APPROPRIATION COMMITTEE

TOWN OF LEXINGTON

REPORT TO THE

2015 ANNUAL TOWN MEETING

Released March 23, 2015

APPROPRIATION COMMITTEE MEMBERS

Glenn P. Parker, Chair • John Bartenstein, Vice Chair/Secretary
Robert N. Addelson (ex-officio; non-voting) • Mollie Garberg • Alan Levine • Beth Masterman
Susan McLeish • Eric Michelson • Richard Neumeier • Andrei Radulescu-Banu

Contents

Summary of Warrant Article Recommendations

Abbreviations

EF	Enterprise Fund	CPA	Community Preservation Act
GF	General Fund	DSSF	Debt Service Stabilization Fund
RE	Retained Earnings	IP	A motion to Indefinitely Postpone is expected
RF	Revolving Fund	TDM	Traffic Demand Management

Article	Title	Funds Requested	Funding Source	Committee Recommendation
4	Appropriate FY2016 Operating Budget	$193,549,110	*See Below*	**Approve (8-0)**
5	Appropriate FY2016 Enterprise Funds Budgets	$9,195,731 $8,624,962 $2,623,267 $216,836 **$20,660,796**	Water EF Wastewater EF Recreation EF Tax Levy	**Approve (8-0)**
6	Appropriate for Senior Service Program	$20,000	GF	**Approve (9-0)**
7	Establish and Continue Departmental Revolving Funds	*See below*	RF	**Approve (8-0)**
8	Appropriate the FY2016 Community Preservation Committee Operating Budget and CPA Projects	$1,222,813 $336,500 $193,000 **$1,752,313**	CPA GF Debt Rec. EF	**Approve (8-0) exc. 8(c) (3-3-2), 8(g) IP**
9	Property Purchase – 241 Grove Street	$618,000	CPA	**Approve (8-0)**
10	Appropriate for Recreation Capital Projects	$68,000	Rec. EF	**Approve (8-0)**
11	Appropriate for Municipal Capital Projects and Equipment	$15,539,150	*See below*	**Approve (8-0) exc. 11(k) (2-5-1)**
12	Pleasant Street Sidewalk	$20,000	GF	**IP**
13	Prospect Hill Road Sidewalk	$100,000	GF	**IP**
14	Appropriate for Water System Improvements	$900,000	Water RE	**Approve (8-0)**
15	Appropriate for Wastewater System Improvements	$1,200,000 $600,000 **$1,800,000**	Wastewater EF (Debt) Wastewater RE	**Approve (8-0)**
16	Appropriate for School Capital Projects and Equipment	$1,986,000	*See below*	**Approve (8-0)**

Article	Title	Funds Requested	Funding Source	Committee Recommendation
17	Technical Correction to the Borrowing Authorization Under Article 13b of the 2014 Annual Town Meeting	$10,000	GF	**Approve (9-0)**
18	Appropriate for Public Facilities Capital Projects	$2,731,885	*See below*	**Approve (9-0) exc. 18(e) IP**
21	Appropriate to Post Employment Insurance Liability Fund	$1,862,194	GF	**Approve (9-0) $1,200,000**
22	Adjust Retirement COLA Base for Retirees	*None*	*N/A*	**Disapprove (3-6)**
23	Accept Chapter 235 of the Acts of 1994	*None*	*N/A*	**Approve (9-0)**
24	Appropriate Bonds and Notes Premiums	$149,140	Bond Premium	**Approve (9-0)**
25	Rescind Prior Borrowing Authorization	*None*	*N/A*	**Pending**
26	Establish and Appropriate To and From Specified Stabilization Funds	$6,405,035 $3,042,797 $18,175 $20,339 **$9,486,346**	Free Cash Tax Levy TM revenue TDM revenue	**Approve (8-0)**
27	Appropriate to Stabilization Fund	*None*	*N/A*	**IP**
28	Appropriate from Debt Service Stabilization Fund	$124,057	DSSF	**Approve (8-0)**
29	Appropriate for Prior Years' Unpaid Bills	*Unknown*	*Unknown*	**Pending**
30	Amend FY2015 Operating, Enterprise and CPA Budgets	*Unknown*	*Unknown*	**Pending**
31	Appropriate for Authorized Capital Improvements	*Unknown*	*Unknown*	**Pending**
32	Establish Qualifications for Tax Deferrals	*None*	*N/A*	**IP**
33	Authorize Home Rule Petition for Tax Relief	*None*	*N/A*	**IP**
34	Accept MGL c. 59, § 5, Clause 54 and Set Personal Property Minimum Tax	*None*	*N/A*	**Approve (8-0)**
35	Accept MGL Chapter 90-I, Section 1 (Complete Streets Program)	*None*	*N/A*	**Approve (8-0)**
36	Authorize Community Electrical Aggregation Program	*None*	*N/A*	**Approve (8-0)**

Article	Title	Funds Requested	Funding Source	Committee Recommendation
41	Amend General Bylaws – Contracts and Deeds	*None*	*N/A*	**Refer To Committee (8-0)**
42	Commission on Disability Request	*None*	*N/A*	**Approve (9-0)**
44	Resolution on Fossil Fuel Divestment	*None*	*N/A*	**Disapprove (2-5-1)**
46	Acquisition of Land Shown on Assessors' Property Map 22, Lot 51B	*None*	*N/A*	**Approve (8-0)**

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 March 2013, along with 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 report references several appendices at the end of this document that provide a deeper explanation of particular financial issues.

The discussion for each article presents the prevailing view of the Committee, as well as any other considerations or cautions that we feel Town Meeting should be informed of. If 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. The vote 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. It is not always possible to collect a complete vote for every article from nine voting members. In such instances, the total number of votes and abstentions published will be less than nine. For convenience, Committee votes are also summarized on the preceding pages.

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:

- The Town Manager's *Fiscal Year 2016 Recommended Budget & Financing Plan*, dated February 27, 2015, commonly known as the "Brown Book", fully describes the annual budget of the Town. The Brown Book also summarizes budget laws and bylaws (Appendix B) and includes a glossary of financial terms (Appendix D).
`http://www.lexingtonma.gov/budget.cfm`
- School Committee *Fiscal Year 2016 Superintendent of School's Level Service and Recommended Budget* (the "Gray Book"), dated January 6, 2015, which details the budget plans for the Lexington Public School System.
`http://lps.lexingtonma.org/Page/5278`
- Capital Expenditures Committee (CEC) *Report to the 2015 Annual Town Meeting,* which provides a detailed report on appropriation requests for capital projects.
- Community Preservation Committee (CPC) *Report to the 2015 Annual Town Meeting.*
- *TMMA Warrant Information Report* (March 2015), published by the Town Meeting Members Association.
`http://www.lexingtontmma.org/`

<u>Acknowledgements</u>

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, Patricia Moore; the Board of Selectmen; the Capital Expenditures Committee; the School Committee; the Superintendent of Schools, Dr. Paul Ash; the Assistant Superintendent for Finance and Operations, Mary Ellen Dunn; the Community Preservation Committee; and the Permanent Building Committee. We thank the municipal and school staff, Town officials, boards and volunteers who have contributed time and expertise to help us prepare this report. Last but not least, we thank Sara Arnold, who records and prepares the minutes of our public meetings.

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.

Committee Membership

Jonina Schonfeld and Robert Cohen resigned from the Committee at the end of FY2015. We are grateful to them for their service. We welcome two new members, Beth Masterman, who joined us after serving on the Capital Expenditures Committee, and Andrei Radulescu-Banu.

Reserve Fund

The Committee has approved the following Reserve Fund transfers so far during FY2015:

Date	Amount	Description
9/4/2014	$69,120	Route 128 Business Council Alewife Shuttle
9/23/2014	$35,000	Visitor's Center transition to Town management
10/8/2014	$11,500	Alleviate public health nuisance at a private residence
2/12/2015	$150,000	High School modulars Phase 2
	$265,620	**Total Transfers**

As of publication, the balance in the FY2015 Reserve Fund is $634,380. The Reserve Fund transfers highlight two financial changes in September 2014.

The Route 128 Business Council operates a regular shuttle (the REV bus) between the Alewife MBTA station and Hartwell Avenue. The shuttle operations have been funded by contributions from businesses in the Route 128 area, and also partly by a federal grant. That grant was not renewed, putting the operation of the shuttle in jeopardy. Given the clear benefits of the shuttle, the Town agreed to temporarily cover the lost funding, while encouraging the Route 128 Business Council to recruit significantly more support from the businesses that benefit from it.

The Lexington Chamber of Commerce handed over the operation of the Visitor's Center to the Town in September 2014. The transition was unexpected, but the Town acted promptly to maintain the services, amenities, and retail operations that the Visitor's Center provides for tourists and those passing through Lexington Center. A new Revolving Fund was created and then seeded with funds to bootstrap the operations. These funds covered initial salary and inventory costs, with the goal of restoring the Visitor's Center into a mostly self-sustaining business. The Visitor's Center is now managed under the Director of Economic Development.

Developments Since Adoption of the FY2015 Budget

The Town endured a harsh winter with historic snowfall totals. Expenditures in FY2015 for snow and ice removal as of publication are $1,935,512. The FY2015 budget for snow and ice removal was $1,127,716, leaving a deficit of $807,796.

The School Department has been notified of a total of $137,560 in 9C cuts impacting the METCO and Full-Day Kindergarten grants during FY2015. The FY2016 budget includes a set-aside of $200,000 for unanticipated fiscal needs during FY2015.

At the June 16, 2014 Special Town Meeting, the following appropriations were approved:

- $220,000 to purchase a land-locked parcel behind 430 Concord Ave. for conservation purposes.
- $250,000 to revise and expand the School Master Plan, in response to current enrollment issues in the Lexington Public School system.
- $500,000 to supplement the renovation of the Community Center, expected to open in May 2015.

March 23, 2015 Special Town Meeting #1 and #2

Two Special Town Meetings have been scheduled concurrently with the 2015 Annual Town Meeting. The Committee has already published a report covering the Articles in these Special Town Meetings.

The Warrant for the first Special Town Meeting contains a single request for an appropriation of $4.08 million to fund initial work on a collection of school capital projects with a preliminary estimated cost of $111.5 million. As participants in the development of this request, the Committee maintained a liaison with the Ad hoc School Master Planning Committee, participated in deliberations during joint meetings of the Budget Summit, and worked independently with the chairs of the Board of Selectmen, the School Committee, and the Capital Expenditures Committee to forge a consensus position on the plan to add capacity and flexibility to the Town's public school system (see School Master Plan, below).

The Warrant for the second Special Town Meeting comprises five requests for capital projects that require prompt action by the Town prior to the end of FY2015. The total of the requested appropriations on the Warrant for Special Town Meeting #2 is $1.83 million, but funding for most of the projects comes from the Wastewater Enterprise Fund, CPA Fund, and a legal settlement. A request for $350,000 to complete the High School Modulars Phase 2 will be funded from the General Fund.

School Master Plan

The Town has seen persistent growth in school enrollment since 2010, contrary to the predictions derived using industry-standard enrollment models. The fundamental change likely began as early as 2007 when annual enrollments began to level out instead of slowly falling as predicted. The School Department has indicated that the Town must expand its school facilities to address widespread overcrowding in the elementary schools, and to limit the number of out-of-district placements that will be required due to inadequate facilities in Town. As students advance in years, the crowding in the six elementary schools is expected to carry forward into the two middle schools and then the high school.

After the June 16, 2014 Special Town Meeting, the Town formed the Ad hoc School Master Planning Committee. That committee hired Symmes, Maini & McKee Associates (SMMA) to determine the baseline capacities for existing buildings, and to research a variety of alternatives for expanding the capacity of the school system. SMMA had to contend with a number of complex factors:

- Existing overcrowding in five out of six elementary schools
- Student population distribution strongly biased towards the eastern side of the Town
- An elementary school building with significant and long-standing problems (Hastings)
- Wide variation in predictions for enrollment growth
- Proper timing as enrollment growth advance to higher grades
- Particular needs of special education programs at each school
- Lack of readily available swing space
- A dearth of land suitable for certain kinds of construction at several locations

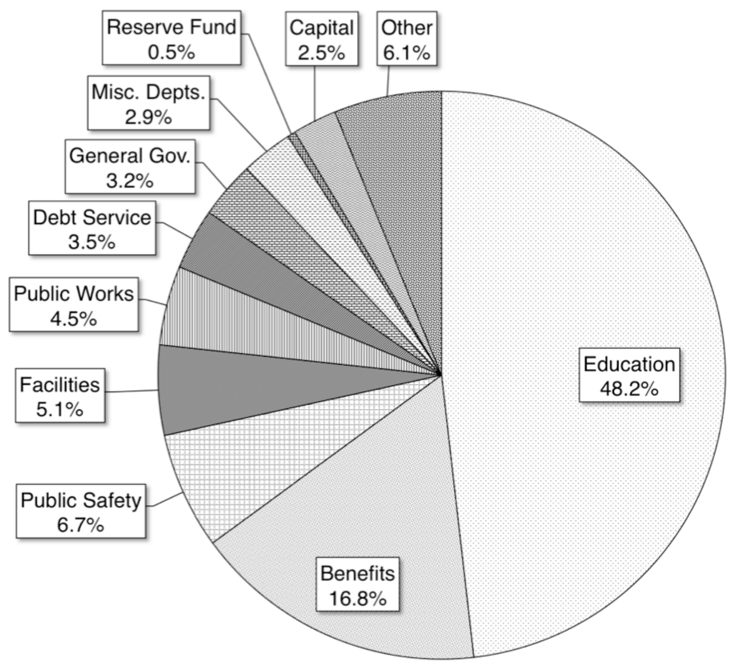
The results are described in the final report from the AhSMPC, and further refined in the *School Building Project Consensus Plan* published by the Board of Selectmen. The Committee supports this consensus. We are at the start of a multi-year endeavor to address the enrollment problems with a series of construction projects. We expect the projects to include pre-fabricated modular classrooms, brick and mortar additions, and the construction of an entirely new elementary school.

The Committee anticipates that the Town will call a Special Town Meeting in the fall of 2015 to consider a debt exclusion to fund the first round of these projects.

The FY2016 Budget

The Town Manager has proposed a balanced, level-service budget that is not contingent on an operating override. The table and chart below comprise the General Fund budget totaling $193,549,110. This does not include enterprise funds, revolving funds, Community Preservation Act funds, grants, or exempt debt service.

FY2016 Municipal Budget Summary



Budget Category	Description		% of Total	Recommended Budget ($)
1000	Education		48.2%	93,263,130
2100	Shared Expenses	Benefits	16.8%	32,423,749
2200		Debt Service	3.5%	6,755,562
2300		Reserve	0.5%	900,000
2400		Facilities	5.1%	9,899,631
3000	Public Works		4.5%	8,749,573
4000	Public Safety		6.7%	12,880,489
5000-7000	Misc. Depts.*		2.9%	5,689,025
8000	General Gov.		3.2%	6,259,183
	Cash Capital		2.5%	4,871,905
	Other**		6.1%	11,856,862

* Culture & Recreation, Human Services, Office of LU/IS/ED

** Budgetary set-asides, stabilization fund, Senior Service Program, PEIL Fund (OPEB)

Program	FY2015 Appropriated Budget	FY2016 Recommended Budget	Change $	Change %
Education	$87,868,313	$93,263,130	$5,394,817	6.1%
Shared Expenses	$47,352,943	$49,978,942	$2,625,999	5.5%
Municipal Departments	$31,957,312	$33,578,271	$1,620,959	5.1%
Subtotal Operating Budget	**$167,178,568**	**$176,820,343**	**$9,641,775**	**5.8%**
Cash Capital	$5,958,117	$4,871,905	$(1,086,212)	-18.2%
Other *(Approp. to reserves, misc.)*	$7,049,726	$11,856,862	$4,807,136	68.2%
Total General Fund	**$180,186,411**	**$193,549,110**	**$13,362,701**	**7.4%**
Projected Revenue	$181,102,361	$193,549,110	$12,446,749	6.9%
Surplus / (Deficit)	$915,951	$0	$(915,951)	

As always, the Town crafts its budget using assumptions about State funding to expect, primarily in the form of aid under Chapter 70 (schools) and Chapter 90 (roads). This year the Governor has indicated his intent to reduce or eliminate some state aid programs. This could impact the School Department budget beyond the capacity of the $110,000 set-aside in the FY2016 budget for potential reductions in state aid (see the discussion under Article 4, Program 1100).

As usual, the Committee may choose to update its recommendation on the floor of Town Meeting if new information is presented.

Warrant Article Analysis and Recommendations

Article 4: Appropriate FY2016 Operating Budget	Funds Requested	Funding Source	Committee Recommendation
	$193,549,110	*See Motion*	**Approve (8-0)**

The operating budget consists of Education (1000), Shared Expenses (2000), and Municipal (3000-8000) programs. Major components of the operating budget are discussed below.

Each major section of this request is discussed separately below.

Program 1100: Lexington Public Schools	Funds Requested	Funding Source
	$92,060,316	*See Motion*

Overview

The School Committee has voted to recommend a FY2016 appropriation of $92,060,316 for school operating expenses. The request represents an increase of $5,436,387 or 6.28% above the FY2015 appropriation. The primary drivers of the FY2016 request include contractual requirements such as collective bargaining agreements; legal requirements for special education and transportation services; enrollments increases; and programmatic improvements including improved social and emotional well-being support for students.

In the FY2016 request, there are increases above "level service" amounts for contractual increases, and for the addition of 46.61 FTE (a 4.71% increase) in staff to address legal requirements, enrollment increases and programmatic improvements. The increased staffing under this request resulted in $623,783 added to the Shared Expenses budget for the benefits associated with the new positions.

The additional 46.61 FTE positions address a variety of needs. Based on projected enrollment increases, the budget includes funds for 12.1 general education teachers, 3.0 additional K-5 teachers and 0.45 specialists. The staff increase allows for the implementation of the second phase of the Intensive Learning Program to address the needs of special needs students from grade 9 through age 22, with 9.36 educators and support staff, and a 0.75 transition coordinator. An additional 12.46 pre-K to grade 12 support positions are required by projections of the number of students with Individualized Education Programs (IEPs). Other increases in staff include: 1.0 guidance counselor at Lexington High School (LHS), 0.5 guidance counselor at Bridge Elementary, 0.4 social worker at LHS and 3.0 social workers across all six elementary schools to promote social and emotional wellness, as well as 0.7 nurse district-wide and a 0.2 nurse at Clarke.

There is a significant decline in this year's request for special education out-of-district tuition. Relative to FY2015, the School Committee has reduced by 50% the amount held in reserve for students at risk of needing out-of-district placement. In the recent past, the reserve was calculated as 100% funding for an annual increase of 20 to 25 students requiring selected placements. During every school year, the school system handles the addition of new students, terminations of out-of-district placements of other students, along with changes in existing placements. This budget reserve has been reduced by 50% based on past experience during fiscal years 2011-2014 when significant amounts were returned to the Town from this line item.

The Committee recognizes that there is an increased risk of an overrun because of this change. However, the Special Education Stabilization Fund is available to mitigate an unexpectedly large increase in these expenses.

Funding Sources Not Subject to Appropriation

The annual appropriation from the Town supports the majority of the school budget. However, the complete school budget includes additional funds from state, federal and other sources that are not subject to appropriation by Town Meeting, thus these funds are not included in this request. The amounts of these funds vary year to year. A brief listing of some of these follows:

- **Federal Grants** – For FY2016, the School Department projects that it will receive $1,890,632 in federal grants, the same amount that was received in FY2015.
- **State Grants** – The Town receives grants from the state to support METCO, School Health, Academic Support, Full-Day Kindergarten, and Special Education Program Improvement. State grants do not include cherry-sheet local aid for education, because local aid is considered to be General Fund revenue.
- **"Circuit Breaker" Reimbursements** – Reimbursements are received from the state when the tuition costs of special education services for an individual student, whether in-district or out-of-district, exceeds a multiple of four times the statewide foundation budget. In the past, reimbursement rates have varied between 35% and 75% of the tuition cost. Circuit breaker reimbursement funds are treated as an offset with regard to this budget request.

State grants for FY2016 are as yet uncertain (see below), and the School Department budget initially assumed the total aid from grants would be $1,571,550, the same as in FY2015. The School Department also projected the FY2016 circuit breaker reimbursement rate would be the same as the FY2015 reimbursement rate of 72%. With a base of 126 students, the total reimbursement for FY2016 was estimated to be $3,018,304. The actual reimbursement for FY2015 was $3,028,763.

The Governor's proposed budget contains two significant cuts in state aid for FY2016. The Kindergarten Expansion grant that pays the cost of Kindergarten Assistant positions would be eliminated, for a loss in state aid of $227,000. The reimbursement rate for the Special Education Circuit Breaker would be reduced from 72% to 66%-68%, lowering the Town's special education reimbursements by approximately $250,000. These cuts are still preliminary, and subject to change until the state budget is finalized.

We note that the recommended Town Manager's budget reserves $110,000 in anticipation of reductions in federal and state aid, but this would be insufficient to cover a possible $477,000 in cuts. These cuts could necessitate an increase in the School Department FY2016 budget request, an appropriation at a future Town Meeting (possibly using the Special Education Stabilization Fund), or reductions in service.

Fee Programs

Fees for participants in certain programs support those programs in whole or in part. No changes in the fee schedules for preschool are anticipated in FY2016. No fee changes are anticipated for athletic fees in FY2016. The only significant change in fees for FY2016 is the increase in the School Lunch price from $3.25 to $3.50 to cover the cost of the LHS dishwasher, eliminate the use of styrofoam trays from the program, and cover rising food costs. The lunch price was last increased in the 2005-2006 school year.

Transportation

Special education transportation is required to provide access for some students to educational services. This budget request includes an increase of $132,574 due to contractual increases and an increase in the number of both in-district and out-of-district students receiving transportation services. The McKinney-Vento Act requires that the district provide transportation for homeless students residing in Town. In FY2015, the Town saw a decrease in the number of homeless students it serves. It is estimated that 11 homeless children will require transport in FY2016.

For the first time since 2007, FY2015 school bus ridership exceeded 3100 riders. The three-tier on-line registration process achieved its goal. The School Committee continues to support a 44% fee subsidy towards the total cost per seat.

More detailed information about the School Committee recommended budget is available at: `http://lps.lexingtonma.org/Page/5278`

Program 1200: Regional Schools	**Funds Requested**	**Funding Source**
	$1,202,814	GF

The Minuteman Regional High School (MRHS) Committee has accepted an FY2016 budget of $19,831,003, an $185,938 increase (0.95%) over FY2015. This increase consists of a 0.48% decrease in the costs of operations and a 9.5% increase in capital and debt costs. This budget will begin the school's transition to a reduced high school enrollment of 628 students as well as begin a four-year educational plan conversion to a Career Academy model of education. The goal is to create a smaller school with a higher percentage of in-district students that can still offer a diverse and high quality selection of relevant education and training opportunities, preparing the district to occupy a new or renovated school.

Due to a lack of consensus among the District member towns, the school still remains unable to initiate their Massachusetts School Building Authority (MSBA) approved renovations program. This project process is in its seventh year and the delays have prompted the New England Association of Schools and Colleges to keep MRHS on "Warning Status" for having failed to make progress under the Facilities Standard. MSBA has signaled that unless the project begins to progress towards construction, the funding will be lost. The disagreement amongst the member towns has also created a situation where the District is being forced to reinvest in building systems that are approaching their end-of-life.

A serious roadblock for the school renovation is the number of out-of-district students (almost 45% of the school population) and the fact that their tuition (set by the State) covers operating expenses only. New regulations adopted by the Massachusetts Board of Education will enable the school to incorporate a new facilities fee for out-of-district students to fund a portion of the capital renovation program.

Last year member communities were asked to accept a new Regional Agreement to address some of these concerns. Although accepted by Lexington's Town Meeting, it was not accepted district-wide and it will be on the Town Meeting agendas of those towns. However since last year's votes, the MRHS School Committee voted to reduce the size of the District to 628 students, more closely aligning it with in-district enrollment needs.

This budget assumes a smaller high school population, a decline due to the large size of the 2015 graduating class. Staffing changes include reductions in administration positions which net out to a 0.5 FTE, a transfer of a net 2.5 FTE teaching staff from a grant program, a reduction of 1.0 FTE teaching staff, a 0.5 FTE reduction in guidance, and the elimination of 6 coaching positions. The school also anticipates further enrollment dependent staff changes. Salaries, which make up 62% of the operating budget, increased $101,891 (0.9%).

The $1,367,226 transportation contract expires on 6/30/15 and a 3% increase is being budgeted for FY2016. Health insurance premiums are increasing 3% and a $50,000 payment will be made against the District's $21,900,000 Other Post-Employment Benefits (OPEB) liability. Infrastructure renewal continues with an annual capital budget of $590,000, which includes a $100,000 contribution to their stabilization fund.

As of October 1, 2014, 683 full-time students were enrolled. Roughly 57% of these students are from in-district towns and 43% are from out-of-district towns. The District School Committee has maintained its earlier position not to accept school choice students at MRHS. Total full-time enrollment decreased by 42 students (6%) consisting of an in-district enrollment decrease of 25 students (6%) and out-of-district enrollment decrease of 17 students (5.4%). Special education (SPED) students comprise 49.9% of the school's FTE enrollment.

The FY2015 out-of-district tuition set by the Massachusetts Department of Elementary and Secondary Education (DESE), increased slightly to $18,467 per student from $18,309 in FY2014, and is expected to decrease in FY2016. Despite lobbying efforts by MRHS, the state-imposed tuition is determined by a formula which continues to underfund the district. In addition, out-of-district towns will continue to be assessed for non-resident SPED tuition at $4,500 per student and all transportation costs will continue to be assumed by the sending community.

Revenues and expenses related to Post Graduate (PG) programs, including tuitions charged to in-district students and those assessed to towns, continue to be managed through a revolving account. This financially isolates these programs from the rest of the school's operating budget. PG enrollments have continued to drop after temporarily rising due to the down economy, partially due to the additional matching tuition charged to in-district students.

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 $2,176,952 of Chapter 70 funds and $846,202 in transportation aid. These estimates are based on the Governor's H-1 budget, which indicates modest increases in funding of Chapter 70 aid and transportation aid compared with FY2015. These amounts are preliminary until final approval of the State's FY2016 budget. Total assessments are increasing 6%.

One significant change in the calculation of member town's assessment is the elimination of the per-student SPED Assessment. The DESE recently ruled the District must include SPED costs as part of its regular operating costs and is required to spread the costs to member towns using the District Assessment formula. However the District is still allowed to charge a SPED surcharge to out-of-district tuition students.

Lexington's Projected Minuteman Assessment – based on unapproved House-1 budget

	FTE BASIS ENROLLMENT*		AVG. PER-PUPIL CHARGE		ASSESSMENT	
PROGRAM	**FY15**	**FY16**	**FY15**	**FY16**	**FY15**	**FY16**
Grades 9-12:						
Regular Day Students	47.0	41.5	$6,151	$10,719	$289,096	$444,841
Special Education Assessment	26.0	**	$4,500	**	$117,000	**
State Minimums for Lexington	49.0	43.0	$14,449	$14,667	$707,981	$630,671
Totals, grades 9-12(inc. SPED)	47.0	41.5	$23,704	$25,916	$1,114,077	$1,075,512
Post Graduate Programs:	5.0	3.0	$3,000	$3,375	$15,000	$10,125
TOTAL OPERATING	52.0	**44.5**	$21,713	**$24,396**	$1,129,077	**$1,085,637**
Capital Assessment			$2,453	$2,824	$115,308	$117,176
TOTAL ASSESSMENT			$23,930	**$27,030**	$1,244,385	**$1,202,813**
% increase (decrease) over prior year			(-2.61%)	12.95%	(-15.59%)	(-3.34%)

* - prior year's enrollment as of October 1
** - SPED Assessment discontinued

A breakdown of the full assessment is shown above. Lexington's FY2015 enrollment (as of October 1, 2014) was 41.5 full-time regular students in grades 9-12. This "basis enrollment" is used to calculate the per-student assessment for Regular Day Students and the Capital Assessment in FY2015. This is a drop in enrollment of 5.5 Regular Day students and 9 Post Graduate students.

Due to the Town's lower enrollment, and a 15% increase in the per-student capital assessment, the preliminary FY2016 assessment for Lexington is $41,572 (3.34%) less than the FY2015 actual assessment.

Program 2000: Shared Expenses	Funds Requested	Funding Source
	$49,978,942	*See Motion*

The Shared Expenses section of the budget is comprised of four different pieces. Each section is listed below with respective budget totals:

	FY2015 Recap	FY2016 Recommended	$ Change	% Change
Benefits & Insurance	$29,824,628	$32,423,749	$2,599,121	8.71%
Debt Service	$6,730,641	$6,755,562	$24,921	0.37%
Reserve Fund	$900,000	$900,000	$0	0.00%
Public Facilities	$9,897,675	$9,899,631	$1,956	0.02%
Total Shared Expenses	$47,352,943	**$49,978,942**	$2,625,999	5.55%

The recommended total Shared Expenses line represents an increase over the FY2015 recap amount by 5.55% and is almost entirely driven by an 8.71% increase in employee benefits and insurance.

Employee Benefits and Insurance

Nine specific increases are cited in the Brown Book that together make up the increase in this line item. Here we comment on the two largest.

The Retirement Board recently decided to increase the amount for Contributory Retirement by approximately $250,000 in order to move up the date that the Retirement Fund will reach 100% of full funding to the year 2025, which is 15 years in advance of the State mandate that full funding of the Retirement Fund be achieved by 2040. Our understanding is that the Retirement Board feels a potential downturn in the investment market could jeopardize the Town's ability to reach full funding by the 2040 deadline, and adopting an earlier deadline improves the Town's chances of meeting the legal requirement without a need for extraordinary steps during the years shortly before 2040.

The Committee feels the 2025 target adopted by the Retirement Board represents an unnecessarily conservative position, given that (1) the Town's progress toward full funding is already superior to most other Massachusetts communities, (2) excluded debt service for school and municipal projects will likely peak between 2017 and 2025, putting significant pressure on the Town budget, and (3) a statewide financial downturn large enough to prevent the Town from reaching its funding target for five or more years would dramatically affect every municipality in the state. This would likely lead to a postponement of the legal deadline. While the legally mandated year for full funding remains at 2040, the Committee suggests that a self-imposed deadline of 2030 or 2035 would be prudent.

An increase of $1,981,965, or 9.54%, for health insurance is driven by Group Insurance Commission (GIC) rate increases of about 7.5% on average for the Town's active and retired employees, and by the projection that 103 new enrollees could be added to the Town's plan in FY2016.

Debt Service

The increase of $24,921 in this line item is the net increase for within-levy debt service. The recommended budget proposes the appropriation of $620,567 from the Capital Projects Stabilization Fund to pay down some of this line.

The Town typically makes payments on exempt debt service without an appropriation from Town Meeting, and exempt debt service is not a part of the operating budget. Article 26 proposes an appropriation of

$215,000 from the Capital Projects Stabilization Fund to pay down the exempt debt service for FY2016. This will mitigate the annual increase in property tax bills attributable to exempt debt service.

Reserve Fund

The Reserve Fund is intended for extraordinary and unforeseen expenses. Transfers out of the Fund are done with the approval of the Appropriation Committee. This Fund is level-funded for the coming fiscal year.

Programs 3000-8000: Municipal	**Funds Requested**	**Funding Source**
	$33,614,349	*See Motion*

The municipal budget comprises all line items from 3000 to 8999. Adoption of the recommended municipal budget would result in an overall increase from FY2015 to FY2016 of $1,657,037 or 5.19%. The request includes a limited number of program improvement requests; they are listed below with brief comments.

Changes proposed in the FY2016 municipal department budgets include recommendations:

1. Fund the newly expanded Department of Recreation and Community Programs, with general and enterprise (fee-based) funding for the operations of the new Community Center (appropriated under Article 5).
2. **Line 4100:** Increase the Police Department budget, due in part to a program improvement ($46,000) for a half a year to support costs for the Traffic Bureau division for a new parking meter system proposed in the FY2016 capital budget, and two program improvements for the Patrol Division of $10,400 for high visibility uniform polo shirts for traffic officers and $3,818 for driver license scanners for police cruisers.
3. **Line 4200:** Funding to add four Firefighters, two of whom were funded through a federal grant that ended January, 2015, for the staffing of Medic 2, ambulance housed at the East Lexington fire station, on a 24/5 basis, funded through an increase in ambulance fees. The funds include salaries, uniforms, and benefits ($339,137).
4. **Line 5100:** Funding for supplies and materials to offset by 50% the cost of compliance to retain certification by the Massachusetts Board of Library Commissioners ($94,145).
5. **Line 7100:** Funds primarily for town wide boardwalk and bridge maintenance in conservation areas, Meagherville Bridge renovation, improvements at Daisy Wilson Meadow, and rodent control survey and baiting services ($10,600) and $11,600 increase to fund additional hours for alternate building inspectors.
6. **Line 7300:**
   a. Add a staff person to the Economic Development Office, to oversee visitor and tourism programs ($58,641).
   b. Continue the Town’s operation and management of the Visitor Center, largely funded from revenues at the Gift Shop but also including some general fund/tax levy support ($18,800).
7. **Line 8200:** Replace the Assistant to the Town Manager position, which had been reassigned to Information Services in FY2015, with another senior management position; ($117,820).
8. **Line 8300:** Funds one time cost of consulting services to the 20/20 Vision Committee for study of community models of multicultural integration ($15,000).
9. **Line 8400:** Fund part time Clerical Staff in Assessors’ Office ($18,726).
10. **Line 8600:** Add three positions to Information Services, one of which is contingent on proceeding with the capital project to replace the police/fire dispatching and records software ($267,528).

Municipal Budgets	FY 2015 Restated	FY2016 Recommended	$ Change	% Change
3000 Public Works	$8,721,486	$8,749,573	$28,087	0.3%
4100 Police	$6,313,553	$6,497,856	$184,303	2.9%
4200 Fire	$5,773,938	$6,378,634	$604,696	10.5%
5000 Library	$2,180,569	$2,324,182	$143,613	6.6%
6000 Human Services	$1,220,133	$1,203,663	($16,470)	-1.3%
7000 Community Development	$1,332,104	$1,359,989	$27,885	2.1%
7200 Planning	$340,697	$359,145	$18,448	5.4%
7300 Economic Development	$160,022	$289,434	$129,412	80.9%
Selectmen	$650,990	$665,512	$14,522	2.2%
Town Manager	$862,859	$863,754	$894	0.1%
Salary Adjustment Account	$878,000	$910,507	$32,507	3.7%
Town Committees	$53,000	$69,000	$16,000	30.2%
Finance	$1,769,396	$1,803,933	$34,537	2.0%
Town Clerk	$484,067	$436,604	($47,463)	-9.8%
Information Technology	$1,216,497	$1,702,563	$486,066	40.0%
Total	**$31,957,312**	**$33,614,349**	**$1,657,037**	**5.2%**

The Committee recommends approval of this request (8-0).

Article 5: Appropriate FY2016 Enterprise Funds Budgets	Funds Requested	Funding Source	Committee Recommendation
	$9,195,731 $8,624,962 $2,623,267 $216,836 **$20,660,796**	Water EF Wastewater EF Recreation EF Tax Levy	**Approve (8-0)**

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 and Community Programs Enterprise Fund.[1] 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 appropriations addressed in this article cover the complete operating costs of the respective enterprises with the exception of indirect costs, which are appropriated under Article 4. The following discussion will focus on the anticipated expenses and revenues of the enterprise funds for FY2016 and issues they raise. Capital appropriations are addressed in Articles 10 (Recreation Capital), 14 (Water System Improvements) and 15 (Wastewater System Improvements).

[1] The mission of the Recreation Enterprise Fund has been expanded to include the recreational operations and programs for the New Community Center, and it has accordingly been renamed the Recreation and Community Programs Enterprise Fund.

[2] Final MWRA assessments issued in June, typically a bit smaller than the preliminary assessments, are used to set water and sewer rates during the Town's annual rate-setting process in the fall. Appropriations for MWRA expenses

Water and Wastewater Enterprise Funds

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

Water Enterprise Fund	FY2014 Actual	FY2015 Appropriated	FY2016 Requested	% Change
Compensation	$626,677	$674,611	$695,679	3.12%
Expenses	$395,016	$389,400	$389,400	0.00%
Debt Service	$1,258,627	$1,379,622	$1,415,508	2.60%
MWRA Assessment	$5,555,065	$6,037,972	$6,695,144	10.88%
Total Requested in Article 5	**$7,835,385**	**$8,481,605**	**$9,195,731**	**8.42%**
Indirect Expenses	$665,848	$789,725	$898,614	13.85%
Total Water Enterprise Budget	**$8,501,233**	**$9,270,880**	**$10,094,345**	**8.88%**

Wastewater Enterprise Fund	FY2014 Actual	FY2015 Appropriated	FY2016 Requested	% Change
Compensation	$174,223	$302,360	$296,917	-1.80%
Expenses	$336,397	$345,650	$345,650	0.00%
Debt Service	$1,112,818	$1,220,843	$940,679	-22.95%
MWRA Assessment	$7,014,300	$7,183,375	$7,041,716	-1.98%
Total Requested in Article 5	**$8,637,738**	**$9,052,588**	**$8,624,962**	**-4.72%**
Indirect Expenses	$450,116	$465,030	$478,354	2.87%
Total Wastewater Enterprise Budget	**$9,087,854**	**$9,517,618**	**$9,103,316**	**-4.35%**

Note that this table differs from that contained in the warrant in three respects: (1) the MWRA assessments for water and wastewater reflect the MWRA's preliminary assessments issued in February (see table below) rather than placeholders assumed in the warrant, which assumed a 10% increase over the prior year's assessments; (2) the debt service amounts have been changed to reflect those contained in the Brown Book; and (3) indirect expenses that will be charged to the enterprise funds, although appropriated separately under Article 4, have been included for completeness.

MWRA Assessments. The largest expense components of both the Water and Wastewater Enterprise Fund budgets are the assessments charged by the Massachusetts Water Resources Authority (MWRA), which now represent 70-75% of the total budget for each fund. The Town will be assessed a share of the MWRA's total FY2016 water and sewer budgets based on the Town's proportionate water and sewer usage in the prior calendar year (CY2014), compared with other towns in the MWRA community. Based on the MWRA's preliminary assessments,[2] the MWRA rate increases for FY2016 will be as follows

[2] Final MWRA assessments issued in June, typically a bit smaller than the preliminary assessments, are used to set water and sewer rates during the Town's annual rate-setting process in the fall. Appropriations for MWRA expenses may be adjusted to reflect the final assessments if a special town meeting is held in the fall.

MWRA Assessments

Fund	FY2014 Appropriated[3]	FY2015 Prelim. Assmt.	% Change
Water	$6,037,972	$6,695,144	10.88%
Sewer	$7,183,735	$7,041,716	-1.98%
Combined	$13,221,707	$13,736,860	3.90%

The combined MWRA assessment increase of 3.9% is roughly in line with MWRA's system-wide rate increase of 4.1%. This suggests that a recent trend of substantial increases in Lexington water usage compared with the rest of the MWRA community, attributable in part to an extraordinary remedial flushing program undertaken by the Town of Bedford in 2012 and 2013 to remove contamination in certain parts of its water system, has now stabilized.[4]

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 at moderate levels or decreasing (see Brown Book, pp. V-26, V-30).

This year, as noted in the discussion of Articles 14 and 15, it is proposed to finance the entire $900,000 program of water system improvements and $1,350,000 of a total $2,550,000 in sewer improvements, from retained earnings. This is reasonable because retained earnings are presently above their target levels, and, as noted below, the use of surplus retained earnings for capital projects mitigates future debt service costs and promotes rate stability.

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. Since 2006, the Town has conducted periodic studies of the appropriate level of indirect costs and has adjusted the charges to the enterprise funds accordingly. This year, indirect costs paid by the water fund are increasing by 13.85% to reflect an increase in construction-related services performed by the DPW Highway Division and indirect costs of the sewer fund are increasing at a more modest level of 2.87%.

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 that caused concern. Since 2005, the Town's ability to measure and forecast water and sewer usage, and thereby to anticipate revenues and reserve levels, has im-

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[3] Last year's final MWRA assessments came in slightly below the appropriated amounts at $6,035,866 (water) and $7,177,414 (wastewater) but as there was no fall special town meeting in 2014, the budget was not adjusted.

[4] Lexington re-sells MWRA water to the Town of Bedford on a pass-through basis. Extra revenue received from the Town of Bedford in 2013 and 2014 as a result of the flushing program was set aside as a reserve to mitigate the resulting rate increases for FY2014 and FY2015.

proved significantly. This has enabled the Town to restore and stabilize the water and sewer enterprise fund reserve balances at a targeted amount of approximately $1,000,000 for each of the two funds, and indeed more recently to draw some of the funds down for rate relief and capital investment as shown in the table below.

Retained Earnings: Appropriations and Year-End Balances

Annual Town Meeting	2010	2011	2012	2013	2014	2015
Water						
Starting Balance [1]	$2,113,729	$1,622,052	$1,952,253	$2,066,566	$2,234,007	$2,119,458
Approp. for Rate Relief [2]	$450,000	$650,000	$350,000	$300,000	$250,000	$200,000
Approp. for Capital [3]	$25,000	$145,100	$25,000	$750,000	$873,500	$1,015,500
Projected End Balance [4]	$1,638,729	$826,952	$1,577,253	$1,016,566	$1,110,507	$903,958
Wastewater						
Starting Balance [1]	$1,831,967	$1,622,052	$1,168,190	$1,319,000	$1,990,816	$2,027,941
Approp. for Rate Relief [2]	$400,000	$650,000	$150,000	$100,000	$50,000	$0
Approp. for Capital [3]	$45,000	$300,000	$0	$200,000	$940,500	$1,390,500
Projected End Balance [4]	$1,386,967	$925,612	$1,018,190	$1,019,000	$1,000,316	$637,441

[1] *Certified retained earnings as of the end of the prior fiscal year (as of 6/30/2014 for this year's ATM).*

[2] *Proposed appropriations from retained earnings to subsidize the next fiscal year's operating budget (FY2016 at this ATM).*

[3] *Proposed appropriations for capital projects for the next fiscal year (FY2016 at this ATM); this year's proposals are found in Articles 11 (Municipal Capital), Article 14 (Water System Improvements) and Article 15 (Wastewater System Improvements).*

[4] *Note that appropriations from retained earnings must be deducted as a liability from the projected retained earnings to be certified as of the end of the current fiscal year, even though the funds will not be applied until the following fiscal year. The projection of anticipated retained earnings assumes break-even operational results during the current fiscal year. A higher (lower) starting balance available for appropriation the following year indicates that the current year's operating results were higher (lower) than were projected at rate-setting, resulting in an operating surplus (deficit).*

This year's budget proposes a continued reduction in the annual retained earnings subsidy for rate relief – a reduction in the water subsidy from $250,000 to $200,000 and a reduction of the sewer subsidy to zero. These reductions make progress toward the goal of eliminating the use of retained earnings for short-term rate relief, which this Committee has recommended since such subsidies can be hard to eliminate abruptly and tend to introduce volatility in the rates.

As indicated by the difference between the projected ending balance of retained earnings and the next year's starting balance, the rates that were set in the fall of 2013 for FY2014 generated significant operating surpluses of approximately $1 million in each of the water and sewer funds, increasing the amount of retained earnings available for appropriation this year, continuing a trend of substantial operating surpluses that has been experienced for several years now. To some extent these surpluses were the result of unforeseen events, such as the receipt of unanticipated bond premiums; however, they also appear to be attributable to a sustained upward trend in water usage, particularly at the highest rate tier by certain commercial users, which has not been fully recognized in the rate-setting process. Rate-setting for FY2016 should take these trends into account so that rates are not set higher than necessary. While this committee has advocated the use of unanticipated retained earnings surpluses to fund capital improvements, thereby lowering long-term debt service costs and promoting rate stability, the goal of the enterprise funds should ordinarily be to break even, and any program to raise revenue in the rates for cash capital on a consistent basis should be explicitly addressed in the rate-setting process.

Recreation Enterprise Fund

Recreation Enterprise Fund	FY2014 Actual	FY2015 Approp.	FY2016 Requested	Dollar Increase	% Change
Compensation	$648,607	$704,615	**$1,127,630**	$423,015	60%
Expenses	$963,274	$1,036,319	**$1,374,201**	$337,882	32%
Debt Service	$100,000	$100,000	**$100,000**	$0	0%
Total Requested in Article 5	$1,711,881	$1,840,934	**$2,601,831**	$760,897	35%
Indirect Expenses (transfer to General Fund)	$228,600	$233,600	**$238,272**	$4,672	2%
Total	**$1,940,481**	**$2,074,534**	**$2,840,103**	**$765,569**	**37%**

Early in 2015, the Recreation Department was reorganized and renamed the Department of Recreation and Community Programs resulting in increased costs for operations and programs. The Director of Recreation and Community Programs, through the Recreation Committee, will continue to set fees with the approval of the Board of Selectmen.

This budget represents an increase of $765,569 (36.9%) from last year is driven primarily by the inauguration of the Lexington Community Center (LCC), see Brown Book pp. VII-9 – VII-10. In FY2016, The LCC budget includes $383,073 to fund 5.5 full time and seasonal staff who will plan, manage, and deliver community programs, along with the supplies needed.

The operational costs of all programs offered by the Recreation Department are designed to be revenue neutral with charges to users matching the program's operating costs. However, to supplement the overall increases in cost of operation and programming of the LCC, it is proposed that the in FY2016 the tax levy contribute an additional $217,000 in funding.

Debt service cost are unchanged at $100,000.

Other factors contributing to the increase:

- Management of active recreation construction projects pending approval for FY2016 funding (see Brown book pg. VII-10),
- Increases in compensation driven by cost of prospective step increases, cost-of-living increases and an increases in the minimum wage for seasonal employees,
- Increases in compensation for the Department Director to reflect additional responsibility in overseeing the operation of the Community Center,
- A $3,000 increase in the annual cost of the contract for the management of the golf course,
- A 2% increase on indirect payments to the General Fund to support costs incurred in the General Fund that support the Recreation Department.

Sources of revenue include user fees for fields and registration fees for programs (estimated to total $1,009,079 in FY2016). The revenue estimate for Pine Meadows Golf Course was reduced in response to actual usage figures. The estimate was reduced by 2.6% ($16,800) to $800,000.

The Recreation Fund contributes to the debt service on some 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 excluded debt.

The certified retained earnings for the Recreation Enterprise Fund as of the end of FY2014 were $998,471. Withdrawals from the Recreation Enterprise Fund retained earnings are proposed for capital purposes under Article 8 ($193,500 for Lincoln Park Field #3; $68,000, Article 10 for Pine Meadows Equipment).

The Committee recommends approval of this request (8-0).

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

This article proposes an appropriation for the Town's Senior Service Program of $20,000. This amount, together with an anticipated carryover balance from prior years of approximately $15,000 is expected to be sufficient to meet the needs of the program in FY2016.

The Senior Service Program

Since 2006, the Town has operated its own Senior Service Program, which allows low- to moderate income seniors (age 60 and over) to 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.

For more information 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.

Benefits and Criteria for Participation

The maximum amount of the tax reduction that may be earned, under guidelines established by the Selectmen and amended in July 2014, is $1,045/year (110 hours at $9.50 per hour) for an individual and $1,330/year (140 hours at $9.50 per hour) for a couple. 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 carryover 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 an 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 over time from $36,000 in FY2007 to $45,000 in FY2010.

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 at around 28 to 30 persons from FY2007 through FY2014, and annual expenditures have ranged from $23,642 to $28,046. Accordingly, appropriation requests since FY2010 have been scaled back to reflect realistic funding requirements and the amount of carryover funds available. The appropriation requested this year is $20,000. Going forward, however, the Selectmen may wish again to consider steps to enhance interest in this worthy program.

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

Article 7: Establish and Continue Departmental Revolving Funds	Funds Requested	Funding Source	Committee Recommendation
	See below	RF	**Approve (8-0)**

Fund #	Program or Purpose	Authorized Representative or Board	Departmental Receipts	FY2015 Approved	FY2016 Requested
1100	School Bus Transportation	School Committee	School Bus Fees	$830,000	**$850,000**
2400	Building Rental Revolving Fund	Public Facilities Dir.	Building Rental Fees	$410,000	**$425,000**
3100	Regional Cache - Hartwell Avenue	Public Works Dir.	User Fees	$20,000	**$20,000**
3320	Tree Fund	Board of Selectmen	Gifts and Fees	$25,000	**$45,000**
3330	DPW Burial Containers	Public Works Dir.	Sales	$40,000	**$40,000**
3420	DPW Compost Operations	Public Works Dir.	Sales and Permits	$490,000	**$534,922**
3420	Minuteman Household Hazardous Waste Program	Public Works Dir.	Fees Paid by Consortium Towns	$180,000	**$180,000**
6120	Council on Aging Programs	Human Services Dir.	Fees and Gifts	$100,000	**$100,000**
7140	Health Programs	Health Dir.	Medicare Reimbursements	$14,000	**$14,000**
7320	Tourism/Liberty Ride	Town Manager and Tourism Committee	Liberty Ride Receipts	$275,000	**$280,000**
7340	Visitor Center	Economic Devel. Dir.	Sales, Program Fees and Donations	–	**$117,000**
8140	PEG Access	Board of Selectmen and Town Manager	License Fees from Cable TV Providers	$671,000	**$565,000**

Reauthorization of all existing municipal revolving funds is requested for FY2016 as shown in the table above. Information regarding the nature of revolving funds can be found in Appendix C of this report. A summary of the revolving fund balances can be found on page C-2 in the Brown Book. 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 FY2015

The Tree Fund budget is recommended to increase by $20,000 to accelerate tree planting throughout Town pursuant to a joint initiative of the Tree Committee and the Department of Public Works.

The Compost Operations Revolving Fund increased by $39,942, or 8.07%, which reflects a $5,311 increase in compensation, and a $10,400 increase in operating expenses driven primarily by the cost of screening compost. In addition, debt service is increasing by $23,694 to cover the purchase of a loader and windrow turner.

The PEG Access Revolving Fund is driven by an escalator in the Town's contract with LexMedia, however this year the overall request is $137,000, or 20.42% lower than FY2015. Last year, $200,820 was approved to install communications infrastructure needed for public access programming in Cary Memorial Building. This year only $57,000 is requested to install wireless communications in Cary Memorial Building.

A new Revolving Fund was created for the Visitor's Center by action of the Selectmen and this Committee. In September 2014, the Town's Economic Development Office assumed the operation of the Lexington Visitors Center and Gift Shop, formerly run by the Lexington Chamber of Commerce. FY2016 will be the first full year of operation of the Visitor Center under the Town's jurisdiction.

The Committee recommends approval of this request (8-0).

Article 8: Appropriate the FY16 Community Preservation Committee Budget and CPA Projects	Funds Requested	Funding Source	Committee Recommendation
	$1,222,813 $336,500 $193,000 **$1,752,313**	CPA GF Debt Rec. EF	**Approve (8-0) except 8(c) (3-3-2), 8(g) IP**

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.

Since Lexington's adoption of the Community Preservation Act in 2006, the CPC has recommended and Town Meeting has approved a total of $59,915,893 for CPA projects. These funds have supported 40 historic preservation projects, preserved 78 acres of open space, created or preserved 15 recreational facilities, and created or supported 249 units of affordable housing. Of this total, $11,380,622 or 19% of the Town's total project costs (exclusive of Administrative expenses) has been received from the State as matching funds.

Funding Sources and CPA Categories

The requests recommended by the CPC are listed below. The funding source for each request is entirely CPA-based unless otherwise noted. All CPA projects must qualify for CPA funding under one (or more) of the following categories: Open Space, Historic Resources, Affordable Housing, or Outdoor Recreation. The CPA fund has a restricted account for each category, along with an Unallocated Reserve that can be used for any qualifying project. CPA funds are appropriated from an eligible restricted account when feasible, or from the Unallocated Reserve.

Article 8(a) Conservation Meadow Preservation Program - $26,400

This represents the first of a multi-year project to preserve and protect Lexington's conservation meadows, for their historical landscape significance, including historic stonewalls and vistas, for passive recreation, and for enhanced wildlife and habitat. In year one of the project, Hennessey Field and Joyce Miller's Meadow will be preserved, for a total of approx. 8 acres. The project entails extensive woody vegetation removal, clearing heavily overgrown shrubs, trees and vines, preserving views of historic stone walls, managing invasive species encroachment on field edges and throughout meadows.

The Conservation Commission owns and maintains 1,400 acres of conservation land. Of this total, approximately 75 acres represent upland meadows, and these are estimated to take about 7 years to complete conservation work, with two meadows being completed per year.

Eligible for CPA funding as Open Space and Historic Resources.

Article 8(b) Parker's Revenge Site Restoration - $36,790

This project proposes to restore the Parker's Revenge battle site for the educational enjoyment of visitors, at the initiative of the Friends of the Minuteman National Park. The project includes archeological analysis, site restoration, and implementation of an interpretative plan. The site is owned by the Minuteman National Historic Park.

The total cost of the project is estimated to be $152,930, with the balance from private funds.

Eligible for CPA funding as Historic Resources.

Article 8(c) First Parish Church Restoration Historic Structure Report - $40,000

NOTE: The Committee is strongly divided on this request. As of publication, the Committee's vote of (3-3-2) means we do *not* recommend approval of 8(c). Members have expressed concerns about the appropriation of public funds for a building that does not serve a primarily public purpose, government support for a religious organization, the comparatively small amount of privately raised funding, and the possibility that approving this request would encourage a larger follow-up request to address problems identified in the Historic Structure Report.

This request would be used for a historic structure assessment and report documenting the condition of First Parish building. Architectural and structural elements will be investigated, along with mechanical systems, code compliance, analysis of hazardous materials, building accessibility, etc. Specifications for cost estimates will be prepared, along with a phased project plan.

The total cost of the report is $52,660, with the balance being raised from private funds by First Parish.

Eligible for CPA funding as Historic Resources.

Article 8(d) Cary Memorial Building Records Center Shelving - $75,398

This project seeks to remove undersized shelving at the Cary Memorial Building, and replace it with stationary shelving. These shelves are used for storage of long-term and some permanent records of significant and historical value.

Eligible for CPA funding as Historic Resources.

Article 8(e) Battle Green Streetscape Improvements

Funding Source	Amount
CPA	$140,000
Free Cash	$60,000
Total	**$200,000**

At the 2012 Annual Town Meeting $143,845 was approved for a study of a Battle Green area which has reviewed pedestrian and vehicular safety and flow in and around the Battle Green, its relation to the Center Streetscape Project, and ways to enhance access and visibility of the historical sites. The FY2016 funding request will allow the town to hire an architect/engineering firm to take the conceptual ideas to a 100% design, providing a plan and cost estimates for any recommended improvements to the area.

$140,000 of the funds requested are eligible for CPA funding as Historic Resources. The Harrington Road intersection portion will be funded by Free Cash ($60,000). FY2017 estimated design, engineering and construction costs are $900,000, of which $630,000 will be CPA eligible.

Article 8(f) Community Center Sidewalk Design - $50,000

The Nov 2013 Special Town Meeting approved $20,000 in design funds for adding pedestrian access to the Community Center located at 39 Marrett Rd. Lexington's Department of Public Works, Engineering Division, developed two sidewalk concepts, both of which would have required obtaining an easement from the Scottish Rite. Neither concept was, however, approved. The Community Center, which is currently undergoing renovations, will be open to the public opening in the spring of 2015.

An additional $50,000 appropriation is now requested to determine appropriate sidewalk design alternatives. The proposed sidewalk will run adjacent to Marrett Rd, then entering the Community Center property to connect with existing sidewalks within the property. The design of the sidewalk is complex in that it needs to overcome the steep grades of the property and still comply with accessibility regulations, while also not conflicting with the land that remains under the ownership of the Scottish Rite.

Eligible for CPA funding as CPA Historic Resources. An estimate of the total construction cost of the sidewalk was not available prior to publication.

Article 8(g) Cary Memorial Building Sidewalk Enhancement – $194,200

This article is a duplicate of the 2015 Special Town Meeting #2 Article 4, to be taken up prior to the Annual Town Meeting. We anticipate that action on this item will be indefinitely postponed.

Article 8(h) Community Center Preservation Restriction Endowment - $25,000

The Community Preservation Act requires that any property purchased using CPA Historic Resources funding be subject to a preservation restriction, deeded in perpetuity and approved by the Massachusetts Historical Commission.

The current appropriation would fund such a preservation restriction for the Community Center at 39 Marrett Rd. The preservation restriction is deeded in perpetuity to the Lexington Historical Society, which has requested that an endowment fund be established to compensate the Society for its administrative expenses in maintaining the preservation restriction. The preservation restriction will ensure that the architecturally and historically significant elements of the property be preserved and maintained to appropriate standards. Under the terms of the contract to be signed between the Society and the Town, once the fund is depleted, estimated in 5-10 years, the Town and the Society will negotiate a replenishment of the fund.

Eligible for CPA funding as Historic Resources.

Article 8(i) Park and Playground Improvements - $68,000

This project is part of a multi-year effort to renovate and update Lexington playgrounds. The current appropriation will fund the replacement of the playground and play equipment at Marvin Park, located on Morris St near the Bedford border. The park equipment is outdated, and does not meet current safety standards. The improvements will include new construction of a play structure, new swing set, installation of appropriate safety surfacing under and around the playground structure and swings, park benches signage and trash barrels.

The completion timeframe is fall 2015, and the expected life of the new structure is 20 years.

Eligible for CPA funding as Recreation.

Article 8(j) Park Improvements - Athletic Fields - $85,000

This appropriation will fund the renovation of the natural grass Softball field at Lincoln Park. Renovation will include new irrigation, laser grading of the skinned infield, grading the field for proper drainage, a new backstop, benches, and trash barrels. Initially, this project was planned for FY2017, but it was pushed to start a year earlier due to the poor current condition of the field.

The improved field condition will reduce the need for DPW and Recreation staff hours and equipment, since it will require only routine maintenance and not emergency repairs. Recurring cost will continue to be irrigation water.

The expected life of this field, after renovation, is 10 years.

Eligible for CPA funding as Recreation.

Article 8(k) Park and Playgrounds ADA Accessibility Study - $78,000

This appropriation will fund a Lexington Recreation Facilities and ADA Compliance Study of Lexington recreation areas, which will determine need for accessibility improvements. The study will include a facilities compliance assessment, recommendations and options for probable costs for play equipment, facilities access, signage, handicapped parking, accessibility pathways, accessible and non-compliant seating, bleachers, picnic facilities and golf course buildings.

As a result of the study, a written Transition Plan will be developed and incorporated in future capital plans.

Eligible for CPA funding as Recreation.

Article 8(l) Park Improvements - Hard Court Resurfacing - $55,000

This request is to rehabilitate the basketball courts at Sutherland Park and Marvin Park by reconstructing the courts and installing new backboards/poles. The current structures have extensive cracks and frost heaves, which will require reconstruction.

The expected replacement frequency after repairs is 12 years.

Eligible for CPA funding as Recreation.

Article 8(m) Lincoln Park Field Improvements - Phase 3

Funding Source	Amount
GF Debt	$236,500
CPA	$220,000
Recreation EF	$193,000
Total	**$650,000**

This is the third phase of a three phase capital project addressing safely and playability on the synthetic fields at Lincoln Park.

In this phase, the Lincoln Park #3 synthetic field will be removed, partially recycled, and replaced with a similar synthetic carpet and fill-in. Drainage will be inspected and repaired if needed, and the subsurface will be laser graded prior to synthetic surface installation. Walkways around the field will be rehabilitated. The walkway edging near the bathroom will be replaced, and a guardrail will be added to prevent vehicles from driving on the synthetic turf.

The Lincoln Park synthetic fields were installed in 2003, and had a life expectancy and warranty of 10 years. In the high use areas, the fibers are beginning to show wear and tear, start falling off the carpet, or are split/broken giving the appearance of a scouring pad. Synthetic surface replacement is necessary, but the underlayment and drainage system can be used for two or three turf replacements.

The improved field condition will reduce the need for DPW and Recreation staff hours and equipment for emergency repairs.

Phase one of the project (Lincoln Park Field #1) had funds approved in 2013, initial installation completed by Spring of 2014, but problems were found with the synthetic blades of grass and seams in between panels after installation. An agreement was reached in Nov 2014 with the installation contractor, who is removing the turf and having another turf installed at no cost to Lexington by Spring 2015.

For phase two (Lincoln Park Field #2), $620,000 in funding was approved in 2014, the bid was put out in winter and work should start in June of 2015.

If phase three is approved under this request (Lincoln Park Field #3), specifications will be developed and renovations will be completed in the summer/fall of 2015.

Eligible for CPA funding as Recreation.

Article 8(n) Minuteman Bikeway Culvert Rehabilitation

Funding Source	Amount
GF Debt	$100,000
CPA	$290,000
Total	**$390,000**

This project will replace a culvert along the Minuteman Bikeway, just north of Camellia Place at the headwaters of the North Lexington Brook. The replacement frequency for this culvert is 50 years. Project will cover design/engineering ($65,000 General Fund debt), construction ($250,000 in CPA Recreation funds) and contingency ($75,000, also General Fund debt).

Eligible for CPA funding as Recreation.

Article 8(o) Grain Mill Alley Additional Design - $18,000

This is a request to fund additional design development of a pocket park in the alley between 1775 and 1778 Massachusetts Avenue in Lexington center. The alley is a pedestrian connection between the Minuteman Bikeway and the Center's retail corridor along Massachusetts Avenue, roughly 27 by 233 feet, (or roughly 6,300 sq. ft.). This public space project is designed to enliven the Center by improving underutilized areas and create a sense of place that attracts activity, improves pedestrian access and generated business for the Center.

In 2013, the CPC approved $24,000 for preliminary schematic design, which includes site analysis, design development, an analysis of cost estimates, as well as legal services to develop a contract with the adjacent property owners.

The additional $18,000 in design development will allow for public outreach, for schematic design, and will cover $2,000 in anticipated legal expenses. Funding source is CPA Open Space funds.

The additional $18,000 in design development will allow for public outreach, for schematic design, and will cover $2,000 in anticipated legal expenses. The anticipated FY2017 cost of design development, final design and construction is $325,000.

Eligible for CPA funding as Open Space.

Article 8(p) Minuteman Bikeway Wayfinding - $39,000

This request would fund an initial design phase of the project to install signage along Minuteman Bikeway, adjacent roads and connection points. The signage will provide directional information to bikeway users, will indicate nearby points of interests (e.g. businesses, shops, tourist attractions), and will describe bikeway etiquette.

In this article, $39,000 in CPA recreation funds are requested for developing alternative options for wayfinding and etiquette signs, to be reviewed with the Bicycle Advisory Committee and other stakeholders. Upon approval of a final set of designs, full bidding documents will be developed that include cost estimates, specifications, stamped plan sets, and bid documents.

Eligible for CPA funding as Recreation.

Article 8(q) Reconstruction of the Lower Vine Brook Paved Recreational Path - $369,813

Lower Vine Brook Park consists of 110 acres of conservation land, with 4.5 miles of trails, 1.1 miles of which is a paved pathway, running along Vine Brook from Fairfield Drive through East Street to North Street.

The paved pathway has been degrading over the years. It is now cracked, uneven, and buckled, and will require full reconstruction.

This request would fund the reconstruction of the subsurface and surface of the paved pathway.

The cost breakdown is $3,500 for design/engineering, $305,761 for construction, and $60,552 in contingency. The cost estimate is based on costs for the 2014 Lincoln Park path replacement, assuming a 20% increase in materials cost due to inflation.

Work on this project will be divided in two phases. The first phase will occur during the 2015/16 construction season, including wetlands permitting (wetlands delineation and permitting fees), tree pruning (to allow truck access on the Fairfield Drive end of the path), and path reconstruction (Fairfield Drive to East Street and to East Emerson Road). A second phase in 2016/2017 will cover the segment from Emerson Road to North Street.

The expected life of the reconstructed path is 25 years.

Eligible for CPA funding as Open Space.

Article 8(r) Community Preservation Fund Debt Service - $2,417,200

Debt service on the CPA projects is outlined in the following table. Two different types of debt are used: Bond Anticipation Notes (BANs), and multi-year municipal bonds. BANs allow interest-only short-term borrowing for a term of up to one year. They are issued for individual projects prior to bundling the debt from several projects to create a single multi-year bond.

Project / Approval	Total Appropriation	Debt Financing	Debt Service	BAN Interest
Wright Farm Purchase ATM 2012	$3,072,000	$2,090,000	$424,800 *2nd payment of a 10-year bond*	
Community Center Acquisition STM 3/2013	$10,950,000	$7,652,500	$1,065,100 *2nd payment of a 10-year bond*	
Community Center Renovation STM 11/2013, Amended STM 3/2014	$6,320,000	$451,000	*Convert to bond Feb 2015*	$11,178
Cary Memorial Building Upgrades STM 3/2014	$8,677,400	$8,241,350	$899,459 *Convert to bond Feb 2015*	$16,664
Totals			**$2,389,359**	**$27,842**

The practice of the Town, based on recommendations from the Appropriation Committee and Capital Expenditures Committee, is to limit the size and duration of debt funded by the CPA to the practical minimum, usually below the maximum that would be allowed by statute. This reduces the potential for long-term financial commitments that would linger should the residents vote to rescind the CPA surcharge in the future. That said, this practice should not be allowed to consign too much of the CPA annual revenue for debt service, which would stifle the ability of the CPC to fund new projects directly with cash.

Article 8(s) Administrative Budget - $150,000

The Community Preservation Act permits up to 5% of annual CPA funds to be spent on the operating and administrative costs of the Community Preservation Committee. The Committee is allowed to use this money to pay for staff salaries, mailings, public notices, overhead, legal fees, membership dues, and other miscellaneous expenses related to CPA projects. Five percent of the anticipated FY2016 revenue from the surcharge and the State supplemental match is $252,400. However, as in past years, the CPC is requesting an appropriation of $150,000. This money will be used to fund the Committee's part-time Administrative Assistant, membership dues to the non-profit Community Preservation Coalition, administrative expenses, legal and miscellaneous expenses, and land planning, appraisals and legal fees for open space proposed to be acquired using CPA funds.

The Committee is deadlocked on 8(c) (3-3-2).

The Committee expects action on 8(g) will be indefinitely postponed.

The Committee recommends approval (8-0) of items 8(a,b,d,e,f,h,i,j,k,l,m,n,o,p,q,r,s).

Article 9: Property Purchase – 241 Grove Street	Funds Requested	Funding Source	Committee Recommendation
	$618,000	CPA	**Approve (8-0)**

This is a request to use Community Preservation Act funds to purchase an approximately 1-acre property on Grove Street adjacent to Town-owned conservation land. In 2012 the Town purchased, for Conservation purposes, the 12.6 acre Wright Farm parcel on the northeast side of Grove Street for $2,950,000. At the time of that purchase, Kathleen Wright retained a 43,446 sq. ft. parcel that included the house she was living in, a detached garage and a barn; the parties granted to the Town a right of first refusal for the purchase of the property. The pre-negotiated price for this remaining portion of the Wright Farm was approximately $520,000.

With the passing of Ms. Wright in January, the Board of Selectmen and Conservation Commission recommended to the Community Preservation Committee (CPC) that the Town exercise its right to purchase the property. The funding source would be the CPA Undesignated Reserve.

The Selectmen propose to turn the house over to the Lexington Housing Assistance Board (LexHAB) to create an affordable housing unit, and for the barn and the remaining portion of the land to be used for conservation purposes. There is another $95,000 requested for ancillary costs including a land management plan, survey, deed restriction, legal, and other closing costs, and the remaining $3,000 will be used to maintain and secure building(s) while the property is unoccupied.

If the property is not acquired within the Town's 180-day option period, the Town could lose the opportunity to secure the property for affordable housing and conservation purposes.

The Committee recommends approval of this request (8-0).

Article 10: Appropriate for Recreation Capital Projects	Funds Requested	Funding Source	Committee Recommendation
	$68,000	Rec. EF	**Approve (8-0)**

"This request is to purchase a Toro Grounds Master 4500D mower to replace the existing 2007 Toro Grounds Master. The life expectancy of golf course mowers average 7 years. New emission regulations increased the cost of the mower by over $10,000 from the FY2014 capital plan. The 4500D is approximately 9 feet wide and has five floating decks. It will be used almost daily in maintaining the rough at Pine Meadows that covers approximately fifteen acres of turf ." [Brown Book, Page XI-24]

The Committee recommends approval of this request (8-0).

Article 11: Appropriate for Municipal Capital Projects and Equipment	Funds Requested	Funding Source	Committee Recommendation
	$15,539,150	*See below*	**Approve (8-0) exc. 11(k) (2-5-1)**

Financial details of the request are summarized below. For a discussion of the items in this request, please see the Report of the Capital Expenditures Committee.

Project Description	Funds Requested	Funding Source	Committee Recommendation
(a) Center Streetscape Improvements and Easements – Phase 1	$2,700,000	GF (Debt)	Approve (8-0)

Project Description	Funds Requested	Funding Source	Committee Recommendation
(b) DPW Equipment	$399,000 $100,000 $40,500 $40,500 $690,000 $1,270,000	GF (Debt) Free Cash Water EF (RE) Wastewater EF (RE) Compost RF (Debt)	Approve (8-0)
(c) Storm Drainage Improvements and NPDES Compliance	$114,425 $225,575 $340,000	GF (Debt) Free Cash	Approve (8-0)
(d) Comprehensive Watershed Storm Water Management Study and Implementation	$390,000	GF (Debt)	Approve (8-0)
(e) Sidewalk Improvements, Additions, Design and Easements	$600,000	GF (Debt)	Approve (8-0)
(f) Town-wide Culvert Replacement	$100,000	GF (Debt)	Approve (8-0)
(g) Town-wide Signalization Improvements	$125,000	GF (Debt)	Approve (8-0)
(h) Hartwell Avenue Infrastructure Improvements and Easements	$4,750,000	GF (Debt)	Approve (8-0)
(i) Street Improvements and Easements	$2,270,145 $961,105 $3,231,250	Free Cash Chapter 90	Approve (8-0)
(j) Bikeway Bridge Repairs and Engineering	$10,000	Free Cash	Approve (8-0)
(k) Hastings Park Undergrounding Wires	$300,000	Free Cash	Disapprove (2-5-1)
(l) Hydrant Replacement Program	$75,000 $75,000 $150,000	Free Cash Water EF (RE)	Approve (8-0)
(m) Westview Cemetery Building Assessment	$35,000	Cemetery Trust Fund	Approve (8-0)
(n) Replace Town Wide Phone Systems – Phase IV	$52,000	Free Cash	Approve (8-0)
(o) Municipal Technology Improvement Program – Phase III	$140,000	Free Cash	Approve (8-0)
(p) Police/Fire Dispatching and Records Software	$398,400 $307,500 $705,900	GF (Debt) Free Cash	Approve (8-0)
(q) Parking Meter Replacement	$500,000	GF (Debt) Debt service to be funded from Parking Meter Fund	Approve (8-0)
(r) Public Safety Radio Stabilization – Phase I	$90,000	Free Cash	Approve (8-0)
(s) Design/Engineering – Firing Range at Hartwell Avenue Compost Site	$50,000	Free Cash	Approve (8-0)

A majority Committee does not feel that 11(k) (Hastings Park Undergrounding Wires) is a prudent use of funds at this time.

The Committee recommends disapproval of 11(k) (2-5-1)

The Committee recommends approval of 11(a,b,c,d,e,f,g,h,i,j,l,m,n,o,p,q,r,s) (8-0).

Article 12: Pleasant Street Sidewalk	Funds Requested	Funding Source	Committee Recommendation
	$20,000	GF	**IP**

This request is to appropriate funds for a feasibility study for a new sidewalk connecting an existing, interrupted segment on Pleasant Street. The area in question is not far from Wilson Farm and Sacred Heart Church and was confirmed by the 2014 Pedestrian Accessibility Report to be an area with high pedestrian volume.

At press time, the Town Manager had proposed that the FY2016 capital budget for sidewalks, under Article 11(e), be increased to $600,000, a $200,000 increase from FY2015 and that the projects under Articles 12 and 13 be covered under Article 11(e). If Article 11(e) passes, Article 12 and 13 will be indefinitely postponed. However, the Committee has voted to recommend approval of this request if necessary.

The Committee anticipates action on this request will be indefinitely postponed.

Article 13: Prospect Hill Sidewalk	Funds Requested	Funding Source	Committee Recommendation
	$100,000	GF	**IP**

This request is to appropriate funds for construction of a new sidewalk Prospect Hill Road. The area in question is not far from The Bridge School and was confirmed by the 2014 Pedestrian Accessibility Report to be an area with high pedestrian volume.

At press time, the Town Manager had proposed that the FY2016 capital budget for sidewalks, under Article 11(e), be increased to $600,000, a $200,000 increase from FY2015 and that the projects under Articles 12 and 13 be covered under Article 11(e). If Article 11(e) passes, Article 12 and 13 will be indefinitely postponed. However, the Committee has voted to recommend approval of this request if necessary.

The Committee anticipates action on this request will be indefinitely postponed.

Article 14: Appropriate for Water System Improvements	Funds Requested	Funding Source	Committee Recommendation
	$900,000	Water RE	**Approve (8-0)**

This Article addresses proposed capital expenditures to be made during FY2016 as part of a continuing program to upgrade and maintain 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-23). The costs of this year's system improvements will be funded entirely from retained earnings of the Water Enterprise Fund.

Capital appropriations for similar purposes have been made in most years over the last decade (except for FY2006 and FY2012, when engineering studies were not ready). The goal is to assure dependable service with high water quality, pressure, and volume for domestic needs, commercial needs, and fire protection, as well as minimization of water main breaks.

Prior to FY2006, 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. Subsequently, there was 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, steadily increased the annual debt service costs of the Water 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%
2014	$1,260,655	$8,707,219	14.5%
2015	$1,379,622	$9,270,880	14.9%
2016	$1,415,508	$10,094,344	14.0%

The Committee has previously noted that 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. We are pleased that this recommendation has been adopted for a third year, with a substantial cash contribution from retained earnings funding the entire annual water distribution system improvements cost and, as noted below, also funding the acquisition of equipment replacements. Even if this level of cash contribution from retained earnings cannot be sustained in future years, it can be seen from the table above that it has moderated the growth in debt service costs that would otherwise have to be included in rate requests going forward, and is a productive use of excess reserves.

Note that two additional capital appropriations will be funded by Water Enterprise Fund retained earnings under Article 11. Under Article 11(b), $40,500 will be requested to cover 45% of the cost to replace a Ford F350 pick-up truck (an additional 45% will be covered by the Wastewater Enterprise Fund and the balance of 10% will be covered by the General Fund). Under Article 11(l), $75,000 from the Water Fund's retained earnings will be requested to fund half the cost of an ongoing hydrant replacement program shared 50-50 with the General Fund. For a more complete discussion of the status and use of water and sewer enterprise fund retained earnings, see the discussion of enterprise funds under Article 5.

<u>The Committee recommends approval of this request (8-0).</u>

Article 15: Appropriate for Wastewater System Improvements	Funds Requested	Funding Source	Committee Recommendation
	$1,200,000 $600,000 **$1,800,000**	Wastewater EF (Debt) Wastewater RE	**Approve (8-0)**

This Article addresses proposed capital expenditures to be made during FY2016 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 $1,800,000 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 $600,000 as part of an ongoing program to upgrade Lexington's ten sewer pumping stations. (An additional $750,000 is requested under Article 2 of STM #2 for extraordinary repairs to the pumping station on Bedford Street, bringing this year's total requested appropriation for pumping station upgrades to $1,350,000.) The details of the projects, including the locations where work is expected to be done, can be found in the Brown Book (p. XI-23). 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).

The costs of this year's wastewater system improvements will be funded by a combination of borrowing ($1,200,000) and retained earnings of the Water Enterprise Fund ($600,000). The resulting debt service costs for the portion borrowed will be borne by the operating budget for the Water Enterprise Fund in FY2014 and in future years until the debt is retired (see Brown Book, p. XI-14, Table III), and will be included each year as a component of the wastewater rates. Part of the funding may come from MWRA grants or loans.

Prior to FY2006, capital expenditures for sewer distribution improvements were funded primarily by enterprise-fund cash capital, which was raised in the rates. Subsequently, there was a transition to funding these ongoing improvements primarily with debt. While the transition to debt financing 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	Wastewater 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%
2014	$1,131,673	$9,257,354	12.2%
2015	$1,220,843	$9,517,618	12.8%
2016	$940,679	$9,103,316	10.3%

The Committee has previously noted that 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. A contribution of $300,000 from retained earnings was made in FY2012; a contribution of $200,000 was made in FY2014; and a contribution of $900,000 was made in FY2015. An even more substantial contribution of $1,350,000 from the wastewater fund's retained earnings is proposed this year, made possible by recent growth of the retained earnings to a level well above the approximately $1,000,000 recommended to be held in reserve. Even if this level of cash contribution from retained earnings cannot be sustained in future years, it has moderated the growth in debt service costs that would otherwise have to be included in rate requests going forward, and is a productive use of excess reserves.

Note that an additional appropriation of $40,500 in wastewater fund retained earnings will be requested under Article 11(b) (Municipal Capital) to cover 45% of the cost to replace a Ford F350 pick-up truck that has reached its end of life. For a more complete discussion of the status and use of water and sewer enterprise fund retained earnings, see the discussion of the enterprise fund operating budgets in Article 5.

The Committee recommends approval of this request (8-0).

Article 16: Appropriate for School Capital Projects and Equipment	Funds Requested	Funding Source	Committee Recommendation
	$1,986,000	*See below*	**Approve (8-0)**

Financial details of the request are summarized below. For a discussion of the items in this request, please see the Report of the Capital Expenditures Committee.

Project Description	Funds Requested	Funding Source	Committee Recommendation
(a) System Wide School Furniture, Equipment and Systems	$117,500 $200,000 $317,500	GF (debt) Free Cash	Approve (9-0)
(b) School Technology Capital Request	$1,378,000	GF (Debt)	Approve (9-0)
(c) Additional Time Clock System Funds	$208,000	GF (Debt)	Approve (9-0)
(d) Food Service LHS Dishwasher & Installation	$82,500	Food Service RF	Approve (9-0)

The Committee recommends approval of this request (8-0).

Article 17: Technical Correction to the Borrowing Authorization Under Article 13b of the 2014 Annual Town Meeting	Funds Requested	Funding Source	Committee Recommendation
	$10,000	GF	**Approve (9-0)**

This request corrects a technical error in the borrowing authorization approved under Article 13(b) of the Warrant for the 2014 Annual Town Meeting. The request, as approved, was $10,000 lower than intended.

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

Article 18: Appropriate for Public Facilities Capital Projects	Funds Requested	Funding Source	Committee Recommendation
	$2,731,885	*See below*	**Approve (9-0) exc. 18(e) IP**

The request under Article 18(e) was a duplicate of Article 2 in the March 2015 Special Town Meeting #1, and will be indefinitely postponed.

Financial details of the request are summarized below. For a discussion of the items in this request, please see the Report of the Capital Expenditures Committee.

Project Description	Funds Requested	Funding Source	Committee Recommendation
(a) Middle School Space Mining	$674,000	GF (Debt)	Approve (9-0)
(b) Clarke Middle School Circulation and Parking Improvements, Design	$363,000	GF (Debt)	Approve (9-0)
(c) Lexington High School Phase 2 Overcrowding / Completion	$90,200	GF (Debt)	Approve (9-0)
(d) Public Facilities – Major Mechanical / Electrical Systems’ Replacement	$463,000	GF (Debt)	Approve (9-0)
(e) LPS Educational Capacity Increase	*None*	*N/A*	IP
(f) LHS Heating Systems Upgrade – Phases 2 & 3 – Design	$150,000	GF (Debt)	Approve (9-0)
(g) School Building Envelope and Systems	$210,000	Free Cash	Approve (9-0)
(h) Municipal Building Envelope and Systems	$182,760	GF (Cash)	Approve (9-0)
(i) Extraordinary Repairs / Replacements / Upgrades	$335,425	GF (Free Cash)	Approve (9-0)
(j) School Paving Program	$150,000	GF (Free Cash)	Approve (9-0)
(k) Public Facilities Bid Documents	$75,000	GF (Free Cash)	Approve (9-0)
(l) Security Cameras Upgrade	$38,500	GF (Free Cash)	Approve (9-0)

The Committee anticipates action on 18(e) will be indefinitely postponed.

The Committee recommends approval of 18(a,b,c,d,f,g,h,i,j,k,l) (9-0).

Article 21: Appropriate to Post Employment Insurance Liability Fund	Funds Requested	Funding Source	Committee Recommendation
	$1,862,194	GF	**Approve (9-0) $1,200,000**

The Post Employment Insurance Liability (PEIL) Fund holds funds dedicated to health care benefits for retirees. These benefits are also known as Other Post Employment Benefits (OPEB). For a detailed discussion of OPEB and related issues, please see Appendix F.

Based on the actuarial report, *Other Post-Retirement Employee Benefits Analysis For Fiscal Year July 1, 2012 – June 30, 2013*, dated February 21, 2014, the “Unfunded Actuarially Accrued Liability” for OPEB was approximately $87 million as of June 30, 2013, and the “Normal Cost” for FY2014 was approximately $1.7 million. These amounts were derived assuming a 7.75% rate of return on investments, the same rate currently used for the Town’s pension trust fund.

The Normal Cost is the present value of the expected post-retirement benefit obligation attributable to employee service during the fiscal year. The Unfunded Liability is the sum of obligations earned during prior fiscal years that have not been funded. Every year, the Unfunded Liability grows by the amount of future benefits earned during the current year, less any contribution to the PEIL Fund, and less the cost of benefits provided to retirees during the current year.

The request is approximately 100% of the FY2016 Normal Cost, which is the maximum amount recommended by the Selectmen's policy for the annual appropriation to the PEIL Fund. If approved, this appropriation would increase the balance of the PEIL Fund from the current balance, $5,778,635 as of February 1, 2015, to approximately $7,641,000, raising the OPEB funding ratio from approximately 6.6% to approximately 8.7%.

The bulk of the funding for the request is based on a one-time use of $1,858,947 from the Health Insurance Claims Fund to pay for annual health insurance costs. This frees up a matching amount in the General Fund for this request, or other potential uses. The remaining $3,247 reflects the amount the Town received in Medicare Part D reimbursements from the federal government, which has been directed into the PEIL Fund for the past several years.

Last year's appropriation to the PEIL Fund was approximately $1.2 million, or roughly 66% of the FY2015 Normal Cost. Given the uncertainty around the school capital projects and the current plan to hold a special town meeting in the fall, the Committee recommends that this appropriation be reduced to $1.2 million with the remainder of the $1,858,947 left unallocated. In the fall, Town Meeting will have an opportunity to appropriate the remainder to the PEIL Fund, or to some other purpose as needed.

The Committee recommends an appropriation of $1,200,000 (9-0).

Article 22: Adjust Retirement COLA Base for Retirees	**Funds Requested**	**Funding Source**	**Committee Recommendation**
	None	*N/A*	**Disapprove (3-6)**

Section 103(j) of Chapter 32 of the Massachusetts General Laws indicates that the maximum base amount on which the cost-of-living adjustment (COLA) is calculated may be increased in multiples of $1,000 and should be accepted by a majority of the Board of the system, and is subject to approval of Town Meeting.

The Retirement Board has accepted an increase in the COLA base for retirees from $12,000 to $13,000 effective July 1, 2015 to match the base for Lexington Teacher retirees. The last COLA base increase was from $9,000 to $12,000, effective July 1, 1998.

There is no direct appropriation in this request, but there is a financial impact on the operating budget. Currently there are 274 retirees who would be impacted by this change (an increase of $30/year) for an annual cost to the Town this year of $8,220. This change would also apply to all future retirees, and would increase the current unfunded accrued liability of the pension trust fund by approximately $786,500.

The Committee asserts that key factors affecting pension payments, such as the COLA base, must be considered as part of the total compensation package for retirees (pension plus benefits), which is a matter of negotiation with the Town. There are a variety of other factors that comprise the total value of the package. For example, that Lexington covers 80% of the cost of the health care premiums, versus an average of 66.4% in comparable communities.

The Committee does recommends disapproval of this request (3-6).

Article 23: Accept Chapter 235 of the Acts of 1994	Funds Requested	Funding Source	Committee Recommendation
	None	*N/A*	**Approve (9-0)**

Acceptance of this statute would allow certain police officers and firefighters who were previously terminated due to a reduction-in-force, and then reinstated, to be credited with active service for such period of unemployment. The employee would be required to pay into the retirement system an amount equal to what would have been paid, plus interest, had he or she remained an active member in service during said period of unemployment.

The maximum qualifying duration between reduction-in-force and reinstatement is three years, and employees are responsible for interest on these contributions, therefore the Committee believes the net impact of this change on the Town's retirement system will be negligible.

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

Article 24: Appropriate Bonds and Notes Premiums	Funds Requested	Funding Source	Committee Recommendation
	$149,140	Bond Premium	**Approve (9-0)**

The Town received a premium of $149,140 on the February 19, 2015 sale of general obligation bonds related to construction financing of the Bridge/Bowman ($32,858) and Estabrook ($116,282) projects. This action will appropriate the premiums for project costs and will also rescind the bonding authorization for the same amounts. It does not increase or decrease costs for either project.

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

Article 25: Rescind Prior Borrowing Authorizations	Funds Requested	Funding Source	Committee Recommendation
	None	*N/A*	**Pending**

State law requires that Town Meeting vote to rescind the unissued portions of borrowing authorizations that are no longer required for the purpose stated in the authorization.

As of publication, the Committee was not informed of any prior borrowing authorizations that are ready to be rescinded. This Committee will report further when the Article is taken up.

The Committee has taken no position on this request.

Article 26: Establish and Appropriate To and From Specified Stabilization Funds	Funds Requested	Funding Source	Committee Recommendation
	$6,405,035 $3,042,797 $18,175 $20,339 **$9,486,346**	Free Cash Tax Levy TM revenue TDM revenue	**Approve (8-0)**

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.

Each "specified stabilization fund" holds monies for one or more purposes that were specified when the fund was created. This Article is now routinely included on the Warrant to give Town Meeting the opportunity to create new specified stabilization funds, and to appropriate monies into, or out of, such funds.

Appropriations into specified stabilization funds are not normal expenditures, but rather transfers of funds into accounts for specified future uses. Once transferred into a fund, these monies can only be appropriated out of the fund in accordance with the purposes specified at the creation of the fund. Appropriations into our out of a stabilization fund require approval by a two-thirds majority of Town Meeting.

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	Amount Deposited	Amount Withdrawn	Warrant Article
Avalon Bay School Enrollment Mitigation S.F.	$45	$0	$0	–
Center Improvement District S.F.	$86,429	$0	$0	–
School Bus Transportation S.F.	$18	$0	$0	–
Section 135 Zoning S.F.	$0	$0	$0	–
Special Education S.F.	$1,072,499	$0	$0	–
Traffic Mitigation S.F.	$69,129	$18,175	$0	–
Transportation Demand Management / Public Transportation S.F.	$301,772	$20,339	$137,000	Art. 4
Transportation Management Overlay District S.F.	$10,764	$0	$0	–
Capital Projects/Debt Service Reserve/Building Renewal S.F.	$8,039,928	$9,447,832	$620,567 $215,000 **$835,567**	Art. 4 Art. 26

All deposits into specified stabilization funds are covered under this article. Withdrawals from these funds are covered under the indicated article.

Under Article 4, the *Transportation Demand Management/Public Transportation Stabilization Fund* is being used to fund both LexPress ($91,600) and the REV Bus ($45,400).

The REV bus is a shuttle between Hartwell Ave. and the Alewife MBTA station. The balance of the cost of the shuttle is raised from fares charged to riders and amounts contributed by Hartwell Ave. businesses. As discussed in the Introduction to this report, in the fall of 2014, this Committee approved a request for a Reserve Fund transfer of $69,120 to cover the anticipated FY2015 shortfall resulting from the loss of a federal grant. This amount represented 40% of the operating budget and the goal was to reduce the amount of subsidy as the ridership developed. The amount proposed for FY2016 represents 20% of the operating budget.

This Article proposes to appropriate $9,447,832 into the *Capital Projects/Debt Service Reserve/Building Renewal Stabilization Fund*. The motion under Article 4 would appropriate $620,567 out of this fund to offset within-levy debt service for the High School modular classrooms. The motion under the current Article would appropriate another $215,000 out of this fund to mitigate excluded debt service for the Bridge/Bowman and Estabrook construction projects.

The monies to be transferred into the *Traffic Mitigation Stabilization Fund* and *Transportation Demand Management/Public Transportation Stabilization Fund* come from corresponding special revenue accounts.

The Committee recommends approval of this request (8-0).

Article 27: 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 appendices of the Town Manager's *FY2016 Recommended Budget & Financing Plan*.

The Committee anticipates action on this request will be indefinitely postponed.

Article 28: Appropriate from Debt Service Stabilization Fund	**Funds Requested**	**Funding Source**	**Committee Recommendation**
	$124,057	DSSF	**Approve (8-0)**

In August 2006, the Town received a lump-sum reimbursement of approximately $14 million from the Massachusetts School Building Authority (MSBA) to cover its remaining obligation for construction projects previously completed at Clarke and Diamond Middle Schools and Lexington High School. The Massachusetts Department of Revenue (DOR) required the Town to set aside the excess funds from up-front reimbursements for those public school construction projects, and to apportion those funds over the life of the bonds related to the projects to help fund the debt service obligations.

The 2009 Annual Town meeting voted to establish a specified stabilization fund under G.L. c. 40 Section 5B called the *Debt Service Stabilization Fund* (DSSF). The $1,739,894 remaining from the FY2007 set-aside was then appropriated into the DSSF. This fund allows the Town to invest the set-aside bond proceeds beyond the one-year arbitrage limit that would otherwise apply. The required annual appropriations from the DSSF will be completed in 2023. The current balance of the DSSF is $1,014,881.

The Committee recommends approval of this request (8-0).

Article 29: Appropriate for Prior Years' Unpaid Bills	Funds Requested	Funding Source	Committee Recommendation
	Unknown	*Unknown*	**Pending**

As of publication, the Committee was not aware of any unpaid bills from prior years.

This Committee will report further when the Article is taken up.

The Committee has taken no position on this request.

Article 30: Amend FY2015 Operating, Enterprise and CPA Budgets	Funds Requested	Funding Source	Committee Recommendation
	Unknown	*Unknown*	**Pending**

A recommendation from the Town Manager, Town staff, and the Board of Selectmen regarding actions, if any, under this Article is not expected to be available until after the Annual Town Meeting commences. 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. This Committee will report further when the Article is taken up.

Retire $1,000,000 of debt for Cary Memorial Building Renovations

Under Article 2 of the March 2014 Special Town Meeting, $8,677,400 was appropriated to fund renovations to the Cary Memorial Building. Of this amount, $8,241,350 was requested in CPA funding to be financed through the issuance of debt. A Bond Anticipation Note (BAN) in the amount of $3,286,000 was issued in June 2014. The BAN came due in February 2015, at which time a bond of $6,569,000 was issued comprised of two components: the conversion of $2,286,000 from the June 2014 BAN to long-term debt ($1,000,000 less than the original amount), and new financing of the project in the amount of $4,283,000.

In February 2015, the residual $1,000,000 of the June 2014 note was refinanced as a BAN with a term of 4 months. When this note comes due, it is proposed that it be retired with cash from the CPA fund. This change requires an amendment to the FY2015 CPA budget.

This Committee will report further when the Article is taken up.

The Committee has taken no position on this request.

Article 31: Appropriate for Authorized Capital Improvements	Funds Requested	Funding Source	Committee Recommendation
	Unknown	*Unknown*	**Pending**

As of publication, no action was planned under this Article. A related appropriation will be requested under Article 6 of the March 2015 Special Town Meeting #2.

This Committee will report further when the Article is taken up.

The Committee has taken no position on this request.

Article 32: Establish Qualifications for Tax Deferrals	Funds Requested	Funding Source	Committee Recommendation
	None	*N/A*	**IP**

This Article is routinely included in the Warrant to give Town Meeting an opportunity to adjust the qualifications for tax deferrals (see Appendix D).

As of publication, the committee was not aware of any proposed changes. If the Article is indefinitely postponed, the previously established qualifications will remain in effect.

The Committee expects action on this Article will be indefinitely postponed.

Article 33: Authorize Home Rule Petition for Tax Relief	Funds Requested	Funding Source	Committee Recommendation
	None	*N/A*	**IP**

This article proposes to authorize the Board of Selectmen to petition the General Court for an act to provide Lexington with a locally controlled means-tested senior citizen property tax exemption similar to the program in Sudbury, Massachusetts.

At Sudbury's request, the General Court enacted Chapter 169 of the Acts of 2012 which permitted Sudbury to cap property taxes at 10% of household incomes for qualifying seniors. To qualify, a senior Sudbury resident must (a) live in the property they own and have resided in Sudbury for 10 years, and (b) the value of the home must not exceed 110% of the previous year's average assessed value of a single family home. In 2012 the average was roughly $621,000. The cost of this is borne by the remaining taxpayers.

The Board of Selectmen voted to defer this request.

The Committee expects action on this Article will be indefinitely postponed.

Article 34: Accept MGL c. 59, § 5, Clause 54 and Set Personal Property Minimum Tax	Funds Requested	Funding Source	Committee Recommendation
	None	*N/A*	**Approve (8-0)**

If approved, this request would accept Massachusetts General Law Chapter 59, § 5, Clause 54, which exempts Personal Property (a component of the tax on businesses) from taxation if it is below a minimum value established by the City or Town. The law requires that minimum be set at $10,000 or less.

The Board of Selectmen requests that the Personal Property minimum value be set at $2,000.

This action is being sought due the increasing cost required to service smaller Personal Property accounts, and their accordingly small yields, both individually and as a group. The Town has 862 active Personal Property Tax accounts, with a total assessed value of $180 million, which generate $5,238,814 in taxes. The cost to administer each account is estimated at $50, which consists of assessing the property, creating and distributing tax bills and enforcing payment.

Out of the 862 Personal Property accounts, 241 have an assessed value of $2,000 or less. The average tax bill from this group is $30, and the total group tax contribution is $7,219, with an estimated collection cost of $9,640.

The Committee recommends approval of this request (8-0).

Article 35: Accept MGL Chapter 90-I, Section 1 (Complete Streets Program)	Funds Requested	Funding Source	Committee Recommendation
	None	*N/A*	**Approve (8-0)**

This article proposes that the town accept Massachusetts General Laws Chapter 90-I, § 1, as amended, the "Complete Streets Program", to allow the Town to participate in, apply for and receive funding from said section and Section 6121-1318 of sessions law, Chapter 79 of the Acts of 2014. Section 6121-1318 provides "for complete street certification program established pursuant to Chapter 90-I of the General Laws to be disbursed in the form of grants to certified cities and towns for infrastructure and planning; provided that not less than 33 percent of the grants awarded shall be issued to cities and towns with a median household income below the average of the Commonwealth."

The Committee recommends approval of this request (8-0).

Article 36: Authorize Community Electrical Aggregation Program	Funds Requested	Funding Source	Committee Recommendation
	None	*N/A*	**Approve (8-0)**

At the request of the Sustainable Lexington Committee, Town Meeting is requested to vote to authorize the Board of Selectmen to enter into a Community Choice Electrical Aggregation Program and contract for electric supply for Lexington residents and businesses pursuant to Massachusetts General Laws Chapter 164, § 247, as amended, part of the 1997 "Act Relative to Restructuring the Electric Utility Industry in the Commonwealth".

The Act created a competitive power generation market in Massachusetts and allows all Massachusetts' consumers to choose among power suppliers. It was believed that some consumers would choose a supplier based upon cost of power alone, while others might choose based upon resource mix (solar, wind versus coal, oil etc.). It was predicted that consumer choice would create competition among electricity suppliers sufficient to drive down the overall cost of electricity.

In practice, only large commercial customers have been able to secure the benefits of cheaper power because of economies of scale. Individual consumers have been left behind; they have not chosen competitive suppliers and so have not benefitted from the lower price of power available in the competitive electricity marketplace. It has proven too expensive for electricity companies to go door-to-door to secure residential customers. And, it has proven to be both complicated and time consuming for most individuals to research and choose the right supplier for their households. In Lexington, only 10% of residential customers have switched to competitive suppliers whereas 86% of the electricity consumed by Lexington's commercial customers is from purchases through competitive electricity suppliers. These large commercial customers have secured lower rates by switching.

The Act established a municipal aggregation ("Community Choice") option as an efficient and cost effective way to enable residential customers to benefit from bulk purchasing of power. If this request is approved, Lexington residents and businesses will be able to consolidate their demand and seek proposals for cheaper and/or cleaner sources of power. To do this, the Town's electricity broker would develop an aggregation plan that would be reviewed and approved by the Board of Selectmen, the Massachusetts Department of Energy Resources, and the Department of Public Utilities. Once the plan is approved, the broker would solicit bids to supply power for participants in the municipal aggregation program, all at the broker's own cost and risk (at no cost to the Town). Once the Town chooses its competitive supplier, there is no obligation to proceed, and no cost to the town, if none of the proposals are acceptable.

Lexington residents and businesses can opt out of the Community Electrical Aggregation program at any time without penalty, choose their own competitive supplier, or return to Eversource Energy (formerly NStar) Basic Service. They can also opt back in to the program at any time. In all cases, customers would continue to receive one bill from Eversource Energy, and Eversource Energy would continue to provide electricity delivery, emergency services, and customer support.

The Committee recommends approval of this request (8-0).

Article 41: Amend General Bylaws – Contracts and Deeds	Funds Requested	Funding Source	Committee Recommendation
	None	*N/A*	**Refer To Committee (8-0)**

Passage of this article would amend Section 32-4 of Chapter 34 (Contracts and Deeds) of the Code of the Town of Lexington. There are two distinct changes being asked for. The first change reflects recent action of the state legislature which increases the allowable term of the lease of public buildings to 30 years. The second change clarifies the Bylaw in regards to the many contracts engaged in by the Town, which it has the legal authority to enter into, but which should fall outside the narrow bounds of the current wording.

The Committee believes the Bylaw would benefit from a more comprehensive rewrite, and understands that the Town has no urgent need to amend the Bylaw at this time.

The Committee recommends that this Article be referred to committee (8-0).

Article 42: Commission on Disability Request	Funds Requested	Funding Source	Committee Recommendation
	None	*N/A*	**Approve (9-0)**

The Commission on Disability has proposed a non-binding resolution which, if passed, would serve as guidance for the choice and use of materials in Town pathways (sidewalks, crosswalks and other paths of travel). The request is that sidewalks be installed to create the smoothest surface possible, and that bricks or other discrete pavers be used only as decorative edge treatments.

Cost was not a motivating factor for this request, but for reference we note that the cost of sidewalk reconstruction using all brick is $20/sq. ft., while using concrete the cost is $11.50/sq. ft., and using asphalt the cost is $8/sq. ft. The site preparation costs are similar for all three materials. The useful life of the materials varies. For concrete it is approximately 30 years, asphalt is approximately 20-25 years and brick typically requires maintenance sooner but also on a smaller scale than with concrete or asphalt.

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

Article 44: Resolution on Fossil Fuel Divestment	Funds Requested	Funding Source	Committee Recommendation
	None	*N/A*	**Disapprove (2-5-1)**

This non-binding resolution seeks divestment from coal, oil and natural gas companies for the Lexington Trust Funds and the Massachusetts Pension Reserve Investment Trust Fund (PRIT).

The Committee is generally opposed to this request, but we understand that there is a larger debate to be had, and that opinions vary on the suitability of divestment as a policy tool. Detailed majority and a minority reports are presented under this Article. For common reference, Section 3 "Investment and management decisions" of MGL Chapter 203C, known as the "Prudent Investor Act", is quoted here in full:

(a) A trustee shall invest and manage trust assets as a prudent investor would, considering the purposes, terms, and other circumstances of the trust, including those set forth in subsection (c). In satisfying this standard, the trustee shall exercise reasonable care, skill, and caution.

(b) A trustee's investment and management decisions respecting individual assets shall be considered in the context of the trust portfolio as a part of an overall investment strategy reasonably suited to the trust.

(c) Among circumstances that a trustee shall consider in investing and managing trust assets are such of the following as are relevant to the trust or its beneficiaries:

(1) general economic conditions;

(2) the possible effect of inflation or deflation;

(3) the expected tax consequences of investment decisions or strategies;

(4) the role that each investment or course of action plays within the overall trust portfolio;

(5) the expected total return from income and the appreciation of capital;

(6) other resources of the beneficiaries;

(7) needs for liquidity, regularity of income, and preservation or appreciation of capital; and

(8) an asset's special relationship or special value, if any, to the purposes of the trust or to one of the beneficiaries.

(d) A trustee shall make a reasonable effort to verify facts relevant to the investment and management of trust assets.

(e) A trustee may invest in any kind of property or type of investment consistent with the standards of this chapter.

(f) A trustee who has special skills or expertise, or is named trustee in reliance upon the trustee's representation that the trustee has such special skills or expertise, shall have a duty to use such special skills or expertise.

Article 44 – Majority Report

It is widely recognized that greenhouse gas emissions from fossil fuel consumption are the leading cause of global climate change. Reducing emissions is a difficult problem to solve, and requires a combination of state and federal policies (investment in and subsidy of scalable, cost effective green energy alternatives; regulations for vehicle fuel efficiency; full transparency in tracking energy generation and consumption). Any solution should be mindful of the cost imposed on consumers and on the implications for economic growth.

At the Town level, our efforts have focused on:

- Energy conservation in town buildings, residential homes and apartments
- Installation of solar panels on Town building roof tops, and potentially at Hartwell Ave.
- Providing informational support to residents willing to do their own solar panel installations
- Setting up electric vehicle recharging stations

In 2013, Lexington Town Meeting passed a non-binding resolution calling for the Town to (a) consider climate change in all appropriate decisions and planning processes; (b) take action to prepare for the impacts of a changing climate; (c) reduce greenhouse gas emissions; and (d) develop and implement a comprehensive climate action plan; all with the goal of making Lexington a truly sustainable community.

We could not determine the exact size of fossil fuel related investments in Lexington Trust and Pension Funds, which are invested in several mutual funds that each manage a large and diversified portfolio. Given the value and impact of energy companies in the overall world economy, it is expected that such funds will generally maintain significant positions in fossil fuel industries and related markets as part of a diversified and prudently weighted investment strategy.

According to the motion sponsor, the article seeks divestment in all direct and indirect holdings (through mutual funds, ETFs, bonds, derivatives, etc.) from the 200 coal, oil and natural gas companies ranked in The Carbon Underground 2015 index published online at `http://fossilfreeindexes.com/`. This is sought through SRI (socially responsible investing) or ESG (environmental, social and governance restrictions) investment strategies.

The proposed Article 44 resolution on fossil fuel divestment presents us with a number of concerns:

1. **Lack of Town Meeting authority.** Over 100 Lexington Trust Funds have been established by individuals in order to provide funds for scholarships, beautification and to help those in need. The Lexington Trust Funds hold approximately $7 million in assets, which are invested in mutual funds as well as in passive index funds. They function under state legislation enacted a little over 100 years ago with the specific purpose of not having these funds commingled with other town assets.

   The funds have three trustees appointed by the Selectmen with responsibility for the oversight and administration. The trustees are governed by the Prudent Investor Act quoted above, and they must act as fiduciaries on behalf of the town and of the citizens who contributed funds for their dedicated purposes. They view their responsibility first and foremost to act as fiduciaries without a political agenda.

   In the case of the Lexington Pension fund, which holds approximately $140 million in assets, and of the more recently created Lexington Post-Employment Insurance Liability (PEIL) fund, the Retirement Board is further bound by statute to discharge its duties "for the exclusive purpose of providing benefits to members and beneficiaries of the retirement system."

2. **Cost of compliance.** Divestment limits the standard diversification of a fund, potentially increasing risk and reducing expected performance as measured against the actuarially assumed rate of return. In the case of the Lexington Pension Fund, the rate of return used for calculating contributions is currently 7.75% per annum, and full funding is targeted by 2025. There is a risk that an actuarial determination imposing a lower assumed rate of return would lead to either increased annual contributions for pension-related investments, or an extension of the time needed to full funding.

3. **Disruption of existing investment strategies**. Divestment, if adopted, would have to be implemented gradually, given that some funds may have a sizable direct or indirect investment in the industries targeted for divestment. The current glut in energy commodities production has produced a declining market for energy-related stocks. Nobody can time the market perfectly, but any investor would be reluctant to lock in recent losses without careful consideration.

4. **Security selection.** Investments in a particular industry could be made directly, through owning stock, or indirectly, through owning mutual funds, ETFs, derivatives, or other securities. Many energy companies manage significant investment portfolios themselves, including sizable holdings in areas related to renewable energy. The wording of a resolution should be very specific as to how and why securities are targeted for divestment, and should not rely solely on recommendations published by a for-profit investment firm.

5. **The problem of excessive consumption.** Production of fossil fuel is driven by demand from industry and private use. Over-consumption of fossil fuels is an integral part of the problem, yet the resolution would not target industries that are big consumers of fossil fuels (agriculture, airlines, electricity generation) or providers of equipment that run on fossil fuels (most automobiles, oil and gas heating equipment).

We view the problem of greenhouse emissions as a grave one, necessitating quick action. Fossil fuel divestment of the Lexington Trust and Pension Funds would be a strong, symbolic step, but the question remains as to how effective it would in addressing the problem it seeks to resolve.

Divestment shifts the focus to problems created by others, in faraway states where coal, oil and gas are produced. It is incumbent upon us to look at our own contribution to this problem, through our choices and the systems we implicitly rely on. We live in a town dominated by large, single family homes. In the past twenty years, the floor to area ratio in our single family homes has doubled. Our transportation needs are met mostly with gasoline-powered private vehicles. Many of our recreation facilities rely heavily on petroleum products. The most effective solutions require us to find better ways to measure, track and reduce our own carbon footprint.

Article 44 – Minority Report

Social, environmental, and moral implications identified by divestment advocates are just part of the analysis behind determining whether Town Meeting ought to support recommending divestment of its holdings in coal, oil, and natural gas companies from the Lexington Trust Funds and from Massachusetts Pension Reserve Investment Trust Fund (PRIT).

Not all divestment movements will hit the tipping point where economic pressure contributes to a shift in public or corporate policies that impact economic decisions and lives. But among those movements that have succeeded, it is likely that they required decision makers to balance the same considerations that are facing Town Meeting today. Leaders considered both human and financial imperatives when institutions, states, and municipalities passed laws requiring divestment from:

- *South Africa* to build momentum against apartheid,
- *Tobacco* to undercut support for the production and advertising of this product due to the direct and indirect deadly effects of consumption, and
- *Sudan* to withdraw investments from American companies doing business with companies that directly or indirectly supported the state sponsored genocide.

One advantage the above movements shared is that advocates were able to point to the incontrovertible fact that people were suffering and dying. The mortality resulting from climate change is harder to quantify, but is it necessary to wait until everybody is convinced that many deaths across the globe are attributable to effects of climate change? We should consider the economic and social impact of Lexington Trust Fund and PRIT investments, rather than a strictly monetary analysis of investments' prospects.

Twelve other Massachusetts cities and towns[5] with the same fiduciary responsibilities have already passed resolutions endorsing state and/or local divestment. A growing number of colleges and universities, cities, counties, and religious institutions worldwide are choosing to divest to exert financial pressure to shift global or corporate public policy.

Lexington, through previous Town Meetings, has formally adopted policies and endorsed actions supporting the scientific conclusion that greenhouse gas emissions from fossil fuel consumption are the leading contributor to global climate change. In 2013, Lexington Town Meeting passed a non-binding resolution calling for the Town to (a) consider climate change in all appropriate decisions and planning processes; (b) take action to prepare for the impacts of a changing climate; (c) reduce greenhouse gas emissions; and (d) develop and implement a comprehensive climate action plan; all with the goal of making Lexington a more sustainable community.

Expenditures have followed and economic risks have been taken as Lexington complies with Green Community standards and this year approved the development solar power on our closed landfill and on

[5] Amherst, Boston, Brookline, Cambridge, Concord, Framingham, Great Barrington, Northampton, Provincetown, Somerville, Sudbury, Truro. – `http://gofossilfree.org/commitments/`

municipal rooftops. Our investment portfolio should reflect our choice to support these and other sustainability initiatives.

1. Town Meeting has Authority to Approve Article 44 under the Prudent Investor Act

The Lexington Trust Funds have three trustees appointed by the Board of Selectmen to administer trust funds belonging to the town pursuant to Chapter 107, Acts of 1910, *An Act To Authorize the Town of Lexington To Borrow Money To Repay or Reimburse Its Trust Funds and To Provide for the Custody and Management of Its Trust Property.*

The trustees of the Lexington Trust Funds are bound by MGL c. 203C, known as the Prudent Investor Act. Section 3 of that act, quoted above, instructs trustees to consider eight factors, including: (4) the role that each investment course of action plays within the overall trust portfolio. Section (9) states, “Compliance with the prudent investor rule shall be determined in light of the facts and circumstances existing at the time of a trustee’s decision or action.”

The trustees of Lexington Trust Funds have a present duty to consider the risks to the portfolio associated with holding investments in carbon intensive companies in the same way city planners today have a responsibility to consider the impact climate change will have on infrastructure. In light of the fact that Lexington has repeatedly acknowledged and spent public funds to support environmentally friendly actions to mitigate risks associated with carbon emissions, it would be imprudent to narrowly interpret the trustees’ fiduciary duty as an obligation to stay the course with existing investment strategies, without considering the potential returns of fossil fuel companies “in light of the facts and circumstances existing” today. The coal, oil, and gas sectors have under-performed over the last several years (especially over the last year), and in the foreseeable future these companies will have to adapt to more restrictive legislation, carbon cutting international agreements, price volatility, high and increasing production costs, and continued political unrest in oil rich counties.

A “No” vote on Article 44 allows trustees to continue investing in companies that our community has acknowledged do harm to the environment.

2. The Cost of Compliance is De Minimis

The majority report assumes that divestment from fossil fuel could increase the risk, potentially resulting in increased annual contributions for pension-related investments from other sources. This assumption is unsubstantiated by researchers and institutional investors. It has been shown that optimized carbon-free portfolios closely tracked the U.S. market since 1988 and the global market since 1997.[6] Some analysts report that fossil free portfolios have, in some cases, lowered risk and increased returns by cutting out volatility and stranded asset risk. Fossil free funds may not outperform conventional funds, but divested portfolios can meet and compete on returns against those maintaining fossil in their portfolio.

3. Production Versus Consumption

Article 44 would not affect industries that are big consumers of fossil fuel (agriculture, airlines, electricity generation) or providers of equipment that run on fossil fuels (automobiles, oil or gas heating equipment). The goal of divestment is not to destroy energy companies, but to contribute to growing social stigmatization of unmitigated extraction and use of fossil fuels. Social stigmatization of corporate behavior can change consumers’ minds and spending. This, in turn, could alter economic incentives enough to justify change of public and corporate policies to meet consumer demand for more climate friendly investments, development, and behavior. This resolution will express Lexington’s intention to continue to act in alignment with our stated environmental values.

The Committee recommends disapproval of this request (2-5-1).

[6] Building a Carbon-Free Equity Portfolio, Aperio Group LLC, 2014 – `http://www.aperiogroup.com/`

Article 46: Acquisition of Land Shown on Assessors' Property Map 22, Lot 51B	Funds Requested	Funding Source	Committee Recommendation
	None	*N/A*	**Approve (8-0)**

This Article seeks Town Meeting's authorization to take by eminent domain, or otherwise acquire for municipal purposes, a 3,452 square foot parcel of land located adjacent to the Stone Building / Waldorf School in East Lexington. This small sliver of land is located next to Town-owned land presently leased to the Waldorf School. The current owner of this parcel remains unknown and the most practical way to clear the title is to take it by eminent domain.

The Waldorf School contacted the Town Manager about their plans for a small addition and anticipated need to restructure its limited parking spaces. By way of background, the Town sold the former Adams School to the Waldorf School in 1983. The Town retains ownership of the land, which is leased to the Waldorf School. If this request is approved, the Town could clear title to the parcel, then lease the land to the Waldorf School, thereby enabling the school to develop expansion plans.

The potential legal costs associated with this measure are unknown at this time, but would fall within the parameters of the Town's legal budget.

The Committee recommends approval of this request (8-0).

Appendix A: 3-Year Budget Projection

This projection can help us understand the financial challenges that Lexington will face in the next three years. The projection is also an opportunity to obtain a better qualitative as well as quantitative understanding of known trends and cost drivers.

The creation of a revenue and expense projection differs in both method and purpose from the creation of a balanced budget. In a budget, one plans conservatively to avoid both over-spending and under-funding, either of which could necessitate harsh remedies in the middle of a fiscal year. For a projection, one makes rough estimates about future revenues 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 modest economic growth continues in FY2017, FY2018, and FY2019. 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, i.e., the increase in the tax levy from new construction and new personal property, peaked at a value well over $3,000,000 in FY2013 and then dropped about 15% in FY2014. It continued to drop another 4% in FY2015. This recent history of new growth exemplifies the volatility of this revenue source, and the uncertainty it adds to the projection. In light of this, the model straight-lines new growth using the five-year average from FY2010-2015.
- State aid is assumed to increase by 5% annually, driven primarily by increasing school enrollments leading to increasing Chapter 70 aid.
- 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 $335,000 and $105,000, respectively. Free Cash is assumed to total $5,700,000 for FYs 2017-19 with $4,000,000 applied to the operating budget and $1,700,000 to cash capital. Additionally we've included the town management's recommendation that, for each of the FYs 2017 through 2019, $1,860,000 will be transferred out of the Health Claims Trust Fund to fund health insurance premiums, and thereby freeing up the same amount to fund the Post Employment Insurance Liability (aka OPEB) Trust Fund. These assumptions imply that available funds will be lower than the corresponding totals for the previous five fiscal years (FYs 2012 through 2016) which ranged from a low of approximately $7,249,652 for FY2012 to as high as $16,224,796 for FY2016. We note that the average of available funds for FYs 2005 through 2010 was lower than $3,300,000.
- We illustrate projected transfers from the Capital Projects/Building Renewal/Debt Service Stabilization Fund (aka Capital Projects Stabilization Fund) to mitigate in-levy debt and exempt debt payments. The use of these funds will be a critical component of the financing plan for the proposed school capital program. For in-levy debt, transfers would limit the annual growth of the debt service payments to 5%. These transfers would be $2,060,000 in FY2017, $1,772,500 in FY2018, and $1,324,000 in FY2019. For exempt debt, we model transfers that would limit the annual growth of the exempt debt payments to $100 per year for a residence of average assessed value. These transfers would be $4,140,000 in FY2018, and $5,350,000 in FY2019. In total, these transfers represent significant withdrawals from the Capital Projects Stabilization Fund.
- Revenue offsets include amounts from cherry sheet assessments that are assumed to grow by 3.5% annually, amounts for the Assessors' overlay ($750,000 annually in FYs 2017 and 2019; and

$900,000 in FY2018, a revaluation year), and $300,000 that is set aside annually for potential deficits in the snow and ice budget.

- Water and Wastewater Enterprise Fund indirect expenses are assumed to increase by 3% annually. Recreation Enterprise Fund indirect expenses are assumed to increase by $5,000 per year. Starting in FY2016, Recreation Enterprise Fund expenses will be offset by $216,836 in tax levy funding for Community Center operations personnel. This expense will grow by 1.3% annually to accommodate step increases, and the tax levy funding will increase with at that pace also.

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

- Line items for FYs 2017-2019 do not include increases for as of now unsettled cost-of-living adjustments (COLAs) for salaries and wages. The potential impact of COLAs of different sizes initiated in FY2017 is summarized below the main projection.
- The Lexington Public Schools personnel costs are assumed to increase by 2% annually for step changes, and 2% for enrollment driven increases.
- 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" of the State Circuit Breaker reimbursement and are assumed to increase by 5% annually, 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 4.5% per year. Additional debt service payments for capital improvements will be $128,000 in FY2018 and $162,000 in FY2019.
- Appropriations for current and future contributory pension payments are assumed to follow the schedule set up by the Retirement Board following the most recent actuarial evaluation of pension costs. These costs are $5,505,537 in FY2017, $5,755,537 in FY2018 and $6,005,537 in FY2019.
- Health insurance costs are assumed to increase annually by 5%. Part of this growth is driven by anticipated increases in school staffing due to enrollment.
- Non-exempt debt service costs are assumed to support annual appropriations of $5,000,000 for debt-based capital projects, growing $1,654,128 in FY2017, $1,725,313 in FY2018 and $1,800,208 in FY2019. These are the unmitigated debt payments. The proposed mitigation payments are described in the revenue section.
- Dept. of Public Facilities costs include salaries and wages (assumed to grow by 1.3% annually for step changes), utility bills, and other expenses (assumed to grow by 3% annually). Utility costs are assumed to drop $338,000 in FY2017 when the Hartwell solar farm comes on line, and then to rise by 1.5% 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 the amount of $1,700,000 from Free Cash for other capital expenses.
- No new funds are appropriated into the Stabilization Fund.
- Other expenses are assumed to include $20,000 annually for the senior tax work-off program; $110,000 of revenue set aside as a hedge for State or Federal aid reductions; $200,000 set aside for unanticipated current fiscal year needs, an annual $1,860,000 contribution 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, except the Recreation Enterprise Fund, are projected using the 5-year trend from FY2011-2015. Reorganization of the Recreation Enterprise Fund in FY2016 increased its base budget ($415,833 in personal services and $337,882 in expenses) and those costs are now layered on top of the 5-year trend line. Enterprise capital is projected using the five averages for FY2011-2015.
- The illustrative preliminary Excluded Debt Service Model created by the Town Manager and Assistant Town Manager for Finance and dated January 21, 2015, is used to project exempt debt service for the anticipated and still unappropriated school capital project. These are the unmitigated debt payments. The proposed mitigation payments are described in the revenue section.
- No potential expenses for unidentified new programs are built into these projections.

The projection for FY2017 shows an increase of approximately $940,000 in total general fund revenue. This increase is below the projected $6,500,000 increase in the FY2016 general fund 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 FY2016. 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 not used to fund operating expenses, but 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 $6,690,000 in FY2018 and $6,860,000 in FY2019.

Projected school budgets are subject to unpredictability in the growth of enrollment. This model assumes a 2% annual enrollment growth, but the actual growth could range from 0% to over 4% annually.

COLAs of 1% in FY2017 for the schools, municipal departments, and Public Facilities Department would increase their respective budgets by $818,000, $229,000 and $52,000. Our table illustrates the cumulative effect that COLAs of varying percentages would have on reducing any surpluses for FY2017-2019. 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	**FY2014** actual	**FY2015** recap	**FY2106** budgeted	**FY2017** projected	**FY2018** projected	**FY2019** projected
Property Tax						
Property Tax Levy	$135,440,316	$141,843,658	$148,286,733	$154,493,901	$161,020,692	$167,710,652
Allowable 2.5% inc.	$3,386,008	$3,546,091	$3,707,168	$3,862,348	$4,025,517	$4,192,766
New Growth	$3,017,335	$2,896,983	$2,500,000	$2,664,443	$2,664,443	$2,664,443
Excess Levy Capacity	($1,175)	($74,194)		$0	$0	$0
Tax levy limit	**$141,842,483**	**$148,212,539**	**$154,493,901**	**$161,020,692**	**$167,710,652**	**$174,567,861**
State Aid	$10,214,580	$11,193,462	$11,430,693	$11,753,135	$12,340,792	$12,957,831
Local Receipts	$14,374,770	$10,769,383	$11,769,694	$11,946,239	$12,125,433	$12,307,314
Available Funds	$12,473,510	$11,012,293	$15,604,229	$8,000,000	$8,000,000	$8,000,000
In-Levy Debt Svc. Mitigation		$919,000	$620,567	$2,060,000	$1,772,500	$1,324,000
Revenue Offsets	($1,644,621)	($2,492,221)	($1,987,549)	($1,957,695)	($2,139,464)	($2,022,346)
Enterprise Funds (Indirect)	$1,497,405	$1,487,905	$1,617,576	$1,663,885	$1,711,433	$1,760,258
Total General Fund	**$178,758,127**	**$181,102,361**	**$193,549,111**	**$194,486,256**	**$201,521,346**	**$208,894,920**
Other Revenues						
Revolving Funds	$2,395,771	$3,179,010	$2,622,305	$2,450,683	$2,450,683	$2,450,683
Grants	$96,230	$102,916	$103,000	$99,841	$100,497	$101,564
Enterprise Fund	$19,396,755	$21,436,310	$22,873,187	$22,570,513	$23,732,375	$24,894,585
Exempt Debt	$6,927,654	$7,423,332	$8,467,489	$8,823,940	$10,073,014	$11,326,037
Exempt Debt Svc. Mitigation	$1,600,000	$950,000	$215,000		$4,140,000	$5,350,000
Sub-Total Other Revenues	**$30,416,410**	**$33,091,568**	**$34,280,981**	**$33,944,978**	**$40,496,570**	**$44,122,868**
Total Revenues	**$209,174,537**	**$214,193,929**	**$227,830,092**	**$228,431,234**	**$242,017,915**	**$253,017,788**

Expense Summary	FY2014 actual	FY2015 recap	FY2106 budgeted	FY2017 projected	FY2018 projected	FY2019 projected
Education						
Lex. Pub Schools Wages	$68,735,873	$73,496,851	$78,675,324	$81,822,337	$85,095,230	$88,499,040
Lex. Pub Schools Expenses	$6,920,127	$7,120,054	$7,984,612	$8,144,304	$8,307,190	$8,473,334
Out-of-District SPED	$5,744,507	$6,007,024	$5,400,380	$5,916,648	$6,195,741	$6,488,287
Sub-Total Lex. Pub. Schools	**$81,400,507**	**$86,623,929**	**$92,060,316**	**$95,883,289**	**$99,598,162**	**$103,460,661**
Minuteman Reg. School	$1,474,266	$1,244,384	$1,202,814	$1,256,941	$1,441,503	$1,534,611
Sub-Total Education	**$82,874,773**	**$87,868,313**	**$93,263,130**	**$97,140,229**	**$101,039,665**	**$104,995,271**
Municipal						
Municipal Wages	$20,415,866	$21,413,446	$22,598,270	$22,892,048	$23,189,644	$23,491,110
Municipal Expenses	$9,990,840	$10,543,866	$10,980,001	$11,309,401	$11,648,683	$11,998,144
Sub-Total Municipal	**$30,406,706**	**$31,957,312**	**$33,578,271**	**$34,201,449**	**$34,838,327**	**$35,489,253**
Shared Expenses						
Benefits & Insurance	$26,780,825	$29,824,547	$32,423,750	$34,077,878	$35,803,190	$37,603,398
Debt (within-levy)	$5,409,996	$6,730,641	$6,732,527	$8,703,490	$9,557,465	$10,124,333
Reserve Fund	$900,000	$900,000	$900,000	$900,000	$900,000	$900,000
Facilities	$9,681,646	$9,897,675	$9,899,632	$9,749,903	$9,916,338	$10,097,931
Sub-Total Shared Expenses	**$42,772,467**	**$47,352,863**	**$49,955,909**	**$53,431,270**	**$56,176,993**	**$58,725,662**
Capital & Reserves						
Cash Capital	$6,919,202	$5,238,117	$4,871,905	$4,264,227	$4,327,083	$4,391,510
Stabilization Fund	$0	$0		$0	$0	$0
Capital Building Stab Fund	$3,983,240	$5,910,726	$9,447,832	$600,000	$600,000	$600,000
PEIL Fund (OPEB)	$775,000	$1,119,000	$1,862,194	$1,862,194	$1,862,194	$1,862,194
Other (SrWorkOff, aid redc)	$3,580,000	$620,000	$353,035	$330,000	$330,000	$330,000
Sub-Total Capital & Res.	**$15,257,442**	**$12,887,843**	**$16,534,966**	**$7,056,421**	**$7,119,277**	**$7,183,704**
Total Op, Cap & Res.	**$171,311,388**	**$180,066,331**	**$193,332,276**	**$191,829,369**	**$199,174,262**	**$206,393,890**
Revolving Funds	**$2,395,771**	**$3,179,010**	**$2,622,305**	**$2,450,683**	**$2,450,683**	**$2,450,683**
Grants	**$96,230**	**$102,916**	**$103,000**	**$99,841**	**$100,497**	**$101,564**
Enterprise Funds						
Water	$7,835,386	$8,481,606	$9,195,730	$9,157,505	$9,770,763	$10,384,021
Wastewater (Sewer)	$8,637,738	$9,052,588	$8,624,962	$9,685,089	$10,170,044	$10,654,999
Recreation	$1,711,881	$1,848,116	$2,601,831	$2,620,925	$2,687,429	$2,754,318
Enterprise Capital	$1,211,750	$2,054,000	$2,667,500	$1,326,650	$1,326,650	$1,326,650
Sub-Total Enterprise Funds	**$19,396,755**	**$21,436,310**	**$23,090,023**	**$22,790,168**	**$23,954,886**	**$25,119,988**
Exempt Debt	**$8,527,654**	**$8,373,332**	**$8,682,489**	**$8,823,940**	**$14,213,014**	**$16,676,037**
Total Expenses	**$201,727,798**	**$213,157,899**	**$227,830,093**	**$225,994,002**	**$239,893,342**	**$250,742,162**
Balance (w/o COLA)	**$7,446,739**	**$1,036,030**	**$0**	**$2,437,232**	**$2,124,574**	**$2,275,627**

COLA Projection	FY2017
each 1% COLA for schools	$818,223
each 1% COLA for municipal	$228,921
each 1% COLA for public facilities	$51,862
Total cost of each 1% COLA for all departments	$1,099,006

COLA	Balance (Deficit) for various COLA rates implemented in FY2016		
1%	$1,338,226	($84,428)	($1,054,471)
2%	$239,220	($2,315,410)	($4,451,169)
3%	($859,786)	($4,568,373)	($7,915,126)

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: Tax Relief Programs

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 tax relief now available to Lexington homeowners are:

- A state income tax *"Circuit Breaker"* program providing a state tax credit for low- and moderate-income homeowners and renters age 65 and over.
- "41A", 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 (see table below), until the house is sold or transferred, G.L. c. 59, § 5, cl. 41A.
- "41C", 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. 41C½.
- A locally-controlled *Senior Service* program, adopted by Town Meeting in 2006.
- A Community Preservation Act *surcharge exemption* program.

<u>State Income Tax "Circuit Breaker"</u>

Low- and moderate-income homeowners age 65 and over whose homes have an assessed valuation not greater than a specified ceiling may obtain a tax credit on their state tax returns (see table below). Renters are also eligible for a tax credit. The actual credit received depends on income and real estate tax payments. This program is administered by the Massachusetts Department of Revenue and has no direct impact on Town finances.

<u>The "41A" Deferral Program</u>

This program, although it has not been widely used, is an important tool for tax-relief because it offers immediate and substantial property tax relief to seniors with significant equity tied up in a residence. Those who qualify may defer any part or all of their property tax for a given year, up to a cumulative total of half the assessed valuation of their house, at a very generous interest rate. The deferred taxes are eventually paid when the property is sold or transferred. The interest rate is based on a floating Treasury rate equivalent to Lexington's cost of funds in the year of deferral (capped at 8% but normally less than 1%), which remains in effect for the life of each year's deferral (see table below).

The 41A deferral program is an attractive form of tax relief from the Town's point of view because it is essentially revenue-neutral. While the unlikely event of a significant increase in the number of participants in any particular year could potentially create a short-term cash flow problem, the Town is in effect making well-secured loans. The Town should eventually be repaid all the funds that are deferred with interest, and over time an equilibrium should be reached under which as many deferral agreements are repaid as are entered into.

The total amount of deferred taxes now carried by the Town as accounts receivable is shown below.

<u>The "41C" Exemption Program</u>

For many years, the Town has made available to qualifying seniors a property tax exemption under Clause 41 of G.L. c. 59, §5, and its successor, Clause 41C. Under the "41C" Program, the Town receives partial reimbursement from the State for exemptions defined under the program, subject to appropriation. The portions of the exemptions that are not reimbursed are funded from the Town's overlay account.

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:

- Increase the amount of the exemption to $750.
- Lower the age of eligibility from 70 to the minimum allowed age of 65.
- Increase the income threshold from $13,000 (single) / $15,000 (married) to the maximum allowed amount of $20,000 (single) / $30,000 (married).
- Increase the threshold for personal assets, not including the home, from $28,000 (single) / $30,000 (married) to the maximum allowed amount of $40,000 (single) / $55,000 (married).

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 state Department of Revenue. The current income and asset limits are detailed in the table below.

In 2006, Town Meeting voted to increase the exemption to the maximum allowable amount of $1,000.

The Senior Service Program

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 $1,045 for an individual, or a maximum credit of $1,330 for a two-person household. The Senior Service program, formerly funded from the overlay account, is now funded as part of the Town's annual budget, and is subject to appropriation.

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 up to $500 in exchange for community service.[7] 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 of $8/hour.

In 2006, Town Meeting voted to rescind its acceptance of the statewide senior property tax work-off program under G.L. c. 59, § 5K, 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

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. The current qualifications are detailed in the table below.

CPA Surcharge Exemption

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. These exemptions directly reduce the amount of CPA revenue that the Town receives.

[7] 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.

Tax Relief Programs – Limits and Qualifications as of January 2014

State Income Tax Circuit Breaker		
Maximum assessed valuation		$691,000
Maximum tax credit for renters		$1,050
41C Property Tax Exemption for Seniors	**Single**	**Married**
Income Limit	$25,485	$38,230
Assets Limit	$50,974	$70,088

Limits and Qualifications as of 2015

41A Property Tax Deferral		
Interest rate on taxes deferred in 2014		0.25%
Total accounts receivable for deferred taxes		$881,716.63
Senior Service Program	**Single**	**Couples***
Income eligibility	$53,000	$55,000
Maximum benefit	(110 hours) $1,045	(140 hours) $1,330
Hourly Rate	$9.50	$9.50
**Couples living in the same household.*		

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 was $7,100. The fund has been almost fully withdrawn, leaving only a negligible residual balance.

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."

At the 2012 Special Town Meeting, the *Debt Service/Capital Projects/Building Renewal S.F.* was created to set aside funds for future capital projects, including but not limited to building renewal projects, and/or to mitigate the impact on taxpayers of debt service, both excluded and non-excluded, related to capital projects.

Current Town policy has a goal of keeping debt service at approximately 5% of total revenue. When the Town must issue a particularly large bond, such as was needed for the new Estabrook School construction combined with the Bridge and Bowman school renovations, the Town's debt service rises sharply. This rise is typically followed by a period of lower growth in debt service while the Town pays down its existing debt, and limits additional borrowing, until debt service converges back on the goal of 5% of total revenue.

Rather than adding the higher debt service directly into the tax levy, this fund allows the Town to smooth the impact of sudden increases in debt service on property tax bills. Town Meeting can set aside funds in periods when the Town has a surplus, and in later years these funds can be appropriated to directly reduce annual debt service, which in turn reduces the amount that must be raised in the tax levy.

Appendix F: Other Post Employment Benefits

The OPEB Liability

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. These and other retirement benefits that are distinct from the pension benefits earned by many retirees are known as "other post-employment benefits" or OPEB for short. Health care benefits are by far the largest component of OPEB. Currently, about 80% of retirees are eligible for Medicare and receive Medicare supplement coverage from the Town. The remaining retirees receive full coverage from the Town, either because they under 65 years old or because they do not qualify for Medicare for other reasons.

Because the Town is obligated to provide these benefits in the future, the anticipated costs over the lifetime of the current and future retirees represent a financial liability for the Town. Two factors drive the size of this liability, one adding to it while the other reduces it. After ten years of full-time employment with the Town, employees become eligible for a pension and all future retiree health benefits. At these ten-year anniversaries, the Town's OPEB liability increases by an amount that can be estimated based on the expected number of years the employee will receive retirement benefits, and the expected cost of providing those benefits in the future. Conversely, as the Town pays for benefits to retirees each year, a slice of the accrued liability is eliminated.

In a simpler world, i.e. a world where the number of retirees was not growing and medical costs did not outpace inflation, the size of the OPEB liability (in inflation-adjusted dollars) would be relatively stable, because the increases and decreases would tend to balance out. In practice, however, the inflation-adjusted value of the OPEB liability generally increases each year, because of the increasing cost of health care, the growth in the number of retirees receiving benefits, and the upward trend in longevity.

The Post Employment Insurance Liability (PEIL) Fund

The PEIL Fund was created pursuant to authority granted to the Town through a special act of the Legislature in 2002. The Fund was created to allow the Town, at the discretion of Town Meeting, to set aside funds to pay for future retiree health benefits. Once money has been appropriated into the PEIL Fund, Town Meeting may only appropriate money out of it to pay for health care costs of retirees.

The Retirement Board is responsible for the management of the PEIL Fund as well as the Retirement Fund, which supports the Town pension system. The rules governing the management of these two funds are similar and, unlike most other Town monies, both of these funds can be invested in equities to yield a higher risk/return ratio suitable for long-term growth.

GASB 45 and the choice of a discount rate

Under Government Accounting Standards Board statement 45 (GASB 45), the actuarial value of the Town's OPEB liability is revised every two years and the results must be included in the Town's financial statements. Bond rating agencies have consistently asked about this report since it became available, suggesting that the size of the OPEB liability, and its current funding level, factor into the Town's bond rating.

Estimating the present value of a complicated long-term liability like OPEB involves many actuarial assumptions, and the final result will be very sensitive to some of these factors, especially the *discount rate* (the assumed rate of return on long-term investments), and the predicted rate of inflation for medical costs. Understanding the results requires the reader to consider the underlying assumptions, and to judge how well they mirror their own real-world expectations.

The Town engages an actuarial consultant who must follow procedures and reporting templates established by GASB 45 to produce the actuarial report. The primary purpose of this report is to inform potential investors about one specific aspect of the financial health of the Town, and to enable uniform financial comparisons across multiple municipalities. However, the required elements of the report are arguably insufficient to provide practical guidance for a municipality that seeks to control or reduce its OPEB liability.

Per GASB 45, the liability is estimated using a conservatively determined "blended" discount rate that is well below the discount rate typically used for long-term investments. This will greatly magnify the estimate of the OPEB liability for municipalities that have not already funded some large portion of their OPEB liability. The lower the discount rate used (predicting worse investment returns), the higher the resulting estimate of the liability will be.

In 2011, the Town's OPEB report used a blended discount rate of 2.5% yielding a liability of $302 million. In 2013, with the consent of the Town's actuarial consultant, a higher blended discount rate of 4.5% was used, yielding a liability of $130 million. This large drop in the official estimate of the liability is due almost entirely to the use of a higher discount rate, but even 4.5% is too low for our purposes.

The discount rate currently used by the Town's pension fund analysis is 7.75%, and the pension fund is quite similar in purpose and design to the PEIL Fund. At the Town's request, the latest actuarial analysis included an auxiliary schedule using a discount rate of 7.75%. This yielded a liability of approximately $90 million as of June 30, 2013. This is arguably the appropriate figure to contemplate for a pre-funding plan, because, in actuarial terms, it assumes that Town will actually follow through with a funding plan (while the blended discount rate assumes the Town will never complete a funding plan).

Unless otherwise noted, all estimates of present value in the remainder of this discussion are based on a discount rate of 7.75%.

Pre-Funding OPEB

There are two approaches to handling the OPEB liability. Currently, the Town follows a *pay-as-you-go* model where annual OPEB expenses are paid entirely through the Operating Budget. This model uses current dollars to pay for expenses accrued in the past. The Town's pay-as-you-go OPEB cost for FY2015 is budgeted at $6.1 million.

The other approach is a *pre-funded* model, where the cost of benefits earned during the current year is appropriated into the PEIL Fund, and the investment returns from the Fund are then used to pay for annual benefits. This model uses current dollars to pay for future expenses, and is essentially the way the pension fund operates.

Under the pre-funded model (ignoring the unfunded liability for now), the amount that would have been appropriated into the trust fund for FY2014 was approximately $1.7 million. This amount is referred to in the actuarial analysis as the "Normal Cost." The Normal Cost is an actuarially determined annual contribution that would fund the Town's share of future retiree benefits earned by active employees in the current fiscal year.

Until the Town fully funds its OPEB liability, moving toward the pre-funded model will require the Town to continue paying for annual pay-as-you-go OPEB expenses, while also appropriating funds into the PEIL Fund. Both types of payments reduce the OPEB liability in their own way. This combination of appropriations would continue until the future investment returns from the PEIL Fund are sufficient to cover the cost of all benefits earned in previous years. At that point the Town's annual OPEB appropriation would drop significantly.

The pay-as-you-go and pre-funded model each have advantages and disadvantages. The pay-as-you-go model is simpler to administer, but there is no benefit from long-term investment earnings, and no hedge against the higher inflation of health care costs. In the pre-funding model, once a sufficient trust fund balance is achieved, the investment earnings pay for a substantial portion of the costs. Building up the trust fund is more expensive in the near term, but eventually results in much lower annual appropriations from the operating budget.

Under pay-as-you-go, there is a disconnect between the time when services are rendered and the time when funds must be appropriated to pay the benefits associated with those services. This disconnect can complicate long-term financial planning. With pre-funding, the fully loaded cost of services is accounted for in the current year.

Even partial pre-funding has some benefits. Any monies in the PEIL Fund provide assurance that the Town will be able to satisfy at least some portion of its future liability, and the Fund could also be used as a reserve, e.g., to fund a portion of retiree health costs in particularly challenging fiscal years.

On the other hand, monies invested in the PEIL Fund are unavailable for other uses. Appropriating money into the PEIL Fund reduces the spending power of the current budget. One should consider whether funding the PEIL Fund takes priority over other liabilities, such as the costs of maintaining or replacing roads and buildings in a timely manner. In some circumstances, choosing the latter might generate significant future savings.

On March 10, 2014, based on a recommendation from the OPEB Working Group, the Board of Selectmen endorsed a formal policy for making annual appropriations to the Post Employment Insurance Liability (PEIL) Fund:

> It is the policy of the Board of Selectmen to recommend to Town Meeting each year a budget contribution to the OPEB Trust Fund in an amount that ranges from 35 to 100 percent of the full Normal Cost, with the General and Enterprise Funds bearing their respective shares of those contributions. This approach will mitigate growth in the Unfunded Actuarial Accrued Liability, reducing the amount the Town will need to budget for health insurance by approximately one-third, as the assets of the OPEB Trust Fund will be used to underwrite the annual cost of retiree benefits.
>
> Further, it is recognized that there are competing claims for limited Town funds, which are considered as part of the annual budget process. Consequently, the annual recommendation for OPEB funding shall be made in the context of other capital and operating budget needs, such that recommended OPEB funding shall not have a material, detrimental impact on service delivery or the maintenance of Town capital assets and infrastructure.

The Committee supports this policy.