



## Fiscal Year 2008 Financial Plan Budget Message

April 23, 2007

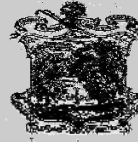
To: The Honorable Board of Selectmen and Finance Committee

I hereby transmit to you the recommended FY2008 operating and capital budgets and the FY 2008-2012 capital plan. The budget, as proposed, totals \$107,447,806 which is an increase of \$2,142,710, or 2%. A summary showing a comparison of FY2007 and FY2008 revenues and expenses is shown on page I-2.

The budget has been developed in compliance with the commitments made as part of the Proposition 2 ½ override passed two years ago. The commitments are summarized as follows:

1. Override funds will be made to last at least five years (FY2006-FY2010). No general override will be sought during this period.
2. Healthcare and pension costs will be limited to increases of no more than 7% and 4% respectively.
3. Town and school operating budgets will be limited to increases of no more than 4%. Should healthcare costs exceed the 7% limitation, operating budget increases shall be reduced below 4% accordingly.
4. Reserves shall be maintained in an amount equivalent to at least 5% of the budget.

The FY2008 budget is the third year of the five-year override plan. As proposed, it provides for level services. Budget priorities have been retained—public safety and education being the top priorities. Overall personnel complements have been increased by two positions, one in personnel to provide increased support for the ever increasingly complex health insurance management and a School Resource Officer in the Police Department, half of which is funded through the school department.



### Overall Budget Summary

	FY2007	FY2008	CHANGE	
			\$	%
<b>Revenue</b>				
Tax Levy	\$ 76,778,350	\$ 78,983,969	\$ 2,205,619	2.87%
Local Receipts	\$ 8,172,024	\$ 8,834,256	\$ 662,232	8.10%
State Aid - Cherry Sheet	\$ 15,600,746	\$ 15,980,823	\$ 380,077	2.44%
School Construction	\$ 2,269,282	\$ 2,194,022	\$ (75,260)	-3.32%
Free Cash	\$ 2,084,695	\$ 954,736	\$ (1,129,959)	-54.20%
Other Funds	\$ 400,000	\$ 500,000	\$ 100,000	25.00%
<b>Total Revenues</b>	<b>\$ 105,305,097</b>	<b>\$ 107,447,806</b>	<b>\$ 2,142,709</b>	<b>2.03%</b>
<b>Expenditures</b>				
Municipal Departments	\$ 26,100,541	\$ 27,125,700	\$ 1,025,159	3.93%
School Department	\$ 35,363,743	\$ 36,775,603	\$ 1,411,860	3.99%
Minuteman School	\$ 2,893,035	\$ 3,276,622	\$ 383,587	13.26%
Non-Departmental (Healthcare & Pensions)	\$ 20,578,964	\$ 21,716,601	\$ 1,137,637	5.53%
Capital	\$ 8,011,303	\$ 8,352,746	\$ 341,443	4.26%
Warrant Articles	\$ 2,474,896	\$ 994,975	\$ (1,479,921)	-59.80%
<b>Total Appropriations</b>	<b>\$ 95,422,482</b>	<b>\$ 98,242,247</b>	<b>\$ 2,819,765</b>	<b>2.96%</b>
<b>Non-Appropriated Expenses</b>	<b>\$ 9,882,615</b>	<b>\$ 9,205,559</b>	<b>\$ (677,056)</b>	<b>-6.85%</b>
<b>Surplus/ (Deficit)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>0.00%</b>



**Municipal Departmental Budgets**

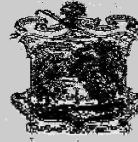
Municipal departmental budgets, as proposed, total \$27,125,700, which is an increase of \$1,025,159, or 3.93%. Of the increase, approximately \$664,197 is for collective bargaining increases, \$84,147 is for other personnel cost increases, \$188,474 for energy cost increases, \$50,000 for an increase in the reserve fund and an increase of \$38,341 for expenses. The Police Department has added a School Resource Officer which will be cost shared with the School Department and the Personnel Department has requested an additional person devoted solely to the administration of our health insurance program.

Municipal Departments Major Budget Increases

Total increase	\$1,025,159	( 3.93%)
<i>Wages, Steps, &amp; Benefits</i>	\$748,344	
<i>Energy</i>	\$188,474	
<i>Reserve Fund</i>	\$ 50,000	
<i>Expenses</i>	\$ 38,341	

Other Budget Increases

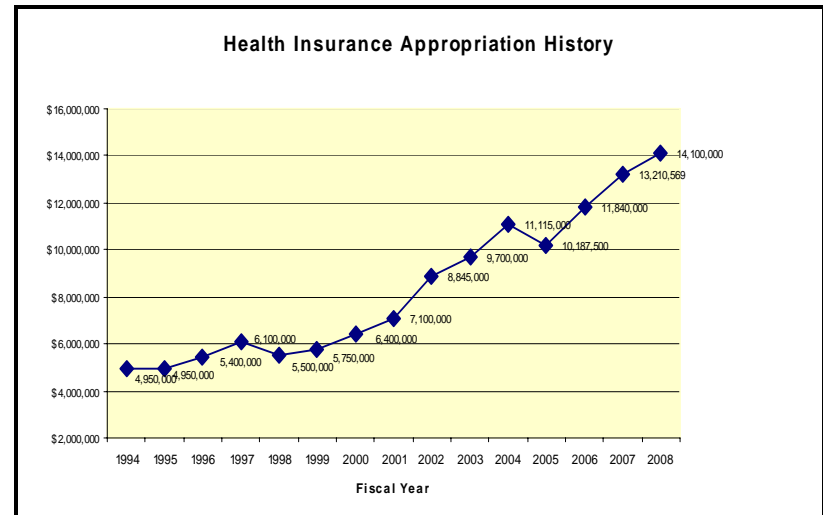
School	\$1,411,860	( 3.99%)
Minuteman	\$383,587	(13.26%)
Health & Pensions	\$1,026,588	( 5.20%)
Other Fixed Costs	\$111,050	(13.07%)
Capital	\$341,443	( 4.26%)
Warrant Articles	(\$1,479,921)	(-59.8%)
Non-Appropriated	(\$677,056)	(-6.85%)
 Total Municipal & Other	 \$2,142,710	 ( 2.03%)



Collective Bargaining and Healthcare

Given the dramatic increases in healthcare costs, as illustrated in the appropriation history chart, working with our employees to explore all possible cost containment measures has been a top priority. The override commitment capping and linking operating budget increases (in large part wages) and healthcare cost increases makes this effort imperative.

Collective bargaining agreements with all the unions, with the exception of the Librarians, who have an agreement through FY2007, expired in FY2006. In the expired agreements, the unions agreed to increase employee contributions for HMO healthcare coverage from 10% to 15%. Contribution rates for Indemnity plans is already at 25%. The Town has reached agreements for new two year contracts for FY2007 and FY2008 with AFSCME 680, SEIU, and Ranking Police Officers. Still being negotiated are agreements with Patrolmen and Firefighters for FY2007 and FY2008 and Librarians for FY2008. The new agreements call for a 2.5% wage increase in FY2007 tied to increased healthcare co-payments for doctor visits, emergency room visits, and prescription drugs. An additional 0.5% increase will be implemented when a second higher level of co-payments is implemented which cannot be done until the final two unions (Patrolmen and Firefighters) have agreed. The second year, FY2008, calls for a 3% wage increase tied to a requirement that new hires, effective July 1, 2007, pay a HMO contribution of 25%, up from 15%. The increased co-payments and 15% HMO contribution rate have been implemented for retirees as well. The Board of Selectmen voted to implement a means test so that the increase will be waived for those retirees below a certain income level.



The result of all these healthcare changes is that the healthcare budget for FY2008 will increase less than 6%. For FY2008, healthcare costs are projected to increase \$741,324, or 5.85%. The chart above shows the history of healthcare appropriation increases since 1994. During this period the increases averaged 8%. Given the oversight required to administer multiple co-pay plans, multiple contribution rates, means tests, and to analyze and implement an opt-out plan and new fitness programs, it will require the addition of a staff position dedicated solely to administering the healthcare program.



### Retiree Healthcare Liability—OPEB fund

GASB 45, a new accounting standard to be imposed on all municipalities throughout the country, requires municipalities to include on their balance sheets the accrued liability for their retiree healthcare costs. Several years ago private companies were required to do this. The result was great upheavals and drastic reductions in retiree healthcare benefits.

Currently retiree healthcare costs are funded on a pay-as-you-go basis, as is the case with social security, rather than fully-funding the benefits as employees earn them. GASB 45 essentially says that when an employee retires, there should be sufficient funds in an account to pay for the retiree's healthcare costs throughout their retirement. The last actuarial evaluation of the Town's unfunded liability placed it between \$109 million and \$174 million depending on the discount rate used.

This issue is nearly identical to the issue faced with pension systems back in the 1980's. At that time, cities and towns funded pension obligations on a pay-as-you-go basis. A new accounting standard then required that the accrued liability be carried on the balance sheet. Ultimately, communities were required by law to fully-fund their pension obligations over a long period of time—roughly forty years. The Town's system is now 65% funded and is required to be fully funded by the year 2028. Over this forty year period, the Town essentially has been paying off a mortgage for this debt. Once the mortgage is paid off, the Town's pension appropriation will drop significantly.

Arlington is one of the few communities in the State who have had special laws enacted to allow them to put funds aside to start funding this liability. There is approximately \$1.4 million in the fund now.

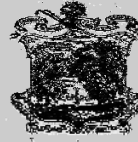
In FY 2008, the appropriation into the fund will consist of three components totaling approximately \$815,000. The first component is the accumulated reduction in the non-contributory pension appropriation. In FY 2008 it is estimated at \$310,000 and eventually in the future this will cap out at \$500,000. The second component is the savings from increased healthcare contribution rates and co-pays for retirees estimated at \$155,000. The third component is the Federal government Medicare Part D prescription drug reimbursement of \$350,000.

While this is a token amount when compared to the liability, the Town has at least been out front in recognizing and beginning to address the problem. Much more will need to be done over the next several years to begin addressing this issue in a meaningful way.

### State Aid

In the FY2008 state aid budget proposed by the Legislature, state aid is increased \$227 million, or 5%. The two major increases are Chapter 70 school aid (exclusive of regional school aid) and lottery which are increasing \$188 million and \$15 million respectively. Due to a number of factors in the Chapter 70 school aid distribution formula which work to the disadvantage of Arlington, the Town will receive an increase of only \$221,450. The overall increase in FY2008 state aid for Arlington is \$304,817, or 1.7%. This still leaves Arlington \$1.3 million below what it received in FY2002. Exclusive of school construction reimbursements, in FY2002, the Town received \$17.3 million. In FY2008, the Town expects to receive \$16 million.

The report of the Municipal Finance Task Force, chaired by John Hamill, Chairman of Sovereign Bank New England, noted that "Massachusetts cities and towns are facing a long-term financial crunch caused by increasingly restricted and unpredictable local aid levels, constraints on ways to raise



local revenue, and specific costs that are growing at rates far higher than the growth in municipal revenues. The Task Force recommended "...a revenue sharing policy that allocates a fixed percentage of state tax receipts to local aid".

Researchers at Northeastern University's Center for Urban and Regional Policy have documented the critical link between the financial health of municipalities and the future growth of the Massachusetts economy. They too have called for a new fiscal partnership between the State and local governments.

The Mass Taxpayers Foundation has also recommended that 40% of annual revenues from the state income, sales and corporate taxes should be dedicated to local aid. This would result in more than a \$1 billion increase in local aid. The new revenue sharing policy would need to be phased in over several years given the magnitude of the dollars involved.

The State must implement a revenue sharing formula that provides more aid to cities and towns on a consistent, reliable basis. It must recognize the limited revenue raising opportunities of communities like Arlington. Even its own measure of a community's ability to raise revenues shows that Arlington's ability is extremely limited compared to that of other communities. This has to be recognized in future aid distribution formulas.

**Town 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. The result has been a gradual erosion of services. The nature of the Town's structural deficit is illustrated in the chart below.

Typical Annual Growth

Revenues	
Property Taxes	\$ 2,100,000
Local Receipts	\$ 50,000
State Aid	\$ <u>600,000</u>
Total	\$ 2,750,000
Expenditures	
Wage Adjustments	\$ 2,000,000
Health Insurance/Medicare	\$ 1,300,000
Pensions	\$ 300,000
Miscellaneous ( <i>utilities, capital/debt, special education, other</i> )	\$ <u>1,000,000</u>
Total	\$ 4,600,000
Structural Deficit	\$ (1,850,000)



The Town's fiscal condition was exacerbated in FY2003 and FY2004 as a result of state aid reductions in excess of \$3.3 million. After major budget reductions and the depletion of reserves, which carried the Town through FY 2005, the Town was facing a deficit of approximately \$4 million in FY2006.

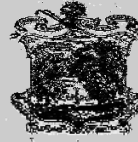
The passage of a \$6 million Proposition 2 ½ override in 2005 for FY2006 covered the \$4 million and allowed the Town to put into reserve the remaining \$2 million. One of the key commitments made as part of the Proposition 2 ½ override was that the funds would be made to last five years and that no override would be requested during that time. As previously stated, FY2008 is the third year of the five-year override plan. The plan is on target and has served the Town well. The plan requires tight controls over operating budgets and healthcare costs and provides a linkage between wages and healthcare costs. With these controls appropriately managed, the plan is designed to overcome the Town's structural deficit and provide sufficient resources to maintain services for at least the five year period. The Town's structural deficit still exists, it's just that the override provided more than enough funds in the first two years so that these surpluses could be used to fund the deficits of the last two years. The middle year, FY2008, is essentially balanced without any surplus or deficit. After the five years, however, the deficits will reappear.

Override Stabilization Fund (OSF)

As mentioned, in the first year, FY2006, \$2 million has been put into an Override Stabilization Fund. In the second year, FY2007, an additional \$2 million was put into the fund. In the third year, FY 2008, \$100,000 is projected to be available to put into the fund. In the fourth year, FY 2009, it is estimated that approximately \$1.1 million will need to be withdrawn from the fund to balance the budget. In the fifth and final year, FY2010, approximately \$2.8 million is projected to be needed from the fund to balance the budget. After the fifth year, less than \$1 million would be left to offset a projected deficit of more than \$4 million leaving a projected net deficit in the sixth year, FY2011, of \$3.7 million. How these funds will be used is illustrated below:

	<u>FY2006</u>	<u>FY2007</u>	<u>FY2008</u>	<u>FY2009</u>	<u>FY2010</u>	<u>FY2011</u>
Balance Forward	0	2,064,528	4,247,109	4,519,993	3,616,656	984,366
Deposits	2,064,528	2,100,000	100,000	0	0	0
Withdrawals	0	0	0	(1,081,017)	(2,776,956)	(984,366)
Interest at 4%	0	82,581	169,884	180,680	144,666	0
<b>Balance</b>	<b>2,064,528</b>	<b>4,247,109</b>	<b>4,516,993</b>	<b>3,616,656</b>	<b>984,366</b>	<b>0</b>

If all the estimates hold, the override funds should enable the town to fund existing service levels through the five years (through FY2010) but only by using the early year surpluses to fund the later year deficits.



### Comparative Data

There are a number of factors that contribute to Arlington's structural deficit—some common among all municipalities and some relatively unique to Arlington. Double digit increases in employee healthcare costs and energy costs affect all municipalities. State aid reductions have affected all municipalities, however, Arlington is among a small group of communities that were cut close to 20% as opposed to the state-wide average of 6%.

Some of the factors particular to Arlington include the fact that Arlington is a densely populated, fully built-out community (see Tables 1 and 2). Revenue from growth in the tax base ranks next to last among a group of 20 comparable communities (see Table 3). It is less than one-half of the state-wide average. Another indicator of the Town's ability and opportunity to raise revenues 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 twenty comparable communities MRGF is 6.1 and 5.0 respectively. Arlington's is 3.9, nearly 56% below other communities in terms of ability to raise revenue.

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 less than 6% of the total. Table 5 shows that Arlington's 5.4% commercial/industrial tax base ranks it 16<sup>th</sup> out of 20 comparable communities. The average of these communities is 13%, nearly triple 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 at or below the average of the 20 comparable communities. In fact, the Town ranks 13<sup>th</sup> in taxes per capita, and 10<sup>th</sup> in taxes per household as a percent of median household income. This despite the fact that Arlington's tax levy includes more than \$5 million in MWRA water and sewer debt that only one other community includes on its levy.

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 20 comparable communities. In overall expenditures per capita, the Town ranks 17<sup>th</sup> and nearly 20% below the state-wide average (see Tables 9-11). With spending well below the state-wide average and below comparable communities, and with revenue growth opportunities well below the statewide average and at the bottom of comparable communities, it is clear that the structural problem with the Town's finances lies with the revenue side of the equation as opposed to the spending side. Limited growth in the tax base, a tax base almost all residential, coupled with a \$3.3 million reduction in state aid, left the Town in 2005 with only two choices— significant budget cuts with the resulting service reductions or the first Proposition 2 ½ general override since 1991.





Table 1	
Municipality	Pop Per Square Mile
1 BROOKLINE	8,410
2 ARLINGTON	8,180
3 WATERTOWN	8,026
4 MEDFORD	6,851
5 MELROSE	5,780
6 BELMONT	5,190
7 SALEM	4,986
8 STONEHAM	3,614
9 WINCHESTER	3,446
10 WEYMOUTH	3,174
11 RANDOLPH	3,075
12 WOBURN	2,940
13 NORWOOD	2,727
14 WELLESLEY	2,614
15 READING	2,388
16 NEEDHAM	2,293
17 NATICK	2,133
18 MILTON	1,999
19 LEXINGTON	1,851
20 CHELMSFORD	1,495
Ave w/o Arlington	3,842
Arlington	8,180

Table 2	
Municipality	Households Per Sq Mile
1 BROOKLINE	3,890
2 ARLINGTON	3,746
3 WATERTOWN	3,652
4 MEDFORD	2,787
5 MELROSE	2,396
6 SALEM	2,243
7 BELMONT	2,141
8 STONEHAM	1,511
9 WEYMOUTH	1,327
10 WINCHESTER	1,310
11 WOBURN	1,214
12 RANDOLPH	1,145
13 NORWOOD	1,140
14 READING	889
15 NATICK	886
16 WELLESLEY	870
17 NEEDHAM	860
18 MILTON	703
19 LEXINGTON	691
20 CHELMSFORD	575
Ave w/o Arlington	1,591
Arlington	3,746

Table 3	
Municipality	New Growth Ave Last 3 Yrs
1 WOBURN	3.1%
2 WATERTOWN	2.6%
3 LEXINGTON	2.5%
4 CHELMSFORD	2.3%
5 BROOKLINE	2.2%
6 NEEDHAM	2.1%
7 WELLESLEY	1.9%
8 WEYMOUTH	1.8%
9 WINCHESTER	1.7%
10 MILTON	1.7%
11 READING	1.6%
12 BELMONT	1.5%
13 NORWOOD	1.5%
14 RANDOLPH	1.4%
15 MEDFORD	1.4%
16 SALEM	1.3%
17 NATICK	1.2%
18 STONEHAM	1.2%
19 ARLINGTON	1.2%
20 MELROSE	1.0%
Ave w/o Arlington	1.8%
Arlington	1.2%
State-wide Ave	2.8%

Table 4	
Municipality	FY2007 Municipal Revenue Growth Factor
1 MILTON	6.5
2 CHELMSFORD	6.0
3 WOBURN	5.9
4 RANDOLPH	5.4
5 SALEM	5.4
6 READING	5.2
7 WATERTOWN	5.2
8 LEXINGTON	5.0
9 NATICK	5.0
10 WELLESLEY	4.9
11 NORWOOD	4.9
12 BROOKLINE	4.8
13 NEEDHAM	4.7
14 STONEHAM	4.7
15 WEYMOUTH	4.6
16 MEDFORD	4.5
17 WINCHESTER	4.4
18 BELMONT	3.9
19 ARLINGTON	3.9
20 MELROSE	3.8
Ave w/o Arlington	5.0
Arlington	3.9
State-wide Ave	6.1

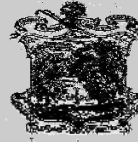


Table 5	
Municipality	FY2007 Commercial/Industrial % of Total
1 WATERTOWN	32.4
2 WOBURN	27.0
3 NORWOOD	25.4
4 NATICK	20.2
5 CHELMSFORD	17.6
6 SALEM	16.9
7 WEYMOUTH	13.0
8 NEEDHAM	11.7
9 LEXINGTON	11.5
10 RANDOLPH	11.4
11 WELLESLEY	11.1
12 MEDFORD	10.8
13 STONEHAM	10.6
14 BROOKLINE	8.9
15 READING	7.3
16 ARLINGTON	5.4
17 BELMONT	5.2
18 WINCHESTER	5.0
19 MELROSE	4.7
20 MILTON	2.9
Ave w/o Arlington	13.3
Arlington	5.4
State-wide Ave	15.5

Table 6	
Municipality	FY2007 Taxes Per Cap
1 LEXINGTON	3,340
2 WELLESLEY	2,940
3 NEEDHAM	2,601
4 WINCHESTER	2,579
5 BELMONT	2,460
6 BROOKLINE	2,340
7 CHELMSFORD	1,991
8 READING	1,972
9 MILTON	1,971
10 NATICK	1,967
11 WOBURN	1,948
12 WATERTOWN	1,926
13 ARLINGTON	1,862
14 STONEHAM	1,587
15 NORWOOD	1,545
16 SALEM	1,480
17 MELROSE	1,444
18 MEDFORD	1,350
19 WEYMOUTH	1,255
20 RANDOLPH	1,185
Ave w/o Arlington	1,994
Arlington	1,862

Table 7	
Municipality	FY2007 Taxes Per Household As a % of 1999 Household Income
1 LEXINGTON	7.4%
2 WINCHESTER	7.0%
3 WELLESLEY	7.0%
4 BELMONT	6.8%
5 MILTON	6.7%
6 READING	6.2%
7 BROOKLINE	6.2%
8 NEEDHAM	6.2%
9 CHELMSFORD	6.1%
10 ARLINGTON	5.8%
11 SALEM	5.6%
12 STONEHAM	5.4%
13 NATICK	5.4%
14 MELROSE	5.0%
15 MEDFORD	4.9%
16 WATERTOWN	4.7%
17 RANDOLPH	4.5%
18 WOBURN	4.5%
19 WEYMOUTH	4.5%
20 NORWOOD	3.5%
Ave w/o Arlington	5.7%
Arlington	5.8%

Table 8	
Municipality	FY2006 Gen Gov Expenditures Per Cap
1 WINCHESTER	353
2 RANDOLPH	248
3 NATICK	158
4 BROOKLINE	152
5 NORWOOD	137
6 NEEDHAM	136
7 BELMONT	133
8 WELLESLEY	130
9 LEXINGTON	128
10 WATERTOWN	119
11 ARLINGTON	109
12 READING	100
13 CHELMSFORD	99
14 SALEM	89
15 WOBURN	85
16 WEYMOUTH	81
17 MELROSE	80
18 MILTON	79
19 STONEHAM	79
20 MEDFORD	64
Ave w/o Arlington	129
Arlington	109



Table 9	
Municipality	FY2006 Public Safety Exp Per Cap
1 BROOKLINE	456
2 WATERTOWN	412
3 WOBURN	377
4 NORWOOD	373
5 NEEDHAM	372
6 MILTON	360
7 MEDFORD	360
8 BELMONT	354
9 NATICK	340
10 SALEM	335
11 WINCHESTER	334
12 WELLESLEY	330
13 WEYMOUTH	329
14 STONEHAM	323
15 LEXINGTON	309
16 READING	292
17 ARLINGTON	282
18 CHELMSFORD	274
19 RANDOLPH	272
20 MELROSE	256
Ave w/o Arlington	340
Arlington	282

Table 10	
Municipality	FY2006 Public Works Exp Per Cap
1 NORWOOD	619
2 RANDOLPH	235
3 WATERTOWN	221
4 WELLESLEY	220
5 LEXINGTON	211
6 READING	185
7 BELMONT	182
8 NATICK	175
9 BROOKLINE	169
10 CHELMSFORD	161
11 WINCHESTER	160
12 MEDFORD	160
13 WEYMOUTH	158
14 MILTON	155
15 WOBURN	139
16 SALEM	134
17 STONEHAM	134
18 ARLINGTON	134
19 NEEDHAM	130
20 MELROSE	122
Ave w/o Arlington	193
Arlington	134

Table 11	
Municipality	FY2006 School Per Pupil Exp
1 WATERTOWN	15,032
2 BROOKLINE	14,929
3 LEXINGTON	12,600
4 MEDFORD	12,233
5 WOBURN	12,225
6 WELLESLEY	11,494
7 NEEDHAM	11,291
8 NATICK	11,092
9 NORWOOD	11,015
10 WEYMOUTH	10,855
11 ARLINGTON	10,841
12 MILTON	10,585
13 BELMONT	10,374
14 WINCHESTER	10,139
15 RANDOLPH	10,032
16 READING	9,765
17 MELROSE	9,571
18 STONEHAM	9,359
19 CHELMSFORD	9,117
Ave w/o Arlington	11,206
Arlington	10,841
State-wide Ave	11,188

Table 12	
Municipality	FY2006 Total Exp Per Cap
1 LEXINGTON	3,706
2 WINCHESTER	3,149
3 WELLESLEY	3,129
4 NORWOOD	3,030
5 NEEDHAM	3,008
6 BROOKLINE	2,867
7 NATICK	2,794
8 BELMONT	2,768
9 READING	2,732
10 CHELMSFORD	2,589
11 WATERTOWN	2,495
12 MILTON	2,483
13 WOBURN	2,478
14 STONEHAM	2,274
15 SALEM	2,273
16 RANDOLPH	2,233
17 ARLINGTON	2,181
18 WEYMOUTH	2,135
19 MEDFORD	2,105
20 MELROSE	2,070
Ave w/o Arlington	2,648
Arlington	2,181
State-wide Ave	2,556

Long Range Financial 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 15. These projections will, of course, have to be modified as events unfold, but we believe that they are reasonable for fiscal planning purposes.

On the revenue side, we have made the following assumptions:

## Revenue Assumptions—

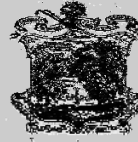
- **Overall revenues** are expected to increase 2.03% in FY 2008. Future years ranges from 0.89% to 4.08% depending on our the of the Override Stabilization Fund.
  
- **Tax Levy** - Projected to increase 2.87% in FY 2008 and thereafter between 2.5% and 2.7%.
  - Regular Levy - 2 ½ % plus new growth of \$400,000 in FY2008 and \$450,000 thereafter.
  - Debt Exclusion – Actual debt for Proposition 2 ½ debt exclusion school projects minus state reimbursements.
  - MWRA Water and Sewer Debt – Amount from FY2007 held level as voted by Board of Selectmen.
  
- **State Aid** – Projected to increase 2.44% in FY2008, based upon the Legislature's budget, and then increased by \$600,000, or approximately 3.5% thereafter.
  
- **School Construction Reimbursement** – Projected to decrease \$75,260 in FY2008, due to an audit adjustment for Brackett School and then held level.
  
- **Local Receipts** – Increased \$50,000 each year except in FY2008. Estimates are based on actual receipts received in FY 2006.



- **Free Cash** – Typically appropriate one-half of certified amount. In FY2007 we used \$1.9 million, \$325,000 more than customary practice. The amount used in FY 2008 reflects a decrease to compensate for this one-time usage. Use is maintained at \$1.3 million each year thereafter in anticipation of smaller certified balances.
- **Overlay Reserve Surplus** – Use \$500,000 in FY2008 and then held at \$400,000 in FY 2009 and FY 2010 dropping in the next several years. There is a reasonably good chance that the actual surplus could be greater. If they are, it would simply serve to reduce the deficit in FY2011.
- **Other Revenues** – In FY2009, \$1.1million is drawn down from the Override Stabilization Fund. In FY2010, \$2.8 million is drawn down from the Fund leaving a balance of less than \$1 million for FY2011. FY 2010 is the final year of the 5 Year Override Plan.

Expenditure assumptions include the following

- **School Budget** – In accordance with the override commitment, capped at 4% less any amount above a 7% increase for employee healthcare. In FY2008, we have been able to increase the budget by the full 4%.
- **Minuteman School** – In FY2008, increased enrollment pushes increase to 13.26%. Thereafter, increases projected at 4%.
- **Municipal Departments** - In accordance with the override commitment, capped at 4% less any amount above a 7% increase for employee healthcare. In FY2008, we have been able to increase the budget by the full 4%.
- **Capital Budget** – Based upon the 5 year plan that calls for dedicating approximately 5% of revenues to capital spending.



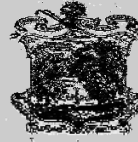
- **Exempt Debt** – Actual cost of debt service for debt exclusion projects. Declining debt service over the next several years.
- **Non-Exempt Debt** – Increasing based on major projects over next several years including the fire stations.
- **Cash** – In FY2008, CIP calls for \$806,708 in cash-financed projects. Thereafter, amount averages closer to \$900,000.
- **MWRA Debt Shift** – In FY2008, level-funded at the FY 2007 level. Amount held level thereafter.
  
- **Pensions** – In FY2008, increased 3.24%. Thereafter increased 4%.
  
- **Insurance (including healthcare)** – In FY2008, projected increase of 6.59%. Thereafter, capped at 7%. Any amount above 7% reduces municipal and school budgets.
  
- **State Assessments** – Based upon preliminary cherry sheets, increased 3% in FY2008. Thereafter, increased 2.5%.
  
- **Offset Aid** – These grants to schools and library are increased slightly in FY 2008 based upon preliminary cherry sheets thereafter held level.
  
- **Overlay Reserve** – This reserve for tax abatements is increased in revaluation years which is every three years starting in FY2007. In non-revaluation years, it is reduced to \$600,000.
- **Other** – Court judgments or deficits including snow removal, revenue, etc., are estimated at \$253,409 in FY2008 and \$300,000 thereafter.
  
- **Warrant Articles** – In FY 2008, includes \$325,000 for revaluation and \$465,000 for Retiree Healthcare along with an allowance of approximately \$100,000 per year for typical warrant articles. Future years include Medicare Part D appropriation to the OPEB account. This would also include any amount deposited into Override Stabilization Fund.



**Long Range Financial Projection**

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
<b>I REVENUE</b>						
A. State Aid	15,600,746	15,980,823	16,580,823	17,180,823	17,780,823	18,380,823
School Construction Aid	2,269,282	2,194,022	2,194,022	2,194,022	2,194,022	2,194,022
B. Local Receipts	8,172,024	8,834,256	8,884,256	8,934,256	8,984,256	9,034,256
C. Free Cash	2,084,695	954,736	1,300,000	1,300,000	1,300,000	1,300,000
D. Stabilization Fund	0	0	0	0	0	0
E. Overlay Reserve Surplus	400,000	500,000	400,000	400,000	300,000	300,000
F. Property Tax	76,778,350	78,983,969	81,013,995	83,216,555	85,486,569	87,809,822
H. Override Stabilization Fund			1,081,017	2,776,956	984,366	
<b>TOTAL REVENUES</b>	<b>105,305,097</b>	<b>107,447,806</b>	<b>111,454,113</b>	<b>116,002,612</b>	<b>117,030,036</b>	<b>119,018,923</b>
<b>II APPROPRIATIONS</b>						
A. Operating Budgets						
School	35,363,743	36,775,603	38,246,627	39,776,492	41,367,552	43,022,254
Minuteman	2,893,035	3,276,622	3,407,687	3,543,994	3,685,754	3,833,184
Town Personnel Services	19,880,738	20,926,813	21,763,886	22,634,441	23,539,819	24,481,411
Expenses	8,434,905	8,722,073	9,044,790	9,379,447	9,729,300	10,092,203
<i>Less Offsets:</i>						
Enterprise Fund/Other	1,535,102	1,843,186	1,916,913	1,993,590	2,073,334	2,156,267
Tip Fee Stabilization Fund	680,000	680,000	680,000	680,000	680,000	680,000
<b>Net Town Budget</b>	<b>26,100,541</b>	<b>27,125,700</b>	<b>28,211,762</b>	<b>29,340,298</b>	<b>30,515,785</b>	<b>31,737,348</b>
MW RA Debt Shift	5,593,112	5,593,112	5,593,112	5,593,112	5,593,112	5,593,112
B. Capital budget						
Exempt Debt Service	3,143,808	3,114,096	2,904,056	2,810,551	2,727,097	2,638,046
Non-Exempt Service	3,950,037	4,431,942	4,535,287	4,720,085	5,180,547	5,267,337
Cash	917,458	806,708	864,250	854,750	883,927	891,700
<b>Total Capital</b>	<b>8,011,303</b>	<b>8,352,746</b>	<b>8,303,593</b>	<b>8,385,386</b>	<b>8,791,571</b>	<b>8,797,083</b>
C. Pensions	6,496,453	6,706,716	6,974,985	7,253,985	7,544,144	7,845,910
D. Insurance	14,082,511	15,009,885	16,060,577	17,184,817	18,387,755	19,674,897
E. State Assessments	2,605,385	2,683,277	2,750,359	2,819,118	2,889,596	2,961,836
F. Offset Aid - Library & School	75,461	75,761	75,761	75,761	75,761	75,761
G. Overlay Reserve	1,194,924	600,000	600,000	800,000	600,000	600,000
H. Other Crt Jdgmnts/ Snow Deficit	413,733	253,409	300,000	300,000	300,000	300,000
I. Warrant Articles	374,896	894,975	929,649	929,649	929,649	929,649
J. Override Stabilization Fund	2,100,000	100,000				
<b>K. TOTAL APPROPRIATIONS</b>	<b>105,305,097</b>	<b>107,447,806</b>	<b>111,454,112</b>	<b>116,002,612</b>	<b>120,680,679</b>	<b>125,371,034</b>
<b>BALANCE</b>	<b>(0)</b>	<b>(0)</b>	<b>0</b>	<b>0</b>	<b>(3,650,642)</b>	<b>(6,352,110)</b>

Reserve Balances						
Free Cash	1,221,870	1,554,736	1,000,000	1,000,000	1,000,000	1,000,000
Stabilization Fund	2,375,252	2,470,262	2,569,072	2,671,835	2,778,709	2,889,857
Override Stabilization Fund	4,247,109	4,516,993	3,616,656	984,366	0	0
Tip Fee Stabilization Fund	3,545,977	3,007,817	2,448,129	1,866,054	1,260,697	631,124
Municipal Bldg Ins. Trust Fund	674,406	680,757	697,675	725,582	754,605	784,790
<b>TOTAL:</b>	<b>12,064,614</b>	<b>12,230,564</b>	<b>10,331,533</b>	<b>7,247,838</b>	<b>5,794,011</b>	<b>5,305,771</b>
<b>% of General Fund Revenue</b>	<b>11%</b>	<b>11%</b>	<b>9%</b>	<b>6%</b>	<b>5%</b>	<b>4%</b>



**Capital Improvements Program**

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. Our existing non-exempt debt is \$5,036,275 of which \$634,143 is paid by the water/sewer enterprise fund. The additional new non-exempt debt service is estimated at \$72,060 of which \$2,250 will be paid from the Veterans' Memorial Rink Enterprise Fund to pay for the new rink chiller. The Cemetery Funds will pay \$40,000 for replacement of fences and restoration of stones and tombs. Our existing exempt debt service is \$3,114,096. The total capital budget for FY2008 is estimated at \$8,352,746. For FY 2008, expenditures for the capital budget are as follows:

Bonding -	\$3,202,660
Cash -	806,708
<u>Other -</u>	<u>3,375,000</u>
Total	7,384,368

Major projects to be funded in FY2008 include \$828,000 for public safety vehicles and equipment including a fire engine and upgrading the radio system, \$563,000 for public works vehicles and equipment, \$412,760 for building repairs at the Town Hall, Library, Community Safety Building, and the Public Works yard, \$269,000 for repairs to facilities under the jurisdiction of the Redevelopment Board, \$580,000 for repairs and improvements to the High School, Stratton School, and Thompson School, \$900,000 for roads, sidewalks, and culvert, \$436,100 for park renovations including \$361,100 for Pheasant Ave/Stratton School field and playground, and \$298,800 for town and school technology software and hardware. Also included from the water and sewer enterprise fund is \$1,300,000 for water system rehabilitation, \$740,000 for sewer system rehabilitation, \$200,000 for lift station upgrades and \$250,000 for a jet truck.

Major capital expenditures in our 5-year plan include the fire station renovations, renovations to the community safety building, and an upgrade of our rink including replacement of the rink floor and boards. Details of the capital budget and five year plan can be found in Section VI of this document.

**School Construction**

In July of 2004, the governor signed Chapter 208 and Chapter 210, of the Acts of 2004 into law, which makes substantial changes to the School Building Assistance (SBA) Program. This legislation (Ch. 208) transfers responsibility for the School Building Assistance Program from the Department of Education to the Massachusetts School Building Authority (MSBA), under the Office of the State Treasurer. The authority is a new and independent governing body comprised of seven members.

The reform legislation (Ch. 210) dedicates one cent of the state sales tax to the new off-budget school building trust. This funding will be phased in between now and 2011. Funding will no longer be subject to an annual appropriation from the Legislature and approval of the Governor. The state is providing \$1 billion in bond proceeds and an additional \$150 million in cash. The new trust is responsible for paying old contract assistance totaling \$5.5 billion over the next 20 years, while financing the current waiting list amount of \$5.5 billion (and growing) over the next 3 years. A major feature of the new law is the up





front cash grant program. When a project is approved for funding, the program will make a single payment for 75% of the full amount of the state's reimbursement. The balance of the state share will be paid when the project audit is completed. There are currently 425 school construction projects on the waiting list. The new legislation intends to fund all 425 projects in the next 2½ years.

Chapter 208 imposes a moratorium on the approval of new school construction projects by the MSBA until July 1, 2007. Communities may submit these projects for approval at the close of the moratorium. The MSBA has warned communities against proceeding with a project without its prior approval and its active involvement right from the feasibility study phase. Such action would be contrary to the requirements and process of the program and there is a strong risk that the project would not be funded. At the conclusion of the three-year moratorium, the authority will use \$500 million per year to finance new projects. Projects will be funded to the extent that money from the sales tax will allow. Projects that cannot be funded will be rejected and automatically re-applied for the following year. There will not be a waiting list. Reimbursement rates are based on community factors and incentive points. The base percentage is 39%.

The lack of a waiting list creates a major problem for cities and towns because now communities will have no idea whether their project will be funded. At least before, you were put on a list and knew that eventually you would receive funding. Given the lengthy moratorium, there is a growing backlog of projects that will be competing for limited dollars.

The MSBA conducted a condition assessment of every school building in the State. The ratings were 1 through 4, with 4 being the poorest condition. Less than 3%, or 62 schools, fall within category 4. Seventy-six percent of the schools received a rating of 1 or 2, meaning that they are generally in good condition with few building systems that may need attention. This leaves 21% that fall within category 3. The Thompson was rated 3, a relatively poor condition, and the Stratton a 2. While the condition of the school is one factor in the criteria for funding, it is only one of eight criteria. Actually, replacement of obsolete school buildings is ranked next to last in terms of priority. Based upon the little information available at this time, it would not be unreasonable to expect funding for Thompson School in the 4 to 7 year range. Stratton would likely be significantly longer.

Sometime after July 1, 2007, when the MSBA lifts the moratorium and decides what projects will be funded in the first year, we will have a much better understanding of the number of the projects competing and how the criteria will be applied. The School Facilities Working Group is recommending at this time that both schools wait until the State funding picture becomes clearer.

The Capital Planning Committee has put a "place holder" of \$50,000 per year into the Capital Plan to allow for urgent (but non-reimbursable) renovations such as the restrooms. Following the requests of the School Department and the recommendations of the School Facilities Working Group, the Capital Planning Committee is planning a future expenditures level of \$150,000 per year, principally for the Stratton, to insure a long term program to maintain and upgrade this capital asset. Specific detailed requests for both the Stratton and Thompson will be reviewed by the Capital Planning Committee and presented to Town Meeting for approval on an annual basis. As the policy and direction of the MSBA becomes clearer, the Town will be able to prepare a more definite plan for rebuilding the Thompson and Stratton schools.

The School Facilities Working Group has also recommended that the potential sale of two unused schools, the Parmenter and Crosby, which are currently rented out, be considered and that the proceeds be put into a fund to be used to help fund these school projects.



### Conclusion

The FY2008 budget, as presented, is in balance. 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.

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 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 Deputy Town Manager Nancy Galkowski who deserves the credit for the quality of the budget document including the information and the data contained herein. I also want to extend a special word of thanks to my office staff, Gloria Turkall, Domenic Lanzillotti, and Matthew Lehrich, who spent evenings and week-ends assisting in producing this document.

Respectfully submitted,

*Brian F Sullivan*

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Town Manager