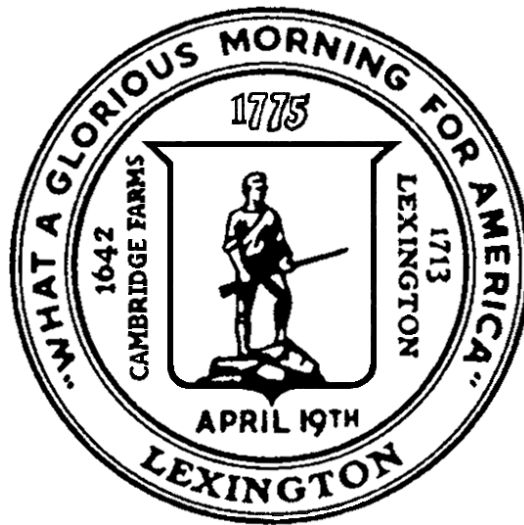


APPROPRIATION COMMITTEE
TOWN OF LEXINGTON



REPORT TO THE
MARCH 2012 ANNUAL TOWN MEETING
AND SPECIAL TOWN MEETING

Released March 27, 2012

Appropriation Committee Members — Fiscal Year 2012

**Glenn Parker, *Chair* • John Bartenstein, *Vice Chair/Secretary* • Joe Pato, *Vice Chair*
Robert N. Addelson (*ex-officio; non-voting*) • Robert Cohen • Mollie Garberg
Alan Levine • Eric Michelson • Richard Neumeier • Jonina Schonfeld**

Contents

| | |
|--|-----------|
| Contents | 1 |
| Summary of Warrant Article Recommendations | 2 |
| Preface | 4 |
| Introduction | 5 |
| Warrant Article Analysis and Recommendations | 7 |
| – SPECIAL TOWN MEETING –..... | 7 |
| Article 2: Appropriate for New Estabrook School..... | 7 |
| – ANNUAL TOWN MEETING –..... | 9 |
| Article 4: Appropriate FY2013 Operating Budget..... | 9 |
| Article 5: Appropriate FY2013 Enterprise Funds Budgets..... | 20 |
| Article 6: Appropriate for Senior Service Program..... | 24 |
| Article 7: Establish and Continue Departmental Revolving Funds..... | 25 |
| Article 8: Appropriate the FY2013 Community Preservation Committee Operating Budget and CPA Projects..... | 26 |
| Article 9: Land Purchase – Off Grove Street..... | 30 |
| Article 10: Land Purchase – Off Grove Street..... | 30 |
| Article 11: Appropriate for Recreation Capital Projects..... | 31 |
| Article 12: Appropriate for Municipal Capital Projects and Equipment..... | 32 |
| Article 13: Appropriate for Water System Improvements..... | 33 |
| Article 14: Appropriate for Wastewater System Improvements..... | 35 |
| Article 15: Appropriate for School Capital Projects and Equipment..... | 36 |
| Article 16: Appropriate for Public Facilities Capital Projects..... | 37 |
| Article 17: School Bus Transportation Subsidy (Citizen Article)..... | 39 |
| Article 18: Appropriate to Post Employment Insurance Liability Fund..... | 41 |
| Article 19: Rescind Prior Borrowing Authorization..... | 42 |
| Article 20: Authorize the Establishment of a Minuteman Stabilization Fund..... | 42 |
| Article 21: Establish and Appropriate to Specified Stabilization Funds..... | 42 |
| Article 22: Appropriate to Stabilization Fund..... | 43 |
| Article 23: Appropriate from Debt Service Stabilization Fund..... | 43 |
| Article 24: Appropriate for Prior Years’ Unpaid Bills..... | 44 |
| Article 25: Amend FY2012 Operating and Enterprise Budgets..... | 44 |
| Article 26: Appropriate for Authorized Capital Improvements..... | 44 |
| Article 27: Establish Qualifications for Tax Deferrals and Exemptions..... | 45 |
| Article 28: Accept MGL Chapter 200A Section 9A..... | 45 |
| Appendix A: 3-Year Budget Projection | 47 |
| Appendix B: Enterprise Funds | 51 |
| Appendix C: Revolving Funds | 52 |
| Appendix D: Senior Tax Relief | 53 |
| Appendix E: Specified Stabilization Funds | 55 |

Summary of Warrant Article Recommendations

Abbreviations: GF = General Fund; EF = Enterprise Fund; RF = Revolving Fund;
 CPA = Community Preservation Act Fund; BAN = Bond Anticipation Note;
 DSSF = Debt Service Stabilization Fund

An entry of IP for "Indefinitely Postpone" in the right-hand column merely signifies our expectation.

– SPECIAL TOWN MEETING –

| Arti- cle | Title | Funds Requested | Funding Source | Committee Recommendation |
|--------------|--------------------------------------|--------------------|-------------------|-----------------------------|
| 2 | Appropriate for New Estabrook School | \$39,742,248 | See motion | Approve (9-0) |

– ANNUAL TOWN MEETING –

| Arti- cle | Title | Funds Requested | Funding Source | Committee Recommendation |
|--------------|---|--------------------|--|--------------------------------|
| 4 | Appropriate FY2013 Operating Budget | See Report | See motion | Approve (9-0) |
| 5 | Appropriate FY2013 Enterprise Funds Budget | \$17,882,661 | Water EF Wastewater EF Recreation EF | Approve (9-0) |
| 6 | Appropriate for Senior Service Program | \$20,000 | GF | Approve (9-0) |
| 7 | Establish and Continue Departmental Revolving Funds (except Line 1100) | See Report | RF | Approve (9-0) |
| 7 | Line 1100: School Bus Transportation | \$830,000 | RF | Pending |
| 8 | Appropriate the FY2013 Community Preservation Committee Operating Budget and CPA Projects | See Report | CPA | Approve (9-0) [except 8(d)] |
| 9 | Land Purchase – Off Grove Street | Unknown | CPA Debt | Pending |
| 10 | Land Purchase – Off Grove Street | Unknown | GF Debt | Pending |
| 11 | Appropriate for Recreation Capital Projects | \$291,000 | Recreation EF GF | Approve (9-0) |
| 12 | Appropriate for Municipal Capital Projects and Equipment | \$4,786,586 | Free Cash GF Debt | Approve (9-0) |
| 13 | Appropriate for Water System Improvements | \$940,500 | Water EF (debt) | Approve (9-0) |

APPROPRIATION COMMITTEE REPORT TO THE MARCH 2012 ATM & STM

| Article | Title | Funds Requested | Funding Source | Committee Recommendation |
|----------------|--|------------------------|---------------------------------------|--|
| 14 | Appropriate for Wastewater System Improvements | \$1,340,500 | Wastewater EF (Debt) | Approve (9-0) |
| 15 | Appropriate for School Capital Projects and Equipment | 1,085,000 | GF Debt Tax Levy | Approve (9-0) |
| 16 | Appropriate for Public Facilities Capital Projects | \$2,200,711 | GF Debt Free Cash | Approve (9-0) [except 16(e)] |
| 17 | School Bus Transportation System (Citizen Article) | \$316,250 | GF | Approve (5-4) |
| 18 | Appropriate to Post Employment Insurance Liability Fund | \$500,000 | Free Cash | Approve (9-0) |
| 19 | Rescind Prior Borrowing Authority | None | N/A | Approve (9-0) |
| 20 | Authorize the Establishment of a Minuteman Stabilization Fund | None | N/A | IP |
| 21 | Establish and Appropriate to Specified Stabilization Funds | See Report | See Report | Approve (9-0) |
| 22 | Appropriate to Stabilization Fund | None | N/A | IP |
| 23 | Appropriate from Debt Service Stabilization Fund | \$124,057 | DSSF | Approve (9-0) |
| 24 | Appropriate for Prior Years' Unpaid Bills | Unknown | Unknown | Pending |
| 25 | Amend FY2012 Operating and Enterprise Budgets | Unknown | Unknown | Pending |
| 26 | Appropriate for Authorized Capital Improvements | \$200,000 | Insurance Proceeds¹ | Approve (9-0) |
| 27 | Establish Qualifications for Tax Deferrals and Exemptions | None | N/A | IP |
| 28 | Accept MGL Chapter 200A Section 9A | None | N/A | Approve (9-0) |

¹ By State law, insurance proceeds greater than \$20,000 are always subject to appropriation.

Preface

This Preface describes the structure and stylistic conventions used in this report. It is followed by an Introduction discussing changes in the Town's financial status since the most recent Annual Town Meeting in May 2011, and issues pertinent to the Town's general financial situation. The main body of this report contains article-by-article discussions and recommendations on those articles that, in our opinion, have substantial financial relevance.

The discussion for each article presents the consensus view of the Committee, as well as any other considerations or cautions that we feel Town Meeting should be informed of. In the case where one or more Committee members are strongly opposed to the majority position, we summarize the opposing perspective. Each Article discussion concludes with the most recent vote of the Committee prior to publication. This is summarized by the number of members in favor, followed by the number of members opposed, and lastly (when applicable) the number of members abstaining, e.g. "(6-2-1)" indicates six members in favor, two opposed, and one abstaining. For convenience, Committee votes are also summarized on the preceding page.

This report does not replicate information readily available to Town Meeting members elsewhere. Key documents that inform our analysis and provide a more thorough picture of the Town finances are:

- *FY2013 Recommended Budget & Financing Plan*, dated March 2, 2012, commonly known as the "Brown Book", which documents the complete municipal budget of the Town of Lexington. The Brown Book also summarizes budget laws and bylaws (Appendix B) and includes a glossary of financial terms (Appendix D).
- School Committee *Fiscal Year 2013 Annual Town Meeting Budget Request* (the "Gray Book"), which details the budget plans for the Lexington Public School System.
- *TMMMA Warrant Information Report* (March 2012), published by the Town Meeting Members Association.
- Capital Expenditures Committee (CEC) *Report to the 2012 Special Town Meeting*.
- Community Preservation Committee (CPC) *Report to the 2012 Annual Town Meeting*.

Acknowledgements

The content of this report, except where otherwise noted, was researched, written and edited by members of the Committee with support from town staff. Our Committee has the pleasure and the privilege of working with Town Manager, Carl Valente; Assistant Town Manager for Finance, Rob Addelson; our Budget Officer, Theo Kalivas; the Capital Expenditures Committee; the Community Preservation Committee; the School Committee; the Superintendent of Schools, Dr. Paul Ash; the Assistant Superintendent for Finance and Operations, Mary Ellen Dunn; and the Board of Selectmen. We thank the municipal and school staff, Town officials, boards and volunteers who have contributed time and expertise in support of our work.

Introduction

The Appropriation Committee is required to create a report with a review of the budget as adopted by the Board of Selectmen, including an assessment of the budget plan and a projection for future years' revenues and expenses. This report includes the Committee's advice and recommendations regarding all appropriations of Town funds that are anticipated in the Town Warrant, and other municipal matters that may come before Town Meeting. This report is published and distributed to the members of Town Meeting as a printed document and as an electronic document via the Town website. The Committee also makes presentations during Town Meeting, including recommendations on appropriations and other matters for which the Committee's formal position was pending at the time of publication.

Developments Since Adoption of the FY2012 Budget

The actual "new growth" figure for FY2012 was \$3,346,536, an increase of \$1,546,536, or almost twice the original FY2012 budget estimate of \$1,800,000. It is the Town staff's practice to use a conservative estimate for new growth, meaning that the estimate tends to be lower than the actual result. Nevertheless, this was a significant deviation contributing to additional revenue in FY2012 and raising the Town's levy limit for FY2013 and beyond.

November 2011 Special Town Meeting – As a consequence of the increased revenue from new growth and a late-in-the-year reduction in the FY2012 health insurance budget of \$1.25 million (resulting from a lower than expected increase in health care costs), an additional \$2.8 million of revenue was available for appropriation to the FY2012 budget at the fall Special Town Meeting held on November 10, 2011. Of that amount, just a little over \$1 million was actually appropriated, leaving an FY2012 surplus of nearly \$1.8 million that will flow to Free Cash at the end of the current fiscal year and be available for appropriation for FY2014 at the 2013 Annual Town Meeting (or for FY2013 if a special town meeting is held in the fall of 2012).

Bridge/Bowman and Estabrook Debt Exclusions – At the November 2011 Special Town Meeting, the main action taken was to appropriate funds for the Bridge and Bowman Elementary School renovation projects. The request for a borrowing authorization totaling \$21,670,000 was contingent on the approval of a debt exclusion referendum by a vote of the Town residents. A special election was held on January 24, 2012, to present questions for two debt exclusions, one for the Bridge and Bowman projects and another for the reconstruction of the Estabrook Elementary School. Both debt exclusions were approved, granting the Town the right to borrow in excess of the limits established by Proposition 2½ to fund these construction projects. The actual amounts that can be borrowed for the Estabrook project will be determined by an appropriation request to be made under Article 2 of the Warrant for the Special Town Meeting to be held on April 2, 2012.

Reserve Fund – At the November 2011 Special Town Meeting, a supplemental appropriation of \$350,000 to the Reserve Fund was approved in order to simplify the funding of the snow and ice budget. This raised the total FY2012 appropriation for the Reserve Fund from \$550,000 to \$900,000. The same, larger amount will be requested for the Reserve Fund in the budget for FY2013 to help address potential overruns in FY2013 snow and ice costs (in spite of the uneventful winter of 2011-2012), and also to hedge against potential large shifts in fuel prices during the coming year.

On December 21, 2012, the Committee authorized a \$40,000 Reserve Fund transfer to mitigate hazardous conditions at a private home at 80 Oak Street pursuant to a determination by the Building Commissioner and others that the property posed a threat to general health and safety. To date this has been the only use of the Reserve Fund, leaving the balance at \$860,000 for FY2012. If not needed by the end of the fiscal year, this amount will flow to free cash and be available for appropriation for FY2014.

Employee Health Insurance – At the end of January, 2012, the Town concluded a successful coalition bargaining process with the Lexington Public Employee Committee. Under the resulting agreement, the

Town's self-insured benefits program will be terminated as of July 1, 2012, and benefits-eligible Town employees will have the option to subscribe to one of several health insurance plans offered by the Massachusetts Group Insurance Commission (GIC). The Town will use the GIC for at least the following three years, after which time the Town will have the option to renew its contract with the GIC for three more years. The financial impact of this change on the Town budget will largely depend on how many employees enroll in the GIC and which plans they choose, but we have been advised by the Town Manager that there will be a significant reduction in costs – in the vicinity of \$3 million – for each of the fiscal years FY2013-2016. For more details, see the discussion of *Program 2000: Shared Expenses* under Article 4.

The FY2013 Budget

The Town Manager has estimated new growth conservatively at \$2,000,000 this year, a 10% increase over last year's original estimate. The Town's Free Cash certified as of June 1, 2011, was approximately \$8.1 million, up about 15% from last year. Overall, the Town's projected revenue for FY2013 is growing by 4.7% over FY2012.

Town staff have proposed a level-service budget without the need for an operating override. The revenue allocation model used as a starting point for the level-service budget began by funding shared expenses, then allocating 71.9% of available new funds to the schools, and the remaining 28.1% to municipal departments.

Overall, the proposed FY2013 budget has increased 5.9% over the previous year, but this large growth rate requires some explanation. The full budget is inclusive of the operating budget (education, shared expenses and municipal departments) and cash capital, senior tax work-off and OPEB. Cash capital is being used as a temporary parking place for the \$3,379,821 surplus that resulted from the reduction in the health insurance budget (this occurred late in the budgeting process when the Town entered the State GIC), and the \$1,254,980 residual balance of free cash that has been set aside for as yet unidentified capital spending. The annual increase for the operating budget alone is 2.6%.

The appropriation request for schools represents an increase of 4.3%. The Town's assessment for Minuteman Regional School fell by over 17% due to a decrease in the enrollment (particularly in the post-graduate program) of students from Lexington. The request for shared expenses represents a smaller than average increase of 1.3% (see the discussion under Article 4). In aggregate, the requests for all municipal departments increased by 3.17%.

When preparing the budget, the Town Manager must make an estimate of the year's State aid well before the amount is finalized by the State government. This year's recommended budget assumes that FY2013 State aid will be level-funded, i.e., the same as the amount of State aid actually received in FY2012. Based on the State's budget situation, Town staff foresees a possibility that FY2013 State aid will be flat or declining. The motion under Article 4 will likely include a provision to set aside funds as a hedge against reductions in State aid. This provision would allow some or all of these funds to be applied without requiring a Special Town Meeting to appropriate them.

The Town's debt service will rise slightly in FY2013 as the Town begins to pay off debt incurred for the initial design and engineering work at Bridge and Bowman Elementary Schools. Assuming that the construction of a new Estabrook Elementary School proceeds as planned, the Town will issue more debt for all three school construction projects during FY2013. This will significantly increase the Town's debt service obligations in FY2014.

In the budget being considered by this Town Meeting, the Town still faces some unresolved questions on how best to use over \$4.5 million in unallocated funds. The Committee hopes to discuss this at a budget summit prior to action on the financial articles by Town Meeting.

Warrant Article Analysis and Recommendations

– SPECIAL TOWN MEETING –

| | | | |
|--|------------------------|-----------------------|---------------------------------|
| Article 2: Appropriate for New Estabrook School | Funds Requested | Funding Source | Committee Recommendation |
| | \$39,742,248 | Excluded Debt | Approve (9-0) |

This Article is a request from the School Committee to appropriate funds to 1) complete design and construction documents, build, equip, furnish, and commission a new Estabrook School and 2) raze the existing building and restore the site to the desired condition. The amount requested represents the entire balance of estimated costs beyond the \$1,050,000 appropriated at the 2011 Annual Town Meeting to cover the feasibility study and schematic design costs. The total project cost will, therefore, be the sum of \$1,050,000 plus the amount appropriated under this Article.

The United States Environmental Protection Agency has taken the position that the current building should not be used beyond December 2014 because it is contaminated with polychlorinated biphenyls (PCBs), even though the concentration of the PCBs in the air in the school is being controlled. The removal of the PCBs is apparently not feasible at a reasonable cost. This situation has created an urgent need to replace the building and led the School Department to submit a Statement of Interest (SOI) to the Massachusetts School Building Authority (MSBA) for a school construction grant. The feasibility and schematic design process has been completed. Thus, much of the design process has proceeded according to MSBA requirements, and MSBA personnel have been active participants. It is expected that on March 28, 2012, the MSBA will vote their final approval of the terms of the construction grant and the amount to be appropriated for the project.

In an estimate dated February 2, 2012, the total cost including contingency amounts is \$40,792,248, and the MSBA grant would be limited to no more than \$13,132,418, an amount equal to 37.27% of the eligible costs or about 32% of the overall project cost. (Approximately \$5,500,000 of the total cost is not eligible under MSBA rules for the partial reimbursement.) It is our understanding that no changes have been made to these figures, and that they will be presented to the MSBA Board for approval on March 28. Note that the appropriation must include the amounts that will be covered by the MSBA grant.

Why is the anticipated cost much higher than the cost of building the new Harrington and Fiske Schools? The new Harrington School was completed in 2005 at a cost of approximately \$13M and the new Fiske School was completed in 2007 at a cost of approximately \$18M. The cost to build the new Estabrook School will be higher because of:

- the escalation of construction costs over 7 or 9 years
- differences in building capacity and size
- the need to demolish and remove the existing school building
- the necessity of removing PCB-contaminated building and soil materials,
- the complexity of working on an occupied site with special traffic considerations and with a restricted construction laydown area,
- a tight construction timetable dictated by the need to get the new building completed before December 2014 and preferably by the beginning of September 2014
- a more complete accounting for building commissioning costs
- changes in building codes

- increased requirements for computer and telephone connectivity, systems controls, and energy efficiency
- the Lexington requirement to build in conformance with LEED Silver specifications.

There are, undoubtedly, other factors beyond these that come into the present cost equation, and that did not fully affect the costs of building Harrington or Fiske.

The Turner Construction Cost Index shows that construction costs have typically, on a national average basis, risen by 32% or so from 2003 (about the time when the construction started on the new Harrington School) and by 15% or so from 2005 to the 4th quarter of 2011. It is possible that local costs have risen more sharply (but this Committee does not have ready access to local construction cost indices). The new Estabrook School is being designed for a capacity of 540 students, and the latest drawings comprise a gross floor area of about 91,500 square feet, whereas the gross floor area of the new Harrington School is about 75,000 square feet and that of the new Fiske School is about 78,800 square feet.

Although the task of fully explaining the increase in costs by analysis is beyond our capability, it is possible to do one simple rough calculation for purposes of illustration. When the factors of general cost escalation and building size given above are applied to the \$18M cost of building the new Fiske School, the result is \$24M to \$29M. Given this range, and the above list of factors that tend to lead to higher costs, one can begin to understand why the total cost may be about \$40M. Another assurance that the cost is not unreasonably high comes from the MSBA approval of the cost; the MSBA is a professionally-staffed organization that has an interest in holding down costs so as to hold down the amounts that it reimburses to individual communities, and that would not approve the project if the cost were unreasonably high. Indeed, we understand that as part of the MSBA process, a firm acting as a representative of the Town estimated the entire project cost, and the architect was required to hire an independent party to make a similar estimate. The two parties then sat down together and reviewed the two sets of estimates in detail and came to a consensus on the final estimate. We also note that the estimated cost of the new Estabrook School is comparable to the costs of other MSBA elementary school projects in Andover, Belmont, Hopkinton, Billerica, and Woburn.

The full MSBA reimbursement to the Town will be made soon after the project commences. The funds for the balance of the project will be borrowed and repaid over 20 years as 20 equal principal payments plus interest payments which decline from one year to the next. The interest rate will not be known until the bonds are issued, but the Town has been obtaining favorable interest rates in the last few years. Table 1 shows the Town’s estimated debt service payments for the first 10 years of a 20-year term assuming, we believe very conservatively, a 4% interest rate.

The following table shows the estimated impact of the exempt debt for a “tax bill on a residence of average value” over the first 10 years of the 20-year term. The dollar amounts are the component of a residential property tax bill that could be attributed to the exempt debt for a resident whose property was assessed at \$697,000 in FY2011. The total tax bill in FY2011 for this “average taxpayer” was \$9,936.

Approximate Exempt Debt Service and Tax Impact – new Estabrook School

| Fiscal Year | Debt Service | Tax Impact |
|--------------------|---------------------|-------------------|
| 2014 | \$2,432,000 | \$188 |
| 2015 | \$2,378,000 | \$184 |
| 2016 | \$2,324,000 | \$180 |
| 2017 | \$2,270,000 | \$176 |
| 2018 | \$2,216,000 | \$171 |
| 2019 | \$2,162,000 | \$167 |
| 2020 | \$2,107,000 | \$163 |

APPROPRIATION COMMITTEE REPORT TO THE MARCH 2012 ATM & STM

| Fiscal Year | Debt Service | Tax Impact |
|--------------------|---------------------|-------------------|
| 2021 | \$2,053,000 | \$159 |
| 2022 | \$1,999,000 | \$155 |
| 2023 | \$1,945,000 | \$151 |

Notes:

(1) The debt service was estimated assuming a 4% interest loan of \$27,025,000 (total cost less Massachusetts School Building Authority reimbursement) payable over 20 years.

(2) The tax impact is the portion of the debt service that would be seen on the tax bill of the owner of a residence with an assessed value of \$697,000 in FY2011.

Additional information may be found on the Lexington Public Schools web site at <http://lps.lexingtonma.org/> (click on “Facilities” in the “Administration” pull-down menu). Renderings and other material may be found at <http://www.estabrookschoolbuildingproject.com/>.

The Board of Selectmen has taken under advisement the recommendations of the Estabrook School ad hoc Access Task Force regarding work on the roads and intersections in the Estabrook area. Any appropriations for that work will be covered under Article 12(n) during the Annual Town Meeting.

The Committee recommends approval of this request (9-0).

– ANNUAL TOWN MEETING –

| Article 4: Appropriate FY2013 Operating Budget | Funds Requested | Funding Source | Committee Recommendation |
|---|------------------------|-----------------------|---------------------------------|
| | See Below | <i>See motion</i> | Approve (9-0) |

Each major section of this request is discussed separately below.

| Program 1100: Lexington Public Schools | Funds Requested | Funding Source |
|---|------------------------|-----------------------|
| | \$76,628,356 | <i>See motion</i> |

The School Committee has voted to recommend an FY2013 appropriation of \$76,628,356. This request represents an increase of \$3,483,471 or 4.76% above the FY2012 appropriation. Under the School Committee’s guidance, the budget represents a level service budget and a supplemental request to address high priority needs within the school department by adding staff in selected areas.

The budget also eliminates full-day kindergarten fees and music fees and includes a one-time request of \$229,024 outside the Town’s revenue allocation model: \$79,024 to partially fund the elimination of full-day kindergarten fees and \$150,000 to reduce transportation costs for Estabrook students by 50% during the first year of the new school’s construction.

The primary drivers underlying budget increases are: 1) increased personnel costs (6.3%) from salary and step increases that are mandated by negotiated contracts with various bargaining units in addition to 18.1 FTE’s newly reflected in the budget request (See “Staffing” below); and 2) continued increases in special education costs mitigated in part by cost saving strategies previously implemented by the school department. To compare the FY2013 request with the appropriations from recent years one also needs to

understand the appropriation request in the context of revenue sources that include funds from state, federal, and other sources that do not have to be appropriated.

Three non-grant revenue sources, outside the tax levy, are the Avalon Bay Mitigation Fund, the LABBB credit and the Special Education Circuit Breaker Reimbursement funds.

- The FY2013 school budget appropriation includes \$250,000 to be transferred from the Avalon Bay Student Mitigation Fund. This appropriation will offset projected declines in state and federal title grants of about the same amount. After this transfer, the Fund will have a balance of approximately \$297,000 available for FY2014.
- In FY2013 the School System will also use a \$250,000 credit from the LABBB program in partial payment of Lexington's LABBB bills. Lexington, Arlington, Burlington, Bedford, and Belmont comprise the LABBB collaborative. LABBB provides educational and support services for over 250 special needs students from over 60 districts. Several years ago, the LABBB program had an uncommitted balance that was allocated to the participating towns. Lexington's current LABBB credit is approximately \$600,000.
- The FY2013 budget includes a projected Special Education Circuit Breaker Reimbursement rate of 60%. While this estimated rate for FY2013 is somewhat lower than the present actual 65% reimbursement rate, it is significantly higher than the 40% reimbursement rate assumed in the FY2012 budget. The Circuit Breaker revenues in FY2013 will allow the district to reduce the appropriation for out of district placements by \$760,000 in comparison to FY2012, though out-of-district tuition expenses continue to grow.

With regard to federal grants, the Town is losing the American Reinvestment and Recovery Act (\$37,654) and Education Jobs Fund Program (\$548,918) federal grant funds in FY2013. However, increased Chapter 70 and Special Education Circuit Breaker funds are compensating for these losses.

It should be noted that the FY2013 budget includes a projected Special Education Circuit Breaker Reimbursement rate of 60% allowing the district to reduce the appropriation for out of district placements by \$760,000 in comparison to FY2012, though out-of-district tuition expenses continue to grow. The estimated 60% reimbursement rate for FY2013 is lower than the present actual 65% reimbursement rate and higher than the 40% reimbursement rate assumed in the FY2012 budget.

Fee Reductions

Eliminate Full-Day Kindergarten Fees

Since kindergarten is considered to be a core instructional program, the School Committee seeks to eliminate full-day kindergarten fees. In FY2012, almost all kindergarten students in the district attended the full-day program, and the fees were \$1,075 per child.

In recent years, the full-day kindergarten program has relied on two funding sources: a \$270,000 kindergarten grant from the State and \$378,400 in parent fees. Under the proposed FY2013 budget, the fees will be eliminated. The school department has asked for a one-time appropriation of \$79,024 from the Town to help cover the loss of fee revenue in FY2013 (which will not alter the revenue allocation formula). Kindergarten funding will also use a State kindergarten grant of \$230,000, and the remainder will come from the school operating budget.

The State's formula for Chapter 70 aid counts a student paying a fee for half of their school time as only half a student. By eliminating the kindergarten fee the Town will be able to claim full credit for its kindergarten students and this will boost Chapter 70 aid. However, the additional aid will be delayed until FY2014 because of a lag in the way Chapter 70 aid is calculated and distributed. The increased aid starting in FY2014 would be more than double the one-time appropriation for FY2013. Nevertheless, the Town may need to reassess the funding for kindergarten if the State kindergarten grant is lost.

Elimination of Elementary Instrumental Music Fees - \$63,260

Similar to full-day kindergarten, the School Committee views music as a core instructional offering and seeks to eliminate the fees for school-day instrumental music instruction. When the fee was reduced in 2012, enrollment increased 16%. The FY2013 budget seeks to eliminate this fee entirely. The School Department is absorbing this revenue reduction. It should be noted that the elimination of music fees is not expected to increase the number of music teachers.

Reduction of Estabrook Bus Fees by 50% - \$150,000

This reduction would encourage families with students in the Estabrook School to use the school buses and partially mitigate traffic problems during the construction of the new school building. This request covers only the first of two years of construction and the School Committee expects to request a similar amount next year. These funds will not change the percentage the School Department receives as part of the revenue allocation model.

The School Department also suggests that reducing the bus fees at Estabrook by half may help the town decide whether lowering school bus fees for all schools would increase bus ridership. Please see the discussion under Article 17 for a related proposal.

Special Education

Out of District Placements

The total tuition amount for out of district placements is projected to increase from \$7,890,419 in the FY2012 budget to \$8,157,380 in FY2013, which is a 3.38% increase. However, the operating budget portion of the tuition account is projected to decrease by almost 12% due to the increase in Circuit Breaker reimbursement and use of the LABBB credit.

Diamond Intensive Learning Program - \$105,516

This is to begin an Intensive Learning Program (ILP) at Diamond Middle School to meet the needs of students moving up from the Fiske ILP Program. The FY2013 budget would add a 0.4 increase in Board Certified Behavior Analysts and a 0.36 increase in Student Support Instructors. The cost includes furniture, supplies and materials. If this request is rejected, the district will incur out-of-district placement and transportation costs in excess of the request.

Staffing

Personnel costs (exclusive of benefits) make up 84% of the school budget. The FY2013 salaries and wages budget for the School Department builds on the staffing levels in the FY2012 Annual Town Meeting School Committee request. A total of 18.1 new positions are reflected in the operating budget this year.

- During the 2011-2012 school year, the actual FTE allocation levels were increased to address the district's daily program needs, including enrollment increases. These FY2012 staffing modifications represent a net 4.90 positions that are included in the FY2013 recommended level service budget.
- A supplemental staffing request of \$541,137 will fund a net addition of 7.41 new positions. These positions reflect priorities that maintain or improve services. This supplemental request will support, in whole or in part, teachers (World Language and Physics); support personnel for recess, lunch and transition management; department head administrative time at Clarke and Diamond; an Instructional Technology Specialist; and an Assistant Director of Guidance at LHS.
- The final staffing changes reflected in the budget (\$378,400) represent transferring 5.8 FTEs full day kindergarten teachers (20 teachers x 0.3 FTEs) from a revolving fund to the operating budget due to the elimination of full-day kindergarten fees.

Full details of the school department's FY2013 budget may be found the "School Committee Budget Document, as voted 2/14/12" available online at <http://lexingtonps.schoolwires.net/Page/1457> .

| | | |
|---------------------------------------|------------------------|-----------------------|
| Program 1200: Regional Schools | Funds Requested | Funding Source |
| | \$1,407,978 | GF |

The Minuteman Regional High School (MRHS) Committee has accepted a budget for FY2013 of \$17,251,713, an \$816,241 or 4.97% budget increase over FY2012. This budget is a level services budget, designed to continue efforts to reduce high per-pupil expenditures and to raise unnecessarily low student/teacher ratios. The school has seen a reversal of declining in-district enrollment and has enrolled its largest freshman class in seven years.

Due to lack of consensus among the District member towns, the school still remains unable to initiate a major capital program to address unmet needs in Career and Technical Education facilities and equipment. The school administration FY2013 budget document states “our capital needs are reaching a critical point and will be significant if not addressed in this coming year.” An example of these critical needs is a must-do fix to address a failure in fire-code compliance that occurred this year and for which an additional appropriation is being sought under Article 25. To build consensus for a capital program and to ensure future district operations are sustainable, the District School Committee is undertaking a feasibility study. The study’s goals include: defining enrollment trends, potential program changes, and regional agreement revisions.

This budget assumes level out-of-district enrollment and a small growth of in-district students. Eighty percent of the total budget increase occurs in salaries, health benefits and contracts in place. Salaries, which make up 56% of the budget, increased \$403,332 (4.37%). The school continues its commitment to small-scale infrastructure renewal with an annual capital budget of \$370,000.

As of October 1, 2011, 652 full-time students were enrolled. Roughly 57% of these students are from in-district towns and 43% are from out-of-district towns. The School Committee continues to vote to not accept School Choice students at MRHS. Total full-time enrollment increased by 27 students (4.3%). In-district enrollment decreased by just 1 student and out-of-district enrollment increased by 28 students (11%). Special education students comprise 46.9% of the school’s FTE enrollment.

The FY2012 non-resident tuition rate, capped by the State, was set at \$18,375 per student. It is expected to rise to \$19,000 for FY2013. In addition non-resident SPED tuition assessments will continue to be \$5,000 per student (in-district SPED costs are \$4,500 per student), with an additional \$3,100 average transportation cost is assumed by the sending community.

FY2012 was the first year that in-district Post Graduate (PG) students, like out-of-district PG students, were charged a tuition fee. The sum total of these fees is used to offset the cost charged to member towns for their PG students. Of the 126 PG students, PG in-district enrollment dropped 20% while out-of-district enrollments grew 26%, yielding a total PG enrollment increase of 6 students. FY2013 revenue from PG fees is budgeted to increase to \$125,000.

Member towns are assessed for the upcoming year based on their student enrollment in the current year. These assessments are used to fund the portion of this budget that is not funded by the combination of: (1) all other projected revenues, and (2) member towns’ State Required Minimum (SRM) per-student payments. This year’s assessments are based on an MRHS budget funded with a projected \$2,110,172 of Chapter 70 money and \$600,000 in transportation aid. These estimates are based on the Governor’s H-2 budget, which indicates level funding in Chapter 70 aid and \$50,000 more in transportation aid compared with FY2012. All of these figures, with the exception of the bottom line MRHS total, are preliminary until final approval of the State’s FY2013 budget.

The Application of Out-of-District Tuition Revenue

| Total Minuteman | FY2008 | FY2009 | FY2010 | FY2011 | FY2012 | FY2013 |
|-----------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Current Year Tuition | 375,392 | 382,181 | 888,363 | 1,541,984 | 1,480,984 | 900,000 |
| Prior Year Tuition | 3,112,724 | 3,473,927 | 3,457,303 | 2,888,748 | 2,793,400 | 3,700,000 |

Our last two reports included a criticism of the use of prior year and current year tuition money. Up until FY2002 the school budgeted very conservatively, considering anticipated but uncollected tuitions to be too speculative, and only applied the tuition collected from the prior year towards its budget. Starting in FY2003, \$280,000 of current year (anticipated) tuition was applied towards the budget. The application of anticipated current tuition then began a potentially dangerous increase (see table above) that trended towards a point where eventually all anticipated tuition revenue would be applied. We are pleased to report that the continued increase in out-of-district enrollment continues to create surplus tuition collections. This surplus, combined with higher than anticipated FY2012 State Aid, has allowed for a two-year reversal of the trend of the escalating use of current year tuitions.

Minuteman's Projected Assessment - based on unapproved House-2 budget

| PROGRAM | FTE BASIS ENROLLMENT* | | AVG. PER PUPIL CHARGE | | ASSESSMENT | |
|---|------------------------------|---------------|------------------------------|-----------------|-------------------|--------------------|
| | FY2012 | FY2013 | FY2012 | FY2013 | FY2012 | FY2013 |
| Grades 9-12: | | | | | | |
| Regular Day Students | 62.5 | 54 | \$5,668 | \$5,762 | \$354,248 | \$311,159 |
| Special Education Assessment | 25 | 22 | \$4,500 | \$4,500 | \$112,500 | \$99,000 |
| State Required Minimum for Lexington | 78 | 60 | \$13,801 | \$14,266 | \$1,076,493 | \$855,942 |
| Totals, grades 9-12 (incl. SPED) | 62.5 | 54 | \$24,692 | \$23,446 | \$1,543,241 | \$1,266,101 |
| Post Graduate Programs: | 21 | 9 | \$4,500 | \$3,000 | \$94,500 | \$27,000 |
| TOTAL OPERATING | 83.5 | 63 | \$19,614 | \$21,518 | \$1,637,741 | \$1,355,606 |
| Special Assessments (based on enrolled 9-12) | | | | | | |
| Capital Assessment | | | \$1,043 | \$970 | \$65,189 | \$52,372 |
| Debt & Feasibility Study Interest | | | | \$1,158 | \$3,259 | \$62,505 |
| TOTAL ASSESSMENT | | | \$20,433 | \$22,349 | \$1,706,189 | \$1,407,978 |
| Percentage increase (decrease) over prior year | | | (2.59%) | 9.37% | 10.67% | (17.48%) |

* - prior year's enrollment as of October 1

A breakdown of the full assessment is given above. The preliminary FY2013 assessment for Lexington is \$298,211 (-17.48%) less than the FY2012 actual assessment. This is primarily due to the drop in our enrollment of full-time high school students. The Regular Day Student and Capital and feasibility study assessments are based on Lexington's FY2012 Base Enrollment (as of October 1, 2011) of 54 full-time regular students in grades 9-12. This is 8.5 FTE students fewer than last year. This has decreased our total full-time student operating-share assessment slightly to \$311,159, with a per-pupil increase of 1.6%. The main driver of our decreased assessment is the \$220,551 (-20%) reduction in our total State Required Minimum payment. While Lexington's per-student SRM cost increased, this payment is based on a different census number (as defined by the Mass Department of Education) which decreased by 18 students (23%). Additional savings are seen in a \$67,000 reduction in our PG program costs, where the number of students enrolled in post-graduate programs as well as their per-student costs (due to the Post Graduate fee) have decreased.

| | | |
|--------------------------------------|------------------------|-----------------------|
| Program 2000: Shared Expenses | Funds Requested | Funding Source |
| | \$44,638,734 | <i>See Motion</i> |

Shared Expenses encompasses Line 2100, Employee Benefits; Line 2200, Debt Service; Line 2300, Reserve Fund; and Line 2400, Public Facilities. See pages IV-1 to IV-21 in the Brown Book for more information.

Line 2100: Employee Benefits: This line includes the costs of pensions for retired employees; an amount for future pension costs; health and dental insurance for current and retired employees; premiums for property and liability insurance policies; and potential unemployment and workers compensation expenses. Funding of future health benefits for current retirees is covered under Article 18.

Health Benefits: The largest single component of employee benefits expenses is the Town’s contribution to health insurance for current and retired employees (Line 2130). The FY2013 projected budget for line 2130 is \$21,000,000, a decrease of \$1,546,814 (-6.86%) from the FY2012 restated budget². This amount reflects the effects of joining the Commonwealth of Massachusetts Group Insurance Commission (GIC); it supersedes the preliminary estimated amount of \$24,379,821 that is given in the Brown Book since the Brown Book was published before the GIC rates for FY2013 were available.

Transfer of Coverage to the GIC: The GIC provides health benefits for state and participating municipalities’ employees, retirees and their dependents – to over 200,000 enrollees. The GIC offers a wide range of health insurance plans that typically have higher copays and calendar-year deductibles for the subscribers than the plans offered by the Town in FY2012. The higher copays and deductibles shift some costs onto subscribers by increasing out of pocket expenses. The GIC plans also feature a tiered provider model. On the other hand, when the plans currently offered by the Town are compared with the most similar GIC plans, the premiums for the GIC plans are, at least in the most important cases, substantially lower. The GIC plan rates for FY2013 are, on average, 1.43% higher than the FY2012 GIC rates.

Changes to Massachusetts General Laws Chapter 32b Sections 21-23³ enacted in 2011 give municipalities the authority to unilaterally transfer health benefit subscribers to GIC plans or to change, within limits, health insurance plan designs. Rather than act under the provisions of the revised statute, the Town Manager and other responsible officials chose to negotiate with the Lexington Public Employee Committee (the Coalition) under the pre-existing coalition bargaining statute in order to arrive at a plan that would be most acceptable to the employees while achieving the same net savings for the Town that would have obtained by unilateral action. In February 2012, the Town and the Coalition entered into an agreement. The following points summarize the main aspects of employee health insurance under the agreement.

- The Town will transfer its subscribers to the GIC as of July 1, 2012 and, per GIC rules, is committed to remain a participating municipality for at least 3 years, i.e., through the end of FY2015.
- Each benefits-eligible employee and retiree may choose a plan from the GIC plan menu.
- The premium contribution rate split will return, for most plans, to the levels that existed before the most recent health benefits contract negotiated in 2010, i.e., to 85% for the Town and 15% for active employee subscribers and 80% / 20% for retirees (but see the discussion below about the HRA and Part B subsidy).

² The FY2012 health insurance appropriation was reduced from \$22,546,814 to \$21,997,896 due to the use for health insurance of \$548,918 from the EdJobs federal stimulus grant received by the School Department. This comparison is based on the \$22,546,814 total (final appropriation plus the EdJobs grant) for the FY2012 budget.

³ <http://www.malegislature.gov/Laws/GeneralLaws/PartI/TitleIV/Chapter32B/Section21>

- A Health Reimbursement Account (HRA) desired by employees will be established.
- A Medicare Part B subsidy will be provided to retirees.
- The HRA and Medicare Part B subsidy will be funded by contributions from both the Town and the employees. Please see the discussion below.

The HRA and Medicare Part B Subsidy: Most employees will see decreases in their total health insurance costs including both their share of the premiums and out-of-pocket costs. However, subscribers who heavily utilize medical services may have higher than average out-of-pocket costs. The newly established HRA will serve to moderate the total costs to such subscribers.

Funding for the HRA and the Medicare Part B subsidy will come from several sources, but will not increase costs to the Town beyond what would have been paid if the transfer to the GIC was made via unilateral decision. The funding sources are listed below.

- 1) The agreement requires that the Town make a one-time payment of an amount of \$1,120,000 (equal to 25% of the anticipated savings accruing in the first year after transferring to the GIC) to an employee mitigation fund. This provision is similar to one in the new MGL 32b Sec. 21 statute that applies in cases where unilateral action is taken by a municipality. The one-time payment is included in the \$21,000,000 estimated budget for line 2130.
- 2) The Town will contribute to the mitigation fund each year the amount of subscriber premium contributions that differ from what subscribers would have paid using the premium contribution rate split in effect before the 2010 agreement. For plans with a higher subscriber premium contribution rate (e.g., indemnity plans) that difference is added to the fund and for plans with a lower subscriber premium contribution rate (e.g., retiree Medicare supplement plans) the difference is withdrawn from the mitigation fund by the Town. This contribution is cost neutral to the town as it is equal to the excess amount collected in subscriber premium contributions.⁴
- 3) Additional funding will come from a transfer of a portion of the Health Insurance Claims Trust Fund. The amount of the transfer will be equal to the premiums paid by employees but not yet spent to cover claims under Lexington's existing self-insured health plan. That portion of the HICTF would otherwise have to be distributed to the employees.

The Town will have no obligation to provide for mitigation or otherwise expend any funds which exceed the amounts to be raised per these provisions in the agreement.

Projecting Health Benefits Costs and Enrollments: Under Lexington's current self-insured health insurance framework, costs result from the actual claims made by our subscribers moderated by insurance taken to hedge against extraordinary claims. Projecting costs for the next year is essentially a process of using the recent history of claims, factoring in the prevailing increase in medical care costs, and estimating enrollment numbers. Under the GIC, Lexington's actual claim history is no longer a direct factor in projecting costs. Lexington's costs are now driven by the GIC rates which reflect the overall GIC claims history as well as how our subscribers choose among the various plans offered by the GIC. The total enrollment remains a critical variable, but the choices of plans by subscribers are also important. For

⁴ The proportion of the premiums to be paid by the Town for the duration of this agreement, 85% for active employees and non-Medicare retirees and 80% for retirees in Medicare supplement plans, is the same as that paid prior to the 2010 agreement. This is the same proportion that the Town would have paid if it had unilaterally elected to join the GIC. The agreement sets premium contribution percentages by the employee and retiree subscribers to 25% for high-cost indemnity plans and, 15% increasing to 18% in year 3 of the agreement, for all other plans. Amounts equal to the contributions in excess of 20% for Medicare retirees and in excess of 15% by other subscribers will not be used for premiums but will go into the mitigation fund. In addition, to compensate for the decrease in retiree contribution split for Medicare supplement plans from amount prior to the 2010 agreement, the difference between 15% and 20% will be withdrawn from the mitigation fund in years 1 and 2, and the difference between 18% and 20% will be withdrawn in the third year of the agreement.

estimating FY2013 expenses, the Town has used a distribution of plan choices informed by how subscribers from other municipalities migrating to the GIC have chosen among the menu of options.

As presented in Table 1 on page IV-7 of the Brown Book, actual November enrollments have held fairly steady over the past 5 years. Having changed from a low of 2066 in FY2008 to a high of 2125 in FY2012, the actual enrollment count increased by 59 (2.86%). For the last four years, FY2009-FY2012, the enrollment rate has remained essentially flat.

Additions to enrollments can occur, as shown in Table 1 (Brown Book p. IV-7), when open positions are filled, during the open-enrollment period after the end of Town Meeting, or as a result of a qualifying event (e.g., addition of dependent, change in marital status, etc.) during the year. The FY2013 budget is designed to accommodate an enrollment reaching 2191, an increase of 66 subscribers (3.11%). This increase allows for changes in enrollments due to new hires to fill currently open positions or newly created positions and provides a buffer for new subscribers among present employees.

For FY2012, the highest enrollment level through February 2012 has been 2133. This is below the budgeted level of 2190 and suggests that this buffer is larger than needed. Economic conditions remain mixed, however, with a reasonable probability of employees electing to take the Town's coverage or opting to switch from individual to family coverage as a spouse or dependent loses their coverage. The size of the buffer (2.59% of actual enrollment and ~25% of potential enrollees) is consistent with the observed fluctuation in monthly enrollment levels during the past two years (2.50%) and we continue to believe it is prudent.

There is little down-side in projecting enrollments conservatively. While a conservative projection ties up funds in the operating budget, the amount has been less than 3% of the line 2130 budget. Any unspent amount will become available for use in subsequent years after it has become part of certified free cash.

The uncertainties in projecting enrollments are aggravated by the switch to the GIC. As discussed above, the choice of plan by subscribers is also a critical factor in determining the Town's cost of healthcare benefits. We do not have a history of Town of Lexington employees selecting among the various GIC plans to guide expectations and therefore recommend that FY2013 enrollments be projected conservatively.

General Comments on Health Insurance: We commend the Town, its employees, and retirees for having reached a constructive agreement on health benefits. This agreement reduces costs borne by taxpayers and premiums paid by subscribers. It also provides mitigation of high out-of-pocket costs incurred by subscribers needing greater medical care. We also welcome the respite in rapidly increasing underlying health care costs. This good fortune, however, may be transient. While the size of the GIC subscriber population may provide greater negotiating power than was available to Lexington's former self-insured plan, it does not change the underlying cost structure of the health care system. Fundamental changes in the provision of health care which are beyond the GIC's control are needed to truly control increases in cost.

Line 2100 in aggregate: The total amount budgeted for Line 2100 is \$29,017,728. Line 2130 is \$23,166,458. As previously mentioned employee/retiree health insurance is \$21,000,000. Dental insurance is \$851,197, an increase of 8.9% in the negotiated premium. Medicare tax, which the Town pays for all Town and School Department employees hired after 1986, is \$1,295,261, a 6.38% increase over last year. The remaining \$20,000 is for life insurance.

The FY2013 budget includes a figure of \$290,000 for line 2140, Unemployment Benefits, to fund the Town's statutory liability for unemployment compensation payments for employees who may be laid off. This is a 6.45% reduction from FY2012 reflecting a reduction in the number of employees eligible for unemployment insurance benefits.

The Workers Compensation recommended appropriation in Line 2150, \$608,333, is a 12.10% increase over FY2012 and continues the Towns response to actual experience and efforts to build a reserve balance in this continuing balance account.

The second largest line in Shared Expenses is line 2110, Contributory Retirement, \$4,205,537. This represents a 2.99% increase over the amount appropriated in FY2012. The sum is paid by the Town to the Lexington Retirement Trust Fund, which is managed and overseen by the Lexington Retirement Board, to fund the Town's pension payments to retirees in FY2013 as well as to help fund liabilities for future payments due to current or past obligations. Every three years the Town has consultants make an actuarial determination of the total amount of the future pension liabilities.

The Commonwealth of Massachusetts had required that municipalities fully fund all such liabilities by 2028. Because of the economic difficulties over the past few years, that deadline was extended to 2040. Based on the annual payments the Town has made, and is projected to continue to make, the Trust Fund is expected to be fully funded by 2020. "Full funding" is somewhat of a mercurial concept, since it must necessarily encapsulate a number of disparate and constantly changing factors. Primarily due to judicious investment and management decisions by the Lexington Retirement Trust Fund and a seemingly never-ending robust economy, the Trust Fund was fully funded as of January 1, 2008. At that time, the value of the Trust Fund was approximately \$120 million. However, the economic downturn dramatically affected the value of the Fund so that, as of January 1, 2009, it had fallen by one-third, to approximately \$80 million.

Despite that drop, the appropriation requests over the last two years coupled with the resurgence of the stock market and the Fund's other investments have restored the Fund to where it is again on track to be fully funded by 2020. This year's appropriation is intended to continue that process.

Line 2400: Public Facilities The Department of Public Facilities (DPF) is responsible for municipal and school facilities management and maintenance functions. The Department administers major capital projects, building maintenance, and custodial services. The DPF operates under the direction and control of a Public Facilities Board, composed of the Town Manager and the Superintendent of Schools. The Department management is located in the Public Services Building near the Department of Public Works. This facilitates communication and coordination on projects.

Overall, DPF expenses are projected to increase by 2.06% from FY2012 to \$9,807,061. This reflects an overall increase of 5.79% in compensation and a decrease of 0.81% in expenses. The department operations are primarily funded (96%) through the tax levy with an additional 4% of funding from revolving funds and the balance from indirect enterprise fund transfers.

Personal Services (salaries & wages and overtime combined) is expected to increase by approximately \$241,935. The department is adding a new full-time municipal custodian and eliminating a part-time position. Rents collected for the use of Town facilities pays for 4.6% of salaries.

Additionally, a Clerk of the Works position has been included as a contract position in the headcount for FY2013 and is expected to be filled during FY2013 to implement the Estabrook/Bridge/Bowman school renovation projects. This position would be funded from the capital budget.

Expenses are expected to decrease by approximately \$44,242 on an overall basis. A \$270,000 reduction in energy cost due to a favorable natural gas contract has been partially offset by increased use of electricity and increased heating oil prices, yielding a budgeted energy savings of \$124,890. In order to take advantage of this shift in energy costs, all school will be converted from heating oil to natural gas by 2014. Contracts for electricity (through December 2015 – extended prior to the end of the current contract as rates were favorable), natural gas (through September 2012) and oil (annual through a multi town consortium) are in place.

The department is increasing the custodial and maintenance supplies budget by 19.2% as it shifts more responsibilities to internal staff and away from contractors. Their use of work orders and a preventive

maintenance program continues to improve equipment reliability. Additionally, the department supports the town-wide goal of energy efficiency resulting in a town-wide reduction in facility energy consumption. See Table 7 in the report from the Town Manager in the Brown Book for a comparison of energy costs from FY2010 through the FY2013 recommended budget.

A critical challenge facing the department is the management of the upcoming school building projects. These projects are very time-sensitive, as they are designed to work around ongoing school operations. Unless the oversight of these projects is conducted at the highest level of vigilance, bidding laws which force us to hire less qualified low-bidders increase the chance of delay, cost overruns and shoddy workmanship. Effective project oversight by the department is the only tool available to avoid unnecessary downtime in the schools and the additional expense of litigation, which is a costly remedy for poor contractor performance.

| | | |
|------------------------------------|------------------------|-----------------------|
| Program 4000: Public Safety | Funds Requested | Funding Source |
| | \$11,464,266 | GF |

Note that the Parking Management budget will be transferred out of the Public Works budget to the Police under the Public Safety budget this year.

| | | |
|--------------------------------------|------------------------|-----------------------|
| Line 6210: Veteran’s Services | Funds Requested | Funding Source |
| | \$195,200 | GF |

The Veteran’s Services line item shows a dramatic increase because the Town of Lexington is following the State mandate to hire a full time Veterans’ Services Officer (VSO). The previous VSO position was a stipend position without health benefits.

The request for Veterans’ benefits has increased substantially over the last several of years. The VSO serves as the initial point of contact for all Lexington veterans, families and survivors. The VSO administers the MA Chapter 115 program, and helps get veterans referred to other Federal Veterans Administration (VA) programs. Chapter 115 is based on financial need. The VSO is also responsible for parades, special services and placing flags on Memorial Day.

The Veterans Services expenses in 2011 were nearly \$50,000, and this amount continues to grow. Authorized expenses are reimbursed to the Town by the State at 75%.

There continues to be a steady increase in demand for Veterans’ Services – this follows a national trend and the belief is that there is a marked increase in seniors requesting financial assistance (especially surviving spouses) and increased awareness that the State VA will pay a portion of the premiums for medical insurance and drug plans. Some towns are also noting a high number of veterans from our current wars who are requesting assistance.

The current appropriation is requested to increase by approximately \$44,000 over FY2012.

| | | |
|---|------------------------|---------------------------------|
| Line 6300: Transportation Services | Funds Requested | Funding Source |
| | \$554,910 | GF (Fares) TDM/PT SF |

Lexpress has been serving Lexington since 1979 and is one of the oldest suburban public transportation systems in Eastern Massachusetts. Lexpress provides six (6) fixed route for this minibus service. This

transportation system allows all of Lexington’s neighborhood to be connected to all Town services and the various shopping centers located throughout the entire town. The Lexpress service came into being in the late 1970’s as an answer to the high gas prices of the day (a gallon of gas in 1979 cost less than one dollar – only \$0.86), to encourage Lexington residence to leave their private vehicles at home when they were just driving to and from locations within Lexington. The system was originally established with eight (8) routes, though was later reduced to only the six (6) it has today. Last year approximately 70,000 people used the Lexpress service. The system is funded by multiple sources. The tax levy provides the majority of the funding, while other sources historically have included Lexpress fares, an annual grant from the MBTA, the Transportation Demand Management Stabilization Fund, and private donations.

For the FY2013 budget cycle, the costs for Transportation Services provided by the Town will now reside in the Human Services portion of the budget. The Transportation Services division will focus on the operation of Lexpress and other transportation services for Lexington residents. This transition of Transportation Services from the DPW to Human Services will result in \$554,910 being added to line 6300 to reflect this move.

In previous years the MBTA has helped to fund Lexpress with an annual grant of \$80,000. Due to a difficult financial situation there is a good chance that the MBTA will terminate this grant in FY2013. The recommended Lexpress budget was designed with that assumption.

The reorganization of the Transportation Services division to the Human Services Department has also resulted in a modest decrease in administration expenses. Thus the \$554,910 budget is actually slightly lower than the \$558,757 that what was appropriated for FY2012.

| | | |
|---|------------------------|-----------------------|
| Program 8600: Management Information Systems | Funds Requested | Funding Source |
| | \$908,280 | GF |

The Management Information Systems Department (MIS) is responsible for managing all of the Towns Information Technology (IT). Lexington’s IT group has taken on ever increasing responsibilities, as the Town’s technological needs have increased. Today the IT group handles not only hardware and software items, they conduct training for all end users; they maintain the MUNIS system (a tool that handles financial management items for both Municipal and School requests); they handle the telecommunications (VoIP) infrastructure and applications; as well as the Town’s local network connecting all 27 Town and School buildings.

Given the size and scope of the Town’s Municipal and School IT needs, it is an amazing accomplishment that a team consisting of only three professionals has been able to handle it to date. The IT department is comprised of a MIS Director who oversees 2 FTE’s, one is the Network Administrator and the second is the GIS/Database Administrator.

In FY2012, the MIS department had a total budget of \$615,905 and the proposed FY2013 budget increases that to \$908,280. The difference of \$292,375 is a 47% increase from the previous year. The main driver for this increase is the addition of IT Support Staff and a full-time Webmaster position. These staff additions will account for approximately half of the total budget increase in line 8600. Roughly a third of the increase covers rising costs for annual software maintenance (attributable to additional Town-wide document management software, new Microsoft software assurance licensing, and an overall increase in fees for software support). The remainder of the increase resulted from a need to replace a larger than usual number of PC workstations that will reach their end of useful life.

The Committee recommends approval of this request (9-0).

| | | | |
|---|--|---|---------------------------------|
| Article 5: Appropriate FY2013 Enterprise Funds Budgets | Funds Requested | Funding Source | Committee Recommendation |
| | \$7,489,719 + \$8,598,633 + \$1,794,329 \$17,882,661 | Water EF Wastewater EF Recreation EF | Approve (9-0) |

This Article governs the appropriation of funds for the operation of the Town’s three enterprise funds – the Water Enterprise Fund, the Wastewater Enterprise Fund, and the Recreation Enterprise Fund – with the exception of indirect costs which are appropriated under Article 4. For an overview of the legal framework and accounting concepts that apply to the operation of an enterprise fund, please refer to Appendix B. The following discussion will focus on the anticipated expenses and revenues of the enterprise funds for FY2013 and issues they raise.

A breakdown of the funding request for this article is shown in the following tables.

| Water Enterprise Fund | FY2011 Actual | FY2012 Appropriated | FY2013 Requested | % Change |
|--------------------------------------|----------------------|----------------------------|-------------------------|-----------------|
| Personal Services | \$616,920 | \$641,423 | \$647,687 | 1.0% |
| Expenses | \$377,431 | \$384,400 | \$389,590 | 1.4% |
| Debt Service | \$1,137,075 | \$1,258,968 | \$1,299,091 | 3.2% |
| MWRA Assessment | \$4,745,093 | \$5,049,999 | \$5,153,351 | 2.0% |
| Total Requested in Article 5 | \$6,876,519 | \$7,334,790 | \$7,489,719 | 2.1% |
| Indirect Expenses | \$743,400 | \$704,624 | \$665,848 | -5.5% |
| Total Water Enterprise Budget | \$7,619,919 | \$8,039,414 | \$8,155,567 | 1.4% |

| Wastewater Enterprise Fund | FY2011 Actual | FY2012 Appropriated | FY2013 Requested | % Change |
|---|----------------------|----------------------------|-------------------------|-----------------|
| Personal Services | \$230,457 | \$275,369 | \$276,184 | .3% |
| Expenses | \$218,401 | \$330,450 | \$333,200 | 0.8% |
| Debt Service | \$791,777 | \$879,713 | \$956,855 | 8.8% |
| MWRA Assessment | \$6,405,931 | \$6,802,875 | \$7,032,394 | 3.4% |
| Total Requested in Article 5 | \$7,646,566 | \$8,288,407 | \$8,598,633 | 3.4% |
| Indirect Expenses | \$668,990 | \$646,217 | \$623,444 | -3.5% |
| Total Wastewater Enterprise Budget | \$8,315,556 | \$8,934,624 | \$9,222,077 | 3.2% |

| Recreation Enterprise Fund | FY2011 Actual | FY2012 Appropriated | FY2013 Requested | % Change |
|---|----------------------|----------------------------|-------------------------|-----------------|
| Personal Services | \$601,119 | \$643,143 | \$645,145 | 0.3% |
| Expenses | \$892,387 | \$966,745 | \$1,018,584 | 5.4% |
| Debt Service | \$137,200 | \$131,500 | \$130,600 | -0.7% |
| Total Requested in Article 5 | \$1,630,706 | \$1,741,388 | \$1,794,329 | 3.0% |
| Indirect Expenses | \$203,583 | \$213,600 | \$223,600 | 4.7% |
| Total Recreation Enterprise Fund | \$1,834,289 | \$1,954,988 | \$2,017,929 | 3.2% |

Note that this table differs from that contained in the warrant in several respects: the MWRA assessments for water and wastewater reflect the MWRA’s preliminary assessments issued in February rather than placeholders assumed in the warrant; the figures for water and sewer debt service have been adjusted to reflect the actual, higher amounts; and indirect expenses that will be charged to the enterprise funds, although appropriated separately under Article 4, have been included for completeness.

Water and Wastewater Funds

MWRA Assessments. The largest expense component of both the Water and Wastewater Enterprise Fund budgets is the assessment charged by the Massachusetts Water Resources Authority (MWRA). The Town will be assessed a share of the MWRA’s total FY2013 water and sewer budgets based on the Town’s proportionate water and sewer usage in the prior calendar year (CY2011), compared with other towns in the MWRA community. Preliminary assessment figures are published in February of each year and final assessments are made in June. The appropriations for MWRA expenses in the motion for this article will be adjusted from the “placeholder” figures in the warrant to reflect the MWRA’s February 2012 preliminary assessment estimates, as shown in the following table:

MWRA Assessments

| Fund | FY2012 Actual | Warrant Placeholder | % Change | FY2013 Prelim. Assmt. | % Change |
|-----------------|----------------------|----------------------------|-----------------|------------------------------|-----------------|
| Water | \$5,049,999 | \$5,512,091 | 9.1% | \$5,153,351 | 2.0% |
| Sewer | \$6,802,875 | \$6,866,826 | 1.0% | \$7,032,394 | 3.4% |
| Combined | \$11,852,874 | \$12,378,917 | 4.4% | \$12,185,745 | 2.8% |

The final MWRA assessments issued in June, which are typically somewhat lower than the preliminary assessments, will be used to set water and sewer rates during the Town’s FY2013 rate-setting process in the fall. If a special town meeting is held in the fall, the appropriation for MWRA costs may be adjusted upwards or downwards, as necessary, as a “housekeeping” matter.

Direct Town Costs. In addition to the MWRA assessments, the expenses of the Water and Wastewater Fund budgets include direct costs incurred by the Town, primarily for: (1) the wages and salaries of the employees in the DPW’s Water and Sewer Divisions, (2) the expenses of the water and sewer maintenance activities and equipment, and (3) debt service on prior borrowings for water and sewer enterprise capital improvements. All of these direct costs are increasing very modestly (see Brown Book, pp. V-27, V-29) with the exception of debt service costs which continue to grow at a comparatively higher rate (3.2% for water, 8.8% for sewer).

As this Committee has noted in past reports, the growth of debt service costs is a predictable consequence of a transition made five or six years ago from an earlier practice of funding ongoing capital improvements and repairs to the water and wastewater infrastructure with a combination of debt and cash capital to a practice of funding them primarily with debt. See the discussion of Articles 13 (Water Capital) and 14 (Sewer Capital) and accompanying tables. While debt financing helps to spread the costs of projects over their useful life, the immediate effect of the change was a temporary lowering of current-year capital costs. As interest payments and principal repayments come due on the higher levels of debt incurred, however, the annual capital costs of the enterprise funds that must be captured in the water and sewer rates are gradually growing back to their original levels. In addition, the Water and Sewer Enterprise Funds’ debt service burden has been increased by their assumption of responsibility for approximately 25% of the debt service costs for the construction of the new DPW facility (17% and 7% respectively, based on their usage of that building).

Indirect Town Costs. The Water and Sewer Enterprise Fund budgets also include indirect costs for services provided by other Town departments to support water and sewer operations, such as insurance costs (health and liability), retirement funding, engineering costs, and the cost of services provided by the Comptroller, the Management Information Systems (MIS) Department, and the Revenue Department. In

2006, following up on a recommendation made in the final report of the Water and Sewer Rate Study Committee, Town staff conducted an analysis of the basis for the indirect charges, and concluded that the indirect expenses charged to the Water and Wastewater Enterprise Funds were higher than could be justified. To address this issue without causing undue disruption to the Town Budget, it was decided to implement a gradual phase-down of the indirect expenses charged to the Water and Wastewater Funds to the levels supported by the Town staff's analysis. Consistent with this multi-year phase-down plan, the recommended budget for FY2012 contemplates continued modest reductions in the levels of indirect expenses charged to the Water and Wastewater Funds of -5.5% and -3.5% respectively.

Rate-Setting, and Reserves

As discussed in Appendix B, the state statute governing enterprise funds, G.L. c. 44, § 53F½, requires that accumulated surpluses resulting from the operations of an enterprise fund, referred to as retained earnings, remain with the fund as a reserve, and that they be used only for capital expenditures of the enterprise, subject to appropriation, or to reduce user charges. Deficits must be funded with existing reserves or, in the absence of such reserves, made up in the following year's rates.

During the early 2000s, difficulties in forecasting usage and other accounting issues resulted in rates being set at less than adequate levels in several rate years. This, in turn, reduced the retained earnings in the Water and Sewer Enterprise Funds to levels of concern. Since 2005, the Town's ability to measure and forecast water and sewer usage, and thereby to anticipate revenues and reserve levels, has improved significantly. This has enabled the Town to restore and stabilize the water and sewer enterprise fund reserve balances,⁵ and indeed more recently to draw some of the funds down for rate relief or other purposes, as shown in the table below.

Retained Earnings: Appropriations for Rate Relief and Year-End Balances

| | FY07 | FY08 | FY09 | FY10 | FY11 | FY2012 |
|-----------------------|-------------|-------------|-------------|-------------|-------------|---------------|
| <i>Water</i> | | | | | | |
| Rate Rel. App. | \$500,000 | \$362,570 | \$463,046 | \$525,000 | \$450,000 | \$650,000 |
| End Balance | \$2,496,655 | \$2,537,249 | \$2,113,729 | \$1,622,052 | \$1,952,253 | |
| <i>Sewer</i> | | | | | | |
| Rate Rel. App | \$0 | \$0 | \$0 | \$625,000 | \$400,000 | \$300,000 |
| End Balance | \$2,137,540 | \$2,763,179 | \$1,831,967 | \$1,525,612 | \$1,168,190 | |
| <i>Combined</i> | | | | | | |
| Rate Rel. App. | \$500,000 | \$362,570 | \$463,046 | \$1,150,000 | \$850,000 | \$950,000 |
| End Balance | \$4,634,195 | \$5,300,428 | \$3,945,696 | \$3,147,664 | \$3,120,443 | |

At the Annual Town Meeting last spring, adopting what has now become a regular recommendation, Town Meeting appropriated \$450,000 in retained earnings of the water fund and \$300,000 in retained earnings of the sewer fund to provide "rate relief," *i.e.*, to lower the increase in the FY2012 water and sewer rates that would otherwise be required to cover anticipated increases in operating and capital costs. Last fall, faced with an unexpectedly large proposed rate increase (the reasons for which are explained in this Committee's Report to the November 10, 2011 Special Town Meeting), the Board of Selectmen

⁵ In view of the steadily increasing levels of reserves, which as of the end of FY2008 had grown to about 35% of the annual budget for each fund, net of indirect costs, this Committee urged that a policy be adopted defining the appropriate level of retained earnings to be maintained for emergency purposes for both funds, and setting forth guidelines for the use of such funds either to mitigate future rate increases or to finance capital projects. Although a definitive policy still has not been adopted, the Town Manager has recommended maintaining reserves of approximately \$1,000,000 in each of the fund.

voted to apply an additional \$200,000 of retained earnings from the water enterprise fund to mitigate the rate increase. A follow-up appropriation in that amount was made at the 2011 fall special town meeting, bringing the total FY2012 appropriation of retained earnings to \$950,000: \$650,000 from the water fund and \$300,000 from the sewer fund. As a consequence of this supplemental appropriation, the amount of the water fund's FY2011 year-end retained earnings balance that remains available for appropriation at this year's Annual Town Meeting is \$1,752,253 instead of the \$1,952,253 shown in the table above.

Once a practice of making recurring appropriations of retained earnings for rate relief is adopted, it can be difficult to unwind. Even if there were no increase in water and sewer costs this year, reducing the subsidy for FY2013 water rates would trigger a rate increase of 1.35% for every \$100,000 of subsidy eliminated. Completely eliminating the subsidy this year would raise the water rate by about 9%, all else being equal.⁶ A similar impact would occur if subsidies were eliminated in the wastewater fund. Accordingly, although not addressed in the Brown Book, we understand that the Town Manager intends to recommend an appropriation of retained earnings at the same level as last year's annual town meeting: \$450,000 from the water fund and \$350,000 from the sewer fund, or a total of \$750,000. This represents a small reduction from the final total subsidy of \$950,000 in retained earnings that was applied last year.

While the Committee supports an appropriation of retained earnings if necessary to avoid an unreasonably large increase in the FY2013 water and sewer rates, we urge the Town Manager to consider whether this would be a good year to more substantially reduce the Town's dependence on recurring rate subsidies given this year's relatively modest increases in the water and sewer expense budgets of 1.4% and 3.4% respectively.

On a broader note, the Committee also questions the wisdom of routinely appropriating retained earnings for "rate relief" at the Annual Town Meeting, well before much of the information necessary to determine the need for a subsidy, or the impact it will have on the enterprise funds' year-end reserve position, is known.⁷ Instead, it might be better to defer this decision until the rate-setting process in the fall when the selectmen will be armed with better knowledge about actual usage during the summer (the least predictable season for water usage). The Town could then follow up with the necessary appropriation at a subsequent Special or Annual Town Meeting, as occurred last fall when a supplemental appropriation was made to implement the Selectmen's decision during the rate-setting process to apply \$200,000 more in retained earnings than was appropriated at the spring Annual Town Meeting.

As an alternative to using retained earnings for rate relief, this Committee has advocated applying retained earnings that accumulate above the amounts needed to maintain adequate reserves to address the capital needs of the Water and Sewer Enterprise funds. By lowering future debt service costs, such funding would enhance long-term rate stability instead of short-term rate relief.

Recreation

This budget represents an increase of \$62,840 (3.21%) from last year. Wages and salaries have increased very slightly (\$901.00; 0.30%) for five full-time staff and \$175 +/- seasonal staff. Debt services decreased slightly (\$900.00).

Of the total revenue for the Recreation Enterprise Fund Operating Budget, \$1,156,028 (56%) will come from user fees for fields and registration fees for programs. All programs offered by the Recreation

⁶ This calculation assumes that the water usage estimates for FY2013 remain unchanged. If water usage estimates increase, the rate increase would be smaller; and if water usage estimates decrease, the rate increase would be larger.

⁷ For example, it will not be known until after this coming summer whether the usage estimates on which the FY2012 rates were based require revision, or whether anticipated FY2013 revenues will be affected upwards or downwards by a "wet," "dry" or "average" summer, and therefore to what extent it may be desirable to subsidize FY2013 rates. In FY2010, for example, the selectmen voted to *reduce* the water and sewer rates by 3.8% on a combined basis, even though costs had *increased* by 2.9%, because Town Meeting had previously appropriated over \$1,000,000 in retained earnings at the annual town meeting for rate relief.

Department are designed to be revenue-neutral with charges to users matching the program’s operating costs. The other main source of revenue, \$816,800, is from golf course fees and is budgeted for no increase.

The Committee recommends approval of this request (9-0).

| Article 6: Appropriate for Senior Service Program | Funds Requested | Funding Source | Committee Recommendation |
|--|------------------------|-----------------------|---------------------------------|
| | \$20,000 | GF | Approve (9-0) |

Since 2006, the Town has operated its own Senior Service Program, under which low-to-moderate-income seniors may perform volunteer work for the Town in exchange for a reduction in their property tax. The Town adopted this program, in substitution for a similar program previously operated under G.L. c. 59, § 5K, to allow it more flexibility in setting the age criteria for participation, the wage rate, and the total amount of credit allowed. Unlike the former program, which was funded through the Town’s overlay account, the Senior Service Program is funded by direct appropriation from the tax levy. For general background on the Senior Service Program and other property tax relief options available to seniors, including exemptions and opportunities for deferral, please refer to Appendix D.

In its report on the original article creating this program in 2006, this Committee observed that:

“The ... cost of the proposed program is amply justified, indeed a bargain. Not only does it provide participating residents a productive way to become involved in the community, while at the same time alleviating some of the burden of their local property taxes, it also provides the Town with valuable and necessary services.... Making a direct appropriation for this program, rather than funding it through the overlay account, [increases] transparency and [gives] Town Meeting more control over the budget.”

These observations continue to apply.

Benefits and Criteria for Participation

The maximum amount of the tax reduction that may now be earned, under guidelines that have been established by the Selectmen, is \$935 (110 hours at \$8.50 per hour, slightly above the current minimum wage of \$8.00) for an individual and \$1,190 (140 hours at \$8.50 per hour) for a couple. These guidelines have been in place for several years now, and should be reexamined. Participants may receive property tax reductions under this program in addition to any other exemption for which they qualify, such as the \$1,000 Clause 41C exemption, and may also defer the balance of their taxes under Clause 41A if they are eligible to do so. Current income eligibility criteria are set forth in Appendix D.

Funding Requirements and Requested Appropriation

The program operates as a continuing balance account, and unexpended funds carry over from year to year. When first established in FY2007, the program was funded at \$25,000, an amount slightly higher than the average annual amount that had been expended from the overlay account under the pre-existing state program during the 2004-2006 fiscal years. In anticipation of higher usage, the annual appropriation was subsequently increased for FY2007 (at a fall special town meeting) to \$36,000, for FY2008 to \$40,000, and for FY2009 and FY2010 to \$45,000

This level of funding, however, proved to be more than was required to allow the Town to admit all eligible applicants who wished to participate in the program. Despite efforts to expand participation, including increases in the income threshold, the numbers have been stable (34 in FY2007, 34 in FY2008, 30 in FY2009, 31 in FY2010, 32 in FY2011, and 33 in FY2012 to date) and annual expenditures have ranged from \$22-28,000. Accordingly, no appropriation was required for FY2011 and subsequent

APPROPRIATION COMMITTEE REPORT TO THE MARCH 2012 ATM & STM

appropriation requests have been scaled back to reflect realistic funding requirements and the amount of carryover funds available. The appropriation that will be requested this year is \$20,000 instead of the \$45,000 amount stated in the warrant. Combined with an anticipated carryover balance of \$20-25,000, the reduced appropriation should be more than sufficient to cover current program needs and also allow for enhancement of benefits and expansion of participation.

The Committee recommends approval of this request (9-0).

| | | | |
|---|------------------------|-----------------------|--|
| Article 7: Establish and Continue Departmental Revolving Funds | Funds Requested | Funding Source | Committee Recommendation |
| | <i>See below</i> | RF | Approve (9-0) (except Line 1100) |

| Fund # | Program or Purpose | Authorized Representative or Board to Spend | Departmental Receipts | FY2012 Authorization | FY2013 Requested Authorization |
|---------------|---|--|--|-----------------------------|---------------------------------------|
| 1100 | School Bus Transportation | School Committee | School bus fees | \$830,000 | \$830,000 |
| 2400 | Public Facilities | Public Facilities Director | Building Rental Fees | \$325,000 | \$375,000 |
| 3320 | Trees | Board of Selectmen | Gifts, fees and fines | \$20,000 | \$20,000 |
| 3330 | DPW Burial Containers | Public Works Director | Sale of Grave Boxes and Burial Vaults | \$35,000 | \$35,000 |
| 3420 | DPW Compost Operations | Public Works Director | Sale of compost and loam, yard waste permits | \$499,000 | \$400,000 |
| 3420 | Minuteman Household Hazardous Waste Program | Public Works Director | Fees paid by consortium towns | \$175,000 | \$175,000 |
| 6120 | Council on Aging Programs | Human Services Director | Program fees and gifts | \$100,000 | \$100,000 |
| 7140 | Health Programs | Health Director | Medicare reimbursements | \$10,000 | \$10,000 |
| 7320 | Tourism/Liberty Ride | Town Manager and Tourism Committee | Liberty Ride receipts, including ticket sales, advertising revenue and charter sales | \$199,000 | \$285,000 |
| 8140 | PEG Access | Board of Selectmen and Town Manager | License fees from cable TV providers | \$430,000 | \$450,000 |
| 3110 | Regional Cache | Public Works Director | User fees from participating municipalities | \$20,000 | \$20,000 |

Reauthorization of all existing municipal revolving funds is requested for FY2013 as shown in the table above. The spending limit proposed for each of the funds is based on a reasonable estimate of the fees and charges likely to be received, as well as of the expenditures likely to be required.

Changes in Authorization Levels from FY2012

The Public Facilities Revolving Fund authorization request is increasing by \$50,000 (15.38%) to more accurately reflect the anticipated expenditures in this fund.

The DPW Compost Operations Revolving Fund authorization request is decreasing by \$99,000 (19.84%) with the completion of the Hartwell Avenue Culvert Replacement design. Article 12(d) is a capital request for funding replacement of these culverts.

The Tourism/Liberty Ride Revolving Fund authorization request is increasing by \$86,000 (43.21%) due to an expansion of service to include an additional bus/trolley.

The PEG Access Revolving Fund authorization request is increasing by \$20,000 (4.65%). This increase recognizes the Town’s obligations for “common” expenses for LexMedia’s studio facilities located at Kline Hall at Avalon Bay.

As of publication, the Committee was unable to consider Line 1100 School Bus Transportation because a new service contract was still being negotiated.

The Committee recommends approval of this request (except Line 1100) (9-0).

| Article 8: Appropriate the FY2013 Community Preservation Committee Operating Budget and CPA Projects | Funds Requested | Funding Source | Committee Recommendation |
|---|----------------------------|---------------------------|--|
| | See Below | CPA | Approve (9-0) [except 8(d)] |

The Community Preservation Act (CPA) is a state statute that allows municipalities to raise a surcharge on property taxes for local use for purposes related to historic preservation, open space (including recreation), and affordable housing. The State provides matching funds (the amount depending on monies available and demand from adopting communities) from fees imposed on real estate transactions, including mortgage refinancing.

While the CPA provides broad guidance on the appropriate use of funds, it allows for a considerable measure of local control by 1) establishing a local Community Preservation Committee (CPC) to review and make recommendations on candidate CPA projects to Town Meeting and 2) authorizing Town Meeting to approve CPC-recommended projects. Town Meeting may not *increase* a CPC-recommended appropriation, nor may it alter the stated purpose of an appropriation, but it may amend to *decrease* an appropriation.

Communities adopting the CPA have each implemented the statute in a way that reflects local opportunities, priorities and needs. One of Lexington’s opportunities lies in the inventory of municipal and school buildings that qualify as historic buildings and which are therefore eligible for CPA funding. These projects can be funded through a combination of Lexington taxpayers’ CPA surcharges and State matching funds. Of the \$22.6 million of CPA funds appropriated by Lexington, the CPC and Town Meeting have designated \$3.8 million for the Towns’ building renewal program, and almost \$3.5 million has gone for recreation projects. The balance of CPA funds has been used for historic preservation, acquisition and preservation of land for open space and recreational uses, and for providing affordable housing.

The State Match

The state match awarded for FY2007, the first year following Lexington’s adoption of the CPA, was 100% of Lexington’s 3% surcharge, as it had been since the CPA was enacted in 2001. (Note that state matching funds are disbursed to communities in the fall of the fiscal year after the surcharge revenues are raised. For example, Lexington will receive state funds to match its FY2011 surcharge revenues in the fall

of FY2012.) However, as real estate transaction revenue has declined with the economy, and as more communities have adopted the CPA, the matching level has since gone down. In October 2011, the first round match awarded to all CPA communities for FY2011 was 26.6%. Because Lexington adopted CPA with a full 3% surcharge, it received additional funding in the second and third round distributions, bringing its total match for FY2011 to 27.62%.

Funds Available for Appropriation

There is over \$5,700,000 in CPA funds available for appropriation at this Town Meeting: with over \$1,499,000 in carry-forward reserves and \$4,263,000 in FY2013 anticipated revenues. The latter includes anticipated FY2013 surcharge collections of \$3,478,000 and a State match of about \$768,000 (estimated at 22.9% of the collected FY2012 surcharges) and \$17,000 interest income.

The Motion

To prevent some of the past confusion caused by the wording of this article’s motion, we present a brief description of its structure. The motion under Article 8 will be in two parts; the first section will distribute the anticipated revenue between the different Reserve Funds and the second part will appropriate funds for the individual projects as outlined in the Warrant. As specified by the State Statute, 10% of annual anticipated revenue of \$4,263,000 will be allocated to each of the required three Reserve Funds; the Open Space Reserve, the Historic Resources Reserve and the Community Housing Reserve. The remaining 70% of anticipated revenue will be allocated to the Unbudgeted Reserve. Appropriations will then be made under sections 8(a)-8(l), with each project section specifying funding from a particular Reserve Fund and/or the Unbudgeted Reserve.

This Year’s Requests

As of press time the CPC has requested that Town Meeting appropriate \$5,529,092 of the available CPA funds. However, we anticipate that Article 8(d) Cary Memorial Building Upgrades will be amended to request the reduced amount of \$75,000, so the requested CPA funds would total \$5,054,092.

The projects which the CPC has recommended for funding in FY2011 under Article 8 are listed in the following table:

| Project Description | Funds Requested | Funding Source | Committee Recommendation |
|---|------------------------|-----------------------|---------------------------------|
| 8(a) Archives and Records Management/Conservation | \$150,000 | CPA | Approve (9-0) |
| 8(b) Paint Mine Barn Preservation | \$34,770 | CPA | Approve (9-0) |
| 8(c) Muzzey Senior Center Upgrades | \$561,518 | CPA | Approve (9-0) |
| 8(d) Cary Memorial Building Upgrades | | | |
| CPC original motion | \$550,000 | CPA | Disapprove (0-8-1) |
| BoS amended motion | \$75,000 | CPA | Approve (8-0-1) |
| 8(e) Center Playfields Drainage – Phase III | \$605,718 | CPA | Approve (9-0) |
| 8(f) Battle Green Master Plan Implementation | \$143,845 | CPA | Approve (9-0) |
| 8(g) LexHAB – Set Aside for Housing Acquisition | \$450,000 | CPA | Approve (9-0) |
| 8(h) Buckman Tavern Historic Structures Report/ Restoration Plan | \$65,000 | CPA | Approve (9-0) |
| 8(i) Historic Society – Historic Records Preservation | \$77,268 | CPA | Approve (9-0) |
| 8(j) Greeley Village Accessible Housing Project | \$810,673 | CPA | Approve (9-0) |
| 8(j) Busa Farm Debt Service | \$930,300 | CPA | Approve (9-0) |
| 8(k) Cotton Farm Debt Service | \$1,000,000 | CPA | Approve (9-0) |
| 8(l) Administrative Budget | \$150,000 | CPA | Approve (9-0) |

Article 8(a) Archives and Records Management/Conservation \$150,000 – This request will provide funding for year 5 of a projected 5-year project for conservation and preservation of historic municipal documents and records. This project will include conservation/preservation, equipment and supplies,

microfilming and/or digitalization, consulting services, computerization and data migration. The emphasis for FY2012 will be on digitization for ready access of selected at-risk historical records and records conserved and preserved.

Article 8(b) Paint Mine Barn Preservation \$34,770 – This project entails replacing the roof; doors and windows; installing electricity and a phone line to provide security; installing crushed stone for ramp access; and a few minor repairs. In 2009 the Conservation Commission determined that they owned this property, not an abutting property owner on Mountain Road. After making these improvements, the Conservation Commission will use this Barn for the storage of tools, lumber, supplies and other equipment for the Conservation Commission. Minuteman Technical High School will provide the labor on this project, thus the only costs will be for materials.

Article 8(c) Muzzey Senior Center Upgrades \$561,518 – This request will fund the first of two phases of upgrades the Senior Center. These upgrades are a result of a study funded by CPA funds appropriated by the 2010 Annual Town Meeting. Included in this appropriation are design development and construction documents as well as construction of the items in this phase.

Article 8(d) Cary Memorial Building Upgrades \$550,000 – This request is to fund complete design development and construction documents for a \$7.7M renovation to the Cary Memorial Building. These improvements were identified by a CPA funded building study approved by the 2010 Annual Town Meeting. Since being approved for funding by the CPC, questions about the scope of the project and the project's priority relative to other capital needs have arisen. We anticipate that an amendment will be offered by the Board of Selectman to reduce the funding to \$75,000 and change the scope to enable the town to reconsider the scale of the project. The new request is for a 30% design development process and "value engineering" of the recommended improvements. The results will produce to a more thorough review of the project scope. \$50,000 of this request will be applicable to future steps in the project implementation process. The Committee supports the anticipated amendment for a \$75,000 appropriation and does *not* support the original request for \$550,000.

Article 8(e) Center Playfields Drainage - \$605,718 – This request is for Phase 3 of a three phase project to correct drainage and grading issues at the Center Playfields. The entire Center Playfields Complex approximates 23 acres and has been seriously affected by poor drainage conditions for many years. The result is standing water, soft field areas and reduced turf cover and quality that leads to unsafe and unusable playing fields. The complex is the most heavily used recreation area in town. It is used by the schools, adult and youth leagues, and the general public. This Phase III request for FY2013 will be used to implement the drainage improvements on the practice field area along Worthen Road, the little league baseball/JV softball field, parking area, and the center track area as outlined in the Stantec study. The work will involve installing new drain systems and grading in an effort to move water off of the fields and collect it so that flooding and standing water conditions do not occur. This will allow fields to dry faster and improve playability and safety. The project will be overseen by the town engineer. This project will have a positive effect on the operating budget by reducing the amount of drying agent needed to make the fields playable.

Article 8(f) Battle Green Master Plan Implementation - \$143,845 – A draft master plan for the Battle Green area has been issued (12/6/2010) and contains recommendations for site improvements. Phase 1 of this project was funded in FY2012. This is Phase 2 of this master plan and will address the paths around the Battle Green and Belfry Hill, granite at the Obelisk and the fence at Ye Olde Burying Ground. It is anticipated that a Phase 3 request will be made for additional work next year.

Article 8(g) LexHAB – Set Aside for Housing Acquisition - \$450,000 – LexHAB has requested funding for the acquisition of additional housing units. The funds that were approved for FY2012 have been mainly depleted because LexHAB successfully has started the process of acquiring a single-family home with these "Set-Aside Funds." Once LexHAB identifies an additional housing unit or land for acquisition with these new FY2013 monies, it has agreed to submit a proposal to the CPC and CEC for comment prior to submitting the purchase to the Board of Selectmen for approval (Board of Selectmen approval is required

for any LexHAB Purchase of a unit or land) in addition to complying with other guidelines agreed upon jointly with the CPC.

In the past LexHAB had committed to housing purchases prior to seeking funding from CPA funds. In its report to the 2010 Annual Town Meeting, this Committee noted that it instead favored an annual appropriation of CPC funds, placed under CPC's control, for use by LexHAB. The appropriated amount would be sufficient to fund LexHAB's anticipated purchase(s) of existing housing stock for the coming year. We also indicated we believed LexHAB should notify the community of its intent to purchase a property using CPA funds with sufficient time to reasonably allow finance committee members, Town Meeting members and others to give meaningful input to the CPC and Board of Selectmen prior to their decision to approve or disapprove the purchase.

Article 8(h) Buckman Tavern Historic Structures Report/Restoration Plans- \$65,000 – The Lexington Historical Society has requested this appropriation to restore Buckman Tavern so that it will be sound for future generations. Even though the Town has approved monies in the past to study the Tavern, a definitive study of its architectural and human history is needed before further work on the Tavern can commence. Dendrochronology, a dating method that uses the growth rings of long-lived trees as a calendar, is necessary to definitively date the various parts of the Tavern. This project will result in construction plans that would permit construction to occur during 2013.

Article 8(i) Historical Society – Historic Records Preservations - \$77,268 – The Lexington Historical Society (LHS) has requested these funds for this project due to the upcoming 300th anniversary of the Town of Lexington. The LHS is one of the main repositories of historic records in Lexington. The LHS is working with the Town Clerks office in anticipation of the Town's 300th anniversary on this project to conserve and digitize some of the most important historic records they have in their collections. The Town Clerk's office is providing the leadership to create a virtual records "portal" that would enable everyone to view the Town's historic documents. The LHS has also been working with Northeast Document Conservation Center on an evaluation of these documents. If funding is approved, this project will be completed by year-end of 2012, in time to incorporate the digitized records in the Town portal for the 300th anniversary celebrations scheduled for 2013.

Article 8(j) Greeley Village Accessible Housing Project - \$810,673 – The Lexington Housing Authority (LHA) has requested these funds to build four (4) one-bedroom handicap accessible units on the grounds of the Greeley Village (GV) complex. GV has one hundred one-bedroom apartments for low-income seniors and people with disabilities. The Commonwealth mandates that 5% of public housing units should be designed specifically for those who need special accommodations. There are currently no units within Lexington's public housing inventory that were built to meet these guidelines. The construction of these new units will help bring Lexington closer to these State mandated guidelines. As with all of the LHA units, those who live or work in Lexington would be given preference as tenants for these apartments.

Article 8(k) Busa Farm Debt Service - \$930,300 - The Busa Farm property was purchased for \$4,197,000 under Article 6 of the 2009 spring Special Town Meeting. A consensus among the Board of Selectmen and the Appropriation, Capital Expenditures and Community Preservation Committees yielded a decision to bond the entire purchase using a three-year bond with a high principal payment in the first year. This article appropriates money for the final debt payment.

Article 8(l) Cotton Farm Debt Service - \$1,000,000 - The Cotton Farm was purchased for \$3,800,000 under Article 9 of the 2010 Annual Town Meeting. Final negotiations resulted in the following funding plan; \$1,500,000 was paid at closing, and the seller would hold an interest free bond for the balance. The first bond payment of \$1,297,400, which was discounted by the seller from the original \$1,300,000 to allow the Town to absorb the short term interest payment, was paid to the seller on 1/11/11 using a Bond Anticipation Note (BAN) (at 0.7% interest). This note was paid on 7/1/11 using a \$500,000 LAND Grant (approved under Article 33 of the 2011 Annual Town Meeting) and CPA Trust Funds. This final payment of \$1,000,000 is due on 8/1/12.

Article 8(m). CPC Administrative Budget - \$150,000 - This year’s request of \$150,000 for administrative expenses is identical to the amount requested and appropriated in FY2011 and FY2012. The CPA statute permits the appropriation of up to 5% of the anticipated CPA revenue for the year, i.e., \$212,300 for FY2013, to be appropriated for administrative expenses to pay for staff salaries, mailings, public notices, overhead, legal fees, membership dues, and other miscellaneous expenses related to CPC projects. Any funds that are not expended close to the undesignated CPA account at the end of the fiscal year.

The requested funds are budgeted for 3 areas: 1) \$50,000 for staff salary and benefits, and general administrative expenses; 2) \$50,000 for the course of preparation for the possible purchase of two parcels, and includes funding due diligence, surveys and appraisals, of potential land purchases; and 3) sufficient funds for legal expenses for rulings on project eligibility, drafting conservation and deed restrictions, drafting grant agreements for historic and affordable housing projects, and interpreting court rulings on CPA issues.

The CPC’s FY2012 anticipated general administrative expenses, which include 3/5 of a staff member’s salary and benefits (this full-time employee is shared with other departments), dues for membership in the Community Preservation Coalition, CPA project signs and office supplies, totaled less than \$50,000. The potential land purchase expenses as of now, are \$8,800 and legal costs (for work done through January) were \$3,855.

The Committee recommends approval of this request except item 8(d) (9-0).

| | | | |
|--|------------------------|-----------------------|---------------------------------|
| Article 9: Land Purchase – Off Grove Street | Funds Requested | Funding Source | Committee Recommendation |
| | Unknown | CPA Debt | Pending |

This Article would allow the Town to purchase the Wright Farm or a portion of the Wright Farm. Please see the TMMA Warrant Information Report for background information, including a short description of the property and a map. As of publication, there was no agreement between the Town and the property owners, nor had the CPC made a recommendation to use CPA funds for this purpose. Until an agreement is completed and the CPC proposes an appropriation, the Committee can take no position on this Article.

The Committee has not taken a position on this request.

| | | | |
|---|------------------------|-----------------------|---------------------------------|
| Article 10: Land Purchase – Off Grove Street | Funds Requested | Funding Source | Committee Recommendation |
| | Unknown | GF Debt | Pending |

This Article is very similar to Article 9, except that it was inserted into the Warrant at the request of the Conservation Commission rather than the Community Preservation Committee. Please see the write up under Article 9.

The Committee has not taken a position on this request.

| Article 11: Appropriate for Recreation Capital Projects | Funds Requested | Funding Source | Committee Recommendation |
|--|---|---|---------------------------------|
| | \$46,000 + \$120,000 + \$65,000 + \$60,000 \$291,000 | Recreation EF GF GF GF | Approve (9-0) |

11(a) Pine Meadow Equipment – The Recreation Committee requests \$46,000 to purchase a Toro or Jacobsen Fairway mower to replace the existing 2003 Jacobsen 3400 mower. This machine is used three times a week to cut approximately 13 acres of fairway throughout the season. The existing mower is beyond its useful life of more than ten years. The Committee would like to purchase the mower in July after approval by Town Meeting and estimates that it will have to be replaced in seven years.

11(b) Park Improvements: Hardcourt Resurfacing – The Recreation Committee requests \$120,000 to institute and carry out a hard court resurfacing program. This will include resurfacing and painting the hard court surfaces at recreation facilities, including neighborhood basketball courts, the center track and the tennis courts at the center complex and the Clarke Middle School. The center track is made of all-weather resilient track surface that was installed in 1982. The track was resurfaced in 2000; however, it is beginning to show significant signs of wear. This is the last resurfacing that the track can undergo and should give it five to six years more of life before it needs to be totally reconstructed.

11(c) Park and Playground Improvements – The Recreation Committee requests \$65,000 to renovate the playground equipment at Adams Playground, located behind the Waldorf School on Massachusetts Avenue. The improvements will include construction of a new ADA compliant play structure for children ages 5 – 12, a new swing set and installation of appropriate safety surfacing under and around the playground structure and swings. The town will work with the Waldorf School to partner resources for the playground renovations. The Recreation Committee estimates this equipment will last 20 years. This is an annual improvement to parks and playgrounds. The Adams playground was installed in 1984. The structure is used by children in the east Lexington neighborhood, Waldorf students during recess and after school, and throughout the fall and spring by families of the young soccer players before, during, and after practices and games. Playgrounds need to comply with Consumer Product Safety Commission, American Society for Testing and Materials, and the Americans With Disability Act Standards and Guidelines.

11(d) Park Improvements: Athletic Fields – The Recreation Committee requests \$60,000 tax levy to install a new in-ground irrigation system at Garfield Park and add additional irrigation lines at the Clarke and Diamond School play fields. The Recreation Department and Public works Department oversee the maintenance of the school and town athletic facilities. The Town of Lexington athletic fields receive frequent use and irrigation improvements are critical to provide adequate and timely watering for the turf grass. Garfield Park will receive a new system for the baseball field area with a controller, timer, and rain sensors. Clarke and Diamond will have the irrigation systems added to the baseball and softball fields to provide complete coverage for the fields. This is an ongoing capital program to address safety and playability concerns in order to provide adequate, safe fields for youth, adult, recreation, and school programs. The Lexington athletic fields are constantly used by recreation, school, youth, and adult groups. They are in need of major repair that cannot be completed within the operating budget. The estimated life of this replacement work is ten years.

The Committee recommends approval of this request (9-0).

| | | | |
|---|----------------------------|------------------------------|-------------------------------------|
| Article 12: Appropriate for Municipal Capital Projects and Equipment | Funds Requested | Funding Source | Committee Recommendation |
| | \$4,786,586 | Free Cash GF Debt | Approve (9-0) |

The items in this request are briefly summarized below, prefaced by the amount requested for the item, the source of funds, and the page where the request is summarized in the Brown Book.

12(a) Public Safety Radio Connectivity – \$50,000 (Free Cash), XI-19: Consultant to reassess current needs, including redundant systems for Fire, Police, and Public Works Departments.

12(b) Hydrant Replacement Program – \$50,000 (Free Cash/Water RE), XI-17: Routine maintenance.

12(c) Street Improvements and Easements – \$1,956,193 (Tax Levy/Chapter 90), XI-17: Routine maintenance.

12(d) Townwide Culvert Replacement – \$390,000 (\$325,000 Compost RF, \$65,000 Free Cash), XI-13: Repair culverts under the access road to the Hartwell Avenue Compost Facility and design repairs for culverts at other locations (Valleyfield Road, Revere Street).

12(e) DPW Equipment Replacement – \$595,000 (\$85,390 Tax Levy, \$358,610 GF Debt, \$70,000 Free Cash, \$40,500 Water Debt, \$40,500 Wastewater Debt), XI-5: Equipment to be replaced: Three-yard rubber tire front end loader – Highway Division; Ford F450 truck with utility body, lift gate and plow – Water and Wastewater Divisions; Rack body truck with crane – Forestry Division; John Deere tractor with attachments – Park Division; Ford F450 truck with plow – Park Division.

12(f) Comprehensive Watershed Stormwater Management System – \$165,000 (\$65,000 GF Debt, \$100,000 Free Cash), XI-6: \$100,000 for the third of three studies (Mystic River Watershed) and \$65,000 for design of projects identified by previous studies (Charles River and Shawsheen Watersheds).

12(g) Dam Repair – \$260,000 (GF Debt), XI-5: Physical improvements to the Butterfield Dam (near the Middlesex Turnpike (Lowell Street) south of I 95/Route 128).

12(h) Storm Drainage Improvements and NPDES Compliance – \$340,000 (GF Debt) XI-5: \$70,000 for the design of projects needed to satisfy EPA requirements and \$270,000 for drainage system repairs.

12(i) Battle Green Area Master Plan – Parking, Traffic Calming and Safe Pedestrian Access Study – Phase 1: Conceptual Plan – \$60,000 (Free Cash), XI-17: Parking, traffic and crosswalk study near the Battle Green along Massachusetts Avenue and Bedford Street.

12(j) Townwide Signalization Improvements – \$125,000 (GF Debt) XI-6: Update traffic and pedestrian signals (intersection at Waltham Street & Worthen Road)

12(k) Sidewalk Improvements and Easements – \$300,000 (GF Debt), XI-6: Routine maintenance.

12(l) Concord Avenue Sidewalk Engineering and Easements – \$250,000 (TMSF) XI-19: Survey and design in preparation for building 1.1 miles of sidewalk between Spring Street and Waltham Street, which will be a roughly \$2,000,000 construction project.

12(m) Street Betterment Improvements and Easements – IP: There are no requests under this item.

12(n) Estabrook School – Off-site Street Engineering, Improvements and Easements – \$170,000 (Free Cash): Improve traffic flow near Estabrook School and improve alternate access onto the school site.

12(o) Center Business District Streetscape Engineering – \$240,000 (GF Debt), XI-7: Design to 25% level for a major upgrade of Center sidewalks and roadways, leading to an estimated \$4 million construction project starting in FY2014.

12(p) Telephone System Replacements Townwide – \$591,000 (GF Debt), XI-5: Multi-year program to convert telephone systems to “Voice over IP” (VoIP) as older systems reach their end of life.

12(q) Townwide Electronic Document Management System – \$145,000 (Free Cash), XI-19: Additional scanning to populate the electronic document database and funds for training and software customization.

The Committee recommends approval of this request (9-0).

| | | | |
|--|------------------------|------------------------|---------------------------------|
| Article 13: Appropriate for Water System Improvements | Funds Requested | Funding Source | Committee Recommendation |
| | \$900,000 | Water EF (Debt) | Approve (9-0) |

This Article addresses proposed capital expenditures to be made during FY2013 as part of a continuing program to upgrade and keep current the assets of the Water Enterprise Fund. For general background on the enterprise funds, and the relationship between the budget process and the water rate setting process, please see Appendix B and the discussion under Article 5.

A total of \$900,000 is requested this year to replace unlined or inadequate water mains and deteriorated service connections and to eliminate dead ends in water mains. The details of the projects, including the locations where work is expected to be done, can be found in the Brown Book (p. XI-10). Two additional requests for appropriations from the water fund will be made under Article 12 (Municipal Capital): \$25,000 from the water fund’s retained earnings will be requested under Article 12(b) to fund half the cost of an ongoing hydrant replacement program that is shared 50-50 with the general fund; and \$40,500 in water fund debt will be requested under Article 12(e) to cover half the cost to replace a pickup truck used by the water and sewer divisions that has reached its end of life.

The costs of this year’s system improvements will be funded entirely by borrowing, although part of the funding may come from MWRA grants or loans. The resulting debt service costs will be borne by the operating budget for the Water Enterprise Fund in FY2013 and in future years until the debt is retired (see Brown Book, p. XI-9, Table II), and will be included each year as a component of the water rates.

Capital appropriations for similar purposes have been made in most years (except for FY2006 and FY2012, when engineering studies were not ready), as illustrated in the table below. The goal is to keep the system current so the Town can assure dependable high water quality, pressure, and volume for domestic needs, commercial needs, and fire protection as well as minimization of water main breaks.

Water Capital Improvements History

| Fiscal Year | Purpose | Cash | Borrowing | Total |
|--------------------|--|-------------|------------------------|--------------|
| 2003 | Water Dist. Improvements | \$340,000 | \$560,000 | \$900,000 |
| 2004 | Water Dist. Improvements | \$400,000 | \$500,000 | \$900,000 |
| 2005 | Water Dist. Improvements | \$400,000 | \$450,000 | \$850,000 |
| 2006 | None | \$0 | \$0 | \$0 |
| 2007 | Water Dist. Improvements Water Meters | \$0 \$0 | \$900,000 \$250,000 | \$1,150,000 |
| 2008 | Water Dist. Improvements | \$0 | \$1,800,000 | \$1,800,000 |
| 2009 | Water Dist. Improvements | \$0 | \$1,800,000 | \$1,800,000 |
| 2010 | Water Dist. Improvements Equipment | \$0 \$0 | \$900,000 \$119,000 | \$1,019,000 |

APPROPRIATION COMMITTEE REPORT TO THE MARCH 2012 ATM & STM

| | | | | |
|-------------------------------------|--------------------------|-----|-----------|-------------|
| 2011 | Water Dist. Improvements | \$0 | \$900,000 | \$1,060,000 |
| | Water Tank Rehab | \$0 | \$160,000 | |
| 2012 | None | \$0 | \$0 | \$0 |
| 2013 <i>(recommended)</i> | Water Dist. Improvements | \$0 | \$900,000 | \$900,000 |

Prior to FY2006, as shown in the table above, capital expenditures for water distribution and related improvements were funded by a combination of enterprise fund cash capital, which was raised in the rates, and borrowing. Since then, there has been a transition to funding these ongoing improvements exclusively with debt. While the transition to debt financing in the enterprise funds mitigated the need for rate increases early on, that change, together with the fund's allocated contribution to the debt service for the new DPW facility, has steadily increased the annual debt service costs of the sewer enterprise fund, both in dollar and percentage terms, as illustrated below.

Growth in Water Fund Debt Service Costs

| Fiscal Year | Water Debt Service | Total Budget | Debt Service Ratio |
|--------------------|---------------------------|---------------------|---------------------------|
| 2006 | \$213,150 | \$6,237,235 | 3.4% |
| 2007 | \$358,301 | \$6,514,502 | 5.5% |
| 2008 | \$425,565 | \$6,469,388 | 6.6% |
| 2009 | \$757,247 | \$7,190,800 | 10.5% |
| 2010 | \$1,074,551 | \$7,241,304 | 14.8% |
| 2011 | \$1,137,075 | \$7,619,919 | 14.9% |
| 2012 | \$1,258,968 | \$8,039,413 | 15.7% |
| 2013 | \$1,299,091 | \$8,124,846 | 16.0% |

Recent borrowings, including the water fund's 17% contribution to the financing of the new DPW facility, have tripled the annual debt service costs since FY2008 to a level that represents a significant portion of the overall Water Enterprise Fund operating budget. Future borrowings for water distribution improvements will continue to increase the annual debt service costs of the Water Enterprise Fund until a new equilibrium between issuance and retirement of debt is reached. As noted in the discussion of Article 5, judicious use of some of the fund's accumulated retained earnings could help defray the impact of these growing capital costs and help to maintain long-term rate stability.

The Committee notes that the cost of acquiring a new F450 pickup truck for use by the water and sewer divisions of the DPW, a total of \$81,000, will be borne equally by debt of the water and sewer enterprise funds. The cost of a plow setup for this truck, however, will be funded by general fund debt, presumably because it is expected that the truck will be used at least some of the time during winter months to plow town streets and roads. See Brown Book, pp. XI-5, XI-10. If part of the intended use of the truck is for non-enterprise fund operations, some consideration should be given to sharing the cost of the truck itself with the general fund, if not through a sharing of the acquisition costs, at least through an offset to indirect costs charged by the general fund to the enterprise fund in the operating budget.

The Committee recommends approval of this request (9-0).

| | | | |
|---|------------------------|-----------------------------|---------------------------------|
| Article 14: Appropriate for Wastewater System Improvements | Funds Requested | Funding Source | Committee Recommendation |
| | \$1,340,500 | Wastewater EF (debt) | Approve (9-0) |

This Article addresses proposed capital expenditures to be made during FY2013 as part of a continuing program to upgrade and keep current the assets of the Wastewater Enterprise Fund. For general background on the Enterprise Funds, and the relationship between the budget process and the water rate-setting process, please see Appendix B and the discussion under Article 5.

A total of \$1,300,000 is requested this year: \$1,200,000 as part of a multi-year plan to rehabilitate sanitary sewer infrastructure, particularly in remote areas, including brook channels, where poor soil conditions lead to storm water infiltration; and \$100,000 as part of an ongoing program to upgrade Lexington’s ten sewer pumping stations. The details of the projects, including the locations where work is expected to be done, can be found in the Brown Book (p. XI-10-11). An additional appropriation of \$40,500 in wastewater fund debt will be requested under Article 12(3) (Municipal Capital) to cover half the cost to replace a pickup truck used by the water and sewer divisions that has reached its end of life.

All of the system improvements will be funded entirely by borrowing, although part of the funding may come from MWRA grants or loans. The resulting debt service costs will be borne by the operating budgets for the Wastewater Enterprise Fund in FY2013 and in future years until the debt is retired (see Brown Book, p. XI-9, Table III), and will be included each year as a component of the sewer rates.

Capital appropriations for similar purposes have been made in most years (except for FY2006, when engineering studies were not ready, and FY2011, when only pump station upgrades were performed), as illustrated in the table below.

Wastewater Capital Improvements History

| Fiscal Year | Purpose | Cash | Borrowing | Total |
|--------------------|------------------------------------|-------------|--------------------------|------------------|
| 2003 | Storm Sewer Improvements | \$100,000 | \$0 | \$100,000 |
| 2004 | San./Storm Sewer Improvements | \$225,000 | \$0 | \$225,000 |
| 2005 | San./Storm Sewer Improvements | \$750,000 | \$0 | \$750,000 |
| 2006 | None | \$0 | \$0 | \$0 |
| 2007 | Sewer Improvements Water Meters | \$0 \$0 | \$300,000 \$250,000 | \$0 \$550,000 |
| 2008 | Sewer Improvements | \$0 | \$1,300,000 | \$1,300,000 |
| 2009 | Sewer Improvements | \$0 | \$1,300,000 | \$1,300,000 |
| 2010 | Sewer Improvements Equipment | \$0 \$0 | \$1,300,000 \$263,000 | \$1,563,000 |
| 2011 | Pump Station Upgrades | \$0 | \$100,000 | \$100,000 |
| 2012 | Sewer Improvements | \$300,000 | \$1,000,000 | \$1,300,000 |
| 2013 (rec) | Sewer Improvements | \$0 | \$1,300,000 | \$1,300,000 |

Prior to FY2007, as shown in the table above, capital expenditures for sewer distribution improvements were funded primarily by enterprise-fund cash capital. Since then, there has been a transition to funding these ongoing improvements primarily with debt. While the transition to debt financing in the enterprise funds mitigated the need for rate increases early on, that change, together with the fund’s allocated contribution to the debt service for the new DPW facility, has steadily increased the annual debt-service costs of the sewer enterprise fund, both in dollar and percentage terms, as illustrated below.

Growth in Wastewater Fund Debt Service

| Fiscal Year | Sewer Debt Service | Total Budget | Debt Service Ratio |
|--------------------|---------------------------|---------------------|---------------------------|
| 2006 | \$275,950 | \$7,084,802 | 3.9% |
| 2007 | \$333,899 | \$7,440,920 | 4.5% |
| 2008 | \$439,792 | \$7,355,479 | 6.0% |
| 2009 | \$488,135 | \$7,643,649 | 6.4% |
| 2010 | \$575,357 | \$8,083,478 | 7.1% |
| 2011 | \$791,777 | \$8,315,556 | 9.5% |
| 2012 | \$879,713 | \$8,934,624 | 9.8% |
| 2013 | \$956,855 | \$9,282,077 | 10.3% |

This phenomenon of steadily increasing debt service costs is likely to result in growing pressure on the sewer rates until a new equilibrium is reached and the amount of debt retired each year more closely balances the level of new debt incurred. For this reason, the Committee continues to advocate that retained earnings, where available, be appropriated for capital projects, which will help to generate long-term rate stability and not merely short-term rate relief.

The Committee notes that the cost of acquiring a new F450 pickup truck for use by the water and sewer division of the DPW, a total of \$81,000, will be borne equally by debt of the water and sewer enterprise funds. The cost of a plow setup for this truck, however, will be funded by general fund debt, presumably because it is expected that the truck will be used at least some of the time during winter months to plow town streets and roads. See Brown Book, pp. XI-5, XI-11. If part of the intended use of the truck is for non-enterprise fund operations, some consideration should be given to sharing the cost of the truck itself with the general fund, if not through a sharing of the acquisition costs, at least through an offset to indirect costs charged by the general fund to the enterprise fund in the operating budget.

The Committee recommends approval of this request (9-0).

| Article 15: Appropriate for School Capital Projects and Equipment | Funds Requested | Funding Source | Committee Recommendation |
|--|--|---|---------------------------------|
| | \$833,676 + \$168,324 + \$83,000 1,085,000 | GF Debt Tax Levy GF Debt | Approve (9-0) |

A more detailed description of these requests, approved by the School Committee and submitted for Town Meeting approval, can be found in the Budget (Brown) Book Section XI (Capital) (School Projects, pages XI-9). Additionally, the TMMA Warrant Information Report contains a comprehensive review of Article 15.

15(a) Systemwide Technology is a request for funds to support the Lexington Public School’s Strategic Goal of enhancing the capacity to utilize technology as an instructional and administrative tool. The funds are for replacement of the oldest desktops and laptops; increasing the number of student workstations at the High School and middle schools to meet instructional needs in general education and special education classrooms; replacement of printers and peripherals; maintaining and updating the LPS local area networks; installing a managed wireless network in two elementary schools and providing interactive whiteboards with integrated projection systems in sixty-five of the Grade 3-12 classrooms.

15(b) Classroom and Administrative Furniture is an annual request for replacement of furniture that has reached the end of its useful life, particularly in buildings that have not been renovated and need to have classroom furnishings replaced.

Two school capital items that were part of the initial FY2013 budget proposal will be completed with FY2012 available funds, and thus are no longer part of this request. Those two requests are:

- Hearing Impaired Student Services – Assessment of Needed Room Modifications (\$40,000)
- Diamond Intensive Learning Programs – Modification of Existing Classrooms (\$32,685)

The Committee recommends approval of this request (9-0).

| | | | |
|---|------------------------|------------------------------|---|
| Article 16: Appropriate for Public Facilities Capital Projects | Funds Requested | Funding Source | Committee Recommendation |
| | \$2,200,711 | GF Debt Free Cash | Approve (9-0) [except 16(e)] |

The requests in this article are covered in detail below.

| Description | Funds Requested | Funding Source |
|--|---------------------------------------|-----------------------|
| 16(a) School Building Envelope and Systems | \$215,000 | Free cash |
| 16(b) Middle Schools Science Labs and Performing Art Spaces – Evaluation | \$35,000 | Free cash |
| 16(c) Diamond Middle School Energy Improvements | \$25,000 | Free cash |
| 16(d) Municipal Building Envelope and Systems | \$169,711 | Free cash |
| 16(e) White House Stabilization (<i>see discussion below</i>) | \$0 | N/A |
| 16(f) Extraordinary School Repair Projects (<i>see details below</i>) | \$322,315 + \$287,685 \$610,000 | Free cash GF Debt |
| 16(g) Department of Public Facilities Bid Documents | \$75,000 | Free cash |
| 16(h) Hastings School Natural Gas Conversion | \$65,000 | Free cash |
| 16(i) Townwide Facility Master Plan | \$80,000 | Free cash |
| 16(j) Grounds Vehicle Replacement | \$80,000 | GF debt |
| 16(k) Lexington High School Overcrowding Phase II Renovations | \$400,000 | GF debt |
| 16(l) School Paving Program | \$100,000 | GF debt |

Article 16(f): Extraordinary school repair projects

| Description | Funds Requested |
|---|------------------------|
| School building flooring program | \$125,000 |
| School window treatments | \$50,000 |
| School locker replacement program | \$150,000 |
| Hastings Elementary School improvements | \$87,000 |

| Description | Funds Requested |
|--|-----------------|
| Clarke gymnasium storage area | \$28,000 |
| Convert space for Pre-K occupational therapy | \$60,000 |
| Convert computer lab to classroom - Fiske | \$60,000 |
| Sound proofing classrooms for hearing impaired – Diamond | \$50,000 |

16(a) School Building Envelope and Systems involves performing annual prioritized design, repairs and modifications to prevent deterioration of school building exteriors and building systems. This includes repair of damaged panels and siding, re-caulking and weatherproofing windows and doors, repainting the wood exterior, and extraordinary repairs to mechanical systems. FY2013 priorities will include repairing the exterior of Diamond, particularly its spalled concrete roofline, construction of a loading dock at the Central Office building, and costs of making space modifications because of enrollment changes. Engineering design and preparation of bid documents are included in the request for funding. Small, individual items will continue to be funded through the operating budget.

16(b) Middle Schools Science Labs and Performing Art Spaces – Evaluation is for funding to evaluate the adequacy of existing science laboratories, performing arts spaces and associated systems and equipment to meet programmatic needs and make recommendations for enhancements to meet those needs. The middles schools were renovated 10 years ago, and school administrators are concerned these spaces longer adequately support the programs.

16(c) Diamond Middle School Energy Improvements requests funds to perform an in-depth energy audit of major mechanical systems that will result in a Mechanical Master Plan anticipated to be implemented over a five-year period. Diamond is second to the High School with the highest energy use per square foot. Previously, the Massachusetts Department of Energy Resources and National GRID have conducted low cost energy audits, without realizing identifiable projects to improve efficiencies.

16(d) Municipal Building Envelope and Systems is an ongoing capital request that includes design and construction repair/replacement projects for the maintenance and upgrade of municipal buildings and systems. Repairs to roofs, windows, mechanical and electrical systems, and interior finishes are required on a continual basis to maintain town facilities for their intended function. The projects within this program do not increase the size of the public building stock and therefore do not result in increased utility usage or maintenance costs. Projects already identified for FY2013 include the replacement of Cary Library sidewalks and the addition of ventilation to the Cary Library chiller for improved servicing and maintenance.

16(e) White House Stabilization – We anticipate that the Board of Selectmen will move to indefinitely postpone item 16(e), but that the Capital Expenditures Committee may offer a substitute motion to fund the work for \$381,000 as originally requested by the DPF. The amount would cover \$148,590 for a partial demolition and \$232,410 for stabilization of the remaining structure. The Committee has not reached a consensus on a recommended plan for the White House, but our position is that we do not favor appropriating any funds for the stabilization of the White House until there is a clear plan for its future use.

The Committee supports indefinite postponement of 16(e) by a vote of 6-3, and would recommend disapproval of a request for \$381,000 by a vote of 2-7.

16(f) Extraordinary School Repair Projects include out of the ordinary projects that address specific needs within the schools, including measures that improve current physical and learning environments and enhance pace utilization.

16(g) Department of Public Facilities Bid Documents is for funds for professional services to produce design development, construction documents, and/or bid administration services for smaller school projects in anticipation of requests for construction funding at town meeting that have a high probability of approval. Approving funds for related bid documents will ensure approved projects are completed in the upcoming short construction season, between the end of school in June 2012 and the beginning of school in August 2012.

16(h) Hastings School Natural Gas Conversion is for funding to convert the boiler at the Hastings School from oil to natural gas and to remove the existing buried oil tank. This conversion is projected to save an estimated \$9,400 and perhaps as much as \$20,000 per year in fuel costs, considering the current low price of natural gas.

16(i) Townwide Facility Master Plan is for funds for consulting services to assist the Board of Selectmen in developing a Town Wide Facility Master Plan. The selected consultant would help the Town develop an integrated Facilities Master Plan taking into consideration the recommendations from individual facility studies conducted over the last three years; the priorities of the Town; the need for efficient sequencing of projects to take advantage of available swing space; the relocation of services to improve adjacencies; and the financial capacity for the Town to implement the projects. Individual facilities with already completed studies include

Fire Headquarters, Police Headquarters, Human Services, the Stone Building, the White House, Town Office Building and Cary Memorial Building. These studies provide recommendations for facility renovations and/or replacements to meet departmental needs and/or to preserve Town assets.

16(j) Grounds Vehicle Replacement is to fund the replacement of one of two existing vehicles used to maintain the grounds around school buildings and transport items among the schools. The vehicles are beyond their useful lives and require increasingly expensive repairs that result in excessive downtime affecting operations. It is proposed to replace the 2000 GMC Sierra in FY2013 and a request will be made for FY2014 to replace the 2000 Chevy GMT400. The vehicles will be replaced with Ford F350 4x4 trucks equipped with plows, spreaders, lift gates, and heavy-duty platform bodies with stake sides.

16(k) Lexington High School Overcrowding Phase II Renovations follows up on the \$175,000 of funding authorized at the 2011 Annual Town Meeting for design services and renovation costs to improve space utilization at LHS and reduce overcrowding, where feasible. Phase II will consolidate information technology staff at the central office and return LHS space to educational use which will require additional classrooms in 2012-2013. Four additional classrooms will be created from existing space at the High School.

16(l) School Paving Program is for funds for design and construction to maintain school parking and paved pedestrian surfaces in a condition suitable for public use. Funds will focus primarily on repaving needs due to heavy loads at the Harrington school.

All of these items are detailed in the FY2013 *Recommended Budget & Financing Plan* (the “Brown Book”), Section XI. Capital.

The Committee recommends approval of this request except item 16(e) (9-0).

| Article 17: School Bus Transportation Subsidy (Citizen Article) | Funds Requested | Funding Source | Committee Recommendation |
|--|----------------------------|---------------------------|-------------------------------------|
| | \$316,250 | GF | Approve (5-4) |

This article seeks to increase bus ridership and reduce the use of private vehicles for daily transportation of students to school by decreasing per-rider fees for the school bus transportation system. Recent surveys of parents of Lexington students have found that fees are the primary reason students are not registered to

ride the bus. In FY2012 the per-rider fee is \$550⁸ and about 31% of enrolled students use the school bus. This contrasts to FY2002 when the per-rider fee was \$200 and 40% of enrolled students rode the bus.

This article would set aside funds intended to reduce the per-rider fee to an amount no lower than \$300. The amount requested is based on providing up to a \$250 subsidy for each of the existing 1,265 full-fee riders. The actual funds needed to achieve this goal will depend on the popularity of the program. As more students elect to ride the bus, more rider fees are collected to defray the costs of operating buses. As long as the increase in ridership does not trigger a need for additional buses the subsidy amount needed decreases with each additional rider.

The total cost to the Town, however, could increase beyond the proposed subsidy as a result of this initiative. Any program designed to increase bus ridership will eventually increase costs due to the need for a larger bus fleet. Projecting these costs depends on how increases in ridership are distributed across the student population. Elementary school buses are currently nearest to full utilization but are below 80% of capacity. Increases in ridership in that group would most quickly require additional buses, but would be largely offset by fees collected from new riders. High school bus usage is sparse and could accommodate a substantial increase in ridership before additional buses were needed. Absent any request for a Reserve Fund transfer, the added costs of a larger bus fleet would be borne within the school budget.

The committee acknowledges the value of increasing bus ridership and reducing the number of automobiles transporting students to and from school. Benefits would include improved traffic flow near schools during rush hour, a safer environment for students walking or biking to school, as well as reduced fuel consumption and automobile emissions.

It is difficult to predict how effective this fee-reduction initiative will be. The only data we have at the moment are the Town's experience with declining bus ridership from 2002 to 2012 as the bus fee escalated, and the recent survey feedback from parents. High fees are cited as the primary reason parents do not avail themselves of the bus, but other factors such as convenience, work and school activity schedules, and even discipline on the buses factor into the decision about using the school bus.

The separate plan to reduce fees by 50% for Estabrook students during the new school construction project, as explained under Article 4, may provide some insight into price sensitivity, but that information would not be available until later this year. Using the Estabrook experience as an experiment is also problematic because the ongoing construction may strongly influence decisions to use the bus, which would obscure the impact of lower pricing.

While the committee is unanimous in its desire to see an increase in bus ridership, opinions ranged broadly as to the best way to accomplish the goal. Some felt the fee should be set even lower or eliminated, others felt that a program that includes charging a fee for automobile access to the schools may be a better and more equitable approach to reducing traffic. Some members of the committee are also concerned about funding the reduction of bus fees through the municipal budget. For a long-term program, the committee would prefer the complete costs of school transportation, including the cost of any fee reductions to remain in the school department budget and continue to be managed by the School Committee.

The vote on this recommendation illustrates some unresolved concerns within our Committee. It also reflects a willingness among some members to perform a meaningful experiment in the coming year that will inform future policy discussions, and hopefully reduce the car traffic at our schools immediately.

The Committee recommends approval of this request (5-4).

⁸ The per-rider fee rises to \$600 if paid after July 1. The pre-July 1 price is used for comparison in this discussion. Families are only required to pay up to \$1600 for bus transportation each year.

| | | | |
|--|------------------------|-----------------------|---------------------------------|
| Article 18: Appropriate to Post Employment Insurance Liability Fund | Funds Requested | Funding Source | Committee Recommendation |
| | \$500,000 | Free Cash | Approve (9-0) |

The Town of Lexington is required by State law to provide health benefits to retired employees that are comparable to those provided for active employees. Much of the cost of retiree health insurance is borne by Medicare, but the Town must provide supplementary coverage and coverage for retired employees not on Medicare. Since the Town is obligated to provide this benefit on an ongoing basis, the cost that will be incurred over the lifetimes of the current and future retirees represents a liability. The actuarial value of this liability must be included in the Town’s financial statements and is in the hundreds of millions of dollars. In FY2013 the Town will pay upwards of \$6,000,000 for current year retiree health benefits costs. This payment will retire part of the liability that is presently on the books, but, over the course of FY2013, the liability will grow because additional employees will earn rights to receive retirement benefits. The general escalation of health care costs makes it almost certain that the net effect will be an increase in the actuarial value of the liability.

While the Town has a legal obligation to provide health benefits to present retirees, it has no legal obligation to fund any future liability, i.e., to set aside funds for the specific purpose of covering the costs of the future obligations and thereby assuring its ability to satisfy them. Nonetheless, the Town has taken modest steps toward that goal. A Post Employment Insurance Liability (PEIL) Fund was created in 2007 and, in each of the last four years (FY2009-2012), Town Meeting has approved an appropriation into the Fund. In FYs 2009, 2010, and 2011 the appropriation involved a portion of Free Cash that approximated the previous year’s reimbursement from the federal government for the prescription drug coverage the Town provides to retirees in lieu of Medicare Part D coverage. These reimbursements go into the General Fund and become part of the following year’s Free Cash balance. In FY2012, the appropriation was rounded up to \$500,000. The balance in the PEIL Fund is now about \$2,034,000. The Town received approximately \$395,000 in Medicare Part D reimbursements in FY2011. The proposal under this article is to appropriate \$500,000 from Free Cash to the PEIL Fund.

Below, we attempt to frame some issues regarding the PEIL Fund.

There are at least four points in favor of funding the liability. First, any monies in the PEIL Fund provide assurance that the Town will be able to satisfy some portion of its future liability. Bond rating agencies look favorably upon this, although it is unclear how large an amount or, if in fact, any amount is necessary to maintain a AAA bond rating. Second, we recognize that building up a liability is equivalent to borrowing, and that reduction of future liabilities or, equivalently, funding them by putting aside reserves, is important to moving toward a truly balanced budget and maintaining future fiscal strength. Third, the balance in the Fund is invested and earns income, which could serve as a partial hedge against future increases in health insurance costs and inflation. Fourth, the Fund could be used as a reserve, e.g., to fund present retiree health costs in a particularly challenging fiscal year.

However, money invested in the PEIL Fund will be unavailable for other uses and this represents an opportunity cost to the Town. One may ask whether funding the PEIL should take priority over other liabilities such as the anticipated costs of maintaining or replacing roads and buildings in a timely manner. Choosing the latter might generate significant future savings.

Even if the liability is fully funded some day, the Town would still need to make substantial annual appropriations for retiree health benefits.

Finally, no plan to appropriate monies from the PEIL Fund has been put forward as yet.

The Committee recommends approval of this request (9-0).

| | | | |
|--|------------------------|-----------------------|---------------------------------|
| Article 19: Rescind Prior Borrowing Authorization | Funds Requested | Funding Source | Committee Recommendation |
| | None | N/A | Approve (9-0) |

Town staff recommends the following bond authorization rescissions based on confirmation from the project managers that the projects are completed and no additional funds need to be borrowed:

| Town Meeting | Article | Project | Manager | Amount |
|--------------|---------|--|-------------|----------|
| 2009 ATM | 11(l) | Fire Department Headquarters Renovation and Presentation Study | Pat Goddard | \$19,164 |
| 2010 ATM | 16(b) | Clarke Middle School Auditorium Safety and Technology Update | Pat Goddard | \$15,790 |
| 2010 ATM | 12(d) | DPW Equipment | Bill Hadley | \$3,375 |
| 2011 ATM | 13(g) | Hastings School Playground Expansion | Pat Goddard | \$8,146 |

The total of all the recommended rescissions is \$46,475.

The Committee recommends approval of this request (9-0).

| | | | |
|--|------------------------|-----------------------|---------------------------------|
| Article 20: Authorize the Establishment of a Minuteman Stabilization Fund | Funds Requested | Funding Source | Committee Recommendation |
| | None | N/A | IP |

The Minuteman Regional High School must gain approval from all of its district member towns in order to establish this Stabilization Fund. Lexington has already granted its approval under Article 27 of the 2009 Annual Town Meeting and no further action is required by the Town.

The Committee anticipates the indefinite postponement of this request.

| | | | |
|---|------------------------|-----------------------|---------------------------------|
| Article 21: Establish and Appropriate to Specified Stabilization Funds | Funds Requested | Funding Source | Committee Recommendation |
| | See Below | See Below | Approve (9-0) |

This Article is routinely included on the Warrant to give Town Meeting the opportunity to appropriate money into stabilization funds created for specified purposes. These appropriations are not expenditures, but rather transfers of funds that Town has been holding temporarily into the proper accounts.

The State statute authorizing towns to create and maintain a stabilization fund (G.L. c. 40, § 5B) was amended in 2003 to permit the creation of multiple, separate stabilization funds for specified purposes.

Creating these funds, altering their specified purpose, and appropriating into or out of them, requires a two-thirds vote of Town Meeting. Lexington first specified stabilization funds were established at the 2007 Annual Town Meeting. A history and description of these funds can be found in Appendix E.

This article requests Town Meeting to appropriate funds received from developer payments and other sources into the town's specified stabilization funds.

Status of Funds and Appropriation Requests

The current balance of each fund, the amount currently available for appropriation into each fund, and the amounts proposed to be withdrawn from each fund, are as follows:

| Specified Stabilization Fund | Current Balance | Deposit (this Article) | Withdraw (other Articles) |
|---|------------------------|-----------------------------------|--------------------------------------|
| Avalon Bay School Enrollment Mitigation S.F. | \$547,693.35 | \$0 | \$250,000 |
| Center Improvement District S.F. | \$85,875.28 | \$0 | \$0 |
| School Bus Transportation S.F. | \$17.66 | \$0 | \$0 |
| Section 135 Zoning S.F. | \$0 | \$0 | \$0 |
| Special Education S.F. | \$1,065,807.58 | \$0 | \$0 |
| Traffic Mitigation S.F. | \$346,420.74 | \$0 | \$250,000 |
| Transportation Demand Management / Public Transportation S.F. | \$297,530.03 | \$87,572 | \$85,160 |
| Transportation Management Overlay District S.F. | \$10,695.26 | \$0 | \$0 |

Avalon Bay School Enrollment Mitigation S.F.: An appropriation of \$250,000 from this fund for the school budget is requested under Article 4.

Traffic Mitigation S.F.: Article 12 requests \$250,000 to be appropriated for a survey and design for sidewalks along Concord Avenue.

Transportation Demand Management/Public Transportation S.F.: A total of \$87,572 is available to appropriate into the fund using payments received from Cubist Pharmaceuticals (\$25,000), Shire Pharmaceuticals (\$22,322) and Avalon Bay (\$40,250). An appropriation of \$85,160 from the fund is requested under Article 4 to support the Transportation Fund (including the operation of Lexpress).

The Committee recommends approval of this request (9-0).

| Article 22: Appropriate to Stabilization Fund | Funds Requested | Funding Source | Committee Recommendation |
|--|------------------------|-----------------------|---------------------------------|
| | None | N/A | IP |

As of publication the Selectmen had made no recommendation for appropriation to the Stabilization Fund. We support this decision as a part of the recommended budget and therefore we support the anticipated indefinite postponement of this article. A fund history can be found in the “*Brown Book*“ *FY2013 Recommended Budget & Financing Plan* pg. C-5.

The Committee anticipates the indefinite postponement of this request.

| Article 23: Appropriate from Debt Service Stabilization Fund | Funds Requested | Funding Source | Committee Recommendation |
|---|------------------------|-----------------------|---------------------------------|
| | \$124,057 | DSSF | Approve (9-0) |

The 2009 Annual Town meeting voted to establish a new specified stabilization fund under G.L. c. 40 Section 5b called the *Debt Service Stabilization Fund* (DSSF). The purpose of the fund is to provide a

vehicle to allow the Town to invest bond proceeds beyond the one-year arbitrage limit that would otherwise apply.

An initial appropriation of \$1,739,894 was approved at the 2009 Annual Town Meeting with funds remaining from a set-aside in FY2007 when the monies were initially received. In August 2006, the Town received reimbursement of approximately \$14 million from the Massachusetts School Building Authority for construction projects completed at Clarke and Diamond Middle Schools and Lexington High School. The funds were in excess of the amount necessary to repay a note that was due and were set aside as reimbursement for the exempt costs of the High School project per a directive from the Massachusetts Department of Revenue. The balance (\$1,499,107) is to be drawn down over the life of the bond related to the High School construction project, payable through 2023.

This article requests that \$124,057 be appropriated from the Debt Service Stabilization Fund to offset the debt service in fiscal year 2013 for this same High School construction project.

The Committee recommends approval of this request (9-0).

| Article 24: Appropriate for Prior Years' Unpaid Bills | Funds Requested | Funding Source | Committee Recommendation |
|--|------------------------|-----------------------|---------------------------------|
| | Unknown | Unknown | Pending |

The Committee has not been informed of any need to take action under this Article, but consideration of the Article is normally deferred until the end of Town Meeting to allow for the possibility of a motion if it is deemed necessary.

The Committee has taken no position on this request.

| Article 25: Amend FY2012 Operating and Enterprise Budgets | Funds Requested | Funding Source | Committee Recommendation |
|--|------------------------|-----------------------|---------------------------------|
| | Unknown | Unknown | Pending |

Town staff has informed the Committee to expect a motion under this Article, but no further details were available at the time of publication. Consideration of this Article, which is included in every Annual Town Meeting Warrant, is normally deferred until the end of Town Meeting to allow Town staff to coordinate the final adjustments to the prior year's budget into a single motion. The Committee will report further on this article if the Town staff recommends any changes to the FY2012 operating or enterprise budgets.

The Committee has taken no position on this request.

| Article 26: Appropriate for Authorized Capital Improvements | Funds Requested | Funding Source | Committee Recommendation |
|--|------------------------|-----------------------------|---------------------------------|
| | \$200,000 | Insurance Settlement | Approve (9-0) |

The Town received an insurance settlement in the amount of \$200,000 for a claim against the original design firm for the Samuel Hadley Public Services Building. The claim was regarding problems with the wash bay in the building. This request would allow the Town to apply these funds to correct the problems

with the wash bay. State law requires the Town to submit any insurance settlement funds in excess of \$20,000 for appropriation at Town Meeting.

Additional funds will be required to complete this task, along with other betterments to the wash bay requested by the DPF. These additional funds (estimated to be no more than \$100,000) will come from the unspent balance of the previous appropriations for the construction of the building. These funds do not require appropriation by Town Meeting.

The Committee recommends approval of this request (9-0).

| | | | |
|--|------------------------|-----------------------|---------------------------------|
| Article 27: Establish Qualifications for Tax Deferrals and Exemptions | Funds Requested | Funding Source | Committee Recommendation |
| | None | N/A | IP |

The Committee anticipates the indefinite postponement of this request.

| | | | |
|---|------------------------|-----------------------|---------------------------------|
| Article 28: Accept MGL Chapter 200A Section 9A | Funds Requested | Funding Source | Committee Recommendation |
| | None | N/A | Approve (9-0) |

This article proposes that the Town accept the provisions of M.G.L. c. 200A, § 9A as amended by the Municipal Relief Act of 2010. Acceptance of this statute would allow the Town to adopt a more streamlined procedure than was previously available for resolving claims to abandoned funds resulting from the failure of third parties to cash Town checks, and more quickly to regain the use of those funds if no valid claim is presented.

In 1950, the legislature enacted the Massachusetts Abandoned Property Act, M.G.L. c. 200A, §1 et seq. (the “Act”). The purpose of the Act is to protect the interests of the rightful owners of abandoned property if and when they appear, and to provide additional revenue to the Commonwealth if they do not. The Act broadly defines “abandoned property” to include bequeathed property, bank deposits, dividends, insurance proceeds, security deposits, gift certificates – and all manner of other property, both tangible and intangible – held for the benefit of another and not claimed within a specified period of time. Persons or entities holding such “abandoned property” are required to file an annual report with the state treasurer, and to turn over all property listed in the report. They also must notify “apparent owners” of unclaimed property valued over \$100 how to make a claim to the state for the funds. The state treasurer holds the property that is turned over in a fund for payment to future claimants (there is no statute of limitations), and whenever the amount in the fund exceeds \$500,000, transfers the excess to the state’s treasury for public use.

In 1983, the Supreme Judicial Court ruled that uncashed checks were “intangible personal property” within the meaning of Section 5 of the Act; that the obligation represented by such checks must be deemed “held” by the issuer for the benefit of the payee; and that the issuer must presume abandoned, and report and turn over to the state treasurer, the amounts represented by any such checks not cashed within the time limit specified by section 5 (currently three years).⁹

⁹*Treasurer and Receiver General v. John Hancock Mutual Life Insurance Co.*, 388 Mass. 410 (1983). This obligation was found to exist notwithstanding that a bank has no obligation to pay any check presented more than six months after its date, which is considered a “stale” check, although “it may charge its customer’s account for a payment made thereafter in good faith.” MGL c. 106, § 4-404. In effect, therefore, the Act gives the State rights in an uncashed, stale check superior to those of the payee.

In 1987, apparently in response to this ruling, the legislature added a new Section 9A to the Act exempting cities and towns from any obligation to report and turn over funds resulting from uncashed checks to the state treasurer if they elected to follow an alternative claims procedure. Under the original version of Section 9A, towns could comply with the Act by notifying the “apparent owner,” by first class mail *and* conspicuous posting on the town’s web site, of the existence of uncashed checks “deemed abandoned under section 5,” and the procedure for claiming the funds. If no response was received within 60 days, the town treasurer could then immediately credit checks under \$100 back to the general treasury of the town. For checks over \$100, the town treasurer was required to follow up with a newspaper notice and wait for an additional year before crediting the funds back to the town treasury.

The New Section 9A

In 2010, as part of the Municipal Relief Act, the legislature amended section 9A to allow cities and towns to adopt, by local option, a new and different “alternative procedure” for recovering funds represented by uncashed checks instead of turning them over to the state.

Under the new version of Section 9A, a town treasurer may presume checks issued by the town to be abandoned if not cashed within one year (instead of three years) as long as the check bears upon its face the statement “void if not cashed within 1 year from date of issue.” The treasurer may then cause the bank to stop payment on such checks but must notify apparent owners, *either* by mail *or* by posting a notice on the town’s web site, of the existence of such checks and “the appropriate method for claiming the funds.” If no response to the initial notice is received within 60 days, the treasurer must then provide notice by newspaper publication with a new deadline (unspecified). If there is still no response, and the check is for an amount over \$100, the treasurer must follow up with a second newspaper publication setting forth an extended deadline of at least an additional year from the date of publication to claim the funds. If no valid claim has been made before all applicable deadlines have passed, the treasurer may then credit the funds back to the town treasury.

The amended version of Section 9A does not just allow towns to regain the use of unclaimed funds. In a departure from the previous practice, the amended version of Section 9A provides that once the applicable claim deadlines have elapsed, the town’s obligation “for the underlying liability for which the funds were originally intended” is extinguished and deemed to “escheat” back to the town.

Consequences of Non-Acceptance

Acceptance of the amended version of Section 9A will allow the Town periodically to initiate a process to recover and re-credit to the General Fund the amounts of checks that have not been cashed within one year, i.e., two years earlier than heretofore allowed. If no valid claims are made within a year or so of the commencement of the process, or a considerably shorter period of time in the case of checks under \$100, the obligation will be extinguished, the funds will escheat to the Town, and they can then be redirected for any purpose. This will allow for a more prompt cleanup of old and unclaimed payables.

Because of an apparent drafting glitch in the amending legislation, *failure* to accept the amended version of Section 9A could present a problem. The legislature presumably intended in this portion of the Municipal Relief Act of 2010 to give cities and towns the option to speed up the recovery of uncashed checks, in default of which the procedures in place since 1987 would continue to apply. However, because the amended version of Section 9A supersedes the prior version in its entirety, the 1987 process is no longer available. Unless Town Meeting votes to accept the amended version, therefore, the Town will no longer be able to reclaim its own uncashed checks and will be obligated instead to report and turn them over annually to the state.

The Committee recommends approval of this request (9-0).

Appendix A: 3-Year Budget Projection

This projection can help us understand the challenges that Lexington will face if, e.g., revenues do not keep pace with expenses in a “level service” budget. The projection is also an opportunity to obtain a better qualitative as well as quantitative understanding of known trends and cost drivers.

Creating a revenue and expense projection differs in both method and purpose from creating a balanced budget. In a budget, one plans conservatively to avoid both over-spending and under-funding, either of which could necessitate harsh financial remedies during a fiscal year. For a projection, one makes rough estimates about future revenue and expenses regardless of how they might impact the overall fund balance. The resulting figures do not represent actual revenue or spending targets.

We have adopted some key assumptions as the basis for the projection presented herein using limited investigations to establish their plausibility. We note below the most important aspects.

In regard to revenue, we assume that the economy in FY2014 will show modest growth, and that the Town’s revenue stream will recover fully in FY2015 and FY2016. We caution the reader that it is unclear if our detailed assumptions capture this intent. The following points outline the basis of our assumptions regarding revenue changes.

- The tax levy is assumed to grow annually by 2.5% of the previous year’s base and by an added amount for “new growth”. No amounts are included for Proposition 2½ operational overrides.
- New growth (the increase in the tax levy from new construction) in FY2014 is assumed to be equal to the average over the 5-year period ending with FY2011 (FY2011 new growth is reduced by \$1M to adjust for Shire’s TIF delayed growth), and then, for FY2015 and FY2016, is assumed to increase by 10% per year.
- State aid in FY2014 is assumed to be equivalent to the anticipated FY2013 and then, for FY2015 and FY2016, is assumed to increase by 5% annually.
- Available funds include free cash as well as amounts in the Parking Fund and the Cemetery Fund. The amounts in the latter two categories are assumed to be \$340K and \$120K, respectively, and free cash is assumed to total \$3M for FY2014, increasing to \$3.2M in FY2015 and FY2016. In the FY2014 available funds line, we include \$250K to capture the anticipated transfer of funds from the Avalon Bay Student Mitigation Fund. These assumptions imply that available funds will total \$3.71M, i.e., lower than the corresponding totals for the previous five fiscal years (FYs 2009 through 2013) which ranged from a low of approximately \$5.6M for FY2009 to as high as \$8.7M for FY2013. We note that the average available funds for FY2002 through FY2007 were much lower than \$3.9M.
- Revenue offsets include amounts from cherry sheet assessments that are assumed to grow by 3.5% annually, amounts for the Assessors’ overlay (\$750K in FYs 2014 and 2016 and \$900K in FY2015, a revaluation year), and \$300K that is set aside for deficits in the snow and ice budget.
- Water and Wastewater Enterprise Fund indirect expenses are now in line with actual costs. Recreation Enterprise Fund indirect expenses are assumed to increase by \$10K per year.

The major assumptions that we made regarding expenses are as follows.

- Line items do not include any increases for as of now unsettled cost-of-living adjustments (COLAs) for salaries and wages. The potential impact of COLAs is summarized below the main projection.
- The Lexington Public Schools personnel costs are assumed to increase by 1.5% annually for step changes.

- The Lexington Public School expenses for items other than special education are assumed to increase by 2% per year. Special education expenses for out-of-district tuition are “net” the State Circuit Breaker reimbursement and are assumed to increase by 8% annually (3 year average annual growth was 12.6%, 5 year average annual growth was 8%), while the expenses for SPED consultants and out-of-district transportation are assumed to increase by 3% per year.
- Municipal personnel costs are assumed to increase by 1.3% annually for step changes.
- Municipal expenses are assumed to increase by 3% per year.
- The assessment for Lexington’s share of expenses for Minuteman Career and Technical High School is assumed to increase by 4% per year.
- Appropriations for current and future pension payments are assumed to follow a schedule set up by the Retirement Board following the most recent actuarial evaluation of pension costs.
- Health insurance costs for FY2013 are estimated GIC rates. This is the introduction year of this policy and although rates are known, we don’t have history on which policies will be taken by employees. The assumed annual premium increases are 5%. The FY2013 expense is increased by a one-time \$1.12M payment to a fund to smooth employee health care costs. The FY2014 expense is then reduced by that amount prior to applying the annual premium increase.
- Non-exempt debt service costs are assumed to remain near the projected FY2014 level of about \$5.7M per year.
- Dept. of Public Facilities costs include salaries and wages (assumed to grow by 1.3% annually for step changes), utility bills (assumed to increase by 6%), and other expenses (assumed to grow by 3% annually).
- Expenses for cash capital are assumed to include amounts for road and building envelope maintenance (following from overrides) that increase annually by 2.5%, as well as \$850K for other capital expenses.
- We assume that no new funds are appropriated into the main Stabilization Fund.
- Other expenses are assumed to include \$45K annually for the senior tax work-off program, an annual contribution of \$500K to the trust fund for future costs of health insurance for retired employees.
- The offsetting revenues and expenses for Revolving Funds, Grants and Enterprise Fund Operations are projected using the 5-year trend from FY2009-2013. Enterprise capital is projected using the five averages for FY2009-2013.
- No potential expenses for unidentified new programs are built into these projections.

The projection for FY2014 shows an increase of approximately \$2.1M in total general fund revenue. This increase is far below the projected \$6.3M increase in the tax levy revenue because we assume that there will be a large decrease in free cash (the major part of the available funds line) from that available for FY2013. We do not expect large amounts of free cash like that certified last November will continue to be certified every fall. Traditionally when additional Free Cash materializes it is applied to one-time expenses such as capital projects or stabilization funds. Free cash is built by an excess of actual revenues over actual expenditures. This makes it particularly difficult to project, and the uncertainty in the number is significant. The projection shows overall revenue growth of \$7.4M in FY2015 and \$8.2M in FY2016.

Note that the FY2013 budget and the projections for FY2014-16 contains a \$3M surplus due to the recently recalculated health insurance expense. As of publication there has been no discussion on how to use these surplus funds. The recapped FY2013 budget will most likely appropriate the majority of this

APPROPRIATION COMMITTEE REPORT TO THE MARCH 2012 ATM & STM

surplus among both recurring and one-time expense items. These decisions will significantly alter the optimistic picture shown in this projection.

A 1% COLA on salaries and wages in FY2014 would impact the Lexington Public Schools, municipal, and facilities salaries and wages lines by \$655K, \$200K, and \$43K, respectively. Similar amounts would apply to COLAs in FYs 2015 and 2016. COLAs for salaries and wages would increase the total personal expenses and reduce any surpluses for FY2014, 2015, and 2016. We expect that the actual range of uncertainty of this bottom line figure considering the universe of possible factors is very roughly one to three million dollars.

| REVENUE SUMMARY | FY2011 | FY2012 | FY2013 | FY2014 | FY2015 | FY2016 |
|------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | Actual | Recap | Budgeted | Projected | Projected | Projected |
| Property Tax | | | | | | |
| <i>Previous Year's Levy Limit</i> | \$115,934,719 | \$122,259,637 | \$128,662,664 | \$133,879,231 | \$140,219,669 | \$147,017,964 |
| <i>2½% Annual Increase</i> | \$2,898,368 | \$3,056,491 | \$3,216,567 | \$3,346,981 | \$3,505,492 | \$3,675,449 |
| <i>New Growth</i> | \$3,426,550 | \$3,346,536 | \$2,000,000 | \$2,993,457 | \$3,292,803 | \$3,622,083 |
| <i>Excess Levy Capacity</i> | | (\$46,950) | | | | |
| Tax Levy | \$122,259,637 | \$128,615,714 | \$133,879,231 | \$140,219,669 | \$147,017,964 | \$154,315,496 |
| State Aid | \$8,506,691 | \$8,441,625 | \$8,441,625 | \$8,863,706 | \$9,306,892 | \$9,772,236 |
| Local Receipts | \$11,991,001 | \$9,767,252 | \$10,188,650 | \$10,545,253 | \$10,914,337 | \$11,296,338 |
| Available Funds | \$6,819,892 | \$7,733,170 | \$8,709,260 | \$3,710,000 | \$3,660,000 | \$3,660,000 |
| Revenue Offsets | \$(1,687,257) | \$(2,463,101) | \$(1,861,713) | \$(2,045,595) | \$(1,925,191) | \$(1,955,823) |
| Enterprise Funds (Indirect) | \$1,615,973 | \$1,564,441 | \$1,512,892 | \$1,522,892 | \$1,532,892 | \$1,542,892 |
| Total General Fund | \$149,505,937 | \$153,659,101 | \$160,869,945 | \$162,815,924 | \$170,506,892 | \$178,631,140 |
| Other Revenues | | | | | | |
| <i>Revolving Funds</i> | \$2,224,936 | \$2,326,969 | \$2,416,106 | \$2,501,441 | \$2,588,854 | \$2,676,266 |
| <i>Grants</i> | \$113,475 | \$136,920 | \$136,920 | \$142,509 | \$149,378 | \$156,247 |
| <i>Enterprise Funds (Direct)</i> | \$17,905,852 | \$17,748,076 | \$17,770,196 | \$18,040,568 | \$18,260,120 | \$18,479,671 |
| <i>Exempt Debt</i> | \$5,871,767 | \$5,721,833 | \$6,642,450 | \$8,555,459 | \$8,310,046 | \$8,073,649 |
| Sub-total Other Revenues | \$26,116,030 | \$25,933,798 | \$26,965,672 | \$29,239,978 | \$29,308,398 | \$29,385,834 |
| TOTAL REVENUE | \$175,621,967 | \$179,592,899 | \$187,835,617 | \$192,205,902 | \$199,665,290 | \$208,016,973 |
| EXPENSE SUMMARY | FY2011 | FY2012 | FY2013 | FY2014 | FY2015 | FY2016 |
| | Actual | Recap | Budgeted | Projected | Projected | Projected |
| Education | | | | | | |
| <i>Lex. Pub Schools Wages</i> | \$58,026,383 | \$60,636,052 | \$64,481,249 | \$65,448,468 | \$66,430,195 | \$67,426,648 |
| <i>Lex. Pub Schools Expenses</i> | \$4,923,330 | \$5,297,430 | \$5,543,155 | \$5,654,018 | \$5,767,098 | \$5,882,440 |
| <i>Out-of-District SPED</i> | \$6,293,813 | \$7,211,403 | \$6,603,952 | \$7,081,518 | \$7,595,767 | \$8,149,588 |
| <i>sub-total Lex. Pub. Schools</i> | \$69,243,526 | \$73,144,885 | \$76,628,356 | \$78,184,004 | \$79,793,060 | \$81,458,676 |
| <i>Minuteman Reg. School</i> | \$1,538,811 | \$1,702,930 | \$1,407,979 | \$1,464,298 | \$1,522,870 | \$1,583,785 |
| Sub-total Education | \$70,782,337 | \$74,847,815 | \$78,036,335 | \$79,648,302 | \$81,315,930 | \$83,042,461 |
| Municipal | | | | | | |
| <i>Municipal Wages</i> | \$18,552,836 | \$19,254,851 | \$19,757,842 | \$20,014,694 | \$20,274,885 | \$20,538,458 |
| <i>Municipal Expenses</i> | \$8,610,022 | \$9,553,157 | \$9,946,811 | \$10,245,215 | \$10,552,572 | \$10,869,149 |
| Sub-total Municipal | \$27,162,858 | \$28,808,008 | \$29,704,653 | \$30,259,909 | \$30,827,457 | \$31,407,607 |

APPROPRIATION COMMITTEE REPORT TO THE MARCH 2012 ATM & STM

| | FY2011 | FY2012 | FY2013 | FY2014 | FY2015 | FY2016 |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | Actual | Recap | Budgeted | Projected | Projected | Projected |
| Shared Expenses | | | | | | |
| <i>Benefits & Insurance</i> | \$28,063,123 | \$29,684,424 | \$29,037,728 | \$29,311,005 | \$30,308,409 | \$31,663,079 |
| <i>Debt (within-levy)</i> | \$4,675,175 | \$5,002,111 | \$5,269,343 | \$5,700,000 | \$5,700,000 | \$5,700,000 |
| <i>Reserve Fund</i> | | \$900,000 | \$900,000 | \$900,000 | \$900,000 | \$900,000 |
| <i>Facilities</i> | \$9,756,143 | \$9,274,368 | \$9,431,663 | \$9,736,743 | \$10,072,663 | \$10,424,039 |
| Sub-total Shared Expenses | \$42,494,441 | \$44,860,903 | \$44,638,734 | \$45,647,748 | \$46,981,072 | \$48,687,117 |
| Capital & Reserves | | | | | | |
| <i>Cash Capital (inc of roads)</i> | \$1,983,112 | \$2,627,174 | \$4,171,306 | \$1,617,944 | \$1,637,142 | \$1,656,821 |
| <i>Stabilization Fund</i> | \$710,000 | | | | | |
| <i>Other (Sr.WorkOff, OPEB)</i> | \$829,399 | \$726,885 | \$939,096 | \$545,000 | \$545,000 | \$545,000 |
| Sub-total Capital & Reserves | \$3,522,511 | \$3,354,059 | \$5,110,402 | \$2,162,944 | \$2,182,142 | \$2,201,821 |
| Total Oper, Cap & Res | \$143,962,147 | \$151,870,785 | \$157,490,124 | \$157,718,903 | \$161,306,601 | \$165,339,006 |
| Revolving Funds | \$2,224,936 | \$2,326,969 | \$2,416,106 | \$2,501,441 | \$2,588,854 | \$2,676,266 |
| Grants | \$113,475 | \$136,920 | \$136,920 | \$142,509 | \$149,378 | \$156,247 |
| Enterprise Funds | | | | | | |
| <i>Water</i> | \$7,651,830 | \$7,240,820 | \$7,476,998 | \$7,523,876 | \$7,572,670 | \$7,621,464 |
| <i>Wastewater (Sewer)</i> | \$8,329,733 | \$8,155,868 | \$8,427,970 | \$8,619,358 | \$8,782,371 | \$8,945,383 |
| <i>Recreation</i> | \$1,834,289 | \$1,741,388 | \$1,794,228 | \$1,807,334 | \$1,815,079 | \$1,822,824 |
| <i>Enterprise Capital</i> | \$90,000 | \$610,000 | \$71,000 | \$90,000 | \$90,000 | \$90,000 |
| Sub-total Enterprise Funds | \$17,905,852 | \$17,748,076 | \$17,770,196 | \$18,040,568 | \$18,260,120 | \$18,479,671 |
| Exempt Debt | \$5,871,767 | \$5,721,833 | \$6,642,450 | \$8,555,459 | \$8,310,046 | \$8,073,649 |
| TOTAL EXPENSES | \$170,078,177 | \$177,804,583 | \$184,455,796 | \$186,958,880 | \$190,614,999 | \$194,724,840 |
| | FY2011 | FY2012 | FY2013 | FY2014 | FY2015 | FY2016 |
| | Actual | Recap | Budgeted | Projected | Projected | Projected |
| BALANCE (DEFICIT) without COLA | \$5,543,790 | \$1,788,316 | \$3,379,821 | \$5,247,021 | \$9,050,291 | \$13,292,133 |

| COLA Projection | |
|-------------------------------|------------------|
| 1% COLA for schools | \$655,000 |
| 1% COLA for municipal | \$200,000 |
| 1% COLA for public facilities | \$43,000 |
| 1% COLA for all departments | \$898,000 |

| BALANCE (DEFICIT) with various COLA rates | | | |
|--|--------------------|--------------------|---------------------|
| 1% COLA | \$4,349,021 | \$7,245,311 | \$10,571,104 |
| 2% COLA | \$3,451,021 | \$5,422,371 | \$7,795,655 |
| 3% COLA | \$2,553,021 | \$3,581,471 | \$4,965,249 |

Appendix B: Enterprise Funds

The Town of Lexington has maintained Water, Wastewater (Sewer), and Recreation Enterprise Funds since the state legislature enacted legislation authorizing such funds, G.L. c. 44, § 53F ½, in the late 1980's. An enterprise fund "establishes a separate accounting and financial reporting mechanism for municipal services for which a fee is charged in exchange for goods or services. Revenues and expenses of the service are segregated into a fund with financial statements separate from all other governmental activities" and are accounted for on an accrual basis. *DOR Enterprise Funds Manual (April 2008)*. An enterprise fund provides management and taxpayers with information to: measure performance, analyze the impact of financial decisions, and determine the cost of providing a service. Enterprise funds may be operated on a stand-alone basis or subsidized by the General Fund.

The Water and Wastewater Enterprise Funds operate on a completely stand-alone basis. These funds do not rely on any tax-levy revenues, but cover their complete operating and capital needs with user charges and fees. The Recreation Enterprise Fund is only partially stand-alone. It covers its operating costs with user charges and fees and contributes to the debt service on certain recreation capital projects (in particular, the Lincoln Field restoration project). Most recreation capital costs, however, are subsidized by the General Fund through a combination of within-levy borrowing, Community Preservation Act (CPA) funding, and debt exclusion funding.

Establishing the Enterprise Fund Budgets

At the Annual Town Meeting each year, Town Meeting appropriates a budget for each of the three enterprise funds for the upcoming fiscal year. Later in the year (in the early fall in the case of the Water and Wastewater Enterprise Funds), user charges are set that are designed, based on projections of usage for the fiscal year, to be sufficient to cover the appropriations made by Town Meeting to run the enterprises.

Depending on the accuracy of the usage projections, the actual revenue realized by the enterprise during the year may exceed or fall short of the appropriated amount. Any operating surplus must be retained in reserve in the enterprise fund. The funds accumulated in that reserve (referred to as "retained earnings") may be applied only to meet the capital needs of the enterprise or to reduce user charges. Any operating loss (after applying any accumulated reserves in the fund), must be made up in the succeeding fiscal year's appropriation.

Since FY2007, the Annual Town Meeting Warrant has contained a separate Article for the appropriation of the enterprise fund operating budgets (previously, appropriations for the enterprise funds were commingled with those for the General Fund). This presentation makes it easier to understand the operating budgets of the enterprise funds. However, it should be noted that certain indirect costs that are charged by the General Fund to the enterprise funds (see discussion below) are still appropriated as part of the municipal operating budget, this year in Article 4. For the complete operating costs of the enterprise funds, including indirect costs, see the Brown Book sections on Water, Wastewater, Recreation.

To present a more meaningful picture of the complete enterprise fund operating budgets, the tables included in the write-up of this article have been expanded from those presented in the Warrant to show the indirect as well as the direct costs of the funds. Debt service costs for previously approved capital expenditures are shown in the enterprise fund operating budgets. However, it should be noted that appropriations for capital needs of the enterprises, whether funded by cash or borrowing, are addressed in separate capital warrant articles.

Appendix C: Revolving Funds

Ordinarily, revenue received by any municipal department must be deposited in the General Fund, and cannot be expended for any purpose without further appropriation by Town Meeting. A revolving fund allows Town Meeting to dedicate in advance a specific source of anticipated revenue from fees and charges, on an ongoing basis and without the need for further appropriation, to pay expenses for rendering the services for which those fees and charges are collected.

Revolving funds managed by municipal departments are generally governed by G.L. c. 44, § 53E1/2. (There are also a number of revolving funds managed by the School Department, such as the School Lunch Fund, which are governed by other statutes and are not within the control of Town Meeting.) Under Section 53E1/2, a municipal revolving fund can be established only by vote of Town Meeting.

That authorization must be renewed prior to each succeeding fiscal year. The authorization must specify:

- the purpose(s) for which monies deposited in the fund may be used
- the source(s) of funds to be deposited
- the board, department or officer authorized to expend monies from the fund
- a limit on the total amount that may be expended from the fund in the ensuing fiscal year

Expenditures may not be made, nor liabilities incurred, in excess of the balance of the fund. If a revolving fund is reauthorized, any balance in the fund may be carried over to the next fiscal year. If a revolving fund is not reauthorized, or if the purposes for which the money in the fund may be spent are changed, the balance in the fund reverts to the General Fund at the end of the fiscal year unless Town Meeting votes to transfer the funds to another duly established revolving fund.

Appendix D: Senior Tax Relief

In early 2004, the Board of Selectmen created an ad hoc Tax Deferral and Exemption Study Committee to explore ways in which the property tax relief available to senior citizens and other needy residents could be enhanced and made more accessible. Since then, Town Meeting has taken a succession of steps to expand such relief, for the most part maximizing the options that the Town is allowed to adopt under existing state law and, in some cases, increasing opportunities for tax relief beyond those that would ordinarily be available under state law.

The principal programs for property tax relief now available to Lexington homeowners are:

- a *tax exemption* program, under which homeowners age 65 or over with limited income and limited assets other than the value of their home may deduct \$1,000 from their annual property tax, G.L. c. 59, § 5, cl. 41C (“the 41C Program”);
- a Community Preservation Act *surcharge exemption* program, under which low-to-moderate income homeowners age 60 or over, and low-income homeowners under age 60, may obtain a 100% exemption from the CPA surcharge on their property tax;
- a locally-controlled *Senior Service* program, adopted by Town Meeting in 2006 to replace the preexisting state program, under which low-income seniors may perform volunteer work for the Town in exchange for a reduction in their property tax, currently up to a maximum credit of \$935 or a maximum credit of \$1,190 for a two-person household;
- a tax *deferral* program, under which low-to-moderate-income homeowners age 65 or over may defer any or all of their property tax due, after applying any available exemptions, up to half the value of their house, at an interest rate equal to the Town’s cost of funds (.34% for FY2012 deferrals and .17% for FY2013 deferrals), until the house is sold or transferred, G.L. c. 59, § 5, cl. 41A (“the 41A Program”); and
- an income tax “*Circuit Breaker*” program under which low- and moderate-income homeowners age 65 and over, whose homes have an assessed valuation not greater than a specified ceiling (\$729,000 for tax year 2011), may obtain a tax credit on their state tax returns (up to \$980 for tax year 2011) for the amount that their property tax, plus half their annual water and sewer bill, exceeds 10% of their annual income, G.L. c. 62, § 6(k).

Funding of the Programs

Each of these programs is funded in a slightly different way. Under the 41C Program, the Town receives reimbursement from the state for exemptions allowed up to an annual statutory cap (\$29,500), subject to appropriation; exemptions beyond this amount are funded from the Town’s overlay account and reduce the amount that may be spent for other purpose under the Proposition 2½ limits. Exemptions granted from the CPA’s 3% surcharge lower the amount of CPA revenue that the Town would otherwise receive by the amount of the exemptions. The Senior Service program, formerly funded from the overlay, is now funded as part of the Town’s annual budget. The 41A deferral program does not affect the amount of revenue that the Town may appropriate under Proposition 2½, and it is essentially revenue-neutral over an extended period of time, though there may be short-term cash flow implications if deferrals are taken out faster than they are repaid. The Circuit Breaker program is funded entirely by the state.

The 41A Program and the Home Rule Amendment

Under generally applicable state law, the highest income threshold a Town may adopt for participation in the 41A program in FY2012 is \$52,000.¹⁰ However, in 2008, Lexington obtained a home rule amendment allowing it to expand eligibility beyond that permitted under the existing state law. The special act permits the Town, by vote of Town Meeting and with the approval of the selectmen, to set its own income limit for deferrals; to lower the age limit (which would otherwise be 65 years of age); and to condition eligibility for deferral by those under 65 on objective criteria of hardship or disability. At the 2011 Annual Town Meeting, Lexington's threshold was increased from \$51,000 to \$60,000.

The 41C Exemption Program

For many years, the Town has made available to qualifying seniors an exemption from the property tax under Clause 41 of G.L. c. 59, § 5, and its successor, Clause 41C. Prior to 2004, the amount of the credit was limited to \$500 per year and eligibility criteria were quite restrictive. Since then, the Town has taken a number of steps to expand both eligibility and the credit amount.

Taking advantage of new local options made available by the legislature in 2002, Town Meeting voted in 2004 to: (a) increase the amount of the credit to \$750; (b) lower the age of eligibility from 70 to the minimum of 65; (c) increase the income threshold from \$13,000(single)/\$15,000(married couple) to the maximum of \$20,000/ \$30,000; and (d) increase the threshold for assets, not including the home, from \$28,000/\$30,000 to the maximum of \$40,000/\$55,000. In 2005, Town Meeting voted to adopt the provisions of G.L. c. 59, § 5, Clause 41D, which automatically adjusts the income and asset limits for Clause 41C (but not the exemption amount) by a COLA established annually by the Department of Revenue. For FY2012, the income limits are \$24,097/\$36,148 and the asset limits are \$48,195/\$66,269. In 2006, Town Meeting voted to increase the exemption to the maximum allowable amount of \$1,000.

The Senior Service Program

In 1999, the Legislature authorized cities and towns, by accepting G.L. c. 59, § 5K, to offer residents, age 60 and over, the opportunity to reduce their property-tax obligation by as much as \$500 in exchange for community service.¹¹ Lexington, which had earlier maintained its own program, accepted this statute shortly after it was enacted. The statute allows towns to set their rules and procedures for implementation but limits participation to persons age 60 or over and also limits the hourly credit to the state's minimum wage, currently \$8 per hour. In 2006, Town Meeting voted to rescind its acceptance of the statewide senior property tax work-off program under Chapter 59, Section 5K of the General Laws and to replace it with a locally controlled program. This gave the Town the flexibility to: allow participation by persons under age 60, such as the disabled and handicapped, who might be able to benefit from the program; pay a wage in excess of the minimum wage; allow a higher amount to be credited against a participant's property tax bill. The most recent set of guidelines, which became effective in FY2008, are as follows: Income eligibility is \$46,300 for single taxpayers or \$52,950 for a couple; hourly rate is \$8.50; maximum credit is \$935 (110 hours) for one participant or up to \$1,190 (140 hours) for a couple living in the same household. Although the Board of Selectmen has the authority to expand eligibility to persons under age 60 who are disabled or handicapped, it has not yet done so.

¹⁰ Prior to 2008, the highest income threshold towns could adopt under the 41A program was \$40,000. In 2008, the legislature amended Clause 41A generally to permit towns to adopt an income limit equal to the Circuit Breaker threshold for a single filer that is not a head of household. That threshold was \$49,000 for tax year 2008, \$51,000 for tax year 2009, \$51,000 for tax year 2010, and \$52,000 for tax year 2011. The 2011 Circuit Breaker threshold for a single filer who is a head of household is \$65,000, and the threshold for a married couple filing jointly is \$78,000.

¹¹ In 2002, the maximum amount of the Section 5K credit was increased to \$750. In 2009 it was increased to \$1,000, and the 2010 Municipal Relief Act added a provision allowing towns to adopt a local option to set the limit at 125 hours of service at the prevailing minimum wage (now \$8.00 per hour), which would automatically increase the limit if the minimum wage increases.

Appendix E: Specified Stabilization Funds

The state statute authorizing towns to create and maintain a stabilization fund, G.L. c. 40, section 5B, was amended in 2003 to permit the creation of multiple, separate stabilization funds for specified purposes. The creation of such funds, the specification of their purpose, any alteration of their purpose, and any appropriation into or out of the funds, must be approved by a two-thirds vote of Town Meeting at an Annual or Special Town Meeting. To supplement its general Stabilization Fund Lexington has created several specified stabilization funds, which are described below.

At the 2007 Annual Town Meeting, four specified stabilization funds were established to replace certain pre-existing special revenue accounts. Monies in the special revenue accounts, funded by negotiated payments from developers, had previously been spent without specific appropriation. In order to comply with Massachusetts Department of Revenue guidelines, and to make the existence and use of the funds more transparent, monies in the special revenue accounts were transferred to the following specified stabilization funds, where they are now subject to review and appropriation by Town Meeting:

Transportation Demand Management/Public Transportation (TDM/PT) S.F.: Contains payments negotiated with developers to support the operations of Lexpress.

Traffic Mitigation (TM) S.F.: Contains payments negotiated with developers to support traffic mitigation projects, such as improvements to signals and pedestrian access at intersections, including funds previously contained in the Avalon Bay TDM special revenue account.

School Bus Transportation S.F.: Supports daily school bus operations, and was originally funded with \$200,000 contained in the Avalon Bay School Bus Transportation special revenue account.

Section 135 Zoning By-Law S.F.: Created to finance public improvements using monies contributed by developers pursuant to Section 135 of the Code of Lexington.

At the 2008 Annual Town Meeting, the *Special Education Stabilization Fund* was created to set aside reserves to help cover unexpected out-of-district special education expenses that exceed budget. A related goal was to enhance transparency around the out-of-district special education budget component by segregating this expense item and bringing budget overruns to Town Meeting for its approval. This fund was created in FY2009 with an initial appropriation of \$350,000 and another \$350,000 was appropriated to the fund at the spring 2009 Annual Town meeting. The current target level for this fund is \$1,000,000.

At the 2009 Annual Town Meeting the *Center Improvement District Stabilization Fund* was created and was funded by a \$100,000 payment received from the developer of Lexington Place in FY2010. The funds may be used for projects such as tree planting, sidewalk improvements to the abutting connector between the parking lot and the sidewalk. None of these funds have been appropriated yet.

At the 2011 Annual Town Meeting two more funds were created:

Avalon Bay School Enrollment Mitigation Fund: funded with a \$418,900 payment received from Avalon Bay pursuant to an Education and Trust Fund Escrow Agreement dated May 31, 2006. The terms of that agreement called for the establishment of an escrow fund in the amount of \$750,000 with disbursements made to the Town annually if the number of students residing at the development (Avalon at Lexington Hills) exceeded 111. The amount payable per student in excess of 111 is \$7,100. This fund is expected to be depleted in FY2014.

Transportation Management Overlay District Fund (TMOD): funded by payments from those developers who choose to pay a transportation mitigation fee rather than taking responsibility for improving all the intersections in the area to a certain level as provided in Section 135-43.C of the Zoning Bylaw. Per Section 135-43.C(5)(c) “any transportation mitigation fees paid to the Town are intended to be used to fund infrastructure improvements that are necessitated by the proposed development of the applicant.”