



Town of Arlington

Office of the Town Manager

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January 15, 2025

To: The Honorable Select Board and Finance Committee

It is my pleasure to present the recommended FY2027 operating and capital budgets, as well as the FY2027-2031 capital plan. The General Fund budget as proposed totals \$241,374,166 which is an increase of \$9,368,936 (4.04%) from the current budget. The Town Departmental Operating budget as proposed totals \$40,537,090 which is an increase of \$1,275,969 (3.25%) from the current year. A summary showing a comparison of the FY2026 and FY2027 revenues and expenditures is shown on page 6.

It is important to note this budget submission is contingent upon the successful passage of a Proposition 2 ½ operating override for FY27. If unsuccessful, the final budget put before Town Meeting by the Finance Committee would need to incorporate significant cuts to ensure a balanced FY27 budget is approved prior to July 1st. This FY2027 budget observes Arlington's longstanding financial policies and practices that protect the fiscal health of the organization and adheres strictly to longstanding 3.25% Town departmental budget growth commitment. Further, strong financial reserves are maintained as part of this budget.

While additional details will follow throughout this budget document, some highlights are summarized here:

- Health Insurance costs remain a significant financial pressure. The Insurance budget is currently projected to grow 11.25% based on preliminary estimates from the Group Insurance Commission (GIC) related to premium growth. As always, the budget will be reconciled when final rates are released in the coming months. This represents the third consecutive year of roughly double-digit premium growth. Of course, this health care cost crisis has been seen in all sectors and is not unique to municipalities. Furthermore,

it is expected that it will take a few years to subside as potential fixes are introduced. A retrospective look at the Long Range Financial Projection associated with the November 2023 override demonstrates this particular budget shows the greatest variance when compared to where we had expected to be in FY27 (+\$3.38M).

- Solid Waste has been separated into two distinct budgets. The budget entitled Solid Waste remains part of the Department of Public Works budget, and is included in the Town departmental budget calculation as restricted by the 3.25% growth cap.

These costs typically cover recycling center activities, hazardous material disposal, and disposal of solid materials from road and sidewalk excavations. A new budget entitled Curbside Collection has been introduced to more effectively and transparently track costs associated with our new 5-year waste hauling contract with WM, which is structured differently than prior contracts. Chief among the differences are the Town no longer paying for the final disposal of yard waste, only its collection, and the Town being responsible for the final processing of our single stream recycling. Regrettably, the secondary market for various commodity streams has plummeted. As a result, within FY26, the Town is already paying approximately 70% more per ton of recycling than expected at the time of bidding. The new Curbside Collection budget, which is also a new line item in the updated Long Range Financial Projection, is projected to grow at 6% in FY27. While it is expected that containerization will drive down our tonnages, more data will be needed over time to fully ascertain the total savings introduced by the investment in carts, in addition to those realized within the new collection contract. Within this new Curbside Collection budget are lines for the following:

- o Waste Hauling: direct costs associated with the contract with WM for providing curbside services
- o Trash Disposal: costs associated with disposing of solid waste at the Wheelabrator waste-to-energy facility
- o Recycling Processing: costs associated with the processing of our single-stream recycling at a Materials Recovery Facility, net of the commodity value of the Town's recyclables.

- Board, Committee, and Commission budgets, as well as budgets for events and celebrations, as contained within various warrant articles, are proposed at 90% funding of the prior fiscal year. As noted in the Long Range Planning section below, a significant budgetary deficit looms, and various measures are being taken to restrain spending. The costs associated with direct warrant article appropriations impact the Long Range Financial Projection and therefore any override.
- Town departmental expense budgets have been reduced by a total of \$538,561. These reductions include both targeted reductions done in conjunction with Department Heads, as well as uniform reductions in certain administrative lines across the organization, including 10% reductions in 'Office Supplies', 'Printing', and 'Travel' (in-state & out-of-state), and a 25% reduction in 'Advertising'. The latter is expected to be offset by a new agreement with YourArlington to provide legal advertising services commensuration with Arlington's Home Rule Petition at a lesser rate than the current vendor.
- o The largest expense budget reduction is in Health & Human Services budget, more specifically in the 'Veteran's Aid & Assistance' line item (-\$100k). This line item has been reconciled to spending activity in recent fiscal years. In effect, this budget line covers the Town's 25% share of Chapter 115 benefits for qualifying low-income veterans. This is a State program for which the Commonwealth provides for the other 75% of funding as reflected on the Town's Cherry Sheets. This Cherry Sheet receipt has been declining commensurate with

the reduction in the number of qualifying low-income veterans. o Another sizable General Fund expense reduction is within the Materials line of the Libraries budget (-\$50,500).

Fortunately, this expense reduction will be offset by an alternative source of funding announced at a later date.

- Town departmental salary budgets are projected to increase by 6.01% overall, while FTEs will decrease by .97. This total increase accounts for the annual Cost of Living Adjustment (3%), step increases, longevity increases, as well as market adjustments due to different members of the Service Employees International Union (SEIU) and the American Federation of State, County & Municipal Employees (AFSCME) unions in the second half of FY27, the final year of the FY25-FY27 contract period. These market adjustments were based the Town's 2024 salary benchmarking study that underpinned the collective bargaining agreements ratified by the 2024 Annual Town Meeting.
 - o This overall salary increase includes a Salary Reserve budget of \$1,876,842 in FY27. This sizable sum is set aside pending the 2026 Annual Town Meeting ratification of the financial items contained in the executed agreements with the public safety collective bargaining units. If ultimately approved, funds would be transferred into the Police Department and Fire Department salary budgets. It should be noted the Police and Fire Department salary budgets are the largest in Town, and the salary lines have not been adjusted (except for steps or longevity) since FY21 for the Ranking Officer's Association, and since FY24 for both the Police Patrol Officer's Association and the International Firefighter's Association Local 1290. Prior Salary Reserve appropriations will support retroactive payments to police officers and firefighters for prior fiscal years covered by these collective bargaining agreements; however, the FY27 budget being prospective must compensate for all salary growth in the intervening years (FY22-FY26), as well as salary adjustments due for FY27 in a single budget cycle. The number of employees covered by these bargaining units coupled with the length of time out of contract compounded the pressure placed on the Town's budget in FY27.

Long Range Planning / Fiscal Outlook

Arlington's Long Range Planning Committee has been meeting regularly since June 2025. There have been seven meetings in advance of the submission of this budget document, and there will be at least one more meeting at the end of January following the release of the Governor's budget, also known as "House 1". This robust financial planning process has resulted in a series of revisions and refinements to the existing model based on both recent experience and current projections, as well as recommendations from various stakeholders. I offer my sincere thanks to the members of the Long Range Planning Committee for their leadership and thoughtful participation in this critical process. Similarly, I wish to acknowledge the School Committee and Superintendent, the Board of Assessors and Director of Assessments, as well as the Retirement Board and Retirement Administrator, for their collaborative efforts in supporting measures aimed at reducing the structural deficit.

An updated Long Range Financial Projection was presented to the Select Board at their meeting on January 12, 2026. As there is currently a \$3.7M deficit projected for FY27, the Select Board will be placing a Proposition 2 ½ override question on the ballot during the annual Town Election to be held on Saturday, March 28, 2026. The Select Board will be determining the amount of the operating override and a corresponding set of commitments to Arlington's voters at their meeting on February 9, 2026. It is expected this pending proposed override will cover the period of FY27-FY29. As of the submission of this document, a hiring freeze on all non-essential positions was implemented on November 17, 2025 by both the Town and Arlington Public Schools.

Each year, for many years, the Town has had a structural deficit whereby the growth in revenues has not kept pace with the growth in expenses. Consequently, it is necessary to ask the voters to periodically approve Proposition 2 ½ overrides to maintain a level service budget. Still, in the 40+ years since the passage of Proposition 2½, there have been only five operating overrides, inclusive of the November 2023 override.

Revenues

As always, property taxes remain a stable source of revenue and make up three quarters of the Town's budget. As the largest source of revenue, property taxes increase steadily each year, but that revenue growth is limited by Proposition 2½ and is insufficient to keep up with rising costs.

Revenue also grows commensurate with what is known as New Growth, resulting primarily from new construction, subdivisions or condo conversions. Given that Arlington has a small land area and is largely a built-out community, our New Growth mostly stems from redevelopment of existing parcels, instead of new development on previously unimproved parcels. When applied as a percentage of the prior year's tax levy, Arlington experienced .84% of New Growth in FY26. For comparison, Arlington again ranked in the bottom quartile of all 351 cities and towns in the Commonwealth.

The Town, through its Town Meeting, adopted MBTA Communities Overlay Districts allowing multi-family housing by-right in certain areas of Town. There is hope local zoning changes may spur additional development in the years to come, but there are a number of other economic and market factors that influence private development, including interest rates. There are a number of MBTA Communities projects in the Redevelopment Board's project pipeline, so New Growth estimates for FY27-FY29 have been revised accordingly during the current long range planning cycle.

The next largest source of revenue for the Town is State Aid. The Governor's budget, scheduled to be released near the end of January, will be our first indication of what local aid will be in the coming fiscal year. Chapter 70 education aid can be particularly volatile, with each successive state budget version modifying per pupil minimum aid, sometimes considerably so. Ultimately, Arlington saw a 4.74% increase in Chapter 70 education aid in FY26, but only a 1.1% increase in Unrestricted General Government Aid. This was a marked decrease from the four prior fiscal years.

With State Aid being unpredictable, variable, and dependent on current and projected economic conditions, it is currently only forecasted to increase by approximately 1%. If this projection proves conservative, it will be adjusted following receipt of preliminary ‘cherry sheets’ from the State, which contain a municipalities receipts and charges for a series of line items.

Local Receipt estimates have been increased based on strong year end performances in FY24 and FY25. Through the first half of FY26, receipts are tracking favorably in most categories, except for Investment Income. With the Public Works Facility and Arlington High School building projects reaching substantial completion, we no longer have the proceeds from prior debt issuances in our coffers collecting interest. These significant sums on deposit coupled with high interest rates generated an average of \$3.3M annually between FY23-FY25. This particular receipt is beginning to return to more historical levels over the course of FY26. Marijuana excise tax revenues continue to decline locally, dropping more than 50% since FY21.

School Department Funding

For FY27, the Town did not directly adjust the Arlington Public Schools (APS) budget for student enrollment. The School Department is projecting largely steady enrollment in the near term based on updated projections, so the implementation of the Student Enrollment Growth Factor has been discontinued at this time. Given that prior enrollment projections have not held, and since it appears that existing enrollment pressure will persist, it is prudent to remove what has proven to be a volatile and unpredictable growth factor. Reducing the number of significant budgetary swings will only increase the reliability of the Long Range Financial Projection in the coming years.

Further, it should be noted that the November 2023 override commitments projected an additional increase of \$600,000 to the APS budget for FY27 and \$300,000 for FY28. At the direction of the Superintendent of Schools and School Committee, these prior earmarks have been removed for the coming year.

Finally, the APS budgets for general education and special education have been combined to arrive at a single budgetary figure with a projected uniform growth rate of 4.25% for FY27. Again, as noted above, this APS funding recommendation is contingent upon the successful passage of an operating override in March. If unsuccessful, there would necessarily be deep cuts to the APS budget presented to Town Meeting for consideration. The table below outlines the current School Department funding recommendation:

	FY2026	FY2027	\$ Increase	% Increase
Arlington Public Schools	\$103,630,672	\$108,034,976	\$4,404,304	4.25%

Overall General Fund Budget Summary

	FY2024 Actual	FY2025 Actual	FY2026 Budget	FY2027 Budget	Change \$	%
Revenue						
Property Tax	\$ 153,560,225	\$ 165,682,908	\$ 171,327,383	\$ 175,977,881	\$ 4,650,498	2.71%
Local Receipts	\$ 17,736,349	\$ 18,788,955	\$ 10,443,994	\$ 12,353,000	\$ 1,909,006	18.28%
State Aid	\$ 28,102,815	\$ 28,997,793	\$ 30,200,811	\$ 30,497,721	\$ 296,910	0.98%
ARPA in FY23+FY24	\$ 5,000,000	\$ -	\$ -	\$ -	\$ -	-
Free Cash	\$ 7,656,044	\$ 8,941,936	\$ 10,298,997	\$ 11,368,820	\$ 1,069,823	10.39%
Overlay	\$ 600,000	\$ 750,000	\$ 750,000	\$ 1,250,000	\$ 500,000	66.67%
Override Stabilization Fund	\$ 4,374,790	\$ 588,575	\$ 8,984,045	\$ 6,207,075	\$ (2,776,970)	-30.91%
TOTAL TAXES, FEES, AID, AND OTHER SOURCES						
Transfers in (Offsets)	\$ 217,030,223	\$ 223,750,167	\$ 232,005,230	\$ 237,654,497	\$ 5,649,267	2.43%
TOTAL REVENUES	\$ 3,257,455	\$ 3,218,686	\$ (3,282,750)	\$ (3,504,611)	\$ (221,861)	6.76%
	\$ 220,287,678	\$ 226,968,853	\$ 228,722,480	\$ 234,149,886	\$ 5,427,406	2.37%
Expenditures						
Municipal Departments Appropriations						
Offsets and Indirect Costs	\$ 41,809,142	\$ 42,311,875	\$ 42,543,871	\$ 44,041,701	\$ 1,497,830	3.52%
Municipal Departments (Taxation Total)	\$ (3,257,455)	\$ (3,218,686)	\$ 3,282,750	\$ 3,504,611	\$ 221,861	6.76%
School Department	\$ 38,551,687	\$ 39,093,189	\$ 39,261,121	\$ 40,537,090	\$ 1,275,969	3.25%
Minuteman School	\$ 88,943,307	\$ 96,239,233	\$ 103,630,672	\$ 108,034,976	\$ 4,404,304	4.25%
Healthcare & Pensions	\$ 8,932,916	\$ 8,562,229	\$ 8,347,090	\$ 8,283,489	\$ (63,601)	-0.76%
Solid Waste	\$ 35,353,631	\$ 38,135,630	\$ 42,076,404	\$ 45,779,739	\$ 3,703,335	8.80%
Capital (Includes Debt Service)			\$ 5,084,973	\$ 5,390,071	\$ 305,098	6.00%
Warrant Articles						
Reserve Fund						
Override Stabilization Fund Deposit	\$ 23,049,435	\$ 24,881,889	\$ 24,582,154	\$ 24,867,114	\$ 284,960	1.16%
TOTAL EXPENDITURES	\$ 329,229	\$ 443,872	\$ 1,496,948	\$ 1,411,122	\$ (85,826)	-5.73%
195,941,192\$ 208,109,718	\$ 780,987	\$ 753,676	\$ 2,089,593	\$ 2,173,307	\$ 83,714	4.01%
226,568,955\$ 236,476,907	\$ -	\$ -	\$ -	\$ -	\$ -	-
9,907,952 4.37%						
State Assessments and Overlay	\$ 4,778,475	\$ 5,587,322	\$ 5,436,275	\$ 4,897,259	\$ (539,016)	-9.92%
Surplus / (Deficit)	\$ 16,310,556	\$ 10,053,127	\$ -	\$ (3,719,670)	\$ (3,719,670)	-

Town Department Funding

Departmental budgets have been held to a net 3.25% increase in accordance with the Long Range Financial Projection, as well as the longstanding commitment to voters and taxpayers. The municipal budget increase is net of personnel and expense budget increases, minus offsets from various sources.

As noted previously, departmental expense budgets have been reduced overall by \$538,561. This year especially there are many individual departmental requests that are unable to be funded. This of course occurs each budget cycle but has been magnified this year due to additional pressures presented by the overall increase to the salary budget. There will always be certain goals and objectives that are unable to be met, but maintaining current service levels and core functions to the extent possible is necessarily a priority. Aside from funding year two of the curbside collection contract, the only expense increase programmed for FY27 is associated with the increased cost of the annual audit per a contract with a new CPA firm.

With regard to personnel, this FY27 budget reduces total FTEs by .97. The reduction comprises the elimination of the Output Media Handler position in the Postage budget (.66FTE), a reduction in hours for the Geriatric Nurse Clinician (.11FTE) and a reduction in hours for a Library Assistant position (.20FTE). Due to the rise of digital circulation and self-checkout, the Library was able to eliminate a Library Assistant position and shift resources to a professional librarian position in order to better support needs for teen patrons. It should also be noted that there is one ARPA-funded position remaining in FY27. This position continues to be shown as 1.0FTE, but the salary as budgeted is only for the first half of the fiscal year as ARPA funds must be expended by December 2026. All other ARPA-funded positions have been phased out. Finally, as noted earlier, there is a hiring freeze currently in place in FY26 for non-essential positions. At this time, a position in the Treasurer's office is slated to remain frozen until the second half of FY27, and therefore continues to show as 1.0FTE, but carries only half the salary in the budget. This position may be the subject of a larger departmental re-organization effort aimed at achieving efficiencies.

Two offsets in the proposed budget have been adjusted. The first is the offset to the Cemetery budget from the perpetual care trust funds, which is proposed to increase by \$30,000 in FY27. The second is the offset from the Parking Fund, which will now support 75% of the salaries for the Parking Control Officers and the Parking Collections Manager. The prior offset of 50% was determined at the establishment of the Parking Benefit District, but recent analysis indicated that 75% of these employees' time and obligations related directly to enforcement activities within the parking benefit district.

It is worth noting the number of non-public safety General Fund vacancies in the FY27 budget represents a marked decrease from recent years; to put a finer point on this, the present number of vacancies represents a 40% reduction when compared to the average number of vacancies experienced at this same snapshot in time annually from FY23-FY26, and returns the Town to a pre-pandemic FY20 vacancy level. This is likely a function of multiple factors. While the greater labor market appears to be cooling as a result of other market pressures, it is also the case the Town has made significant investments in personnel during the FY25-FY27 contract cycles following the previously referenced FY24 salary benchmarking study. Of course, all employers were coming out of a significant inflationary period in history that occurred from 2021-2023 and that was reflected in the subsequent collective bargaining cycle. Arlington's primary budget expenditure and greatest asset are the personnel who

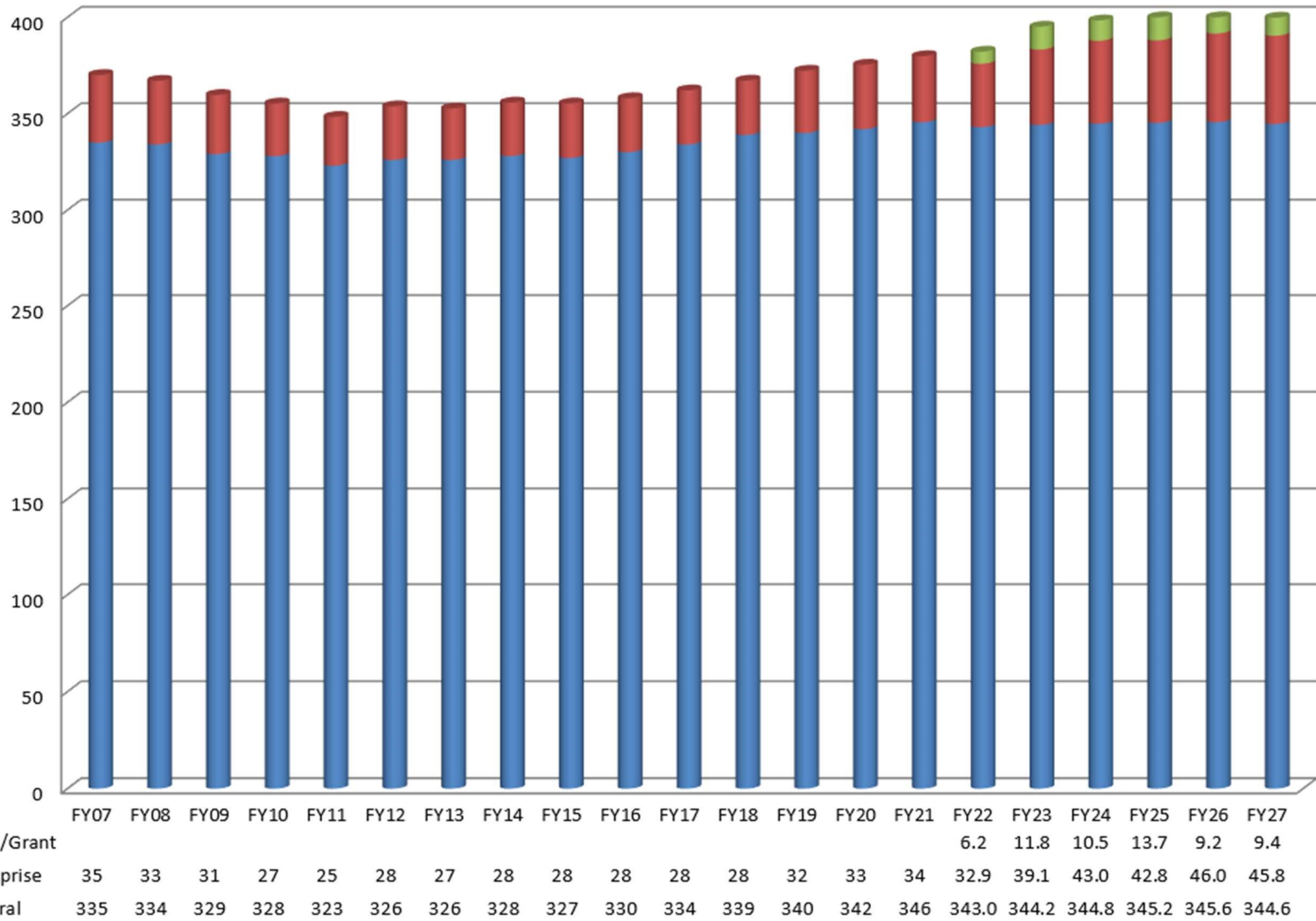
provide municipal services and public education. To recruit and retain employees, the Town will need to continue making substantial investments in its staff in order to remain a competitive municipal employer amongst our comparable communities.

American Rescue Plan Act Funding

The Town received \$35,247,893 in funding from the American Rescue Plan Act (ARPA). These funds were originally programmed in a framework endorsed by the Select Board. In consultation with a 3rd party auditor, the Town's final ARPA obligations were made in the Department of the Treasury Portal in advance of the December 31, 2024 deadline. Obligor funds required an executed contract following a public procurement. Funds were set aside to fund a final audit of the ARPA program in Arlington. As a reminder, the Town used the maximum allowable \$10,000,000 of these funds to offset revenue losses experienced during the pandemic. In effect, this delayed the timing and magnitude of the prior operating override vote. The final ARPA-funded position will expire at the conclusion of the ARPA grant period in December of 2026. The position continuing through the first half of FY27 is as follows:

Department + Position	Amount
<u>Town Manager</u>	
Communications Coordinator (1.0 FTE)	\$34,667

Town Personnel Trends FY 2007 - FY2027 FTEs



Healthcare/Other Post-Employment Benefits (OPEB)

Healthcare spending is assumed to increase by 11.25% in the FY2027 budget. This figure is based on preliminary information available from the Group Insurance Commission (GIC). The actual cost of premiums will not be known until the GIC releases FY2027 rates on or about March 1st. At that time, adjustments can be made to the healthcare budget accordingly based on a reconciliation of employee insurance plans with the new premiums.

In FY2024, Town Meeting voted to transfer the remnants of the Health Claims Trust Fund into the Town's OPEB Trust, which is utilized to fund healthcare costs associated with the Town's retirees. The Select Board committed to increased funding for OPEB costs as part of their commitments when endorsing the Proposition 2½ override in November 2023. As such, an additional \$150,000 contribution beyond the \$655,000 amount otherwise earmarked for appropriation into the OPEB Trust Fund is again being programmed, bringing the total proposed appropriation for FY2027 to \$805,000. The table below provides information regarding the Town's OPEB Trust Fund and OPEB liability.

Town of Arlington OPEB Liability - As of June 30				
Year	Total Liability	Total Assets	Net Liability	Percent Funded
2020	\$252,494,363	\$15,865,946	\$236,628,417	6.3%
2021	\$264,518,341	\$21,268,077	\$243,250,264	8.0%
2022	\$210,380,832	\$19,078,429	\$191,302,403	9.1%
2023	\$216,047,532	\$21,797,249	\$194,250,283	10.1%
2024	\$192,258,194	\$26,446,979	\$165,812,005	13.76%
2025	\$177,011,180	\$29,846,458	\$147,164,722	16.9%

Collective Bargaining and Employee Relations

The Town has reached agreements with all collective bargaining units as of this budget submission, and will soon enter into successor negotiations with all units for the FY28-FY30 contract period. The outstanding agreements that have been reached include the Ranking Officer's Association for the period covering FY22-FY27, as well as the Police Patrol Officer's Association and International Firefighter's Association Local 1290 for the period covering FY25-FY27. The agreements with the Ranking Officer's Association and the International Firefighter's Association are State-

mediated settlement agreements following lengthy arbitration proceedings with the Joint LaborManagement Committee. These three collective bargaining agreements will be presented to Town Meeting for consideration and ratification of the financial items contained therein.

Capital

The Town's capital improvements program policy calls for the allocation of 5% of the general fund expenditures to the capital budget. This is exclusive of dedicated funding sources such as enterprise funds, grants, and proposition 2 ½ debt exclusion earmarks. For FY2027, funding for the capital budget is as follows:

Bonding: \$9,738,923

Cash: \$5,069,194

Other: \$4,945,072

Our existing non-exempt debt is \$9,738,923 which is consistent with prior debt service projections for FY2026. The total capital budget for FY2027, including all debt, is estimated at \$19.75 million. Along with ongoing commitments to the High School and DPW projects, the Capital Plan continues to fund ongoing, recurring capital needs such as road, sidewalks, water and sewer improvements, vehicles, and information technology equipment, without taking on new major investments in FY2027.

Conclusion

I would like to express my gratitude to Arlington's voters and taxpayers for their continued investment in our community. This ongoing support is critical to ensuring we can continue to deliver municipal services at a great value. Collectively, we as staff will work tirelessly to provide the high-quality services our residents enjoy, support a high-performing and engaging local government, and strive to maintain the high quality of life that is both expected and deserved.

The document presented for your consideration is a product of a great deal of work over a series of months. I applaud our dedicated Department Heads who put a great deal of effort into preparing their budgets. The FY27 budget process was especially challenging as Department Heads were faced with a directive to find efficiencies, savings, or reductions in order to present a budget that adhered to the 3.25% growth commitment, while also attempting to maintain existing services levels in the face of mounting cost pressures. I am particularly proud of the efforts made by the Department Head team to present reductions where it was believed an alternative source of funds could support ongoing activities and maintain existing service levels.

I would like to specifically thank the Select Board for its policy insights and leadership, the Finance Committee for their time and dedication to the Town's finances, as well as the Capital Planning Committee for their thoughtful and iterative process to prepare a balanced capital plan in the face of many competing needs and increasing construction and equipment costs.

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 advisable prior to Town Meeting.

Finally, I am truly grateful to Deputy Town Manager/Finance Director Julie Wayman for her exhaustive work in producing this budget document. Further, I wish to extend my thanks to Budget Coordinator Lauren Costa for her support of the budget process and Comptroller Ida Cody for her invaluable insights into expenditure history and patterns. As Town Manager, I rely heavily on the entire finance team for their collective expertise and truly appreciate the quality of the information and the data contained herein. We look forward to engaging with the Finance Committee for another productive budget season.

Respectfully submitted,

James Feeney

Town Manager