



Town of Arlington

Office of the Town Manager

Sandy Pooler, Town Manager

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January 13, 2023

To: The Honorable Select Board and Finance Committee

I hereby transmit to you the recommended FY2024 operating and capital budgets and the FY2024-2028 capital plan. The General Fund budget as proposed totals \$206,253,646 which is an increase of \$8,501,122 (4.30%) from the current budget. A summary showing a comparison of the FY2023 and FY2024 revenues and expenditures is shown on page 4. Also, this budget proposal will be made available via the Town's online budget tool, Arlington Visual Budget, by February 15th. It can be viewed at arlingtonvisualbudget.org.

The FY2024 budget is built on a foundation that is both stable and potentially volatile. Property taxes remain a stable source of revenue and make up three quarters of the Town's budget. As the largest source of revenue, property taxes increase steadily each year, but that revenue growth is limited by Proposition 2½ and is insufficient to keep up with rising costs. It is because of this structural deficit between limited property tax revenue increases and steadily increasing costs for essential services that that Town has periodically asked voters to approve Proposition 2½ operating overrides. The volatility in the revenue picture stems from two factors; the ongoing impact of the COVID-19 pandemic and anticipated changes in State aid. The COVID-19 pandemic reduced local revenue for several years in areas such as Motor Vehicle Excise Tax receipts, meals and hotel taxes, and some fees. These sources have slowly been returning to their former levels, but some still lag their previous highs. To replace that lost revenue, the Town has used \$5 million in American Rescue Plan Act (ARPA) funds last year and this year. State aid remains a big question at this moment. The new Governor has until March 1, 2023 to release her FY2024 budget and the State aid figures in it. Depending on what those state aid numbers are, the Town may or may not need an operating budget override in June 2023.

The framework for Arlington's long range financial planning remains intact. FY2023, the current fiscal year, is the fourth year of a four-year plan that incorporated the Proposition 2 ½ override of 2019 designed to carry the Town's budgets through FY2023. The Select Board adopted a set of commitments which served as the basis for the \$5,500,000 operating override that was successfully passed via a Town-wide ballot measure on June 11, 2019. The Board's commitments and the status of fulfilling them are as follows:

- 1) Exercise fiscal discipline and provide quality municipal services.
 - a. Commit to no Proposition 2½ overrides for at least four years. – **This budget submission maintains this commitment.**
 - b. Continue to increase general education operating budgets by 3.5% annually. – **This commitment is maintained.**
 - c. Continue to increase general government operating budgets by 3.25% annually. – **This commitment is maintained.**
 - d. Continue to fund special education cost growth at a rate of 7% per year. – **This commitment is maintained.**
- 2) Respond to ongoing school enrollment growth pressures. Increase the education budget for future enrollment increases at a rate of 50% of per pupil expenditures. – **This commitment is maintained. Changes in enrollment are discussed on page 3.**
- 3) Build Arlington’s future.
 - a. Phase in funding of the School Committee’s Multi-Year Plan to: address the impact of explosive enrollment growth of 26% since 2011 through 2019, [making Arlington one of the fastest growing school districts in the State]; improve instruction; close the achievement gap for high needs students; ensure safe and supportive schools; and attract, retain, and develop talented staff. Adopt the following schedule of increases to base operating budgets: FY20 - \$600,000; FY21 - \$600,000; FY22 - \$800,000; FY23 - \$800,000. – **This commitment is maintained, but the schedule of funding has changed due to the economic impacts of the pandemic. This new schedule is described on Page 3.**
 - b. Improve mobility for all residents and support the goals of the Town’s Complete Streets and Age-Friendly Community initiatives by adding \$250,000 to the base budget for pedestrian infrastructure -- including sidewalk brick removal and repair -- and senior transportation, such investments to be guided by the Town’s sustainable mobility planning efforts. – **This commitment is maintained, with \$200,000 for mobility improvements being included in the capital budget and \$50,000 in funding included in the Council on Aging Transportation Enterprise Fund.**
- 4) Minimize impact on taxpayers, particularly seniors and others with income challenges.
 - a. Advance new tax relief programs, including a municipal circuit breaker and increased eligibility for property tax deferral options, and publicize existing relief programs. – **A new tax deferral program is in place with higher eligibility criteria to allow residents greater access to the program.**
 - b. Remove certain water and sewer debt costs from property tax bills. – **The Select Board’s reduction of the MWRA Debt Shift in coordination with the issuance of debt related to the Arlington High School Project is complete and no longer in the Town budget.**
 - c. Pursue new revenue sources. – **This commitment is fulfilled on a year over year basis.**
 - d. Work with financial leadership to develop bonding schedules that will minimize single-year tax increases and debt service costs related to the Arlington High School rebuild. – **This commitment is being maintained by the Town’s Finance Department.**
- 5) Protect against future fiscal shocks and maintain the Town’s strong bond rating. Maintain financial reserves at 5% or better for the duration of the four-year plan. – **This commitment is maintained.**

Beyond the investments outlined above, the FY2024 budget proposal is a level service budget that maintains core municipal services (Police, Fire, DPW, Town Hall, Library, and Human Services) at current levels. Targeted investments have been made to address community needs and the details of those changes are discussed below.

School Department Funding

Since the outset of the pandemic, Arlington, like many school districts, has seen a significant drop from pre-pandemic levels of student enrollment. For FY2023, the Town reduced the School Enrollment Growth Factor to account for an enrollment drop of 189 students. In FY2024 enrollment is projected to increase by 108 students resulting in a Student Enrollment Growth Factor Increase of \$2,343,816. Additionally, the FY2024 budget proposal recognizes the need for a second year of COVID-related mitigation within the school district budget and proposes funding these services in the amount of \$600,000. The table below outlines the School Department funding recommendation:

	FY2023	FY2024	\$ Increase	% Increase
General Education	\$55,724,058	\$57,312,461	\$1,588,403	2.85%
Special Education	\$28,103,511	\$30,070,757	\$1,967,246	7.00%
Strategic Plan Implementation	\$1,030,000	\$0	(\$1,030,000)	(100.00%)
Enrollment Reset	(\$1,379,700)	\$964,116	\$2,343,816	-
One Time COVID Impact	\$970,000	\$600,000	(\$370,000)	(38.40%)
Total	\$84,447,869	\$88,947,334	\$4,499,465	5.33%

Overall General Fund Budget Summary

	FY2021 Actual	FY2022 Actual	FY2023 Budget	FY2024 Budget	Change \$	%
Revenue						
Property Tax	\$ 138,199,500	\$ 142,948,226	\$ 149,169,849	\$ 153,321,408	\$ 4,151,559	2.78%
Local Receipts	\$ 9,708,615	\$ 14,361,111	\$ 9,225,900	\$ 9,685,994	\$ 460,094	4.99%
State Aid	\$ 23,136,038	\$ 23,529,766	\$ 25,221,523	\$ 25,961,972	\$ 740,449	2.94%
School Construction Aid in FY21, APRA in FY23+FY24	\$ 476,523	\$ -	\$ 5,000,000	\$ 5,000,000	\$ -	0.00%
Free Cash	\$ 5,901,388	\$ 5,659,184	\$ 5,539,215	\$ 7,956,044	\$ 2,416,829	43.63%
Other Funds	\$ 400,000	\$ 650,000	\$ 650,000	\$ 500,000	\$ (150,000)	-23.08%
Override Stabilization Fund	\$ 2,024,197	\$ 6,248,581	\$ 2,946,037	\$ 3,828,228	\$ 882,191	29.95%
TOTAL TAXES, FEES, AID, AND OTHER SOURCES	\$ 179,846,261	\$ 193,396,868	\$ 197,752,524	\$ 206,253,646	\$ 8,501,122	4.30%
Transfers in (Offsets)	\$ 2,642,197	\$ 2,916,046	\$ 3,200,418	\$ 3,257,455	\$ 57,037	1.78%
TOTAL REVENUES	\$ 182,488,458	\$ 196,312,914	\$ 200,952,942	\$ 209,511,101	\$ 8,558,159	4.26%
Expenditures						
<i>Municipal Departments Appropriations</i>	\$ 37,362,952	\$ 38,793,032	\$ 43,177,153	\$ 44,631,928	\$ 1,454,775	3.37%
<i>Offsets and Indirect Costs</i>	\$ (2,642,197)	\$ (2,916,046)	\$ (3,200,418)	\$ (3,257,455)	\$ (57,037)	-1.78%
Municipal Departments (Taxation Total)	\$ 34,720,755	\$ 35,876,986	\$ 39,976,735	\$ 41,374,473	\$ 1,397,738	3.50%
School Department	\$ 75,570,531	\$ 80,104,634	\$ 84,447,869	\$ 88,947,334	\$ 4,499,465	5.33%
Minuteman School	\$ 6,113,371	\$ 6,795,546	\$ 7,947,939	\$ 8,940,897	\$ 992,958	12.49%
Non-Departmental (Healthcare & Pensions)	\$ 32,668,334	\$ 34,655,668	\$ 35,140,146	\$ 36,766,947	\$ 1,626,801	4.63%
Capital (Includes Debt Service)	\$ 16,253,328	\$ 18,303,789	\$ 21,949,893	\$ 22,380,767	\$ 430,874	1.96%
MWRA Debt Shift	\$ 3,691,454	\$ 1,845,727	\$ -	\$ -	\$ -	0.00%
Warrant Articles	\$ 956,619	\$ 950,085	\$ 1,310,188	\$ 1,235,345	\$ (74,843)	-5.71%
Reserve Fund	\$ 1,556,724	\$ 1,720,145	\$ 1,753,178	\$ 1,900,782	\$ 147,604	8.42%
Override Stabilization Fund Deposit	\$ -	\$ 1,094,055	\$ -	\$ -	\$ -	-
TOTAL EXPENDITURES	\$ 171,531,116	\$ 181,346,634	\$ 192,525,948	\$ 201,546,545	\$ 9,020,597	4.69%
Non-Appropriated Expenses	\$ 5,188,666	\$ 5,053,518	\$ 5,226,576	\$ 4,707,101	\$ (519,475)	-9.94%
Surplus / (Deficit)	\$ 3,126,480	\$ 6,996,716	\$ -	\$ -	\$ -	0.00%

Departmental Budgets

Departmental budgets have been held to a net 3.25% increase in accordance with the Long Range Plan. The Town municipal budget increase is a net of personnel and expense budget increases, minus offsets from various sources. In FY2024, there is a onetime adjustment to the municipal budget because of a change to how the Town collects ambulance service revenue. Previously, much of the ambulance revenue went to the Ambulance Revolving Fund, part of which was used as an offset to the municipal budget, paying for the salaries and benefits of two firefighters and some related equipment. Now ambulance revenue flows primarily to the General Fund, thereby substantially reducing the offset. To make up for that change, I propose reducing the offset figure and increasing the General Fund figure used for the Fire Department budget for a onetime increase of the overall municipal budget of 3.5%. The primary investments in this budget relate to recycling/solid waste collection, shifting building costs to the Facilities Department and increasing the budget for the new DPW buildings, and implementation of collective bargaining agreements. No new general fund positions have been added in this budget recommendation (see personnel chart on page 6), though several small increases in existing staff hours have increased personnel by .6 FTE. This chart also shows the number of full-time equivalent (FTE) positions that are funded by grants, American Rescue Plan Act (ARPA) funds, and other federal funding. The personnel chart also shows an increase of four people in the Enterprise funds, one in Recreation and the Ed Burns Arena (Rink) and three in the Arlington Youth Counseling Center (AYCC).

DPW - An increase of \$122,761 for the second year of a new, three-year, recycling/solid waste hauling contract between the Town and Republic Waste Service. Last year, Republic Waste Service bought JRM and took over collection of trash, recycling, and yard waste.

Facilities - An increase of \$222,416 for utility, maintenance, and repair costs for the Community Center, 23 Maple St., and the Jefferson Cutter House building and the new DPW buildings that house the Inspections and Information Technology Departments on Grove St.

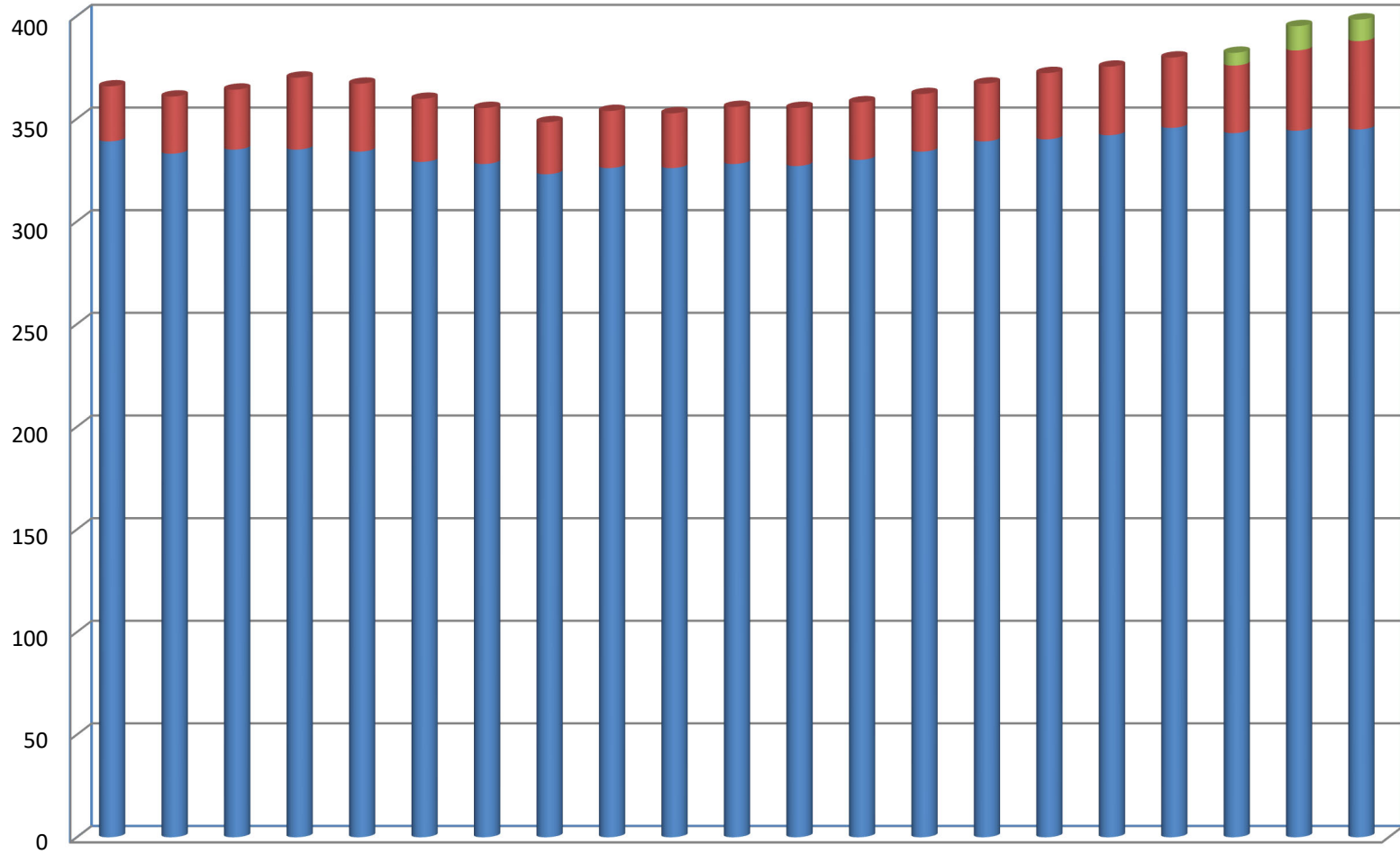
Police, IT, Library - An increase of \$25,000 for bullet proof vests and \$62,000 for computer licenses + fees. After consultation with the Capital Planning Committee, the decision was made to bring these annual expenses into the operating budget from the capital plan.

American Rescue Plan Act Funding

The Town is receiving \$35,247,893 in funding from the American Rescue Plan Act (ARPA). These funds have been programmed in a framework endorsed by the Select Board. The Town will use \$10,000,000 of these funds to offset revenue losses experienced during the pandemic. The Town also plans to use a modest portion of the overall ARPA allocation to fund staff positions that are eligible under ARPA rules. These positions will expire at the conclusion of the ARPA grant period. These positions total \$357,092 and are as follows:

Department + Position	Amount	Department + Position	Amount
<u>Town Manager</u>		<u>Diversity, Equity & Inclusion Division</u>	
Communications Coordinator (1.0 FTE)	\$61,169	Community Outreach Coordinator (1.0 FTE)	\$65,962
<u>Health Division</u>		<u>Arlington Youth Counseling Center</u>	
Public Health Nurse (.61 FTE)	\$55,967	Psychiatrist (.23 FTE)	\$19,809
Health Compliance Officer (1.0 FTE)	\$74,185	Hourly Mental Health Clinicians	\$80,000

Town Personnel Trends FY 2004 - FY2024 FTEs



■ ARPA/Grant

■ Enterprise

■ General

	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24
ARPA/Grant																			6.2	11.8	10.5
Enterprise	27	28	29	35	33	31	27	25	28	27	28	28	28	28	28	32	33	34	32.9	39.1	43.0
General	339	333	335	335	334	329	328	323	326	326	328	327	330	334	339	340	342	346	343.0	344.2	344.8

Healthcare/Other Post-Employment Benefits (OPEB)

Healthcare spending is preliminarily assumed to increase by 3.17% in the FY2024 budget. The actual cost of premiums will not be known until the Group Insurance Commission (GIC) releases FY2024 rates on March 1st. At that time, adjustments can be made to the healthcare budget accordingly.

In FY2024, 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 \$1,760,263. The FY2024 recommendation to fund OPEB with \$300,000 from the Health Claims Trust Fund is the eleventh 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 \$655,000 amount otherwise earmarked for appropriation into the OPEB Trust Fund, bringing the total proposed appropriation for FY2024 to \$955,000. The table below provides information regarding the Town’s OPEB Trust Fund and OPEB liability.

Town of Arlington OPEB Liability - As of June 30				
Year	Total Liability	Total Assets	Net Liability	Percent Funded
2020	\$252,494,363	\$15,865,946	\$236,628,417	6.3%
2021	\$264,518,341	\$21,268,077	\$243,250,264	8.0%
2022	\$210,380,832	\$19,078,429	\$191,302,403	9.1%

Collective Bargaining and Employee Relations

The Town will begin collective bargaining with all unions starting in FY2024. In the current bargaining cycles (FY2022-24), the Town is in the arbitration process with the Patrol Officers union and is awaiting a request to negotiate from the Ranking Officers Association

State Aid

State aid is projected to increase by \$740,449 or 3% in FY2024. This projected increase is due to an assumption that Chapter 70 will increase by 3% and Unrestricted General Government Aid (UGGA) will increase by 3% and other state aid accounts will remain level. This assumption will result in an increase in Chapter 70 funding of \$476,801 and an increase of \$263,648 in the UGGA allocation.

The Governor’s budget, scheduled to be released March 1, 2023, will be our first indication of what local aid will be.

Financial Structure and Outlook

Each year, for many 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. The annual structural deficit is approximately \$4,000,000. 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 nearly 40 years of Proposition 2½, there have been only four general tax overrides (inclusive of the June 2019 override). Throughout the winter and spring of 2023, town leaders will need to review updated revenue and expense figures as they become available and will have to decide whether to recommend an override this spring or to wait until the spring of 2024.

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 FY2024 funding for the capital budget is as follows:

Bonding: \$7,154,944

Cash: \$3,933,856

Other: \$5,764,000

Our existing non-exempt debt is \$7,036,880 which is consistent with prior debt service projections for FY2024. The total capital budget for FY2024, including all debt, is estimated at \$22.3 million. Along with ongoing commitments to spending on the High School and DPW projects, the Capital Plan continues to fund ongoing, recurring capital needs such as road, sidewalks, water and sewer improvements, vehicles, and information technology equipment, without taking on new major investments in FY2024. New to this year's plan are \$1.7 million of American Rescue Plan Act (ARPA) funds which are offsetting school and town HVAC projects.

Conclusion

In these difficult economic times there have been unprecedented challenges, both financial and operational. In the face of this our staff has worked tirelessly to provide high-quality services to the residents of Arlington. In this budget, every effort is being made to implement all appropriate measures that will maximize the productivity of our organization and deliver services within available resources and within the context of the pandemic. 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 Select Board for its policy insights and leadership. I am most of all indebted to Julie Wayman, Budget Director, for producing this budget document. She deserves special recognition for the quality of the budget document and for the information and the data contained herein.

Respectfully submitted,

Sandy Pooler

Town Manager