APPROPRIATION COMMITTEE
TOWN OF LEXINGTON

REPORT TO THE
2022 ANNUAL TOWN MEETING, AND
2022-1 SPECIAL TOWN MEETING

RELEASED MARCH 21, 2022

APPROPRIATION COMMITTEE MEMBERS

Glenn P. Parker, Chair • Sanjay Padaki, Vice Chair • Alan Levine, Secretary
Carolyn Kosnoff (ex officio; non-voting) • Anil A. Ahuja • John Bartenstein
Eric Michelson • Meg Muckenhoupt • Lily Manhua Yan

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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

2022-1 SPECIAL TOWN MEETING

Art-icle	Title	Funds Requested	Funding Source	Committee Recommendation
2	Appropriate for 1575 Massachusetts Avenue / Police Station Replacement	**$ 32,400,000**	**GF Debt**	**Approve (8-0)**

2022 ANNUAL TOWN MEETING

Art-icle	Title	Funds Requested	Funding Source	Committee Recommendation
4	Appropriate FY2023 Operating Budget	*See below*	*See below*	**Approve (8-0)**
5	Appropriate FY2023 Enterprise Funds Budgets	**$ 11,127,383** **$ 10,953,238** **$ 3,138,993**	**Water EF** **Wastewater EF** **Recreation EF**	**Approve (8-0)**
6	Appropriate for Senior Services Program	**$ 15,000**	**GF**	**Approve (8-0)**
7	Climate Action Plan	$ 20,570 $ 30,000 **$ 50,570**	**Free Cash** *See below*	**Approve (8-0)**
8	Appropriate for Comprehensive Plan Implementation	**None**	**N/A**	**IP**
9	Establish and Continue Departmental Revolving Funds	*See below*	**RF**	**Approve (8-0)**
10	Appropriate the FY2023 Community Preservation Committee Operating Budget and CPA Projects	*See below*	**CPA**	**[a-j,l-n] Approve (8-0);** **[k] IP**
11	Appropriate for Recreation Capital Projects	**$ 95,000**	**Recreation EF Ret'd Earnings**	**Approve (8-0)**
12	Appropriate for Municipal Capital Projects and Equipment	**$ 14,016,091**	*See below*	**Approve (8-0)**
13	Appropriate for Water System Improvements	$ 600,000 $ 1,600,000 **$ 2,200,000**	**Water EF Rates** **Water EF Ret'd Earnings**	**Approve (8-0)**

2022 ANNUAL TOWN MEETING

Art-icle	Title	Funds Requested	Funding Source	Committee Recommendation
14	Appropriate for Wastewater System Improvements	$ 1,500,000 $ 1,220,000 $ 300,000 **$ 3,020,000**	**Wastewater EF Debt** **Wastewater EF Ret'd Earnings** **Wastewater EF Rates**	**Approve (8-0)**
15	Appropriate for School Capital Projects and Equipment	**$ 1,343,006**	**GF**	**Approve (8-0)**
16	Appropriate for Public Facilities Capital Projects	**$ 2,611,940**	*See below*	**Approve (8-0)**
17	Appropriate to Post Employment Insurance Liability Fund	$ 1,179,721 $ 750,000 $ 2,761 $ 3,004 **$ 1,935,486**	**Free Cash** **Tax Levy** **Water EF** **Wastewater EF**	**Approve (8-0)**
18	Rescind Prior Borrowing Authorizations	**None**	**N/A**	**Approve (8-0)**
19	Establish, Amend, Dissolve and Appropriate To and From Specified Stabilization Funds	*See below*	*See below*	**Approve (8-0)**
20	Appropriate for Prior Years' Unpaid Bills	**$ 6,262**	**Set-Aside for FY22**	**Approve (8-0)**
21	Amend FY2022 Operating, Enterprise and CPA Budgets	*See below*	*See below*	**Approve (8-0)**
22	Appropriate for Authorized Capital Improvements	**None**	**N/A**	**IP**
23	Appropriate From Debt Service Stabilization Fund	**$ 191,000**	**DSSF**	**Approve (8-0)**
24	Adjust Retirement COLA Base for Retirees	**None**	**N/A**	**Approve (8-0)**
25	Appropriate for Worthen Road Recreation and Education District Land Use Concept Plan	**None**	**N/A**	**IP**
26	Appropriate for Nexus Studies	**$ 75,000**	**GF unreserved**	**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 previous annual town meeting, 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 2023 Recommended Budget & Financing Plan* (the "Brown Book"), dated February 28, 2022, 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).
- The *Level Service and Recommended Budget of the Superintendent of Schools*, dated January 4, 2022 (hereafter the "LPS Budget Book"), which details the budget plan for the Lexington Public Schools.
- The Capital Expenditures Committee (CEC) *Report to the 2022 Annual Town Meeting*, which provides recommendations on appropriation requests for capital projects, and an analysis of the Town's long-term capital planning.
- The Community Preservation Committee (CPC) *Report to the 2022 Annual Town Meeting*, which details requests approved by the CPC that can be funded from the Community Preservation Fund.

The LPS Budget Book is available online at:
`https://lexingtonma.org/lps-finance-and-operations/fy-23-budget`

All other reports for this Town Meeting will be available online at:
`https://www.lexingtonma.gov/2022atm`

Acknowledgments

The content of this report, except where otherwise noted, was researched, written and edited by Committee members who volunteer their time and expertise, and with the support of Town staff. We have the pleasure and the privilege of working with Town Manager James Malloy; Assistant Town Manager for Finance Carolyn Kosnoff (an ex officio member of our Committee); Budget Officer Jennifer Hewitt; the Capital Expenditures Committee; the Community Preservation Committee; the School Committee; the Permanent Building Committee; the Planning Board; Superintendent of Schools Dr. Julie Hackett; Assistant Superintendent for Finance and Operations David Coelho; and the Lexington Select Board. 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 for our meetings.

Introduction

The Appropriation Committee is required to create a report with a review of the budget as adopted by the Select Board, including an assessment of the budget plan and a projection for future years' revenues and expenses. This report includes the Committee's analysis and recommendations regarding all anticipated appropriations of funds at town meetings, and other financial matters that may come before Town Meeting. This report is distributed 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.

The Committee's goal is to publish its report at least one week prior to the start of the Annual Town Meeting (ATM), with the understanding that financial articles could be taken up on the first night of the ATM.

Previous reports from this committee were created using Microsoft Word. This report was authored using Wdesk, a cloud-based application from Workiva that the Town licenses for use in producing financial documents. This allows the report to be integrated directly with the Town's internal finance database, so that budget figures and projections are updated and presented in a timely fashion.

Committee Membership

Anil A. Ahuja was appointed to the committee shortly before the start of the 2021 Annual Town Meeting. Vineeta Kumar was appointed to the committee at the same time, but unfortunately, she was unable to serve due to a conflict with the Town Meeting Member Association's bylaws for its Executive Committee. The Committee presently has eight voting members with one vacant seat.

Reserve Fund

On March 16, 2022, the Committee approved a transfer of $174,000 from the Reserve Fund to the Recreation Enterprise Fund to accelerate repairs at the Pine Meadows Golf Club. The balance of the Reserve Fund is currently $576,000, but adjustments to the FY2022 operating budget under Article 21 will request a matching transfer of $174,000 from the Recreation Enterprise Fund back to the Reserve Fund. The end result will be that the Reserve Fund balance is unchanged from its initial appropriation at $750,000. As always, any remaining funds will revert to Free Cash at the end of the fiscal year.

Zoning Articles

As is frequently the case, the warrant for this annual town meeting includes articles that request changes in commercial zoning. There are requests from the Town seeking to update the regulation of commercial development, and there are requests from commercial property owners seeking rezoning. Zoning changes are often predicted to boost the tax levy in the future, which would in turn affect the overall finances of the Town. In spite of the potential for financial impacts, this committee does not generally report on zoning articles. The future financial impact of zoning changes is speculative, and the committee is not equipped to validate such predictions. In addition, zoning changes often involve tradeoffs in quality of life or personal property rights that are impossible to quantify in monetary terms. There are some exceptions to this rule, for example when a property owner agrees to make payments to the Town, or to provide in-kind support for Town needs, such as shuttle services.

Developments Since Adoption of the FY2022 Budget

The Committee has continued to meet virtually using the Zoom application.

At the November 2021-1 Special Town Meeting, the following appropriations were approved:

- $870,000 for Police Station Architectural Design and Swing Space Construction.
- $310,750 for CPA projects.
- $770,000 in supplemental funding for construction of the new Westview Cemetery building.
- $570,300 for the Capital Stabilization Fund.
- $200,000 for the Transportation Demand Management/Public Transportation (TDM/PT) Stabilization Fund.

With the exception of the TDM/PT, these appropriations used funds derived from additional "new growth" in the tax levy above the initial projection in the FY2022 budget. The TDM/PT is funded by commercial property owners under agreements with the Town to support traffic-related work.

The Town's Community Center, which had been closed since March 2020, was re-opened to the public on August 18, 2021, soon after the start of FY2022. The Recreation Enterprise Fund has begun to receive revenue from user fees again, but the Town continued to provide additional support for the Recreation Department during FY2022.

On March 2, 2022, the Massachusetts School Building Authority (MSBA) voted to invite the Town into the first phase of a collaborative process to fund of the renovation or replacement of Lexington High School. A special town meeting will be called to request funding for the Feasibility Study phase of the MSBA funding cycle.

FY2023 Revenue and Budget

The main body of this report contains the Committee's analysis of all the appropriation requests that make up the next fiscal year's budget. Here we discuss some of the overarching trends in Town finance.

The *FY2023 Recommended Budget and Financing Plan* (the "Brown Book") opens with the *Report of the Town Manager*. The first two tables below are taken from that section, which provides a comprehensive overview of the estimated revenue and proposed budget for the coming fiscal year.

Tax Levy Dedicated to Capital Stabilization Fund

Starting in FY2022, the budget incorporated a new line in the revenue summary for a portion of the tax levy that is earmarked for the Capital Stabilization Fund. This is based on a recommendation from the Town Manager's Financial Guideline Working Group which allocates a portion of new growth in the tax levy derived from development in commercially zoned areas of Lexington. For the prior year and this year, the dollar amounts are small, but in the coming years this earmark will grow in proportion to commercial development. This guideline will be suspended once debt service for a new or renovated Lexington High School begins.

Revenue Source	FY2022 Tax Recap	FY2023 Projected	$ Change	% Change	% of Total Revenue
Property Tax Revenue	$ 204,171,602	$ 212,056,053	$ 7,884,450	3.9%	81.4%
Tax Levy Dedicated to CSF	$ 57,138	$ 57,138	$ —	—%	—%
State Aid	$ 16,492,260	$ 16,784,662	$ 292,402	1.8%	6.4%
Local Receipts	$ 12,627,933	$ 13,488,108	$ 860,175	6.8%	5.2%
Available Funds	$ 17,825,379	$ 18,507,776	$ 682,397	3.8%	7.1%
Revenue Offsets	$ (1,961,196)	$ (2,331,557)	$ (370,361)	18.9%	(0.9)%
Enterprise Receipts	$ 1,432,356	$ 1,805,613	$ 373,257	26.1%	0.7%
Gross General Fund Revenues	**$ 250,645,473**	**$ 260,367,794**	**$ 9,722,321**	**3.9%**	**100.0%**
Less - Revenue Set-Aside for Designated Expenses	$ 16,678,401	$ 19,896,592	$ 3,218,191	19.3%	7.6%
Net General Fund Revenues	**$ 233,967,072**	**$ 240,471,202**	**$ 6,504,130**	**2.8%**	**92.4%**

The Gross General Fund Revenue for FY2023 is projected to increase by 3.9%. State aid is estimated to grow by 1.8% this year, which is largely a result of diminished growth in Chapter 70 aid for education.

Once the Town's "new growth" tax revenue is certified in the fall, the tax levy may increase resulting in higher gross revenue, and creating free cash in the current fiscal year that may be appropriated at a subsequent special town meeting.

The following table summarizes the FY2023 recommended budget in comparison to FY2022.

Budget Program	FY2022 Appropriated	FY2023 Recommended Budget	$ Change	% Change
Education 1000	$ 126,507,019	$ 131,478,345	$ 4,971,326	3.9%
Shared Expenses 2000	$ 64,540,037	$ 64,190,302	$ (349,735)	(0.5)%
Municipal Departments 3000-8000	$ 42,920,017	$ 44,802,554	$ 1,882,537	4.4%
Subtotal - Operating Budget	*$ 233,967,073*	*$ 240,471,201*	$ 6,504,128	*2.8%*
Cash Capital	$ 10,136,491	$ 13,491,037	$ 3,354,546	33.1%
Other (Approp. to reserves, misc.)	$ 6,541,910	$ 6,405,555	$ (136,355)	(2.1)%
Total - General Fund	**$ 250,645,474**	**$ 260,367,793**	**$ 9,722,319**	**3.9%**

The proposed budget is balanced, as required by law, and it will provide the consistent and reliable level of service that is expected by residents. The 2.8% growth of the operating budget is low, but it was affected by a short-term drop in debt service, which is part of the Shared Expenses. The other two categories, Education and Municipal Departments, are more in line with expectations based on revenue growth. The year-over-year reduction in the "Other" category is driven largely by a lower contribution to the Capital Stabilization Fund.

Program Improvement Requests

A Program Improvement Request (PIR) is part of the Town's process to develop an annual operating budget. The Town first develops a "level service" operating budget that supports existing services at rates comparable to those of the prior year. Each PIR is a proposal from a Town department to update or initiate new services funded by the operating budget.

The Town Manager reviews and approves PIRs for the recommended municipal operating and shared expenses budgets, and the Superintendent of Schools does likewise for the school operating budget. Once the complete operating budget is approved by Town Meeting, the successful PIRs become part of the "level service" operating budget in subsequent years. Thus, PIRs offer a transparent view into the growth of the budget beyond the core economic drivers.

Below is a summary of the PIRs related to the municipal budget that have been recommended for approval. PIRs for the LPS are covered in the school budget and are not listed here.

Department	Recommended Funding
Public Facilities	$ 43,796
Public Works	$ 26,967
Public Safety	$ 144,566
Culture & Recreation	$ 127,363
Land Use, Health and Development Department	$ 41,184
General Government	$ 62,437
Total PIR Requests	**$ 446,313**

Public Facilities

- Department 2600 Public Facilities - $43,796 to enhance the role of the Management Assistant to manage the new 20-year capital database, increasing the FTE from 0.5 to 1.

Public Works

- Department 3100 DPW Administration & Engineering - $24,471 to make the DPW Management Analyst full-time.
- Department 3400 Environmental Services - $2,496 to upgrade a W-6 position at the Hartwell Avenue compost site.

Public Safety

- Department 4100 Law Enforcement - $42,447 to support enhanced police training under the new state certification requirements.
- Department 4100 Law Enforcement - $45,450 in anticipation of the need for staff to transport detainees to another location once the police move to their temporary location.
- Department 4100 Law Enforcement - $8,036 to fund a third crossing guard on Marrett Road for the Hastings Elementary School.
- Department 4200 Fire & Rescue - $48,633 to purchase a training manikin to allow staff to practice their life support skills.

Culture & Recreation

- 5200 Recreation & Community Programs - $47,000 for a vehicle replacement.
- 5200 Recreation & Community Programs - $25,363 for a part-time Recreation Coordinator at the Community Center.
- 5200 Recreation & Community Programs - $55,000 for printing & mailing a program guide.

Land Use, Health and Development Department

- Department 7120 Administration - $5,000 for reprinting ACROSS Lexington brochures.
- Department 7140 Health - $36,184 to increase the Public Health Nurse position to full-time.

General Government

- Department 8100 Select Board - $20,000 to fund the goal-setting process for the Select Board.
- Department 8500 Town Clerk - $30,500 to purchase electronic poll pads for each precinct in Lexington, increasing efficiency and reducing the need for paper reports.
- Department 8600 Innovation & Technology - $6,937 to increase the hours for an administrative assistant.
- Department 8600 Innovation & Technology - $5,000 to maintain a redundant network anticipated to be installed in FY2023 using either capital or ARPA funding.

The Brown Book's Appendix A provides a complete list of PIRs, including those not included in the recommended operating budget.

Updates

This report presents the official positions of the Committee as of the date of publication. The Committee will continue to meet as necessary prior to and during Town Meeting and it may revise its official positions based on new or updated information. In a typical year, the Committee also reports orally to Town Meeting on each article. The oral report summarizes the Committee's current position, which may have been updated following publication of this report.

Warrant Article Analysis and Recommendations

2022-1 SPECIAL TOWN MEETING

Article 2 Appropriate for 1575 Massachusetts Avenue / Police Station Replacement

Funds Requested	Funding Source	Committee Recommendation
$32,400,000	**GF Debt**	**Approve (8-0)**

This article requests funds to cover construction costs for building a new Police Station. Plans call for a 34,000 sq ft building to be constructed on the Massachusetts Avenue site of the current station.

The existing police station opened in 1956. It lacks many of the basic amenities found in modern police facilities, and does not comply with current building codes. For example, the building does not have an elevator nor does it have a sally port for secure access to the cellblock. The building lacks a fire sprinkler system and does not meet seismic safety requirements. The indoor firing range is obsolete, and the locker rooms, garage, equipment storage, evidence storage, and office spaces are inadequate. The bathrooms in the basement and the second floor levels are not ADA compliant. The heating and cooling systems are inefficient and the building, with electrical service via two separate systems, suffers from problems during power outages.

The Police Department currently has 73 FTE's including 8 command officers, 34 patrol sergeants and officers, 8 detectives, 10 civilian dispatchers, school crossing guards, and administration staff (see Brown Book p. VI-5).

The new building is designed to correct existing deficiencies, and to meet the current and future needs of the department. The plan includes properly sized locker rooms and evidence storage. The floor plan accommodates offices for social service and mental health service personnel who would form part of the police team. An indoor garage, a two-bay vehicle maintenance area, and appropriately sized and sited equipment storage areas will facilitate equipment maintenance and prolong equipment life. Additionally, the main entrance will feature a front desk situated in a spacious foyer with contiguous publically accessible meeting rooms and rest rooms, making it easier for the community to interact with the department.

Funding for this project started with an appropriation of $65,000 for a Police Station Feasibility Study under Article 5 of the 2016 September Special Town Meeting. Article 14 of the 2018 Annual Town Meeting appropriated $1,862,622 for design and engineering of a new station at the current Massachusetts Avenue site. At that time, it was envisioned that a request for construction funds would be made late in 2019 or in 2020. However, the Select Board paused the work on the project in reaction to the nationwide discussion on police and policing that stemmed from the killing of George Floyd. The Select Board then led a community conversation on policing and on what changes may be desirable in the design of the proposed new station.

Article 5 of the 2021-1 Special Town Meeting appropriated $614,100 of construction funds to convert 173 Bedford Street to a temporary Police Station, and $254,315 for a supplemental appropriation to pay for additional architectural work to incorporate the results of the community discussion into the final plan for the new station. Total costs, including the presently-requested appropriation, will exceed $35 million.

While the Committee agrees that the current size, floor plan, and facilities meet the goals needed in a new Police Station, we are concerned that acute inflationary trends may result in bids that exceed the requested appropriation. We have been assured that the architect's cost estimate was completed very recently, and we hope that it incorporates factors driving the price volatility in the construction market.

If this appropriation is approved by Town Meeting, the funding will be contingent on a successful town-wide referendum to approve the exclusion of the debt service from the usual limitations of Proposition 2½, anticipated to be held early in June of 2022. Requests for bids will not go out until after a successful vote. If all approvals are received, construction on the Police Station would begin in the fall of 2022.

2022 ANNUAL TOWN MEETING

Article 4 Appropriate FY2023 Operating Budget

Funds Requested	Funding Source	Committee Recommendation
See below	*See below*	**Approve (8-0)**

The Operating Budget is broken out by major categories based on budget line numbers below.

Education (1000)

Program 1000 Education		FY2022 Budget		FY2023 Recommended	% of Education		$ Change	% Change
1100 Lexington Public Schools	$	123,376,981	$	128,254,447	97.5 %	$	4,877,466	4.0 %
1200 Regional High School	$	3,130,038	$	3,223,898	2.5 %	$	93,860	3.0 %
1000 Total Education	**$**	**126,507,019**	**$**	**131,478,345**	**100.0 %**	$	4,971,326	3.9 %

Lexington Public Schools (1100)

The School Committee has voted to recommend an appropriation of $128,254,447 for the Lexington Public Schools (LPS) operating budget for FY2023. This amount does not include:

- The school portion of Shared Expenses (2000), below, including public facilities, employee & retiree benefits, pension, debt service, liability insurance, and reserve funds.
- Revenue from federal, state, local, and private grants, or revolving and donation fund activity, none of which are subject to appropriation by Town Meeting.

The request represents an increase of 3.9% over the FY2022 appropriation.

Further information about the budget request may be found in the "Education" section of the Brown Book and in the LPS Budget Book.

A breakdown of this operating budget into salaries and wages, and expenses is shown below.

Category		FY2022 Budget		FY2023 Recommended		$ Change	% Change
Salaries & Wages	$	102,654,658	$	106,450,152	$	3,795,494	3.7 %
Expenses	$	20,722,323	$	21,804,295	$	1,081,972	5.2 %
1100 Lexington Public Schools	$	123,376,981	$	128,254,447	$	4,877,466	4.0 %

Source: Lexington Public Schools FY2023 Superintendent's Recommended Budget, January 5, 2022; Budget Overview - page 10

School enrollments

The student population that the district serves includes the following categories:

- PreK in-district including special education and tuition-paying general education students;
- K-12 in-district general education and special education (including METCO);
- PreK-22 out-of-district placement.

The following table shows student enrollments for the past three years and the projected enrollment for the fall of 2022. In more normal years, enrollment figures have been somewhat volatile, and trends are difficult to spot. This applies even more strongly this year, so a generous level of flexibility is warranted. That said, school enrollment may be leveling off. Some grade levels have rebounded from the 2020 pandemic-related drop (Lexington High School), but other grades have not (elementary schools).

	Oct. 1, 2019 Enrollment	Oct. 1, 2020 Enrollment	Oct. 1, 2021 Enrollment	Projected FY2023 Enrollment
Early Childhood	68	57	67	67
Elementary	3,019	2,790	2,709	2,637
Middle School	1,828	1,793	1,748	1,728
High School	2,275	2,261	2,273	2,272
Total	**7,190**	**6,901**	**6,797**	**6,704**

Salaries and Wages

In FY2023, salaries and wages increased by $3,795,494 (3.7%) as a result of cost of living adjustment increases for current personnel, lane changes, and step increases. Salaries and wages make up 83% of the FY2023 request, the same percentage as in FY2022. A net decrease of 1.3 full time equivalent (FTE) employees reflects consolidation of positions and departments where appropriate. See the LPS Budget Book page *Recommended Budget–2* for a list of positions that will be consolidated, eliminated, or created.

Salary and wage changes result from changes in the number of employees, step increases, cost of living adjustments (COLA), and position reclassifications. The 2023 budget includes both anticipated collective bargaining unit settlements and increases for non-union positions. The effective dates of the most recent collective bargaining agreements may be found in the LPS Budget Book on page *Budget Overview –10*.

Expenses

Expenses make up 17% of the FY2023 budget request. The increase of $631,630, to $9,420,447 (7.2%), in special education out-of-district tuition is the largest increase for any single line in the detailed expense budget (see the *Expenses* section of the LPS Budget Book). We note that both this and previous school budgets are based on projected net expenses after the application of revenue that is not appropriated. Such revenue includes "Circuit Breaker" funds and substantial special education grant funds, but not monies from stabilization funds which do require appropriation.

A detailed picture of the funding for out-of-district tuition may be found in the LPS Budget Book on page *9000 Programs with Other School Districts–6*. There, one may see that the net total of out-of-district tuition in FY2022 is $813,367 lower than was projected. For FY2023, projected net tuition is rebounding to $15,872,941—an increase of $1,372,381 (9.5%) over FY2022, or $559,214 above FY2022 projected levels. This increase is partly due to increases in tuition by private special-education schools. For FY2022, tuition increased by $8,300, and was limited to a single school attended by a Lexington student. For FY2023, five schools attended by twelve Lexington students have given notice of tuition increases, with a potential total increase estimated at $90,000.

Lexington currently is a member of the LABBB Collaborative, and the District also sends students to other non-member collaborative programs. For the last several years, a 4% annual increase has been assumed for Collaborative tuition. Additionally, a 4% increase has been assumed for out-of-state private schools approved by OSD (Operational Services Division, a Massachusetts state agency) as these rates are governed by the respective state agency where the school is located. Hourly rates for 1:1 aides at out-of-district schools are also increasing more than usual in FY2023, likely due to COVID-related staffing shortages. Lexington Public Schools have budgeted for a 4% increase in aides' compensation.

The expense budget also includes sizable increases for transportation costs for regular education students ($143,943) and special education students ($375,296), as well as emergency planning and training ($100,500).

Benefits

The cost of the benefits for school staff is included under Shared Expenses (see below). The total cost of these benefits is based on the number of employees, individual benefits choices, and per employee benefits costs. In most recent years, the net number of school positions has increased, contributing to an increase in the total cost of benefits.

Funding Sources Not Subject To Appropriation

The majority of the School Department's annual budget is funded by appropriations made by Town Meeting. However, LPS also receives substantial funding from state, federal and other sources that are not subject to appropriation by Town Meeting and are therefore not included in the request under this article. The amounts of these funds vary year to year.

- *Federal Grants* –In the current budget year (FY2022), the Town and schools have benefited from Covid-19 related aid through the federal CARES act. For FY2023, the School Department does not expect to receive this funding again; however it does expect to receive $2,239,084 in other federal grants. For details, see the LPS Budget Book *Grant Fund Summary–2*.
- *State Grants* – The School Department projects that it will receive $1,767,131 in FY2023 from the state METCO program, which represents no change from FY2022. Based on the 2021–2022 METCO enrollment of 220 students, the projected state aid averages to $3,372 per METCO student. Cherry-sheet local aid for education, i.e., Chapter 70 aid, is treated as General Fund revenue and is not included in state grants.
- "*Circuit Breaker" Reimbursements* – Reimbursements are received from the state when the costs of special education services for an individual student, whether in-district or out-of-district, exceed 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 paid to the district quarterly based on the prior year's approved claims. Funds received go into the Circuit Breaker Revolving Account, do not require further appropriation, and must be expended by June 30 of the following fiscal year. The Lexington Public Schools' current practice is to apply a large fraction of the funds received in a given fiscal year (based on SPED expenses in the prior fiscal year) as a revenue offset in the following fiscal year. For example, LPS will receive (or has received) a reimbursement in FY2022 based on FY2021 SPED expenses, and will use most of that reimbursement to offset SPED costs in FY2023.

A detailed exposition of the LPS Circuit Breaker funding may be found in the LPS Budget Book on page *Revenue Offsets–5*. In brief, the District projected a 70% reimbursement rate for FY2022, yielding an FY2022 Circuit Breaker reimbursement of $5,115,409, of which $866,580 was spent in FY2022. The remaining $4,248,829 received during FY2022 is budgeted for use in FY2023. The Circuit Breaker reimbursement for FY2023 is projected to be $4,548,402, of which another $866,580 will be applied to the FY2023 budget, leaving $3,681,822 for use in FY2024.

Fee Programs

Fees for participation in certain programs, such as preschool, athletics, and transportation, support those programs in whole or in part. Detailed information about the fees and proposed fee changes may be found in the "Revenue Offsets" section of the LPS Budget Book.

Regional High School (1200)

Lexington's FY2023 projected assessment for the Minuteman Regional High School (MRHS) of $3,223,898 represents an increase of $93,860, or 3%, over FY2022. It follows on the prior year's increase of 9% and an increase of 15.9% from FY2020 to FY2021. While Lexington's four year rolling average enrollment, the enrollment number that our assessment is based on, grew from 59.38 to 63 students, our assessment increase is modest because Lexington's enrollment growth is lower, percentage wise, than the district average.

The District's Budget

The Minuteman Regional High School (MRHS) Committee has approved a FY2023 budget of $29,010,622, a $1,370,034 increase (5.0%) over FY2022. The increase is the net effect of a 7.2% increase in the cost of operations and a $33,000 decrease in debt costs attributable to construction of the new MRHS building and athletic fields.

This budget funds the fourth year of operations in the new school building, which was designed for an enrollment of up to 628 students. Response to the new facility has been very strong and current high school enrollment is 655 students. Of the total, 538 students come from the nine member towns of the school district, and the remaining 117 students come from out-of-district communities.

District Developments

While it was anticipated that the new school building would drive increased applications, the success continues to exceed expectations. For the last three years, and for the upcoming year, more than 200 applications have been received from in-district students. In-district students are given priority, and for three consecutive years almost all of the incoming freshman class will be in-district. This enrollment trend means that by FY2025 the school enrollment will consist entirely of in-district students. Based on applications received to date, total school enrollment is expected to near 700 students in September 2022.

Enrollment	FY 13	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19	*FY 20	FY 21	FY 22	FY 23 est
In-district	409	437	410	391	347	337	354	395	467	538	621
Out-of-district	340	356	332	277	271	231	162	207	167	117	80
Total	**749**	**793**	**742**	**668**	**618**	**568**	**516**	**602**	**634**	**655**	**701**

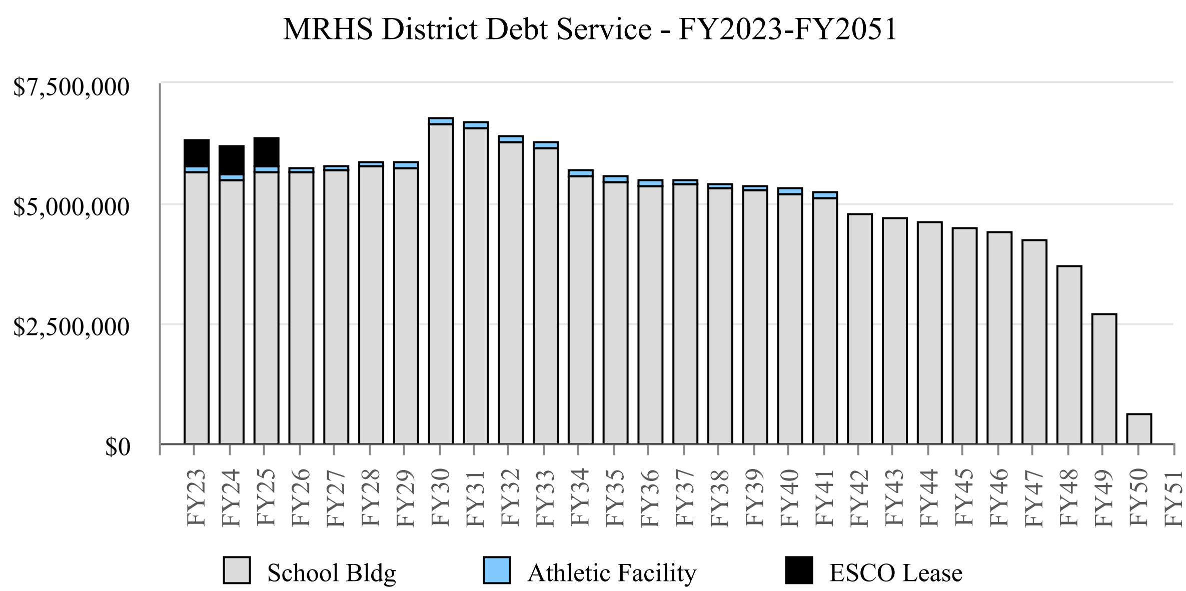
** new school occupied*

This strong enrollment has the district planning to increase school capacity to 800 students, with graduating classes in the range of 200 students. The flexible design of the school's technical training spaces would allow this higher capacity, so the limiting factor is providing sufficient academic space. In anticipation of accommodating future enrollment needs a total annual contribution of $500,000 is budgeted for the Capital Stabilization Fund, $150,000 more than FY2022 contribution.

By FY2025 it is estimated that MRHS operations and debt service will be fully funded by assessments from member towns. The decline of out-of-district enrollment will reduce revenue from out-of-district tuition and capital fees that partially offset member town assessments. This will lead to higher total assessments to member towns while lowering the per-student assessment. It is important to note that out-of-district tuition, with rates that are set by the state, does not cover the full per-student cost at MRHS. In addition, Chapter 70 State Aid for out-of-district students goes directly to the student's town or city, not to MRHS.

In November 2020 the District School Committee selected an athletic field plan that included lighting the fields. This feature satisfies the school's requirements, and also allows the fields to be available for rental to local teams and leagues outside of school hours. Member towns approved an additional $1,900,000 in debt to fund the enhanced project, with the understanding that the rental income could significantly offset the field maintenance and debt service. The fields should be completed by April 2022 and rentals will commence in the spring. Rental income will be posted to the district's Facilities Revolving Fund. While this revenue will not show in their revenue plan, the revolving fund revenue will be used to offset overhead and will result in a reduction in that line item starting with the FY2024 budget.

The district's long-term capital and debt obligations last through FY2050 and are summarized in the chart below.



It is comprised of three components, with differing terms. The debt on the school building ends in FY2050, that on the athletic facility ends in FY2041, and the ESCO Lease ends in FY2026. The annual ESCO Lease payments of over $550,000 is for equipment used in the prior school building and is paid with assessments from all member towns that were in the district when the lease began.

The debt service for both the school building and the athletic facility project is funded via assessments to district members and by a new state-authorized facilities fee for capital costs charged to non-member towns that enroll students at the school. This fee is set by the Department of Elementary and Secondary Education (DESE) and towns are classified by whether they offer at least five Chapter 74 (vocational-technical) programs. Of the facilities fees collected in FY2022, $289,332 is available to be applied to the FY2023 budget. Additionally, $300,000 of anticipated FY2023 collections will be used to directly fund the FY2023 budget. The per-student charge in FY2023 has still not been set by DESE. For towns lacking adequate access to vocational-technical education programs, this per-student charge is estimated to be $8,900, versus $6,700 for towns with programs.

According to FY2020 state data, MRHS continued to have the highest average per-pupil costs of any Massachusetts regional vocational district (RVD). The drivers include a high teachers/100 students ratio of 11.8 (the second highest, compared to an average of 9.47 for all RVDs), a very high 47% enrollment rate in special education (the highest rate across all RVDs in the state), and an average teacher compensation of $112,834 (the highest across all RVDs, compared to an overall average pay of $87,615, with the second highest district average pay at $99,469).

Towns sending out-of-district students are responsible for providing transportation to their students and are subject to additional fees beyond the base tuition. In addition, these towns are assessed a per-student “facilities fee” which represents a share of their debt service for the new building. This facilities fee revenue is applied to that debt service, reducing assessments for member towns. Sending towns are also assessed tuition for supplemental SPED services when their students require them. The district will be recommending to DESE that the out-of-district per-student SPED tuition be increased to $7,100 in order to cover actual costs. DESE set the base out-of-district tuition rate at $18,679 per student in FY2022 with an expected increase for FY2022 to be recalculated in March. This does not cover the full cost of a district education, nor is the State Chapter 70 aid for out-of-district students sent to MRHS.

Dr. Edward Bouquillon will retire as superintendent at the conclusion of the 2021–2022 school year. The district will welcome Dr. Kathleen Dawson as its new superintendent starting in the fall of 2022.

District Budget Overview

The FY2023 budget includes efforts to handle continuing growth in enrollment and reductions in revenue from out-of-district tuition and fees, all while addressing student educations and wellness needs in the post-pandemic world. The district will also be monitoring the facilities needs of the new building in an effort to properly budget for ongoing operational costs. In this budget, there are multiple instances where staff positions have been reclassified under different line items.

Overall staffing will see a net increase of 1.5 FTEs. These changes include the addition of 2.0 FTEs Student Support Professionals (guidance counselors), 1.0 FTE Robotics/Automation Aide, and 0.5 FTE Reading Aide, and the reduction of 1.0 FTE ISS Professional, and 1.0 FTE Logistics Engineering Teacher. Also budgeted is an additional 2 FTEs for substitute teachers.

Debt service is almost 24% of the total budget, and salaries comprise almost 46% of the budget. (This ratio is atypical because unlike most public schools, this budget includes major capital expenses.) Contractual obligations include a cost-of-living increase of 2% with a net growth in teachers’ salaries of $65,872. Funding for technology, allowing each student to have a computer and to provide for remote learning, will increase by $20,871. Utilities and heating expenses will increase $46,300, and a commitment to provide proactive facilities maintenance increases those line items by $36,000.

While health insurance rates are projected to rise 10%, the budget reflects a slight net decrease because the actual FY2022 total expenses declined due to the introduction of lower rates negotiated after the budget was accepted. Transportation costs have grown $97,000 (6.62%) due to a 5% CPI increase in the bus contract and an increase in the number of in-district students. A $60,000 payment will be made toward the funding of the district’s $26,124,691 Other Post-Employment Benefits (OPEB) unfunded liability.

Roughly 23% of the revenue in the MRHS FY2023 budget comes from a combination of state aid, reserves, and fees shown in the table below, down from 30% in FY2022, due to reduced out-of-district enrollment. In total, this non-assessment revenue decreases by $464,315 in FY2023. Chapter 70 funds and transportation aid are estimates based on the Governor’s H-1 budget. MRHS’s share of Chapter 70 aid increases 2.1% and Transportation Aid increases 32.6%, due to increased in-district enrollment. Chapter 70 aid is based on October 2021 enrollments, and Transportation Aid is based on bussing expenses incurred in FY2021.

Revenue Sources	FY2022	FY2023	Change $
Chapter 70	$ 1,986,977	$ 2,028,744	$ 41,767
Transportation Aid	$ 776,382	$ 1,029,441	$ 253,059
Prior Year Tuition	$ 2,695,837	$ 1,367,364	$ (1,328,473)
Current Year Tuition	$ 1,080,000	$ 950,000	$ (130,000)
Excess and Deficiency (E&D) Funds	$ 540,000	$ 650,000	$ 110,000
Current Year Nonresident Capital Fee	$ 508,033	$ 289,332	$ (218,701)
Prior Year Nonresident Capital Fee	$ 591,967	$ 300,000	$ (291,967)
Assessments	$ 19,461,392	$ 22,395,741	$ 2,934,349
TOTAL	**$ 27,640,588**	**$ 29,010,622**	**$ 1,370,034**

<u>Lexington's Assessment</u>

The remainder of the revenue is raised through assessments on member towns and tuition for out-of-district students. Member towns are assessed a share of the District's total costs for the upcoming year, net of the District's non-assessment revenue, based on four components:

1. The State-Required Minimum (SRM) per-student tuition cost set annually by the DESE,
2. An additional charge for operating costs in excess of the SRM that is allocated based on the four-year average student enrollment,
3. Transportation costs,
4. Debt service costs from capital projects.

The first three assessment components fund the member's share of the school's operating costs. Debt service is charged to member towns using a two-part formula. One percent of the debt service cost is assessed equally to each of the nine member towns, and the remaining 91% is apportioned based on the most recent four-year rolling average of student enrollment and the State's "combined effort" factor as determined by the Chapter 70 formula.

A breakdown of the Town's FY2022 and FY2023 MRHS assessments is shown below. The projected assessment for FY2022 is $3,223,898, an increase of $93,860 (3%) over the final FY2022 assessment.

Projected Lexington Assessment – Based on Unapproved House-2 Budget Bill

	Enrollment Basis		Assessment Components		Per-Student
	FY2022	**FY2023**	**FY2022**	**FY2023**	**FY2023**
State-Required Minimum	77	68	$ 1,156,993	$ 1,158,939	$ 17,043
Regular Day Students*	59.38	63	$ 935,559	$ 969,283	$ 15,385
Transportation	77	68	$ 109,594	$ 78,524	$ 1,155
Total Operating Costs*			$ 2,202,146	**$ 2,206,746**	
Debt Service*	59.38	63	$ 927,892	$ 1,017,152	$ 16,145
TOTAL ASSESSMENT			$ 3,130,038	**$ 3,223,898**	
Annual % increase (decrease)			9.32%	3.00%	

** Starred rows in this table use average enrollment over the prior 4 years, while non-starred rows use current enrollment. The respective per-student amounts cannot be combined arithmetically.*

The FY2023 operating cost assessment per student (excluding debt service) works out to $32,452 (based on Lexington's October 2021 enrollment of 68 students), an increase from last year's per-student cost of $31,016. Due to the assessment formula, during periods of growing enrollment the assessed per-student amount lags behind short-term enrollment trends. A rising enrollment will tend to lower per-student costs (and vice versa) until the 4-year average stabilizes. Enrollment from other member towns can also affect this figure, as Lexington's percentage of the total member enrollment changes.

We anticipate further changes to the projected revenues and budgeted expenses in the MRHS budget following publication of this report. It is likely that the assessment will be adjusted prior to being presented to Town Meeting.

Shared Expenses (2000)

Shared Expenses covers appropriations for various activities that serve multiple departments but are managed or carried out by a single office. Although these amounts do not appear in the budgets of LPS or individual municipal departments, most are driven primarily by the complement of employees of or the facilities and capital equipment used by the various departments. Others, including insurance premiums and payments related to solar energy facilities, concern the overall operation of the Town.

As shown in the table below, 65.0% of shared expenses fund employee benefits, which are administered by municipal staff, but which are driven by current and past staffing decisions made by both LPS and the municipal departments. The second largest line item supports facilities managed by the Public Facilities Department for use by LPS and municipal departments. The third largest line item is within-levy debt service, which is administered by the Finance Department. Debt service is driven by current and past capital expenditures and financing decisions.

For FY2023, the $750,000 appropriation for the Reserve Fund is at the same level as in FY2022. For a longer-term history, see Brown Book Appendix C, "Summary of Reserve Fund Transfers."

Program 2000 Shared Expenses	FY2022 Restated	FY2023 Budget	% of Shared Expenses	$ Change	% Change
2100 Employee Benefits & Insurance	$ 39,754,560	$ 41,744,415	65.0%	$ 1,989,855	5.0%
2200 Property & Liability Insurance	$ 1,095,000	$ 1,095,000	1.7%	$ —	—%
2300 Solar Producer Payments	$ 390,000	$ 390,000	0.6%	$ —	—%
2400 Within-Levy Debt Service	$ 10,397,112	$ 7,541,580	11.7%	$ (2,855,532)	(27.5)%
2500 Reserve Fund	$ 750,000	$ 750,000	1.2%	$ —	—%
2600 Facilities	$ 12,153,365	$ 12,669,307	19.7%	$ 515,942	4.2%
TOTAL	**$ 64,540,037**	**$ 64,190,302**	**100.0%**	$ (349,735)	(0.5)%

The recommended total Shared Expenses budget for FY2023 is $64,190,303, representing a decrease of $349,735 or 0.5% from the restated amount for FY2022.

Employee Benefits & Insurance (2100)

As shown in the table below, Line 2100 includes costs for retirement; health, dental, and life insurance; workers' compensation, unemployment insurance, and the Medicare tax. The total request for Employee Benefits and Insurance is $41,744,415, a $1,989,855 (5%) increase over the FY2021 appropriation. The table below provides a breakdown of the benefits budget by category.

Benefits Category	Amount	Percentage
Retirement	$ 8,176,027	19.6%
Medicare	$ 2,054,651	4.9%
Health Insurance	$ 29,554,494	70.8%
Dental Insurance	$ 1,109,243	2.7%
Life Insurance	$ 25,000	0.1%
Unemployment	$ 200,000	0.5%
Workers Compensation	$ 625,000	1.5%
TOTAL	**$ 41,744,415**	**100%**

Virtually all of the appropriation for retirement will go toward the contributory retirement (pension) program, i.e., into the Retirement Fund; a very small portion will go toward non-contributory retirement benefits for the few employees who retired prior to the establishment of the contributory retirement program. The appropriation will address both current year payouts from the Retirement Fund and an amount that moves the Fund toward full funding of the Town's pension liabilities. To fully fund these liabilities, the Retirement Board has increased the planned appropriations into the Retirement Fund and has stretched out the funding schedule by two years, i.e., to 2030. For FY2023, the recommended contributory retirement appropriation is increasing by 10.0% to $8,159,250. Of that amount, $400,000 will be funded from Free Cash, as was done for FY2022. In the Retirement Board's present plan the appropriations under this line item will increase by $750,000 per year until 2030. Once the full funding goal is reached, and, assuming the full-funding status is maintained, the annual costs for contributory retirement will be significantly lower.

Health insurance costs make up the bulk of the Employee Benefits budget. The FY2023 request for health insurance is $29,554,494, which represents a 4.5% increase over the estimate for FY2021. The Town remains a member of the State's Group Insurance Commission (GIC) health insurance program, which has helped hold down the rate of cost increases. Since joining the GIC program in FY2016, the FY2023 split of healthcare premiums between employer and subscribers is 82/18 or 75/25 depending on the health plan chosen by the employee (the town pays a larger share for employees who choose a lower cost plan). The Brown Book, on pp. IV-6 and IV-7, contains a discussion of health-benefit costs, including changes in the numbers of subscribers since FY2017. The projected number of subscribers used for the FY2023 budget represents a 2% increase over FY2022 and a 12% increase since FY2017.

Solar Producer Payments (2300)

This line item reflects payments for the installation and operating costs of the solar array at the Hartwell Ave compost facility. Against the annual cost of $390,000, which covers both the initial capital cost and maintenance costs, staff estimates that the array will generate net-metering credit payments from the electric utility Eversource, payments in lieu of taxes, and a small amount of lease income, so the array is projected to generate a net contribution to the General Fund of $336,400.

Note this budget item does not include the Town's rooftop solar arrays and payments in lieu of taxes for the solar operations, which are recorded under personal property taxes per the Massachusetts Department of Revenue. The Brown Book includes tables on p. IV-11 that present a more complete set of estimates for the Town's solar installations, with projected net revenues of $492,900 in FY2023.

Debt Service (2400)

Line item 2400 covers annual payments for within-levy debt service. Gross within-levy debt service is projected to decrease by about 27% as indicated in the table above because the debt incurred for the purchases of real estate on Pelham Rd. and Bedford Street has been retired. When the set asides for the payments stemming from these real estate purchases as well as certain cemetery revenues are removed from the FY2022 gross debt service totals, the net amount debt service is projected to decrease by 6.2%, which is, of course, below the Town's target annual growth ceiling of 5.0%, so there is no recommendation to use the Capital Stabilization Fund as a funding source this year (FY2023).

The Town also makes annual payments for exempt debt service, but these payments are not appropriated by Town Meeting. Every project funded with exempt debt must be approved by a majority of voters in a town-wide referendum, after which the Select Board sets the tax levy to provide sufficient funding. The portion of the tax levy raised for exempt debt service is exempt from the limits imposed by Proposition 2½. There is a recommendation to appropriate $800,000 from the Capital Stabilization Fund to mitigate the exempt debt portion of the property tax. See pp. IV-12 and IV-13 in the Brown Book for details on exempt debt.

Staff estimates that the combined gross debt service for exempt and non-exempt debt will decrease by 13.4% from the prior fiscal year. For more details, see the Debt Service section in the Brown Book.

Reserve Fund (2500)

The Reserve Fund is a small fund reserved for time-critical, extraordinary and unforeseen expenses. Once appropriated, can be used during the fiscal year without further approval from town meeting. Requests for transfers from this fund require formal approval by the Appropriation Committee, but they are generally initiated by Town or LPS staff or the Select Board.

The FY2023 requested appropriation for the Reserve Fund is $750,000, the same amount as appropriated in FY2022. In FY2019 the fund remained unused. In FY2020, $100,000 was transferred to the Fire Department to offset increases in spending due to the Town's response to the COVID-19 pandemic. In FY2021, $15,000 was transferred to the Conservation Department in response to a Letter of Map revision from the Town of Belmont, i.e., to potential changes in areas that are designated to be at high risk of flooding. As discussed in the preface, the Committee approved a transfer of $174,000 in FY2022 to the Recreation Enterprise Fund, which amount will be restored under Article 21 of this town meeting.

At the end of the fiscal year any unused funds in the Reserve Fund flow to Free Cash.

Public Facilities (2600)

The Department of Public Facilities manages the operation, maintenance, utilities, and custodial servicing for Lexington's municipal and school buildings. This Department also manages recurring maintenance of roofs, building envelopes, and all building systems including HVAC, as well as other priority facility-related projects. Finally, the Department supports efforts to plan major renovations, building replacement, or new building construction. The FY2023 Public Facilities General Fund operating budget is $12,669,307, which represents a 4.3% increase over FY2022. The budget request includes $27,000 in this line item and $16,796 in benefits to upgrade an administrative position from part-time to full-time.

Municipal (3000-8000)

The municipal operating budget comprises all line items from 3000 to 8999. As shown in the table below, the FY2023 recommended budget of $44.8 million represents a $1.9 million or 4.39% increase. The largest components within the municipal budget are Public Safety, Dept. of Public Works, and General Government.

Municipal Budgets	**FY2022 Restated**	**FY2023 Recommended**	**$ Change**	**% Change**
3000 Public Works	$ 11,528,143	$ 11,968,145	$ 440,002	3.82%
4000 Public Safety	$ 16,113,457	$ 16,333,845	$ 220,388	1.37%
5000 Culture & Recreation	$ 3,156,348	$ 3,336,219	$ 179,871	5.70%
6000 Human Services	$ 1,277,465	$ 1,527,421	$ 249,956	19.57%
7000 Land Use, Health & Development	$ 2,693,989	$ 2,792,613	$ 98,624	3.66%
8000 General Government	$ 8,150,615	$ 8,844,311	$ 693,696	8.51%
TOTAL	**$ 42,920,017**	**$ 44,802,554**	**$ 1,882,537**	**4.39%**

Note: FY2022 Restated values include a net $80,870 decrease that was appropriated at STM2021-1.

Public Works (3000)

The recommended appropriation for Public Works of $11,968,145 represents a 3.82% increase over FY2022. Of the total, 91.8% is covered by the tax levy, 5.1% is covered by payments from the enterprise funds for services rendered, and 3.1% comes from other sources, primarily fees and the Cemetery Trust Fund. About 41% of the recommended budget is for compensation, i.e., salaries and wages, while the remaining 59% is for expenses.

The net increase in compensation of $182,799 (3.89%) from FY2022 is attributable to the cost of contractually obligated step increases and cost of living adjustments, as well as the inclusion of a program improvement to expand the hours of the DPW management analyst.

The net increase in expenses is $257,203, up 3.76% from FY2022.

Public Safety (4000)

Public Safety covers Law Enforcement (4100) and Fire and Rescue (4200). Of the total recommended appropriation of $16,333,845, about 51% is for Law Enforcement and 49% for Fire and Rescue.

The recommended FY2023 appropriation for Law Enforcement is $8,265,377 which is a 1.49% increase over the FY2022 budget. About 87% of the budget is for compensation and approximately 13% is for expenses. The net increase in compensation of $50,309 (0.71%) reflects savings due to staff turnover offset by contractually obligated step increases, a program improvement to support enhanced police training under the new state certification requirements, a second program improvement which anticipates the need for staff to transport detainees to another location once the police move to their temporary location, and a third program improvement to fund a third crossing guard on Marrett Road for the Hastings Elementary School. The net increase in expenses is $70,921 (6.92%) of which nearly $30,000 is due to anticipated increases in the regional gasoline contract. The majority of the remaining increase is due to the purchase of two Hybrid vehicles, increased costs associated with supplies and ammunition, increased training and mileage costs, and an increase for the contract with the Town of Bedford to fund the Animal Control Officer.

The recommended FY2023 appropriation for Fire and Rescue is $8,068,468, which is a 1.24% increase over the FY2022 budget. About 90% of the budget is for compensation while approximately 10% is for expenses. The net increase in compensation of $22,464 (0.31%) is driven by contractual cost of living adjustments. The budget for expenses has increased by $76,694 (10.62%) which includes anticipated increases in diesel fuel costs ($12,400), increases in maintenance costs ($10,000) for fire apparatus, ambulance and fleet vehicles; enhanced communications costs ($2,400) to house the Emergency Command Center at fire headquarters, and a program improvement request ($48,633) for a training mannequin to allow staff to practice their life support skills.

Culture and Recreation (5000)

Culture and Recreation covers Cary Memorial Library and Recreation and Community Programs. The FY2023 recommended appropriation of $3,336,219 represents a 5.70% increase over the FY2022 budget. Note that the budget to be appropriated under this article is only for the Cary Memorial Library. The Recreation and Community Programs budget is funded under Article 5 by the Recreation Enterprise Fund and, to a lesser extent, by the tax levy. About 79% of the recommended budget is for compensation while the remaining 21% is for expenses.

The net increase in compensation of $112,101 (4.44%) is driven by contractual cost of living adjustments. The net increase in expenses of $67,770 (10.74%) is primarily driven by increases for supplies and materials and contractual services.

Human Services (6000)

The recommended appropriation for Human Services of $1,527,421 represents a 19.57% increase from the FY2022 budget. About 47% of the recommended budget is for compensation while the remaining 53% is for expenses.

The net increase in compensation of $27,176 (3.94%) is driven by contractual cost of living adjustments. The net increase in expenses of $222,780 (37.95%) reflects an increase for contractually obligated Lexpress costs, as well as the restoration of $200,000 in Town funding that was provided in FY2022 by a one-time operating grant to Lexpress. For FY2023, funding for the William James Interface Mental Health Referral Service will be shared between the municipal and school budgets.

In addition to the General Fund appropriation requested here, Human Services will also be funded by $320,509 from revolving funds (Article 9) and grants.

Land Use, Health, & Development (7000)

Land Use, Health, & Development covers six different budgeting units. The recommended appropriation of $2,792,613 represents a 3.66% increase over the FY2022 budget. About 84% of the recommended budget is for compensation while the remaining 16% is for expenses.

The net increase in compensation of $166,974 (7.69%) is driven by contractual cost of living adjustments as well as a program improvement to make the public health nurse a full-time position in Lexington along with a transfer of the Visitors Center manager from the Visitors Center Revolving Fund to the General Fund, partially offset by transferring the Battle Green Guides to the Visitors Center Revolving Fund, and more fully offset by a reduction in expenses to support the Visitors Center.

The net decrease in expenses of $68,350 (-13.08%) reflects shifting $74,000 in ongoing support for the Visitors Center to compensation in the Economic Development portion of the budget, offset by several small increases. Land Use, Health, & Development will also be funded by $506,600 of revolving funds (Article 9).

General Government (8000)

General Government covers six different budgeting units. The recommended appropriation of $8,844,311 represents a 8.51% increase from the FY2022 restated budget.

Program 8000 General Government	FY2022 Restated	FY2023 Budget	$ Change	% Change
8100 Select Board	$ 1,259,808	$ 1,298,802	$ 38,994	3.10%
8200 Town Manager	$ 1,529,243	$ 2,072,175	$ 542,932	35.50%
8300 Town Committees	$ 65,233	$ 70,160	$ 4,927	7.55%
8400 Finance	$ 2,004,608	$ 2,048,151	$ 43,543	2.17%
8500 Town Clerk	$ 502,431	$ 627,297	$ 124,866	24.85%
8600 Information Technology	$ 2,789,292	$ 2,727,727	$ (61,565)	(2.21)%
TOTAL	**$ 8,150,615**	**$ 8,844,311**	**$ 693,696**	**8.51%**

The primary driver of the total net increase of $693,696 is the Salary Adjustment Account, line 8230 in the Town Manager's budget. The amount budgeted for this item varies from year to year depending on the status of collective bargaining settlements, other anticipated wage increases, and compensated leave payments due certain employees at retirement. Nine employee union contracts will expire by the end of FY2022, including those with the Lexington Police Supervisors and Patrol Officers, Dispatchers, Firefighters, Town Custodians, Crossing Guards, Municipal Managers and Municipal Clerks.

An additional driver is the Town Clerk's obligation to administer the state primary in September 2022 and the state general election in November 2022.

Article 5 Appropriate FY2023 Enterprise Funds Budgets

Funds Requested	Funding Source	Committee Recommendation
$11,127,383	**Water EF**	
$10,953,238	**Wastewater EF**	**Approve (8-0)**
$3,138,993	**Recreation EF**	

This article addresses the appropriation of funds for the operation of the Town's three enterprise funds: the Water Enterprise Fund, the Wastewater Enterprise Fund, and the Recreation Enterprise Fund.[1] Enterprise funds allow a municipality to account separately for certain "business operations" in which a fee is charged in exchange for goods or services, and may or may not receive support from the tax levy. For an overview of the legal framework and accounting concepts that apply to the operation of an enterprise fund, please see Appendix B.

The operating and capital costs of the Water and Wastewater enterprises are funded exclusively by rates and fees charged to users, with no support from the tax levy or General Fund. The operating costs of the Recreation Fund enterprise are funded to the extent feasible by user fees, but also receive subsidies from the General Fund. Recreation capital projects are funded from the Community Preservation Fund whenever feasible, and in certain instances from the Recreation Fund's retained earnings or the General Fund.

Water and Wastewater Enterprise Funds

A breakdown of the funding request for the Water and Wastewater Enterprise Funds, and changes from the prior fiscal year, are shown below. Further details may be found in the Brown Book, pp. V-27, 31. Although most of the costs in the water and wastewater operating budgets are appropriated under Article 5, certain others—including "indirect expenses" (for support services provided by other Town departments), cash to be raised in the rates in FY2023 for continuous system capital improvements, and contributions to the post-employment health benefits (OPEB) fund—are addressed in other articles as indicated in the table.

[1] Capital appropriations for the enterprise funds are addressed in Articles 10 (CPA), 11 (Recreation Capital), 12 (Municipal Capital), 13 (Water System Improvements) and 14 (Wastewater System Improvements).

Water Enterprise Fund	FY2022 Appropriated	FY2023 Requested	$ Change	% Change
Compensation	$ 865,454	$ 875,670	$ 10,216	1.18 %
Expenses	$ 514,300	$ 533,500	$ 19	3.73 %
Debt Service	$ 1,179,794	$ 1,224,746	$ 44,952	3.81 %
MWRA Assessment	$ 8,743,912	$ 8,493,467	$ (250,455)	(2.86) %
Total Requested in Article 5	**$ 11,303,460**	**$ 11,127,383**	**$ (176,077)**	**(1.56)%**
Indirect Expenses *(Article 4)*	$ 918,245	$ 977,093	$ 58,848	6.41 %
Cash Capital *(Article 13)*	$ 400,000	$ 600,000	$ 200,000	50.00 %
OPEB Contribution *(Article 17)*	$ 2,761	$ 2,761	$ —	–
Total Water Enterprise	**$ 12,624,466**	**$ 12,707,237**	**$ 82,771**	**0.66 %**

Wastewater Enterprise Fund	FY2022 Appropriated	FY2023 Requested	$ Change	% Change
Compensation	$ 389,779	$ 399,848	$ 10,069	2.58%
Expenses	$ 454,650	$ 458,400	$ 3,750	0.82%
Debt Service	$ 1,464,513	$ 1,595,417	$ 130,904	8.94%
MWRA Assessment	$ 8,177,213	$ 8,499,573	$ 322,360	3.94%
Total Requested in Article 5	**$ 10,486,155**	**$ 10,953,238**	**$ 467,083**	**4.45%**
Indirect Expenses *(Article 4)*	$ 514,111	$ 542,416	$ 28,305	5.51%
Cash Capital *(Article 14)*	$ 200,000	$ 300,000	$ 100,000	50.00%
OPEB Contribution *(Article 17)*	$ 3,004	$ 3,004	$ —	–
Total Wastewater Enterprise	**$ 11,203,270**	**$ 11,798,658**	**$ 595,388**	**5.31%**

With a water fund increase of 0.66% and a wastewater fund increase of 5.31%, the percent increase in the budget for the water and wastewater funds over FY2021 on a combined basis is 2.85%. Compared with last year's increase of 6.61%, this is very modest. The most significant components of the budget increase are addressed briefly below. The first, an unusually small increase in the Town's MWRA assessment, has a positive impact. The second, the continuation of a long-term plan to transition the funding of the enterprises' recurring capital investment programs from debt to cash raised in the rates, increases the combined budget by about 1.25%, but should ultimately result in cost savings to rate-payers.

MWRA Assessment. The largest component of both the water and wastewater budgets is the assessment charged by the Massachusetts Water Resources Authority (MWRA), which now represents approximately 70% of the total of each fund. The Town is assessed a share of the MWRA's total FY2023 water budget based on its proportionate usage in the most recent full calendar year (CY2021) relative to other towns in the MWRA community. In CY2021, Lexington's water system share *decreased* by about 7%, compared with a 5% *increase* the year before. This change results primarily from Lexington's pattern of fluctuating irrigation usage, compared with other more urban towns in the MWRA community where water usage is more stable. In CY2020, Lexington's water consumption was much higher than normal due to extraordinary irrigation usage during that year's dry summer. In CY2021, with a very wet summer, the irrigation pattern turned around, resulting in a substantial decrease in Lexington's system share. As a consequence of the share reduction, Lexington's combined preliminary MWRA assessment for FY2023 is just 0.4% over the prior the year, compared with a system-wide MWRA increase of 3.4%.

Transition to Cash Capital. Two years ago, a plan was initiated to transition the funding of regularly recurring capital investments in the Town's water and wastewater systems (targeted at $2,200,000 annually for the water system and $1,000,000 annually for the wastewater system) from borrowing to cash raised in the rates (referred to in the Brown Books as "cash capital"). Since the intent is ultimately to raise the same amount each year to continuously maintain the system, this amount is treated as an annual operating cost at rate-setting, even though applied to capital investment and appropriated in Articles 13 and 14. See Brown Book, pp. V-27, 30. To minimize the impact of the changeover on rates – which would be significant if done on a one-time basis – the transition is being phased in gradually: in the case of the water fund, by adding an additional $200,000 in cash capital each year for eleven years; and in the case of the wastewater fund, $100,000 per year for ten years. See the Brown Book, pp. V-26-27 and V-30-31. The transition currently adds about 1.5% to the increase in the water fund budget and 1% to the increase in the wastewater rate budget, for a combined impact of 1.25%. As the phase-in proceeds, the reduction in debt service will gradually offset the increase in cash capital costs, reducing the impact on annual budget increases and saving interest costs.

Water and Wastewater Rate-Setting Issues

Because increases to the operating budgets of the water and wastewater enterprises approved at this annual town meeting will ultimately translate into increases to the FY2023 water and wastewater rates when set later in the year, a brief comment on the rate-setting process and the impact of this year's budget is in order.

Next fall, the Select Board will conduct rate hearings and set water and wastewater rates for FY2023. Two main components factor into the rates: (1) the approved budget for the fiscal year; and (2) estimates of the amount of water which will be consumed during the fiscal year by Lexington residents at each of the three graduated "tiers" of usage[2], as well as by certain other users for which Lexington serves as a conduit, primarily the Town of Bedford, the Bedford VA hospital, and Hanscom Air Force Base/Lincoln Labs.

The goal at rate-setting is to establish rates which will generate sufficient revenue, given the anticipated usage, to cover the budget established by Town Meeting for the fiscal year. If projected water usage is unchanged from the prior fiscal year, then the required rate increase for each enterprise should generally match the year-over-year increase in the budget approved by Town Meeting. If anticipated water usage increases from the prior fiscal year, the required rate increase may be lower than the increase in the budget; and if anticipated water usage decreases, the rate increase must be higher since most of the water and wastewater funds' costs are fixed, not variable.

By and large, water and wastewater rate increases have been relatively modest for more than a decade. From FY2008 through FY2021, combined rate increases fluctuated between -3.8% and 12.6% for an average annual rate increase of 3.0%. Last year (FY2022), the combined rate increase was 6.1% (which closely mirrored FY2022's budget increase). For FY2023, with a combined budget increase of 2.85%, a significantly lower rate increase than last year can be expected if projected water usage does not change. It should be noted, however, that there has been a recent trend of declining water usage for non-irrigation purposes as plumbing fixtures are modernized and residents pay more attention to water conservation. If that trend continues, a somewhat higher rate increase could be required in FY2023.

As noted above, there is substantial volatility in rate increases from year to year as a result of weather-dependent fluctuations in irrigation water usage. One way to reduce that volatility, and to simplify the rate-making process, would be consistently to use a five or ten-year average to project irrigation water usage instead of trying to predict actual usage. Surpluses earned in above-average irrigation years could then be "earmarked" as a sort of "stabilization fund" to offset losses in below-average irrigation years.

To minimize the risk of an operating loss, anticipated water usage is estimated conservatively. This means that the water and wastewater funds typically generate revenue in excess of the amount assumed for the budget. The disposition of that surplus revenue, or "retained earnings," is discussed below.

Water and Wastewater Retained Earnings

Accumulated surpluses resulting from the operations of an enterprise fund, referred to as "retained earnings", remain with the fund as a reserve, and may be used only for capital expenditures of the enterprise, subject to appropriation, or to reduce user charges. See Appendix B. Deficits must be funded with existing reserves or, in the absence of such reserves, made up in the following year's rates. The Town's policy is to maintain a balance of approximately $1 million of retained earnings in each fund as a buffer against revenue shortfalls resulting from unexpected reductions in usage or unanticipated extraordinary expenditures. Retained earnings in excess of that amount are now typically applied to help fund capital projects in lieu of debt. The table below shows how the balance of retained earnings has been deployed over the past several years and their proposed appropriation at this ATM for FY2023.

[2] For the vast majority of Lexington residents who have sewer connections, wastewater charges are billed based on the amount of water consumed by the household, not including irrigation water metered separately. Water used for irrigation is billed at the highest of the three-tiered water rates.

Retained Earnings: Appropriations and Year-End Balances

Annual Town Meeting	2019	2020	2021	2022
Water				
Starting Balance [(1)]	$ 1,612,998	$ 1,346,448	$ 1,737,914	**$ 3,537,851**
Appropriation for Rate Relief [(2)]	–	–	–	**–**
Appropriation for Capital [(3)]	$ 775,000	$ 130,000	$ 520,000	**$ 1,820,000**
Projected End Balance [(4)]	$ 837,998	$ 1,216,448	$ 1,217,914	**$ 1,717,851**
Wastewater				
Starting Balance [(1)]	$ 1,521,373	$ 998,736	$ 1,297,665	**$ 2,565,157**
Appropriation for Rate Relief [(2)]	–	–	–	**–**
Appropriation for Capital [(3)]	$ 700,000	–	$ 110,000	**$ 1,365,000**
Projected End Balance [(4)]	$ 821,373	$ 998,736	$ 1,187,665	**$ 1,200,157**

(1) Certified retained earnings as of the end of the prior fiscal year (for this year, 6/30/2021) and available for appropriation at this annual town meeting

(2) The Town's former practice of appropriating from retained earnings to subsidize the next fiscal year's operating budget has been discontinued since FY2015 (see discussion below).

(3) Proposed appropriations for capital projects for the next fiscal year (FY2023 at this ATM). Note that such appropriations 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 appropriated will not be spent until the following year.

(4) The projection of the retained earnings balance available at the end of the fiscal year assumes break-even operational results, i.e., no surplus or deficit. 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).

As can be seen from the table, the water and wastewater retained earnings balances as of the end of FY2021 and available for appropriation at this annual town meeting are unusually high, roughly double the amounts available for appropriation in prior years. In the case of the water fund, the reason for the large balance is an FY2021 operating surplus of nearly $2.5 million, attributable primarily to extraordinarily high irrigation usage during the very dry summer of 2020. In the case of the wastewater fund, the large balance is attributable to an FY2021 operating surplus of about $500,000 and the recent reallocation to retained earnings of about $800,000 from a reserve account no longer needed.

The exclusive use in recent years of retained earnings in excess of the "buffer" of $1,000,000 per fund has been for capital projects. From roughly 2009 to 2014, such "excess" retained earnings were appropriated on a regular basis to mitigate water and sewer rate increases in the next fiscal year. That practice was discontinued in 2015, however, as it provided only temporary rate relief and added to the rate increase required the following year unless the retained earnings subsidy was repeated. Since that time, consistent with recommendations made by this Committee, excess retained earnings, the availability of which cannot be guaranteed, have been used primarily for non-recurring capital investments of the enterprises, thereby lowering debt service costs and required future rate increases over a more extended period of time, as well as saving interest cost.

Consistent with this practice, substantial excess water and wastewater retained earnings available this year are proposed for appropriation under other articles to fund, or help fund, the following FY2022 capital projects: under Article 12 (Municipal Capital), $145,000 each from the water and wastewater funds for maintenance equipment, and $75,000 from the water fund for the hydrant replacement program; under Article 13 (Water System Improvements), $1,600,000 from the water fund for the annual water system investment program; and under Article 14 (Wastewater System Improvements), $720,000 from the wastewater fund for system improvements and $500,000 for pump station replacements. See Brown Book, pp. XI-16, XI-18. An unusually large amount of excess retained earnings is being maintained in reserve due to uncertainties about FY2022 operating results.

Recreation Enterprise Fund

The Recreation Enterprise Fund, or Recreation Fund for short, has for many years been the principal source of funding for the Town-sponsored recreational programs for residents, most of which are fee-generating. Prior to 2015, recreation activities were managed by the Recreation Department and both the Department and the activities were financed through the enterprise fund. In 2015, following the inauguration of the Lexington Community Center (LCC), the Recreation Department was reorganized to include responsibility for the community center and renamed the Department of Recreation and Community Programs (the Department, or DRCP). The Department now comprises four divisions: Recreation, Pine Meadows Golf Club, Community Center, and the Administrative Division. The enlarged Department is still funded largely through the enterprise fund, which receives income from a wide range of fee-supported programs. The Department receives supplementary support from the tax levy.

Historically, the Recreation Fund's operating budget was supported solely by program and facility fees. With the opening of the LCC, however, which added the cost of several full-time employees to provide programming available to all residents that is not generally supported through fees, a decision was made to appropriate from the tax levy the additional amount necessary to cover those costs. The original appropriation from the tax levy for this purpose in FY2016 was $217,000, and similar amounts have been appropriated from the tax levy each year since.

The advent of the pandemic midway through FY2021 had a significant impact on recreation operations, activities, and fee income. With the suspension of many recreational and Community Center activities and the consequent decimation of program and facility fees, it became necessary to augment the amount from the Recreation Fund with additional funds from the tax levy. At the fall 2020 Special Town Meeting, an additional $400,000 was appropriated from the tax levy for this purpose. Combined with the prior appropriation at the annual town meeting for LCC staffing of $218,916, the total tax levy subsidy in FY2021 was $618,916.

The FY2022 budget, as approved at the 2021 Annual Town Meeting, included a direct transfer from the tax levy of $509,215, inclusive of the usual transfer for LCC staffing. This amount anticipated that the effects of the pandemic might continue through at least part of the fiscal year, and aimed to offset revenue losses, maintain core Department functions, and enable the Department to resume full operations if and when the pandemic subsided. The FY2022 budget also suspended the Recreation Fund's annual payment of indirect expenses to the General Fund, which was $277,771 in FY2021, for a total effective FY2022 tax levy subsidy of approximately $800,000.

The proposed appropriations for FY2023, and changes from the prior fiscal year, are shown in the table below. The total FY2023 budget is about $835,000, or 32%, more than the appropriated FY2022 budget. The increases are largely due to recovery from the effects of the pandemic in the prior two fiscal years, and these include the costs of the program improvement requests for a part-time recreation coordinator and printing and mailing of a program brochure. The amount of $47,000 for replacement of a vehicle is also included via a program improvement request.

Recreation and Community Programs	FY2021 Actual	FY2022 Revised	FY2023 Requested	Dollar Increase	% Change
Compensation	$ 896,659	$ 1,342,201	$ 1,567,753	$ 225,552	16.80%
Expenses	$ 892,248	$ 1,247,735	$ 1,571,240	$ 323,505	25.90%
Debt Service	–	–	–	–	–
Total Requested in Article 5	–	**$ 2,589,936**	**$ 3,138,993**	**$ 549,057**	**21.20%**
Indirect Expenses *(Article 4)*	$ 277,771	–	$ 286,104	$ 286,104	100.00%
Total	**$ 2,066,678**	**$ 2,589,936**	**$ 3,425,097**	**$ 835,161**	**32.20%**

The sources of funds to support the FY2023 budget of the Department, including the tax levy, are as follows:

- Enterprise Fund retained earnings, $375,000
- Projected recreation user charges, $1,461,752
- Projected Community Center user charges, $445,555
- Projected Pine Meadows Golf Club user charges, $900,000
- Tax levy, $242,790.

The projected distribution of funding in FY2023 among the four divisions of the Department is as follows:

- Recreation, $1,426,153
- Pine Meadows Golf Club, $550,800
- Community Center, $629,962
- Administration, $532,078.

Fee-Setting. The Director of Recreation and Community Programs and the Recreation Committee set fees from time to time for use of the Town's playing fields, gyms, other recreational facilities, and for certain recreational programs with the goal of covering all operating costs of those fee-generating activities. The proposed fees are subject to the approval of the Select Board. If actual revenues come in higher than projections, the resulting surplus becomes part of the Recreation Enterprise Fund's retained earnings and can be used for future operating expenses, capital costs of the enterprise, to lower fees, or to absorb future losses.

Capital Costs. The capital costs of the Recreation Fund are covered, to the extent projects are eligible under the Community Preservation Act (CPA), by the Community Preservation Fund. This year's CPA-funded projects, for which appropriations totaling $4,509,591 are sought under Article 10, consist of playground pour-in-place surfaces and other improvements, the renovation of the Fiske School field, renovation of the basketball court and tennis courts off of Worthen Rd., and the formulation of a master plan for Lincoln Park. CPA funds ($915,000) are also sought to renovate the building housing the Center recreation complex bathrooms, but that project would be managed by the Department of Public Facilities. For more detail on these projects, see the discussion of Article 10 (CPA) below.

Capital projects not eligible for CPA funding may receive support from the General Fund through the appropriation of free cash, within-levy debt or excluded debt, and may also be supported by the Recreation Fund's retained earnings to the extent feasible. Capital costs of the Pine Meadows Golf Club are typically funded from retained earnings attributable to golf user fees, as is the case this year with the proposed appropriation under Article 11 (Recreation Capital) of $95,000 for course improvements.

This past winter the drain that keeps the lower level of the club house at the Pine Meadows Golf Course apparently collapsed, and water rose above the floor causing damage to golf carts and the building water heater. At press time, the Recreation Department has stated that it intends to seek a Reserve Fund transfer of about $131,000 so that a new drain may be installed and the water heater repaired or replaced (and possibly address other damaged items) before the beginning of the upcoming golf season. The intent would then be to request a transfer of an equal amount from the Recreation Enterprise Fund to the Reserve Fund via an appropriation for the current fiscal year under Article 21.

Looking Forward. As noted above, the operations of the Community Center for which fees are not charged are supported by the tax levy, and additional support from the tax levy has recently been required due to the stress placed on the Recreation Fund by the pandemic. Looking ahead, the Town Manager has convened a Financial Policy Working Group which will examine, among other things, the funding of the Town's recreational programs and services, and whether the use of an enterprise fund for this purpose continues to make sense.

Article 6 Appropriate for Senior Services Program

Funds Requested	Funding Source	Committee Recommendation
$15,000	**GF**	**Approve (8-0)**

This article seeks an appropriation for the Town's Senior Service Program of $15,000. The current amount in the continuing balance account for this program is $29,550. This includes $18,883 carried over from prior years and $15,000 appropriated for FY2022, minus year-to-date spending of about $4,000.

Spending on this program has been minimal in the last two years due to the pandemic, which has made it difficult to accommodate volunteer work for seniors. The $15,000 funding request for FY2023 will assure adequate funding following a return to normal participation levels, and provide flexibility for potential enhancements.

The Senior Service Program

The Senior Service Program allows a limited number of 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. Reductions earned under this program supplement any other statutory exemptions for which the participant qualifies. For more information on the Senior Service Program and other property tax relief options available to seniors, including exemptions and deferrals, please see Appendix D, or the Town website at `http://www.lexingtonma.gov/taxrelief`

Benefits and Criteria for Participation

The Select Board is responsible for setting the age and income criteria for participation, the wage rate, and the maximum credit allowed. Under current guidelines, the program is available for persons age 60 years and older with household income up to $90,000. The maximum tax reduction which may currently be earned is $1,755 per household per year.

Funding Requirements and Requested Appropriation

The program operates as a continuing balance account, and unexpended funds carry over from year to year. When first adopted, appropriations were made annually to fund the program. More recently, with declining participation (and a suspension of the program for most of calendar year 2020 due to the pandemic), carryover account balances have been sufficient to fund the program for multiple years.

Although the Senior Service Program has been less popular in recent years than in the past, it is nevertheless an important and useful program as it provides an opportunity for socialization and meaningful property tax relief for participants in the context of a productive contribution to the Town.

Article 7 Climate Action Plan

Funds Requested	Funding Source	Committee Recommendation
$20,570	**Free Cash**	
$30,000	*See below*	**Approve (8-0)**
$50,570		

This request would fund planning and outreach to update the Town's Sustainable Action Plan with a Climate Action Plan.

Under Article 7 of the 2018 Annual Town Meeting, Town Meeting appropriated $40,000 for the "Getting to Net Zero" project. Phase I of that project included stakeholder identification and baseline data collection, and is now completed. The current request will support Phase II, engaging stakeholders, and Phase III, creating a Climate Action Plan in partnership with the Metropolitan Area Planning Council.

The budget from the 2018 appropriation for Phase I has a remaining balance of $30,000 which will be re-appropriated for this article. The remaining $20,570 would be funded from Free Cash.

The Town has also been awarded a grant of $50,000 from the Massachusetts Executive Office of Environmental Affairs to support this work.

Article 8 Appropriate for Comprehensive Plan Implementation

Funds Requested	Funding Source	Committee Recommendation
None	**N/A**	**IP**

The Committee anticipates that the motion under this article will be for indefinite postponement, and that the Select Board will introduce an article at a future special town meeting to fund completion of the Town's Comprehensive Plan.

The Comprehensive Plan (CP) is a document developed by the Town to inform land use policy, regulation and potential by-law changes. This request would have funded a Housing Needs Assessment based on recommendations in the CP. The Housing Needs Assessment would identify what types of housing are needed and how creating such housing would work in Lexington with the resources we have, i.e., transportation, human services and economic development.

The CP is re-evaluated on a regular basis and was last updated in 2002. The current update of the CP was funded by a $302,000 appropriation under Article 7 of the 2017 Annual Town Meeting. The Planning Board appointed the Comprehensive Plan Advisory Committee to work with a consultant, reach out to the community stakeholders, and develop the plan. An updated CP is now in the final stages of preparation.

Article 9 Establish and Continue Departmental Revolving Funds

Funds Requested	Funding Source	Committee Recommendation
See below	**RF**	**Approve (8-0)**

This article seeks to establish FY2023 spending limits for all existing revolving funds, as shown in the table below. Generally speaking, a revolving fund allows Town Meeting to dedicate in advance a specific source of anticipated revenue from fees and charges to pay expenses for services associated with those fees and charges without the need for further appropriation. Town Meeting is required each year to vote a limit on the total amount that may be expended from each revolving fund in the ensuing fiscal year. Expenditures may not be made, nor liabilities incurred, in excess of such limit or the balance of the fund except with the approval of the Select Board and this Committee. More detailed information regarding the nature and purpose of revolving funds can be found in Appendix C of this report.

The spending limit proposed for each of the Town's existing funds, as set forth in the table below, 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. A summary of the historical receipts, expenditures, and balances for each fund during FY2021 and the first half of FY2022 can be found in Appendix C of the Brown Book. No new revolving funds are proposed to be established this year.

Program or Purpose	**Authorized Representative or Board**	**Departmental Receipts**	**FY2022 Request**	**FY2023 Request**
School Bus Transportation	School Committee	School Bus Fees	$ 1,150,000	**$ 1,150,000**
Building Rental Revolving Fund	Public Facilities Dir.	Building Rental Fees	$ 570,000	**$ 586,000**
Regional Cache—Hartwell Avenue	Public Works Dir.	Participating Municipality Fees	$ 50,000	**$ 50,000**
Lexington Tree Fund		Gifts and Fees	$ 70,000	**$ 75,000**
DPW Burial Containers		Sales	$ 50,000	**$ 60,000**
DPW Compost Operations		Sales and Permits	$ 790,000	**$ 855,000**
Minuteman Household Hazardous Waste Program		Fees from Consortium Towns	$ 260,000	**$ 260,000**
Senior Services Programs	Human Services Dir.	Program Fees and Gifts	$ 75,000	**$ 75,000**
Residential Engineering Review	Engineering Dir.	Fees Paid by Developers	$ 57,600	**$ 57,600**
Health Programs	Health Director	Medicare Reimbursements	$ 45,000	**$ 45,000**
Lab Animal Permits	Public Health Dir.	Lab Animal Permit Fees	$ 40,000	**$ 40,000**
Tourism/Liberty Ride	Economic Development Dir.	Liberty Ride Receipts	$ 194,000	**$ 104,000**
Visitors Center		Sales, Program Fees and Donations	$ 247,000	**$ 260,000**

With the exception of the Liberty Ride (tourism was significantly affected by the pandemic), the proposed spending limits have not changed substantially from those approved last year.

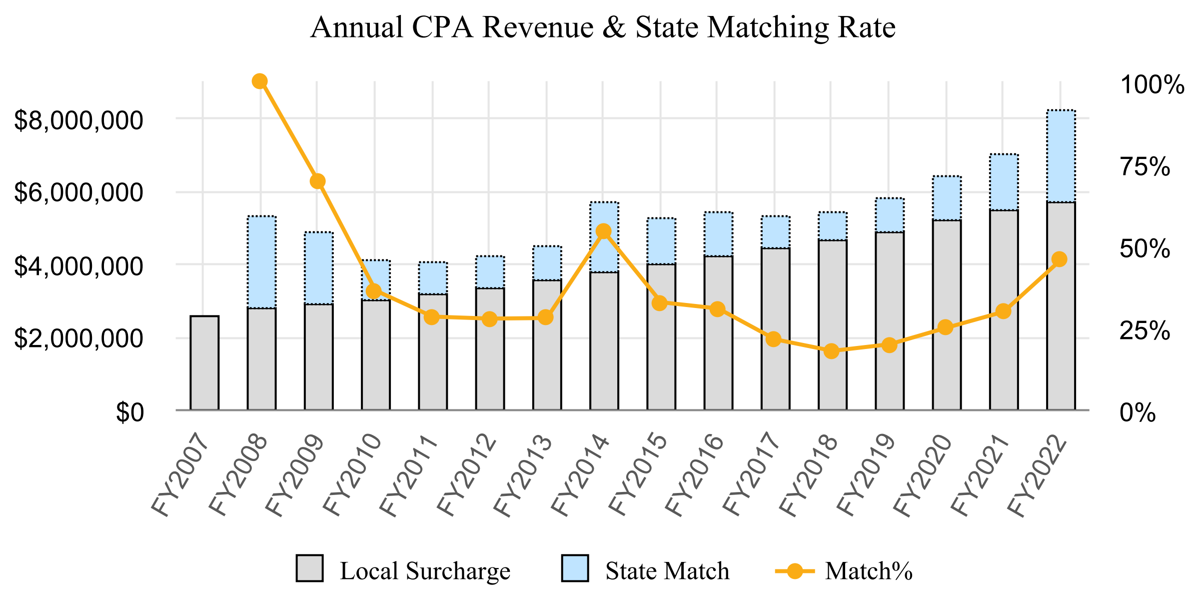
Article 10 Appropriate the FY2023 Community Preservation Committee Operating Budget and CPA Projects

Funds Requested	Funding Source	Committee Recommendation
See below	**CPA**	**[a-j,l-n] Approve (8-0); [k] IP**

Community Preservation Act (CPA) projects are funded using the Community Preservation Fund (CPF), which is managed as four separate sub-funds: Affordable Housing, Open Space & Recreation, Historic Resources, and Unbudgeted Reserves.

As stipulated by the Community Preservation Act, the CPF has two sources of revenue; a 3% surcharge applied to property tax bills, and a variable annual state match of surcharge revenues collected by the Town. In the 15 years since the Town enacted the CPA, the state match has averaged out to roughly 38%, and only once met the full 100% allowed by the Community Preservation Act. Increases in the fees charged on all real estate transactions, as well as a FY2021 state budget surplus, have boosted the total match of FY2021 surcharges to over 45%.

The funds available for appropriation in the CPF total $16,523,252. The reduced spending in FY2022 resulted in a carry-forward balance of $8,387,252. The local surcharge revenue and an estimated FY2023 state match of 38% results in budgeted revenue of $8,136,000. The CPC appropriations requested in this article total $7,873,191, which would leave a balance of over $8.5 million. This conforms to the CPA policy to maintain a minimum $3 million balance in reserve for unanticipated time-sensitive requests, such as purchasing a parcel of land for conservation.



Lexington has received $2,500,261 in matching funds for FY2022, a 45.5% match from the state. This exceeded the 30% rate projected in the FY2022 budget, and it is the highest percentage match since FY2014. Revenues in excess of the budget projections will be appropriated as an adjustment to the FY2022 budget under Article 21.

Funding requests for the FY2023 CPA projects are detailed below. It is noteworthy that none of these requests will rely on debt-financing. CPA expenditures from the prior year were well below normal, resulting in large cash balances in each of the four CPA accounts.

Article	Item	Funding Request	CPF Funding Account
10(a)	Archives and Records Management	$ **20,000**	Historic Resources
10(b)	Wright Farm Barn Stabilization	$ **155,000**	Historic Resources

Art-icle	Item	Funding Request	CPF Funding Account
10(c)	West Farm Meadow Preservation	**$ 28,175**	Open Space
10(d)	Playground Improvements – Pour-in-Place Surfaces	**$ 1,459,591**	Unbudgeted Reserve
10(e)	Center Playground Bathrooms and Maintenance Building Renovations	**$ 680,000**	Undesignated Fund Balance
10(f)	Playground Improvements – Hard Courts Surfaces	**$ 2,500,000**	Unbudgeted Reserve
10(g)	Park and Playground Improvements – Kinneens Park	**$ 200,000**	Unbudgeted Reserve
10(h)	Park Improvements – Athletic Fields – Fiske Field	**$ 250,000**	Unbudgeted Reserve
10(i)	Lincoln Park Master Plan	**$ 100,000**	Unbudgeted Reserve
10(j)	LexHAB – Preservation and Rehabilitation	**$ 234,000**	Community Housing
10(k)	LexHAB – 116 Vine Street Construction Funds	$ —	
10(l)	Lexington Housing Authority – Vynebrooke Village – Preservation	**$ 160,790**	Community Housing
10(m)	CPA Debt Service	$ 324,500	Open Space
		$ 773,000	Historic Resources
		$ 838,135	Unbudgeted Reserve
		$ 1,935,635	
10(n)	Administrative Budget	**$ 150,000**	Unbudgeted Reserve
	TOTAL	**$ 7,873,191**	

10(a) Archives and Records Management

This $20,000 request is for the conservation and preservation of historic municipal documents and records. The ongoing project will fund the conservation and preservation of older documents and make them available in the Town's digital archives. Documents to be conserved under this funding request include the 1927 blueprints for the Cary Memorial Building; Tax Warrants and Acts of Massachusetts, 1778-1823; and a police department journal for, 1874-1909. This request is made by the Town Clerk's office and would be funded from the Historic Resources Reserves.

10(b) Wright Farm Barn Stabilization

This $155,000 request would fund repairs need to stabilize the barn located on the Wright Farm property. The Wright Farm was purchased in 2016 using CPA money for both conservation and affordable housing use. While the farm house has been renovated by LexHAB, the barn has remained in its original dilapidated condition. The proposed repairs would stabilize the building against the weather and prevent further decay. Long-term plans would renovate this structure for use by the community. This request is being made by the Land Use, Health & Development Department and would be funded from the Historic Resources Reserves.

10(c) West Farm Meadow Preservation

This $28,175 request would extend the conservation meadow preservation program to approximately 10 acres of the West Farm Meadow conservation land. Work done will improve the land for passive recreation, wildlife management, scenic enjoyment, and preservation of Lexington's agricultural history. Started in FY2015, this CPA funded program has restored meadow lands at Hennessey Field, Joyce Miller's Meadow, and Wright Farm, and will soon do so at Willard's Woods and Daisy Wilson Meadow. This request is being made by the Land Use, Health & Development Department and would be funded from the Open Space Reserves.

10(d) Playground Improvements - Poured-in-Place Surfaces

This $1,459,591 request would improve the playgrounds at the Bowman, Bridge, and Estabrook schools by removing the current bark mulch safety surfacing around the play equipment and installing Pour-In-Place safety surfacing, and installing a completely new playground at Fiske School. Pour-In-Place is a impact-absorbing rubber/urethane surface that is easy to maintain, has a 15-year life, and creates accessible access to the play area. For these reasons Lexington is installing it in all new playgrounds. This project would complete the last of the school playgrounds with the next anticipated replacements being in 2033. This project is requested by the Department of Public Facilities and would be funded from the Unbudgeted Reserves.

10(e) Center Playground Bathrooms and Maintenance Building Renovation

This $680,000 request is for construction funds to renovate the bathrooms and DPW maintenance building at the Center Playground. Funds to design and engineer this project were appropriated in FY2021, although questions raised at Town Meeting about the proposed design prevented construction money from being approved. Based on community and stakeholder input, this project is moving forward with a reduced scope limited to renovation of the existing building.

This building supports the users of the Center Playground facility, many of whom pay permit fees for access to the field, tennis courts, and track complex. Delaying necessary renovations could lead to reduction in permit revenue. This project is requested by the Department of Public Facilities and would be funded from the Undesignated Fund Balance.

10(f) Playground Improvements - Hard Court Surfaces

This $2,500,000 request is for renovation of the Farias Basketball Courts and the Gallagher Tennis Courts. This is a large project which involves resurfacing hard basketball, tennis and pickleball surfaces and equipment, new fencing, tennis backboards and site amenities. This would complete, at least until 2028, the Hard Court surfaces program which began in FY2016. This project is requested by the Recreation and Communities Programs Department and would be funded from the Unbudgeted Reserves.

10(g) Park and Playground Improvements - Kinneens Park

This $200,000 request would improve the Kinneens Park neighborhood park on Burlington St.. Work includes updating and replacing playground equipment and safety surfacing and installing fencing, signage, park benches, and a bike rack. This project is requested by the Recreation Committee and follows on similar CPA-funded playground improvements projects from FY2016, 2017, 2018, 2021, and 2022. This project would be funded from the Unbudgeted Reserves.

10(h) Park Improvements - Athletic Fields - Fiske Field

This $250,000 request would renovate the Fiske School Fields with irrigation upgrades, laser grading and the installation of new natural grass, and installation of backstops, fencing, and signage. This project is requested by the Recreation Committee and follows on similar CPA funded field improvements projects from FY2016, 2017, 2018, 2020, 2021 and 2022. This project would be funded from the Unbudgeted Reserves.

10(i) Lincoln Park Master Plan

This $100,000 request would create a master plan for future improvements at Lincoln Park, a recreation area with both active and passive recreation uses. Our five-year capital plan currently has six possible projects bookmarked for this facility, and the proposed master plan should create a coordinated, holistic approach to implementing the enhancements and upgrades that stakeholders envision. This project is requested by the Recreation and Communities Programs Department and would be funded from the Unbudgeted Reserves.

10(j) LexHAB - Preservation and Rehabilitation

This $234,000 request is for preservation and rehabilitation/restoration projects in Lexington Housing Assistance Board (LexHAB) managed affordable housing units. Nine of these units were acquired with CPA funding, and three unit were acquired solely with LexHAB funds. This funding enables LexHAB to keep its entire stock of 78 units of affordable housing available to serve the needs of the community. This project is requested by LexHAB and would be funded from the Community Housing Reserves.

10(k) LexHAB - 116 Vine Street Construction Funds

Leary Farm, a 14.2 acre parcel at 116 Vine Street, was acquired in 2009 using CPA funds. At the time, ⅔ acre was set aside for affordable housing, and the balance of the property was preserved as conservation land. This item initially planned to request $5.3 million in construction funds for six units of affordable housing to be built on the property. The funding would have come from the Community Housing Reserves and Undesignated Fund Balance of the CPA Fund.

LexHAB recently received an updated estimate for construction costs of $5.7 million, after which they asked that this item be indefinitely postponed.

10(l) Lexington Housing Authority - Vynebrooke Village - Preservation

This $160,790 request is for a preservation project at the Lexington Housing Authority's Vynebrooke Village. These funds would supplement a $3.8 million grant the Authority received from the Massachusetts Department of Housing and Community Development. This project would modernize the kitchens and bathrooms of the 48 units at the Village as well as convert three units to fully accessible housing, and this CPA appropriation would specifically finance fire and safety systems upgrades.This project is requested by LexHAB and would be funded from the Community Housing Reserves.

10(m) CPA Debt Service

Projected debt service on CPA projects is outlined in the following table. Two different types of debt instruments are used: bond anticipation notes (BANs), and multi-year municipal bonds. BANs provide interest-only borrowing at a lower rate for a term of up to one year. BANs provide ready access to capital, are routinely issued for individual projects prior to bundling the debt from several projects into a single multi-year bond.

Project TM Approval	 Final Payment	Total Appropriation	Total Debt Financing	FY2023 Debt Service
Wright Farm Purchase ATM 2012	 FY2024	$ 3,072,000	$ 2,950,000	**$ 324,500**
Community Center Acquisition STM 3/2013	 FY2024	$ 10,950,000	$ 7,390,000	**$ 808,500**
Cary Memorial Building Upgrades STM 3/2014	 FY2025	$ 8,677,400	$ 8,241,350	**$ 733,600**
Community Center Renovation STM 6/2014	 FY2023 (BAN)	$ 6,297,184	$ 30,225	**$ 30,427**
Cary Memorial Building Construction STM 3/2014	 FY2023 (BAN)	$ 8,677,400	$ 38,350	**$ 38,608**
TOTAL		**$ 37,673,984**	**$ 18,649,925**	**$ 1,935,635**

The debt service for the Wright Farm purchase will be paid from the Open Space Reserve; the Community Center Acquisition debt service will be paid from the Historic Resource Reserve; and the remaining debt service payments will be paid from the Unbudgeted Reserves.

While the CPA statutes limits a community's CPA debt to a level that can be serviced by annual revenue, 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. This practice reduces the potential for long-term financial commitments that would linger should the residents vote to rescind the CPA surcharge in the future. Additionally, if too much of the CPA annual revenue were consigned for debt service, the ability of the CPC to fund new projects directly with cash would be stifled.

10(n) Administrative Budget

The Community Preservation Act permits up to 5% of annual CPA funds to be spent on the operating and administrative costs of the CPC. The CPC may pay for staff salaries, mailings, public notices, overhead, legal fees, membership dues, and other miscellaneous expenses related to CPA projects. As in past years, the CPC is requesting an appropriation of $150,000, which is well below the 5% cap of $400,000. This money will be used to fund the Committee's part-time administrative assistant, membership dues to the nonprofit Community Preservation Coalition, administrative expenses, legal and miscellaneous expenses, land planning, appraisals, and legal fees for open space proposed to be acquired using CPA funds. Funds appropriated for administrative expenses are from the Unbudgeted Reserves and money not spent in a given fiscal year reverts to the CPA Undesignated Fund Balance at year's end.

Article 11 Appropriate for Recreation Capital Projects

Funds Requested	Funding Source	Committee Recommendation
$95,000	**Recreation EF Ret'd Earnings**	**Approve (8-0)**

Item	Amount	Funding Source	Brown Book p.
Pine Meadows Improvements	$ 95,000	Recreation RE	XI-15

This request will fund installation of new fairway bunkers on the 2nd and 7th holes, as well as a greenside bunker at the 8th hole, reconstruction of the bunker on the 9th green, expansion of the tee at the 9th hole, reconstruction of the middle tee on the 8th hole, and completion of the design and engineering work associated with the cart path restoration and renovation on the 5th hole.

The Recreation Enterprise Fund is funded by user fees. Information on the available balance for this and other enterprise funds may be found in the discussion of Article 5.

Article 12 Appropriate for Municipal Capital Projects and Equipment

Funds Requested	Funding Source	Committee Recommendation
$14,016,091	*See below*	**Approve (8-0)**

This article requests funding for municipal capital projects and equipment. In the first table below, the requested appropriations are categorized by funding source. The Capital Expenditures Committee Report to the 2022 Annual Town Meeting contains further discussion of these capital requests.

Item	Request	Funding Source
e,f,g,h,i,j,k,m, n,o,p,q,r,s,t	$ 6,817,577	Free Cash
n	$ 3,615,000	GF Debt
l	$ 2,669,767	Tax Levy
b,c	$ 240,000	Traffic Stabilization Fund
h	$ 236,923	Prior Year Debt
g,m	$ 220,000	Water RE
g	$ 145,000	Sewer RE
a	$ 65,000	TMOD Stabilization Fund
d	$ 6,824	TNC Spec. Revenue Fund
	$ 14,016,091	**TOTAL**

For a discussion of the items in this request, please see the referenced pages in the Brown Book.

Item	Description	Amount	Funding Source	Brown Book
a	Hartwell District Signage	$ 65,000	TMOD Stabilization Fund	XI-14
b	Townwide Pedestrian & Bicycle Plan	$ 65,000	Traffic Stabilization Fund	XI-15
c	South Lexington and Forbes-Marrett Traffic Mitigation Plans	$ 175,000	Traffic Stabilization Fund	XI-15
d	Transportation Mitigation	$ 6,824	TNC Spec. Revenue Fund	XI-15

Item	Description	Amount	Funding Source	Brown Book
e	Replace Pumper Truck	$ 650,000	Free Cash	XI-15
f	Townwide Culvert Replacement	$ 390,000	Free Cash	XI-16
g	Equipment Replacement	$ 1,246,000 $ 145,000 $ 145,000	Free Cash Water Ret'd Earnings Wastewater Ret'd Earnings	XI-16
h	Sidewalk Improvements	$ 800,000	Free Cash/Prior Bond Auth.	XI-17
i	Townwide Signalization Improvements	$ 125,000	Free Cash	XI-18
j	Storm Drainage Improvements and NPDES Compliance	$ 570,000	Free Cash	XI-18
k	Comprehensive Watershed Stormwater Management	$ 390,000	Free Cash	XI-18
l	Street Improvements	$ 2,669,767	Tax Levy	XI-18
m	Hydrant Replacement Program	$ 75,000 $ 75,000	Free Cash Water Ret'd Earnings	XI-20
n	Battle Green Streetscape Improvements	$ 3,615,000 $ 1,360,000	GF Debt Free Cash	XI-20
o	Municipal Parking Lot Improvements	$ 60,000	Free Cash	XI-20
p	Public Parking Lot Improvement Program	$ 100,000	Free Cash	XI-20
q	New Sidewalk Installations	$ 75,000	Free Cash	XI-20
r	Application Implementation	$ 158,500	Free Cash	XI-20
s	Network Redundancy & Improvement Plan	$ 945,000	Free Cash	XI-20
t	Scanning - Electronic Document Management	$ 110,000	Free Cash	XI-21

Article 13 Appropriate for Water System Improvements

Funds Requested	Funding Source	Committee Recommendation
$600,000	**Water EF Rates**	
$1,600,000	**Water EF Ret'd Earnings**	**Approve (8-0)**
$2,200,000		

This article addresses proposed capital expenditures to be made during FY2023 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.

Work to Be Done and Funding

Annual Distribution System Improvement Program. A total of $2,200,000 is requested this year to fund an ongoing annual program to replace unlined or inadequate water mains and deteriorated service connections and to eliminate dead ends in water mains. The details of the projects can be found in the Brown Book, p. XI-19. Capital appropriations for similar purposes have been made in most years over the last decade. 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 to minimize water main breaks.

Historically, the annual amount requested for this program was $1,000,000. Beginning in FY2020, that amount was increased to $2,200,000, a higher level of capital investment which was expected to continue indefinitely. The substantial increase was based on an asset management study completed in 2017 by the Wright-Pierce environmental engineering firm, which recommended an ongoing annual expenditure of this magnitude to keep Lexington's water system safe and reliable. The asset management plan identified areas of vulnerability, aging pipe, and areas with low volumes and pressures; and it recommended the replacement of 1% of the Town's water mains on an annual basis (based on an estimated system useful life of 100 years).

Last year, the requested appropriation for the ongoing program was backed down temporarily to $1,110,000. With a large number of other capital projects under way, including the installation of a new automated meter-reading system approved by Town Meeting in 2019, the Engineering Department and the Department of Public Works determined that the Town did not have the capacity to manage additional projects. This year, it is proposed to return to the higher amount of $2,200,000, and the Town's five-year capital plan anticipates similar annual expenditures going forward, see Brown Book, p. XI-22.

It is proposed that the funding for this year's maintenance and upgrade work include $600,000 raised in the rates, up from $400,000 last year. This financing arrangement continues a plan initiated several years ago gradually to transition the funding of the ongoing water distribution system maintenance and improvement program from debt to cash, increasing cash and reducing debt by an additional $200,000 each year. To mitigate pressure on water rates in the short term, the changeover is being phased in over eleven years. See the discussion of Article 5 above and the Brown Book, p. XI-19.

Although the balance of $1,600,000 would ordinarily be funded with debt, it is proposed this year to fund it entirely from retained earnings. This strategy is made possible by the existence of an extraordinary balance of approximately $3,500,000 in water fund retained earnings at the end of FY2021. See the discussion under Article 5. Although the availability of retained earnings of this magnitude is a one-time event not likely to be repeated, its use this year in lieu of debt will put the "excess" retained earnings to a productive use and benefit future rate payers by reducing future debt service costs.

Miscellaneous Appropriations under Other Articles. For completeness, it should be noted that appropriations for certain other capital expenses of the Water and Wastewater Enterprise Funds are requested in Article 12 (Municipal Capital Projects and Equipment). The purchase of a six-wheel dump truck with a snow plow and a utility service truck used in water and sewer maintenance operations would be shared between the two funds, with $145,000 from water fund retained earnings and $145,000 from wastewater fund retained earnings. (An additional $50,000 in free cash from the general fund would be applied toward the purchase of the dump truck due to its availability for town-wide use as a snow plow.) Also, as has been the case for many years, half of the cost of the Town's annual hydrant replacement program would be funded by an appropriation of $75,000 from water fund retained earnings; the rationale for sharing this cost is that the hydrants are used not only for fire prevention but also for water system flushing purposes.

Committee Recommendation

The Committee recommends approval of both the appropriation amount and the funding method requested in this article. It supports the principle of continuous capital investment to assure the safety, soundness and longevity of the Town's water and wastewater infrastructure. It also supports funding the cost of the ongoing system maintenance and improvement program—essentially, a required annual expense of the enterprise fund—with cash raised directly in the rates, supplemented by "excess" retained earnings as available, rather than by debt. Although the gradual changeover to cash will result in somewhat higher rate increases in the short run, in the long run it will more transparently and directly reflect the true current cost of system upgrades and maintenance when rates are set, and it will also save interest costs.

Article 14 Appropriate for Wastewater System Improvements

Funds Requested	Funding Source	Committee Recommendation
$1,500,000	**Wastewater EF Debt**	
$1,220,000	**Wastewater EF Ret'd Earnings**	**Approve (8-0)**
$300,000	**Wastewater EF Rates**	
$3,020,000		

This article addresses proposed capital expenditures to be made during FY2023 as part of a continuing program to upgrade and keep current the assets of the Wastewater Enterprise Fund, including both sewer mains and pumping stations. 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.

Work to Be Done and Funding

Annual Sanitary System Investigation and Improvement program. A total of $1,020,000 is requested as part of an ongoing annual program to investigate the condition of and rehabilitate sanitary sewer infrastructure. The goal is to improve the system's operation, reduce backups and potential overflows, prevent malfunctions, and reduce infiltration, thereby lowering measured flows through the MWRA meter. A description of the program can be found in the Brown Book, p. XI-19.

It is proposed that this year's program costs be funded with a combination of retained earnings ($720,000) and cash raised in the rates ($300,000). Although the balance of $720,000 would ordinarily be funded with debt, it is proposed this year to fund it entirely from retained earnings (similar to the water distribution improvements). This strategy is made possible by the existence of an unusually large balance of approximately $2.5 million in Wastewater Fund Retained Earnings at the end of FY2021. This is the third year of a ten-year plan to transition the funding of the ongoing wastewater system maintenance and improvement program from debt to cash. The plan will increase the use of cash by an additional $100,000 while reducing debt by an equal amount each year, in order to mitigate pressure on water rates in the short term. See the discussion of Article 5 above and the Brown Book, p. XI-19.

Pump Station Upgrades. An additional $2,000,000—$1,500,000 funded by wastewater debt and $500,000 from wastewater retained earnings—is requested to help bring to a conclusion a multi-year project to upgrade Lexington's ten sewer pumping stations. The details of the project, including this year's expected work sites, can be found in the Brown Book, p. XI-8. Capital appropriations for pump station upgrades have been made for several years, and the project is now nearing completion. See the 5-year capital plan, Brown Book, p. XI-22. Because the project is not part of a continuous investment program which will continue indefinitely, but will nevertheless provide an ongoing benefit to future users, it is appropriately funded with debt, as well as by retained earnings available to be deployed for this purpose.

It should be noted that this year's requested appropriation of $2,000,000 for pump station upgrades is significantly larger than the amounts requested in prior years, generally in the range of $400,000-$800,000. The reason is that two projects are planned—the Hayden Avenue station, which has already been designed and bid, and the North Street station, for which design is underway—and the anticipated cost of these projects has increased significantly. It was originally thought that a balance of approximately $2,000,000 of authorized debt from prior years, plus an additional authorization of $575,000 this year, would be sufficient to cover the construction costs of both projects. However, given the recent extraordinary inflation in construction costs, the lowest bid for the Hayden Avenue station upgrade came in last fall substantially higher than projected. It is anticipated that when the North Street station is put out to bid this spring, the bids will be in a similar range, and that the final cost of completing both projects will be 50% higher than originally projected, i.e., approximately $4,000,000. Because the equipment involved is beyond its useful life, and the pumping stations are essential to health and safety, deferral of the projects in the hope of a future reduction in costs is not warranted.

Miscellaneous Appropriations under Other Articles. For completeness, it should be noted that appropriations for certain other capital expenses of the Water and Wastewater Enterprise Funds are requested in Article 12 (Municipal Capital Projects and Equipment). The purchase of a six-wheel dump truck with a snow plow and a utility service truck used in water and sewer maintenance operations would be shared between the two funds, with $145,000 from water fund retained earnings and $145,000 from wastewater fund retained earnings. (An additional $50,000 in free cash from the General Fund would be applied toward the purchase of the dump truck due to its availability for town-wide use as a snow plow.)

Committee Recommendation

The Committee recommends approval of both the appropriation amount and the funding method requested in this article. It supports the principle of continuous capital investment to assure the safety, soundness and longevity of the Town's water and wastewater infrastructure. It also supports funding the costs of the ongoing system maintenance and improvement program—essentially an annual operating expense of the enterprise funds—with cash raised directly in the rates rather than by debt. Although the gradual changeover to cash will result in somewhat higher rate increases in the short run, in the long run it will more transparently and directly reflect the true current cost of system upgrades and maintenance when rates are set, and it will also save interest costs.

Article 15 Appropriate for School Capital Projects and Equipment

Funds Requested	Funding Source	Committee Recommendation
$1,343,006	**GF**	**Approve (8-0)**

The requested funds will be used to purchase equipment to aid the Lexington Public Schools' (LPS) staff in teaching and administration, to provide devices to be assigned to students to allow for innovative learning methods that integrate supportive technologies, problem-based approaches and higher order thinking skills, and to maintain and upgrade LPS information technology infrastructure.

We note that the funding strategy for annual school technology requests has transitioned from debt to cash capital, which is reasonable given the relatively limited lifetimes of the hardware.

School capital requests for FY2023 are detailed below:

Description	Funding Request	Funding Source
Tech Workstations	$ 173,400	GF
PreK-5 Mobile Devices	$ 105,300	GF
1:1 Middle School Program	$ 212,610	GF
1:1 at Lexington High School	$ 180,480	GF
Science/Technology/Engineering/(Art)/Math (STEM/STEAM)/ Computer Science	$ 80,800	GF
Interactive Projectors/Whiteboard Units and Document Cameras	$ 240,416	GF
District and Building Network Infrastructure	$ 330,000	GF
Server/Storage Infrastructure	$ 20,000	GF
TOTAL	**$ 1,343,006**	

Tech Workstations - Replace Unit A (all classroom teachers, counselors, librarians and staff working under the teacher contract, "Unit A") workstations and peripheral devices (laptops, desktops, printers and monitors). Staff workstations were primarily replaced from FY2020 funds, thus minimal replacements are budgeted for this cycle. (150 laptops @ $1,075 each, 5 laptops/workstations @ $1,000 each, 10 printers @ $440 each, and 10 monitors @ $275 each)

PreK-5 Mobile Devices - Replace 260 Grade 1 iPads across all district Grade 1 classes due to current devices having reached their end of life. (260 iPads @ $405 each)

1:1 Middle School Program - Purchase 570 Chromebooks for 6th graders entering Diamond and Clark Middle Schools. All middle school students have 1:1 devices, and the devices follow them through middle school (three-year life span).

1:1 at Lexington High School - Purchase 640 Chromebooks for 9th graders. All high school students, once provided a device in 9th grade or upon entering the high school, have the device through their senior year (four-year life span).

Science/Technology/Engineering/(Art)/Math (STEM/STEAM)/Computer Science - Update district computer labs at Middle School/High School level and to purchase STEM/STEAM based curricular materials. (two labs @ $37,400 each, $6,000 for STEM/STEAM Materials)

Interactive Projectors/Whiteboard Units and Document Cameras - Replace 48 interactive projectors districtwide. This equips buildings with a touch-activated interactive system with a new ceramic whiteboard and soundbar. The replacements will begin with the oldest model per school until all systems are within a 5-year window with all of the same functionality. The request will also replace 28 document cameras at middle schools, with remaining schools planned in future years. As part of new school construction, some schools have newer document cameras and other schools have had document cameras replaced prior to this year. (48 projectors @ $4,640 each, 28 document cameras @ $632 each)

District and Building Network Infrastructure - Replace switches at the high school that control internet and internal connections ($40,000), replace switches districtwide that support internal connections in schools ($90,000), and replace the electronic devices that support the schools' virtual networks ($200,000).

Server/Storage Infrastructure - Maintain and upgrade server-related hardware.

Article 16 Appropriate for Public Facilities Capital Projects

Funds Requested	Funding Source	Committee Recommendation
$2,611,940	*See below*	**Approve (8-0)**

This article requests funds for the facilities projects summarized below. For further discussion of these items, please see the report of the Capital Expenditure Committee and the referenced Brown Book pages. The Committee concurs with the discussion presented by the Capital Expenditure Committee in its report.

Article	Item	Funds Requested	Funding Source	Brown Book
16(a)	Public Facilities Bid Documents	$ 100,000	Free Cash	XI-13
16(b)	Building Flooring	$ 150,000	Free Cash	XI-13
	School Paving and Sidewalks	$ 145,000	Free Cash	XI-13
16(c)	Mechanical/Electrical Systems Replacements	$ 787,000	Free Cash	XI-13
16(d)	Municipal Building Envelopes and Associated Systems	$ 219,540	Tax Levy	XI-13
16(e)	Townwide Roofing	$ 428,000	Free Cash	XI-7
16(f)	School Building Envelopes and Associated Systems	$ 251,400	Free Cash	XI-14
16(g)	High School Equipment Emergency Funds	$ 500,000	GF Debt	XI-7
16(h)	Town Pool Water Heater Replacement	$ 31,000	Free Cash	XI-14
	TOTAL	**$ 2,611,940**		

Article 17 Appropriate to Post Employment Insurance Liability Fund

Funds Requested	Funding Source	Committee Recommendation
$1,179,721	**Free Cash**	
$750,000	**Tax Levy**	
$2,761	**Water EF**	**Approve (8-0)**
$3,004	**Wastewater EF**	
$1,935,486		

This article requests the appropriation of $1,935,486 into the Post Employment Insurance Liability (PEIL) Fund. Of the requested amount, $1,179,721 would come from free cash, $750,000 from the tax levy, $2,761 from the Water Enterprise Fund, and $3,004 from the Wastewater Enterprise Fund. The tax levy amount corresponds to the withdrawal of an equal amount, $750,000, from the Health Claims Trust Fund under Article 4 to support the employee benefits line of the operating budget. The amounts requested from the two enterprise funds are based on the benefits earned by the employees of the Water and Wastewater Departments.

The PEIL Fund holds funds that will be used in the future to pay for health care benefits for retirees. These benefits make up most of the "other post-employment benefits" (OPEB) that the Town provides as part of the total compensation for its employees. For a detailed discussion of OPEB, the present status of the PEIL Fund, and related issues, please see Appendix F.

The Town of Lexington's future OPEB liabilities are not fully funded. The unfunded liability is the sum of the actuarially determined obligations incurred during current and prior fiscal years that have not been funded (via contributions to the PEIL Fund). Every year, the unfunded liabilities grows by the present value of future benefits earned during the current year, less the value of benefits provided to retires during the current year through the operating budget, and less any contribution to the PEIL Fund for future liabilities.

One benefit of contributing to the PEIL Fund is that, like the pension fund, it can be invested in equities and earn a higher return than typical Town-managed funds, thus reducing future liabilities. Although the Committee recognizes that there are valid alternative priorities to which some portion of these funds could be allocated, such as additional bolstering of our Capital Stabilization Fund to help address significant upcoming capital investment challenges, it supports this year's proposed PEIL appropriation request.

Article 18 Rescind Prior Borrowing Authorizations

Funds Requested	Funding Source	Committee Recommendation
None	**N/A**	**Approve (8-0)**

State law requires that Town Meeting vote to rescind the unissued portions of borrowing authorizations (appropriations funded by debt) that are no longer required for the purpose stated in the authorization. The amounts shown below were never borrowed and do not represent funds in Town accounts. Rescinding these authorizations is the final bookkeeping task for every debt-based appropriation.

The following rescissions have been recommended by Town staff:

Town Meeting	Article	Project Description	Amount
2014 STM	10	Community Center Renovations	$ 10,453
2015 STM	4	Pelham Road Accessibility Study	$ 41,340
2017 ATM	12(i)	Dam Repair	$ 126,284
2019 ATM	16(i)	DPW Equipment	$ 98,445
2019 ATM	27	Visitors Center Supplemental	$ 70,947

Article 19 Establish, Amend, Dissolve and Appropriate To and From Specified Stabilization Funds

Funds Requested	Funding Source	Committee Recommendation
See below	*See below*	**Approve (8-0)**

State law authorizes towns to create and maintain a general purpose stabilization fund (in Lexington, *the* "Stabilization Fund"), and stabilization funds for specified purposes, e.g., the "Capital Stabilization Fund". Funds created for specified purposes may only be used to fund those purposes. The Town currently has eight such funds. Appendix E summarizes the laws governing specified stabilization funds and provides a brief history and description of each of the Town's funds, along with the most recent fund balances available.

Town Meeting may create a new specified stabilization fund, alter a fund's specified purpose, approve appropriations into a fund, appropriate money from a fund, or dissolve a fund. Appropriations into specified stabilization funds do not authorize expenditures, but rather put aside funds for specified future uses. Additions or withdrawals not addressed by other specific warrant articles are approved in this article.

The following transfers are proposed under this article:

(a) That $800,000 be withdrawn from the Capital Stabilization Fund (CSF) to mitigate debt service for projects exempt from Proposition 2½;

(b) That $3,142,434 be appropriated into the Capital Stabilization Fund, with $57,138 to come from the tax levy and the balance, $3,085,296, to be taken from the General Fund unreserved fund balance (free cash);

(c) That $107,554 from the Transportation Management Overlay District Special Revenue Fund be appropriated into the Transportation Management Overlay District Stabilization Fund.

Items 19(a) and 19(b) may seem to be at cross purposes, with the first withdrawing from and the second adding to the Capital Stabilization Fund. This approach to the fund management offers transparency regarding the use of funds.

The proposed $800,000 to be withdrawn will be used to partially mitigate an increase in exempt debt service costs. While these funds are not earmarked for specific projects, exempt debt service is still increasing to meet the costs associated with the new Hastings School, construction of the Lexington Children's Place School, and the new Fire Station. The appropriation into the fund recognizes that there will be significant increases in debt service for future projects, particularly the replacement or reconstruction of Lexington High School.

The appropriation of $57,138 in tax levy funds into the CSF follows from the recently adopted policy to save the new growth in the tax levy from PSDUP-process rezonings and construction in the Hartwell Innovation District for later use in mitigating the tax impacts of a project to rebuild or renovate Lexington High School. These particular tax levy funds are derived from the new growth associated with the developments at 186 Bedford St. and on Watertown St.

The transfer described in item (c) is to appropriate portions of one-time payments received in association with special permits for projects at 3 Maguire Road and 91 Hartwell Avenue.

The table below summarizes the various requests regarding stabilization funds at this town meeting.

Stabilization Fund	Estimated Fund Balance* (12/31/2021)	Deposit (Withdrawal)	Source/Destination	Article
Capital	$21,672,549	**$3,142,434** **($800,000)**	Tax levy and General Fund unreserved balance Exempt debt payments	**Article 19**
Debt Service	$191,080	($191,112.60)	Exempt debt payments for 2003 school projects	*Article 23*
TDM/PT	$1,091,909	($141,000)	Lexpress and contribution to Rev Shuttle	*Article 4*
TMOD	$99,629	**$107,554**	Mitigation payments from zoning special permit applications	**Article 19**

TDM/PT: Transportation Demand Management/Public Transportation; TMOD: Transportation Management Overlay District

** This is the end of FY2021 balance adjusted for the appropriations into or out of each fund at the 2021 ATM or the 2021-1 STM, which are not reflected in those balances, other contributions into the funds that did not require appropriation, and estimates of interest earnings. The amount to be withdrawn from the Debt Service Stabilization Fund under Article 23 is the January 31, 2022 balance.*

Article 20 Appropriate for Prior Years' Unpaid Bills

Funds Requested	Funding Source	Committee Recommendation
$6,261.75	**Set-Aside for FY22**	**Approve (8-0)**

This is an annual article to request funds to pay bills after the close of the fiscal year in which the goods were received or the services performed and for which no money was encumbered.

This year, the Town will be paying Bay State Consultants $6,261.75 for services rendered in 2021. In previous years, Bay State Consultants' fee for procuring the Town's gas contracts was paid by the utility. In 2022, the billing process changed, and the Town was responsible for paying the charge directly, but Bay State Consultants neglected to invoice the Town for the charges. The Town was notified of the outstanding invoice for October 20, 2020–June 30, 2021 in January, 2022; the invoice was submitted on March 1, 2022. The bill will be paid from Free Cash set aside for the current year's needs.

Article 21 Amend FY2022 Operating, Enterprise and CPA Budgets

Funds Requested	Funding Source	Committee Recommendation
See below	*See below*	**Approve (8-0)**

This article allows needed revisions to current year operating, enterprise, and CPA budgets. This article is generally acted upon late in town meeting in case a need for additional revisions arises. As of press time, the following revisions have been proposed.

Previous Articles	Line Item	Description	Budgeted Amount	Change	Revised Amount
2021 ATM Article 10	CPA	Allocation to Community Housing Reserve	$ 743,000	$ 79,026	**$ 822,026**
	CPA	Allocation to Historic Resources Reserve	$ 743,000	$ 79,026	**$ 822,026**
	CPA	Allocation to Open Space Reserve	$ 743,000	$ 79,026	**$ 822,026**
	CPA	Allocation to Unbudgeted Reserve	$ 5,201,000	$ 553,183	**$ 5,754,183**
2021 ATM Article 4	2510	Reserve Fund	$ 750,000	$ 174,000	**$ 924,000**
	8500	Town Clerk Personal Services	$ 404,181	$ 18,711	**$ 422,892**
	8500	Town Clerk Expenses	$ 98,250	$ 25,738	**$ 123,988**

Community Preservation Act (CPA)

The State's matching contribution for the CPA surcharge exceeded the FY2022 budget projection by $790,261. This request appropriates 30% of this amount divided equally, i.e., 10%, into each of the three designated CPA reserves, with the remaining 70% going to the CPA Unbudgeted Reserve.

Recreation Enterprise Fund and the Reserve Fund

The drainage pipe that allows groundwater to flow away from the Pine Meadows Golf Club clubhouse collapsed this past winter. This resulted in flooding of the lower level, i.e., the garage, that, in turn, resulted in damage to the electric golf carts and a water heater that are housed in that garage. Both the replacement or reconstruction of the drainage pipe and the equipment repairs will be funded from the Recreation Enterprise Fund under the FY2022 operating budget. However, if the drainage pipe is not replaced before the start of the golf season, the work will negatively impact the use of the golf course.

In the hope of avoiding an opening delay at the start of the season, this Committee approved a transfer of $174,000 from the Reserve Fund to a Pine Meadows repair account prior to the start of this Annual Town Meeting. This will allow the drainage work to commence earlier than it would if done directly via an appropriation under this article. The appropriation proposed under this article will reimburse the Reserve Fund from the Recreation Enterprise Fund.

Town Clerk

The cost of administering a town-wide debt exclusion referendum for the new police station will fall to the Town Clerk's office. This request increases the personal services and expenses line items to cover the additional expenses. The funds for the increases will come from free cash.

Article 22 Appropriate for Authorized Capital Improvements

Funds Requested	Funding Source	Committee Recommendation
None	**N/A**	**IP**

There are no requests for supplemental funding of existing capital projects at this time.

Article 23 Appropriate From Debt Service Stabilization Fund

Funds Requested	Funding Source	Committee Recommendation
$191,000	**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 required the Town to set aside the excess funds from this upfront reimbursement for these school construction projects, and to apportion those funds over the life of the bonds related to the projects to help fund the debt service.

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 funds beyond the one-year arbitrage limit that would otherwise apply.

The bonds for the subject school construction projects mature in 2023, so this will be the final appropriation from the DSSF.

This appropriation will be incorporated into a much larger final debt service payment. There is a complication here, because the DSSF is an investment fund that may not be closed out until the bonds are fully paid. Since the DSSF continues to earn a variable amount interest each month, it will be impossible for the requested appropriation to exactly use up the fund balance. The remaining balance, expected to be less than $100, may be applied to the final payment in FY2023 via an appropriation at a special town meeting, or closed to the General Fund balance.

Article 24 Adjust Retirement COLA Base for Retirees

Funds Requested	Funding Source	Committee Recommendation
None	**N/A**	**Approve (8-0)**

This article requests Town Meeting approval of an increase from $14,000 to $15,000 of the maximum base amount upon which a retiree's pension cost-of-living adjustment ("COLA") is calculated. Because the immediate cost of making this change has already been incorporated in the proposed FY2023 operating budget to be appropriated under Article 4, no separate appropriation is requested here.

Background

The Town of Lexington has a Retirement Board that manages the pension fund for the Town's municipal and non-educational school employees. (Teachers' pensions are managed by the State.) The Retirement Board establishes the amount the Town must contribute each year to cover both the "normal cost" of funding employees' future retirement benefits earned in the current year, and also the amount the Town must contribute annually to amortize the Town's unfunded liability for retirement benefits earned in prior years but not yet funded.

Per the most recent actuarial valuation, done in January 2021, the pension fund's unfunded liability of approximately $60,000,000 is scheduled to be fully funded by FY2030. Between FY2023 and FY2029, the Town's annual contributions for the combined normal cost and amortization of the unfunded liability are scheduled to increase from $8,250,000 in FY2023 to $12,750,000 in FY2029. If full funding is achieved in FY2030, the Town will then be obligated to contribute only its share of the normal cost, and the annual assessment will drop to a little over $3,000,000 in FY2031.

Lexington retirees currently receive an annual cost-of-living adjustment (COLA) of 3% on the first $14,000 of their pension benefits (the "COLA base"). The Retirement Board may elect to increase that COLA base, but this election must be approved by Town Meeting. An increase in the COLA base increases both the annual normal cost of funding future benefits earned by current employees each year and the unfunded liability for benefits earned in prior years.

History of COLA's

Historically, both state and municipal pension COLA's were determined by the state legislature. The first COLA law, passed in 1966, provided for a COLA to be paid only to retirees receiving a pension of $5,000 or less. Subsequently, COLA benefits were expanded; however, because any enhancement of pension benefits can have a significant effect on unfunded liabilities, that expansion was gradual and sometimes controversial.

In 1971, the legislature increased the COLA base to $6,000 and made COLA's available to all pension recipients, not just those receiving less than the base. In 1980, following the passage of Proposition 2½, the State began picking up the expense for local boards, but because of the impact on the state's unfunded liability, only three COLA's were approved between 1989 and 1997.

In 1997, at the urging of the retirees' association, the legislature transferred responsibility for both awarding and funding COLA's to local boards, subject to local acceptance, and increased the COLA base, then at $9,000, to $12,000. The relevant statutes, G.L. c. 32, §§ 21 and103, provide for an annual COLA on that base "equal to the percentage increase in the Consumer Price Index or 3 percent, whichever is less." However, in 1999, a special act was passed allowing state and local boards to award a COLA exceeding the CPI but not exceeding 3%, subject to local acceptance. Lexington accepted the option in 1999 and, since that time, the Retirement Board has consistently adopted an annual COLA of 3%.

In 2010, the legislature amended G.L. c. 32, §103 to allow an increase in the maximum base amount on which the COLA is calculated, in multiples of $1,000, subject to a majority vote of the local retirement board and approval of Town Meeting. An increase in the base, once adopted, is irrevocable.

In 2015, Lexington, Town Meeting voted to approve an increase in the COLA base from $12,000 to $13,000; and in 2017 it approved an increase from $13,000 to $14,000. The current base in other localities with retirement boards ranges from $12,000,to $18,000.[3] The state-administered COLA base currently applicable to Lexington teachers is $13,000,[4] although there are legislative initiatives to increase that base as well going forward.

Current Request

This article seeks Town Meeting's approval of an election by the Lexington Retirement Board to increase the COLA base from $14,000 to $15,000. With the current COLA base of $14,000 and a COLA of 3%, a benefit recipient's allowance would increase by a maximum of $420 per year. With an enhanced COLA base of $15,000 and a COLA of 3%, a benefit recipient's allowance would increase by a maximum of $450 per year, i.e., $30 more.

The current median employee pension payment is $22,445 and the average is $28,000. For a retiree receiving the average annual benefit of $28,000, the current COLA base of $14,000 reduces the cost-of- living adjustment from the nominal 3% to an effective rate of 1.5% since it applies to only half the benefit. An increase in the COLA base to $15,000 would slightly increase the COLA adjustment for the average retiree to 1.6%. The effective COLA adjustment for retirees who receive pensions in an amount higher than the average is even smaller.

[3] See website of the Public Employees Retirement Administration Commission (PERAC), which publishes a compendium of local option acceptances. https://www.mass.gov/service-details/increase-cola-base

[4] See Mass Retirees website, article dated 1/26/2022: http://www.massretirees.com/article/issues/cola/cola-rising-inflation-adds-urgency

About one-third of the Town's current 471 retirees and beneficiaries receive pensions of $15,000 or less. Most of these recipients would not be affected by this article, at least in the short run, as the 3% COLA already applies to their entire pension payments.

Analysis

Adoption of the COLA base increase would increase the Town's scheduled annual assessment for normal cost by about $30,000 in FY2023, increasing to about $40,000 in FY2030. This is not a substantial amount. However, the change would also increase the Town's unfunded pension liability by approximately $1,200,000, requiring a significant increase in amortization payments in the near term. The current plan is to amortize the additional unfunded liability resulting from the COLA base increase with a single assessment of approximately $2,500,000 in FY2030. Thereafter, the Town would be responsible only for the annual normal cost of the enhanced benefit.

Because the normal costs of the proposed increase in the COLA base in FY2023 have already been incorporated in the proposed operating budget (line 2100, "Employee Benefits"), and the scheduled one-time amortization payment is deferred until FY2030, there is no immediate appropriation associated with this request. However, if the COLA base increase is not approved by Town Meeting, the budgeted amounts would be freed up and could be appropriated for other purposes.

It should be noted that there may be future requests for increases to the COLA base, with similar impacts on the pension fund's normal costs and unfunded liability.

Recommendation of the Committee

There is a compelling logic to the concept that a pension should not lose value due to changes in the cost of living, and the Committee is supportive of steps that will bring the municipal pension COLA into closer alignment with CPI changes. For the last several years, with very small increases in the Consumer Price Index (CPI), the maximum 3% COLA has not been unreasonable, even with the limited COLA base. However, as inflation re-emerges—the CPI adjustment this year for Social Security beneficiaries was 5.9%—the combined effect of the limited COLA base and the maximum 3% COLA will impose a hardship which this article will help, at least in small part, to mitigate.

Article 25 Appropriate for Worthen Road Recreation and Education District Land Use Concept Plan

Funds Requested	Funding Source	Committee Recommendation
None	**N/A**	**IP**

This citizen's article was placed on the Warrant to fund studies that would outline the implications of the eventual reconstruction or renovation of Lexington High School (LHS), and answer other outstanding questions in regard to the project. The article sponsors described the goal as the development of a Land Use Concept Plan for the LHS property and several adjacent Town-owned parcels, dubbed the Worthen Road Recreation and Education District. The Plan would have identified logistical challenges, and developed solutions for a unified approach to school district and recreation needs.

The timing of an invitation from the Massachusetts School Building Authority (MSBA) to collaborate on the renovation or reconstruction of Lexington High School (LHS) was unknown when this article was placed on the Warrant. Given past experience with the MSBA, it was reasonable to suppose that such an invitation could be delayed by one or more years, but the Town has now received the MSBA invitation and expects to initiate a Feasibility Study module (see Article 2022-1.2 above) in FY2023. This work, as part of a larger process, will examine many of the concerns initially raised by the proponents of this article. Therefore, the proponents have agreed to move for indefinite postponement.

Article 26 Appropriate for Nexus Studies

Funds Requested	Funding Source	Committee Recommendation
$75,000	**GF unreserved**	**Approve (8-0)**

This article requests $75,000 for consultant services to perform two "nexus" studies for the implementation of development "linkage" fees. These fees would be enabled by special legislation that was requested under STM 2020-2 Article 6 and ATM 2021 Article 36. The special legislation is currently pending in the 192nd session of the Massachusetts General Court.

The Committee had some initial reservations about this request, but supports the motion now that it includes a contingency that these funds not be expended until the special legislation passes.

The nexus studies would establish a link between commercial and residential development and the impact on housing supply and demand, and define an impact mitigation fee that is tailored to local trends and conditions. Study costs were derived from discussions with nexus study experts in neighboring communities.

This surcharge would apply to all new commercial construction with over 30,000 square feet (sf) in gross floor area, and to modifications of existing structures that increase the gross floor area to more than 30,000 sf. In all cases the surcharge is applied to the resulting gross floor area less an exemption of 30,000 sf. Similar surcharges on commercial development to support affordable housing have been adopted in Boston, Cambridge, Somerville, Barnstable and Everett, some of which have been in effect for over three decades.

Given that any surcharge would increase the cost of commercial construction in Lexington, and that none of our directly neighboring communities impose a surcharge, this could negatively impact the market for commercial development in the Town. Commercial development is sensitive to macro-economic factors, and a surcharge could impact the Town's commercial tax base, thus lowering the total surcharge revenue. However, if the surcharge rate is set with care, the impact on development could be limited while still helping to mitigate the increased demand for nearby housing by employees of businesses in Lexington.

Housing mitigation requires a long-term multifaceted approach and acting now will ensure than an implementation planning can move forward. Having a detailed analysis of the housing impacts from commercial development will help the Town better negotiate housing impact mitigation fees in MOUs.

The Committee acknowledges the acute and growing need for affordable housing across the entire region, and its importance for building economic diversity within the Town. There is great potential for concrete benefits for Lexington's future residents, and if the surcharge appears to be a barrier to commercial development, the Select Board can adjust or rescind it in response to economic conditions.

Appendix A: 5-Year Budget Projections

The Town's Finance Department prepares a 5-year forecasts for use in the Budget Summit process to develop a budget for the next fiscal year. This report summarizes the Finance Department's projections and discusses their implications in planning for future Town budgets.

All budget figures in the tables in this appendix are given in thousands of dollars.

Summary of Projections

Table A-1 summarizes total revenues and expenses, showing actual results for FY2020-21, revised budgeted figures for FY2022 (still underway), the proposed budget for FY2023 presented in the Brown Book, and projected figures for FY2024-FY2027. The bottom line shows net surpluses (deficits).

For FY2020 and FY2021 the Town ran substantial overall surpluses, about 6.3% of expenses in FY2020 and about 5.4% in FY2021. These surpluses flowed to free cash in the following year, and were available to fund one-time expenses. For the current fiscal year (FY2022), the revised budget shows income and expenses in balance, as required under state law. After the tax levy new growth and Free Cash have been certified, the current year, FY2022, may also show a surplus. Normally, fiscal years will end with a surplus because Town budgets are developed conservatively—they avoid overestimating revenues or underestimating expenses, limiting the chance that the Town be short of funds for budgeted expenses. Towns may not run a deficit during the fiscal year, except in very limited circumstances.

Similarly, the recommended budget for FY2023 is balanced, and it seems likely that the final actual figures will result in a surplus due to the Town's conservative budgeting policy.

Table A-1. Actual and Projected Revenues and Expenses ($1,000s)

Revenue Category	FY2020 Actual	FY2021 Actual	FY2022 Revised	FY2023 Proposed	FY2024 Projection	FY2025 Projection	FY2026 Projection	FY2027 Projection
Total Revenues	$ 231,987	$ 237,804	$ 250,645	$ 260,368	$ 262,081	$ 269,065	$ 277,971	$ 287,095
Total Expenses	$ 218,250	$ 225,582	$ 250,645	$ 260,368	$ 262,746	$ 274,188	$ 285,130	$ 296,422
Revenue - Expenses	$ 13,737	$ 12,222	$ —	$ —	$ (665)	$ (5,122)	$ (7,160)	$ (9,328)
As % of expenses	6.3 %	5.4 %	— %	— %	(0.3)%	(1.9)%	(2.5)%	(3.1)%

The projections beyond the FY2023 budget under consideration show projected expenses exceeding projected revenues, yielding deficits ranging from 0.3% of expenses in FY2024 to 3.1% in FY2027. However, any projection of revenues or expenses is subject to considerable uncertainty, as we discuss in greater detail below. When the time comes to prepare a budget for one of those years, if the projection still indicates a deficit, changes will be made to bring budgeted expenses and revenues in line. This can be accomplished with a combination of adjustments, including limited program improvements and increasing the use of available funds.

Projections, particularly those several years out and those made in times of uncertain inflationary pressures, are subject to substantial uncertainties, however the projected deficits suggest a modest revenue increase and the need to control costs. We present the projections in more detail below.

Projected Revenues

Table A-2a shows projections of various revenue categories and provides notes on the assumptions behind those projections. Property taxes dominate revenues, accounting for 80% of total revenues in FY2020 (actuals) rising to 86% in the projection for FY2027. As a result, the assumptions concerning property tax revenues are critical to the projections.

Table A-2a. Projected Revenues by Category ($1,000s)

	Revenue Category	FY2020 Actual	FY2021 Actual	FY2022 Revised	FY2023 Proposed	FY2024 Projection	FY2025 Projection	FY2026 Projection	FY2027 Projection
1	Property Tax Levy	$184,822	$ 194,330	$ 204,229	$ 212,113	$ 220,166	$ 228,420	$ 236,881	$ 245,553
2	State Aid	$ 16,256	$ 16,335	$ 16,492	$ 16,785	$ 16,990	$ 17,196	$ 17,403	$ 17,611
3	Local Receipts	$ 16,824	$ 15,358	$ 12,628	$ 13,488	$ 13,813	$ 14,018	$ 14,229	$ 14,447
4	Available Funds	$ 14,264	$ 11,805	$ 17,825	$ 18,508	$ 11,625	$ 9,931	$ 9,945	$ 9,959
5	Revenue Offsets	$ (1,875)	$ (1,774)	$ (1,961)	$ (2,332)	$ (2,373)	$ (2,416)	$ (2,460)	$ (2,506)
6	Other Revenues	$ 1,696	$ 1,749	$ 1,432	$ 1,806	$ 1,860	$ 1,916	$ 1,973	$ 2,032
7	**Total Revenues**	**$231,987**	**$ 237,804**	**$ 250,645**	**$ 260,368**	**$ 262,081**	**$ 269,065**	**$ 277,971**	**$ 287,095**

		Notes on assumptions
1	Property Tax Levy	Reflects statutory allowable growth of 2.5% and assumed new growth of $2.75 million annually.
2	State Aid	Assumes FY2022 Chapter 70 aid level-funded, then increasing at $25 per pupil Minimum Aid in FY2023-26. Decrease in Veterans Benefit reimbursements in FY2022.
3	Local Receipts	Assumes modest growth in local receipts based on evaluation of historical averages, with near full return of local excise in FY2023.
4	Available Funds	Free Cash estimate of $10,500,000 available for FY2023 and $9,000,000 for FY2024-2026. Annual contributions of $141,000 from TDM Stabilization Fund to support Lexpress and the Alewife Shuttle, $385,000 from Parking Fund to support Traffic Bureau and snow removal; and $50,000 from Cemetery Fund to support Cemetery Division. In FY2022-2023, $750,000 annually from balance of Health Claims Trust Fund to be used to fund health insurance, resulting in an equal amount in the tax levy becoming available to fund contributions to OPEB Trust per Select Board policy. Includes in FY2022-FY2026 use of Capital Projects Stabilization Fund to offset within-levy debt service, as detailed under Line 14 in the Expense summaries below.
5	Revenue Offsets	$750K for overlay (property tax abatement and exemptions) in FY2022-26. $400K set-aside for snow & ice deficit annually; Also includes Cherry Sheet Assessments increasing at 3.5% annually and Cherry Sheet Offsets (State Aid to Public Libraries).
6	Other Revenues	Assumes FY2022 Water and Sewer Indirects increasing by 3% annually.

All dollar amounts shown in thousands. Source: Lexington Finance Department

Table A-2b shows the projected year-to-year percentage increases in the various revenue categories. Keep in mind that many sources of FY2021 and FY2022 revenues were heavily impacted by the pandemic. Note that the Property Tax Levy grows more slowly from FY2023–FY2027 than in the earlier years. Local Receipts also are greatly reduced from the proposed FY2023 levels. In both cases, the differences appear to reflect conservative assumptions, which we discuss in more detail below for property tax revenues. The other notable change is in Available Funds, which shrink in the projected years due to conservative budgeting which lowers levels of free cash.

Table A-2b. Annual Rates of Increase in Revenues

	Revenue Category	FY2021 Actual	FY2022 Revised	FY2023 Proposed	FY2024 Projection	FY2025 Projection	FY2026 Projection	FY2027 Projection
1	Property Tax Levy	5.1%	5.1%	3.9%	3.8%	3.7%	3.7%	3.7%
2	State Aid	0.5%	1.0%	1.8%	1.2%	1.2%	1.2%	1.2%
3	Local Receipts	(8.7)%	(17.8)%	6.8%	2.4%	1.5%	1.5%	1.5%
4	Available Funds	(17.2)%	51.0%	3.8%	(37.2)%	(14.6)%	0.1%	0.1%
5	Revenue Offsets	(5.4)%	10.6%	18.9%	1.8%	1.8%	1.8%	1.9%
6	Other Revenues	3.1%	(18.1)%	26.1%	3.0%	3.0%	3.0%	3.0%
7	**Total Revenues**	**2.5%**	**5.4%**	**3.9%**	**0.7%**	**2.7%**	**3.3%**	**3.3%**

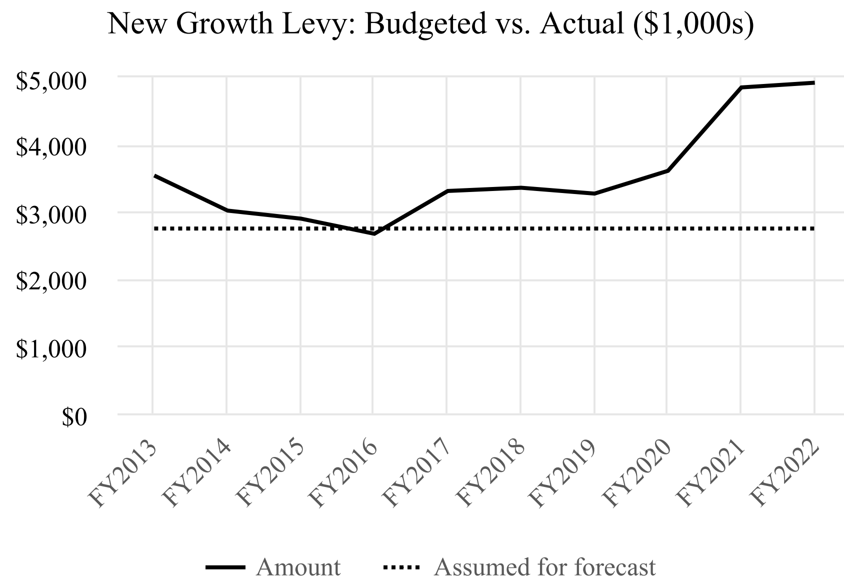
Note: Each entry shows the percentage change from the previous year, calculated from Table A-2a

It is important to note that the use of Free Cash to supplement the operating budget is being phased out under a 5-year program, and this is reflected in the decline of Available Funds during FY2024 and FY2025. This program was suspended for the FY2022 budget, so the FY2021 and FY2022 operating budgets each relied on $2.2 million of Free Cash. Starting in FY2023 this will be reduced by $700,000 annually, with $1.5 million to be used in FY2023,

$700,000 in FY2024, and only $100,000 in FY2025. This transition has the net effect of having $700,000 more available in each of these years to fund non-recurring items such as Cash Capital, OPEB, or the Capital Stabilization Fund.

Proposition 2½ limits growth in the property tax levy to 2.5% each year plus the additional revenue resulting from "New Growth" in the tax base. This New Growth is the incremental tax revenue from the assessed value of a property following capital investment, e.g., construction and renovation. The limit on the tax levy may be temporarily exceeded to cover debt service on projects that are deemed exempt from Proposition 2½ as the result of a town-wide referendum. In addition, a successful operating override referendum can permanently increase the tax levy limit.

Leaving aside exempt debt service and operating overrides, New Growth is a key determinant of increases in property tax revenue. The Finance Department's projections assume that New Growth will be $2.75 million per year, up slightly from the $2.5 million assumed in recent prior years. As shown in the figure below, this assumption is conservative in the sense that it has been lower than the actual new growth in nine of the last ten fiscal years.



The average for New Growth over the last ten years was $3.54 million. If we use this average rather than the assumed $2.75 million, this results in an additional $790,000 per year in projected revenue, which is further compounded by the baseline 2.5% annual increase in the tax levy limit.

The Finance Department's projection assumes that the conservative figure assigned for New Growth in the budget can be used as a valid projection, but in the long run this will underestimate future tax revenue. The budget for New Growth is intentionally set well below the expected value as a safeguard against a budget shortfall, which could result if actual New Growth fell below the budgeted amount. A more realistic projection should instead be based on measurable trends, including, but not limited to, the long-term average for New Growth.

Table A-3 shows the cumulative increase in projected revenues over five years, which grows to $4,153,000 by FY2027. This represents roughly 44.5% of the projected revenue gap shown in Table A-1.

Table A-3. Impact of Using Historical Average of New Growth Levy
Rather than Assuming $2.75 million per Year

	FY2023	**FY2024**	**FY2025**	**FY2026**	**FY2027**
Annual increment	$ 790	$ 790	$ 790	$ 790	$ 790
Cumulative impact	$ 790	$ 1,600	$ 2,430	$ 3,281	$ 4,153

Notes: *Annual increment = difference between historical average and value assumed in projection*
Cumulative impact = prior balance x 1.025 + annual increment

It is more difficult to evaluate the assumptions regarding the projections of other revenue categories, but we note that past forecasts for those other categories have not been consistently low or high.

However, for total revenues in the last three completed fiscal years (FY2019–FY2021), actual revenues have been higher than projected, especially for projections made several years in advance. For example, projections for FY2021 made in 2017 were 5.4% below actuals and those for FY2020 made in 2016 were 7.2% lower than the actual.

Projected Expenses

Table A-4a shows the Finance Department's expense projections by category.

Table A-4a. Projections of Expenses (figures shown in $1,000's)

	Expense Category	FY2021 Actual	FY2022 Revised	FY2023 Proposed	FY2024 Projection	FY2025 Projection	FY2026 Projection	FY2027 Projection
	Education	***$ 118,138***	***$ 126,507***	***$ 131,478***	***$ 137,449***	***$ 143,457***	***$ 149,608***	***$ 156,126***
8	LPS Wages	$ 96,736	$ 102,655	$ 106,450	$ 110,070	$ 114,011	$ 117,929	$ 122,091
9	LPS Expenses	$ 18,538	$ 20,722	$ 21,804	$ 23,832	$ 25,545	$ 27,387	$ 29,315
10	Minuteman	$ 2,863	$ 3,130	$ 3,224	$ 3,546	$ 3,901	$ 4,291	$ 4,720
	Municipal	***$ 51,239***	***$ 55,583***	***$ 57,715***	***$ 58,875***	***$ 60,586***	***$ 62,347***	***$ 63,926***
11	Municipal Wages	$ 33,666	$ 35,329	$ 36,530	$ 37,082	$ 38,154	$ 39,245	$ 40,117
12	Municipal Expenses	$ 17,573	$ 20,254	$ 21,185	$ 21,793	$ 22,432	$ 23,103	$ 23,808
	Shared Expenses	***$ 17,683***	***$ 19,711***	***$ 17,647***	***$ 18,824***	***$ 20,020***	***$ 21,236***	***$ 22,473***
13	Debt Service	$ 7,834	$ 8,077	$ 7,542	$ 7,919	$ 8,315	$ 8,730	$ 9,167
14	Mitigate Within Levy	$ —	$ —	$ —	$ —	$ —	$ —	$ —
15	Land Purchase Note	$ 2,403	$ 2,320	$ —	$ —	$ —	$ —	$ —
16	OPEB	$ 750	$ 1,880	$ 1,930	$ 1,980	$ 2,030	$ 2,080	$ 2,130
17	Retirement	$ 6,695	$ 7,434	$ 8,176	$ 8,926	$ 9,676	$ 10,426	$ 11,176
18	**Benefits**	***$ 28,362***	***$ 31,371***	***$ 32,743***	***$ 34,367***	***$ 36,071***	***$ 37,862***	***$ 39,743***
18a	Medicare	$ 1,908	$ 1,982	$ 2,055	$ 2,178	$ 2,309	$ 2,447	$ 2,594
18b	Health Insurance	$ 25,448	$ 28,270	$ 29,554	$ 31,032	$ 32,584	$ 34,213	$ 35,924
18c	Dental	$ 986	$ 1,093	$ 1,109	$ 1,131	$ 1,154	$ 1,177	$ 1,201
18d	Life	$ 20	$ 25	$ 25	$ 25	$ 25	$ 25	$ 25
19	Reserve Fund	$ —	$ 750	$ 750	$ 750	$ 750	$ 750	$ 750
20	Workers' Comp.	$ 875	$ 750	$ 625	$ 500	$ 450	$ 400	$ 400
21	Unemployment	$ 64	$ 200	$ 200	$ 200	$ 200	$ 200	$ 200
22	Property & Lib. Ins.	$ 791	$ 845	$ 895	$ 940	$ 987	$ 1,036	$ 1,088
23	Uninsured Losses	$ 250	$ 250	$ 200	$ 200	$ 200	$ 200	$ 200
24	Solar Production	$ 368	$ 390	$ 390	$ 390	$ 390	$ 390	$ 390
25	Capital	$ 7,812	$ 10,136	$ 13,491	$ 9,214	$ 10,039	$ 10,064	$ 10,090
26	Other	$ —	$ 365	$ 341	$ 230	$ 230	$ 230	$ 230
27	Approp. to Capital Stab	$ —	$ 3,731	$ 3,085	$ —	$ —	$ —	$ —
28	Unallocated Revenue	$ —	$ —	$ 750	$ 750	$ 750	$ 750	$ 750
29	State Aid Reserve	$ —	$ 57	$ 57	$ 57	$ 57	$ 57	$ 57
30	**Total Expenditures**	**$ 225,582**	**$ 250,645**	**$ 260,368**	**$ 262,746**	**$ 274,188**	**$ 285,130**	**$ 296,422**

Note: Amounts in italics are subtotals.

Table A-4b below provides the department's notes on the assumptions underpinning the projections.

Table A-4b. Notes on Projected Expenses

Expense Category		Notes on Assumptions
	Education	
8	LPS Wages	Illustrates a level-services budget and does not include program improvements. Includes a 2.5% increase on base budget for step increases, current known salary COLA adjustments on settled contracts, and ($850,000) for annual staff turnover savings. Assumes anticipated funding for unsettled contracts in FY2023-27. Includes additional staffing due to projected enrollment increases in FY2024-27 based on preliminary FY2022 Enrollment projections from Oct. 1 data. Recurring additional staff-related costs are inclusive of benefits, workers comp., and Medicare.
9	LPS Expenses	Program budget per pupil rates are adjusted by 4% Consumer Price Index (CPI) in FY2023 and 2.00% in FY2024-27; applied against preliminary projected enrollment levels. All other lines adjusted by 4% in FY2023 and 2.0% in FY2024-27. Special Education Out-of-District Tuition and Transportation lines are projected based on program trends. Approximately 81-85% of total expense line increases are driven by these budget lines (FY2023-27).
10	Minuteman	FY2024-27 projections increase by 10%.
	Municipal	
11	Municipal Wages	Projections based on step increases for current staff, settled collective bargaining contracts, and anticipated contract settlements for out-years.
12	Municipal Expenses	Level-service budget using CPI of 7% for electricity, 5.5% for natural gas, 10% for IT software expenses, and 1.8% for all other expenses.
	Shared Expenses	
13	Debt Service	Within levy debt service is projected to grow by 5% annually. Amounts above that will be mitigated by use of the Capital Stabilization Fund.
14	Mitigated Within Levy Debt Service	Within levy debt service mitigated by use of the Capital Stabilization Fund. FY2023-27 left as $0 to not dilute the rest of the projections.
15	Land Purchase Note Retirement	Use of Free Cash to pay down short-term notes issued to pay for the land purchases at 173 Bedford St. and Pelham Rd.
16	OPEB	Continued funding of OPEB with a $50,000 annual increase - future funding levels under review by Town Manager's Fiscal Guideline Working Group.
17	Retirement	Contributory Retirement assessment (based on 2030 amortization of unfunded liability and 7.25% interest rate assumption) plus Non-Contributory payments
18	**Benefits**	
18a	Medicare	6% increase in Medicare, reflecting an increase in the number of eligible employees and increases in wages.
18b	Health Insurance	FY2023, growing at 5% annually.
18c	Dental	FY2023, growing at 2% annually.
18d	Life	Level Funding
19	Reserve Fund	Level Funding
20	Workers' Comp.	Gradual reduction planned to maintain fund balance of $2 million. Staff will continue to monitor and adjust out-year projections as needed.
21	Unemployment	Level Funding.
22	Property & Lib. Ins.	FY2022, growing at 5% annually.
23	Uninsured Losses	Level Funding. Staff may recommend further reductions in out-years to maintain fund balance at $1 million.
24	Solar Production	Payments to Syncarpha for construction costs of Hartwell Ave. solar arrays. Level Funding.
25	Capital	Includes $5.6M in cash capital in FY2023 carried over from FY2022, plus an additional $2.1M in excess Free Cash leftover from the land purchases. Reflects addition of $700K and $800K in FY2024 and FY2025 from transition of Free Cash for operating budget. FY2023 also includes $548K from from Non-GF sources and prior bond authorizations, $2.67M for Street Improvement and $219K for Municipal Building Envelope, portions of which grow at 2.5% through FY2027.
26	Other	Reflects various warrant articles such as Senior Tax Work-Off and $200K in unanticipated needs in FY2023-27.
27	Approp. to Capital Stab. Fund	Reflects past and projected transfers to continue funding the Capital Stabilization Fund to cover the high school project.
28	Unallocated Revenue	Proposed allocation set-aside for yet to be determined priorities.
29	State Aid Reduction Reserve	Set-aside of tax levy tied to commercial new growth for Capital Stabilization Fund. Anticipated to grow in future years, tied to new revenue that is not captured in this model.

It is important to note that these projections were made prior to the strong inflationary trends currently affecting the world economy. The 12-month increase in inflation for February 2022 was 7.9%, the highest 12-month increase since 1982. This was higher than the 7.5% 12-month increase in inflation that was reported for January 2022. The trend could necessitate an update to assumptions about future costs used in this projection.

To simplify the discussion of the expense projections, Table A-5a aggregates the expense categories from Table A-4a. The three major groupings are Education, Municipal, and Shared Expenses. For Education, we show LPS and Minuteman separately. We provide a further breakdown for shared expenses, breaking out appropriations for capital projects and to the Capital Stabilization Fund and OPEB, all three of which are determined by explicit policy decisions, some of which are made after the Town knows actual new growth and the amount by which actual expenses are less than budgeted. The "other" shared expenses are dominated by employee benefits, the largest component of which is Health Insurance costs.

Table A-5a. Expense Projections Aggregated

Expense Category	FY2020 Actual	FY2021 Actual	FY2022 Revised	FY2023 Proposed	FY2024 Projection	FY2025 Projection	FY2026 Projection	FY2027 Projection
Education	***$ 112,079***	***$ 118,138***	***$ 126,507***	***$ 131,478***	***$ 137,449***	***$ 143,457***	***$ 149,608***	***$ 156,126***
LPS	$ 109,609	$ 115,275	$ 123,377	$ 128,254	$ 133,902	$ 139,556	$ 145,317	$ 151,406
Minuteman	$ 2,470	$ 2,863	$ 3,130	$ 3,224	$ 3,546	$ 3,901	$ 4,291	$ 4,720
Municipal	***$ 48,371***	***$ 51,239***	***$ 55,583***	***$ 57,715***	***$ 58,875***	***$ 60,586***	***$ 62,347***	***$ 63,926***
Shared Expenses	***$ 57,800***	***$ 56,205***	***$ 68,556***	***$ 71,175***	***$ 66,422***	***$ 70,144***	***$ 73,175***	***$ 76,371***
OPEB	$ 1,880	$ 750	$ 1,880	$ 1,930	$ 1,980	$ 2,030	$ 2,080	$ 2,130
Capital	$ 8,137	$ 7,812	$ 10,136	$ 13,491	$ 9,214	$ 10,039	$ 10,064	$ 10,090
Capital Stabil. Fund	$ 2,269	$ —	$ 3,731	$ 3,085	$ —	$ —	$ —	$ —
Other	$ 45,514	$ 47,643	$ 52,809	$ 52,669	$ 55,228	$ 58,076	$ 61,032	$ 64,151
Grand Total	**$ 218,250**	**$ 225,582**	**$ 250,645**	**$ 260,368**	**$ 262,746**	**$ 274,188**	**$ 285,130**	**$ 296,422**

Note: Amounts in italics are subtotals. Source: Aggregation of values in Table A-4a

Table A-5b shows the year-to-year percentage increases in the various aggregated categories. Education expenses are projected to grow more rapidly than municipal expenses. Within education, the Town's contribution to Minuteman is projected to rise substantially more rapidly than the budgets for LPS. The Town plans to grow the size of its annual OPEB contribution by $50,000 each year, a modest annual rate of about 2.5%.

Table A-5b. Annual Rates of Increase in Expenses

Expense Category	FY2021 Actual	FY2022 Revised	FY2023 Proposed	FY2024 Projection	FY2025 Projection	FY2026 Projection	FY2027 Projection
Education	***5.4%***	***7.1%***	***3.9%***	***4.5%***	***4.4%***	***4.3%***	***4.4%***
LPS	5.2%	7.0%	4.0%	4.4%	4.2%	4.1%	4.2%
Minuteman	15.9%	9.3%	3.0%	10.0%	10.0%	10.0%	10.0%
Municipal	***5.9%***	***8.5%***	***3.8%***	***2.0%***	***2.9%***	***2.9%***	***2.5%***
Shared Expenses	***(2.8)%***	***22.0%***	***3.8%***	***(6.7)%***	***5.6%***	***4.3%***	***4.4%***
OPEB	(60.1)%	150.6%	2.7%	2.6%	2.5%	2.5%	2.4%
Capital	(4.0)%	29.8%	33.1%	(31.7)%	8.9%	0.3%	0.3%
Capital Stabilization Fund	(100.0)%	**	(17.3)%	(100.0)%	**	**	**
Other	4.7%	10.8%	(0.3)%	4.9%	5.2%	5.1%	5.1%
Grand Total	**3.4%**	**11.1%**	**3.9%**	**0.9%**	**4.4%**	**4.0%**	**4.0%**

Note: Each entry shows the percentage change from the previous year, calculated from Table A-5a.

Planned contributions to the Capital Stabilization Fund to reduce the future impacts on taxes of the High School project show the greatest volatility, increasing from zero dollars in FY2021. They then drop to $0 in the last 4 years of the projection. Capital spending levels off in FY2023 as the land-purchase notes are fully retired in FY2022 and that money is then directed to new projects. Other shared expenses are projected to rise at relatively low rates.

Concluding Remarks

The Finance Department's projections appear to suggest that over the next five years, the Town will have to find ways to reduce expenses or increase revenues to maintain a balanced budget as required by state law. To further complicate matters, we know that these projections do not take into account the probability that the current high inflation environment will persist. Due to rises in the costs of materials and labor, the Town has received bids for performing capital projects that greatly exceed the appropriations made to fund them. Energy prices have also been rising rapidly, which will generally increase the cost of goods and services. An extended period of inflation could also trigger wage increases that are much larger than those assumed by these projections. However, our review suggests that the impact of these problems may be partially mitigated by the Town's conservative approach in forecasting revenues.

To address the financial strains suggested by the projections, some combination of actions may be needed to meet balanced budget requirements, such as:

1. Improving efficiency so that the same services can be provided with fewer resources. Such opportunities may well prove elusive.
2. Creating additional sources of revenue. There may be opportunities to increase some fees or add new ones, but it is not clear that there are opportunities for significant increases.
3. Reducing service levels.
4. Relaxing of some of the goals embodied in the Town's fiscal policies, e.g., curtailing contributions to the Capital Stabilization Fund or other reserves.
5. Passing Proposition 2½ operating override(s) to permanently boost annual property tax revenue.

Each of these alternatives involves policy tradeoffs for which this Committee offers no specific guidance.

It is also important to note that actions to reduce operating expenses, or to increase recurring annual revenues in one year will generally carry forward to reduce future deficits. For example, reductions in service levels, if not restored, will lower expenses in future years with no further action.

However, actions to eliminate a projected operating deficit using non-recurring revenue, particularly Free Cash, generally will not carry forward. Such actions tend to reduce the Free Cash that carries over into the next fiscal year. In successive years, the prior year's "solution" becomes increasingly difficult to implement as Free Cash and other non-recurring revenue is consumed but not replaced.

Appendix B: Enterprise Funds

The Town of Lexington has maintained Water, Wastewater (Sewer), and Recreation Enterprise Funds since soon after 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"[5] and are accounted for on an accrual basis. 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, i.e., supported by fees, 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. Before the Community Center began to operate, the Recreation Department's operating costs were funded by user charges and fees. In the same time period, the Enterprise Fund contributed to the debt service on certain recreation capital projects, such as the Lincoln Field restoration project for which the debt has now been fully repaid, but projects, such as the renovation of playgrounds, that were associated with facilities that do not generate fees were funded by the tax levy. With the advent of the Community Center, the Recreation Department was reorganized into the Department of Recreation and Community Programs. Since the Community Center provides a range of fee-free services to the community, the salaries and benefits of a group of Community Center related employees is now funded through the tax levy. Most recreation capital costs are subsidized by the General Fund through a combination of tax levy funding, within-levy borrowing, Community Preservation Act (CPA) funding, and debt exclusion funding.

<u>Establishing the Enterprise Fund Budgets</u>

At the Annual Town Meeting each year, Town Meeting appropriates an operating budget and authorizes capital expenditures 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 are still appropriated as part of the operating budget. 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 the enterprise fund operating budget article have been expanded 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.

[5] *Dept. of Revenue Enterprise Funds Manual (April 2008)*

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 several 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.

Under the Municipal Modernization Act of 2016, a revolving fund may be established by bylaw and no longer requires annual reauthorization by Town Meeting. The bylaw 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
- any other reporting requirement the Town may impose

Town Meeting is required each year to vote a limit on the total amount that may be expended from each revolving fund in the ensuing fiscal year. Expenditures may not be made, nor liabilities incurred, in excess of such limit or the balance of the fund except with the approval of the Select Board and this Committee. Any balance in the fund may be carried over to the next fiscal year. If a revolving fund is terminated, the balance in the fund reverts to the General Fund at the end of the fiscal year.

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 low and moderate-income senior citizens and other needy residents could be enhanced and made more accessible. Since then, with the guidance of this committee, 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, using home rule petitions to further increase opportunities for tax relief.

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 (at no cost to the Town).
- A *tax deferral* program under which low-to-moderate-income homeowners age 65 or over may defer any or all of their property tax, after applying any available exemptions, up to half the value of their house. The deferral need not be repaid until the house is sold or transferred. The interest rate applied to each year's deferral is a variable rate designed to match the Town's earnings on its funds. *See generally* G.L. c. 59, §5, clause 41A.
- 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 $2,000 from their annual property tax. *See generally* G.L. c. 59, § 5, clause 41C.
- 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 an annually adjusted ceiling may obtain a tax credit on their state tax returns (see table below). Low and moderate-income renters are also eligible for a tax credit. Qualified owners or renters are entitled to a refundable dollar-for-dollar credit on their state income tax, up to an annually established limit, to the extent that real estate taxes and one half of water and sewer bills (in the case of homeowners) or rent (in the case of renters) exceeds 10% of the applicant's income. 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 is authorized by G.L. c. 59, § 5, Clause 41A. Although not widely used, it is an important tool 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 the property. All deferred taxes are eventually paid when the property is sold or transferred, whether before or after the resident's death. Towns are permitted to set their own interest rates for this program at any rate up to 8%. Lexington's rate is based on a floating Treasury rate equivalent to the Town's return on its funds in the year of deferral. In FY2022, the rate is 0.08%. The rate set for each year remains in effect for the life of deferrals granted in that year.

In 2008, in response to a home rule petition, the state legislature enacted a special law (Chapter 190 of the Acts of 2008) allowing Lexington to establish a more generous income eligibility limit than that permitted under state law generally. The FY2022 income limit is $90,000 gross income on Calendar Year 2020 income.

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 a significant increase in the number of participants could potentially affect the Town's cash flow, there is little risk of loss since the Town is in effect making well-secured loans. The Town anticipates repayment of all deferred taxes with interest, and over time an equilibrium should be reached under which as many deferral agreements are repaid as are entered into.

<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, and in 2018 voted to double it to $2,000 under the provisions of G.L. c. 59, §5, Clause C½.

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 $1,755 (see table below). 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 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 establish a locally controlled program instead. This gave the Town the flexibility, through its Board of Selectmen, 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 than permitted under state law.

Although the Select Board has the authority to expand eligibility to persons under age 60 who are disabled or handicapped, it has not yet done so, nor has it adopted a wage in excess of the state's minimum wage. The current eligibility qualifications and benefit limits are detailed in the table below.

Since 2006, the State legislature has enacted several amendments to G.L. c. 59, § 5K enhancing the benefits of that program, but the Town's wage rate and benefit cap have kept pace, and are on a par with the maximum allowed under the state program.

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.

Tax Relief Programs – Limits and Qualifications as of December 2021

State Income Tax Circuit Breaker		
Maximum assessed valuation	$884,000	
Income limits		
• Single individual	$62,000	
• Head of household	$78,000	
• Married, filing jointly	$93,000	
Maximum tax credit		$1,170
41A Property Tax Deferral		
Income limit (single or married)	$90,000	
Interest rate for FY2022	0.08%	
41C Property Tax Exemption	**Single**	**Married**
Income limit	$28,869	$43,305
Assets limit	$57,742	$79,394

Senior Service Program	
Income eligibility	$90,000
Maximum benefit per household	(140 hours) $1,755
Hourly Rate	$13.50

Complete details on all tax and utility relief programs available to Lexington residents are set forth in a brochure entitled *Property Tax Relief Programs*, available on the Town web site at http://www.lexingtonma.gov/taxrelief.

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. It was further amended by the Municipal Modernization Act in 2016. The creation of such funds, the specification of their purpose, any alteration of their purpose, and any appropriation out of the funds, must be approved by a two-thirds vote of Town Meeting. Appropriations into a fund may be approved by a majority vote of Town Meeting; and the dedication of a recurring revenue stream to a fund, which continues for a minimum of three years until revoked, may be made by a two-thirds vote of Town Meeting. To supplement its general Stabilization Fund, Lexington has created a number of 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 accumulated during the year in the special revenue accounts are now transferred periodically by vote at an annual or special town meeting to the following specified stabilization funds, where their appropriation is now subject to review by Town Meeting:

Transportation Demand Management/Public Transportation (TDM/PT) S.F.: Contains payments negotiated with developers to support the operations of transportation services. It was initially created to support the Lexpress bus service and the 2016 Annual Town Meeting extended the purpose of this fund to "supporting the planning and operations of transportation services to serve the needs of town residents and businesses."

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. This fund was dissolved at the 2018 ATM.

Section 135 Zoning Bylaw 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.

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. In each year from FY2018–2020, $27,000 was appropriated for the bike share program in Lexington Center.

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 was dissolved at the 2018 ATM.

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 *Capital Stabilization Fund* 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.

After the Town issues a large bond for a project where the debt is exempted under Proposition 2½, the Town's exempt debt service rises sharply, with a direct impact property tax bills. This fund allows the Town to both reduce the magnitude and smooth the impact of the sudden increases in exempt debt service. Town Meeting can set aside funds in periods when the Town has a surplus, and in later years these funds can be appropriated to offset a portion of the exempt debt service. This in turn reduces the amount the tax levy must be raised above the usual limits under Proposition 2½.

This fund may also be used to mitigate sudden increases caused by new within-levy, i.e., non-exempt, debt.

At the 2018 Annual Town Meeting, three new funds were created with dedicated revenue streams. The *Visitor's Center Capital Stabilization Fund* was established to serve as a repository for grants, gifts, or special fees related to the Visitor's Center building capital project. The *Water System Capital Stabilization Fund* was established for the specific purpose of reserving monthly payments received from the Town of Bedford per an agreement for the sale of water (water from the MWRA goes to Bedford through Lexington's system). The agreement with Bedford has two components, 1) the cost of water used, and 2) a flat annual fee or "demand charge" that is split into monthly payments. The annual fee is set so as to cover costs of future infrastructure improvements related to the Lexington-to-Bedford water connection. It is envisioned that the monthly payments would be put into this stabilization fund for future capital projects instead of being applied annually for rate reductions. The annual fee for FY2018 was $62,175 and it will increase each year by a CPI factor. The *Affordable Housing Capital Stabilization Fund* was established to reserve payments from Brookhaven for affordable housing, commencing in FY2020 per an agreement in regard to the rezoning article for Brookhaven's expansion at the 2017 Annual Town Meeting.

The table below shows estimates of the balances in stabilization funds as of December 31, 2021.

Stabilization Fund	**Balance**
Transportation Demand Management / Public Transportation	$1,091,909
Traffic Mitigation	$646,487
Special Education	$654,674
Capital	$21,672,549
Center Improvement	$10,382
TMOD	$99,629
Debt Service	$191,080
Visitors Center	$39,901
Affordable Housing Capital	$310,052
Water System Capital	$210,912

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, which are distinct from pension benefits, are known as "other post-employment benefits" or OPEB for short. Health care benefits are by far the largest component of OPEB. Currently, all of the Town's retirees are eligible for Medicare and receive Medicare supplement coverage from the Town.

Because the Town is obligated to provide these benefits in the future, the anticipated costs extending over the lifetimes of currently vested employees and retirees represent a financial liability. The size of that liability depends on the number of employees, each employee's number of years of service, the time intervals over which the retirees are expected to receive retirement benefits, the expected cost of providing those benefits in those future years, and the present value of those future benefits.

In a hypothetical world where the number of retirees remains constant and annual per-capita medical costs inflate at a rate close to a general inflation index, the size of the OPEB liability in terms of 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 often increases each year because of:

- real (inflation-adjusted) increases in the cost of health care,
- growth in the number of retirees receiving benefits, and
- actuarial adjustments to the projected longevity of retirees.

Pay-As-You-Go versus Pre-Funding

There are two approaches to funding the OPEB liability. The first is a *pay-as-you-go* model where annual OPEB expenses are paid entirely through appropriation from the tax levy. This model uses current dollars to pay for current expenses related to benefits earned in previous years. The Town's pay-as-you-go OPEB cost for FY2022 was approximately $7.8 million and the projected cost for FY2023 is approximately $8.2 million not including small amounts for the Town's shares of retiree dental and life insurance.

The other approach is a *pre-funded* model in which expenses are paid from a trust fund called the Post-Employment Insurance Liability Fund, or PEIL Fund. This fund exists, but it is only partially funded. Once it is fully funded, withdrawals from the Fund will cover the annual OPEB expenses, and the Town will make annual contributions to the Fund equal to the "normal cost", or "service cost", i.e., the present value of future benefits earned during the current year. The balance of the Fund will be maintained at or near the full-funding level by investment returns in addition to these annual contributions. This model, which pays for future expenses using current dollars, is also how the Retirement Fund (pensions) will operate once it is fully funded.

The difference between the current balance of the PEIL Fund and the amount needed for it to be considered fully funded is called the "unfunded liability". Currently, contributions to the PEIL Fund act to reduce the size of the unfunded liability, and current-year OPEB expenses are funded from the operating budget, i.e., not by withdrawals from the Fund.

The pay-as-you-go and pre-funded models 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 results in higher expenses during the decades-long transition period, but should eventually result in lower annual appropriations from the tax levy.

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

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

On the other hand, appropriating money into the trust fund for future obligations reduces the funds available to spend on other items or to be put aside for other purposes. Policy makers must consider whether such funding should take 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 OPEB trust 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 has supported this policy, and since 2014 the Town has made annual contributions of roughly 35% of the OPEB normal cost to the PEIL Fund, with the exception of 2020 when the contribution was lower due to uncertainty about the impact of the Covid-19 pandemic.

In FY2021, the Town Manager assembled a Financial Policy Working Group to review the above policy and consider possible modifications. To date, the Working Group has considered minor adjustments to the policy, but has not made any specific recommendations.

The Post Employment Insurance Liability (PEIL) Fund

The Post-Employment Insurance Liability Fund or PEIL Fund was created pursuant to authority granted to the Town through a special act of the Massachusetts legislature in 2002 (MGL Chapter 317). The Fund was created to allow the Town, at the discretion of Town Meeting, to earmark and set aside funds to pay for future retiree health benefits. Once money has been appropriated into the PEIL Fund, Town Meeting may only appropriate monies 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. Unlike most other Town monies, the balance in each of these two funds may be invested in equities with degrees of risk and rates of return that are suitable for long-term growth.

As articulated in the above policy statement of the Board of Selectmen and as confirmed by the Financial Policy Working Group, the intention is to continue with the transition to the pre-funded approach. Hence, there have been appropriations into the PEIL Fund at each annual town meeting since 2008. Until the Town fully funds its OPEB liability, moving toward the pre-funded model will require the Town to continue paying for a number of years for annual pay-as-you-go OPEB expenses, while also appropriating funds into the PEIL Fund. This combination of appropriations could be continued until the PEIL Fund is fully funded.

GASB standards and the determination of the OPEB liability

The Town of Lexington follows standards set by the Government Accounting Standards Board (GASB) in its “statements”. In regard to OPEB accounting, GASB statements 74 and 75 (GASB 74 and GASB 75) lay out the relevant standards, having superseded the previous set of standards described in GASB statements 43 and 45. Briefly, these statements require the determination of the actuarial value of the Town’s OPEB liability according to specified metrics every two years, and the inclusion of a summary of the results in the Town’s financial statements. Bond rating agencies consistently ask about the actuarial report, 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 results are very sensitive to some of these factors, especially the discount rate (the rate of return on the funds to be used to pay the future obligations), the predicted rate of inflation of per-capita medical costs, and the number of active and retired employees. An understanding of the actuarial analyses in a proper context requires consideration of the underlying assumptions, and judgment of how well they might mirror real-world conditions.

Each year, the Town engages an actuarial consultant who must follow the procedures and reporting templates established by the GASB standards to produce a report. A full actuarial analysis is done every two years. A briefer update based on the previous year's full analysis is done in each intervening year.

The primary purpose of the actuarial reports is to provide information that is presented in the Town's financial statements. This information, in turn, informs potential investors about one specific aspect of the present financial health of the Town, and enables uniform comparisons of the financial health of multiple municipalities.

A secondary use of the actuarial reports is to provide guidance to a municipality when policies regarding the OPEB liability are considered. A municipality may use additional modeling scenarios with a broader range of financial assumptions when the formally mandated assumptions used for the report do not fully capture the municipality's OPEB funding process and liabilities.

Recent Status of OPEB Funding

The most recent full actuarial analysis presents the picture of the Town's OPEB liabilities and funding as of June 30, 2019. An update rolls the analysis forward to June 30, 2020. For these analyses, the actuary used a discount rate of 7.5% which was considered representative of the long-term growth of an equity-investing account like the PEIL Fund. Using this discount rate, the total OPEB liability as of June 30, 2020, was estimated at approximately $146 million. Using a 6.5% discount rate (projecting a lower rate of return on investments), the liability would be approximately $167 million. The normal cost for that fiscal year (FY2020), was estimated, again using the 7.5% discount rate, to be just over $4.98 million.

History of the PEIL Fund

The history of appropriations into the PEIL Fund is given in the following table. Since the monies in the Fund are invested, the Fund balance will be significantly larger than the sum of past appropriations into the Fund. At the close of FY2021, the balance in the PEIL Fund was $24,058,352, which does not include the FY2022 appropriation of $1,885,486 made at the 2021 Annual Town Meeting. The current fund balance will be the FY2021 closing balance plus the FY2022 appropriation and any investment earnings or losses since the start of FY2022. The balance, as of December 31, 2021, is estimated to be $27,906,814.

Appropriations Into the PEIL Fund

Appropriation Approved	Amount
2008 Annual Town Meeting	$ 400,000
2009 Annual Town Meeting	$ 440,690
2010 Annual Town Meeting	$ 479,399
2011 Annual Town Meeting	$ 500,000
2012 Annual Town Meeting	$ 500,000
2013 Annual Town Meeting	$ 775,000
2014 Annual Town Meeting	$ 1,119,000
2015 Annual Town Meeting	$ 1,200,000
2016 Annual Town Meeting	$ 1,512,318
2017 Annual Town Meeting	$ 1,842,895

Appropriation Approved	Amount
2018 Annual Town Meeting	$ 1,842,895
2019 Annual Town Meeting	$ 1,885,486
2020 Annual Town Meeting	$ 750,000
2021 Annual Town Meeting	$ 1,885,486
2022 Annual Town Meeting	$ —