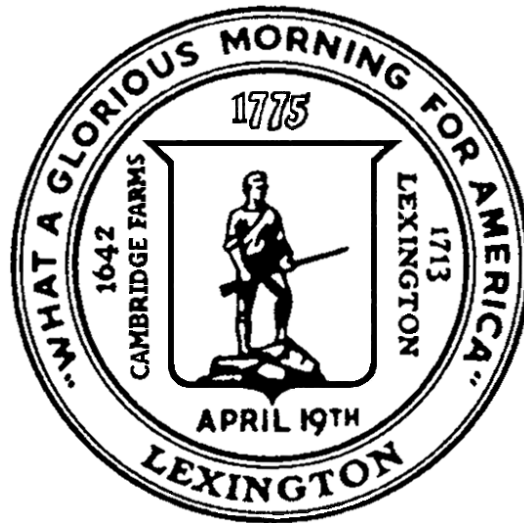


APPROPRIATION COMMITTEE
TOWN OF LEXINGTON



REPORT TO THE
2010 SPECIAL TOWN MEETING

Released November 12, 2010

Appropriation Committee Members—Fiscal Year 2011

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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 "Indefinitely Postpone" in the right-hand column merely signifies our expectation.*

Article	Title	Funds Requested	Funding Source	Committee Recommendation
2	Amend FY2011 Operating and Enterprise Fund Budgets	\$985,200	GF	Approve (7-0)
3	Appropriate to Specified Stabilization Funds	\$216,300	Cubist Pharm.	Approve (7-0)
4	Appropriate to Stabilization Fund	\$710,000	GF	Approve (7-0)
5	Appropriate Supplemental Funds for CPA Projects	\$73,000	CPA	Approve (7-0)

Preface

This report of the Appropriation Committee to the 2010 Special Town Meeting discusses the state of the Town's finances as of November 2010 and highlights changes that have occurred since the 2010 Annual Town Meeting that concluded in May of this year. In particular, the report focuses on aspects of the Town's revenue and spending relevant to the articles in the warrant. The report contains commentary and the Committee's formal recommendation for each warrant article that we deem to have substantial financial relevance.

A tabular summary of Committee recommendations appears immediately before this preface. Throughout the report, Committee votes are presented uniformly by listing the number of members for, followed by the number of members against, and lastly (when applicable) the number of members abstaining.

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:

- *FY2011 Recommended Budget & Financing Plan*, dated March 1, 2010, 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 (see Appendix B therein) and includes a glossary of financial terms (see Appendix D therein).
- *Superintendent's Budget Document*, commonly known as the “Blue Book”, which details the budget plans for the Lexington Public School System.
- *School Committee Town Meeting Budget Document*, which contains more a concise and up-to-date version of information that was first published in the Blue Book.
- *Appropriation Committee Report to the 2010 Annual Town Meeting*.
- *TMMA Warrant Information Report* (November 2010), published by the Town Meeting Members Association.
- *Capital Expenditures Committee (CEC) Report to the 2010 Annual Town Meeting and Report to the 2010 Special Town Meeting*.
- *Community Preservation Committee Report to the 2010 Annual Town Meeting*.

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 extends thanks and appreciation to Carl Valente (Town Manager), Rob Addelson (Assistant Town Manager for Finance), Micah Niemy (Budget Officer), Dr. Paul Ash (Superintendent of Schools), Mary Ellen Dunn (Assistant Superintendent for Finance and Operations), Pat Goddard (Director, Department of Public Facilities), Denise Casey (Human Resources Director), the Board of Selectmen, the School Committee, the Capital Expenditures Committee, and the Community Preservation Committee. We also thank the many other municipal and school staff, Town officials, and citizens who have contributed to our work in a wide variety of ways.

Introduction

The November 2010 Special Town Meeting was called in response to the significant impact on the Town budget resulting from the discovery during the summer of 2010 that airborne PCB (polychlorinated biphenyl) contamination levels at the Estabrook Elementary School exceeded US EPA public health guidelines for children. The subsequent environmental testing, planning and remediation work has resulted in over \$1,000,000 in unanticipated costs to the Town. It has also forced the re-prioritization of plans for replacing and refurbishing several of our school buildings.

The Town budget is flexible enough to accommodate changes in priorities, timing and even real emergencies, so it is reasonable to ask whether this Special Town Meeting was necessary. As required by law, the costs from the Estabrook PCB work to date have been incorporated into our existing budget, using a combination of \$400,000 in Reserve Fund transfers approved by this Committee and the reallocation of unexpended funds of over \$500,000. Since this reallocation results in significant encumbrances on the budgets of the School Department and the Department of Public Facilities (DPF), with the burden falling heavily on the comparatively modest budget of the DPF, the impact of leaving this unresolved would be significant. Amendments to the budget could be deferred until the next Annual Town Meeting, but the potential for a variety of serious financial consequences is a real concern. In addition, the adjustments required by this level of unforeseen expenses have risen well above those routinely made during a typical fiscal year.

It is desirable for Town Meeting to review and approve appropriations in a timely manner, preferably in advance of spending. As such, we felt it was appropriate to offer Town Meeting a chance to evaluate the situation and make changes to the budget at the earliest possible opportunity.

The Department of Public Facilities and the School Department have developed a schedule for further work that will be required at Estabrook per the Town's agreement with the EPA. Some of this work will not occur until after the school year is complete, and the complete budget for this work is not finalized. We anticipate that the DPF and School Department will request funds at the next Annual Town Meeting to carry out additional remediation and testing not covered by the request made at this Special Town Meeting. We also recognize the possibility that during the currently scheduled work, we may encounter new and extraordinary costs that exceed the proposed budget. Rather than appropriating a separate contingency fund for this work, our Committee recommends that the Reserve Fund be replenished and used as a contingency for any extraordinary costs that occur prior to the Annual Town Meeting.

Other significant events affecting the state of our Town budget that have occurred since the 2010 Annual Town Meeting include:

- State Aid (Cherry Sheet) came in \$508,188 lower than budgeted, approximately 5.6% lower.
- The rate of return on the investment of Town funds will likely be lower than budgeted.
- The Town increased its estimate of revenue from property tax due to construction ("new growth") by approximately \$1,800,000. The net increase in the Town's projection of the revenue available for appropriation is \$1,476,249.
- The Town concluded negotiations on a new Coalition Bargaining Agreement with the public employee unions that will be in effect until June 1, 2012.
- The Town has filed an Emergency Statement of Interest (SOI) with the State to request funds for the design and construction of a building to replace Estabrook Elementary School.
- The rate of the State match for our CPA fund was only 29% instead of the budgeted 31%, resulting in a reduction of approximately \$80,000.
- The Town received a grant of \$500,000 from the State towards the purchase of Cotton Farm, which reduces the amount required from the CPA fund.

Warrant Article Analysis and Recommendations

Article 2: Amend FY2011 Operating and Enterprise Fund Budgets	Funds Requested	Funding Source	Committee Recommendation
	\$985,200	GF	Approve (7-0)

This report addresses separate components of the proposed budget changes in the sections below. The changes are divided into costs associated with the PCB mitigation at Estabrook Elementary School, transfers that will implement the new health insurance provisions of the Coalition Bargaining Agreement, and miscellaneous adjustments to the Fire Department and MWRA budgets.

Estabrook PCB Mitigation

In the summer of 2010, the Department of Public Facilities (DPF) found that three of the Town’s buildings – the Town Office Building, Clarke School, and Estabrook School – had been constructed with caulking containing PCBs (polychlorinated biphenyls), compounds that have been shown to cause cancer in animals and that may be carcinogenic or have other ill effects on humans. The US EPA has published guidelines and regulations that recommend limits on the exposure of people to these chemicals. Information regarding PCBs, their potential health effects, and EPA rules may be found on the EPA website.¹ PCBs were used in a variety of applications until their use was banned in 1979. The uses included use as an additive in caulk. PCBs can evaporate from the caulk and thus contaminate the air in buildings.

This past summer, tests showed that airborne PCB concentrations in the Estabrook School were above current EPA safe-concentration guidelines for children. (Results of similar air tests conducted at the Town Office Building and Clarke School were within applicable guidelines.) Federal law (the Toxic Substances Control Act) and EPA rules mandate remediation of this situation. Because of the laws and regulations and the common-sense desire to minimize the exposure of children to potentially harmful levels of PCBs, the Town has been working to bring the concentrations into compliance with EPA guidelines. This work was not anticipated when the FY2011 budget was originally adopted. We leave further description of the course of events to the DPF and the School Department. However, we concur that addressing the problem as quickly as possible was the only responsible course of action.

Spending history/plan

Expenses for remediation of PCBs at the Estabrook School through late November/early December 2010 are expected to total over \$1,000,000. Responding to urgent requests from the DPF and the School Department for funds to perform PCB remediation at Estabrook, the Appropriation Committee approved the transfer of \$400,000 from the Reserve Fund (\$150,000 on August 23, 2010 and \$250,000 on September 22, 2010). In addition, the DPF was able to utilize \$51,910 from various capital article budgets, and another \$23,412 was covered by the School budget (neither of these latter two amounts will be replaced by the appropriations proposed under this article). The remaining expenditures, totaling \$575,060, were covered by the Department of Public Facilities budget and the School Department operating budgets. A summary of the spending and proposed sources of funds is presented in the table below.

¹ <http://www.epa.gov/epawaste/hazard/tsd/pcbs/index.htm>
<http://www.epa.gov/osw/hazard/tsd/pcbs/pubs/about.htm>
<http://www.epa.gov/osw/hazard/tsd/pcbs/pubs/effects.htm>

**Summary of PCB Remediation Finances in Calendar Year
2010**

Expenses (to date plus projected to 12/15/2010)	\$1,050,382
Reserve Fund transfers	(\$400,000)
Spending posted against capital articles	(\$51,910)
To be absorbed within the School budget	(\$23,412)
Net shortfall	\$575,060
\$541,460 carried by DPF budget	
\$33,600 carried by School budget	

Proposed Appropriations

DPF budget	\$541,600
School budget	\$33,600
Reserve Fund	\$400,000
Total of proposed PCB-related appropriations	\$975,200

The proposed actions under this article include appropriations to cover the \$575,060 in expenditures this year from the DPF and School budgets and the restoration of the Reserve Fund to the pre-August 23 level (see table). Note: If the changes to the DPF and School budgets are *not* approved, \$154,393 of the DPF budget will be classified as a School budget expense.

The supplemental appropriations for the DPF budget, the School budget, and the Reserve Fund (as well as an unrelated appropriation of \$10,000 for the Fire Department budget discussed below) are proposed to be funded through:

- Unexpended balances in school capital articles (\$218,951) (see table below)
- A portion of the \$1,476,249 in additional revenue available for appropriation summarized in the Introduction (\$766,249)

Article	Original Approp- riation	Description	Unex- pended Amount
16.D of 2010	\$378,000	School Improvement Projects	\$35,301
16.G of 2010	\$178,000	School Grounds Improvement Projects	\$14,035
19.F of 2009	\$40,000	Relocate Old Harrington Playground Structures	\$555
19.G of 2009	\$80,000	Bowman Play Area Improvement	\$29,495
19.H of 2009	\$40,000	LHS Elevator Piston Replacement	\$15,035
19.M of 2009	\$50,000	School Accessibility Improvements	\$22,385
4 of 2009 STM	\$85,000	Relocate/Add Sprinkler Heads	\$22,912
18.B of 2008 ATM	\$155,000	Pre-K-12 Master Plan (including detailed LHS plan)	\$1,112
19A of 2008 ATM	\$1,920,000	Remodeling, Reconstructing and Extraordinary Repairs - LPS Systemwide	\$63,427
19.B of 2008 ATM	\$65,000	Safe Parent Pick Up and Parking	\$1,134
19.F of 2008 ATM	\$40,000	Fire Headquarters Renovation & Re-design	\$4,927
32.A of 2006	\$1,716,000	Planning and remodeling, reconstructing and making extra-ordinary repairs to school buildings and for the purchase of additional equipment	\$8,123
32A/05	\$150,000	Building Envelope	\$510
TOTAL			\$218,951

Recommendation (Estabrook)

As noted above, the expenses for PCB remediation at Estabrook were not anticipated when the FY2011 budget was approved. We therefore believe that it is prudent to appropriate funds at this time to cover these expenses.

In regard to the Reserve Fund, the original appropriation of \$550,000 has been drawn down to \$150,000. Restoring the Reserve Fund to its starting level will provide the means to address extraordinary and unforeseen expenditures that may arise through the rest of the fiscal year (including any new and unforeseen costs for PCB remediation that could arise over the next few months). The present level of the Reserve Fund is uncomfortably low given that we are only five months into the current fiscal year. The Committee recommends approval of the appropriation to the Reserve Fund under this article.

Health Insurance Provisions of the Coalition Bargaining Agreement

On June 21, 2010, the Board of Selectmen ratified the coalition bargaining agreement reached between the Town of Lexington and the Lexington Public Employee Committee at the end of May 2010. The agreement defines health insurance benefits to be provided July 1, 2010, until June 30, 2012, by the Town to employees, retirees and their dependents and survivors. While funding for this agreement requires Town Meeting action, the terms of the agreement are not subject to Town Meeting approval and went into effect on July 1 2010. Should Town Meeting not authorize the necessary fund transfers, the agreement remains in effect and governs how benefits would revert to the status quo ante.

Central elements of the agreement

The agreement has three primary components:

1. A change in plan design that reduces the total cost of providing health insurance benefits.
2. A change in the split between Town and subscriber contribution rates to plan premiums². This change reduces the Town's contribution to 82.5% in FY2011 and to 80% in FY2012.
3. An increase in base wages of all full-time employees across the board by \$500 to offset the concessions on health benefits, with part-time employees receiving a pro-rated amount. This amount, paid by the Town, represents a portion of the net savings achieved through plan design and contribution rate changes.

The Town Manager estimated that the net savings to the Town resulting from the settlement would be approximately \$365,400 in FY2011 (1.42% of the line 2130 healthcare budget) and \$942,070 in FY2012 (3.66% of the line 2130 healthcare budget). The actual salary costs for FY2011 of \$684,400 are \$26,600 less than estimated, yielding an aggregate savings to the Town of \$392,000 for FY2011.

To fund the salary adjustments specified in the agreement, part (a) of the Article 2 motion proposes to transfer \$684,400 from the health benefits budget (line 2130) and divide it among the personal service (wage and salary) accounts of each departmental budget, including the School Department. The adjustments for the FY2011 Water, Sewer and Enterprise Fund budgets under parts (b), (c) and (d) of the motion are made pursuant to the provisions of the Health Insurance Coalition Bargaining agreement for employees paid from these funds and represent increases of \$6,193, \$2,716 and \$2,500 respectively.

Actions that would change the effects of the agreement

Town Meeting

If Town Meeting does not approve the fund transfers supporting salary changes, then the agreement calls for the following actions to be taken and remain in effect until June 30, 2012:

² The reduction in premium rates applies to the vast majority of subscribers. A few subscribers already use plans with an 80% or lower Town contribution rate and there is no change in the contribution rate for these plans.

1. At the next regularly scheduled payroll following Town Meeting's vote, the employer/employee contribution percentage split for health insurance will revert to 85% employer / 15% employee for Blue Cross Network Blue and Harvard Pilgrim HMO;
2. Effective July 1, 2011, the plan design changes will be rescinded and the plan design will revert to the June 30, 2010, benefit levels;
3. Effective July 1, 2011, the \$500 in additional compensation referenced in Section 9 of the agreement will be rescinded.

If Town Meeting does not authorize the transfer of funds to salary lines, the salary increase obligation remains in effect for the remainder of this fiscal year, potentially leaving departments with a shortfall in their personnel budgets which would have to be rectified through fund transfers at the 2011 Annual Town Meeting, transfers from the Reserve Fund, reductions in staff or services, or 3% adjustments at the end of the fiscal year. The savings accruing from plan design changes, estimated at \$578,400, will also continue for the remainder of the year, but the savings from the decrease in the Town's premium contribution rate to 82.5% will end after only 5 months.

The effect of rejecting the transfer of funds reduces the total savings to the Town to \$101,500. It also, however, creates a net liability of (\$476,900) to the FY2011 operating budget since plan design change savings are realized as reduced costs to the Claims Trust Fund and only materialize for consideration in the FY2012 budget.

State Legislature

If legislation is enacted at the state level that allows the Town to make unilateral plan design changes, and the Town makes such changes, the default Town contribution rate will revert to 85%.

Additional Discussion of the Healthcare Budget

In addition to savings accruing from the new coalition bargaining agreement, a reduction in the final FY2011 rates and fewer enrollees than anticipated during the budgeting process are projected to contribute to a surplus in the line 2130 healthcare budget at the end of FY2011.

Enrollment rates

Actual enrollment rates for FY2011 are currently lower than expected. The FY2011 enrollment projections were made cautiously, assuming that the continued economic downturn could trigger an increase in the number of employees electing Town provided healthcare benefits. In addition, as reported during the 2010 Annual Town Meeting, the proposed budget had mistakenly double-counted 14 vacant positions when projecting enrollments. Enrollment projections were also based on the existing plan that included the higher Town contribution rate of 85%. The reduction in the Town's contribution rate may have contributed to fewer employees electing to enroll in Town-provided healthcare benefits.

The budget process projected a maximum subscriber count of 2,210 for FY2011, which is typically reached in November of each year. Enrollment data reported as of November 8, 2010, show a total of 2,121 total enrollments (active employees and retirees). This is an increase over the June 2010 count of 2,081, and the March 2010 count of 2,102, but consistent with the November 2009 count of 2,124. While employees can continue to change their benefit elections during the year as a result of "qualifying events" (e.g., births, employment change, etc.), Town staff are confident that there will be fewer subscribers than originally estimated.

Recommendation (Coalition Bargaining Agreement)

The current agreement represents a step in the right direction, balancing compensation and benefits in a manner fair to current and future employees, to Town retirees, as well as the taxpayers. The changes in plan design and the increase in premium contribution rate for subscribers both serve as incentives to reduce underlying costs through informed consumption. Nonetheless, as has been pointed out in previous Appropriation Committee reports to Town Meeting, annual increases in healthcare costs remains a

significant area of concern for the Lexington budget. We encourage the Town and its employees to continue to consider total compensation when negotiating coalition bargaining and collective bargaining agreements. We also suggest exploring new plan design alternatives for future contracts that will further reduce underlying costs while providing necessary care.

As requested by a resolution amending Article 4 passed at the 2010 Annual Town Meeting, the Committee will continue to closely monitor line 2130 spending and utilization and will report on it to the 2011 Annual Town Meeting.

The Committee recommends approval of the budget transfers specified in the Coalition Bargaining Agreement.

Fire Department Training and MWRA Assessment

Under part (a) of Article 2, the Fire Department requests \$10,000 to fund basic life support (BLS) training for firefighters that the Fire Chief has recommended be implemented prior to next spring’s Annual Town Meeting.

Under part (c) of Article 2, a small “housekeeping” adjustment is proposed to the MWRA Assessment line item of the sewer enterprise fund budget to reflect an increase of \$1,099 in the final MWRA assessment over the preliminary MWRA assessment on which the original budget was based.

The Committee recommends approval of these changes to the Fire Department and MWRA budgets.

The Committee, by a vote of 7-0, recommends approval of all the components of this Article.

Article 3: Appropriate to Specified Stabilization Funds	Funds Requested	Funding Source	Committee Recommendation
	\$216,300	Cubist Pharm.	Approve (7-0)

Approval of this article will move \$216,300 received from Cubist Pharmaceuticals, Inc. to the Traffic Mitigation Stabilization Fund (\$166,300) and to the Transportation Demand Management Stabilization Fund (\$50,000).

Warrant Article 3 of the 2009 Fall Special Town Meeting modified the CD zone that Cubist owns and occupies. The Amended PSDUP, which specifies the terms of the zoning modification, requires Cubist to make a series of payments to the Town to mitigate the impact of additional traffic created by the project. This payment, received by the Town on September 24, 2010, is referred to in the Amended PSDUP as the “First Payment” and is based on Cubist’s addition of up to 127 parking spaces. If at any time Cubist adds more than 127 parking spaces, additional payments are mandated by this agreement. The Amended PSDUP allows the Town to determine whether to place the money in the Traffic Mitigation Stabilization Fund, the Transportation Demand Management Stabilization Fund, or a combination of both.

The Committee, by a vote of 7-0, recommends approval of this request.

Article 4: Appropriate to Stabilization Fund	Funds Requested	Funding Source	Committee Recommendation
	\$710,000	GF	Approve (7-0)

As discussed in the Introduction, the estimate of the FY2011 revenues has increased since the budget was adopted at the Annual Town Meeting. This Article seeks appropriation of \$710,000 to the Town’s unrestricted Stabilization Fund. This amount is the net increase in the funds available for appropriation

remaining after changes in the operating budget requested under Article 2. The current balance of the Stabilization Fund is \$7,544,712.

Consistent with the recommendation of the Ad Hoc Financial Policy Committee, Town Meeting has appropriated funds to the unrestricted Stabilization Fund at the 2006, 2007 and 2008 Annual Town Meetings, and at the 2009 Special Fall Town Meeting. An appropriation was not made to this fund at the 2010 Annual Town Meeting in anticipation of a reduction in State Aid.

The Committee, by a vote of 7-0, recommends approval of this request.

Article 5: Appropriate Supplemental Funds for CPA Projects	Funds Requested	Funding Source	Committee Recommendation
	\$73,000	CPA	Approve (7-0)

The Community Preservation Committee requests a supplemental appropriation of \$73,000 from the Community Preservation Trust Fund (CPTF) Undesignated Fund Balance (\$24,000 for Busa Farm and \$49,000 for Cotton Farm) to pay for additional legal and administrative expenses required to complete the acquisition of these properties. These expenses were incurred after Town Meeting’s approval of the two land purchases, and they were required in order to draft and file land use restrictions and to develop land management plans. Money for these services was included in the original appropriations approved by Town Meeting, but the total costs were underestimated.

The Busa Farm purchase was approved under Article 6 of the 2009 Spring STM and included \$97,000 to cover non-acquisition expenses. Non-acquisition expenses incurred to date total \$92,844 and the CPC anticipates an additional \$27,650 in expenses, resulting in a shortfall of \$23,494.

The Cotton Farm purchase was approved under Article 9 of the 2010 ATM and included \$57,000 to cover non-acquisition expenses. Non-acquisition expenses incurred to date total \$48,043 and the CPC anticipates an additional \$58,000 in expenses, resulting in a shortfall of \$49,044.

All unexpended money from this supplemental appropriation will return to the CPTF Undesignated Fund Balance.

It is important to note that these costs will only complete the land purchases and establish legal restrictions as set forth in the articles that Town Meeting approved. In the future, additional funds may be required to implement proposed land uses. Such funding would require CPC approval and appropriation from Town Meeting.

The Committee, by a vote of 7-0, recommends approval of this request.