APPROPRIATION COMMITTEE

TOWN OF LEXINGTON

REPORT TO THE
2018 ANNUAL TOWN MEETING

Released March 27, 2018

APPROPRIATION COMMITTEE MEMBERS

John Bartenstein, Chair • Ellen Basch • Carolyn Kosnoff (ex-officio; nonvoting)
Alan Levine, Vice Chair/Secretary • Eric Michelson • Richard Neumeier • Sanjay Padaki
Andrei Radulescu-Banu • Lily Manhua Yan • Jian Helen Yang

Contents

Summary of Warrant Article Recommendations

Abbreviations

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

2018 Annual Town Meeting

Article	Title	Funds Requested	Funding Source	Committee Recommendation
4	Appropriate FY2019 Operating Budget	$208,077,678	see motion	Approve (9-0)
5	Appropriate FY2019 Enterprise Funds Budgets	$22,638,546	see below	Approve (9-0)
6	Appropriate for Senior Services Program	none		IP
7	Appropriate for Advice and Analysis – Getting to Net Zero	$40,000	GF	Approve (9-0)
8	Appropriate to Create Diversity Advisory Task Force	$30,000	GF	Approve (9-0)
9	Establish and Continue Departmental Revolving Funds	see below	RF	Approve (9-0)
10	Appropriate the FY2019 Community Preservation Committee Operating Budget and CPA Projects	see below	CPF and GF	10(a) IP 10(b) Approve (9-0) 10(c,e-h,k-l) Approve (9-0) 10(d) Approve (6-3) 10(i) Approve (7-2) 10(j) Disapprove (3-5-1)
11	Appropriate for Westview Cemetery Building Construction	$3,040,000	GF debt with debt service from the Sale of Cemetery Lots Special Revenue Fund	Approve (6-3)
12	Appropriate for Lexington Children's Place Construction	$11,997,842	excluded debt	Approve (9-0)
13	Appropriate for 45 Bedford Street/Fire Station Replacement	$18,820,700	excluded debt	Approve (9-0)
14	Appropriate for Police Station Rebuild-Design	$1,862,622	GF debt	Approve (9-0)
15	Appropriate for Recreation Capital Projects	$60,000	Recreation EF	Approve (9-0)

Article	Title	Funds Requested	Funding Source	Committee Recommendation
16	Appropriate for Municipal Capital Projects and Equipment	$9,699,500	see below	Approve (a-d,g-q) (9-0) IP (e, f)
17	Appropriate for Water System Improvements	$1,000,000	Water EF debt	Approve (9-0)
18	Appropriate for Wastewater System Improvements	$1,800,000	Wastewater EF debt	Approve (9-0)
19	Appropriate for School Capital Projects and Equipment	$1,715,300	GF debt	Approve (9-0)
20	Appropriate for Public Facilities Capital Projects	$2,223,438	see below	Approve (a-e,g-i) (9-0) Disapprove (f) (4-5)
21	Appropriate to Reimburse Resident for Sewer Back Up (citizen article)	$30,553	unknown	Disapprove (1-8)
22	Appropriate for Visitors Center	$4,575,000	Free cash and GF debt	Approve (8-1)
23	Appropriate for Visitors Center (citizen article)	unknown	GF	Pending
24	Appropriate to Post Employment Insurance Liability Fund	$1,842,895	GF	Approve (9-0)
25	Rescind Prior Borrowing Authorizations	None		Approve (9-0)
26	Establish, Dissolve, and Appropriate To and From Specified Stabilization Funds	$3,415,331	GF	Approve (9-0)
27	Appropriate to General Stabilization Fund	none		IP
28	Appropriate from Debt Service Stabilization Fund	$124,057	DSSF	Approve (9-0)
29	Appropriate for Prior Years' Unpaid Bills	none		IP
30	Amend FY2018 Operating, Enterprise, and CPA Budgets	unknown		Pending
31	Appropriate for Authorized Capital Improvements	unknown		Pending
32	Amend General Bylaw - Regarding Financial Committees (citizen article)	none		Approve (9-0)
35	Resolution to Request Warrant Articles to be Accompanied by Financial Projections (citizen article)	none		IP
37	Accept Massachusetts General Laws Chapter 59, Clause 5C½	none (but see below)		Approve (9-0)

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 2019 Recommended Budget & Financing Plan*, dated March 5, 2018, commonly known as the "Brown Book", fully describes the annual budget of the Town. The Brown Book also summarizes budget laws and bylaws (Appendix B) and includes a glossary of financial terms (Appendix D). http://www.lexingtonma.gov/budget
- The School Committee's *Fiscal Year 2019 School Committee Recommended Budget* (the "Gray Book") dated January 29, 2018, which details the budget plans for the Lexington Public School System. http://lps.lexingtonma.org/Page/10461
- Capital Expenditures Committee (CEC) *Report to the 2018 Annual Town Meeting*, which provides a detailed report on appropriation requests for capital projects.
- Community Preservation Committee (CPC) *Report to the 2018 Annual Town Meeting.*

Acknowledgements

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 Carl Valente; Assistant Town Manager for Finance Carolyn Kosnoff; our 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. Mary Czajkowski; Director of Finance and Operations Ian Dailey; and the Board of Selectmen. 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 appointed by the Town Moderator and serves as an advisory group to the elected members of Town Meeting. The Committee is required by Town bylaw to present its recommendations to Town Meeting prior to any vote with a financial impact on the Town. This report summarizes the Committee's deliberations and analyses as well as its recommendations regarding the warrant articles deemed to have financial significance, along with the vote of the Committee for each article. The Committee also gives oral reports and responds to questions during Town Meeting as necessary, or when important information has become available following the publication of a report.

This report is distributed to the members of Town Meeting as a printed document and as an electronic document via the Town website. It was published on March 27, 2018, in the week prior to the session when financial articles are anticipated to be taken up at the Annual Town Meeting.

Committee Membership

In the past year, the membership of the Committee has remained unchanged. We are grateful for our members' dedication and continued service. The Town Comptroller is an ex-officio member of the Committee. Carolyn Kosnoff, Comptroller and Assistant Town Manager for Finance, continues to fill this role ably and has provided invaluable assistance and guidance to our Committee and its members.

Reserve Fund

No Reserve Fund transfers have been requested to date during FY2017. As of publication, the full balance of the $900,000 originally appropriated to the FY2018 Reserve Fund remains. Any funds in the Reserve Fund not expended before the end of this fiscal year will flow to Free Cash as of June 30, 2018 and will become available for appropriation in the fall of 2018 after the Free Cash balance is certified by the Department of Revenue. The proposed appropriation to the FY2019 Reserve Fund is again level-funded at $900,000.

Developments Since Our Last Annual Town Meeting Report

Major developments with a financial impact on the Town which have occurred since the publication of our report to the 2017 Annual Town Meeting are summarized below. The predominant focus was on capital projects.

Summer Capital Project Planning

During the late spring, summer and early fall of 2017, a series of meetings was held among the major boards and committees to finalize plans and designs for three long-pending capital projects: (1) replacement of the Hastings elementary school; (2) construction of a permanent facility for the Lexington Children's Place (LCP) preschool at 20 Pelham Road, as well as consideration of other potential municipal uses of that property, in particular gymnasium, cafeteria and event spaces associated with the activities of the neighboring Community Center; and (3) reconstruction of the Fire Headquarters at 45 Bedford Street, together with the construction of temporary fire station swing space at 171-173 Bedford Street. These meetings were informed by design studies and other consulting work for which appropriations were made at the 2017 Annual Town Meeting and embedded Special Town Meeting 2017-1.

As a result of these meetings, a decision was made by the Board of Selectmen and School Committee to replace instead of renovate the former Armenian Sisters Academy school facility at the Pelham Road site for use as a new LCP and to proceed with that project as soon as feasible, subject to voter approval in a debt exclusion referendum. A decision was also made to identify in a master planning process the potential co-location at the Pelham site of additional gym and other facilities for the Community Center. However, the consensus was to defer until a later time the design and construction of such additional Community Center facilities.

Plans for replacement of the Fire Headquarters and adaptation of the former Liberty Mutual Building for use as temporary swing space were also further developed and approved so that those projects could proceed to Town Meeting for further appropriation and a debt exclusion referendum as well. Attention was also given to preliminary planning for future construction of a new police station, which might also use the 171-173 Bedford Street space as either a temporary or permanent location, and a new Visitors' Center.

In the meantime, the Massachusetts School Building Authority (MSBA) approved, on August 16, 2017, the final design plans for replacement of the Maria Hastings Elementary School and a partial reimbursement of the construction costs for the new school building. The total approved project budget was about $65,300,000, of which MSBA committed to reimburse approximately $16,500,000, with the balance of $48,800,000 to be covered by the Town of Lexington.

October 2017 Special Town Meetings and December 2017 Debt Exclusion Referendum

On October 16, 2017, two special town meetings were convened. Because a special town meeting had already been held earlier in the year on the first day of the Annual Town Meeting, the two fall special town meetings were designated Special Town Meeting 2017-2 and Special Town Meeting 2017-3.

At Special Town Meeting 2017-2, Town Meeting made appropriations necessary to move forward each of the three major capital projects described above, subject to approval by voters of debt exclusions for those projects in a referendum later in the fall. In the case of the LCP and Fire Headquarters projects, only additional design and engineering funding were sought so that a final appropriation for construction could be made at the Annual Town Meeting this spring, assuming approval in the referendum. In the case of the Hastings and fire station swing space projects, funding was appropriated for the final design and construction costs necessary to complete the projects, contingent on the outcome of the referendum.

The financial articles of Special Town Meeting 2017-3 focused primarily on: (1) the allocation of additional FY2018 revenue resulting from increases in revenue estimates since the 2017 Annual Town Meeting; and (2) adjustments to the FY2018 operating budget.

Following the close of the 2017 Annual Town Meeting, the Town's estimated General Fund revenue for FY2018 had increased on a net basis by approximately $2.6 million. The primary reasons for this upward revision were: (1) an increase of a little more than $2 million in Chapter 70 State Aid over the original estimate attributable to continuing progress by the state in bringing Lexington up to the school "foundation budget" funding formula; and (2) an upward revision in the estimate of new growth of $500,000, from $2,500,000 to $3,000,000. (The final new growth figure determined by the Board of Assessors at tax classification in December was $3,357,135; the additional increment will flow to Free Cash and be available for appropriation after the books are closed, and Free Cash has been certified, for FY2019.)

Some of the additional estimated revenue was appropriated for minor operating adjustments, and $150,000 was appropriated to fund design development documents for a new Visitors' Center. The bulk was appropriated to make the first installment ($2,351,487) of a planned five-year payoff, within the levy, of short-term bond anticipation notes, in the amount of approximately $11 million, previously incurred for the land acquisition costs at 20 Pelham Road and 171-173 Bedford Street.[1] The rationale for this payoff plan is discussed at length in our report to STM 2017-3, p. 7. Briefly summarized, by avoiding the need for long-term bonding of these acquisition costs at a higher interest rate than could be earned in the Capital Stabilization Fund (roughly a 2% spread between the True Interest Cost for bonds and the earning potential of the CSF), significant interest costs could be saved. It also reduced the total amount of the anticipated debt exclusion by $11 million, bringing that amount within the levy instead.

[1] A second appropriation of Free Cash in a similar amount ($3,050,000) is proposed in the FY2019 budget as a revenue set-aside, *see* Brown Book, p. II-5.

In early December 2017, in a Town-wide referendum, Lexington voters endorsed the exclusion of debt service costs for all three planned capital projects – replacement of the Hastings School, replacement of the Fire Headquarters and associated build-out of temporary swing space, and the construction of a new LCP – from the limits of Proposition 2½. Although the debt exclusion is not for a fixed amount, the total borrowing required for the three projects was estimated at approximately $86 million ($49 million net for the Hastings School, $15 million for the LCP, and $22 million for the Fire Headquarters).

In connection with the debt exclusion campaign, the Town updated and published a capital planning model detailing the anticipated use of our sizeable Capital Stabilization Fund (current balance of approximately $28 million) to mitigate the impact on residential tax bills over the next five years of excluded debt for the three new projects, if approved, as well as that for pre-existing projects, including the recent expansion of the Clarke and Diamond Middle Schools. In particular, the plan sought to "shave the peak" that would otherwise occur during the period FY2019 through FY2024, until the retirement of older debt gradually lowered the base of pre-existing debt service, and limit annual tax bill increases during that time period to a more reasonable amount.

The Summit Process and Estimated FY2019 Revenue

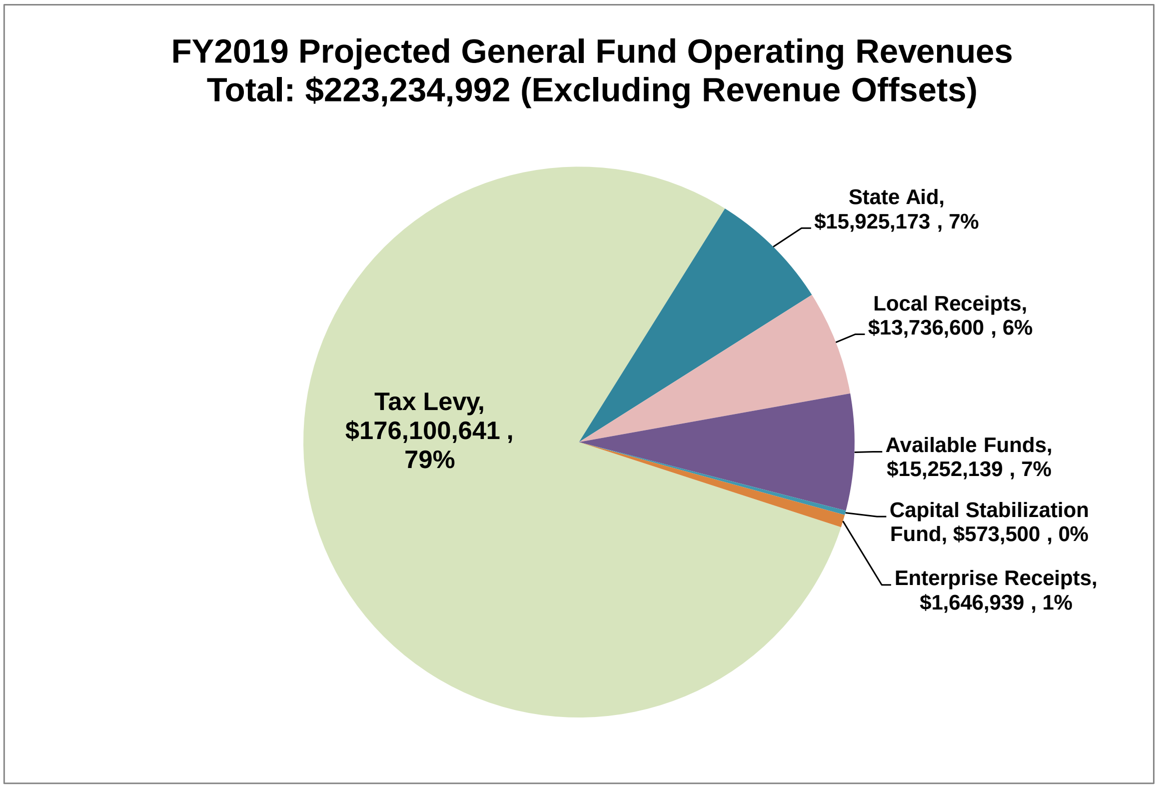
In the usual series of budget summits, joint meetings of the Board of Selectmen, the School Committee, the Appropriation Committee, and the Capital Expenditures Committee, held throughout the fall of 2017 and into early 2018, the Town Manager presented: (1) his FY2019 revenue estimates, including the certified Free Cash available for appropriation in FY2019; (2) the amounts proposed to be set aside for various special purposes, including continued paydown of the prior land purchases, further strengthening of the Capital Stabilization Fund and Post Employment Insurance Liability (PEIL) Fund, and the dedication of over $4 million in Free Cash toward the funding of over $7 million in cash capital, *see* Brown Book pp. xi, II-5; (3) a proposed appropriation from the Capital Stabilization Fund of $4,500,000 to provide property tax relief for excluded debt service and a smaller amount to offset within-levy debt service (with a goal of limiting nominal within-levy debt increases to 5% per year), *see* Brown Book, p. xii; and (4) the proposed allocation of the balance of this year's incremental revenue between the School Department and the municipal departments for use in developing their respective FY2018 operating budgets.

Overall revenue growth, resulting from a combination of the annual allowed 2.5% increase in the tax levy, estimated new growth, state aid, and local receipts, continues to be healthy, projected to increase over FY2018 budgeted revenues by about 4% (compared with growth of 4.6% from FY2017-FY2018 and 3.3% from FY2016-FY2017), *see* Brown Book, p. iv. After adjusting for changes in set-asides (primarily a reduction in the contribution to the Capital Stabilization Fund), net general fund revenue available for appropriation has increased 6% over FY2018. *See* Brown Book, p. II-3. Certified free cash, up last year by about $3 million, has leveled off at about $13 million. *See* Brown Book, p. II-3. It should be noted that the Governor's initial proposed FY2019 state budget, for the first time in several years, does not show a material increase of Lexington's Chapter 70 aid; this was anticipated because a multi-year effort by the state to bring Lexington up to appropriate "foundation budget" levels has now largely achieved its goal.

As a result of the set-aside and allocation process described above, it was determined in December that approximately $9.4 million in incremental revenue was available to be applied to the FY2019 operating budget, an increase of 6.9% from last year, and that the increase would be allocated 74% to the school department and 26% to municipal departments (following a decision to absorb the previously unallocated incremental costs of staffing the new Community Center into the municipal budget). The school department and municipal departments have each developed their respective proposed FY2018 operating budgets within these parameters, providing for level service without the need for an operating override.

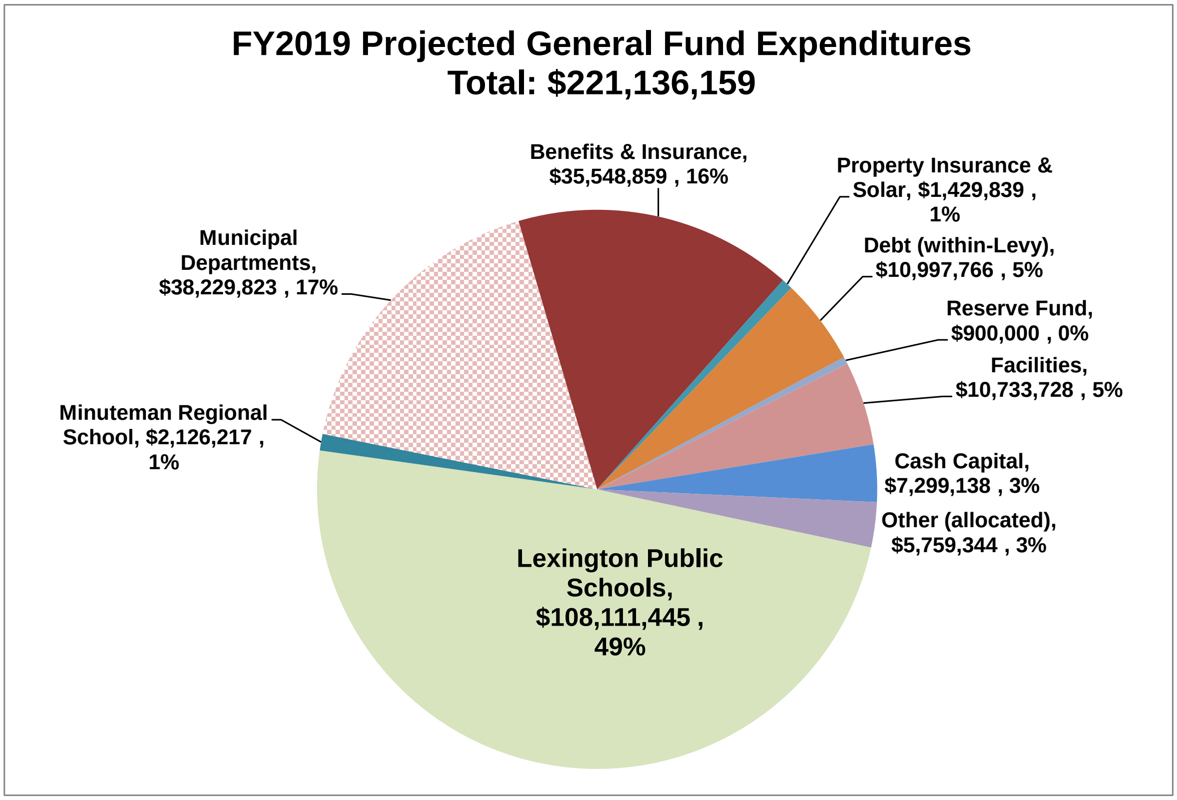
The FY2019 Budget

The key components of currently estimated FY2019 revenues are shown in the following chart:



Revenue Category	FY2019 Projected	% of Total
Tax Levy	$176,100,641	79%
State Aid	$15,925,173	7%
Local Receipts	$13,736,600	6%
Available Funds	$15,252,139	7%
Capital Stabilization Fund	$573,500	0%
Enterprise Fund	$1,646,939	1%
Total General Fund Revenues	**$223,234,992**	**100%**
Less Revenue Offsets	-$2,098,833	N/A
Net General Fund Revenues	**$221,136,159**	**N/A**

The key components of FY2019 proposed appropriations and expenditures are shown in the charts below. It should be noted that certain of the items included in these charts do not involve immediate expenditures but rather funds appropriated to reserves – in particular, the "allocated" expenditures, most of which are proposed contributions to the Capital Stabilization Fund and the PEIL Fund; the Reserve Fund, which is available for extraordinary and unanticipated expenses during the year; and the "unallocated" revenue which has been held aside for as yet unknown contingencies.



Expenditure Category	**FY2019 Projected**	**% of Total**
Lexington Public Schools	$108,111,445	49%
Minuteman Regional School	$2,126,217	1%
Municipal Departments	$38,229,823	17%
Benefits & Insurance	$35,548,859	16%
Property Insurance & Solar	$1,429,839	1%
Debt (within-levy)	$10,997,766	5%
Reserve Fund	$900,000	0%
Facilities	$10,733,728	5%
Cash Capital	$7,299,138	3%
Other (allocated)	$5,759,344	3%
Total General Fund Expenditures	**$221,136,159**	**100%**

The Challenge Ahead: Balancing Need to Upgrade Infrastructure with Taxpayer Impact

As is apparent from the discussion above, the Town is currently in the midst of an intense period of capital investment in the expansion, renovation and upgrading of its schools, municipal service buildings and other infrastructure. The need for this capital investment is driven in part by the continuing phenomenon of steadily increasing enrollment growth at all levels of our public school system as evidenced by the replacement of the Hastings School with a new and substantially larger facility and the decision to build a new, stand-alone Lexington Children's Place which will not only provide more adequate space for the population it serves but also free up needed elementary classroom space at the Harrington School. It is also driven in part by a need to replace aging and inadequate municipal buildings – including in this budget cycle a new and larger Fire Headquarters – as well other Town infrastructure including recreational facilities such as the Center Field track and lights, affordable housing, cemetery facilities, traffic intersections, and water, wastewater, and stormwater management systems.

In many ways, this period of intense capital investment could not have come at a better time as interest rates have been at historic lows. Moreover, as noted in this Committee's report to last year's Annual Town Meeting, the last eight to ten years has been a "golden era" for Lexington's finances with low inflation, an extended period of time with no need for an operating override, and indeed a structural surplus which has allowed us to "bank" funds in what is now a substantial Capital Stabilization Fund. That stabilization fund in turn, as noted above, will be available to help offset the "spike" in annual tax increases which the accumulation of pre-existing excluded debt service and the new excluded debt service that will result from the Hastings, Fire Station, and LCP projects – as well as the anticipated police station project – would otherwise create, at least over the next five years from FY2019 through FY2024. [2]

The successful debt exclusion referendum last December is evidence that Town residents recognize both the need for and value of the infrastructure investments the Town is making. Nevertheless, it is also clear that our infrastructure improvement needs are by no means done, and from the taxpayer's point of view there are countervailing pressures which could lead to challenges ahead.

In particular, two phenomena have had a tendency to cause the underlying or "base" tax on the average, unimproved residential home to grow at a rate somewhat faster than the 2.5% assumed in the existing capital planning financial model: first, the so-called "natural shift," which occurs when residential real estate values grow faster than commercial real estate values, as has been occurring in most recent years[3]; and second, as recently explicated by a Town Meeting Member, the treatment of new personal property as "new growth" without simultaneously deducting from the tax base the depreciated personal property being replaced, has a tendency *de facto* to shift much or all of the burden of the personal property "new growth" increment from personal property taxpayers to residential and commercial real estate taxpayers, perhaps adding an additional half percentage point to the base tax increase. There is nothing immediate that can be done to change these phenomena (other than, as discussed below, working to modify zoning regulations and take other steps to reinvigorate the commercial tax base). However, as long as they continue, they should be recognized in the Town's capital planning financial model when projecting the net effect of future excluded debt service increases, after offset from Capital Stabilization Fund mitigation, on the annual growth of residential tax bills.

For the homeowner, of course, the fact that residential valuations are growing significantly faster than commercial valuations (and faster than residential valuations in other communities with lesser buyer demand), though it results in annual base tax increases greater than 2.5%, is not all bad. The extraordinary

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[2] The Capital Stabilization Fund will not, however, last forever and with indications that an era of higher inflation may be in the wings as the nation moves toward a full-employment economy, it may become more difficult to replenish it. Closer to home, significant increases in public building construction costs, suggest that cost pressures may become an issue of increasing concern.

[3] For example, according to the FY2018 tax classification packet, at the maximum allowed 1.75 shift factor, an unimproved single-family dwelling of average assessed valuation would experience a tax increase over FY2017 of 3.59% whereas a typical large office building would experience a decrease of 2.58%. According to that same report, the portion of the total tax levy borne by the residential sector has increased from a low of 67% in 1990 to approximately 80% today.

valuation increases which Lexington homeowners have experienced in recent years, attributable at least in part to the investment of taxpayer funds in top quality schools and other infrastructure, represents real value to the homeowner in the form of an increase in net worth that in most cases quite likely far exceeds the tax increases and would probably not have been experienced in other, lower-tax communities.[4]

Even so, not all taxpayers will take comfort from stable and growing home values. Particularly for seniors and other residents on a fixed income, or those for whom cash flow is otherwise an issue, and who wish to remain in their homes and not sell or further borrow against them, the pressures of significant annual tax increases are real and can be a source of concern, even distress. Opportunities for deferral on very favorable terms and other tax relief are available, but only to low or moderate-income seniors and other limited categorical recipients.

If we were done, or nearly done, with the current phase of perceived needs and demands for major capital investment, the Town finances would be in excellent shape. As evidenced by this year's major proposed revenue set-asides for cash capital, contribution to the PEIL Fund, funding of earlier land purchases, and continued contribution, although more modestly, to the Capital Stabilization Fund, it is clear that the period of structural surplus continues, though our financial forecasts, set forth in Appendix A, suggest that may be weakening and the inflationary pressures mentioned above could result in further weakening.

Of concern, however, is that those needs and wants for further improvements in infrastructure are not done and will continue apace for the foreseeable future. To the extent future capital improvement projects, such as the Center Streetscape project and replacement of the Visitors' Center, are proposed to be financed within the levy, there are risks that the resulting debt service will begin to impinge upon the funds available for operating needs and continued generous funding of cash capital. And to the extent that capital projects, such as the replacement of the Police Station, addition of gym and cafeteria facilities to the Community Center, and ultimately renovation or replacement of Lexington High School, are of a magnitude that will require additional debt exclusions, the issue of continued taxpayer support comes into play.

Recognizing these pressures, the Board of Selectmen, senior Town managers, and other boards and committees are currently exploring options both to expand the Town's commercial base, and thereby ease the pressure on residential taxpayers, and to shift some of the tax burden from those less able to manage future increased tax burdens to those more able. Before the current Annual Town Meeting is a measure, under Article 37, to double the tax exemptions available to the neediest senior citizens, veterans and the blind. Under study is a possible adoption of the residential exemption, which would shift tax burdens from lower-value homes to higher-value homes, or alternatively the possibility of special legislation, such as has been obtained by the Town of Sudbury and a few other nearby towns, to create a local supplemental "circuit breaker" which would shift tax burdens based on income and help to keep tax burdens at 10% or less of income.

Ultimately, however, there is no guarantee that such measures will be a panacea. As we move forward, it may be necessary to recognize that there are limits to the number of capital projects we can practically take on in the short run, particularly with the major, and clearly critical, need for a high school replacement project looming. Determining where those limits lie will be one of our biggest challenges going forward.

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[4] There is no guarantee, of course, that the recent phenomenon of significant growth in Lexington residential home values will continue, but even in a time of significant recession following the 2008 financial crisis, those values tended to be more resilient than in other communities.

2018 Annual Town Meeting Analysis and Recommendations

The warrant for the 2018 Annual Town Meeting contains a full complement of operating budget, enterprise fund and capital appropriations, along with financial adjustments to various programs. The Committee has provided its analysis of these requests below.

Article 4: Appropriate FY2019 Operating Budget		
Funds Requested	Funding Source	Committee Recommendation
$208,077,678	**see motion**	**Approve (9-0)**

The four major components of the operating budget are: Education (Program 1000, broken into line item 1100, Lexington Public Schools, and line item 1200, Regional Schools); Shared Expenses (Program 2000); and Municipal (Programs 3000-8000). Each of these components is discussed separately below.

Line Item 1100: Lexington Public Schools	**Funds Requested**	**Funding Source**
	$108,111,445	see motion

Overview

The School Committee has voted to recommend an appropriation of $108,111,445 for the school operating budget for fiscal year 2019. This amount does not include:

- The school portion of shared expenses including public facilities, employee/retiree benefits, pension, debt service, liability insurance, and reserve funds.
- Federal, State, local, and private grants; Revolving and donation fund activity.

The request represents an increase of $6,456,263, a 6.35% increase over the FY2018 appropriation of $101,655,182.

Rising school enrollment continues to pose a challenge for the school district. The K-12 enrollment is projected to be 7,327 for FY2019, an increase of 152 students (from 7,175). During the past five years, K-12 enrollment at Lexington Public Schools has increased by 697 students (+10.7%), or an average of 139 students per year (2.1% per year). These past increases have had a direct impact on the School Department operating budget each year in order to accommodate these new students and maintain the level of programming offered by Lexington Public Schools. Note that the above numbers are for in-district enrollment only, and this budget also covers the cost of out-of-district students, totaling 103 as of October 1, 2017.

At a high level, the LPS operating budget can be broken down into two categories: salaries and wages, and expenses, as shown in the accompanying table.

Appropriation Summary	FY2018 Budget (adj)	FY2019 Recommended	Dollar Increase	Percent Increase
Salary and Wages	$86,001,326	$90,743,277	$4,741,951	5.51%
Expenses	$15,653,856	$17,368,168	$1,714,312	10.95%
Total 1100 Lexington Public Schools	$101,655,182	$108,111,445	$6,456,263	6.35%

(Source: Brown book, Page III-10)

Salaries and Wages

Salaries and wages make up 84% of the FY2019 request. The increase of 5.51% over FY 2018 is attributed to salary increases for existing staff and the addition of 26.35 full-time equivalent (FTE) employees.

The FY2019 budget includes funding for anticipated bargaining unit increases as well as increases for non-union positions. This covers both step increases and cost of living adjustments (COLA). The current status of collective bargaining agreements and corresponding expiration dates can be found in the Brown Book on page III-11.

The salaries for the additional 26.35 FTEs are expected to have a total cost of $1,906,112. In addition, to cover health insurance, Medicare, and workers' compensation for the new positions, $443,025 has been added to the Shared Expenses portion of the operating budget, which is outside of the LPS budget.

The additional 26.35 FTE positions address the needs associated with the projected K-12 enrollment increase of 152 students, an increase of 2.12%.

Expenses

Expenses make up 16% of the FY2019 request. This 10.95% increase over FY 2018 is driven mostly by increases in out-of-district tuition and special education transportation, which account for 91% of the increase.

Line #	Program	FY2017 Actual	FY2018 Budget (approved by ATM)	FY2018 Budget (adj)	FY2019 Request	Change	% Change
41	Tuition (out-of-district)	$5,027,778	$5,820,047	$5,820,047	$7,037,180	$1,217,133	20.91%
42	Transportation: Special Education	$1,636,793	$1,728,591	$1,728,591	$2,064,920	$336,329	19.46%

(Source: Gray Book, January 29, 2018, Expenses, p. 4)

School Enrollment

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.

This table shows the breakdown of the student population as of October 1, 2017.

		Total In-District enrollment includes:			
	Total In-District Enrollment	In-District Special Education	METCO Enrollment	METCO SPED Enrollment	Out-of-District Special Education Enrollment
Pre-K	71	27	0	0	1
K-5	3150	366	109	14	11
6-8	1813	246	56	19	17
9-12	2212	231	54	14	74
Total	7246	870	219	47	103

The METCO program contributes a total number of 219 students to the student population, with 47 receiving special education services. Lexington is projected to receive State aid in the amount of $1,518,721 for FY2019 for the METCO program; this is an average of $6,934.80 per METCO student.

Special Education Costs Including Out-of-District Tuitions

The PreK-22 Special Education budget of $32,366,864 makes up 29.94% of the overall budget. This amount is an 8.52% increase from the FY2018 budget of $29,826,962.

For out-of-district placements, $7,037,180 is requested for FY 2019. This amount is after the use of three offsets (pre-paid tuitions/LABBB credit, IDEA grant, and Circuit Breaker).

Before offsets, the projected total out-of-district tuition expenses is $12,168,193, an increase of $1,772,423 over FY2018. This is based on:

- An increase in the projected number of students from 138 to 149.
- An increase in the average cost per student placed out-of-district from $75,332 to $81,666.

Funding Sources Not Subject to Appropriation

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

- **Federal Grants** – For FY2019, the School Department projects that it will receive $2,001,250 in federal grants, comparable to the amount that was received in FY2018.
- **State Grants** – The Town receives grants from the state to support METCO and School Health. State grants do not include cherry-sheet local aid for education, because local aid is considered to be General Fund revenue. The School Department projects that it will receive $1,631,520 in state grants in FY2019, the same amount it received in FY2018.
- **"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 the following June 30.

  For FY2019, with a projected reimbursement rate of 65%, the estimated Circuit Breaker reimbursement is $3,123,013.

Fee Programs

Fees for participants in certain programs, such as preschool, athletics, and transportation, support those programs in whole or in part. The School Committee approved an increase in the discounted fee for transportation from $300/$500 to $330/$550. Additionally, those that register after July 1, 2018 will be charged the updated full cost per seat in FY2019. In addition, the after-school bus for the elementary schools will be eliminated in FY2019.

More detailed information about the School Committee recommended budget is available at https://lps.lexingtonma.org/Page/10461 .

Line Item 1200: Regional Schools	Funds Requested	Funding Source
	$2,126,217	GF

The Minuteman Regional High School (MRHS) Committee has approved an FY2019 budget of $21,160,140, a $2,160,661 increase (11.37%) over FY2018. The increase is the net effect of a 3.8% increase in the cost of operations and a $1,467,560 increase in debt costs attributable to construction of the new MRHS building.

The FY2019 budget reflects a reduced high school enrollment of 543 students and the conversion to a career academy model of education. The goal is to create a smaller school with a higher percentage of in-district students that can still offer a diverse and high-quality selection of relevant education and training opportunities. The plan is for the transition to the new model to be completed in time for the beginning of school in the fall of 2019 and the occupancy of the new building.

The assessment to the Town of Lexington is increasing by $455,886, or 27.3%, over last year's assessment. While the per-student operating assessment has increased only 9%, the debt service cost allocated to Lexington has risen 131%.

District Developments

A special district-wide vote held in 2016 secured approval for the construction of a new $144,900,000 school building to replace the aging current facility. Construction is under way and appears to be on-budget and on-schedule for occupancy in fall 2019. The cost of this project will be offset by almost $44,000,000 from the Massachusetts School Building Authority (MSBA). The balance not funded by the MSBA will be bonded. The annual debt service costs for the project will be borne not only by district members, but also by out-of-district students from non-member towns, who will be charged a new state-authorized facilities fee for capital costs. Lexington was first assessed debt service costs for the new facility in FY2017, and the annual amount of its capital assessment will steadily grow to over $675,000 by FY2021.

The district currently has ten member towns. However, following a negative vote by the voters of the town of Belmont in the special district-wide referendum election held in 2016 to approve the construction of the new MRHS facility, a subsequent vote by Belmont's Town Meeting, and approval by the remaining member towns, Belmont will leave the district effective July 1, 2020.

Budget Overview

This is the last budget for the school in the current building. The high school enrollment has continued to drop and is below the new building target size of 628 students. Staffing changes include a net increase in academic, vocational, administrative, and support staff of 0.5 FTEs. The school will take advantage of any further enrollment-dependent staff changes that may emerge. Salaries, which make up 60% of the operating budget, are increasing $323,000 after factoring in contractual obligations.

Total health insurance costs will increase by almost $175,000 assuming 4% inflation in costs. In anticipation of a new building, the capital building repairs budget is reduced to $5,000. The contribution to the District's Stabilization Fund is $300,000, increasing that fund balance to $755,000 in order to have money to purchase furniture, fixtures and equipment for the new building. Debt service payments rise to $1,480,615 as debt service for the new construction begins. A $50,000 payment will be made toward the funding of the District's $16,938,000 Other Post-Employment Benefits (OPEB) unfunded liability.

As of October 1, 2017, 568 full-time students (high school and post-graduate) were enrolled, of whom 50% received special education (SPED) services. Roughly 59% of these students were from the ten in-district towns while 41% were from out-of-district and withdrawing towns. Total full-time enrollment decreased by 50 students, with in-district enrollment decreasing 10 students, out-of-district enrollment decreasing 37 students, and a decrease of 3 students from the withdrawing towns. On a more positive note, freshman enrollment is at a three-year high and anticipated to continue to rise with the opening of the new building. This reverses three years of shrinking freshman class size. Increases were seen in both in-district and out-of-district enrollments.

Out-of-district recruiting remains a challenge, primarily due to a Massachusetts Department of Elementary and Secondary Education (DESE) change to Chapter 74 regulations, which now prevents the enrollment of 9th grade students from towns that have traditionally sent a large number of students if they have an in-town vocational program. Despite lobbying efforts by MRHS, the state-imposed tuition rate set by DESE continues to underfund the District. The out-of-district tuition was $16,728 per student in FY2018 and is expected to increase to $17,000 in FY2019. Out-of-district towns are also assessed SPED tuition at $4,500 per student and are responsible for providing transportation to their students.

Member towns are assessed operating costs for the upcoming year based on their most recent 4-year average student enrollment. These assessments are used to fund the portion of the MRHS operating budget that is not funded by the combination of (1) all other projected revenues, and (2) member towns' State Required Minimum (SRM) per-student payments. Debt and capital costs are assessed based on (1) the most recent 4 year rolling average; (2) a "combined effort" factor as determined by the Chapter 70 formula; and (3) 1% of the annual debt that is assessed equally to all member towns.

This year's assessments are based on an MRHS budget funded with a projected decrease in non-assessment revenue of $107,477, the drivers of which are identified in the following table:

Non-Assessment Revenue Sources	**FY2018 ($)**	**FY2019 ($)**	**Difference ($)**
Chapter 70	$2,037,863	$2,081,683	$43,820
Prior Year Tuition	$3,380,021	$3,438,424	$58,403
Transportation Reimbursement	$935,112	$880,412	-$54,700
Current Year Tuition	$400,000	$400,000	0
E & D Funds	$695,000	$540,000	-$155,000
Sub-total	**$7,447,996**	**$7,340,519**	
Total Revenue Change			**-$107,477**

Chapter 70 funds and transportation aid are estimates based on the Governor's H-2 budget, which proposes modest increases in Chapter 70 aid and transportation aid statewide compared with FY2018. MRHS's share of Chapter 70 aid increases slightly. Transportation Aid decreases slightly because it is a reimbursement for expenses incurred in the prior year.

The use of funds from the Excess & Deficiency (E&D) account, similar in function to "Free Cash", has dropped $155,000. This drop is more than the $130,000 reduction seen in the current year's (FY2018) revenue plan.

Projected Minuteman Assessment – Based on unapproved House-2 budget bill

	Enrollment Basis		Assessment Components	
	FY18	**FY19**	**FY18**	**FY19**
State-Required Minimum	50	52	$745,380	$767,722
Regular Day Students	48*	49.6*	$714,940	$810,755
Transportation			$50,806	$67,089
Total Operating Costs			1,460,320	**1,645,566**
Capital	48*	49.6*	$206,656	$476,851
Post-Graduate Programs	1	1	$3,375	$3,800
TOTAL ASSESSMENT			$1,670,351	**$2,126,217**
Annual % increase (decrease)			21.26%	27.29%

** average enrollment over prior 4 years*

A breakdown of the full assessment is shown above. While Lexington's FY2018 enrollment (as of October 1, 2017) was 53.5 full-time regular students in grades 9-12 (a decrease in enrollment of 0.5 regular day students) the assessments are based on the average enrollment over the prior 4 years of 49.6 students. Using the average number of enrolled students, the per-student operating costs are $33,157 (+9%), with a per-student capital assessment of $9,608 (+123%). The preliminary FY2019 assessment for Lexington is $455,866 (27.29%) higher than the FY2018 assessment.

As of press time, changes are still being made to both projected revenues and budgeted expenses. It is likely that Lexington's assessment will change prior to being presented to Town Meeting.

Program 2000: Shared Expenses	**Funds Requested**	**Funding Source**
	$59,610,193	see motion

The Shared Expenses section of the budget includes items that do not appear directly in the budget lines of either the Lexington Public Schools or the municipal departments most often because the allocation of portions of the expenses to different departments is difficult or on account of administrative convenience. Shared Expenses comprises the five different components listed below together with respective budget totals:

	FY2018 Restated	**FY2019 Recommended**	**$ Change**	**% Change**
Benefits & Insurance	$34,550,644	$35,548,859	$998,215	2.9%
Property Insurance & Solar	$1,398,893	$1,429,839	$30,946	2.2%
Debt (within-levy)	$9,557,115	$10,997,766	$1,440,651	15.1%
Reserve Fund	$900,000	$900,000	$0	0%
Public Facilities	$10,592,986	$10,733,728	$140,742	1.3%
Total Shared Expenses	**$56,999,638**	**$59,610,193**	**$2,610,555**	**4.6%**

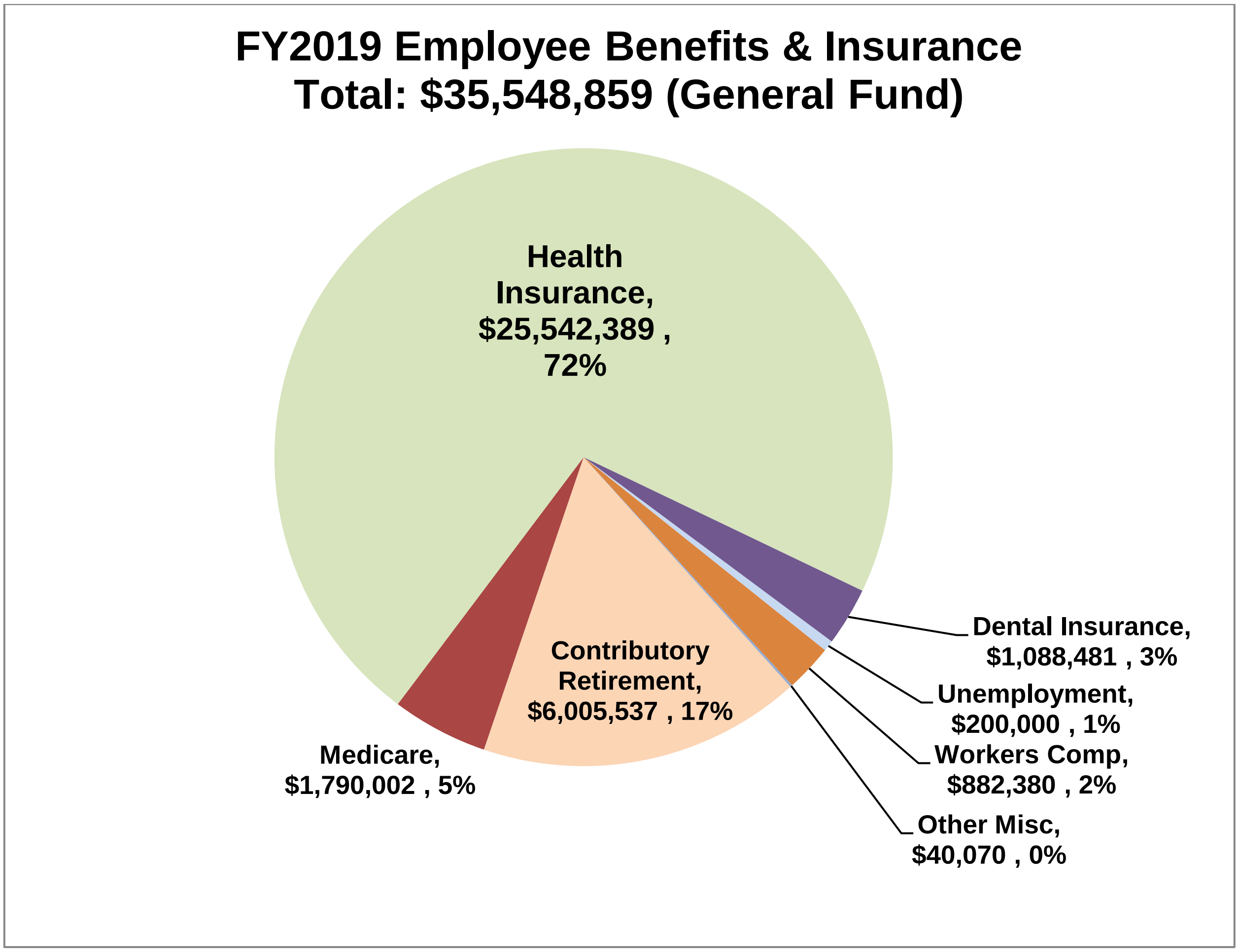
The recommended total Shared Expenses budget for FY2019 is $59,610,193, which represents a $2,610,555 or 4.6% increase over the FY2018 Restated Budget.

<u>Employee Benefits and Insurance</u>

Employee Benefits and Insurance costs include costs for health, dental, and life insurance, the Town's pension assessment, workers' compensation, unemployment insurance, and the Medicare tax.

The total request for Employee Benefits and Insurance for the FY2019 General Fund budget is $35,548,859, which represents a $998,215 or 2.9% increase over the FY2018 Restated Budget.

The pie chart below is a breakdown of Employee Benefits & Insurance by category:



Health insurance cost is by far the largest category within the Employee Benefits and Insurance Budget. The FY2019 budget for health insurance is $25,542,389, which represents a $609,405 or 2.4% increase over FY2018 restated budget.

The Town will continue to remain a member of the State's Group Insurance Commission (GIC) health insurance program for FY2019 and FY2020. The Town and the Public Employees Committee (PEC) are in the process of negotiating a successor agreement regarding contributions for health insurance.

The FY2019 split of healthcare premiums between employer and subscribers is 82/18 or 75/25 depending on the health plan. The percentage splits are the same as those in FY2016, FY2017, and FY2018.

In actuality, the Town contributes the equivalent of 85% or 80%, because of separate 3% or 5% payments by the Town to a "Mitigation Fund" per an agreement with the Public Employee Coalition. The Mitigation Fund is used to fund Health Reimbursement Accounts (HRA) for employees that take the Town's health insurance.

Below is a table of the Town's health insurance costs by subscriber category:

Subscriber Category	Count	Total Cost	Average Cost to Town
Active - Town - Individual	81	$596,302	$7,362
Active - Town - Family	176	$3,326,462	$18,900
Active - School - Individual	336	$2,451,427	$7,296
Active - School - Family	502	$9,463,525	$18,852
Overall Actives	**1,095**	**$15,837,717**	**$14,464**
Retiree – Individual	134	$1,155,143	$8,620
Retiree - Family	84	$1,636,250	$19,479
Retiree - Medicare Plan	1,051	$4,205,263	$4,001
Overall Retirees	**1,269**	**$6,996,655**	**$5,514**
Total Active & Retirees	**2,364**	**$22,834,372**	**$9,659**
Open Enrollment	90	$1,278,315	$14,203
Position Vacancies	27	$484,709	$17,952
New Positions	33	$458,010	$13,879
Estimated Reduction	-34	-$122,882	$3,614
Net Other Subscriber Increase	**116**	**$2,098,152**	**$18,088**
Opt-Out Program	N/A	$350,000	N/A
Administrative Costs & Misc. Expenses	N/A	$268,309	N/A
Part B Penalty	N/A	$97,090	N/A
Other, Non-General Fund Sources	N/A	-$105,534	N/A
Total Other Costs	**N/A**	**$609,865**	**N/A**
Grand Total	**2,480**	**$25,542,389**	**$10,299**

The "grand total" health insurance cost of $25,542,389 will be 100% funded from the General Fund.

The FY2019 budgeted rates on health insurance are based on an increase of 5.5% over FY2018 actual rates and a projected addition of ninety (90) subscribers (new enrollees to health coverage, either from new retirees, active employees electing to begin or resume coverage, and active employees switching from individual to family plans). The budget includes benefits for both new school and new town positions.

The second largest category within Employee Benefits & Insurance is Contributory Retirement, with a total FY2019 budget of $6,005,537. The year-over-year increase in Contributory Retirement is $250,000 or 4.3%. The funding amount is based on a funding schedule from the January 1, 2017 actuarial valuation of the Lexington Retirement System. This schedule projects full funding of the system's unfunded liability by 2024, given the current actuarial assumptions.

Debt Service

The Debt Service amount included in the Shared Expenses budget does not include the amount needed for service of exempt debt, because exempt debt service does not need to be appropriated by Town Meeting.

Please see the table below on Within-Levy and Exempt Debt Service budgets for a complete picture of total Debt Service costs.

Category	FY2018 Appropriation	FY2019 Recommended	$ Change	% Change
Net Within-Levy Debt Service (a)	$7,194,508	$7,786,945	$592,437	8.2%
Use of Capital Stabilization Fund (b)	-$324,500	-$573,500	-$249,000	76.7%
Mitigated Net Within-Levy Debt Service (a) + (b)	**$6,870,008**	**$7,213,445**	**$343,437**	**5.0%**
Exempt Debt Service (c.)	$10,692,689	$14,185,445	$3,492,756	32.7%
Use of Capital Stabilization Fund (d)	-$2,400,000	-$4,500,000	-$2,100,000	87.5%
Mitigated Exempt Debt Service (c) + (d)	**$8,292,689**	**$9,685,445**	**$1,392,756**	**16.8%**
Within-Levy & Exempt Debt Service (a) + (c)	**$17,887,197**	**$21,972,390**	**$4,085,193**	**22.8%**

The purchases of the real property at 20 Pelham Rd, and 173 Bedford St. were financed by issuing $12.4 million in bond anticipation notes (BANs). In FY2019 the plan is to allocate $3,050,000 to retire a portion of these BANs. The amount in line (a) above is net of the $3,050,000. Please see the Brown Book, p. IV-14, for more information.

For FY2019, the exempt debt service budget is $14,185,445, which is a $3,492,756 or 32.7% increase over the amount for FY2018. To mitigate the impact of excluded debt service on property tax bills in FY2019, it is planned to use $4,500,000 from the Capital Stabilization Fund, which is $2,100,000 or 87.5% more than in FY2018.

Reserve Fund

The Reserve Fund is intended for extraordinary and unforeseen expenses. Transfers out of the Fund are done with the approval of the Appropriation Committee.

The FY2019 funding request for the Reserve Fund is $900,000, which represents level funding since FY2014. Unused amounts at the end of the year flow to Free Cash.

Public Facilities

The Department of Public Facilities manages the operation and maintenance of Lexington's municipal and school buildings. The Department supports the operation of the Community Center, supports the School Master Planning process, manages recurring maintenance of roofs, building envelopes, and HVAC systems in municipal and school buildings, and implements other priority projects. The FY2019 projected total Public Facilities operating budget is $10,733,728 which represents a $140,742 or 1.3% increase over FY2018.

Programs 3000-8000: Municipal	Funds Requested	Funding Source
	$38,229,823	see motion

The municipal budget comprises all line items from 3000 to 8999. Below is a comparison of the FY2019 Recommended and FY2018 Restated budgets.

Municipal Budget Line	FY2018 Restated	FY2019 Recommended	$ Change	% Change
3000 Public Works	$9,402,640	$10,119,459	$716,819	7.6%
4000 Police	$7,247,576	$7,246,566	-$1,010	0%
4200 EMS/Fire	$6,577,294	$6,950,710	$373,416	5.7%
5000 Library	$2,534,144	$2,592,454	$58,310	2.3%
6000 Human Services	$1,302,971	$1,465,284	$162,313	12.5%
7000 Land Use/Health/Development	$2,370,369	$2,447,636	$77,267	3.3%
8000 General Government	$6,050,569	$7,407,714	$1,357,145	22.4%
Total Municipal	**$35,485,563**	**$38,229,823**	**$2,744,260**	**7.7%**

The recommended total municipal budget for FY2019 is $38,229,823, which represents a $2,744,260 or 7.7% increase over the FY2018 Restated Budget.

Public Works

The total request for FY2019 for Public Works is $10,119,459, which represents a $716,819 or 7.6% increase over the FY2018 Restated budget. The year-over-year increase is primarily driven by increase in Refuse Collection and Recycling Expenses, both of which reflect increases in the Town's service contracts due to expire in June 2018. As of press time, successor contracts are still under negotiation. The increase in Recycling Expenses also reflects the current market for disposal of recycled materials across Massachusetts.

General Government

The total request for FY2019 General Government is $7,407,714, which represents a $1,357,145 or 22.4% increase. Most of the year-over-year increase comes from two components in this area. First, a new line item, LexMedia, to be supported by the PEG Access Special Revenue Fund, is added in FY2019 in the amount of $600,902. This reflects a change in accounting. The LexMedia budget was supported by a revolving fund in FY2018.

Second, the request for the FY2019 IT budget is $2,311,853, which represents a $345,151 or 17.6% increase over FY2018. The majority of the increase in the IT budget is due to higher levels of contracted management and monitoring of the Town communications infrastructure through new and renewed software/hardware maintenance contracts.

The Committee recommends approval of the recommended operating budget (9-0).

Article 5: Appropriate FY2019 Enterprise Funds Budgets		
Funds Requested	Funding Source	Committee Recommendation
$9,922,051 $9,612,995 $2,850,493 $253,007 **$22,638,546**	**Water EF** **Wastewater EF** **Recreation EF** **tax levy**	**Approve (9-0)**

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 and Community Programs Enterprise Fund. For an overview of the legal framework and accounting concepts that apply to the operation of an enterprise fund, please refer to Appendix B.

The appropriations addressed in this article cover the complete operating costs of the respective enterprises with the exception of indirect costs, which are routinely appropriated under Article 4, and a new proposal to begin making contributions on behalf of employees assigned to the Town's water and sewer departments to the Post-Employment Insurance Liability (PEIL) Fund for retirement health benefits, which are appropriated under Article 21.

The following discussion focuses on the anticipated expenses and revenues of the enterprise funds for FY2019 and issues they raise. Capital appropriations are addressed in Articles 15 (Recreation Capital), 16 (Municipal Capital), 17 (Water System Improvements) and 18 (Wastewater System Improvements).

Water and Wastewater Enterprise Funds

A breakdown of the funding request for the Water and Wastewater Enterprise Funds, and the percentage changes from the prior fiscal year, is shown in the following tables.

Water Enterprise Fund	FY2017 Actual	FY2018 Appropriated	FY2019 Requested	$ Change	% Change
Compensation	$631,564	$701,128	$771,886	$70,758	10.09%
Expenses	$402,571	$427,025	$494,025	$67,000	15.69%
Debt Service	$1.374,696	$1,466,428	$1,476,402	$9,974	0.68%
MWRA Assessment	$7,376,976	$7,246,531	$7,179,738	-$66,793	-0.92%
Total Requested in Article 5	**$9,785,807**	**$9,841,112**	**$9,922,051**	**$80,839**	**.82%**
Indirect Expenses (Article 4)	$877,411	$872,458	$869,833	-$2,625	-0.30%
OPEB Contribution (Article 24)		$9,089	$9,089	$9,089	0.00%
Total Water Enterprise Budget	**$10,663,218**	**$10,722,659**	**$10,800,973**	**$78,314**	**0.73%**

Wastewater Enterprise Fund	FY2017 Actual	FY2018 Appropriated	FY2019 Requested	$ Change	% Change
Compensation	$261,525	$308,749	$359,312	$50,563	16.38%
Expenses	$349,034	$356,525	$408,150	$51,625	14.48%
Debt Service	$937,922	$1,063,349	$1,211,165	$147,816	13.90%
MWRA Assessment	$7,265,870	$7,402,979	$7,634,368	$231,389	3.13%
Total Requested in Article 5	**$8,814,351**	**$9.131,602**	**$9,612,995**	**$481,393**	**5.27%**
Indirect Expenses (Article 4)	$503,898	$546,827	$515,280	-$31,547	-5.77%
OPEB Contribution		$4,085	$4,085	$0	0.00%
Total Wastewater Enterprise Budget	**$9,318,249**	**$9,682,514**	**$10,132,360**	**$449,846**	**4.65%**

Note that this table differs from that contained in the warrant in three respects: (1) the MWRA assessments for water and wastewater reflect the MWRA's preliminary assessments issued in February, which are much lower than the 10% increase "placeholders" assumed in the Warrant; (2) indirect expenses to be charged to the enterprise funds, although appropriated separately under Article 4, have been included for completeness; and (3) the new charges to the Water and Wastewater Enterprise Funds to fund liabilities for Other Post-retirement Employment Benefits ("OPEB"), although appropriated separately under Article 24, have also been added for completeness.

As can be seen from the table, there are some fairly significant increases in the DPW's operating costs, compared with prior years, but they are offset by relatively small (or negative) MWRA assessment increases and a reduction in indirect expenses as financial responsibility for the Utility Billing Manager is being transferred from the General Fund (Finance) to the enterprise funds (Water and Sewer Operations). On a combined basis, the total expenses of the two funds are going up only 2.59%. This means that when FY2018 water and sewer rates are set in the fall, rate increases should be modest.

MWRA Assessments. The largest expense components of both the Water and Wastewater Enterprise Fund budgets are the assessments charged by the Massachusetts Water Resources Authority (MWRA), which now represent 70-75% of the total budget for each fund. The Town will be assessed a share of the MWRA's total FY2019 water and sewer budgets based on the Town's proportionate water and sewer usage in the most recent full calendar year (CY2017), compared with other towns in the MWRA community. Based on the MWRA's preliminary assessments,[5] the MWRA increases/decreases for FY2019 will be -0.92% for water and 3.13% for wastewater, as set forth in the table above, for a combined increase of 1.1%.

The small reduction in Lexington's water assessment from FY2018 compares favorably with a MWRA system-wide combined increase of 4.0%. During the summer of 2017, a relatively wet summer compared with the extremely dry summer of 2016 when Lexington consumed irrigation water at records levels, Lexington residents and business cut back substantially on water use – even more so than other MWRA communities – consuming 11.2% less in 2017 than 2016, and reducing Lexington's system share by 5.1%. On the wastewater side, our 3.1% increase compares with a 3.9% MWRA increase system-wide.

Direct Town Costs. In addition to the MWRA assessments, the expenses of the Water and Wastewater Fund budgets include direct costs incurred by the Town, primarily for: (1) the wages and salaries of the

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

employees in the DPW's Water and Sewer Divisions, (2) the expenses of the water and sewer maintenance activities and equipment, and (3) debt service on prior borrowings for water and sewer capital improvements. As noted above, the Utility Billing Manager function will now be a direct cost, which bumped up compensation costs.

Indirect Town Costs. The Water and Sewer Enterprise Fund budgets also include indirect costs for services provided by other Town departments to support water and sewer operations, such as insurance costs (health and liability), retirement funding, engineering costs, and the cost of services provided by the Comptroller, the Management Information Systems (MIS) Department, and the Revenue Department. Since 2006, the Town has conducted periodic studies of the appropriate level of indirect costs and has adjusted the charges to the enterprise funds accordingly. The transfer of the Utility Billing Manager to a direct cost of the Water and Sewer Funds has lowered somewhat the indirect expenses.

Rate-Setting and Reserves

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

During the early 2000s, difficulties in forecasting usage and other accounting issues resulted in rates being set at less than adequate levels in several rate years. This, in turn, reduced the retained earnings in the Water and Sewer Enterprise Funds to levels that caused concern. Since 2005, the Town's ability to measure and forecast water and sewer usage, and thereby to anticipate revenues and reserve levels, has improved significantly. This has enabled the Town to restore and stabilize the water and sewer enterprise fund reserve balances for each of the two funds to targeted levels of approximately $1,000,000 for each fund and, more recently to draw some of the funds down for capital investment as shown in the table below.

Retained Earnings: Appropriations and Year-End Balances

Annual Town Meeting	2013	2014	2015	2016	2017	2018
Water						
Starting Balance [1]	$2,066,566	$2,234,007	$2,119,458	$1,786,659	$1,800,533	$531,863
Approp. for Rate Relief [2]	$300,000	$250,000	$0	$0	$0	$0
Bedford, Burlington Mitig [3]	$200,000	$250,000	$275,000	$131,000	$190,900	$0
Approp. for Capital [4]	$750,000	$873,500	$1,015,500	$620,500	$1,095,000	$105,000
Projected End Balance [5]	$816,566	$860,507	$903,958	$1,035,159	$514,633	$426,863
Wastewater						
Starting Balance [1]	$1,319,000	$1,990,816	$2,027,941	$1,032,942	$2,270,848	$576,523
Approp. for Rate Relief [2]	$100,000	$50,000	$0	$0	$0	$0
Approp. for Capital [4]	$200,000	$940,500	$1,390,500	$177,500	$1,290,000	$0
Projected End Balance [5]	$1,019,000	$1,000,316	$637,441	$855,422	$980,848	$576,523

[1] Certified retained earnings as of the end of the prior fiscal year (as of 6/30/2017 for this year's ATM).

[2] Appropriations from retained earnings to subsidize the next fiscal year's operating budget.

[3] In recent years, Lexington has supplied unusually large quantities of water to Bedford as Bedford has worked to correct issues with its alternative supplies. More recently, Lexington was called on temporarily to supply water to Burlington. The surplus revenues resulting from these sales beyond estimates were "earmarked" to mitigate against the future rate impact resulting from these extraordinary usages.

[4] Proposed appropriations for capital projects for the next fiscal year (FY2019 at this ATM).

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

As can be seen from the table, this year's certified retained earnings balances in both the water and wastewater fund are significantly lower than in past years, standing at about half of the usual target. Part of the reason for this is that unusually large appropriations were made from retained earnings at the 2017 Annual Town Meeting, both for capital projects to be undertaken in FY2018, and also to "mitigate" against rate increases anticipated to result from unusually large quantities water consumed during calendar year 2016 by the Town of Bedford (which had system issues with its alternative supplies) and the Town of Burlington (which required a temporary supply from Lexington), the proceeds of which had been set aside for this purpose.

The certified levels of retained earnings are nevertheless suspect because during FY17, which included the extremely dry summer of 2016, the Water Enterprise Fund experienced a significant operating surplus, of well over one million dollars, primarily attributable to record irrigation water usage substantially in excess of estimates.[6] (The Wastewater Fund experienced a small deficit, but this was attributable primarily to revenue which ordinarily would have been booked in FY2017 not being received until after the close of the fiscal year.) As a consequence, the retained earnings balance in the Water Fund as of June 30, 2017, all else being equal, should have been substantially higher than the projected "break-even" end balance of $514,633 shown in the table. The reasons for this anomaly are still being explored and could result from either an over-certification of the FY2016 year-end retained earnings, an under-certification of the FY2017 year-end retained earnings, or a combination of the two. If it is determined that there was an under-certification of the FY2017 year-end balance, the shortfall should be corrected when year-end FY2018 results are certified.

In any event, because this year's certified retained earnings balances are below targets, they are not being proposed as a source of significant capital funding in FY2019. On the wastewater side, no appropriations from retained earnings are proposed. On the water side, appropriations from retained earnings are limited to $75,000 for the hydrant replacement program under Article 16(a) and $30,000 for a water valve turner under Article 16(h). As discussed under Articles 17 and 18, the major annual water and sewer main and pumping station capital projects will be funded exclusively by water and sewer fund debt.

Recreational Enterprise Fund

Early in 2015, the *Recreation Department* was reorganized as the *Department of Recreation and Community Programs (DRCP)*, resulting in increased costs for operations and programs. The Director of Recreation and Community Programs, through the Recreation Committee, continues to set fees with the approval of the Board of Selectmen.

The multi-year budget growth from 2015 has been due to the inauguration of the Lexington Community Center (LCC). The FY2016 LCC budget included $383,073 to fund 5.5 full time and seasonal staff to plan, manage and deliver community programs along with the supplies needed.

[6] *See* Brown Book, page V-26. As shown in the column "FY207 Actual," the sum of funding sources, including user charges, other fees, interest income and prior-year retained earnings was $12,192,616, whereas total expenses were $10,663,218, resulting in an FY2017 operating surplus of $1,529,398.

Recreational Enterprise Fund	FY2017 Actual	FY2018 Approp.	FY2019 Requested	Dollar Increase	% Change
Compensation	$1,189,073	$1,308,669	$1,416,168	$107,499	8.21%
Expenses	$1,193,874	$1,316,445	$1,434,325	$117,860	8.95%
Debt Service	$100,000	$100,000	0	($100,000)	-100%
Total Requested in Article 5	$2,482,947	$2,725,114	$2,850,493	$98,827	.96%
Indirect Expenses (Transfer to General Fund)	$247,826	$254,826	$261,826	$7000	2.75%
Total	$2,730,773	$2,979,950	$3,112,319	$132,379	4.44%

The operational costs of all programs offered by the DRCP are designed to be revenue neutral, with charges to users matching the program's operating costs. However, to supplement the overall increases in cost of operation and programing of the LCC, the motion includes a transfer of $253,007 in tax levy funds into the Recreation Enterprise Fund, which would be appropriated under this article.

Debt service costs need no longer be paid because the debt for the Lincoln Field Project has been paid off.

The major factors for the 4.44% increase over the 2017 budget are prospective step increases and cost of living adjustments and increases in the hourly rate for seasonal staff. In addition, a seasonal part-time summer clerk will be converted to an annual part-time position and a part-time Certified Therapeutical Specialist will be hired for the special needs population. Finally, new lights at Lincoln Field require increased electrical costs.

Sources of revenue include $375,000 from the Recreation Enterprise Fund retained earnings, $1,291,732 from user fees for recreation, $433,253 from registration fees for Community Center programs, and $775,000 from golf fees at Pine Meadows Golf Course. The revenue from fees is based on projections.

The Recreation Fund contributes to the debt service on some recreation capital projects, in particular the Lincoln Field restoration project. However, most recreation capital costs are subsidized by the General Fund through a combination of within-levy debt, excluded debt, and by Community Preservation Act (CPA) funding.

The balance of retaining earnings in the Recreation Enterprise Fund at the close of FY2017 was $1,029,912. A withdrawal of $60,000 from this Fund is proposed under Article 15 for a new lawn mower, bunker rake and spreader at the Pine Meadows Golf Course.

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

Article 6: Appropriate for Senior Services Program		
Funds Requested	Funding Source	Committee Recommendation
none		**IP**

This article was, initially, to be a request for an appropriation for the Town's Senior Service Program of $30,000, an amount level-funded from the FY2018 request. Because there is a substantial projected carryover balance at the end of the fiscal year of over $50,000, which should be more than sufficient to fund the program needs for FY2019, it is anticipated that, instead, this article will be indefinitely postponed.

The Senior Service Program

Since 2006, the Town has operated its own Senior Service Program, which allows low to moderate income seniors (age 60 and over) to perform volunteer work for the Town in exchange for a reduction in their property tax. The Town adopted this program, in substitution for a similar program previously operated under G.L. c. 59, § 5K, to allow it more flexibility in setting the age criteria for participation, the wage rate, and the total amount of credit allowed.

For more information on the Senior Service Program and other property tax relief options available to seniors, including exemptions and opportunities for deferral, please refer to Appendix D.

Benefits and Criteria for Participation

Current income eligibility criteria are set forth in Appendix D. Participants may receive property tax reductions under this program in addition to any other exemption for which they qualify, such as the $1,000 Clause 41C exemption, and may also defer the balance of their taxes under Clause 4lA if they are eligible to do so. The maximum amount of the tax reduction that may be earned, under guidelines established by the Selectmen and amended in June 2017, is $1,210/year (110 hours at $11.00 per hour) for an individual and $1,540/year (140 hours at $11.00 per hour) for a two-person household toward their property tax bills.

Funding Requirements and Requested Appropriation

The program operates as a continuing balance account, and unexpended funds carry over from year to year. When first established in FY2007, the program was funded at $25,000, an amount slightly higher than the average annual amount that had been expended from an overlay account under the pre-existing §5K program during the 2004-2006 fiscal years. In anticipation of higher usage, the annual appropriation was subsequently increased over time from $36,000 in FY2007 to $45,000 in FY2010.

This level of funding, however, proved to be more than required to allow the Town to admit all eligible applicants who wished to participate in the program. Although the wage level was increased from $8.50 to $9.50 in FY2014, and income thresholds have also been increased, participation has steadily declined from a high of 34 in FY2007-2008 to 23 in FY2015-2016, to 16 in FY2017, and just 15 in FY2018.

As recommended by this Committee in its report to 2017 Annual Town Meeting, the Board of Selectmen last year again enhanced the program, better aligning it with the Massachusetts "Senior Circuit Breaker" Tax Credit, increasing gross income requirements to $57,000 for single taxpayer and $86,000 for a two-person household, increasing the hourly wage rate to $11.00 per hour, and increasing the total amount which may be earned. Although these changes have not yet resulted in increased participation, efforts will be made going forward to make the availability of this worthwhile program more widely known.

The projected carry over balance of more than $50,000 should be sufficient to fund the program needs for FY2019.

Article 7: Appropriate for Advice and Analysis – Getting to Net Zero		
Funds Requested	Funding Source	Committee Recommendation
$40,000	**GF**	**Approve (9-0)**

Background

This is the third of three requests for funding of the Net Zero Task Force, with the goal of exploring ways to reduce over 25 years the energy consumption of all municipal, residential and commercial/industrial buildings in Lexington to achieve "net zero" emissions. The process envisions four steps:

- Report – Assessment of building performance
- Reduce – Energy efficiency improvements
- Produce – Maximize onsite renewable energy
- Purchase – Buy renewable energy

Previously, $40,000 was appropriated under Article 16 of the 2016 Annual Town Meeting, and $40,000 under Article 17 of the 2017 Annual Town Meeting. Of these appropriations, $70,000 will have been spent before the start of the 2018 Annual Town Meeting, with the balance of $10,000 available for use in FY2019 without requiring appropriation. This year, an additional $40,000 is requested to augment the previous appropriations.

Progress

In 2016, a stakeholder group was assembled, consisting of a diverse group of members, including a current and a former Selectman, members of the Sustainable Lexington Committee, a School Committee member, architects, real estate owners, and a representative of Shire, Inc. The Peregrine Energy Group was retained to prepare a Lexington energy-use and emissions assessment, and the Integral Group/SPI was hired to facilitate task force meetings, to assess options, and to recommend strategies for reducing emissions.

In 2017, the Peregrine Group assessment of energy use and emissions was presented to Town Meeting. A report on best practices and opportunities for reducing building emissions has been prepared by the Integral Group/SPI, and will be presented to the Board of Selectmen at some time after the Annual Town Meeting. This report takes as a starting point a similar report prepared by the City of Cambridge at the much higher cost of approximately $250,000.

The requested appropriation will fund the development by the Peregrine Group of a tool for use in tracking the Town energy usage annually. This tracking tool is essential for measuring the effective impact of Town policy changes related to reducing carbon emissions.

Discussion

As we have noted in our previous year's report, given the great magnitude of the effect of greenhouse gas emissions on climate change, the investigation of methods for reducing emissions from buildings in Lexington is timely and important. While funding requests needed to implement some of the upcoming Task Force recommendations cannot yet be estimated, and will have to be individually considered, this Net Zero investigation will serve to recommend building construction policy changes, as well as practical ways to reduce emissions stemming from building energy consumption, while tracking overall progress towards the Net Zero goal.

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

Article 8: Appropriate to Create Diversity Advisory Task Force		
Funds Requested	Funding Source	Committee Recommendation
$30,000	**GF**	**Approve (9-0)**

This article requests the appropriation of funds to create the Diversity Advisory Task Force per recommendation of the 20/20 Vision Committee, Subcommittee on Asian Communities. The goal of the Diversity Advisory Task Force is to advise the Town Manager and Superintendent of Schools of potential municipal and school actions to promote a culture of diversity, foster civic engagement and ensure equitable access to resources and opportunities for all residents.

Of the $30,000 requested, $15,000 comes from the school allocation of revenue and $15,000 comes from the municipal allocation of revenue. Since this item is covered separately in this article, it is not included in the operating budgets in Article 4.

The Diversity Advisory Task Force consists of volunteer community representatives and there is neither school nor municipal staff funded. The requested funds are expected to cover the cost of a consultant facilitator, working lunch/dinner meetings, possible printed materials, and travel to visit other diverse communities as deemed necessary.

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

Article 9: Establish and Continue Departmental Revolving Funds		
Funds Requested	Funding Source	Committee Recommendation
see below	**RF**	**Approve (9-0)**

This article seeks reauthorization of all existing municipal revolving funds for FY2019 as shown in the table below. 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 funds is based on a reasonable estimate of the fees and charges likely to be received, as well as of the expenditures likely to be required. A summary of the historical receipts, expenditures, and balances for each fund during FY2017 and the first half of FY2018 can be found at Appendix C, page C-2, of the Brown Book.

Program or Purpose	Authorized Representative or Board	Departmental Receipts	FY2018 Approved Limit	FY2019 Requested Limit
Building Rental Revolving Fund	Public Facilities Dir.	Building Rental Fees	$525,000	**$535,000**
DPW Burial Containers	Public Works Dir.	Sales	$40,000	**$50,000**
DPW Compost Operations	Public Works Dir.	Sales and Permits	$897,000	**$810,000**
Trees	Public Works Dir.	Gifts and Fees	$45,000	**$45,000**
Minuteman Household Hazardous Waste Program	Public Works Dir.	Fees Paid by Consortium Towns	$180,000	**$190,000**
Health Programs	Health Director	Medicare Reimbursements	$14,000	**$45,000**
Senior Services (formerly Council on Aging Programs)	Human Services Dir.	Program Fees and Gifts	$50,000	**$75,000**
Tourism/Liberty Ride	Economic Development Dir.	Liberty Ride Receipts	$285,000	**$285,000**
School Bus Transportation	School Committee	School Bus Fees	$1,150,000	**$1,150,000**
Regional Cache – Hartwell Avenue	Public Works Dir.	User Fees for Participating Municipalities	$10,000	**$10,000**
Visitors Center	Economic Development Dir.	Sales, Program Fees and Donations	$202,000	**$212,000**

Changes in Authorization Levels from FY2018

The Compost Operations revolving fund limit is decreased by $87,000 due to a one-time FY2018 cost to rebuild compost bins which were relocated for the solar array.

The Health Programs fund limit is increased by $31,000 in response to an increase in insurance reimbursement revenues for vaccination clinics.

The Visitors Center fund limit is increased by $10,000 to reflect a more accurate projection of staffing needs and increased inventory costs.

The Burial Containers fund limit is increased by $10,000 to reflect fee increases as of July 1, 2017.

The Senior Services fund limit is increased by $25,000 to reflect increased weekly hours for the Senior Services Nurse from 15 to 20 hrs.

The remaining changes to fund limits are based on projected expenses, historical trends and experience.

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

Article 10: Appropriate the FY2019 Community Preservation Committee Operating Budget and CPA Projects		
Funds Requested	Funding Source	Committee Recommendation
$9,241,516	**CPF - $8,670,516** **GF - $571,000**	**10(a) IP** **10(b) Approve (9-0)** **10(c,e-h,k-l) Approve (9-0)** **10(d) Approve (6-3)** **10(i) Approve (7-2)** **10(j) Disapprove (3-5-1)**

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

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

Communities adopting the CPA have each implemented the statute in a way that reflects local opportunities, priorities and needs. One of Lexington's opportunities lies in the inventory of municipal and school buildings that qualify as historic buildings and which are therefore eligible for CPA funding. These projects can be funded through a combination of Lexington taxpayers' CPA surcharges and State matching funds.

Since Lexington's adoption of the Community Preservation Act in 2006, the CPC has recommended and Town Meeting has approved a total of $66,153,115 for CPA projects. These funds have supported 55 historic preservation projects, preserved 87 acres of open space, created or preserved 37 recreational facilities, and created or supported 371 units of affordable housing. Of this total, $14.2 million or 21% of the Town's total project costs (exclusive of Administrative expenses) has been received from the State as matching funds.

Funding Sources and CPA Categories

The requests recommended by the CPC for FY2019 are listed below. The funding source for each request is entirely CPF unless otherwise noted.

All CPA projects must qualify for CPA funding under one (or more) of the following categories: Open Space, Historic Resources, Affordable Housing, or Outdoor Recreation. The CPA fund has a restricted account for each category, along with an Unallocated Reserve that can be used for any qualifying project. CPA funds are appropriated from an eligible restricted account when feasible, or from the Unallocated Reserve. Each year, at least 10% of annual CPA revenues must be spent in each of three CPA categories: open space (excluding recreational use), historic resources, and community housing.

Beginning in FY2007, following voter approval, the Town began to assess a Community Preservation Surcharge of 3% of the property tax levied against all taxable real property. For owners of residential property, the assessed value used to calculate the surcharge is net of a $100,000 residential exemption. Community Preservation funds can be used for those purposes defined by the Community Preservation Act, MGL Ch. 44B. Such purposes include the acquisition and preservation of open space, the creation and support of community (affordable) housing, the acquisition and preservation of historic resources, and the creation and support of recreational facilities. Beginning in FY2008, the Town began receiving State matching-funds to supplement the local surcharge.

The FY18 CPA State Match was $789,905, determined as 17.8% of that financial year's CPA surcharges, and was paid to Lexington in Nov 2017.

CPA items under this article will be funded from anticipated FY2019 revenue and any CPA funds available from prior years. FY2019 revenue includes FY2019 CPA tax surcharges, anticipated to be $4,805,000, the projected FY19 CPA State Match of $689,000, and investment income of $20,000. The CPA funds available from prior years are $2,923,240. The total available for FY2019 CPA appropriation (at the beginning of Town Meeting) is $8,437,240.

Article 10(a) Conservation Land Acquisition (Placeholder/TBD)
Eligible for CPA Funding as Open Space.

There is no known request under 10(a). It is expected to be indefinitely postponed.

Article 10(b) Community Center Sidewalk – $365,000
Eligible for CPA Funding as Historic Resources.

The Community Center was renovated with funds appropriated by the 2014 March Special Town Meeting. At the time of the renovation, a sidewalk linking Marrett Road to the Community Center was proposed.

The design of the sidewalk is relatively complex because it needs to overcome steep grades and still comply with accessibility regulations, while at the same time not conflicting with land that remains under the possession of the Scottish Rites. The conceptual plan, that includes a cement concrete sidewalk with pedestrian level lighting, was completed in 2017.

The Committee recommends approval (9-0) of 10(b).

Article 10(c) Archives and Records Management - $20,000
Eligible for CPA Funding as Historic Resources.

This is part of a multi-year request that will fund ongoing conservation and digitization of older documents and make them available on the Town's digital archives, including (1) military records from 1799 to 1915, and (2) old Town papers dating from 1722 to 1923 that have not been digitized.

The anticipated annual amount requested for each year FY2019-FY2023 is $20,000 in CPA Historic Resources funds, for a total of $100,000. The request sponsor is the Lexington Town Clerk.

The Committee recommends approval (9-0) of 10(c).

Article 10(d) 9 Oakland St- Renovation and Adaptive Re-Use - $200,000
Eligible for CPA Funding as Historic Resources.

This represents a request for $200,000 to help fund part of the historic renovation and adaptive reuse of 9 Oakland St, a small building adjacent to a larger building at 7 Oakland St. that provides 15 units of housing for survivors of brain injury. The 15 units were funded in part with a $300,000 2007 CPC grant. The project at the 9 Oakland St building would provide additional common area for residents and additional meeting and office space for staff from Douglas House and the SLI (Supported Living Inc.) Wellness Center. The total renovation project cost of the 9 Oakland St historic structure is $425,000. The balance of $225,000 would come from foundation funds, donations and SLI Board funds.

A majority of this Committee supports the project as appropriate for use of CPA historic resources funds, and as beneficial to the survivors of brain injury residing at 7 Oakland St. A minority recognizes the need for the project but is opposed to using CPA historic resources funds for renovation of a private building for which private funds could be raised to cover the entire cost.

The Committee recommends approval (6-3) of 10(d).

Article 10(e) Public Grounds Irrigation Improvements - $100,000
Eligible for CPA Funding as Recreation.

The Department of Public Facilities requests $100,000 ($60,000 Free Cash/$40,000 CPA) to improve the current irrigation systems on public grounds for more efficient water usage, system repairs, and turf appearance. The updates to the systems will allow irrigation to be more targeted on the turf areas. Planned improvements include all the park areas around town that are not athletic fields: Emery Park, Hastings Park, the Cary Memorial Building, Town Offices, Police Station complex, the Battle Green, Buckman Tavern, etc.

The Committee recommends approval (9-0) of 10(e).

Article 10(f) Playground Replacement Program- Bowman - $302,000
Eligible for CPA Funding as Recreation.

The Department of Public Facilities requests $302,000 in FY2019 to update and replace the playground equipment and surfacing behind the Bowman Elementary School. The existing equipment is over 15 years old and has become obsolete. For safety, all structures should be removed and replaced with a new and up-to-date system. The improvements will bring the site into compliance with requirements from the Consumer Product Safety Commission (CPSC), the American Society for Testing and Materials (ASTM) and the American with Disabilities Act (ADA).

The Committee recommends approval (9-0) of 10(f).

Article 10(g) Athletic Facility Lighting - $975,000
Eligible for CPA Funding as Recreation.

The Recreation and Community Programs Department is requesting funding to replace the existing lighting system and structures at the Lexington High School Center #1 Baseball Field, the Center #2 Softball Field, the Center Basketball Field, all ten of the Gallagher Tennis Courts located by the Town Pool, as well to upgrade the existing lighting at the Town Pool. Currently, 34% of the athletic facility lighting is not operational and the remaining lights provide various levels of illumination.

New fixtures and lights will facilitate operational efficiency by enabling staff to program all the lighting from one central software system. The new energy and cost-efficient systems will provide the town savings of approximately $335k over the life of the system (25 years), reduce light spillage by approximately 50% and reduce CO_2 emissions by using energy efficient lights at the tennis and basketball courts as well as the pool.

This project had been included in the 5-year recreation capital plan.

The Committee recommends approval (9-0) of 10(g).

<u>Article 10(h) Center Track and Field Reconstruction - $3,340,000</u>
Eligible for CPA Funding as Recreation.

The Recreation and Community Programs Department requests $3,340,000 ($2,829,000 CPA/$511,000 GF) for reconstruction of the Center Track and Field. The Center Track was fully reconstructed in the year 2000. It was resurfaced in 2006 and 2012 and cannot be resurfaced again. The Recreation Department has determined that the current condition of the track presents tripping hazards and is unsafe. The Lexington High Athletic Department has stopped hosting invitational meets at both the state and league level due to the physical condition of the track. MIAA and NFHS standards require 8 lanes, but the existing track has only 6 lanes. Also, the existing track lacks field facilities which meet the MIAA and NFHS standards.

The project includes complete reconstruction of the track, renovation of the athletic field, new lighting, replacement of bleachers removed in the summer of 2017 and replacement of the fencing around the complex. This project has been included in the 5-year recreation capital plan.

<u>The Committee recommends approval (9-0) of 10(h).</u>

<u>Article 10(i) Old Reservoir Bathhouse Renovation - $75,000</u>
Eligible for CPA Funding as Recreation.

The Old Reservoir Bathhouse was built in 1975. FY2019 funds are requested to complete a feasibility study, accomplish design development, and produce construction documents for either a complete renovation or new construction of the bathhouse. The project is anticipated to include repairs to the plumbing system, installation of new fixtures (showers, toilets, sinks, drinking fountain) and aerators, replacement of the existing roof and the installation of a new shade structure. The project will also address ADA accessibility issues in the bathhouse and the walkway surrounding the site. The construction phase is scheduled for FY2020.

<u>The Committee recommends approval (7-2) of 10(i).</u>

<u>Article 10(j) Lowell Street/Farmview Affordable Housing Supplemental Funds - $1,400,000</u>
Eligible for CPA Funding as Affordable Housing.

This article seeks to appropriate additional funds for the affordable housing project on Lowell Street.

<u>Affordable Housing</u>

2014 Annual Town Meeting approved a total of $1,284,653 to be used by LexHAB for the development of community housing at the former Busa Farm site off Lowell Street, a Town property acquired with CPA funds in 2009. This amount included use of remaining fund balances from previous appropriations for community housing by the 2011 and 2012 Annual Town Meetings.

The Department of Housing and Community Development (DHCD) has approved the initial application for the project which will consist of six affordable housing units in two residential buildings.

Since the original Town Meeting approval, there have been some changes which require additional funding. They include:

- LexHAB is now required to comply with the state's public bidding laws which will increase the costs by as much as 30%.
- LexHAB will now purchase rather than lease solar panels that will be installed, resulting in an increase of $65,000.
- LexHAB will upgrade two units to full accessibility, costing an additional $25,000.
- Construction costs have increased significantly since the original estimate.

	Original Estimate	Current Estimate (Feb. 2018)	Difference
Total Cost[7]	$1,284,653	$2,700,000	$1,415,347
Total Sq. Ft	5,144	5,144	
Cost/Unit	$214,109	$450,000	$235,891
Cost/Sq Ft.	$250	$525	$275

The CPC proposes to fund this request with cash from available CPA funds.

A majority of this Committee is opposed to recommending approval of this request without having appropriate affordable housing mitigation cost guidelines, policies and processes in place. In Article 44 of the 2017 Annual Town Meeting, a private land owner sought approval of a rezoning proposal in order to add high-density residential development, which typically must include an affordable housing component sufficient to maintain the Town's existing affordable housing ratio. Since including on-site affordable housing was impractical in this case, a negotiated arrangement was proposed in which the landowner/developer would provide funding over time to support creation by the Town of affordable housing offsite rather than within the development. During negotiation of this mitigation arrangement, the Town used $214,602 as the construction cost of an affordable housing unit based on expectations provided by LexHab for projects at Fairview and the yet-to be-completed Farmview (Lowell St, the subject of this subsection). Questions were raised about the adequacy of the mitigation because it was not clear it would be sufficient to build the number of units typically required for development of the proposed size. Nevertheless, the arrangement was approved and is in effect.

The majority notes that the per-unit cost of the six units that are the subject of Article 10(j) is more than double the per-unit cost given above, and it is now clear that the negotiated mitigation arrangement will not come close to covering the cost for the number of affordable housing units (5.5) expected. This is a good opportunity to point out that the Town's policies and bases for estimating construction costs that will be used to guide the creation and funding of affordable housing, including a process to continuously review and adjust CPA and other guidelines for affordable housing projects, should be reconsidered and made more transparent.

A minority would recommend approval of the project notwithstanding its substantially increased cost, noting that the continued production of affordable housing with dedicated CPA funds is an important priority of the Town, that this is the only CPA affordable housing project advanced this year, that any decision with respect to the affordable units under consideration must be made on the basis of present legal requirements and construction costs, and that costs for affordable housing projects are only likely to increase in future years.

We note that Mr. Levine has recused himself from this article due to a potential conflict of interest.

<u>The Committee recommends disapproval (3-5-1) of 10(j).</u>

[7] Costs are for design and construction only but not for the land, since the Town already owns the land.

Article 10(k) CPA Debt Service - $2,314,516

Projected debt service on the CPA projects is outlined in the following table. Two different types of debt are used: Bond Anticipation Notes (BANs), and multi-year municipal bonds. BANs arrange interest-only short-term borrowing for a term of up to one year. They are issued for individual projects prior to bundling the debt from several projects to create a single multi-year bond. There are no BANs for CPA projects in the FY2019 budget.

Project / Approval	Total Appropriation	Debt Financing	Debt Service	BAN Interest
Wright Farm Purchase	$3,072,000	$2,090,000	$380,550	-
ATM 2012			*Debt service ending FY2024*	
Community Center Acquisition	$10,950,000	$7,652,500	$954,100	-
STM 3/2013			*Debt service ending FY2024*	
Community Center Renovation	$6,320,000	$451,000	$47,166	-
STM 11/2013, Amended STM 3/2014			*Debt service ending FY2020*	
Cary Memorial Building Upgrades	$8,677,400	$8,241,350	$838,400	-
STM 3/2014			*Debt service ending FY2025*	
Center Track and Field Renovation	$3,340,000	$2,829,000	-	$94,300
ATM 3/2018			*Estimated interest at 3% on 9 month short term note*	
Totals			**$2,220,216**	**$94,300**

The last item, $94,300, represents estimated interest at 3% on a 9 month short term note for $2,829,000, the CPA-eligible portion of the Center Track and Field Reconstruction Project.

The debt service for the Wright Farm purchase will be paid from the Open Space category, and the other debt service payments will be paid from the Unbudgeted Reserves.

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

The Committee recommends approval (9-0) of 10(k).

Article 10(l) Administrative Budget - $150,000

The Community Preservation Act permits up to 5% of annual CPA funds to be spent on the operating and administrative costs of the Community Preservation Committee. The Committee is allowed to use this money to pay for staff salaries, mailings, public notices, overhead, legal fees, membership dues, and other miscellaneous expenses related to CPA projects. Five percent of the anticipated FY2019 revenue from the surcharge and State supplemental match is $272,850. However, as in past years, the CPC is requesting an appropriation of $150,000. This money will be used to fund the Committee's part-time administrative assistant, membership dues to the non-profit Community Preservation Coalition, administrative expenses, legal and miscellaneous expenses, and land planning, appraisals and legal fees for open space proposed to be acquired using CPA funds.

Use of the CPA Administrative Budget

Fiscal Year	Appropriation Each Year	Amounts (rounded)		
		Used	Pct Used	Return to CPF
2007	$25,000	$926	4%	$24,074
2008	$50,000	$45,495	91%	$4,505
2009	$75,000	$75,000	100%	$0
2010	$150,000	$81,270	54%	$68,730
2011		$52,784	35%	$97,216
2012		$78,955	53%	$71,045
2013		$96,577	64%	$53,423
2014		$77,490	52%	$72,510
2015		$121,911	81%	$28,089
2016		$61,844	41%	$88,156
2017		$54,871	37%	$95,129
Total	$1,350,000	$747,123	55%	$602,877

The Committee recommends approval (9-0) of 10(l).

Article 11: Appropriate for Westview Cemetery Building Construction

Funds Requested	Funding Source	Committee Recommendation
$3,040,000	**GF debt with debt service funded by the Sale of Cemetery Lots Special Revenue Fund**	**Approve (6-3)**

This article proposes an appropriation for the design and construction of a new Westview Cemetery Building on the Westview Cemetery grounds including the payment of costs of demolition, architectural, and engineering services, original equipment, furnishings, landscaping, paving and other site and traffic improvements incidental or related to such construction.

Westview Cemetery is the Town's active cemetery with an average of 200 burials per year. The current building, which serves as the cemetery office, meeting area for grieving families, and workspace for the maintenance staff, has deteriorated, needs to be reconfigured, and needs to be brought up to code. There is no private space for grieving families that come to make arrangements. Maintenance work may be performed in the adjacent garage area, and other people or cemetery staff may enter the office area while the grieving family is present. The maintenance area is small and some equipment must be stored outdoors, negatively affecting its durability and life.

At the 2015 Annual Town Meeting, $35,000 was appropriated to hire an architect to assess the current building, determine if the existing building can be renovated and expanded, and determine if a new building is needed. The assessment was made by TBA Architects Inc. At the 2017 Annual Town Meeting, $270,000 was appropriated to develop designs for the renovation of the existing building or construct a new building. The Board of Selectmen has reviewed the assessment and recommended that a new building be constructed. Funds are expected to be borrowed for a period of 20 years and the debt service payments (@ a 4% interest rate) are expected to be in the range of $225,000 per year. A majority of this Committee is in support of the request under this article.

A minority of this Committee is of the opinion that construction funds should only be appropriated once detailed design is complete, construction documents have been issued, and an accurate cost estimate has been developed.

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

Article 12: Appropriate for Lexington Children's Place Construction

Funds Requested	Funding Source	Committee Recommendation
$11,997,842	**excluded debt**	**Approve (9-0)**

This article seeks $11,997,842 for design and construction for the new Lexington Children's Place (LCP) to be located at 20 Pelham Road. The preliminary design of the preschool shows 7 classrooms in a building with a floor area of 18,850 square feet. The debt service for the project may be excluded from Proposition 2.5 limits on the tax levy since this was approved by the voters in December 2017.

The LCP provides services to preschool children (ages 2 years 9 months to 5 years old), including both children with special needs who qualify under the state mandate for free educational services, and typically-developing children whose families pay tuition. The LCP currently shares space in the Harrington School and School Administration (old Harrington) buildings.

As of March 1, 2018, LCP had an enrollment of 85 students, of which 39 are special education students taking up 60 slots, with 46 general education students taking up 71 slots. Note that morning and afternoon each count as one slot, with some students attending either morning or afternoon and some attending both.

As of March 10, 2018, the total project cost is estimated to be $15,079,342. The table below lists all appropriations for this project including two previous appropriations and the current request covered in this article.

	Appropriation	Purpose
STM 2017 Spring	$581,500	Design Funds for LCP
STM 2017 Fall	$2,500,000	Design, engineering (including the demolition of the existing structure, removal of hazardous material, and some site work), and architectural services
ATM 2018 Spring	$11,997,842	Design, construction, site work, and completion of the project
Total	**$15,079,342**	

Note that this request is consistent with the expected future appropriation stated during the fall 2017 special town meeting, which was $11,797,842 with possible additional site costs in the $100,000 - $200,000 range due to moving the building footprint further away from the wetland.

As of March 10, 2018, the construction documents are roughly 75% complete. The bid documents are almost ready for advertisement for services to accomplish the demolition of the existing building and to do required site work. The construction documents and the demolition of the existing building are covered by the appropriation from the fall 2017 Special Town Meeting.

Cost Breakdown

Item	Cost	Previous Appropriation	This article
Hard Costs			
Building Construction Cost	$7,658,556	$0	$7,658,556
Building Demo + HazMat Costs	$684,788	$684,788	$0
Sitework	$3,417,385	$975,000	$2,442,385
Subtotal Hard Costs	**$11,760,729**	**$1,659,788**	**$10,100,941**
Soft Costs			
Study/Fees/On-site construction Rep/ Testing	$2,068,613	$1,301,500*	$767,113
Furniture, Fixtures & Equipment plus Technology	$445,000	$0	$445,000
Subtotal Soft Costs	**$2,513,613**	**$1,301,500**	**$1,212,113**
Construction & Owner Contingencies	**$805,000**	**$120,212****	**$684,788**
Total	**$15,079,342**	**$3,081,500**	**$11,977,842**

* Includes the amount from the Spring 2017 STM ($581,000) and the portion from the Fall 2017 STM assigned to this item ($720,000).

** Includes the amount assigned to this item from the Fall 2017 STM appropriation ($115,000) plus the rounding error of $5,212 due to the appropriation of $2,500,000 at the Fall 2017 STM while the estimated cost was $2,494,788.

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

Article 13: Appropriate for 45 Bedford Street/Fire Station Replacement

Funds Requested	Funding Source	Committee Recommendation
$18,820,700	**excluded debt**	**Approve (9-0)**

This article seeks appropriation of $18,820,700 for the demolition of the current Fire Headquarters at 45 Bedford St. and the construction of a new Fire Headquarters building at the site.

This appropriation of funds represents the final step, barring a cost overrun, towards replacement of the current building at the intersection of Bedford St. and Worthen Road with a new larger building that will better serve the needs of the Fire Department for many years into the future. The numerous deficiencies of the current building include, among others, lack of sufficient room for equipment, personnel, and workspaces, a floor under the equipment bays that is failing and is held up with temporary supports, and a leaky basement that has had problems with mold and mildew. The justification for replacement of the Fire Headquarters station is documented in detail elsewhere. This Committee briefly reviewed the rationale in our “Report to the Special Town Meeting on September 21, 2016” dated September 14, 2016, under Article 2016-5.2. A brief synopsis of the rationale may also be found in the report of the Capital

Expenditures Committee to that special town meeting. The reasons to replace the facility are discussed at length in a report submitted to the Town by consultants Donham & Sweeney Architects in 2011[8].

The total cost of the replacement of the building, not including the cost of swing space, has recently been estimated, based on 75% complete construction documents, to be $19,947,000. This total includes $1,812,000 for contingencies. Under Article 2 of Special Town Meeting 2017-1 held in March 2017, $450,000 was appropriated for design work on the new station through the schematic design and design development stages. In October 2017, at Special Town Meeting 2017-2, $676,300 was appropriated to continue work on the design through the completion of construction documents. These previously appropriated amounts and the amount requested under this article are included in the estimated total cost.

The Bedford St. site is not sufficiently large to allow construction of a new building while the Fire Department continues to operate out of the current facility. The current facility must be demolished before construction commences on the new facility. Therefore, the Headquarters operations need to move to an off-site facility before demolition of the current structure commences. Late in 2016, the Town purchased the Liberty Mutual land and building at 173 Bedford St. to serve as swing space during demolition of the old building and construction of the new building.

The new Fire Headquarters station would likely be available for occupancy in early 2020.

The overall cost of the project must take the costs of the swing space into account. These cover the cost of acquiring the land and building at 173 Bedford St. ($4,300,000 for acquisition plus $130,000 for miscellaneous expenses), the costs of designing modifications to that site and building ($50,000), of modifying the site and building, of acquiring and installing a temporary structure to house the fire trucks and other equipment, of installing a temporary traffic signal and traffic signal controls ($2,140,000), and of moving the Headquarters to the temporary site and, later, into the new facility after it is completed. The percent allocation of the cost of acquisition of the 173 Bedford St. property to the replacement project is debatable, because after the replacement is complete, the land and building will become available for another use or uses. Nevertheless, the acquisition costs should be noted. Amounts to cover the projected costs of the swing space have been appropriated at previous town meetings.

Funding for this project will be obtained by borrowing. The exclusion of debt service for the project was approved at a referendum on December 3, 2017. In addition to the expenses that will be covered by this article, the debt exclusion authority covers the previous appropriations for design work, as well as the expenses for the swing space exclusive of the amounts expended for the property acquisition. The total estimate of borrowing is approximately $22,000,000. Assuming the debt will be repaid over 30 years and carry an effective interest rate of 4%, the principal payment is expected to be around $730,000 per year and the annually-due interest will be $880,000 in the first year then gradually decline to $30,000 over the course of the loan. The sum of principal and interest payments in the first full year of debt service thus represents just under 1% of the non-exempt property tax revenue that will likely be raised in that year.

This Committee agrees that it is important for the town to proceed with this project in order to allow the personnel of the Fire Department to have a facility that allows them to efficiently carry out their responsibilities and to provide residents and businesses with high quality fire preventive and suppression services.

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

[8] "Lexington Fire Station Schematic Design Study Report", dated 2/15/2011, Donham & Sweeney Architects. This report is available on the Town website at: http://records.lexingtonma.gov/weblink/0/doc/142658/Page1.aspx .

Article 14: Appropriate for Police Station Rebuild-Design		
Funds Requested	Funding Source	Committee Recommendation
$1,862,622	**GF debt**	**Approve (9-0)**

The request under this article is for the appropriation of funds to cover design and engineering costs for the police station rebuild. The existing police station opened in 1956 and lacks many basic amenities of a modern police facility. 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 of the building codes. The indoor firing range, locker rooms, garage, and office spaces are inadequate. Bathrooms in the basement and the second floor levels are not ADA compliant. The heating and cooling systems are inefficient and the building is serviced by two separate electrical systems which cause problems during outages.

The Board of Selectmen has decided that the replacement station would be located at the site of the present station in Lexington Center. Preliminary design work indicates that the new station may incorporate parts of the façade of the existing building as well as newly constructed space. Prior to the commencement of construction, the Police Station would be temporarily relocated to 173 Bedford St. This will not occur until the Fire Department has vacated the 173 Bedford St. site.

A request for construction funds is anticipated in the 2019 to 2020 time frame. At present it is also anticipated that the appropriation of construction funds would depend upon approval of exclusion of the debt service from the usual limitations of Proposition 2.5 in a referendum to be held in 2019 or 2020. The debt service for the present appropriation of design funds would be covered under the debt exclusion allowance.

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

Article 15: Appropriate for Recreation Capital Projects		
Funds Requested	Funding Source	Committee Recommendation
$60,000	**Recreation EF**	**Approve (9-0)**

The request under this article is for $60,000 of the balance in the Recreation Enterprise Fund retained earnings to be used for purchase of new equipment that would support maintenance of the Pine Meadows Golf Course. The equipment would comprise a lawn mower, a bunker rake, and a spreader. A slightly longer justification may be found on page XI-22 of the Brown Book. More information on the status of the Recreation Enterprise Fund may be found in the discussion of Article 5.

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

Article 16: Appropriate for Municipal Capital Projects and Equipment		
Funds Requested	Funding Source	Committee Recommendation
$9,699,500	**see below**	**see below**

The requests for appropriations are listed below together with funding sources and Committee recommendations. For a discussion of the items in this request, please see the Brown Book (relevant pages are cited in the Comments column). The Capital Expenditures Committee Report to the 2018 Annual Town Meeting contains further discussion about these capital requests.

Present Description	Funding Request	Funding Source	Comments (Brown Book page numbers provided for reference)	Recommendation (For-Against)
a) Hydrant Replacement Program	$150,000	Free Cash/ Water RE	p. XI-23 $75K from Free Cash; $75K from Water RE	Approve (9-0)
b) Storm Drainage Improvements and NPDES compliance	$340,000	Free Cash	p. XI-23	Approve (9-0)
c) Comprehensive Watershed Stormwater Management Study and Implementation	$390,000	Free Cash	p. XI-23	Approve (9-0)
d) Townwide Culvert Replacement	$390,000	Free Cash	p. XI-24	Approve (9-0)
e) Center Streetscape Improvements- Design	$450,000*	Free Cash	p. XI-24	IP
f) Automatic Meter Reading System	$750,000*	Water Debt/ Wastewater debt	p. XI-12, XI-13 $375K from Water debt; $375K from Wastewater debt	IP
g) Sidewalk Improvements	$800,000	GF debt	p. XI-7	Approve (9-0)
h) Equipment Replacement	$1,069,500	GF debt/ Water RE	p. XI-7, p. XI-24 $1,039,500 GF debt; $30K Water RE	Approve (9-0)
i) Townwide Signalization Improvements	$1,100,000	GF debt	p. XI-8	Approve (9-0)
j) Pelham Road Sidewalk and Roadway Improvements	$1,400,000	GF debt	p. XI-9	Approve (9-0)
k) Street Improvements	$2,600,000	GF	p. XI-24 $2.6M tax levy; $973,796 Chapter 90 funding	Approve (9-0)
l) Hartwell Area TMOD Plan Update	$50,000	TMOD Stabilization Fund	p. XI-21	Approve (9-0)
m) Transportation Mitigation	$100,000	Free Cash	p. XI-21	Approve (9-0)
n) Municipal Technology Improvement Program	$200,000	Free Cash	p. XI-25	Approve (9-0)

Present Description	Funding Request	Funding Source	Comments (Brown Book page numbers provided for reference)	Recommendation (For-Against)
o) Application Implementation	$390,000	Free Cash	p. XI-25	Approve (9-0)
p) Network Core Equipment Replacement	$350,000	Free Cash	p. XI-25	Approve (9-0)
q) Public Safety Radio Console Replacement	$370,000	Free Cash	p. XI-21	Approve (9-0)

* Amount that was to be requested prior to decision to defer.

Article 17: Appropriate for Water System Improvements

Funds Requested	Funding Source	Committee Recommendation
$1,000,000	**Water EF debt**	**Approve (9-0)**

This article addresses proposed capital expenditures to be made during FY2019 as part of a continuing program to upgrade and maintain the assets of the Water Enterprise Fund. For general background on the enterprise funds, and the relationship between the budget process and the water rate setting process, please see Appendix B and the discussion under Article 5.

A total of $1,000,000 is requested this year to replace unlined or inadequate water mains and deteriorated service connections and to eliminate dead ends in water mains. The details of the projects can be found in the Brown Book (p. XI-12). The costs of this year's system improvements will be funded entirely via borrowing. Unlike recent years, due to a variety of factors, there are no retained earnings available to fund capital projects. The resulting debt service costs will be borne by the operating budget for the Water Enterprise Fund in FY2019 and for an additional ten years until the debt is retired (see Brown Book, p. XI-12, Table II), and will be included each year as a component of the water rates.

Capital appropriations for similar purposes have been made in most years over the last decade (except for FY2006 and FY2012, when engineering studies were not ready). The goal is to assure dependable service with high water quality, pressure, and volume for domestic needs, commercial needs, and fire protection, as well as minimization of water main breaks. With the recent completion of the pipe replacement project on Massachusetts Avenue from Pleasant Street to Marrett Road, the Town's long-term program for replacing unlined water mains is nearing completion. A model to identify areas of vulnerability and those areas with low volumes and pressures, and to develop a new long-term capital plan for meeting future maintenance needs of the system is nearly complete and will guide future work.

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

Growth in Water Fund Debt Service Costs

Fiscal Year	Water Debt Service	Total Budget	Debt Service Ratio
2006	$213,150	$6,237,235	3.4%
2007	$358,301	$6,514,502	5.5%
2008	$425,565	$6,469,388	6.6%
2009	$757,247	$7,190,800	10.5%
2010	$1,074,551	$7,241,304	14.8%
2011	$1,137,075	$7,619,919	14.9%
2012	$1,258,968	$8,039,413	15.7%
2013	$1,299,091	$8,124,846	16.0%
2014	$1,260,655	$8,707,219	14.5%
2015	$1,379,622	$9,270,880	14.9%
2016	$1,307,938	$9,895,640	13.2%
2017	$1,374,696	$10,663,218	12.9%
2018	$1,470,783	$10,722,659	13.7%
2019	$1,476,402	$10,800,973	13.7%

In the last several years, judicious use of some of the fund's accumulated retained earnings as cash capital has helped to defray the impact of these growing debt service costs and maintain long-term rate stability. Since "surplus" retained earnings are not available this year to apply toward the system's long-term capital needs, the complete improvement costs are proposed to be funded again exclusively by debt. Given the ongoing and consistent nature of the water system's upkeep and improvement program, an alternative would be to return to at least a partial cash capital program and raise part or all of the funds needed for each year's capital program needs in the rates, while continuing to include excess retained earnings in the mix if, as and when they are available. However, since making such a changeover in a single year would result in a significant one-time rate boost, the all-debt proposal is a reasonable one for this year. For a more complete discussion of the status and use of water and sewer enterprise fund retained earnings, see the discussion of enterprise funds under Article 5.

Note that in addition to the water main improvements discussed above, under Article 16(f), an appropriation of $375,000 in Water Fund debt will be requested to fund half the cost of installing an automated meter reading system, shared 50-50 with the Wastewater Enterprise Fund. This would be the first of three phases, with similar appropriations requested in FY2020 and FY2021. The automated meter reading system would provide greater accuracy, facilitate closer monitoring of usage and improve leak detection. Also, under Article 16(a), an appropriation of $75,000 in water retained earnings (matched by $75,000 from the General Fund) is requested for an ongoing program of replacing faulty hydrants; and under Article 16(h), $30,000 in Water Fund retained earnings is requested for the purchase of a water valve turner.

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

Article 18: Appropriate for Wastewater System Improvements

Funds Requested	Funding Source	Committee Recommendation
$1,800,000	**Wastewater EF debt**	**Approve (9-0)**

This article addresses proposed capital expenditures to be made during FY2019 as part of a continuing program to upgrade and keep current the assets of the Wastewater Enterprise Fund. For general background on the enterprise funds, and the relationship between the budget process and the water rate-setting process, please see Appendix B and the discussion under Article 5.

A total of $1,800,000 is again requested this year: $1,000,000 as part of a multi-year plan to rehabilitate sanitary sewer infrastructure, particularly in remote areas, including brook channels, where poor soil conditions lead to storm water infiltration; and $800,000 as part of an ongoing program to upgrade Lexington's ten sewer pumping stations. The details of the projects including the expected work sites can be found in the Brown Book (p. XI-13). Capital appropriations for similar purposes have been made in most years (except for FY2006, when engineering studies were not ready, and FY2011, when only pump station upgrades were performed).

The costs of this year's wastewater system improvements will be funded entirely by borrowing. Unlike in recent years, due to a variety of factors, there are not adequate retained earnings to contribute to the funding of capital projects. The resulting debt service costs for the portion borrowed will be borne by the operating budget for the Wastewater Enterprise Fund in FY2019 and for an additional ten years until the debt is retired (see Brown Book, p. XI-13, Table III), and will be included each year as a component of the wastewater rates. Part of the funding may come from MWRA grants or loans.

Prior to FY2006, capital expenditures for wastewater distribution system improvements were funded primarily by enterprise fund cash capital, which was raised in the rates. Subsequently, there was a transition to funding these ongoing improvements primarily with debt. While the transition to debt financing mitigated the need for rate increases early on, that change, together with the fund's allocated contribution to the debt service for the new DPW facility, steadily increased the annual debt-service costs of the sewer enterprise fund, both in dollar and percentage terms, as illustrated below.

Growth in Wastewater Fund Debt Service

Fiscal Year	Wastewater Debt Service	Total Budget	Debt Service Ratio
2006	$275,950	$7,084,802	3.9%
2007	$333,899	$7,440,920	4.5%
2008	$439,792	$7,355,479	6.0%
2009	$488,135	$7,643,649	6.4%
2010	$575,357	$8,083,478	7.1%
2011	$791,777	$8,315,556	9.5%
2012	$879,713	$8,934,624	9.8%
2013	$956,855	$9,282,077	10.3%
2014	$1,131,673	$9,257,354	12.2%
2015	$1,220,843	$9,517,618	12.8%
2016	$940,679	$9,103,316	10.3%
2017	$981,220	$9,441,980	10.4%
2018	$1,034,904	$9,682,514	10.7%
2019	$1,211,165	10,132,360	12.0%

In the last several years, judicious use of some of the fund's accumulated retained earnings as cash capital has helped to defray the impact of these growing debt service costs and maintain long-term rate stability. Since "surplus" retained earnings are not available this year to apply toward the system's long-term capital needs, the complete improvement costs are proposed to be funded again exclusively by debt. Given the ongoing and consistent nature of the wastewater system's upkeep and improvement program, an alternative would be to return to at least a partial cash capital program and raise part or all of the funds needed for each year's capital program needs in the rates, while continuing to include excess retained earnings in the mix if, as and when they are available. However, since making such a changeover in a single year would result in a significant one-time rate boost, the all-debt proposal is a reasonable one for this year. For a more complete discussion of the status and use of water and wastewater enterprise fund retained earnings, see the discussion of enterprise funds under Article 5.

Note that in addition to the sewer main and pumping station improvements discussed above, under Article 16(f), an appropriation of $375,000 in Wastewater Fund debt will be requested to fund half the cost of an automated meter reading system, shared 50-50 with the Water Enterprise Fund. This would be the first of three phases, with similar appropriations requested in FY2020 and FY2021. The automated meter reading system would provide greater accuracy, facilitate closer monitoring of usage and improve leak detection.

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

Article 19: Appropriate for School Capital Projects and Equipment

Funds Requested	Funding Source	Committee Recommendation
$1,715,300	**GF debt**	**Approve (9-0)**

This article requests funds to address the School District's strategic goal to enhance the capabilities for using technology in instruction and administration, including replacements and new purchases of iPads, Chromebooks, laptops, robotic kits, interactive projector/whiteboard units, servers and network infrastructures.

This request is part of the District's five-year plan to allocate $1,700,000 per year for the next five years from FY2019 through FY2023, except for an estimated dip in FY2021 to $1,200,000 due to fewer devices that will need to be replaced that year.

For a more detailed discussion of the items in this request, please see the Capital Expenditures Committee Report to the 2018 Annual Town Meeting and the Brown Book page XI-10.

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

Article 20: Appropriate for Public Facilities Capital Projects		
Funds Requested	Funding Source	Committee Recommendation
$2,223,438	**see below**	**Approve (a-e,g-i) (9-0)** **Disapprove (f) (4-5)**

This article requests the appropriation of funds for the facilities projects summarized below.

Project Description	Funds Requested	Funding Source	Committee Recommendation
(a) Selectmen Meeting Room High Definition Broadcasting Upgrade	$44,800	PEG Spec. Revenue Fund	Approve (9-0)
(b) Public Facilities Bid Documents	$100,000	Free Cash	Approve (9-0)
(c) Facility and Site Improvements			Approve (9-0)
Building Flooring Program	$125,000	Free Cash	
School Paving Program	$236,890	Free Cash	
(d) Public Service Building Vehicle Storage Area-Floor Drainage System	$157,000	Free Cash	Approve (9-0)
(e) Municipal Building Envelopes and Systems	$198,893	GF	Approve (9-0)
(f) Community Center Expansion-Design	$250,000	Recreation RE	Disapprove (4-5)
(g) School Building Envelopes and Systems	$227,755	Free Cash	Approve (9-0)
(h) LHS Security Upgrade	$338,600	Free Cash	Approve (9-0)
(i) Public Facilities Mechanical/Electrical System Replacements	$544,500	GF debt	Approve (9-0)

For further discussion of items in this request, please see the report of the Capital Expenditures Committee and the Brown Book. This Committee concurs with the rationale advanced by the Capital Expenditures Committee in its report for approving or disapproving the appropriations listed above.

Article 21: Appropriate to Reimburse Resident for Sewer Back Up (citizen article)		
Funds Requested	Funding Source	Committee Recommendation
$30,553	**unknown**	**Disapprove (1-8)**

This article seeks funding to compensate Town resident Robert McGrath for damages incurred due to a sewer back up from the main to his home. The Committee is deeply sorry for the unfortunate incident and is very sympathetic toward Mr. McGrath for the trouble he went through dealing with the aftermath of the sewerage back-up but understands that there has been no assertion of negligence on the part of the Town. This Committee respects the decision of the Town's insurance adjuster to deny the claim made on the Town's insurance on this basis. Furthermore, this Committee is concerned about the precedent that would be set by compensating a citizen for an unfortunate loss where the Town was not believed to be negligent. The Committee concurs with the Board of Selectmen that the Town should not pay compensation in this type of situation in the absence of any asserted negligence on the part of the Town.

The Committee recommends disapproval of this request (1-8).

Article 22: Appropriate for Visitors Center

Funds Requested	Funding Source	Committee Recommendation
$200,000 **$4,375,000** **$4,575,000**	**Free cash** **GF debt**	**Approve (8-1)**

This article requests the appropriation of $4,575,000 to fund production of construction documents ($200,000), demolition, of the current building, the construction of a new Visitors Center ($4,300,000 including demolition), and the temporary relocation of the Visitors Center to a nearby home during the reconstruction ($75,000). The new building would replace the current building at the current location.

The current Visitors Center building was constructed more than 50 years ago. It was designed to provide rest rooms and information for tourists coming to commemorate the bicentennial of the Battle of Lexington in 1975. The annual number of visitors has grown by about a factor of two since 1975; approximately 122,000 visitors entered the building in 2017.

The building is not fully handicapped accessible, lacks adequate restroom facilities for use by tourists and Minuteman Bikeway users, is inadequate for accommodating the volume of visitors, and lacks the technology on which visitors now depend.

When it first opened, the Visitors Center was operated by the Chamber of Commerce. Since 2016, it has been operated and staffed by the Town's Economic Development Office. Sales revenue from the gift shop, $210,182 in FY2017 and $117,233 in the first half of FY2018, is sufficient to cover the Visitors Center's operating costs.

In October 2011, a new Visitors Center was added to the Town's five-year capital plan. A programmatic report was produced in 2012, and then revised in 2013. At the 2014 Annual Town Meeting, $220,608 was appropriated for design development. The plan at that time was to renovate or rebuild the existing Visitors Center building to include space for visitor education, tour groups, a self-service kiosk, counter space for assisting visitors, a veterans' display with visual connection to exterior memorials, retail space, food vending area, new rest rooms, and office space as well as community meeting space.

Mills Whitaker Architects LLC was hired and guided the process further. In view of the condition of the present building, of the new programmatic needs, and of conceptual plans provided by Mills Whitaker in 2015, stakeholders and the Selectmen decided to pursue construction of a new building rather than renovation.

An article for the construction of a new Visitors Center was included in the 2016 Annual Town Meeting Warrant but was indefinitely postponed. In June 2016, Mills Whitaker provided to the Selectmen a revised estimate of the sum of design and construction costs for a new building of $4,063,675. In view of the high cost, the Selectmen declined a request by the Tourism Committee to include an article in the warrant for the 2017 Annual Town Meeting seeking an appropriation for 25% design funding. The Tourism Committee then placed a citizen article on that warrant. That article, Article 18, seeking appropriation of $21,000 to add to the $130,000 remaining from prior appropriations for additional schematic design funds, was approved. The resulting plan, made available via a report presented to the Permanent Building Committee on September 4, 2017, was Mills Whitaker's attempt to address the shortcomings of the prior design.

In October 2017, at Special Town Meeting 2017-3, $150,000 was appropriated under Article 3 to complete the design development of the Mills Whitaker concept. Based on a review of programmatic goals and feedback obtained through a series of meetings among the Tourism and Permanent Building Committees, staff, and community stakeholders, this review resulted in a concept for a building smaller than that originally proposed but one that is larger than the current building. The additional space would provide for a better functioning building that has adequate space for the information desk and patrons thereof, historic displays, retail area, and restrooms. The plans have been further refined to include first floor bathrooms accessible from the exterior of the building.

The Tourism Committee and Economic Development Office are in the process of identifying funding sources besides the tax levy. They are examining the creation of fee revenue streams that could generate up to $3,000 annually, and are looking at potential partnerships with local civic organizations that could raise more than $10,000 annually. They have applied for a $675,000 Cultural Facilities state grant, and Senator Barrett has included a request for $200,000 that is a candidate for inclusion in the next State operating budget. Additionally, it may be possible to request funding under the Community Preservation Act for items such as the restoration and display of current historical artifacts, including the diorama and USS Lexington memorabilia; the creation of new historical displays; and exterior site work which is covered by the Battle Green Master Plan approved by the Board of Selectmen in March 2011.

In addition to operating the Visitors Center and the Liberty Ride, the Tourism Committee and Economic Development Office conduct marketing efforts, and the revenues of these activities cover expenses. Their "Linger In Lexington" campaign has encouraged tour buses to spend more time in Lexington, and Center businesses have experienced increased tourist foot traffic and business over the past five years.

As one justification for investing in this project, the Tourism Committee has noted that hotel and meals tax collections since FY2011 have totaled $8,702,054. Total collections have experienced annual growth in year-to-year collections and in FY2017 were over $1,538,639. However, it is important to note that the sources of this tax revenue include residents and their visitors, business customers, and tourists.

The proposed design has the same footprint as the design presented at the fall 2017 special town meeting, but the floor plan has been modified. The building would have two stories and a full basement, and would have a gross floor area of 6693 sq. ft. The cost of design, demolition, temporary siting, and construction is estimated at $4,575,000. The gross floor area of this concept is reduced by 19% from the 8297 sq. ft. area of the 2016 concept, which in June 2016 had an estimated design and construction cost of $4,063,675. In order to compare the cost estimates of these two designs, the 2016 concept cost has to be adjusted for inflation to a cost of $4,400,000. This comparison shows the cost per square foot of the 2016 concept as $530, compared to $645 for the final design. Possible additional changes in the design are being considered that could modestly reduce the overall cost by as much as $200,000.

If approved, the new Visitors Center could be in use by April 2020, in time for the Massachusetts 400 celebrations beginning in 2020 and the 250th anniversary of the Battle of Lexington in 2025.

A portion of the requested funding, $200,000, would come from Free Cash, while the balance would be obtained by borrowing. The debt service costs would be funded within the levy. Amounts raised from other sources as described above would, depending on timing, either reduce the amount borrowed or be used for part of the debt service. At this time Town staff is recommending the project be bonded over 10 years. Using an assumed interest rate of 5%, annual debt service costs would start at $680,000 and decline to $480,000 over time. Any new revenue sources including CPA funding would be applied to the annual debt service payments, and any one-time grants would be used up front to reduce the total amount borrowed. For context, FY2019 within-levy debt service costs are budgeted at $10,997,766, prior to any mitigation.

There may be a modest impact of roughly $100,000 on the FY 2020 operating budget if the Visitors Center sales revenue declines substantially during the temporary relocation.

<u>The Committee recommends approval of this request (8-1).</u>

Article 23: Appropriate for Visitors Center (citizen article)		
Funds Requested	Funding Source	Committee Recommendation
unknown	**GF**	**Pending**

This citizen's article and Article 22 are obviously closely coupled. This article was placed on the warrant by the Tourism Committee because it was uncertain as to whether a request for construction money would be made under Article 22. If funds for both construction documents and the construction are appropriated under Article 22, this article is very likely to be indefinitely postponed. If only an amount for construction documents is provided under Article 22, there may be a request under this article to appropriate an amount to fund the construction of a new Visitors Center.

The Tourism Committee considers it important to have construction of the Visitors Center completed by spring of 2020, in time for an anticipated increase in tourism due to celebrations commemorating the 400th Anniversary of the founding of Massachusetts Colony. Approval of construction money at this Town Meeting would prevent delays that could force the anticipated opening of the new Visitors Center to go later into 2020 than currently projected under Article 22. Since the construction of a new Visitors Center would require the closing and demolition of the present building, visitors to Lexington, whether seeking tourist information or rest facilities, would find inadequate resources at whatever temporary Visitors Center the town was able to create.

The Tourism Committee points out that the design that may be presented under Article 22 is the product of an extensive design process involving all stakeholders. Approval of Article 22 signals the community's desire to proceed with the project. Not approving construction money could delay the completion of the project. The Tourism Committee will continue to work with the Economic Development office to pursue grant money and revenue that can be applied to the costs of the project.

Article 24: Appropriate to Post Employment Insurance Liability Fund		
Funds Requested	Funding Source	Committee Recommendation
$1,842,895	**GF**	**Approve (9-0)**

The Post Employment Insurance Liability (PEIL) Fund holds funds dedicated to future health care benefits for retirees. These benefits make up most of "other post-employment benefits" (OPEB). For a detailed discussion of OPEB, the present status of the PEIL Fund, and related issues, please see Appendix F.

This article requests the appropriation of $1,842,895 into the PEIL Fund.

As explained in Appendix F, "normal cost" refers to the present value of the expected post-retirement benefit obligation attributable to employee service during the fiscal year. The unfunded liability is the sum of the actuarially determined obligations incurred during current and prior fiscal years that have not been funded. Every year, the unfunded liability grows by the present value of future benefits earned during the current year, less any contribution to the PEIL Fund, and less the value of benefits provided to retirees during the current year through the operating budget.

The requested amount is within the range of 35% to 100% of the normal cost of $4,648,019 for FY2019 calculated with a 7.5% discount rate. If the 7.5% discount rate assumption is accepted, the requested amount is consistent with the policy previously articulated by the Selectmen for the annual appropriation into the PEIL Fund (see Appendix F). If approved, this appropriation would increase the balance in the PEIL Fund from the current balance of $12,619,957 as of December 31, 2017, to approximately $14,500,000.

The combination of the appropriation into the PEIL requested here, which increases the funding level, and payments to retirees, which lower the funding requirement, will improve the Town's OPEB funding ratio from just over 8% to about 10% based on a 7.5% discount rate. The Town will receive an updated estimate of the funding ratio when the next actuarial analysis of the OPEB liability for the Town is received.

Part of the funding for the request is based on a one-time use of $750,000 from the Health Insurance Claims Trust Fund to pay for annual health insurance costs[9]. This frees up a matching amount in the General Fund for this request, or other potential uses. The funding for this appropriation also includes $1,079,721 from Free Cash, $329,721 (update) of which reflects the amount the Town received in Medicare Part D reimbursements from the federal government. Similar reimbursements have been directed into the PEIL Fund for the past several years. In addition, the requested amount includes $9,089 from the Water Enterprise Fund and $4,085 from the Wastewater Enterprise Fund.

Although the Committee recognizes that there are valid alternative priorities to which some portion of these funds could be allocated at this time, such as additional bolstering of our Capital Stabilization Fund to help address significant upcoming capital investment challenges, it unanimously supports this year's proposed PEIL contribution.

One member notes that the actuary determined a 5% discount rate is appropriate for financial reporting purposes instead of a 7.5% discount rate. With the 5% discount rate, the unfunded actuarial liability was approximately $210,000,000 in June 2017, the FY2019 Normal Cost would be $8,597,909, and the proposed contribution would fall short of the target funding range of 35-100% of Normal Cost set forth in the Selectmen's policy.

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

Article 25: Rescind Prior Borrowing Authorizations

Funds Requested	Funding Source	Committee Recommendation
none		**Approve (9-0)**

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. Rescinding these authorizations is the final bookkeeping task for all debt-based appropriations. As of press time, Town staff has recommended that parts of six bond authorizations be rescinded. A table listing these may be found in the report of the Capital Expenditures Committee.

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

[9] The Health Insurance Claims Trust Fund had a balance of $3,816,644 on December 31, 2017.

Article 26: Establish, Dissolve, and Appropriate To and From Specified Stabilization Funds		
Funds Requested	Funding Source	Committee Recommendation
$532,085 $2,883,246 **$3,415,331**	**Free cash** **GF**	**Approve (9-0)**

A specified stabilization fund holds monies that may be appropriated for the stated purposes but not for other purposes. Lexington's first specified stabilization funds were established at the 2007 Annual Town Meeting. A history and description of these funds can be found in Appendix E.

An article similar to this one is now routinely included on the annual town meeting warrant to give Town Meeting the opportunity to act in relation to specified stabilization funds. Town Meeting may create or dissolve a specified stabilization fund, alter a fund's specified purpose, or make an appropriation into or out of a fund. An appropriation into a fund may be done by a majority vote while an appropriation from a fund requires a two-thirds majority vote. Appropriations into specified stabilization funds do not authorize expenditures, but rather are transfers of funds into accounts to hold the funds for specified future uses.

Dissolution and Creation of Funds

Last year, small balances left in the *Avalon Bay School Enrollment Mitigation Fund* and the *School Bus Transportation Stabilization Fund* were transferred to the General Fund. There is no balance at this time in either fund. The motion will propose to dissolve these funds.

This article will also seek approval of the creation of three new funds, the *Visitor's Center Capital Stabilization Fund*, the *Water System Capital Stabilization Fund*, and the *Affordable Housing Capital Stabilization Fund*.

The *Visitor's Center Capital Stabilization Fund* will be established as a repository for grants, gifts, or special fees related to the Visitor's Center building capital project.

The *Water System Capital Stabilization Fund* is to be 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 present agreement expires this year and is currently in the process of being renewed. Our understanding is that 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 is $62,175; each year it will increase by a CPI factor.

Payments that will be forthcoming 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, will be transferred to the *Affordable Housing Capital Stabilization Fund*.

Status of Funds and Appropriation Requests

The balance of each fund, as of December 31, 2017, the amount recommended for appropriation into each fund, and the amounts proposed to be withdrawn from each fund are listed in the following table.

Specified Stabilization Fund	Current Balance 12/31/2017	Appropriation Amount (into fund)	Fund Withdrawal References: Withdrawal Amount	Fund Withdrawal References: Warrant Article
Affordable Housing Capital Stabilization Fund	$0			
Capital Stabilization Fund	$28,344,487	$3,415,331	$4,500,000 $573,500	This article Art. 4
Center Improvement District S.F.	$61,018		$27,000	Art. 4
Debt Service Stabilization Fund	$658,828		$124,057	Art. 28
Section 135 Zoning Stabilization Fund	$0			
Special Education Stabilization Fund	$1,095,288			
Traffic Mitigation Stabilization Fund	$319,488			
Transportation Demand Management S.F.	$225,264		$141,000	Art. 4
Transportation Management Overlay District S.F.	$331,691		$50,000	Art. 16(l)
Visitor's Center Capital Stabilization Fund	$0			
Water System Capital Stabilization Fund	$0			

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

The requested appropriation under Article 4 from the *Center Improvement District Stabilization Fund* is intended to fund expenses related to the bike share program in Lexington Center.

The *Transportation Demand Management/Public Transportation Stabilization Fund* was initially created to support the Lexpress bus service. 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." Under Article 4, this fund will be used to support both Lexpress ($91,000) and the Rev Shuttle ($50,000). The Rev Shuttle runs between Hartwell Ave. and the Alewife MBTA station with an intermediate stop in front of the Depot in Lexington Center. The Rev Shuttle is also funded by fares charged to riders and by annual contributions from Hartwell Ave. businesses.

The requested appropriation under Article 16(l) from the *TMOD Stabilization Fund* is intended to fund an update of the Hartwell Avenue TMOD Traffic Mitigation Plan.

This article proposes to appropriate $3,415,331, comprising $532,085 from Free Cash and $2,883,246 from the tax levy, into the *Capital Stabilization Fund*. This article will also request approval of the withdrawal of $4,500,000 from this Fund to mitigate the increases in exempt taxes that fund projects approved in debt exclusion referenda. The motion under Article 4 will appropriate $573,500 out of this Fund to mitigate the increase in debt service for capital projects financed within the property tax levy limit.

As of press time there are no other monies to be transferred into these stabilization funds. However, if any payments are received prior to the vote on this article, those payments would be deposited into special revenue accounts. The motion would then be revised to allow the Town Meeting vote to transfer the money into the specified stabilization fund from those corresponding special revenue accounts.

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

Article 27: Appropriate to General Stabilization Fund		
Funds Requested	Funding Source	Committee Recommendation
none		**IP**

The Board of Selectmen does not recommend an appropriation into the Stabilization Fund at this town meeting. This Committee supports this decision, and therefore there is no action that need be accomplished under this article. A history of appropriations into the Stabilization Fund may be found in the appendices of the Town Manager's *FY2018 Recommended Budget & Financing Plan*.

In this context, there has been discussion of whether an appropriation into the Fund should be made in order to follow the recommendations of the Ad Hoc Financial Policy Committee in 2006. Given the maturity of the recommended budget at this point, any such appropriation would need to come by reprogramming funds that are recommended to be put into other reserve vehicles. Since this is not desirable, at least to some on this Committee, a more prudent course may be to pursue a review of policies on reserves after this town meeting concludes.

Article 28: Appropriate from Debt Service Stabilization Fund		
Funds Requested	Funding Source	Committee Recommendation
$124,057	**DSSF**	**Approval (9-0)**

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

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, which will also be the final year for the required annual appropriations from the DSSF.

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

Article 29: Appropriate for Prior Years' Unpaid Bills		
Funds Requested	Funding Source	Committee Recommendation
none		**IP**

As of publication, the Committee was not aware of any unpaid bills from prior years. The Committee anticipates that this article will be indefinitely postponed.

Article 30: Amend FY2018 Operating, Enterprise, and CPA Budgets		
Funds Requested	Funding Source	Committee Recommendation
unknown		**Pending**

A recommendation from the Town Manager, Town staff, and the Board of Selectmen regarding actions, if any, under this article is not expected to be available until after press time. Consideration of this article, which is routinely included in the annual town meeting warrant, is normally deferred until a session near the end of town meeting to allow Town staff to gather the latest data, project expenses for the fiscal year, formulate recommendations, and coordinate final adjustments to the current year's budget in a single motion. This Committee will report on any recommended actions when the article is taken up by Town Meeting.

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

As of publication, no action is planned under this article. This Committee will make a report when the article is taken up.

Article 32: Amend General Bylaw - Regarding Financial Committees (citizen article)		
Funds Requested	Funding Source	Committee Recommendation
none		**Approve (9-0)**

State law provides, in G.L. c. 39, §16, that every town having in excess of one million dollars in assessed valuation "shall . . . provide for the election or the appointment and duties of appropriation, advisory, or finance committees, who shall consider any and all municipal questions for the purpose of making reports or recommendations to the town."

The statutory language being very general, different towns have implemented this requirement in different ways. At least since the adoption of the Selectmen-Town Manager Act in 1968, the Town of Lexington has fulfilled the statutory mandate with two separate, coordinate committees, an Appropriation Committee with a broad mandate in the bylaws to consider "any and all municipal questions" – but customarily focused on matters with a discernible financial impact on the Town -- and a Capital Expenditures Committee with a more particularized mandate to consider and make recommendations on capital questions.

This division of labor among the two financial committees has generally worked very well and, particularly in these times of major capital needs occasioned by significant school population growth and the need to replace or retrofit aging facilities, the work of the Capital Expenditures Committee has become increasingly important.

Several years ago, in recognition of the growing demands on the Capital Expenditures Committee, its enabling bylaw was modified to increase its size from five to as many as seven members, the exact number to be determined by the Moderator. The current article now seeks to further amend the Town's General Bylaws to reflect more accurately existing practices and to clarify that the Capital Expenditures Committee will have the same basic resources at its disposal as the Appropriation Committee to accomplish its important mission.

Specifically, the proposed update of the General Bylaws would:

- Clearly state the mission of the Capital Expenditures Committee to consider and make recommendations on Town capital matters, including capital policy and projects proposed to be funded by the Community Preservation Act, at any Town Meeting and throughout the budget cycle;

- Specify that the Capital Expenditures Committee shall have the same prerogatives as the Appropriation Committee to makes rules, interview or invite Town employees or other persons to attend its meetings, and have access to Town records;

- Require a report (written or verbal) of the Capital Expenditures Committee, as well as the Appropriation committee before a Town Meeting vote is taken on capital-related motions; and

- Allow the Capital Expenditures Committee to weigh in on broader financial questions, such as those which come up at periodic "budget summits" with the Board of Selectmen, School Committee and Appropriation Committee, when invited to do so.

This Committee believes the proposed bylaw changes are well-crafted to accomplish these goals and that the proposed update is appropriate to bring the bylaws into conformity with existing practice. The article is broad enough to allow amendment of the bylaws governing the Appropriation Committee as well, but no such changes are believed to be necessary at this time.

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

Article 35: Resolution To Request Warrant Articles to be Accompanied by Financial Projections (citizen article)

Funds Requested	Funding Source	Committee Recommendation
none		**IP**

The Committee anticipates that the motion will be for indefinite postponement.

Article 37: Accept Massachusetts General Laws Chapter 59, Clause 5C½		
Funds Requested	Funding Source	Committee Recommendation
none (but see below)	**see below**	**Approve (9-0)**

This article proposes that Town Meeting vote to accept a state law which gives towns the option to increase by up to 100% certain so-called “personal exemptions” from local property tax available under G.L. c. 59, §5, most notably for low-income residents over 65 years of age, disabled veterans and the blind. This article does not request an appropriation. However, because the state will not reimburse the Town for the cost of this “optional additional exemption,” the incremental cost, estimated at up to $90,000 annually based on existing usage, would be borne by the Town from its overlay account.[10] The existing overlay account is believed to be adequate for this purpose in FY2019.

Background

As discussed at length in Appendix D to this report, the Tax Deferral and Exemption Study Committee (TDESC), created by the Board of Selectmen in 2004 to explore ways in which the property tax relief available to low-income senior citizens and other needy residents could be enhanced and made more accessible, has brought before Town Meeting since that time a series of steps to accomplish that goal. In a succession of actions, the Town has now for the most part maximized the tax relief options available under the state’s General Laws, and in some cases, by Special Act of the State Legislature or otherwise, significantly enhanced them.

By general legislation enacted in 2014 (the 2014 Veterans’ Allowances, Labor, Outreach and Recognition Act, now codified as G.L. c. 59, §5C½), the State Legislature made available to Massachusetts communities statewide a new opportunity to increase the amount of local property tax exemptions for certain low-income seniors and other categorical recipients who have previously received the benefit of such relief. By vote of Town Meeting to accept this statute, the specified personal exemptions – which include those listed below and are mutually exclusive, *i.e.*, each recipient may qualify for only one – may be increased by up to 100%, provided that the same percentage increase is applied across the board.

- Clause 22, certain veterans, $400, currently 70 recipients
- Clause 22E, certain veterans or surviving spouses, $1,000, currently 9 recipients
- Clause 37A, blind, $500, currently 13 recipients
- Clause 41C, low-income elderly, $1,000, currently 24 recipients

Application

Thus, for example, if Town Meeting accepts the statute with a 100% increase, a low-income senior homeowner currently receiving an annual exemption of $1,000 under Clause 41C would receive an exemption of $2,000. That percentage would remain in place for each succeeding fiscal year unless and until Town Meeting voted to change it. Town Meeting may also vote to revoke its acceptance of the statute entirely once three years has elapsed from its initial acceptance.

Except in the case of hardship exemptions under Clause 18 (of which there are currently none in Lexington) and deferrals under Clauses 18A (temporary hardship) and 41A (for eligible low-income seniors), the

[10] The overlay account is a fund which the Town sets aside annually as part of the budget, without the need for appropriation in an amount recommended by the Board of Assessors, primarily to cover the anticipated expenses of successful requests for abatements from the local property tax. The overlay account is proposed to be funded this year at $750,000, but there are also substantial balances remaining from prior years which can now be considered, under the Municipal Modernization Act, as part of a single account. *See* Brown Book p. II-3. After all outstanding abatement and exemption issues have been resolved, unused amounts in the overlay account may be returned to the General Fund.

additional exemption could not result in the taxpayer either: (a) paying less than was owed the prior year, or (b) paying less than 10% of the real estate tax which would otherwise be due.

Discussion

As Lexington residents' property taxes have increased substantially over the last decade, the amounts of the personal exemptions available to the neediest homeowners have remained relatively static and have not kept up. To take the Clause 41C exemption for example, which is now available to residents over 65 earning less than $26,284 (single) or $39,428 (married), *see* Appendix D, Town Meeting increased the exemption amount from $500 to $750 in 2004, and then raised it to the maximum allowable amount of $1,000 in 2006, but that amount has not been increased since. The situation is similar for other categorical exemptions. In the meantime, the Lexington average single-family home tax bill has increased from $7,739 in FY2006 to $ 14,169 in FY2018, an 83% increase. Acceptance of G.L. c. 59, § C½ now represents the best and most immediately available option to bring these exemptions up to date.

It should be noted that the State does provide reimbursement for some portion of the underlying exemptions, though in most cases, including for Clause 41C, the amount of that reimbursement has been frozen for many years and the Town has been required to make up the difference in its overlay account. As set forth in the table below, which was prepared by the TDESC, the Town in 2016 abated some $111,801 for residents qualifying for the exemptions affected by this article and received a total of $78,063 in state reimbursement, for a net cost to the Town (through its overlay account) of $33,738. If a 100% increase were adopted for the "optional additional exemption," the incremental cost to the Town, after taking into account state reimbursement, would be approximately $90,000.

2016 Data			**100% Increase**		
B	D	E	F	G	H
Total Tax Dollars Abated at 2016 Exemption Rate	**Total 2016 State Reimbursement**	**Net 2016 Cost to Town at current exemption amounts** B minus D	**Total Tax Dollars Abated** B plus 100% where applicable	**Net Cost to Town** F minus D	**Total <u>New</u> Cost to Town** G minus E
$111,801	78,063	33,738	200,972	122,909	**89,171**

Several nearby town have already adopted the "optional additional exemption" in the following percentages: Bedford (100%), Burlington (100%), Weston (100%), Belmont (85%), Billerica (60%), and Arlington (30%). Other towns, such as Newton and Wellesley have not yet adopted any add-on.

With assurances that the balance in the combined overlay accounts are more than adequate for this purpose in FY2019, the Selectmen have voted to propose to Town Meeting the acceptance by Lexington of G.L. c. 59C½ at the 100% level. Depending on Lexington's future experience, it might be necessary to make modest increases to the annual overlay funding to maintain this percentage. The Committee supports this proposal and believes this is a reasonable and appropriate ongoing expenditure for the benefit of the Town's neediest citizens and veterans.

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

Appendix A: 3-Year Budget Projection

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

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

We assume that modest economic growth continues in FY2020, FY2021, and FY2022. There is some chance that the current period of unusually low inflation will be followed by higher levels of inflation. These considerations suggest some reasons for economic uncertainties in the near future that could impact the accuracy of our projections.

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

Revenue Assumptions

- The tax levy is assumed to grow annually by 2.5% of the previous year's base and by an added amount for "new growth". No increases in revenues from Proposition 2½ operating overrides are included, since none are currently contemplated during the projection period.
- New growth, i.e., the increase in the tax levy from new construction and new personal property, peaked at over $3,500,000 in FY2013 and then dropped about 15% in FY2014. It continued to drop another 4% in FY2015 and again in FY2016, then rose in FY2017 and FY2018 to $3,357,000. This recent history exemplifies the volatility of this factor. In light of this, the model straight-lines new growth using the midpoints of the 10-year (FY2009-2018) and 15-year (FY2004-2018) averages.
- State aid is assumed to increase by 1.4% annually. Growth in Chapter 70 aid will continue due to increasing school enrollments, but at a lower rate than in the previous few years.
- Available Funds are projected at lower levels than recent historical and present levels due to uncertainty regarding Free Cash. Available Funds for the previous five fiscal years (2014 through 2018) ranged from a low of $11 million for FY2015 to a high of $15.6 million for FY2016, yet the average of available funds for fiscal years 2005 through 2010 was below $3.3 million. The most volatile, and largest component of Available Funds is Free Cash; monies received but not expended or encumbered. Free Cash is projected here at $5.7 million for FY2020-2022 with $4 million applied to the operating budget and the remaining $1.7 million applied to cash capital.

  The more stable parts of Available Funds include the Parking Fund and the Cemetery Fund. They are assumed to be $400,000 and $225,000, respectively. Additionally we've included the town management's recommendation that, for FY2020, FY 2021 and FY2021, $750,000 will be transferred out of the Health Claims Trust Fund for health insurance premiums, thereby freeing up the same amount to fund the Post Employment Insurance Liability (aka OPEB) Trust Fund.
- We have illustrated projected transfers from the Capital Stabilization Fund to mitigate within-levy debt service. Our projection currently shows transfers of $2,326,000 in FY2020, $2,121,000 in FY2021, and $1,429,000 in FY2021. Additional appropriations from this fund are anticipated to mitigate the tax impact from excluded debt service for the school and public safety capital programs.
- Revenue offsets include amounts from Cherry Sheet assessments that are assumed to grow by 3.5% annually, amounts for the Assessors' overlay ($750,000 annually in FYs 2021 and 2022; and

$900,000 in FY2020, a revaluation year), and $400,000 that is set aside annually for potential deficits in the snow and ice budget.

- Water and Wastewater Enterprise Fund indirect expenses are assumed to increase by 3% annually. Recreation Enterprise Fund indirect expenses are assumed to increase by $7,000 per year. Additionally, in FY2018 Recreation Enterprise Fund expenses will be offset by $214,292 in tax levy funding for Community Center operations personnel. This expense will grow by 1.3% annually to accommodate step increases, and the tax levy funding will increase with at that pace also.

<u>Expense Assumptions</u>

- Line items for FY2020-FY2022 do not include increases for unsettled cost-of-living adjustments (COLAs) for salaries and wages. The potential impact of COLAs of different sizes initiated in FY2020 is summarized at the end of the projection tables.
- The Lexington Public Schools personnel costs are assumed to increase by 2% annually for step changes. Enrollment driven increases are based on the midpoint of school administration projections showing enrollment growth of 164 in FY2020, 111 in FY2021 and 172 in FY2022. An increase in enrollment of 100 students is estimated to require a staffing increase of 19.32 FTE's at $72,338 per FTE, an increase of approximately $1,412,000 in the operating budget.
- The Lexington Public School expenses for programs other than special education are assumed to increase by 3% per year. Special education expenses for out-of-district tuition are net of the State Circuit Breaker reimbursement and are assumed to increase by 5% annually, while the expenses for special education consultants and out-of-district transportation are assumed to increase by 3% per year.
- Municipal personnel costs are assumed to increase by 1.3% annually for step changes.
- Municipal expenses are assumed to increase by 3% per year.
- The assessment for Lexington's share of expenses for Minuteman Career and Technical High School is assumed to increase by 4.5% per year. It is assumed that the number of Lexington students will increase, but remain as a similar proportion of in-district students. Additional debt service payments for capital improvements are projected to be $175,000 in FY2020, $150,000 in FY2021, and rising to over $120,000 in FY2021.
- Appropriations for current and future contributory pension payments are assumed to follow the schedule set up by the Retirement Board following the most recent actuarial evaluation of pension costs. These costs are $6,005,537 in FY2020, $6,505,537 in FY2021 and $6,755,537 in FY2022.
- Health insurance costs are assumed to increase annually by 5%. While this growth is primarily driven by anticipated increases in school staffing due to enrollment, the combination of inflation and other staffing growth also contribute.
- Non-exempt debt service costs are assumed to support annual debt-funded project appropriations that will grow at the rate of 5% per year. That translates to projected cost in FY2020 of $12,503,000, FY2021 of $12,540,000 and FY2022 of $12,092,000. However, included in these costs are annual payments in FY 2020 of $2,234,614, in FY2021 of $2,173,111, and in FY2022 of $2,111,607 towards the costs of the 20 Pelham Rd. and 173 Bedford St. land purchases. Debt costs are shown as unmitigated debt payments. The proposed mitigation payments are described in the revenue section.
- Dept. of Public Facilities costs include salaries and wages (assumed to grow by 1.3% annually for step changes), utility bills, and other expenses (assumed to grow by 3% annually). Utility costs are assumed to increase by 1.5% annually. The $410,000 Hartwell Ave solar panel lease is included in the Facilities budget.

- Expenses for cash capital are assumed to include amounts for road and building envelope maintenance (following from prior operating overrides) that increase annually by 2.5%, as well as the amount of $1,700,000 from Free Cash for other capital expenses.
- No new funds will be appropriated into the general Stabilization Fund or to the Capital Stabilization Fund after the current fiscal year.
- Other expenses are assumed to include $30,000 annually for the senior tax work-off program; $200,000 set aside for unanticipated current fiscal year needs, and annual $1,050,000 contributions to the trust fund for future costs of health insurance for retired employees (OPEB) in FY2020 and FY2021, dropping to $300,000 in FY2022.
- The offsetting revenues and expenses for revolving funds, grants, and enterprise fund operations, except the Recreation Enterprise Fund, are projected using the 5-year trend from FY2012-2016. Enterprise capital is projected using the five averages for FY2012-2016.
- The projection contains no set-asides for unidentified new programs.

The projection for FY2020 shows an increase of approximately $1,413,000 in total General Fund revenue. This increase is significantly lower than the projected $8,578,000 increase in the FY2019 General Fund revenue because the available Free Cash was at almost its highest point in the last 10 years. We can only expect there will be a large decrease in Free Cash (the largest component of Available Funds) compared to the FY2019 budget. Free Cash results from an excess of actual revenues over actual expenditures. Traditionally, when additional Free Cash becomes available it is not used to fund operating expenses, but is applied to one-time expenses such as capital projects or stabilization funds.

School budgets will be greatly affected by enrollment growth. This model is based on School Department enrollment projections that offer predictions with a great deal of uncertainty. Recent history has shown that enrollments matched or exceeded the projections, and annual growth could hit 4%.

COLAs of 1% in FY2020 for the schools, municipal departments, and Public Facilities Department would increase their respective budgets by $938,000, $253,000 and $55,000. Our table illustrates the cumulative effect that COLAs of varying percentages would have on reducing any surpluses for FY2020-2022.

Revenue Summary	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
	actual	recap	budgeted	projected	projected	projected
Property Tax Levy			-			
Property Tax Levy	$154,781,455	$161,960,335	$169,366,479	$176,100,641	$183,453,157	$190,989,486
Allowable 2 1/2% inc.	$3,869,536	$4,049,008	$4,234,162	$4,402,516	$4,586,329	$4,774,737
New Growth	$3,309,344	$3,357,135	$2,500,000	$2,950,000	$2,950,000	$2,950,000
Excess Levy Capacity	-$94,519	-$34,354	$0	$0	$0	$0
Tax levy limit	**$161,865,816**	**$169,332,125**	**$176,100,641**	**$183,453,157**	**$190,989,486**	**$198,714,223**
State Aid	$13,308,489	$15,712,062	$15,925,173	$16,148,125	$16,374,199	$16,603,438
Local Receipts	$15,272,030	$12,754,452	$13,736,600	$13,942,649	$14,151,789	$14,364,066
Available Funds	$11,995,171	$14,842,963	$15,252,139	$7,215,000	$7,215,000	$7,215,000
In-Levy Debt Svc. Mitigation	$710,000	$324,500	$573,500	$2,326,000	$2,121,000	$1,429,000
Revenue Offsets	-$1,648,811	-$2,081,997	-$2,098,833	-$2,231,500	-$2,114,103	-$2,147,846
Enterprise Funds (Indirect)	-$1,450,710	$1,674,111	$1,646,939	$1,695,492	$1,745,292	$1,796,376
Total General Fund	**$200,051,985**	**$212,558,216**	**$221,136,159**	**$222,548,924**	**$230,482,663**	**$237,974,257**
Other Revenues						
Revolving Funds	$3,438,131	$3,896,479	$3,351,757	$3,037,455	$3,037,455	$3,037,455
Grants	$143,110	$135,223	$135,223	$128,354	$128,354	$128,354
Enterprise Funds (Direct)	$12,174,860	$25,470,287	$24,180,106	$24,053,600	$24,889,385	$25,758,409
Exempt Debt	$8,330,185	$8,292,689	$9,685,445	$11,631,220	$13,661,216	$15,546,316
Exempt Debt Svc. Mitigation	$0	$2,400,000	$4,500,000	$6,300,000	$7,000,000	$4,500,000
Sub-total Other Revenues	$24,086,286	$40,194,678	$41,852,531	$45,150,629	$48,716,410	$48,970,534
Total Revenues	**$224,138,271**	**$252,752,894**	**$262,988,690**	**$267,699,552**	**$279,199,073**	**$286,944,790**

Expense Summary	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
	actual	recap	budget	projected	projected	projected
Education						
Lex. Pub Schools Wages	$81,061,911	$86,001,326	$90,743,277	$93,825,789	$96,374,272	$98,986,466
Lex. Pub Schools Expenses	$8,327,302	$9,624,827	$9,353,918	$10,001,036	$10,301,067	$10,610,099
Out-of-District SPED	$5,963,400	$6,029,029	$8,014,250	$9,324,336	$9,763,466	$10,223,739
Sub-total Lex. Pub. Schools	**$95,352,613**	**$101,655,182**	**$108,111,445**	**$113,151,161**	**$116,438,804**	**$119,820,304**
Minuteman Reg. School	$1,377,449	$1,670,351	$2,126,217	$2,396,897	$2,767,471	$3,278,144
Sub-total Education	**$96,730,062**	**$103,325,533**	**$110,237,662**	**$115,548,057**	**$119,206,275**	**$123,098,449**
Municipal						
Municipal Wages	$23,464,581	$24,253,739	$25,044,832	$25,370,415	$25,700,230	$26,034,333
Municipal Expenses	$10,384,241	$11,231,824	$13,184,991	$13,580,541	$13,987,957	$14,407,596
Sub-total Municipal	$33,848,822	$35,485,563	$38,229,823	$38,950,956	$39,688,187	$40,441,929
Shared Expenses						
Benefits & Insurance	$31,105,360	$35,539,537	$36,568,698	$38,318,955	$40,142,477	$42,042,420
Debt (within-levy)	$7,037,701	$9,557,115	$10,997,766	$12,502,683	$12,539,554	$12,092,326
Reserve Fund	$0	$900,000	$900,000	$900,000	$900,000	$900,000
Facilities & Solar	$10,119,930	$10,592,986	$11,143,728	$11,326,661	$11,513,182	$11,703,372
Sub-total Shared Expenses	**$48,262,991**	**$56,589,638**	**$59,610,192**	**$63,048,299**	**$65,095,212**	**$66,738,118**

Capital & Reserves						
Cash Capital	$5,619,429	$6,421,619	$7,299,138	$3,938,795	$3,961,113	$3,983,989
Stabilization Fund	$0	$0	$0	$0	$0	$0
Capital Stabilization Fund	$6,991,205	$7,690,398	$3,415,331	$0	$0	$0
PEIL Fund (OPEB)	$1,512,318	$1,829,721	$1,829,721	$1,050,000	$1,050,000	$1,050,000
Other (SrWorkOff,SPED,aid reduc)	$323,007	$613,153	$514,292	$447,795	$450,626	$453,494
Other(unallocated)	$0	$0	$0	$0	$0	$0
Sub-total Capital & Reserves	**$14,445,959**	**$16,554,891**	**$13,058,482**	**$5,436,590**	**$5,461,740**	**$5,487,483**
Total Oper, Cap & Res	**$193,287,834**	**$211,955,625**	**$221,136,159**	**$222,983,902**	**$229,451,414**	**$235,765,979**
Revolving Funds	**$3,438,131**	**$3,896,479**	**$3,351,757**	**$3,037,455**	**$3,037,455**	**$3,037,455**
Grants	**$143,110**	**$135,223**	**$135,223**	**$128,354**	**$128,354**	**$128,354**
Enterprise Funds						
Water	$10,663	$10,722,659	$10,800,973	$9,136,041	$9,476,821	$9,817,601
Wastewater (Sewer)	$9,318,250	$9,682,514	$10,132,360	$10,286,845	$10,574,760	$10,862,674
Recreation	$2,382,947	$2,625,114	$2,831,773	$3,086,478	$3,330,182	$3,573,887
Enterprise Capital	$463,000	$2,440,000	$415,000	$1,767,250	$1,767,250	$1,767,250
Sub-total Enterprise Funds	**$12,174,860**	**$25,470,287**	**$24,180,106**	**$24,276,614**	**$25,149,013**	**$26,021,412**
Exempt Debt	**$8,330,185**	**$10,692,689**	**$14,185,445**	**$17,931,220**	**$20,661,216**	**$20,046,316**
Total Expenses	$217,374,120	$252,150,303	$262,988,690	$268,357,545	$278,427,452	$284,999,516
BALANCE(w/o COLA)	**$9,843,997**	**$602,591**	**$0**	**-$657,993**	**$771,621**	**$1,945,275**

COLA Projection	FY2019
each 1% COLA for schools =	$938,258
each 1% COLA for municipal =	$253,704
each 1% COLA for public facilities =	$55,444
1% Cola for all Departments=	$1,247,406

COLA	implemented in FY2019		
	FY2020	FY2021	FY2022
1%	-$1,905,399	-$1,735,665	-$1,834,490
2%	-$3,152,805	-$4,267,899	-$5,689,848
3%	-$4,400,211	-$6,825,081	-$9,621,547

Appendix B: Enterprise Funds

The Town of Lexington has maintained Water, Wastewater (Sewer), and Recreation Enterprise Funds since the state legislature enacted legislation authorizing such funds, G.L. c. 44, § 53F ½, in the late 1980's. An enterprise fund "establishes a separate accounting and financial reporting mechanism for municipal services for which a fee is charged in exchange for goods or services. Revenues and expenses of the service are segregated into a fund with financial statements separate from all other governmental activities" and are accounted for on an accrual basis.[11] An enterprise fund provides management and taxpayers with information to: measure performance, analyze the impact of financial decisions, and determine the cost of providing a service. Enterprise funds may be operated on a stand-alone basis or subsidized by the General Fund.

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

Establishing the Enterprise Fund Budgets

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

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

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

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

[11] *DOR 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 a number of revolving funds managed by the School Department, such as the School Lunch Fund, which are governed by other statutes and are not within the control of Town Meeting.) Under Section 53E1/2, a municipal revolving fund can be established only by vote of Town Meeting.

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

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

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

Appendix D: Tax Relief Programs

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

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

- A state income tax *"Circuit Breaker"* program providing a state tax credit for low- and moderate-income homeowners and renters age 65 and over.
- "41A", a tax *deferral* program, under which low-to-moderate-income homeowners age 65 or over may defer any or all of their property tax due, after applying any available exemptions, up to half the value of their house, at an interest rate equal to the Town's cost of funds (see table below), until the house is sold or transferred, G.L. c. 59, § 5, cl. 41A.
- "41C", a *tax exemption* program, under which homeowners age 65 or over with limited income and limited assets other than the value of their home may deduct $1,000 from their annual property tax, G.L. c. 59, § 5, cl. 41C½.
- A locally-controlled *Senior Service* program, adopted by Town Meeting in 2006.
- A Community Preservation Act *surcharge exemption* program.

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

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

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

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

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

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

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

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

Prior to 2004, the amount of the credit was limited to $500 per year and eligibility criteria were quite restrictive. Since then, the Town has taken a number of steps to expand both eligibility and the credit amount. Taking advantage of new local options made available by the legislature in 2002, Town Meeting voted in 2004 to:

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

In 2005, Town Meeting voted to adopt the provisions of G.L. c. 59, § 5, Clause 41D, which automatically adjusts the income and asset limits for Clause 41C (but not the exemption amount) by a COLA established annually by the state Department of Revenue. The current income and asset limits are detailed in the table below.

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

The Senior Service Program

Low-income seniors age 60 or over may perform volunteer work for the Town in exchange for a reduction in their property tax, currently up to a maximum credit of $1,540 per household. The Senior Service program, formerly funded from the overlay account, is now funded as part of the Town's annual budget and is subject to appropriation.

In 1999, the Legislature authorized cities and towns, by accepting G.L. c. 59, § 5K, to offer residents, age 60 and over, the opportunity to reduce their property-tax obligation by up to $500 in exchange for community service.[12] Lexington, which had earlier maintained its own program, accepted this statute shortly after it was enacted. The statute allows towns to set rules and procedures for their implementation, but limits participation to persons age 60 or over, and also limits the hourly credit to the state's minimum wage of $11/hour.

In 2006, Town Meeting voted to rescind its acceptance of the statewide senior property tax work-off program under G.L. c. 59, § 5K, and to replace it with a locally controlled program. This gave the Town the flexibility to:

- Allow participation by persons under age 60, such as the disabled and handicapped, who might be able to benefit from the program
- Pay a wage in excess of the minimum wage
- Allow a higher amount to be credited against a participant's property tax bill

Although the Board of Selectmen has the authority to expand eligibility to persons under age 60 who are disabled or handicapped, it has not yet done so. The current qualifications are detailed in the table below.

CPA Surcharge Exemption

Low-to-moderate income homeowners age 60 or over, and low-income homeowners under age 60, may obtain a 100% exemption from the CPA surcharge on their property tax. These exemptions directly reduce the amount of CPA revenue that the Town receives.

[12] In 2002, the maximum amount of the Section 5K credit was increased to $750. In 2009 it was increased to $1,000, in 2006 it was increased to $1,500, and the 2010 Municipal Relief Act added a provision allowing towns to adopt a local option to set the limit at 125 hours of service at the prevailing minimum wage (now $11.00 per hour), which would automatically increase the limit if the minimum wage increases.

Tax Relief Programs – Limits and Qualifications

State Income Tax Circuit Breaker for Tax Year 2017		
Maximum assessed valuation		$747,000
Maximum tax credit		$1,080
Maximum income single		$57,000
Maximum income head of household		$72,000
Maximum income married, filing jointly		$86,000
41C Property Tax Exemption for Seniors For Fiscal Year 2018	**Single**	**Married**
Income Limit	$26,284	$39,428
Assets Limit	$52,572	$72,285

Limits and Qualifications as of 2018

41A Property Tax Deferral	
Interest rate on taxes deferred in 2018	0.82%
Total accounts receivable for deferred taxes	$881,716.63
Senior Service Program	
Household income eligibility	$86,000
Maximum benefit	(140 hours) $1,540
Hourly Rate	$11.00

Appendix E: Specified Stabilization Funds

The Massachusetts statute authorizing towns to create and maintain a stabilization fund, G.L. c. 40, section 5B, was amended in 2003 to permit the creation of multiple, separate stabilization funds for specified purposes. The creation of such funds, the specification of their purpose, any alteration of their purpose, and any appropriation into or out of the funds, must be approved by a vote at an annual or special town meeting. A recent amendment of the law changed the level of majority needed for some of these actions. As amended, a simple majority is needed to put monies into a stabilization fund while a two-thirds majority is still needed to appropriate from a stabilization fund.

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

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

Traffic Mitigation (TM) S.F. was established to hold 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. was created to support daily school bus operations, and was originally funded with $200,000 contained in the Avalon Bay School Bus Transportation special revenue account. The balance in the fund has been fully withdrawn.

Section 135 Zoning Bylaw S.F. was created to finance public improvements using monies contributed by developers pursuant to Section 135 of the Code of Lexington.

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

At the 2009 Annual Town Meeting the *Center Improvement District Stabilization Fund* was created and was funded by a $100,000 payment received from the developer of Lexington Place in FY2010. The funds may be used for projects such as tree planting or sidewalk improvements to the abutting connector between the parking lot and the sidewalk.

The 2009 Annual Town Meeting also voted to establish the *Debt Service Stabilization Fund* (DSSF) to hold the remaining part of a lump-sum reimbursement of approximately $14 million received in 2006 from the Massachusetts School Building Authority (MSBA) to cover its remaining obligation for construction projects previously completed at Clarke and Diamond Middle Schools and Lexington High School. The Massachusetts Department of Revenue (DOR) required the Town to set aside the excess funds from this up-front reimbursement for these public school construction projects, and to apportion those funds over the life of the bonds related to the projects to help fund the debt service.

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

Avalon Bay School Enrollment Mitigation Fund was created and 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 balance in the fund has been fully withdrawn.

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

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

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

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

Appendix F: Other Post Employment Benefits

The OPEB Liability

The Town of Lexington is required by State law to provide health benefits to retired employees that are comparable to those provided for active employees. These and other retirement benefits that are distinct from 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, about 80% of retirees are eligible for Medicare and receive Medicare supplement coverage from the Town. The remaining retirees receive full coverage from the Town, either because they under 65 years old or because they do not qualify for Medicare for other reasons.

Because the Town is obligated to provide these benefits in the future, the anticipated costs that may extend over the lifetimes of current vested employees and retirees represent a financial liability. The size of the 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 on the present value of those future benefits.

In a simpler world, i.e., a 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 generally increases each year, because of increases in the inflation-adjusted per-capita costs of health care, growth in the number of retirees receiving benefits, and an upward trend in longevity.

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 set aside funds to pay for future retiree health benefits. Once money has been appropriated into the PEIL Fund, Town Meeting may only appropriate money out of it to pay for health care costs of retirees.

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

GASB 45 and the choice of a discount rate

Under Government Accounting Standards Board statement 45 (GASB 45), the actuarial value of the Town's OPEB liability must be determined every two years and the results reported in the Town's financial statements. Bond rating agencies consistently ask about the 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 investment rate of return assumed for the actuarial evaluation), the predicted *rate of inflation of per-capita medical costs*, and the *number of active and retired employees*, An understanding of the actuarial results in a proper context requires consideration of the underlying assumptions, and judgment of how well they mirror real-world expectations.

The Town engages an actuarial consultant who must follow procedures and reporting templates established by GASB 45 to produce the actuarial report. The primary purpose of this report is to inform potential investors about one specific aspect of the financial health of the Town, and to enable uniform financial comparisons across multiple municipalities. However, the required report only provides guidance to a municipality, and the municipality may use its own modeling if seeking to control or reduce its OPEB liability.

Based on the requirements of GASB 45, for the most recent report received in January, 2018, the actuary determined that a "blended" discount rate of 5.0% is appropriate for financial reporting purposes. The "blended rate" is well below the discount rate typically used for long-term investments, and this magnifies the estimate of the OPEB liability. The future liability is closely tied to the discount rate, in the sense that a lower discount rate, i.e., lower expected investment returns, results in a higher estimate of the present value of the liability. At the request of the Town, the actuary also analyzed the OPEB unfunded liability using a 7.5% discount rate.

While it is undoubtedly true that certain future annual appropriations for OPEB expenses will need to be higher if the normal cost is not annually appropriated to the PEIL Fund in the year of accrual or if the Town does not appropriate funds to cover previously incurred liabilities, the relevance to policy makers as opposed to potential bond purchasers of using a blended discount rate to gauge the liability is questionable. The reason is that a statement of a liability is a statement of value at the present time. Unfunded liabilities will not be paid using funds available at the present time, but with funds that will be raised in the future. Therefore, the most relevant information would be obtained by comparing projected annual expense schedules for the different funding policies under consideration. In short, OPEB liabilities computed on the basis of low discount rates do not necessarily serve as useful guides to target levels of appropriations into the PEIL Fund.

In 2011, the Town's OPEB report used a blended discount rate of 2.5% yielding a liability of $302 million. In 2013, with the consent of the Town's actuarial consultant, a higher blended discount rate of 4.5% was used, yielding a liability of $130 million. This large drop in the official estimate of the liability is mostly due to the use of a higher discount rate. At the Town's request, the FY2013 actuarial analysis was revised to include an auxiliary schedule using a discount rate of 7.75%. This yielded a liability of approximately $90 million as of June 30, 2013. The actuarial analysis done as of the end of FY2015 estimated the liability at $129 million assuming a discount rate of 8%.

The latest actuarial report was received in January, 2018. It reports the unfunded liability at approximately $200 million using 5% for the discount rate and at about $138 million using 7.5% as a discount rate. At the end of FY2017, the PEIL Fund balance was $9,869,875. The appropriation into the PEIL Fund voted at the 2017 Annual Town Meeting (see table below) is not taken into account in this figure since the transfer of funds into the account took place after June 30, 2017. The balance in the PEIL Fund was $12,619,957 as of December 31, 2017.

GASB 74 and 75

Within the next year two relatively recent GASB statements, nos. 74 and 75, will supersede GASB 45. The impact will mainly be noticeable for financial reporting purposes, and in the splitting of the results of the actuarial analyses done for the Town every two years into two separate reports.

Pre-Funding OPEB

There are two approaches to handling 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 FY2017 was approximately $7.1 million.

The other approach is a *pre-funded* model in which, after full funding is achieved, an amount equal to the present value of future benefits earned during the current year is appropriated into the PEIL Fund, and the investment returns from the Fund are used to pay for benefits that come due. This model, that uses current dollars to pay for future expenses, is also the way the Retirement Fund (pensions) will operate when it is fully funded.

Under the pre-funded model, after previously incurred liabilities are fully funded, the amount that needs to be appropriated into the trust fund each year is referred to in the actuarial analysis as the "Normal Cost." The Normal Cost is an actuarially determined annual contribution that would fund the Town's share of future retiree benefits earned by active employees in the current fiscal year.

The recent report done as of the end of FY2017 projects that the Normal Cost for FY2019 will be about \$8.5 million assuming the 5% discount rate or about \$4.6 million assuming the 7.5% discount rate.

Currently, the intention is to transition to the pre-funded approach; hence, there have been appropriations into the PEIL Fund at each of the previous 10 annual town meetings. 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. Both types of payments reduce the unfunded OPEB liability. This combination of appropriations could be continued until the PEIL Fund is fully funded.

The PEIL Fund will be fully funded when the cost of all benefits earned in previous years may be reasonably expected to be fully covered by investment returns. At that point the Town's annual OPEB appropriation would be limited to covering the normal cost for the given year and would therefore be lower than the pay-as-you-go cost.

The pay-as-you-go and pre-funded model each have advantages and disadvantages. The pay-as-you-go model is simpler to administer, but there is no benefit from long-term investment earnings, and no hedge against the higher inflation of health care costs. In the pre-funding model, once a sufficient trust fund balance is achieved, the investment earnings pay for a substantial portion of the costs. Building up the trust fund results in higher expenses during the decades-long transition period, but eventually results 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 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 PEIL Fund provide assurance that the Town will be able to satisfy at least some portion of its future liability, and the Fund could also be used as a reserve, e.g., to fund a portion of retiree health costs in particularly challenging fiscal years.

On the other hand, appropriating money into the PEIL Fund reduces the funds available to spend on other items or to be put aside for other purposes. One should consider whether funding the PEIL Fund takes priority over other liabilities, such as the costs of maintaining or replacing roads and buildings in a timely manner. In some circumstances, choosing the latter might generate significant future savings.

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

> It is the policy of the Board of Selectmen to recommend to Town Meeting each year a budget contribution to the OPEB Trust Fund in an amount that ranges from 35 to 100 percent of the full Normal Cost, with the General and Enterprise Funds bearing their respective shares of those contributions. This approach will mitigate growth in the Unfunded Actuarial Accrued Liability, reducing the amount the Town will need to budget for health insurance by approximately one-third, as the assets of the OPEB Trust Fund will be used to underwrite the annual cost of retiree benefits.
>
> Further, it is recognized that there are competing claims for limited Town funds, which are considered as part of the annual budget process. Consequently, the annual recommendation for OPEB funding shall be made in the context of other capital and operating budget needs, such that

recommended OPEB funding shall not have a material, detrimental impact on service delivery or the maintenance of Town capital assets and infrastructure.

The Committee supports this policy.

History of appropriations into 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 does not precisely track the sum of past appropriations into, and in the future, out of the Fund.

Venue of Appropriation to the PEIL Fund	**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
2018 Annual Town Meeting	$1,842,895 (proposed)

Investment earnings in the PEIL Fund

The balance of the PEIL Fund is invested in a single mutual fund, the Vanguard Wellington Fund, which, in turn, is invested in approximately 66% large cap stocks and 31% corporate bonds with the balance in short-term investments and cash. The balance of the PEIL Fund on December 31, 2017, was $12,619,957. The Wellington Fund's most recent annual report, dated 11/30/2017, states a year-to-date return of 15.7%. The table below lists recent quarterly earnings of the PEIL Fund:

Quarter ending	Earnings ($)
03/31/16	141,324.34
06/30/16	215,080.83
09/30/16	188,148.10
12/31/16	273,558.02
03/31/17	308,153.24
06/30/17	252,849.07
09/30/17	377,989.60
12/31/17	529,198.07