138
G. Overlay Reserve	1,156,229	800,000	(356,229)	-30.81%	600,000	600,000	800,000	600,000
H. Reserve Fund	1,506,440	1,553,287	46,847	3.11%	1,599,995	1,636,086	1,667,518	1,704,979
I. Crt Jdgmnts/Deficit/Symmes	748,338	771,250	22,912	3.06%	773,225	771,950	767,450	100,000
J. Warrant Articles	1,319,355	1,153,137	(166,218)	-12.60%	1,103,137	1,153,137	1,103,137	1,153,137
K. Override Stabilization Fund	211,136	0	(211,136)	-100.00%	0	0	0	0
L. TOTAL APPROPRIATIONS	152,499,744	160,907,698	8,407,954	5.51%	168,060,666	175,154,063	182,324,467	188,968,664
BALANCE	0	0			0	0	(14,273,453)	(18,470,814)



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