

Minutes
Town of Lexington Appropriation Committee
January 11, 2007

Place and time: Legion Room, Cary Memorial Building, 7:30 p.m.

Members present: Al Levine (Chair), Deborah Brown (Vice-Chair), John Bartenstein (Secretary), Rod Cole, Rick Eurich, Pam Hoffman, David Kanter, Mike Kennealy, Eric Michelson, Rob Addelson (ex officio, non-voting)

Also present: Michael Young, Budget Officer; Gloria Bloom, TMMA Chair; George Burnell

The meeting was called to order at 7:40 PM.

1. **FY08 Budget Status.** Michael Young distributed a current working draft of the Fiscal Year 2008 Manager's Recommended Budget & Financing Plan (the "White Book"), dated January 8, 2007, together with a Powerpoint presentation on the FY08 budget that had been made to the Board of Selectmen at its most recent meeting on Monday, January 8. Michael and Rob Addelson then reviewed the highlights of the Town Manager's working budget plan with the Committee. They emphasized that this version of the budget plan did not yet have the input of the School Department, but otherwise was reasonably complete.

Michael explained that the School Superintendent would be presenting his operating budget to the School Committee on Tuesday, January 16. The school numbers would then be added to the municipal numbers to determine the complete combined projected operating budget and the projected budget gap. The third Summit meeting, scheduled for Thursday, January 18 would address the allocation of the FY07 to FY08 revenue increase between municipal and school expenses, and the Town Manager hoped to be able to present a final budget to the Board of Selectmen on Monday, January 22.

Some of the key points made concerning the FY2008 projected budget were as follows:

- State aid increased last year to an amount close to its historic high in dollar terms, and the level for FY2008 is not expected to go down, but state aid still is significantly below the level that would have been expected had historical amounts increased with inflation.
- Recent changes in the composition of the Cherry Sheet require an accounting adjustment in order to make historical comparisons; in particular, since FY06, state payments for the METCO program have been made as a direct grant and are no longer on the Cherry Sheet; the numbers in the White Book for FY06 have been restated to account for this change.

- SPED Circuit Breaker reimbursements are not contained on the Cherry Sheet
- Cherry Sheet amounts are projected to drop by approximately \$187,000 from FY2007 to FY2008 because the Town received the final reimbursement in FY2007 for Hastings School renovations under the old School Building Assistance program.
- Most of the Cherry Sheet state aid goes directly into the General Fund and can be spent for any purpose, but some components, including library aid and school lunch reimbursements, are earmarked just for those programs.
- The state aid number for FY2008 at this point is just an educated guess; we will have a better fix when the Governor issues his proposed state budget in February and when the state legislature completes the budget process later in the spring; however, the Town Manager has made his best effort to project an accurate number, and the final amount is not likely to be significantly different.
- Some conservatism has been built into the local receipts estimates in response to the recommendation of the Financial Policy Committee to plan for a recurring source of free cash and to hedge against unforeseeable negative developments; otherwise the projections in the proposed budget are as accurate as they can be made at this time.
- Revenue offsets are projected to increase in FY08 because this will be a revaluation year, necessitating an increase in the overlay account, and to anticipate a potential increase in the snow removal deficit.
- PILOTs and indirect expense payments from the Water and Sewer Enterprise Funds will be reduced by \$187,500 as part of a multi-year program to phase out the PILOTs and to bring the indirect expenses to a more appropriate level, but Recreation Fund indirect payments will be increased by about \$20,000.
- The Manager proposes to increase reserves, including the Reserve Fund, by modest amounts, and also proposes an increase in the amount of cash capital appropriated for maintenance of the capital infrastructure, as recommended by the Financial Policy Committee.
- Health benefit costs are projected to increase by about 12%, but the increase shown in the budget is only about 8% because budget projections last year were higher than necessary.
- The Town has engaged an actuary who is in the process of evaluating the Town's liability for post-retirement health care benefits; the actuary's report is expected by the end of February, but no provision has been made in the FY08 proposed budget for funding this liability; the liability is expected to be very

large; one potential source of funding could be savings in employee drug benefit costs that are expected under the Medicare Part D program, estimated to be about \$200,000; another potential source is the approximately \$1.5 million in recurring revenues that has been earmarked to fund the Town's employee pension liability, which will become available after that liability becomes fully funded in 2015 (according to current projections).

- The Town Manager has recommended \$118,000 in program improvements out of approximately \$900,000 requested by department heads during the departmental budget process.
- An \$88,000 increase is being recommended in fire department overtime because that line has historically been underfunded; this will relieve some pressure on the Reserve Fund.
- Costs of springtime street sweeping and regular-time plowing activities by DPW personnel (about \$35,000), have been transferred from the snow and ice budget to the Highway Department, which will relieve some pressure on the snow and ice budget, which is otherwise level-funded; the costs of these activities will continue to be monitored so that accurate assessments can be made of total snow and ice removal costs.
- The Town Manager proposes to increase reserves and contingency accounts by \$100,000, including a \$50,000 increase in the Reserve Fund to \$450,000; however, he will recommend a contribution of only \$1,000,000 to the Stabilization Fund, compared with \$2,650,000 last year, which would bring the total balance in the Stabilization Fund to \$5,266,000. Essentially all of the Town's non-recurring revenue has been targeted for either one-time capital improvements or increases in reserves.
- The long-term plan is to steadily increase the Reserve Fund to an amount more suitable for an overall town budget exceeding \$100,000,000.
- In connection with a recent bond issue by the Town, Moody's just reaffirmed the Town's Aaa bond rating citing, in part, the steady growth in reserves.
- Capital budgets for both the Town and the Schools have been submitted. Details can be found in the White Book; however, David Kanter cautioned that the proposed capital program for the schools is being revised in a material way from that shown in the White Book, and may include a proposal for work on HVAC equipment at the Clarke Middle School.
- The Town will be required to put about \$2.3 million of the funds that the State has paid up front to retire its School Building Assistance reimbursement liability into a sinking fund to apply to excluded debt service costs until the affected debt has been retired; although these funds will not be available to the

General Fund, they will lower the overall tax burden on taxpayers; to the extent this makes taxpayers better off than they would have been under the original funding system, the Committee recommended that a clear explanation of the benefit be explained to taxpayers.

- Free cash was certified at about \$3.8M. Of this, the Town Manager is recommending that \$1.9M be treated as non-recurring revenue and be allocated to the Stabilization Fund and cash capital, that \$1.7M be treated as recurring revenue and be used to support the operating budget, and that \$0.2M not be appropriated at present.

2. **Miscellaneous.** The Committee discussed a preliminary allocation of responsibility for various topics that are expected to be covered in the Committee report to the 2007 Annual Town Meeting. The assignments are:

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| a. Capital | Eric Michelson, David Kanter |
| b. CPA | Eric Michelson, David Kanter |
| c. School Op. Budget | Pam Hoffman, Rick Eurich |
| d. Minuteman | Eric Michelson |
| e. Enterprise Funds | John Bartenstein |
| f. Municipal Op. Budget | Deborah Brown, Michael Kennealy |
| g. DPW Facility | Alan Levine, Deborah Brown |
| h. Budget Projections | Rod Cole |

More detailed assignments will be made after the 2007 Town Warrant becomes available. David Kanter will attempt to obtain a draft of at least the Table of Contents.

Minutes of the meetings held on November 16, 2006, December 6, 2006 and December 14, 2006 were approved.

There was a brief discussion of the status of planning for the DPW Maintenance Facility replacement project. Al Levine, David Kanter and Deborah Brown reported that good progress has been made in these discussions, and that details should be forthcoming shortly.

The Committee voted 7-0 to appoint David Kanter as the Committee's liaison to the School Department's recently created Committee to Review Financial Operations and Financial and Statistical Reporting. David Kanter abstained from this vote.

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Eric Michelson urged that further efforts be made to obtain on a regular basis copies of the monthly budget reports that the Superintendent has been providing to the School Committee.

The meeting adjourned at approximately 10:10 p.m.

Respectfully submitted,
John Bartenstein

Approved January 25, 2007