



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 on page 221.

For past budgets and plans, plus additional financial documents please visit arlingtonma.gov/financial.

BUDGET CALENDAR

July

Fiscal Year begins July 1st

September

Capital Budget requests due to Town Manager

November

Operating Budget requests due to Town Manager by November 30th

January

Budget books distributed to Board of Selectmen and Finance Committee by January 15th

January/April

Finance Committee hearings on budget

March

Financial Plan distributed to Board of Selectmen and Finance Committee by the end of March

April

Finance Committee recommended budget submitted to Town Meeting by April 20th

May

Town Meeting adopts *Operating and Capital Budgets*

June

Fiscal Year ends June 30th



Community Profile

Name: Town of Arlington

Settled: 1635 (as Village of Menotomy)

Incorporated: 1807 (as West Cambridge) Renamed Arlington in 1867

Total Area: 5.5 Sq. Miles
Land: 5.2 Sq. Miles
Water: 0.3 Sq. Miles

Elevation: 46 Feet

Public Roads: 95.27 Miles

County: Middlesex

Population: 42,844 (2010 Census)

Form of Government: Representative Town Meeting

School Structure: K-12

FY2015 Average Single Family Tax Rate: \$13.55 per \$1,000

FY2015 Ave. Single Family Home Value: \$539,152

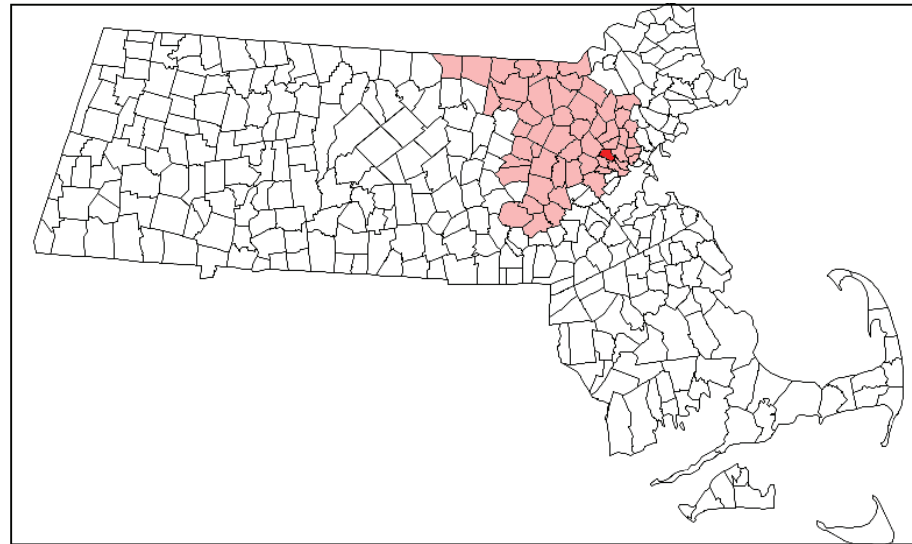
Coordinates: 42°24'55"N 71°09'25"W

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, 2014

A handwritten signature in cursive script, reading "Jeffrey R. Egan".

Executive Director



Fiscal Year 2016 Annual Budget & Financial Plan Budget Message

April 1, 2015

To: The Honorable Board of Selectmen and Finance Committee

I hereby transmit to you the recommended FY2016 operating and capital budgets and the FY2016-2020 capital plan. The budget as proposed totals \$141,382,502 which is an increase of \$3,794,565 (2.76%) from the current budget. However, if the amount contributed to the Override Stabilization Fund is excluded, the proposed budget is an increase of \$5,241,411 (3.93%) from the current budget. A summary showing a comparison of the FY2015 and FY2016 revenues and expenditures is shown on page 8. Also, this budget proposal has been input into the Town's online budget tool, Arlington Visual Budget. It can be viewed at arlingtonvisualbudget.org.

FY2015, the current fiscal year, is the first 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 2.95% increase. Due to continuing enrollment growth, a school funding increase above 3.5% is proposed and discussed herein.**



4) *Health care cost increases will be programmed at 7%. Should actual increases exceed this amount, the Town and School budget totals shall be proportionately decreased by the excess amount. Should actual increases be less than this amount as a result of negotiated health care savings, the extra savings will be:*

a) Deposited into the override stabilization fund to extend the three year override period;

b) Used to preserve services; and

c) To satisfy any and all negotiated items between the Town Manager, employees, and retirees. – The override period has been extended to nine years from the original three-year period based to a large degree on health care savings and the first year health care savings also supported FY2012 wage settlements with employee bargaining units. For future planning purposes, health care premiums are projected to grow at 5.25%, which more accurately reflects the historical average annual growth of Group Insurance Commission premiums.

5) *An additional \$600,000 shall be appropriated for the School Department in FY2012 and \$400,000 shall be appropriated each year in addition to the amount currently appropriated in the capital budget for road improvements. – This commitment has been met.*

6) *Reserves shall be maintained in an amount equivalent to at least 5% of the budget. – This commitment is being maintained.*
At the time the 2011 override was proposed, the Town was facing a projected deficit of \$6 million. Also at that time, the Legislature was discussing giving municipalities more authority to control their health care plans and costs. Optimistically, it was assumed that some changes would be made to allow the Town to save \$1 million. The proposed override was then set at \$6.49 million, an amount that projected to maintain current service levels for three years.

Approximately a month after the override passed, the Legislature and the Governor 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 (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 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 and thereby forestall the next time an operating override would need to be considered. These discussions focused the committee on a number of assumptions that are contained within the Long Range Plan and led to several changes in assumptions in an attempt to match future projections more closely with past performance. Also, committee discussions led to the recommendation contained within this budget submission to reduce the rate of Town budget growth in FY2016 and to begin reducing the rate of School budget growth in FY2017.

Overall, the recommendations were based on the following guiding principles:

- 1) Exercising fiscal prudence to maintain financial stability through the success of a future operating override.
- 2) Balancing prudence with recognition of the needs and expectations of Arlington residents and building Town and School budgets accordingly.
- 3) Committing to strategically address the findings of the Comparative Compensation Study within the confines of the proposed long range planning parameters.

Based upon these meetings and discussions, the following changes to the Long Range Plan are being recommended:

- The rate of health insurance premium growth, previously projected at 7% annually, has been reduced to 5.25%, which mirrors the ten year average premium growth of the Group Insurance Commission.
- The amount of Free Cash assumed to be certified each year has been projected at the ten-year average certified amount, as opposed to the prior assumption of \$3,000,000.
- The rate of growth in annual pension costs has been reduced from 6% to 5.5% after discussions with the Arlington Retirement Board.
- Annual budget growth for Town Departments will be reduced from 3.5% to 3.25% for FY2016, and further reduced to 3% for FY2017 and beyond.
- Annual budget growth for the general education portion of the School Department budget will be maintained at 3.5% for FY2016, reduced to 3.25% for FY2017, and then reduced to 3% for FY2018 and beyond.

The inclusion of these changes in the Long Range Plan extends the plan through FY2020, with a deficit of \$9.7 million presenting itself in FY2021. An overview of the structural issues impacting Arlington's annual budget is included on page 18.



Meeting the Needs of a Growing School Population

In FY2015, the Long Range Planning Committee acknowledged that unanticipated growth in school enrollment had prompted the need to carefully consider a funding allowance in recognition of the added resources necessary to educate a growing student population. Such consideration was warranted based upon the fact that the original three-year plan assumed a stable enrollment total for the School Department throughout the life of the override period.

The FY2016 budget proposal continues to take into account enrollment growth, and uses FY2015’s growth in enrollment (169 students) to calculate an adjusted budget for the School Department in FY2016. The Long Range Plan allots an annual amount (growth factor) to the School Department based upon the enrollment growth as reported on October 1st of each year. The growth factor will be equivalent to 25% of the prior year’s per pupil cost (PPC) as determined by the State’s Department of Elementary and Secondary Education (DESE). This percentage is being used as a straightforward manner of projecting future School Department budget needs, which is based upon the incremental cost of accommodating increased enrollment in the school district. The following tables demonstrate this approach:

	FY 2015	FY 2016	\$ Increase	% Increase
General Education Costs	\$ 32,518,318	34,572,590	\$ 2,054,272	6.32%
Special Education Costs	\$ 16,356,500	17,501,455	\$ 1,144,955	7.00%
Kindergarten Fee Offset	\$ 970,000	970,000	\$ -	-
Growth Factor	\$ 885,150	530,069	\$ (355,081)	-40.12%
TOTAL SCHOOL BUDGET	\$ 50,729,968	\$ 53,574,114	\$ 2,844,146	5.61%

Growth Factor Breakdown	
FY15 Enrollment Growth	169
DESE PPC for Arlington	\$ 12,546
25% of PPC for Arlington	\$ 3,136.50
Growth Factor (25% PPC x 169)	\$ 530,069

The implementation of this approach, based on current enrollment projections, still allows the current override period to be maintained through FY2020. However, in FY2021, the Town’s structural deficit reemerges and is projected to be approximately \$9.7 million. The Town’s structural deficit is discussed in greater detail on page 18 and the Town’s Long Range Plan can be viewed on page 25.



Overall General Fund Budget Summary

	FY2014 Budget	FY2015 Budget	FY2016 Budget	Change \$	%
Revenue					
Property Tax	\$ 101,737,509	\$ 105,285,021	\$ 108,145,113	\$ 2,860,092	2.7%
Local Receipts	\$ 8,158,000	\$ 8,540,842	\$ 8,896,000	\$ 355,158	4.2%
State Aid	\$ 17,093,258	\$ 17,462,884	\$ 18,230,770	\$ 767,886	4.4%
School Construction Aid	\$ 2,474,773	\$ 2,906,266	\$ 2,474,773	\$ (431,493)	-14.8%
Free Cash	\$ 3,411,528	\$ 3,042,925	\$ 3,435,846	\$ 392,922	12.9%
Other Funds	\$ 200,000	\$ 350,000	\$ 200,000	\$ (150,000)	-42.9%
TOTAL REVENUES	\$ 133,075,068	\$ 137,587,937	\$ 141,382,502	\$ 3,794,565	2.8%
Expenditures					
Municipal Departments	\$ 30,330,987	\$ 31,392,491	\$ 32,320,070	\$ 927,579	2.95%
School Department	\$ 47,675,113	\$ 50,729,968	\$ 53,574,114	\$ 2,844,146	5.6%
Minuteman School	\$ 3,336,935	\$ 3,788,615	\$ 4,010,950	\$ 222,335	5.9%
Non-Departmental (Healthcare & Pensions)	\$ 22,899,398	\$ 24,050,099	\$ 25,499,823	\$ 1,449,724	6.0%
Capital (Includes Debt Service)	\$ 9,831,310	\$ 9,918,358	\$ 10,231,100	\$ 312,742	3.2%
MWRA Debt Shift	\$ 5,593,112	\$ 5,593,112	\$ 5,593,112	\$ -	0.0%
Warrant Articles	\$ 1,112,692	\$ 805,433	\$ 928,787	\$ 123,354	15.3%
Fixed Costs- Reserve Fund & Elections	\$ 833,915	\$ 1,131,005	\$ 1,093,980	\$ (37,025)	-3.3%
Override Stabilization Fund Deposit	\$ 5,773,873	\$ 4,310,362	\$ 2,863,516	\$ (1,446,846)	-33.6%
TOTAL EXPENDITURES	\$ 127,387,335	\$ 131,719,443	\$ 136,115,452	\$ 4,396,009	3.3%
Non-Appropriated Expenses	\$ 5,687,733	\$ 5,868,494	\$ 5,267,050	\$ (601,444)	-10.2%
Surplus / (Deficit)	\$ 0	\$ 0	\$ 0	\$ 0	0.0%



Departmental Budgets

Departmental operating budgets have been held to a 2.95% increase in accordance with the Long Range Plan. With respect to personnel costs, all collective bargaining agreements are currently under negotiation, so \$700,000 has been set aside for contract settlement. Only two part time positions have been added to the budget resulting in a net increase of one position from FY2015 (see personnel chart on page 10). Some of the more significant budget changes include:

Information Technology: +\$13,572

The expense budget for Information Technology contains a proposed new line item (\$23,000) funding implementation of the IT Strategic Plan. This increase is partially offset by a decrease of \$10,000 requested for computer maintenance.

Public Works: -\$326,336

The Public Works budget will see an overall decrease this year, based on a reduction in the amount budgeted for solid waste (\$33,512), and also a decrease in auto fuel cost (\$20,000). The budget also demonstrates a decrease due to the funding associated with the proposed Facilities Department being moved out of Public Works. The FY2016 budget also includes a \$75,000 increase in the Snow and Ice budget.

Facilities: +\$395,615

The FY2016 budget proposes the creation of a joint Town/School Facilities Department and the establishment of a Facilities Director position. The creation of a Facilities Department will assist in extending the asset life of existing facilities, add value to facilities by enhancing their condition, add additional reliability to capital budget requests and improve the operational efficiencies for the current level of maintenance expenses. This proposal is based upon the recommendation of the Building Maintenance Committee.

Health and Human Services: +94,244

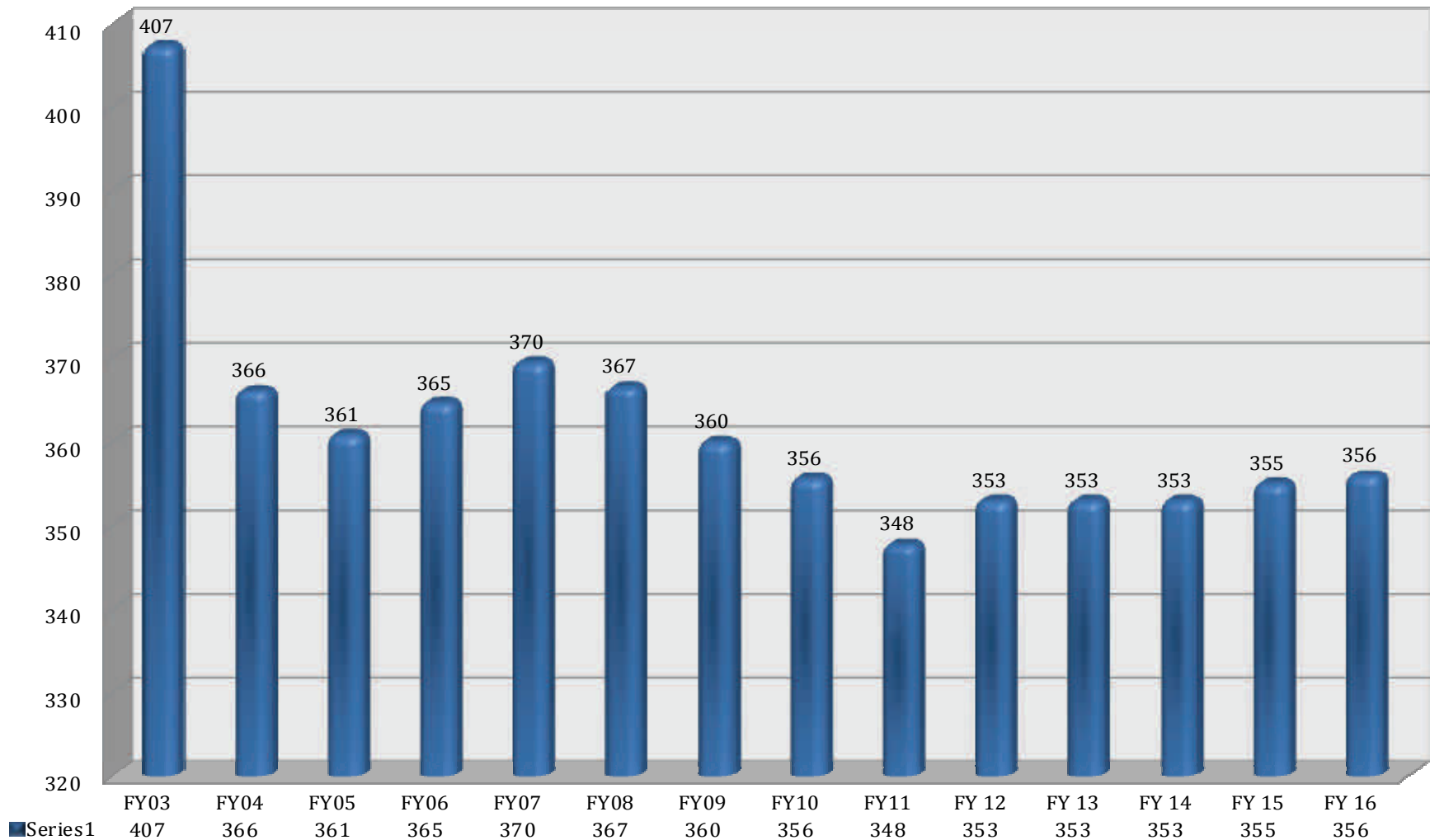
In FY2016, the Health and Human Services Division contains a proposed budget increase of \$12,295 based on changes to the pay and classification plan (\$11,295) and an increase in the amount budgeted for mosquito control (\$1,000). The Council on Aging budget is proposed to increase by \$13,111, based upon changes to the pay and classification plan (\$4,351) and funding for reception support at the office's front desk (\$8,760). The Veterans' Service budget is proposed to increase by \$68,838, which represents a decrease of \$3,200 in the pay and classification plan and an increase in \$72,038 in expenses. This expense increase is driven by a growing caseload of benefit eligible veterans being served.

Libraries: + \$30,200

In FY2016, the Library budget is receiving an increase of \$10,000 in order to support the new offering of Saturday hours in the summer. It is also proposed that a part time Technology Librarian be added to the budget at the cost of \$22,118.



Town Personnel Trends FY 2003 - FY2016 FTEs





Healthcare/Other Post-Employment Benefits (OPEB)

The actual cost of healthcare premiums is increasing by 6.62% in the FY2016 budget. This is higher than the 5.25% amount projected within the Long Range Plan, but still below the prior benchmark of 7% growth per year. The total health insurance cost is also based upon an assumption of an increase in benefit eligible school department employees based on the previously discussed growth factor funding increase. This assumption is carried throughout the Long Range Plan.

In FY2016, 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 \$3,000,000. The FY2016 recommendation to fund OPEB with \$300,000 from the Health Claims Trust Fund is the third year in what is a recommendation to adopt this practice for the next ten years or until the Health Claims Trust Fund is exhausted. Additionally, due to the Town departmental budgets being proposed at less than the 3.25% called for in the Long Range Plan, the difference between the actual budget proposal and 3.25% (\$92,677) is being proposed as an additional contribution to the Town's OPEB Trust Fund. This combined \$392,677 contribution is in addition to the \$563,000 amount otherwise earmarked for appropriation into the OPEB Trust Fund, bringing the total proposed appropriation for FY2016 to \$955,677. The table below provides information regarding the Town's OPEB Trust Fund and OPEB liability.

Town of Arlington OPEB Liability - As of January 1, 2014						
Active Employees (Future Retirees) Liability	% of Total Liability	Retiree Liability	% of Total Liability	Total Unfunded Liability	Accumulated Assets Towards the Liability	Total OPEB Liability
\$81,800,000	41%	\$116,000,000	59%	\$190,800,000	\$7,000,000	\$197,800,000

Cost Savings/Performance Strategies/Investment in Technology

Last year, the Town released a Strategic Plan for Information Technology (IT Plan) as a result of a yearlong effort to develop a plan that would aid in enhancing the use of technology as a means of delivering more efficient and effective services to the residents of Arlington. Substantial progress has been made on the tasks and goals outlined in the plan, including the completion of a needs assessment across all Town departments. Notable accomplishments within the goals outlined are the launch of a digital meeting management solution for the Board of Selectmen and the planned release of Open Checkbook. The digital meeting management solution has dramatically streamlined



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

the process of creating and distributing Board of Selectmen meeting packets, while also significantly enhancing governmental transparency by making all meeting materials publicly available via a web portal on arlingtonma.gov. The launch of Open Checkbook will occur in tandem with the release of this document, and will take another step toward enhanced transparency by making all Town and School spending data available to the public via an easy to use web application.

Another example of the Town's dedication to pursuing efficiency via innovation is found in the DPW's efforts to reduce salt usage in the winter. During FY2015, five DPW trucks were outfitted with a new salt spreader control system. The new system utilizes the vehicle's speed to regulate the rate of salt applied to winter road surfaces. Using speed and a predetermined amount of product to be spread per lane mile, the system adjusts conveyors and spinners accordingly to apply the desired amount of deicing material. Previously, the rate of application was set by the driver using an estimation of speed. Each unit costs approximately \$9,000 and can be reinstalled into new equipment as vehicles are replaced. It is projected that the units will reduce salt usage by up to 30%. Last winter, each truck spread about \$50,000 worth of salt. With a 30% reduction, the new system should pay for itself in the first year.

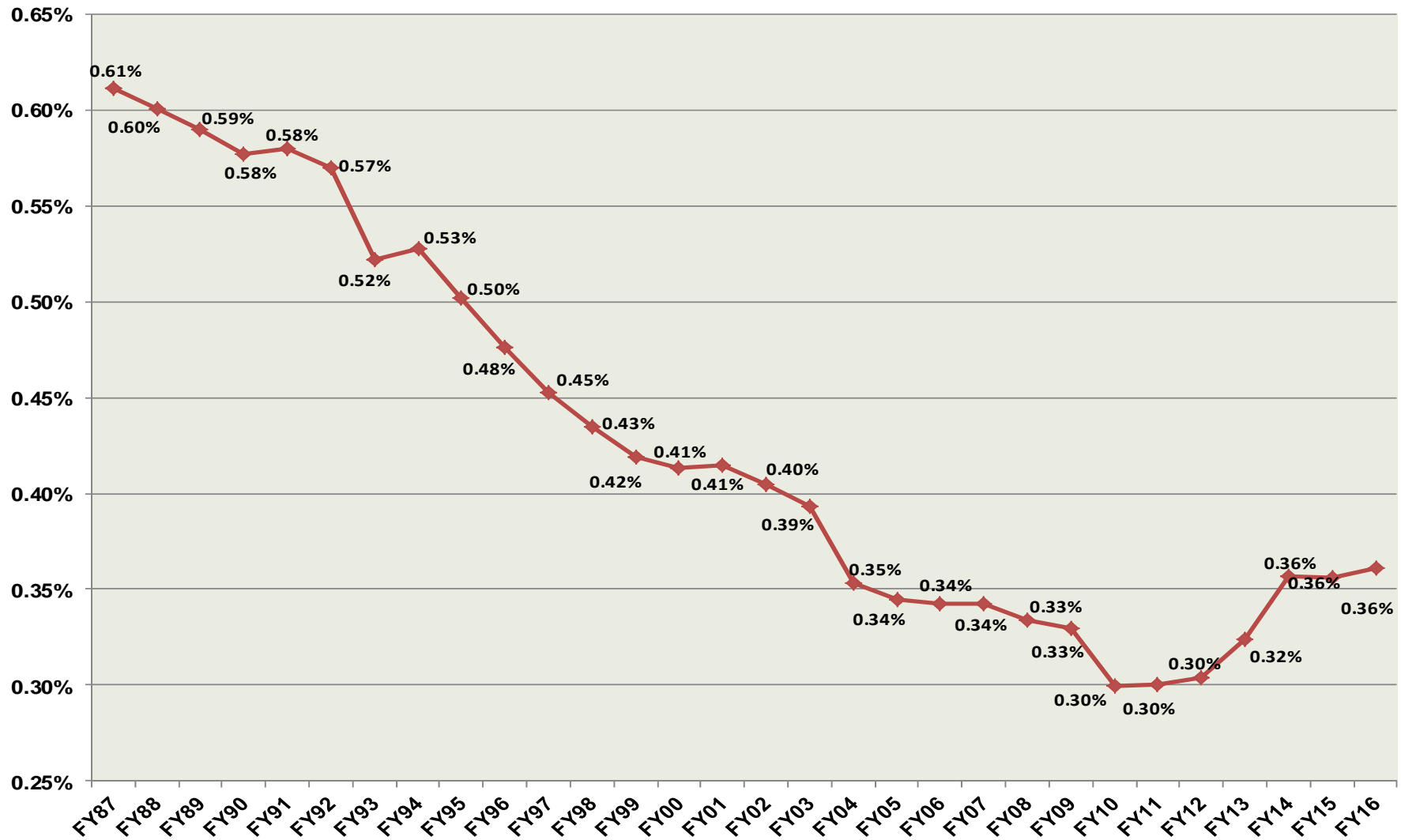
In FY2016 and beyond, the Town will also remain committed to finding other means of reducing costs which may include, but will not be limited to, regionalization of services and the outsourcing of certain municipal functions.

Sustainability/Energy Conservation

In 2010, Arlington was named a Green Community by the State's Green Communities Division in recognition of the work that Arlington has done in the past to reduce energy usage, and the plans it has to further reduce energy use in the future. In 2013, based on significant fulfillment of these plans, the State's Department of Energy Resources (DOER) honored Arlington with the "Leading By Example" award. This award is given to only four municipalities on an annual basis, and Arlington was proud to have earned the designation. More recently, Arlington was one of seven communities state wide that was honored by the Green Communities Division for having reached its 20% energy reduction goal within a five year time span. Arlington has substantially benefited from its cooperation with the Green Communities Division, having received three grant awards over the past four years, totaling \$698,082. The most recent grant award of \$247,894 came in 2014 and provided funding for numerous efficiency upgrades at the Ottoson Middle School and the installation of a new energy management system at Arlington High School. A great deal of this effort has been made possible via the efforts of the Town's Regional Energy Manager (REM) who is shared with the Town of Bedford. Looking forward, the Town is preparing to apply for yet another round of Green Communities grant funding in 2015 and is also preparing to sign a power purchase agreement with Ameresco for the installation of solar photovoltaic panels of six school roofs. The power purchase agreement projects to save the Town nearly \$2,000,000 over the course of the next twenty years.



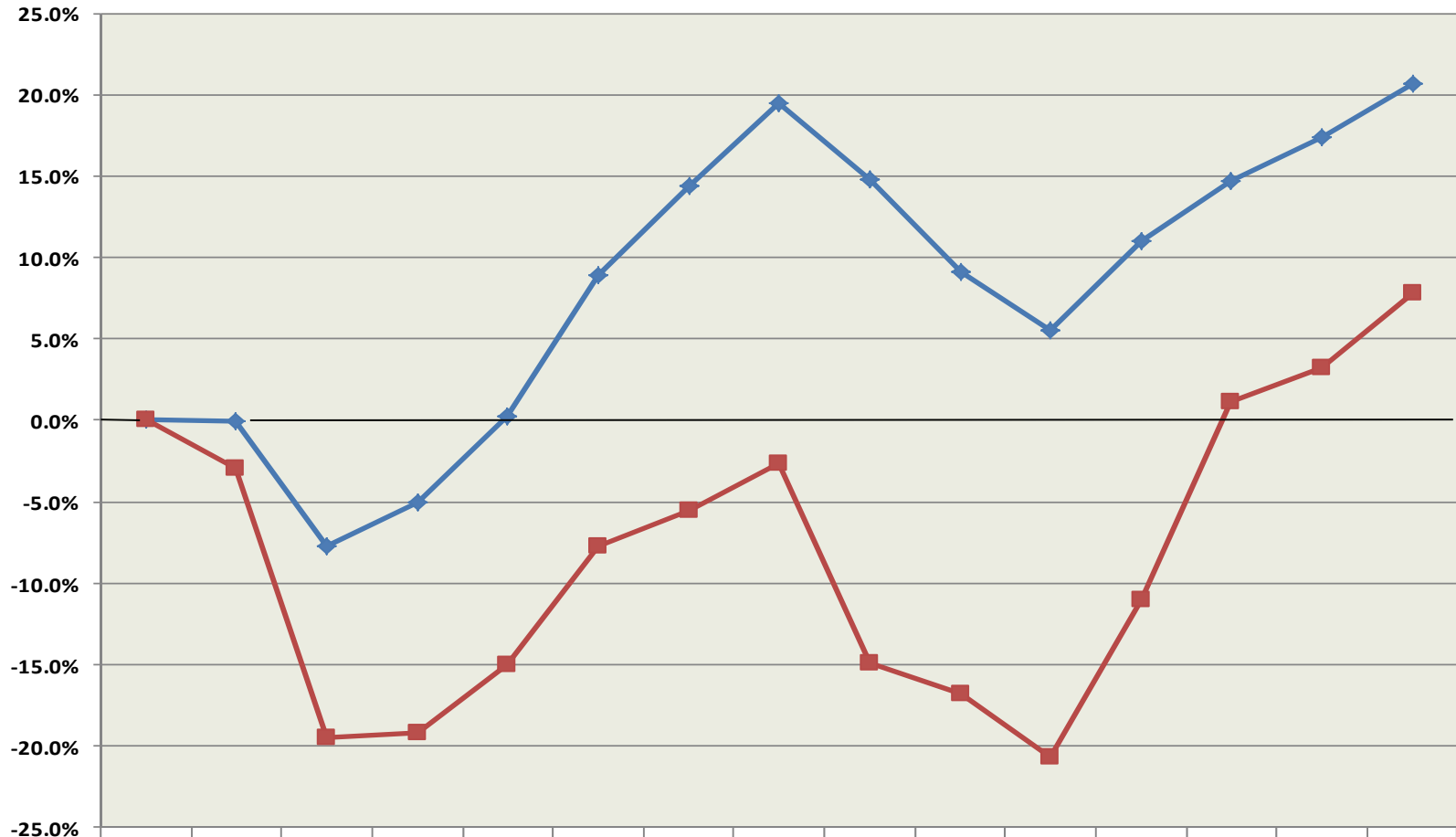
Arlington's Percent of Total State Aid





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%
■ 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%



Comparative Data

The FY2016 Annual Budget & Financial Plan includes a set of comparable communities that includes Belmont, Brookline, Medford, Melrose, Milton, Natick, Needham, North Andover, Reading, Stoneham, Watertown, and Winchester. These communities were selected by Town, School, and Union leadership. These communities were identified based on a number of factors including; population, 5 year average municipal growth factor, population per square mile, median income per capita, median income per household, single family median home value, average family tax bill, total tax levy, excess capacity as a percentage of maximum levy and residential valuation as a percentage of the total tax levy.

There are a number of factors that contribute to Arlington's structural deficit – some common among all municipalities and some relatively unique to Arlington. Some of the factors particular to Arlington include the fact that Arlington is a densely populated, fully built-out community (see Tables 1 and 2 on page 16). Revenue from growth in the tax base ranks near the bottom among a group of 13 comparable communities (see Table 3) and remains under the state-wide average. Another indicator of the Town's ability and opportunity to raise revenue is a measure developed by the Department of Revenue called Municipal Revenue Growth Factor (MRGF). It measures a community's ability to raise revenue, taking into consideration a community's tax levy limit, new growth, state aid, and local receipts. As you can see from Table 4, the state-wide average and average of the twelve other comparable communities' MRGF is 3.76 and 3.55 respectively. Arlington's is 3.21, which is below the state average and ranks near the bottom among comparable communities.

Another factor affecting the Town's financial structure is its tax base. The Town's tax base is nearly all residential - the commercial/industrial sector makes up only slightly more than 6% of the total. Table 5 shows that Arlington's commercial/industrial tax base ranks 11th out of 13 comparable communities. The average of these communities is 15.97%, more than two and a half 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 10th in taxes per household as a percent of median household income (Table 7). 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 13 comparable communities. Arlington ranks 8th out of 13 comparable communities in overall expenditures per capita (see Table 8). The spending average of the other comparable communities is nearly 15% greater than Arlington.

With spending below the state-wide average and comparable communities, and with revenue growth opportunities below the statewide average and nearly 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 modest 7.8% increase in state aid just since 2002, has left the Town with only two choices - significant budget cuts resulting in service reductions or Proposition 2 ½ general overrides.



Table 1		Table 2		Table 3		Table 4	
Municipality	Pop Per Square Mile	Municipality	Households Per Sq Mile	Municipality	New Growth Ave '12-'14	Municipality	FY2015 Municipal Revenue Growth Factor
1 BROOKLINE	8,708	1 BROOKLINE	3,890	1 NEEDHAM	2.56	1 NEEDHAM	4.94
2 ARLINGTON	8,500	2 ARLINGTON	3,747	2 WATERTOWN	2.10	2 NATICK	4.30
3 WATERTOWN	8,028	3 WATERTOWN	3,652	3 NATICK	1.83	3 BROOKLINE	4.06
4 MEDFORD	7,023	4 MEDFORD	2,787	4 NORTH ANDOVER	1.41	4 MEDFORD	3.86
5 MELROSE	5,904	5 MELROSE	2,398	5 BROOKLINE	1.29	5 NORTH ANDOVER	3.83
6 BELMONT	5,436	6 BELMONT	2,142	6 READING	1.29	6 READING	3.73
7 WINCHESTER	3,655	7 STONEHAM	1,510	7 WINCHESTER	1.27	7 WINCHESTER	3.49
8 STONEHAM	3,534	8 WINCHESTER	1,309	8 BELMONT	1.13	8 BELMONT	3.33
9 READING	2,551	9 READING	889	9 ARLINGTON	1.13	9 ARLINGTON	3.21
10 NEEDHAM	2,358	10 NATICK	886	10 MELROSE	0.99	10 MELROSE	2.89
11 NATICK	2,335	11 NEEDHAM	860	11 MEDFORD	0.87	11 STONEHAM	2.87
12 MILTON	2,091	12 MILTON	703	12 STONEHAM	0.79	12 WATERTOWN	2.72
13 NORTH ANDOVER	1,096	13 NORTH ANDOVER	373	13 MILTON	0.70	13 MILTON	2.56
Ave w/o Arlington	4,393	Ave w/o Arlington	1,783	Ave w/o Arlington	1.35	Ave w/o Arlington	3.55
Arlington	8,500	Arlington	3,747	Arlington	1.13	Arlington	3.21
				State-Wide Ave	1.67	State-Wide Ave	3.76



Table 5		Table 6		Table 7		Table 8	
Municipality	Commercial/ Industrial/ Personal % of Total Tax	Municipality	FY2015 Taxes Per Cap	Municipality	FY2014 Taxes/ Household as % of 09-13 median income	Municipality	FY2013 Total Exp Per Cap
1 WATERTOWN	32.81%	1 NEEDHAM	\$3,810	1 NEEDHAM	8.0%	1 NEEDHAM	\$3,857
2 NEEDHAM	24.02%	2 WINCHESTER	\$3,367	2 NATICK	7.2%	2 WINCHESTER	\$3,813
3 NATICK	22.61%	3 BROOKLINE	\$3,082	3 WINCHESTER	7.1%	3 BROOKLINE	\$3,548
4 MEDFORD	20.73%	4 BELMONT	\$3,018	4 BROOKLINE	7.1%	4 NATICK	\$3,369
5 STONEHAM	17.55%	5 NATICK	\$2,741	5 BELMONT	6.8%	5 READING	\$3,086
6 BROOKLINE	17.44%	6 WATERTOWN	\$2,627	6 WATERTOWN	6.4%	6 BELMONT	\$3,000
7 NORTH ANDOVER	17.12%	7 MILTON	\$2,498	7 MILTON	6.3%	7 WATERTOWN	\$2,960
8 READING	8.56%	8 ARLINGTON	\$2,391	8 STONEHAM	6.2%	8 ARLINGTON	\$2,630
9 MELROSE	8.42%	9 READING	\$2,321	9 NORTH ANDOVER	6.2%	9 MILTON	\$2,621
10 MILTON	6.12%	10 NORTH ANDOVER	\$2,225	10 ARLINGTON	5.9%	10 MELROSE	\$2,620
11 ARLINGTON	5.82%	11 STONEHAM	\$2,054	11 READING	5.8%	11 STONEHAM	\$2,592
12 BELMONT	5.64%	12 MELROSE	\$1,859	12 MEDFORD	5.5%	12 NORTH ANDOVER	\$2,472
13 WINCHESTER	4.74%	13 MEDFORD	\$1,687	13 MELROSE	5.1%	13 MEDFORD	\$2,212
Ave w/o Arlington	15.97%	Ave w/o Arlington	\$2,608	Ave w/o Arlington	6.5%	Ave w/o Arlington	\$3,013
Arlington	5.82%	Arlington	\$2,391	Arlington	5.9%	Arlington	\$2,630
						State-Wide Ave	\$2,968



Collective Bargaining and Employee Relations

All Town and School employee unions have contracts in place through FY2015, and bargaining is underway for contract extensions. This current round of bargaining is being guided by the recently completed Comparative Compensation Study.

State Aid

State aid is projected to increase by \$767,886 or 4.4% in FY2016. This projected increase is based upon the Governor's budget which was released on March 4th. This increase includes a 4.7% increase in Chapter 70 funding, representing \$480,977 and also a 3.6% increase in Unrestricted General Government Aid, representing \$243,027.

Financial Structure and Outlook

Each year, for several years, the Town has had a structural deficit whereby the growth in revenues has not kept pace with the growth in costs necessary to maintain a level service budget. This has happened despite a reduction of nearly 50% in the Town's workforce and spending levels near the bottom of its comparable communities.

The annual structural deficit is estimated between \$2.0 and \$2.5 million. As a result of being a built out (further density being the only real growth opportunity) community with limited available growth in its tax base and only recent improvement in its state aid, the Town has had to rely on periodic tax overrides to sustain service levels. Still, in the 30 years of Proposition 2 ½, there have been only three general tax overrides.

As a result of the change to the Town's employee health care program, which has provided significant savings, it is now projected that the 2011 override funds can be stretched 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 potential financial liabilities associated with the reconstruction/renovation of Arlington High School and the proposed building project at Minuteman Vocational Technical High School. There are many decisions yet to be made in regard to these projects, but nevertheless, they will have a substantial impact on the Town's long range financial planning.



Capital

The Town's capital improvements program policies call for the allocation of approximately 5% of the general fund revenues to the capital budget. This is exclusive of dedicated funding sources such as enterprise funds, grants, and proposition 2 ½ debt exclusion projects. For FY2016 funding for the capital budget is as follows:

Bonding:	\$13,594,350
Cash:	\$1,426,356
Other:	\$3,200,500

Our existing non-exempt debt is \$6,552,287 which is consistent with prior debt service projections for FY2016. The total capital budget for FY2016, including debt, is estimated at \$10.2 million. Major projects to be funded in FY2016 include: the third and final phase of the Community Safety Building Project, which has been budgeted at \$7.6 million, street and sidewalk work for approximately \$1.5 million, water and sewer work for \$2.4 million, and park renovation work for \$455,000. The FY2016 budget also includes \$500,000 for the replacement of the turf at Peirce Field, and \$131,000 in funding for new police cruisers.

The most significant project added to the five year capital plan is the renovation of the Stratton School. A Stratton Building Committee was convened in 2014 with the charge of working with a consultant to define the scope of a future Stratton Building Project and to recommend a cost proposal to the Capital Planning Committee. The projected construction cost for a single phased project is \$10.3 million (not including student relocation costs) and has been programmed for FY2017; \$1,085,000 has been requested in FY2016 for the design phase of the project. The Capital Planning Committee is recommending a funding strategy that includes the use of capital funds, funds from the 2000 school building debt exclusion, and funds from the sale of a Town owned asset. The total estimated cost of the project is approximately \$12 million.

Throughout the fall, the Capital Planning Committee considered the potential impact of future Community Preservation Act (CPA) funding on projects that have historically been funded through the capital budget, but could be eligible for CPA funding in FY2017 and beyond. The Committee decided to fund many of the projects requested in FY2016 that may have been CPA eligible in the future, however, did not recommend funding for those projects requested in years FY2017-FY2020. For the purposes of presentation and to identify the need for projects impacted by the CPA, they have been italicized in the five year Capital Plan. I expect that the Capital Planning Committee will work collaboratively with the Community Preservation Committee once it is established to decide how to fund these types of projects in the future.



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 2.76% in FY2016. Future year increases range from 1.86% to 4.07%, which occurs in FY2017 depending on the reliance on funds from the Override Stabilization Fund. In FY2021, revenue is projected to decrease by 2.65%. This is a result of projecting to have insufficient revenues in FY2021. It is anticipated that an operating override will be considered at this time.
- **Tax Levy** – The FY2016 tax levy is projected to increase by approximately 2.72%. Future year increases are projected to be between approximately 2.64% and 2.85% per year. New growth is projected at \$450,000 per year. Actual debt for Proposition 2 ½ debt exclusion school projects minus state reimbursements are included and amount to approximately \$900,000 to \$1,000,000 each year. Beginning in FY2015 property tax payments from Symmes fully covered the Symmes debt and therefore, no funds are needed to be raised on the tax rate to offset Symmes debt service.
- **State Aid** – Based on the Governor's budget, state aid is projected to increase 4.4%. This increase is inclusive of a 4.7%, or a \$480,977 increase in Chapter 70 funding and a 3.6% or \$243,027 increase in Unrestricted General Government Aid. In outgoing years, increases are projected between 1% and 2% depending on projected school enrollment growth.
- **School Construction Reimbursement** - MSBA reimbursements are projected to decrease by \$431,493 to \$2,474,773 from FY2015. This is a result of the Town receiving an extra reimbursement for the Ottoson Middle School that had originally been scheduled for 2006. Excluding the extra payment, all other reimbursements are fixed from FY2015. School construction reimbursements will decrease to \$1,615,914 in FY2018 which will reflect the last reimbursement for the Ottoson School construction project and will decrease further to \$476,523 in FY2019 which is reflective of only the reimbursement for the Peirce Elementary School.
- **Local Receipts** – Local Receipts are estimated to increase by \$355,158 in FY2016 due to projected increases in Motor Vehicle Excise tax collections, Licenses and Permits, and Penalties & Interest. The significant increase from FY2015 is a result of having to adjust FY2015 projections downward at the time in which the tax rate was set. It is anticipated that Local Receipts will continue to grow by \$75,000 increments thereafter.



- **Free Cash** – In FY2016, \$3,435,846 is proposed to be appropriated, which is 50% of the Town’s available free cash balance. For FY2017 and in each subsequent year, \$1,969,343 is proposed to be appropriated. This is reflective of 50% of the ten year average.
- **Other Available Funds** – A transfer of \$200,000 from surplus tax abatement overlay reserve funds is projected in FY2016. 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 five years of the override (FY2012-2016) funds will be deposited into the Fund, resulting in an balance of approximately \$20.8 million. In FY2017, a drawdown of \$735,043 will be required to balance the budget. In FY2018 a drawdown of \$2.9 million will be needed to close the budget gap leaving approximately \$17.1 million in the Fund to apply to a budget gap of approximately \$6.5 million in FY2019 (the eighth year of the override) and \$9.1 million in FY2020. This will leave an approximate balance of \$1.5 million which will be offset the shortfall in FY2021. The projected deficit in FY2021 is \$9.8 million. It is important to note that these numbers are projections at this time and may vary significantly in future years.

Expenditure assumptions include the following:

- **School Budget** – In FY2016 expenditures are capped at 3.5% for general education costs and 7% for special education costs. However, the FY2015 School Budget includes a growth factor which is aimed to offset the expenses attributable to enrollment growth for the previous years. In future years, the growth factor is included in the following year’s general education budget which results in increases ranging from 4.93 to 5.20%. The growth factor is explained in greater detail earlier in the Town Manager’s Budget Message. It should be noted that beginning in FY2017, general education costs will be capped at 3.25% and at 3% in each year thereafter.
- **Minuteman School** – In FY2016 the Town’s assessment will increase by \$222,335 (5.87%). Thereafter, increases are projected at 3.5%.
- **Municipal Departments** - Expenditures for municipal departments will increase by 2.95% in FY2015. In FY2017 and going forward, expenditures are capped at 3%.



- **Capital Budget** – Capital policies call for dedicating approximately 5% of net revenues to capital spending inclusive of non-exempt debt. The Capital Budget fluctuates in future years due to the retirement of exempt debt.
 - **Exempt Debt** – This includes the actual cost of debt service for debt exclusion projects which include all of the school projects, except the Ottoson. Exempt debt is projected to decrease in each year, with significant decreases in FY2019 and FY2022 as debt associated with the school projects is retired. Not included in the exempt debt projections is the use of excluded debt from the 2000 Debt Exclusion that may be utilized to offset the costs associated with the renovation of the Stratton Elementary School.
 - **Non-Exempt Debt** – This debt will fluctuate over the next several years but will average approximately \$6.6 million per year. Some of the recent major projects funded by non-exempt debt include the Highland & Park Circle Fire Stations and the Community Safety building.
 - **Cash** – In FY2015 \$1,426,356 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 FY2015 the pension appropriation will increase 5.75% and thereafter, increases 5.5% annually.
- **Insurance (including healthcare)** – Health care and insurance costs are expected to increase by 6.18%. Actual employee premiums (GIC rates) increases varied based on the sixteen different plans offered by the GIC. The overall rate increase for Arlington is projected to be 6.62%. In outgoing years costs are projected to increase from 5.79% to 5.98% per year depending on the continuance of enrollment growth in the school department.
- **State Assessments** – In FY2016, the MBTA assessment, which is the largest assessment, is projected to increase by \$37,851 (1.4%). Overall, state assessments are projected to increase by 1.98%, and 2.50% annually thereafter.
- **Offset Aid** – Assistance to Libraries is expected to decrease slightly in FY2016. There appears to be a significant decrease in this line in the Long Range Plan. This is a result of the School Lunch Assistance program being accounted for differently moving forward.
- **Overlay Reserve** – This reserve for tax abatements is increased in revaluation years, which occur every three years. For the revaluation years FY2016 and FY2019, the reserve is increased to \$800,000. In non-revaluation years it is reduced to \$600,000.



- **Fixed Costs** – Fixed costs include the Elections budget and the Operating Reserve Fund. In FY2016 and in each year thereafter the Reserve Fund is budgeted at \$1 million. The elections budget fluctuates by approximately \$100,000 per year depending on the number of scheduled elections.
- **Other** – This includes court judgments (\$100,000), deficits such as snow removal (\$500,000) and Symmes property taxes reserved for Symmes debt (674,675). The estimate fluctuates with actual Symmes debt service payments.
- **Warrant Articles** – Appropriations for miscellaneous warrant articles have been estimated at \$928,787 in FY2016 and thereafter held level. This represents a \$123,354 increase from FY2016 primarily as a result in an increase in the OPEB warrant article.
- **Override Stabilization Fund** – The appropriations into the fund in FY2016 is \$2.8 million. After FY2016 it is projected that drawdowns from the fund will be necessary.



Conclusion

Every effort has been made to implement all appropriate measures that will maximize the productivity of our organization and deliver the highest quality of services within available resources. Our entire management team has worked collectively to implement creative ways of doing more with less. We remain committed to maintaining the high quality of life our residents expect and deserve.

As the budget process evolves and additional information becomes available over the next few months, the estimates and recommendations contained herein will be adjusted as required. You will then be able to make operating and capital budget adjustments as deemed advisable prior to Town Meeting.

The document presented for your consideration is a product of a great deal of work. Our department heads, second to none in the Commonwealth in terms of professional competence and dedication to their tasks, provided invaluable input and assistance. Members of boards and commissions also offered valuable assistance. In particular, I would like to thank the Board of Selectmen for its policy insights and leadership. I am most of all indebted to Deputy Town Manager Andrew Flanagan who deserves the credit for the quality of the budget document and the information and the data contained herein. I also want to extend a special word of thanks to Eve Margolis, Management Analyst, who spent evenings and weekends assisting in the production of this document.

Respectfully submitted,

Adam W. Chapdelaine

Town Manager



Long Range Financial Projection

	FY 2015	FY 2016	Dollar Change	Percent Change	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
I REVENUE									
A. State Aid	17,462,884	18,230,770	767,886	4.40%	18,491,208	18,738,845	19,062,188	19,393,745	19,663,023
School Construction Aid	2,906,266	2,474,773	(431,493)	-14.85%	2,474,773	1,615,914	476,523	476,523	476,523
B. Local Receipts	8,540,842	8,896,000	355,158	4.16%	8,971,000	9,046,000	9,121,000	9,196,000	9,271,000
C. Free Cash	3,042,925	3,435,846	392,922	12.91%	1,969,343	1,969,343	1,969,343	1,969,343	1,969,343
D. Overlay Reserve Surplus	350,000	200,000	(150,000)	-42.86%	200,000	200,000	200,000	200,000	200,000
E. Property Tax	105,285,021	108,145,113	2,860,092	2.72%	111,022,824	113,985,865	117,236,630	120,393,415	123,622,719
F. Override Stabilization Fund					734,298	2,953,108	6,486,652	9,183,254	1,504,089
TOTAL REVENUES	137,587,937	141,382,502	3,794,565	2.76%	143,863,447	148,509,075	154,552,336	160,812,280	156,706,696
II APPROPRIATIONS									
A. Operating Budgets									
School	50,729,968	53,574,114	2,844,146		56,338,388	59,118,609	62,191,496	65,428,357	68,690,623
General Education Costs	32,518,318	34,572,590	2,054,271	6.32%	36,243,496	37,741,086	39,254,529	40,974,905	42,763,046
Special Education Costs*	16,356,500	17,501,455	1,144,955	7.00%	18,726,557	20,037,415	21,440,035	22,940,837	24,546,696
Kindergarten Fee Offset	970,000	970,000	0	0.00%	970,000	970,000	970,000	970,000	970,000
Growth Factor	885,150	530,069			398,336	370,107	526,932	542,615	410,882
Net School Budget	50,729,968	53,574,114	2,844,146	5.61%	56,338,388	59,118,609	62,191,496	65,428,357	68,690,623
Minuteman	3,788,615	4,010,950	222,335	5.87%	4,151,333	4,296,630	4,447,012	4,602,657	4,763,750
Town Personnel Services	23,957,450	24,931,654	974,204	4.07%	25,679,604	26,449,992	27,243,491	28,060,796	28,902,620
Expenses	9,423,408	9,526,457	103,049	1.09%	9,812,251	10,106,618	10,409,817	10,722,111	11,043,775
Less Offsets:									
Enterprise Fund/Other	1,988,367	2,138,041	149,674	7.53%	2,202,182	2,268,248	2,336,295	2,406,384	2,478,576
Net Town Budget	31,392,491	32,320,070	927,579	2.95%	33,289,672	34,288,362	35,317,013	36,376,524	37,467,819
MWRA Debt Shift	5,593,112	5,593,112	0	0.00%	5,593,112	5,593,112	5,593,112	5,593,112	5,593,112
B. Capital budget									
Exempt Debt Service	2,771,358	2,635,325	(136,033)	-4.91%	2,524,722	2,424,741	1,396,516	1,335,235	1,265,998
Non-Exempt Service	5,798,300	6,770,886	972,586	16.77%	6,849,017	6,044,906	6,921,057	6,994,022	6,493,825
Cash	1,554,300	1,426,356	(127,944)	-8.23%	1,460,725	1,250,963	1,365,277	1,517,278	1,404,679
Offsets/Capital Carry Forward	(205,600)	(601,468)	(395,868)	192.54%	(520,932)	(193,133)	(390,118)	(282,158)	(455,562)
Total Capital	9,918,358	10,231,100	312,742	3.15%	10,313,532	9,527,477	9,292,732	9,564,377	8,708,940
C. Pensions	8,643,368	9,140,241	496,873	5.75%	9,642,954	10,173,317	10,732,849	11,323,156	11,945,929
D. Insurance	15,406,731	16,359,582	952,851	6.18%	17,307,446	18,303,155	19,394,348	20,553,839	21,745,404
E. State Assessments	3,077,946	3,139,023	61,077	1.98%	3,217,499	3,297,936	3,380,384	3,464,894	3,551,516
F. Offset Aid - Assistance to Libraries	73,716	53,352	(20,364)	-27.62%	53,352	53,352	53,352	53,352	53,352
G. Overlay Reserve	1,534,082	800,000	(734,082)	-47.85%	600,000	600,000	800,000	600,000	600,000
H. Fixed Costs - Res. Fund & Elections	1,131,005	1,093,980	(37,025)	-3.27%	1,150,000	1,050,000	1,150,000	1,050,000	1,150,000
I. Other Crt Jdgmnts/ Deficit/ symmes	1,182,750	1,274,675	91,925	7.77%	1,277,875	1,278,338	1,271,250	1,273,225	1,271,950
J. Warrant Articles	805,433	928,787	123,354	15.32%	928,787	928,787	928,787	928,787	928,787
K. Override Stabilization Fund	4,310,362	2,863,516							
L TOTAL APPROPRIATIONS	137,587,937	141,382,502	3,794,565	2.76%	143,863,447	148,509,075	154,552,336	160,812,280	166,471,184
BALANCE	0	0			0	0	0	0	(9,764,488)
Surplus / (deficit) to carryover to next year	0	0			0	0	0	0	(9,764,488)



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