APPROPRIATION COMMITTEE

TOWN OF LEXINGTON

REPORT TO THE
2017 ANNUAL TOWN MEETING

Released March 21, 2017

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	CPF	Community Preservation Fund
RE	Retained Earnings	IP	A motion to Indefinitely Postpone is expected
RF	Revolving Fund	TDM	Traffic Demand Management
SF	Special Fund	DSSF	Debt Service Stabilization Fund

2017 Annual Town Meeting

Article	Title	Funds Requested	Funding Source	Committee Recommendation
4	Appropriate FY2018 Operating Budget	$192,670,719	See motion	**Approve (9-0)**
5	Appropriate FY2018 Enterprise Funds Budgets	$21,997,560	See below	**Approve (9-0)**
6	Appropriate for Senior Services Program	$30,000	GF	**Approve (9-0)**
7	Appropriate for Updating the Town's Comprehensive Plan	$302,000	GF	**Approve (9-0)**
8	Accept PEG Access and Cable Related Funds	None		**Approve (9-0)**
9	Establish and Continue Departmental Revolving Funds and Special Revenue Fund	See below	RF	**Approve (9-0)**
10	Appropriate for the FY2018 Community Preservation Committee Operating Budget and CPA Projects	$6,775,140	CPF	**(a-g, i-p) Approve (9-0)** **(h) Disapprove (3-6)** **(j) Support IP**
11	Appropriate for Recreation Capital Projects	$55,000	Recreation EF	**Approve (9-0)**
12	Appropriate for Municipal Capital Projects and Equipment	See below	See below	**(b-p, r-x) Approve (9-0)** **(a) Support IP** **(q) Approve (6-2-1)**
13	Appropriate for Water System Improvements	$1,000,000	Water EF RE	**Approve (9-0)**
14	Appropriate for Wastewater System Improvements	$1,800,000	Wastewater EF RE and Debt	**Approve (9-0)**
15	Appropriate for School Capital Projects and Equipment	$1,384,087	See below	**Approve (9-0)**
16	Appropriate for Public Facilities Capital Projects	$3,157,898	See below	**Approve (9-0)**
17	Appropriate for Hastings School Replacement Design	$720,000	GF Debt	**Approve (9-0)**

Article	Title	Funds Requested	Funding Source	Committee Recommendation
18	Appropriate for Visitors Center (citizen article)	Unknown	GF	**Pending**
19	Appropriate for Advice and Analysis - Getting to Net Zero	$40,000	GF	**Approve (5-3-1)**
20	Accept Harbell Street	None		**Approve (9-0)**
21	Appropriate to Post Employment Insurance Liability Fund	$1,842,895	See below	**Approve (9-0)**
22	Appropriate Bonds and Notes Premiums to Pay Project Costs			**IP**
23	Rescind Prior Borrowing Authorizations	None		**Approve (9-0)**
24	Establish and Appropriate To and From Specified Stabilization Funds	$7,690,398	Free Cash	**Approve (9-0)**
25	Appropriate to Stabilization Fund			**IP**
26	Appropriate from Debt Service Stabilization Fund	$124,057	DSSF	**Approve (9-0)**
27	Appropriate for Prior Years' Unpaid Bills	None		
28	Amend FY2017 Operating, Enterprise and CPA Budgets	Unknown	Unknown	**Pending**
29	Appropriate for Authorized Capital Improvements	Unknown	Unknown	**Pending**
30	Adjust Retirement COLA Base for Retirees	None		**Approve (6-2-1)**
36	Amend General Bylaws – Municipal Modernization Act	None		**(Parts 1,2,4) Approve (9-0)** **(Part 3) Pending**
38	Amend General Bylaws – Revolving Funds	None		**Approve (9-0)**
40	Amend Zoning Bylaw – Special Permits Residential Developments	None		**Pending**
42	Amend Zoning Bylaw – Two-Family Homes	None		**Pending**
43	Amend Zoning Bylaw – Economic Development Refinements	None		**Pending**
44	Amend Zoning Bylaw – Brookhaven (owner article)	None		**Pending**
45	Amend Zoning Bylaw – Balanced Housing Developments (citizen article)	None		**Pending**

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 2018 Recommended Budget & Financing Plan*, dated February 27, 2017, 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 2018 School Committee Recommended Budget* (the "Gray Book") dated January 31, 2017, which details the budget plans for the Lexington Public School System. http://lps.lexingtonma.org/Page/7718
- Capital Expenditures Committee (CEC) *Report to the 2017 Annual Town Meeting*, which provides a detailed report on appropriation requests for capital projects. http://www.lexingtonma.gov/town-meeting/files/cec-report-2017-atm-and-stm-1
- Community Preservation Committee (CPC) *Report to the 2017 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.

Dedication

The Committee dedicates this report to Robert N. Addelson, who served as Assistant Town Manager for Finance and as an *ex officio* as a member of this Committee for over a decade, from 2006 through his retirement in January 2017. With his comprehensive knowledge and mastery of the inner workings of municipal finance; his indefatigable work ethic; his wise and prudent management of the Town's finances; and his patient, cordial and collegial manner, Rob greatly facilitated the work of this Committee and brought distinction to the Town.

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 21, 2017, in the week prior to the session when financial articles are anticipated to be taken up at the Annual Town Meeting.

The Committee previously published on March 12 a separate report on four financial articles to be taken up at the Special Town Meeting (STM 2017-1) beginning on the first night of the Annual Town Meeting. That report addressed the appropriation of design funds to continue the planning process for three important capital projects: reconstruction of the Fire Headquarters station at 45 Bedford Street; adaptation of the former Liberty Mutual Building at 171/173 Bedford Street for use as swing space while the main fire station is being reconstructed; and renovation of the former Armenian Sisters Academy at 20 Pelham Road, assuming that its purchase is consummated, for use as a permanent facility for the Lexington Children's Place. The March 12 report also addressed the proposed appropriation of premiums resulting from a bond and note sale on February 16, 2017 to lower borrowing costs.

Committee Membership

In the past year, Beth Masterman, Kathryn Colburn, Glenn Parker, and Mollie Garberg resigned from the Committee. We are grateful for their service. In particular, we thank Glenn Parker for his steady leadership of the Committee as its Chair for six years. We welcome Jian Helen Yang, Lily Manhua Yan, Sanjay Padaki, and Ellen Basch who have joined the Committee in the last six months.

The Town Comptroller is an ex-officio member of the Committee. Since the first of the year, this role has been ably filled by our new Comptroller and Assistant Town Manager for Finance, Carolyn Kosnoff, whom we are very pleased to have on board.

Reserve Fund

The Committee has approved only one Reserve Fund transfer to date during FY2017:

Date	Amount	Description
2-15-2017	$17,115	For due diligence studies needed to support acquisition of the property at 20 Pelham Road

As of publication, the remaining balance of the $900,000 originally appropriated to the FY2017 Reserve Fund is $882,885. Any funds in the Reserve Fund not expended before the end of this fiscal year will flow to Free Cash as of June 30, 2017 and will be available for appropriation in the fall of 2017 after the Free Cash balance is certified by the Department of Revenue.

Developments Since Our Last Annual Town Meeting Report

Major recent developments with a financial impact on the Town, most of which have occurred since the publication of our report to the 2016 Annual Town Meeting, are summarized below.

Spring 2016 Special Town Meetings and Follow-up

In a succession of special town meetings held before, and within the framework of last year's annual town meeting, Town Meeting took a number of significant actions, particularly with respect to land acquisitions and capital projects, which are important to an understanding of the issues now before this annual town meeting, as well as the financial challenges the Town faces going forward.

At a special town meeting held on February 22, 2016 (STM 2016-1), Town Meeting approved an amended regional agreement for the Minuteman Regional Vocational School District designed to resolve an impasse among member towns which had delayed and jeopardized the progress of plans to replace the aging Minuteman Regional High School facility with Massachusetts School Building Authority (MSBA) support. Town Meeting also approved an appropriation of $1,500,000 for preliminary design and planning work to support the Town's application to the MSBA program for replacement of the Hastings School. As a result of that effort, the MSBA voted earlier this year, on February 15, 2017, to approve the Hastings project for its subsidy program and will provide reimbursement now estimated at approximately 25% of the complete design and construction costs, including the design funds already spent.

At a special town meeting held on March 21, 2016, the first day of the 2016 Annual Town Meeting (STM 2016-3), Town Meeting approved an appropriation of $62,196,247 to fund renovations and additions to the Clarke and Diamond Middle Schools. The purpose of this project is to increase school capacity system-wide and help alleviate overcrowding resulting from a recent trend of significant enrollment growth. At a subsequent town-wide referendum election held on May 3, 2016, the Town voted, by a vote of 3,333 to 2,135, to exclude the costs of servicing the resulting debt from the limits of Proposition 2½. Much of the funds necessary to proceed with the project were raised in a debt issuance by the Town on February 16, 2017. Both middle school expansion projects are currently under construction and planned to be completed for the beginning of the next school year in September 2017.

At a special town meeting held on April 25, 2016 (STM2016-4), Town Meeting voted to approve the issue of debt by the Minuteman Regional Vocational School District to fund the construction of a new vocational high school building. The proposed project is anticipated to cost the District approximately $145,000,000 offset by an estimated MSBA reimbursement of approximately $44 million. As will be discussed later in the section regarding Article 4, the portion of the debt service cost to be borne by Lexington for this project is still modest. However, it can be expected to rise to a peak of about $675,000 annually as planning, and ultimately construction, progress. Opening of the new Minuteman High School is targeted for September of 2019.

Finally, at a special town meeting held on May 9, 2016, Town Meeting approved an appropriation of $8,000,000 to acquire, by purchase or by eminent domain for school and/or municipal purposes, an approximately 8.4 acre parcel, formerly known as the Armenian Sisters Academy, located at 20 Pelham Road, adjacent to the Lexington Community Center. Negotiations for the purchase of the property have continued since that time, and although not yet finalized, are believed to be near to fruition.

At a summit meeting among the major boards and committees held in August 2016, the School Committee reported that it had decided on the property at 20 Pelham Road as its first-priority choice for relocation of the Lexington Children's Place (LCP). The LCP currently occupies a portion of the "new Harrington" elementary school, as well as a portion of the "old Harrington" building now housing the School Department's central administration. This is an interim arrangement necessitated by growth of the LCP program and the lack of suitable space, but is considered by the School Department to be well less than ideal. At subsequent summit meetings conducted during the fall of 2016, the Board of Selectmen and the School Committee tentatively agreed, should the 20 Pelham Road property be acquired, to pursue the concept of a joint use of the facility. Under this concept, the classroom portion of the building would be renovated to serve as a permanent home for the LCP, and the gym and cafeteria, representing roughly half the space of the building, would be renovated for use by the neighboring Community Center.

September 2016 Special Town Meeting

At a Special Town Meeting convened on September 21, 2016 (STM 2016-5), an increase of approximately $2,000,000 in FY2017 revenue over the amount estimated at the 2016 Annual Town Meeting was recognized. The primary reasons for this revision were: (1) an increase of approximately $1,500,000 in Chapter 70 State Aid over the original estimate attributable to school enrollment increases and their impact on the school "foundation budget" funding formula; (2) a $200,000 upward revision in the estimate of new growth; and (3) the release of revenue previously set aside to cover a potential FY2016 snow and ice deficit, but which was not required as the deficit was resolved by intra-budget transfers. The bulk of the additional revenue recognized, $1,878,771, was appropriated to the Capital Stabilization Fund, bringing the balance of that fund to a little less than $24,000,000.

The primary motivation for the Special Town Meeting was to respond to an opportunity which had arisen to acquire the property located at 171-173 Bedford Street, the site of the former Liberty Mutual office building. The Board of Selectmen proposed that this property could be used temporarily as swing space by the Fire Department during a reconstruction of the Main Headquarters Fire Station, and then possibly used again as swing space during a subsequent reconstruction of the Police Station, or as a permanent new location for the Police Station. Town Meeting appropriated $4,300,000 to fund the agreed-upon purchase price of the property, and the Town thereafter acquired the property. An additional $143,000 was appropriated to fund planning and engineering studies and for legal costs.

At the September 2016 Special Town Meeting, an appropriation was also made to fund an overrun of $1,430,000 in the costs of acquiring and installing six modular classrooms at the Bowman, Bridge, and Fiske elementary schools to help relieve overcrowding at those schools. The original amount appropriated was $3,000,000 but the lowest bid came in at $4,430,000. To meet the overrun, $520,000 of the borrowing authorization previously appropriated for design of the Hastings School should MSBA not approve that project was redirected to offset the overrun, and the balance was funded by a supplemental appropriation of $910,000 by Town Meeting.

Finally, a relatively small appropriation of $65,000 was made at the September 2016 Special Town Meeting to fund a feasibility study for a new police station. Preliminary conceptual plans for renovation and expansion of the existing police station or, alternatively, for the construction of a new building located at 171-173 Bedford Street following the Fire Department's use of that property as swing space were presented to the Board of Selectmen by Tecton Architects on March 10, 2017.

The Summit Process and Estimated FY2018 Revenue

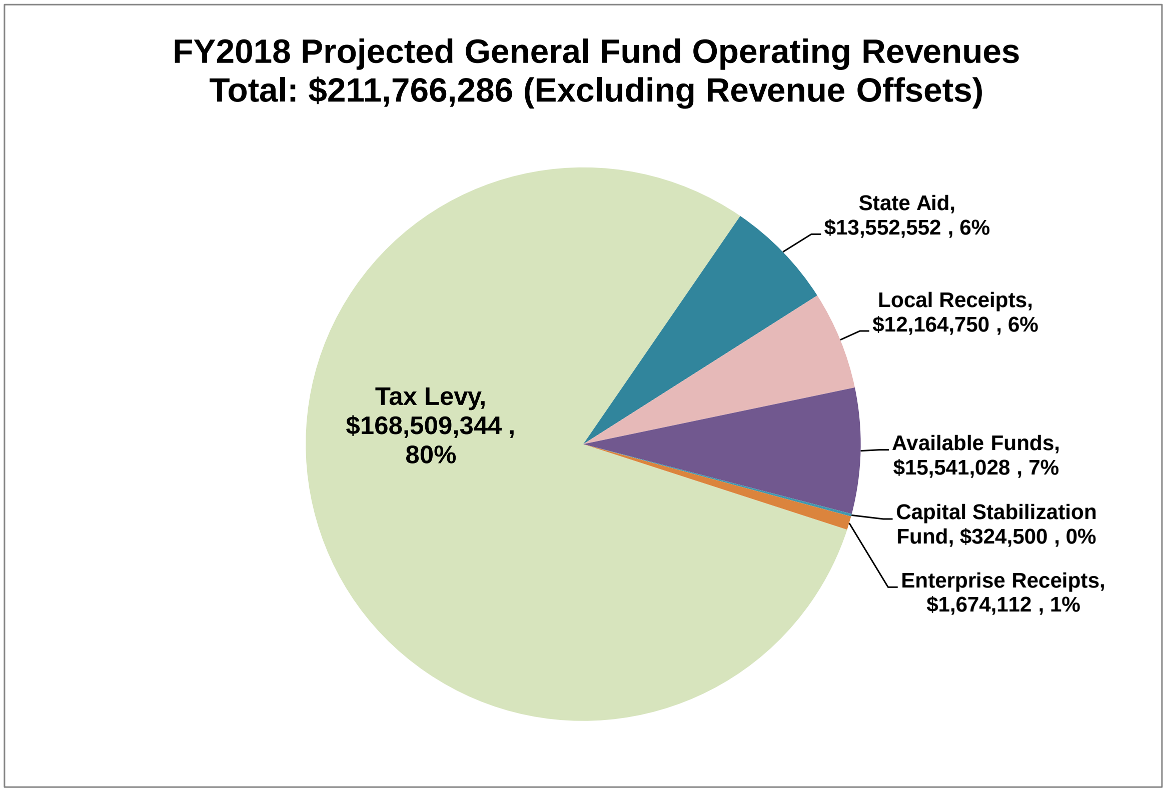
In the usual series of budget summits, joint meetings of the Board of Selectmen, the School Committee, the Appropriation Committee, and the Capital Expenditures Committee, held throughout the fall of 2016 and into early 2017, the Town Manager presented: (1) his FY2018 revenue estimates, including the certified Free Cash available for appropriation in FY2018; (2) the amounts proposed to be set aside for various special purposes, including a significant dedication of available free cash for further strengthening of the Capital Stabilization Fund and of the Post-Employment Insurance Liability (PEIL) fund; and (3) 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, increasing over FY2017 revenues, on a net basis after adjustments, by about 5% (compared with growth of 6.9% from FY2015-FY2016 and 6.7% from FY2016-FY2017). It should be noted that the Governor's initial proposed FY2018 state budget again shows a material increase of Lexington's Chapter 70 aid – this year growing over $2 million, from $11.6 million to $13.7 million – which, if realized, would increase revenue growth to 5.6%. Certified free cash is up this year by about $3 million, increasing from approximately $11 million at the end of FY2016 to approximately $14 million at the end of FY2017.

As a result of the set-aside and allocation process described above, it was determined in January that approximately $8,000,000 in incremental revenue was available to be applied to the FY2018 operating budget, an increase of 6.6% from last year, and that the increase would be allocated 73.7% to the school department and 26.3% to municipal departments. 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.

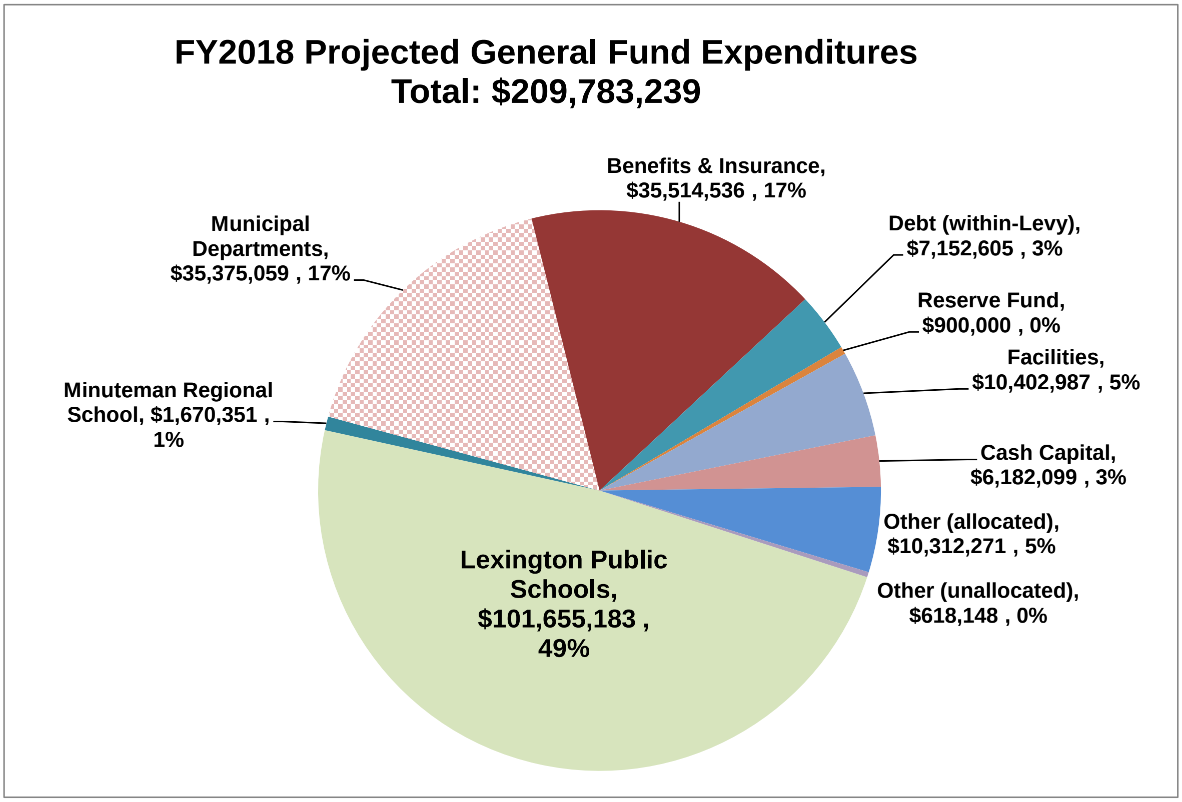
The FY2018 Budget

The key components of currently estimated FY2018 revenues are shown in the following chart:



Revenue Category	Projected Amount	% of Total
Tax Levy	$168,509,344	80%
State Aid	$13,552,552	6%
Local Receipts	$12,164,750	6%
Available Funds	$15,541,028	7%
Capital Stabilization Fund	$324,500	0%
Enterprise Fund	$1,674,112	1%
Total General Fund Revenues	**$211,766,286**	**100%**
Less Revenue Offsets	-$1,983,047	N/A
Net General Fund Revenues	**$209,783,239**	**N/A**

The key components of FY2018 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 for contribution 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	**FY2018 Projected**	**% of Total**
Lexington Public Schools	$101,655,183	49%
Minuteman Regional School	$1,670,351	1%
Municipal Departments	$35,375,059	17%
Benefits & Insurance	$35,514,536	17%
Debt (within-levy)	$7,152,605	3%
Reserve Fund	$900,000	0%
Facilities	$10,402,987	5%
Cash Capital	$6,182,099	3%
Other (allocated)	$10,312,271	5%
Other (unallocated)	$618,148	0%
Total General Fund Expenditure	**$209,783,239**	**100%**

A Look Forward

In many ways, the last eight to ten years have represented a "golden era" for Lexington's finances. In a period of very low inflation, such as we have experienced during almost the entire nine year recovery from the severe recession of 2008, municipalities whose revenue growth is legally constrained by the limits of Proposition 2½ tend to do well. When that effect is combined with the strong comeback of Lexington's residential housing market, and the steady and continuous replacement of its older housing stock with substantially larger and more expensive homes, resulting in significant additions to new growth and consistent increases in revenue of well over 2.5% annually, the Town has fared even better.

Topping that off has been relatively strong commercial new growth, compared with the past, led by Shire Pharmaceutical's major construction and investment in Lexington beginning in 2009. The financial benefits to the Town resulting from Shire's investment alone, which have been ramping up gradually under its 20-year Tax Increment Financing (TIF) arrangement, have been substantial, generating roughly $2.5 million in added "new growth" tax revenue as we reach the 70% mark, with about another $1 million yet to go.

During the period from 1990-2007, achieving the Town's budget goals required operating overrides approximately once every three to five years. Since 2007, we have been able to balance our budget without a single operating override. Indeed, we have been able to put aside substantial reserves for the future, including: (1) a general stabilization fund, currently holding about $10 million; (2) a PEIL Fund holding about $9 million; (3) a special education reserve fund holding over $1 million; and (4) a Capital Stabilization now holding $24 million, and proposed to be increased to $28 million in FY2018.

According to the latest actuarial valuation of our pension fund, discussed in more detail in connection with Article 30, we are scheduled to retire the Town's unfunded pension liability in FY2024. This would free up a stream of $4-5 million in recurring revenue we have been devoting for years to unfunded liability amortization payments. We are also nearing the completion of a long-term program for replacing the Town's aging, unlined water mains, which may lower future infrastructure costs and relieve future pressure on water and sewer rates.

However, good times rarely last forever. As the economy reaches full recovery, and interest rates rise, we may enter a period of higher inflation. If this occurs, our operating margins under Proposition 2½ will be squeezed with higher wage and health benefit costs, as well as higher interest costs for borrowing. Once the Town's unfunded pension liability is fully funded, we will then have to consider a more aggressive program to address the Town's significant unfunded liability for OPEB benefits, which until recently were managed on a pay-as-you-go basis. Most important of all – particularly if the recent trend of unexpectedly large growth in our school enrollment continues – we face daunting future capital investment challenges, as the Capital Expenditures Committee has pointed out, to maintain, replace, and in the case of the schools significantly expand, our capital infrastructure. With limited land available for new building and extraordinary inflation in school construction costs, this will not be an easy task.

On the immediate horizon, we have already made substantial commitments to capital investments which will require taxpayer support if they are to proceed. The current list of items proposed for a debt exclusion referendum this fall – including $46 million for the Hastings replacement project net of MSBA reimbursement, $24.4 million for 20 Pelham Road renovations, $20.9 million for fire station reconstruction and swing space, $8 million for acquisition of the Pelham Road property, and $4.4 million for acquisition of the 171/173 Bedford Street property – exceeds $100,000,000. Not included on this list are: the Center Streetscape project; a new Visitors' Center; a potential seventh elementary school; or the looming need to renovate/replace Lexington High School, which is already overcrowded. The substantial balance in our Capital Stabilization Fund will certainly help to offset the added costs to taxpayers of these projects, but will not come close to eliminating them. Under these circumstances, the Town's financial future can best be described as "challenging," and hard choices will have to be made.

2017 Annual Town Meeting
Analysis and Recommendations

The warrant for the 2017 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 FY2018 Operating Budget		
Funds Requested	Funding Source	Committee Recommendation
See subsections	**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**
	$101,655,182	*See Motion*

Overview

The School Committee has voted to recommend an appropriation of $101,655,182 for the school operating budget for fiscal year 2018. This amount does not include:

- The school portion of shared expenses such as health insurance ($13,070,879), dental insurance and workers' compensation. Breakdowns of the latter two items by school and municipal portions are not readily available.
- Federal, State, local, and private grants; Revolving and donation fund activity.

The request represents an increase of $4,361,883 or 4.48% above the FY2017 appropriation, which was $97,293,299. The primary drivers of the FY2018 increase include contractual requirements such as collective bargaining agreements (2.20%), legal requirements for special education (including transportation services) (1.03%), enrollment increases (1.24%), and programmatic improvements (0.02%).

Salaries and Wages

Salaries and wages, in the amount of $85,948,669, make up 84.55% of the FY2018 request, an increase of $2,874,323 or 3.46% over FY2017. The budget includes amounts for an additional 12.30 full time equivalent (FTE) positions as well as negotiated salary increases. To cover health insurance, Medicare, and workers' compensation for the employees who will occupy the 12.30 new FTE positions, $195,151 has been included in the Shared Expenses part of the operating budget.

The FY2018 budget includes funding for all negotiated 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-4.

The additional 12.30 FTE positions address the needs associated with the projected K-12 enrollment increase of 169 students (from 6994 to 7163), which is an increase of 2.42%. During the past five years, K-12 enrollment at Lexington Public Schools has increased by 620 students (+9.7%), or an average of 124 students per year (1.9% 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.

The projected enrollment increase is based on an updated version of the Lexington Public School Enrollment Projections made using the Enrollment Advisory Group's methodology. The updated projections are generally higher than the last year's projections generally have narrower confidence intervals. Over the full five-year period the projection shows a total increase of 802 students (for a total of 7,796 students; or 11.5% higher than current levels) from FY2017 levels (about 2.3% per year).

The distribution of K-12 students is listed below based on actual enrollment as of October 2016. Note that the total in-district enrollments are inclusive of the numbers of in-district Special Education students, and that METCO students who receive Special Education services are included in both categories.

	Total In-district Enrollment (Average number per grade)	METCO (Avg. per grade)	Special Education - In-district (Average no. per grade)
K-5	3,066 (511)	124 (21)	373 (62)
6-8	1,743 (581)	51 (17)	232 (77)
9-12	2,185 (546)	68 (17)	217 (53)
Subtotal	**6,994**	**243**	**822**

Lexington is projected to receive State aid in the amount of $1,557,604 for FY2018 for the METCO program; this is an average of $6,410 per METCO student.

Expenses

Expenses make up 14.45% of the FY2018 request, in the amount of $15,706,513, an increase of $1,487,560, or 10.46%. This increase is largely driven by three main factors. These include the increases in the Regular Ed Transportation (an increase of $346,080), Special Ed Transportation (an increase of $116,896), and Out-of-District Tuition budget lines (an increase of $762,240). These three budget lines are recommended to increase by $1,225,216. This is approximately 82.4% of the recommended expense budget increase.

The remaining 17.6% of the increase ($262,344) is a function of per-pupil adjustments, cost of living adjustments, and other minor expense requests. For comparison, the FY2017 budget recommended an increase of $2,074,909 (or 15.45%).

Special Education Costs

PreK-12 Special Education takes 29.34% of the overall budget in the amount of $29,826,962, for a total number of 958 students, the distribution of which are listed below.

	In-district Number of Students	Out of district Number of Students	**Subtotal**
PreK (LCP)	37	2	**39**
K-12	822	97	**919**
Subtotal	**859**	**99**	**958**

The FY2018 budget includes an increase of $762,240 to fund the cost of out-of-district tuitions. While the overall average cost for an out-of-district tuition placement is projected to remain more or less constant, there is an overall increase in the projection of the total number of students to be placed out of district (133 students rising to 138 students).

The Tuition expense budget in the FY2018 request doesn't include the "Circuit Breaker" reimbursement the District receives for students with disabilities who require Individual Education Program (IEP) services (both in-district and out-of-district) that cost greater than four times the statewide foundation budget ($43,094 for costs incurred in FY2017 for reimbursement in FY2018).

The FY2018 budget includes a reduction of 1.49 FTE for the Special Education Department even while overall District enrollment and staffing is growing. This is the result of diligent review of staffing needs at all levels during the budget process ensuring that positions are re-assigned based on shifts in student serving demands.

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 FY2018, the School Department projects that it will receive $2,058,585 in federal grants, the same amount that was received in FY2017.
- **State Grants** – The Town receives grants from the state to support METCO, School Health, and Special Education Program Improvement. State grants do not include cherry-sheet local aid for education, because local aid is considered to be General Fund revenue. The School Department projects that it will receive $1,674,044 in state grants in FY2018, the same amount it received in FY2017.
- **"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 FY 2018, with the projected reimbursement rate of 70%, the estimated Circuit Breaker reimbursement is $2,881,291.

Fee Programs

Fees for participants in certain programs, such as preschool, athletics, and transportation, support those programs in whole or in part. No changes in fee rates are anticipated in FY2018, except that the school bus fee for those paying after July 1, 2017 will be increased incrementally based on the full cost per seat in FY2018.

More detailed information about the School Committee recommended budget is available at `http://lps.lexingtonma.org/Page/9714`

Line Item 1200: Regional Schools	**Funds Requested**	**Funding Source**
	$1,670,351	GF

The Minuteman Regional High School (MRHS) Committee has approved an FY2018 budget of $19,449,466, a $278,631 decrease (-1.4%) from FY2017. The $278,631 decrease is the net effect of a 1.7% decrease in the costs of operations and a 3.5% increase in debt costs attributable to design planning for a new MRHS building.

The FY2018 budget reflects a reduced high school enrollment of 597 students and 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.

Notwithstanding the decrease in the MRHS budget, the assessment to the Town of Lexington is increasing by $292,902, or 21.6%, over last year's assessment. The primary factors for this year's extraordinary assessment increase are: an increase by 4 of the number of Lexington students attending MRHS; an increase in Lexington's percentage of total in-district enrollment in the school due to the reduction of the district's size from 16 to 10 member towns; and a reduction in revenue (distributed across all remaining member towns). A major factor in the revenue drop-off has been a reduction in the number of tuition-paying out-of-district students following the enactment of state regulations requiring ninth grade students to attend available vocational programs in their home towns for at least one year before applying for an out-of-district placement.

District Developments

A special district-wide vote held in 2016 secured approval for the construction of a new $144.9 million school building to replace the aging current facility. The cost of this project will be offset by almost $44 million 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.

A new Regional Agreement was approved by the State in the spring of 2016. Key changes from the old agreement included: (1) the introduction of weighted voting on the MRHS School Committee based on each member town's enrollment; (2) changes to the assessment formulas to smooth out year-to-year fluctuations resulting from changes in a town's enrollment; and (3) explicit language to ensure that non-member towns contribute a fair share of capital as well as operating costs. The new agreement also included a provision giving member towns unwilling to support the construction of a new facility a one-time opportunity to leave the district without any assessment for the new facility's capital costs. Six towns exercised that option, and as of July 1, 2017, Boxborough, Carlisle, Lincoln, Sudbury, Wayland and Weston will no longer be part of the MRHS District. Students from those towns already enrolled may continue their education at MRHS as out-of-district students, but any future enrollments will be considered only on a space-available basis.

In addition, 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, Belmont's Town Meeting voted as well to withdraw from the District. That withdrawal was approved by the remaining member towns, and will take effect on July 1, 2020.

Budget Overview

This budget assumes a smaller high school population as the school aligns itself with the target size of 628 students. Staffing changes include net reductions in academic, vocational, guidance, and special education staffing of 1.5 FTEs and a net reduction of administration positions of 1.5 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, decreased $17,000 after factoring in contractual obligations.

Transportation expenses for FY2018 are dropping by $284,161 due to the withdrawal of the 6 member towns. The District arranges and pays for transportation only for member students. Total health insurance premiums are lower due to staff reductions. In anticipation of a new building, infrastructure spending for the current facility is limited, with an annual capital budget of $172,000 and contributions to the Stabilization Fund of $100,000. Debt service payments are still fairly stable, rising to $1,155,550 from $1,116,951, in FY2017. A $50,000 payment will be made toward the funding of the District's $17,000,000 Other Post-Employment Benefits (OPEB) unfunded liability.

As of October 1, 2016, 613 full-time students (high school and post-graduate) were enrolled, of whom 47% received special education (SPED) services. Roughly 57% of these students were from the 10 in-district towns and 43% were from out-of-district and withdrawing towns. Total full-time enrollment decreased by 49 students, with in-district enrollment increasing 12 students, out-of-district enrollment decreasing 58 students, and a decrease of 3 students from the withdrawing towns. The drop in out-of-district enrollment resulted primarily from 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. Despite lobbying efforts by MRHS, the state-imposed tuition rate set by DESE continues to underfund the District. The FY2017 out-of-district tuition was $16,646 per student, and is estimated to increase to $17,000 in FY2018. Out-of-district towns are also assessed for SPED tuition at $4,500 per student and are responsible for providing transportation to their students.

Member towns are assessed for 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 $1,575,216, the drivers of which are identified in the following table:

Non-Assessment Revenue Sources	**FY2017 ($)**	**FY2018 ($)**	**Difference ($)**
Chapter 70	$2,184,747	$2,034,403	-$150,344
Prior Year Tuition	$4,445,668	$3,928,468	-$517,200
Transportation Reimbursement	$928,943	$935,112	$6,169
Current Year Tuition	$400,000	$400,000	0
E & D Funds	$825,000	$600,000	-$225,000
Sub-total	**$8,784,358**	**$7,897,983**	**-$886,375**
Withdrawing student tuitions			-$688,841
Total Revenue Loss			**-$1,575,216**

Chapter 70 funds and transportation aid are estimates based on the Governor's H-1 budget, which proposes modest increases in Chapter 70 aid and transportation aid statewide compared with FY2017. MRHS's share of Chapter 70 aid, however, is projected to drop because of the withdrawal of the 6 towns. The Chapter 70 aid allocatable to students from those towns will now go to their towns instead of directly to MRHS. Transportation Aid increases slightly because it is a reimbursement for expenses incurred in the prior year, but will drop next year due to the loss of students from the withdrawing towns.

The withdrawal of 6 member towns from the District also affects the timing of the recognition of revenue attributable to their students. Assessments from member towns are recognized in the fiscal year collected. However, tuition revenue received from non-member towns is handled in a more conservative manner. MRHS's budgeting practice is to not use tuition collected from out-of-district students until the following fiscal year. The change in the status of students from the withdrawing towns thus results in a one-time reduction in revenue of $688,119, which results in an increase in the assessments to member towns of about $2,000 per student. This issue will not reoccur next year.

The MRHS administration has recommended continuing this conservative budgeting approach for the tuition attributable to students from withdrawing towns because it anticipates that the percentage of out-of-district students will continue to decline. Recruitment efforts have led to higher in-district enrollments, and it is anticipated that this trend, boosted by the new building, will continue over the next 3 to 5 years. Conversely, current projections show non-member enrollment decreasing from the 198 students in FY2017 to 132 students in FY2020, with a corresponding decrease in tuition revenue of about $1,300,000. Use of the withdrawing students' tuition in FY2018, combined with lower future enrollments, would lower available non-assessment revenues in future years.

The use of funds from the Excess & Deficiency (E&D) account, similar in function to "Free Cash", has dropped $225,000. This large variation is due to the prior year's contribution from the E&D account being at an eight-year high point.

Projected Minuteman Assessment – Based on unapproved House-1 budget bill

	Enrollment Basis		Assessment Components	
	FY17	**FY18**	**FY17**	**FY18**
State-Required Minimum	46	50	$673,939	$745,380
Regular Day Students	47.8*	48*	$521,822	$714,940
Capital	47.8*	48*	$174,938	$206,656
Post-Graduate Programs	2	1	$6,750	$3,375
TOTAL ASSESSMENT			$1,377,449	**$1,670,351**
Annual % increase (decrease)			17.46%	21.26%

** average enrollment over prior 4 years*

A breakdown of the full assessment is shown above. While Lexington's FY2017 enrollment (as of October 1, 2016) was 54 full-time regular students in grades 9-12 (an increase in enrollment of 4.5 regular day students) the assessments are based on the average enrollment over the prior 4 years of 48 students. Using the average number of enrolled students, the per-student operating costs are $30,423 (+22%), with a per-student capital assessment of $4,305 (+18%). The preliminary FY2018 assessment for Lexington is $292,902 (21.26%) higher than the FY2017 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 be changed prior to being presented to Town Meeting.

Program 2000: Shared Expenses	**Funds Requested**	**Funding Source**
	$53,970,128	*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 for administrative convenience. The section comprises the four different pieces listed below together with respective budget totals:

	FY2017 Restated	**FY2018 Recommended**	**$ Change**	**% Change**
Benefits & Insurance	$33,609,476	$35,514,536	$1,905,060	5.7%
Debt Service[1]	$7,199,028	$7,152,605	-$46,423	-0.6%
Reserve Fund	$900,000	$900,000	$0	0%
Public Facilities	$10,002,416	$10,402,987	$400,571	4.0%
Total	**$51,710,920**	**$53,970,128**	**$2,259,208**	**4.4%**

Note 1: The Debt Service amounts in the table above do not include those needed for service of exempt debt, because exempt debt service does not need to be appropriated by Town Meeting. For a total picture of Non-exempt and Exempt debt service budgets, please see the Debt Service section below.

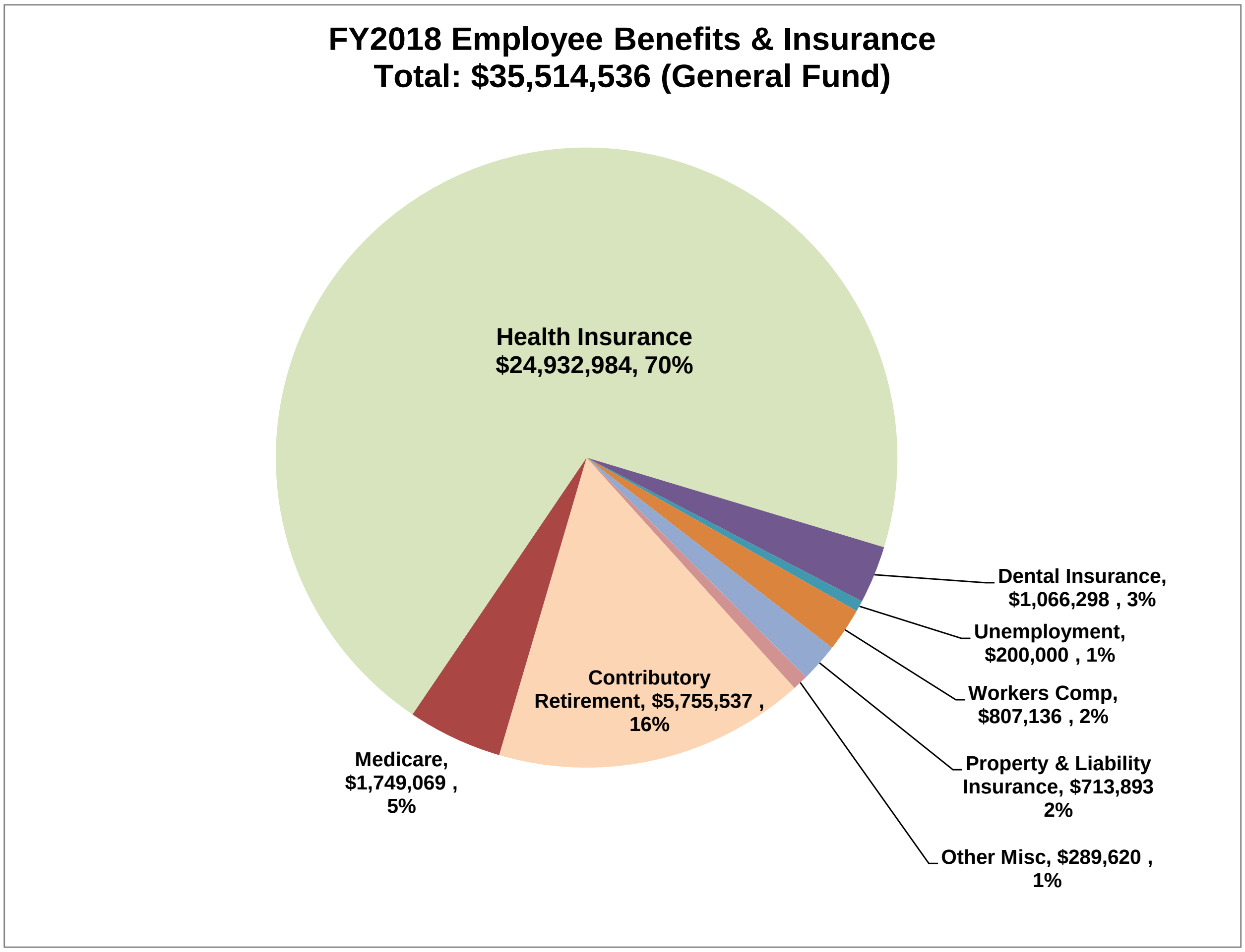
The recommended total Shared Expenses budget for FY2018 is $53,970,128, which represents $2,259,208 or a 4.4% increase over the FY2017 Restated Budget.

Employee Benefits and Insurance

Employee Benefits and Insurance includes funds for health, dental, and life insurance, the Town's pension assessment, workers' compensation, property and casualty insurance, unemployment insurance, and the Medicare tax.

The total request for Employee Benefits and Insurance for the FY2018 budget is $35,514,536, which represents $1,905,060 or a 5.7% increase from the FY2017 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 FY2018 budget for health insurance is $24,932,984, which represents a $1,318,954 or 5.6% increase over the FY2017 restated budget.

The Town and the Public Employees Committee (PEC) negotiated a three-year successor agreement to remain in the state-administered Group Insurance Commission (GIC) health insurance program through FY2018.

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

In actuality, the Town contributes 85% or 80%, so a separate 3% or 5% increase (to the employer splits above) paid by the Town to a "Mitigation Fund" per the agreement with the Public Employee Coalition, which is used to fund Health Reimbursement Accounts (HRA) for those employees taking the Town's health insurance.

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

Subscriber Category	Count	Total Cost $	Average Cost to Town $
Active - Town - Individual	83	$622,683	$7,502
Active - Town - Family	178	$3,323,989	$18,674
Active - School - Individual	333	$2,441,366	$7,331
Active - School - Family	494	$9,297,928	$18,822
Overall Actives	**1,088**	**$15,685,966**	**$14,417**
Retiree - Individual	141	$1,197,518	$8,493
Retiree - Family	76	$1,478,968	$19,460
Retiree - Medicare Plan	1,026	$4,238,761	$4,131
Overall Retirees	**1,243**	**$6,915,247**	**$5,563**
Total Active & Retirees	**2,331**	**$22,601,213**	**$9,696**
Open Enrollment	90	$1,244,527	$13,828
Position Vacancies	33	$467,255	$14,159
New Positions	17	$192,429	$11,319
Estimated Reduction	-35	-$123,808	$3,537
Net Other Subscriber Increase	**105**	**$1,780,403**	**$16,956**
Opt-Out Program	N/A	$350,000	N/A
Administrative Costs & Misc. Expenses	N/A	$178,252	N/A
Part B Penalty	N/A	$92,984	N/A
Total Other Costs	**N/A**	**$621,236**	**N/A**
Grand Total[1]	2,436	$25,002,852[2]	$10,264

Note:

1. The subscriber counts above include 9 employees who are not General Fund employees.
2. 99.7% or $24,932,984 of the health insurance cost will be funded through the General Fund.

The FY2018 budget on health insurance is based on an increase of 8% in health insurance premiums across all plans and the 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 municipal positions.

The second largest category within Employee Benefits & Insurance is Contributory Retirement for which the FY2018 budget is $5,755,537. The year-over-year increase in Contributory Retirement is $250,000 or 4.5%. The funding amount is based on a January 1, 2016, actuarial valuation of the Lexington Retirement System. Without any other changes to the Retirement Plan, the schedule projects full funding of the system's unfunded liability by 2024.

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.

The table below of Within-Levy and Exempt Debt Service budgets summarizes the total Debt Service costs.

Category	FY2017 Appropriation	FY2018 Recommended	$ Change	% Change
Within-Levy Debt Service (a)	$7,199,028	$7,152,605	-$46,423	-0.6%
Use of Capital Stabilization Fund (b)	-$710,000	-$324,500	$385,500	-54.3%
Net Within-Levy Debt Service (a) + (b)	**$6,489,028**	**$6,828,105**	**$339,077**	**5.2%**
Exempt Debt Service (c)	$8,330,185	$11,657,637	$3,327,452	39.9%
Use of Capital Stabilization Fund (d)	$0	-$2,400,000	-$2,400,000	---
Net Exempt Debt Service (c) + (d)	**$8,330,185**	**$9,257,637**	**$927,452**	**11.1%**
Within-Levy & Exempt Debt Service (a) + (c)	**$15,529,213**	**$18,810,242**	**$3,281,029**	**21.1%**

For FY2018, the total exempt debt service budget is $11,657,637, which is a $3,327,452 or 39.9% increase over the amount for FY2017. In FY2017, there was no transfer from the Capital Project Stabilization Fund; for FY2018, the proposal is to use $2,400,000 from the Capital Project Stabilization Fund to mitigate the impact of excluded debt service on property tax bills.

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 FY2018 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.

The current balance in the Reserve Fund is $882,885.

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 for roof, building envelope and HVAC for municipal and school buildings, and implements other priority projects. The FY2018 projected total Public Facilities operating budget is $10,402,987, which represents a $400,574 or 4% increase over FY2017.

Programs 3000-8000: Municipal	**Funds Requested**	**Funding Source**
	$35,375,058	*See Motion*

The municipal budget comprises all line items from 3000 to 8999. Adoption of the recommended municipal budget would result in an overall increase from FY2017 to FY2018 of $772,556 or 2.23%. The increase is limited because Town management has tightly controlled the approval of program improvement requests (PIRs) during budget development and recommended $573,150 of a total of $1,091,837 requested by the departments. Appendix A of the Brown Book (Fiscal Year 2018 Recommended Budget) contains a list of the

PIRs that were reviewed and whether each one was recommended for approval by the Board of Selectmen and Town Meeting; the list is not duplicated here.

Missing from last year's PIRs was mention of the added expense caused by a change in the way the Department of Public Works (DPW) contracts with snow and ice removal contractors. In prior years, the town's 30+ pieces of snow removal equipment were supplemented with 50+ individually contracted pieces. In FY2017 the Town eliminated the individual contracts and instead hired three general contractors to enlist the individual pieces. This move immediately incurred a 15% General Contractor's fee that was not offset by decreases in Town staff costs. While increased contractor costs are cited in this year's Brown Book, the $54,000 increase in this portion of the Snow and Ice budget is inadequate to cover the resulting <u>33% increase</u> in the hourly cost to provide this service. An analysis of operations showed that this change will increase annual snow and ice removal costs by $80,000 to $225,000.

By State statute towns can incur cost overruns in the Snow and Ice budget, and budget overruns are a regular and accepted practice in Lexington. Cost overruns are balanced by a number of methods; 1) applying revenue set aside each year for the purpose of funding snow and ice deficits; 2) using monies that become available at the close of the fiscal year from instances of underspending in other budget line items, primarily those of the DPW budget; 3) using money from the Reserve Fund; 4) use of Free Cash; and 5) raising the fund in the next year's tax rate. The Committee will closely review the extent of the added costs at the conclusion of this year's snow and ice season.

For many years, the Committee has been urging the Town to reexamine ways to reduce legal services costs. One member of the Committee has proposed that the $410,000 requested in the line item 8120 Legal be reduced to $150,000. This line item is for legal expenses for the Town other than those involving the School Department which are paid out of the School budget. The member notes that in the past five years' legal expenses for the Town alone have averaged $500,000+. He believes that 90% of this legal work is routine and could easily be handled by an in-house counsel at considerable saving to the taxpayers. He further believes that Lexington should follow the lead of many other cities and towns and hire an in-house lawyer for most of its legal work. A majority of the Committee has voted 3-6 against making this recommendation at this time, but believes the issue of potentially achieving cost savings by hiring in-house counsel merits further study and serious consideration.

Municipal Budget Line	**FY 2017 Restated**	**FY2018 Recommended**	**$ Change**	**% Change**
3000 Public Works	$9,046,492	$9,393,686	$347,194	3.84%
4100 Police	$6,821,827	$6,847,035	$25,208	0.37%
4200 EMS/Fire	$6,418,115	$6,421,971	$3,856	0.06%
5000 Library	$2,468,599	$2,534,144	$65,545	2.66%
6000 Human Services	$1,214,761	$1,294,913	$80,152	6.60%
7000 Land Use/Health/Development	$2,266,153	$2,312,212	$46,059	2.03%
8000 General Government	$6,366,545	$6,571,097	$204,552	3.21%

<u>The Committee recommends approval of this recommended operating budget (9-0).</u>

Article 5: Appropriate FY2018 Enterprise Funds Budgets		
Funds Requested	Funding Source	Committee Recommendation
$9,869,785 $9,182,509 $2,725,114 $220,152 **$21,997,560**	**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 FY2018 and issues they raise. Capital appropriations are addressed in Articles 11 (Recreation Capital), 13 (Water System Improvements) and 14 (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	FY2016 Actual	FY2017 Appropriated	FY2018 Requested	$ Change	% Change
Compensation	$627,911	$699,218	$701,128	$1,910	0.27%
Expenses	$373,934	$404,025	$427,025	$23,000	5.69%
Debt Service	$1,307,938	$1,408,576	$1,466,428	$57,852	4.11%
MWRA Assessment	$6,695,144	$7,349,661	$7,275,204	-$74,457	-1.01%
Total Requested in Article 5	**$9,004,927**	**$9,861,480**	**$9,869,785**	**$8,305**	**0.08%**
Indirect Expenses (Article 4)	$898,614	$877,411	$872,458	-$4,953	-0.56%
OPEB Contribution			$9,089	$9,089	
Total Water Enterprise Budget	**$9,903,541**	**$10,738,891**	**$10,751,332**	**$12,441**	**0.12%**

Wastewater Enterprise Fund	FY2016 Actual	FY2017 Appropriated	FY2018 Requested	$ Change	% Change
Compensation	$209,514	$298,234	$308,749	$10,515	3.53%
Expenses	$296,176	$347,525	$356,525	$9,000	2.59%
Debt Service	$1,021,867	$981,220	$1,063,349	$82,129	8.37%
MWRA Assessment	$6,970,176	$7,265,870	$7,453,886	$188,016	2.59%
Total Requested in Article 5	**$8,497,733**	**$8,892,849**	**$9,182,509**	**$289,660**	**3.26%**
Indirect Expenses (Article 4)	$478,354	$503,898	$546,827	$42,929	8.52%
OPEB Contribution			$4,085	$4,085	
Total Wastewater Enterprise Budget	**$8,976,087**	**$9,396,747**	**$9,733,421**	**$291,441**	**3.58%**

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 that will 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 21, have also been added for completeness.

As can be seen from the table, this year's increases in water and sewer enterprise costs are very modest. On a combined basis, the total expenses of the two funds are going up only 1.73%. 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 FY2018 water and sewer budgets based on the Town's proportionate water and sewer usage in the most recent full calendar year (CY2016), compared with other towns in the MWRA community. Based on the MWRA's preliminary assessments,[1] the MWRA increases/decreases for FY2018 will be -1.01% for water and 2.59% for wastewater, as set forth in the table above, for a combined increase of 0.78%.

The small reduction in Lexington's water assessment from FY2017 compares favorably with a MWRA system-wide increase of 3.9%. The difference is attributable to a final resolution during calendar year 2016 of water system issues in the Town of Bedford which had necessitated substantial flushing and the shutdown of certain Bedford town wells. As a result, Bedford purchased unusually large amounts of water from Lexington for several years, leading to a spike in our annual MWRA water assessments compared with the rest of the MWRA community.[2] With the resolution of those issues in 2016, Lexington's water usage has dropped back to more normal levels, reducing our share of the MWRA assessment. On the wastewater side, our 2.59% increase compares with a 3.7% MWRA increase system-wide.

[1] 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.

[2] Lexington re-sells MWRA water to the Town of Bedford on a pass-through basis. Extra FY2015 revenue received from the Town of Bedford in 2014 ($275,000) and 2015 ($131,000) as a result of Bedford's well shutdown was set aside as a reserve to mitigate the expected increases in Lexington's MWRA assessments for FY2016 and FY2017.

Direct Town Costs. In addition to the MWRA assessments, the expenses of the Water and Wastewater Fund budgets include direct costs incurred by the Town, primarily for: (1) the wages and salaries of the employees in the DPW's Water and Sewer Divisions, (2) the expenses of the water and sewer maintenance activities and equipment, and (3) debt service on prior borrowings for water and sewer capital improvements.

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.

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	2012	2013	2014	2015	2016	2017
Water						
Starting Balance [1]	$1,952,253	$2,066,566	$2,234,007	$2,119,458	$1,786,659	$1,800,533
Approp. for Rate Relief [2]	$350,000	$300,000	$250,000	$0	$0	$0
Use of Bedford Surplus		$200,000	$250,000	$275,000	$131,000	$0
Approp. for Capital [3]	$25,000	$750,000	$873,500	$1,015,500	$620,500	$1,075,000
Projected End Balance [4]	$1,577,253	$816,566	$860,507	$903,958	$1,035,159	$725,533
Wastewater						
Starting Balance [1]	$1,168,190	$1,319,000	$1,990,816	$2,027,941	$1,032,942	$2,270,848
Approp. for Rate Relief [2]	$150,000	$100,000	$50,000	$0	$0	$0
Approp. for Capital [3]	$0	$200,000	$940,500	$1,390,500	$177,500	$1,270,000
Projected End Balance [4]	$1,018,190	$1,019,000	$1,000,316	$637,441	$855,422	$1,000,848

1 Certified retained earnings as of the end of the prior fiscal year (as of 6/30/2016 for this year's ATM).

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

3 Proposed appropriations for capital projects for the next fiscal year (FY2018 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).

It should be noted that strong irrigation water sales during the extraordinarily dry summer of 2016, although partially taken into account during last fall's FY2017 rate-setting, are likely to generate significant operating surpluses at the end of this fiscal year, and therefore a higher ending fund balance than the projection shown above for the water enterprise fund. Any such increase in retained earnings would again be available for capital investment in the FY2019 budget.

Recreation 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 (LexCC). The FY2016 LexCC budget included $383,073 to fund 5.5 full time and seasonable staff to plan, manage and deliver community programs along with the supplies needed.

Recreation Enterprise Fund	FY2016 Actual	FY2017 Approp.	FY2018 Requested	Dollar Increase	% Change
Compensation	$1,034.703	$1,190.742	$1,308.669	$117,926	9.9%
Expenses	$1,075,222	$1,335,545	$1,316,445	($19,100)	-1.43%
Debt Service	$100,000	$100,000	$100,000	-	0.0%
Total Requested in Article 5	$2,210.425	$2,626,287	$2,725,114	$98,827	0.9%
Indirect Expenses (Transfer to General Fund)	$240,608	$247,826	$254,826	$7,000	2.82%
Total	$2,451,033	$2,874,113	$2,979.940	$105,827	3.68%

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 programming of the LexCC, 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 are unchanged at $100,000.

The major factor for the 3.68% increase over the 2017 budget is the increase in the hourly rate for seasonal staff required by state minimum wage increases.

Sources of revenue include $375,000 from the Recreation Enterprise Fund retained earnings, $1,012,996 from user fees for recreation, $454,810 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. Projected revenue from golf fees is $25,000 lower than the previous year based on actual usage figures.

The Recreation Enterprise 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 Community Preservation Act (CPA) funding.

The balance of retained earnings in the Recreation Enterprise Fund at the close of FY2016 was $999,250. A withdrawal of $55,000 from this fund is proposed under Article 11 Recreation Capital Projects.

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

Article 6: Appropriate for Senior Services Program		
Funds Requested	Funding Source	Committee Recommendation
$30,000	**GF**	**Approve (9-0)**

This article requests an appropriation for the Town's Senior Service Program of $30,000. This amount is level-funded from the FY2017 request. With the continuation of a trend of steadily declining participation in the program, appropriation at this level has proved more than sufficient to meet the program's needs this year, and there is also a substantial projected carryover balance at the end of the fiscal year of approximately $41,000. However, in view of plans by the Board of Selectmen, following the 2017 Annual Town Meeting, to consider relaxation of eligibility requirements and enhancements in the wage rate and total amount of credits which can be earned in FY2018, appropriation of the full $30,000 requested is recommended.

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 July 2014, is $1,045/year (110 hours at $9.50 per hour) for an individual and $1,330/year (140 hours at $9.50 per hour) for a two-person household toward their property tax bills. It should be noted that the State legislature recently amended G.L. c. 59, §5K, in which the Town no longer participates, to increase the limit of earnable credits from $1,000 to $1,500.

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 just 16 in FY2017, a decrease of over 50%.

To encourage greater participation in this worthy program, this Committee encourages the Selectmen, as it has in past years, to increase the wage rate (currently beneath the State's minimum wage rate of $11 per hour), raise the maximum allowed hours and total credit which may be earned to at least match that allowed under the State law, and/or relax the economic eligibility criteria for participants.

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

Article 7: Appropriate for Updating the Town's Comprehensive Plan		
Funds Requested	Funding Source	Committee Recommendation
$302,000	**GF**	**Approve (9-0)**

The Lexington Comprehensive Plan is a master planning document that provides a broad statement of collective intent about the kind of town that residents desire with respect to transportation, utilities, land use, recreation, and housing. Comprehensive plans typically cover a time horizon of 10 to 20 years. Under Massachusetts General Law, the Comprehensive Plan becomes official Town policy upon adoption by the municipal Planning Board.

The last Comprehensive Plan for Lexington was completed in 2002 and addressed Land Use, Natural and Cultural Resources, Housing, and Economic Development. The transportation element was completed in 2003. Each element begins with a discussion of background information that is followed by goals and objectives, and an agenda of actions to be taken or explored. The 2002-2003 comprehensive plan cost the Town approximately $140,000.

In the past 15 years, since the publication of the 2002-2003 Comprehensive Plan, the Town of Lexington has changed substantially in terms of population, housing, transportation, etc. In recent years, certain elements have been individually updated through the 2014 Housing Production Plan and the Open Space and Recreation Plan 2015 Update, but there has not been a broad discussion and comprehensive approach for a shared or unified vision of how the Town should be developed physically or where the community is heading.

As resources tighten, the community needs to achieve town-wide consensus while optimizing fiscal spending through good coordination and timely government action. A new Comprehensive Plan will enable our community to exercise discipline as it wisely and constructively embraces change.

The Planning Department and the Planning Board have requested $302,000 to fund an update to the Comprehensive Plan. This is expected to take up to 3 years to complete. The planned horizon for the Comprehensive Plan is the year 2030.

A Comprehensive Plan update is typically guided by a volunteer advisory committee, including representatives from a cross-section of neighborhoods, ages, and demographic groups. The process will involve consultants with professional expertise in the various elements and experience in public engagement, outreach, and input.

The Comprehensive Plan update project will be done in 2 phases/parts:

- Part 1 (estimated at $117,000, and expected to take 12 to 18 months) includes a Community Education and Engagement Plan, Project Meetings, and Initial Data Gathering and Analysis.
- Part 2 (estimated at $160,000, and expected to take 12 to 18 months) includes the drafting and finalization of vision, goals, and implementation plans for Land Use, Housing, Economic Development, Natural, Cultural & Historic Resources & Open Space, Public Service and Facilities, and Transportation.

There is also a contingency budget of approximately 10% of the estimated total costs for Parts 1 and 2, which brings the total request to $302,000.

In Parts 1 and 2, project work that requires consulting services will be separately bid, so that the most appropriate private-sector expertise in separate subject areas can be procured. The Planning Office will serve as the primary Town contact to any consultants throughout the master planning process.

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

Article 8: Accept PEG Access and Cable Related Funds		
Funds Requested	Funding Source	Committee Recommendation
None	**N/A**	**Approve (9-0)**

There have been recent changes in State finance regulations (MGL Chapter 44, Section 53F3/4)[3] that allow the Town to modify the accounting method used for monies collected by the Town from local cable franchises. These monies are currently accrued in a PEG Access Revolving Fund and are used to pay for certain municipal cable-related expenses as well as services from LexMedia, which provides access to local cable channels and video recording and broadcast for many boards and committees in the Town. With approval of this article, a new special revenue fund to be known as the PEG Access and Cable Related Funds would begin operation in fiscal year 2018 and any balance from the existing PEG Access revolving fund would be transferred to this new fund. Approving this article has no financial impact on the town.

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

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

This article seeks reauthorization of all existing municipal revolving funds for FY2018, and to appropriate funds for the PEG Access and Cable Related Funds special revenue account as shown in the table below. Information regarding the nature and purpose of revolving funds can be found in Appendix C of this report.

Program or Purpose	Authorized Representative or Board	Departmental Receipts	FY2017 Approved Limit	FY2018 Requested Limit
Building Rental Revolving Fund	Public Facilities Director	Building Rental Fees	$460,000	**$475,000**
DPW Burial Containers	Public Works Director	Sales	$40,000	**$40,000**
DPW Compost Operations	Public Works Director	Sales and Permits	$615,000	**$755,675**
Trees	Public Works Director	Gifts and Fees	$45,000	**$45,000**
Minuteman Household Hazardous Waste Program	Public Works Director	Fees Paid by Consortium Towns	$180,000	**$180,000**
Health Programs	Health Director	Medicare Reimbursements	$14,000	**$14,000**
Senior Services (formerly Council on Aging Programs)	Human Services Director	Program Fees and Gifts	$75,000	**$50,000**

Tourism/Liberty Ride	Economic Development Director	Liberty Ride Receipts	$285,000	**$285,000**
School Bus Transportation	School Committee	School Bus Fees	$1,050,000	**$1,150,000**
Regional Cache – Hartwell Avenue	Public Works Director	User Fees for Participating Municipalities	$10,000	**$10,000**
Visitors Center	Economic Development Director	Sales, Program Fees and Donations	$191,000	**$202,000**
Special Revenue Fund Program and Purpose	**Authorized Representative**	**Receipts**		**FY2018 Appropriation**
PEG Access and Cable Related Funds	Board of Selectmen and Town Manager	License Fees from Cable TV Providers	$565,000	**$570,086**

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 FY2016 and the first half of FY2017 can be found at Appendix C, page C-2, of the Brown Book.

Changes in Authorization Levels from FY2017

The Building Rental Fund limit will be increased by $15,000 primarily attributable to prospective increases in wages for staff charged to this account, reflecting the actual costs of benefits for those staff, and increases in supply costs due to increasing rental use.

The DPW Compost Operations Fund limit will be increased by $140,000 to reflect increased staffing costs and increase in debt service payments for a loader and windrow turner purchased to accommodate the smaller footprint from the solar panel installation.

The School Bus Transportation Fund limit will be increased by $100,000 to accommodate additional busses as well as estimated increases in contract rates.

The Visitor Center Fund limit will be increased by $11,000 to reflect increases in compensation and projected inventory expenses.

The Senior Services Fund limit will be decreased by $25,000 to reflect a decrease in expenses.

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

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

Article 10: Appropriate the FY2018 Community Preservation Committee Operating Budget and CPA Projects		
Funds Requested	Funding Source	Committee Recommendation
$6,775,140	**CPF**	**10(a-g, i-p) Approve (9-0)** **10(h) Disapprove (3-6)** **10(j) Support IP**

The Community Preservation Act (CPA) is a State statute that allows municipalities to raise a surcharge on property taxes for local use for purposes related to historic preservation, open space 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 amend to decrease an appropriation.

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

Since Lexington's adoption of the Community Preservation Act in 2006, the CPC has recommended and Town Meeting has approved a total of $62,854,822 for CPA projects. These funds have supported 52 historic preservation projects, preserved 87 acres of open space, created or preserved 34 recreational facilities, and created or supported 355 units of affordable housing. Of this total, $13,507,639 or 21.5% of the Town's total project costs (exclusive of administrative expenses) has been received from the State as matching funds.

Funding Sources and CPA Categories

The requests recommended by the CPC are listed below. The funding source for each request is entirely 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 Community Preservation Fund (CPF) 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.

CPA items under this article will be funded from anticipated FY2018 revenue and CPA funds available from prior years. FY2018 revenue includes FY2018 CPA tax surcharges, anticipated to be $4,498,110, and the

FY2017 CPA State Match of $897,243, determined to be 21.3% of that fiscal year's CPA surcharges, and paid to Lexington in October, 2017.

Article 10(a) Interpretive Signage Project - $38,400

Eligible for CPA Funding as Historic Resources.

This project is proposed by the Lexington Historical Society. The project proposes to restore and improve the interpretive signage for historic walking trails and landmarks in Lexington. Thirty-two signs were initially installed in 1975 by the Society in cooperation with the Lexington Bicentennial Committee. Currently, some markers are missing, some need to be replaced, and all need to be remounted. In addition, a modest expansion of the project will be undertaken. The Committee recommends approval of this subpart (9-0).

Article 10(b) Parker's Revenge Interpretive and Public Education Signage & Displays -$41,350

Eligible for CPA Funding as Historic Resources.

This represents the second of three phases of a project to preserve, restore and maintain the historic Parker's Revenge battle site. The project has been sponsored by the Friends of the Minute Man National Park in collaboration with National Park Service staff and community groups, who contribute between 50 and 75 hours of monthly voluntary in-kind support. The Friends of the Minute Man National Park have covered $45,000 of the three-phase project cost, through an Oct 2016 grant from the Amelia Peabody Charitable Foundation. The Committee recommends approval of this subpart (9-0).

Article 10(c) Greeley Village Rear Door and Porch Supplemental Request - $56,712

Eligible for CPA Funding as Affordable Housing.

This is a request from the Lexington Housing Authority to preserve the rear exit doors and rear porches at Greely Village, specifically the porch decking. It is a supplement to last year's $263,000 CPA request for funds needed to repair failing doors and porches, that was approved by the 2016 Annual Town Meeting under Article 8(f). The Committee recommends approval of this subpart (9-0).

Article 10(d) Affordable Units Preservation – Pine Grove Village/Judge's Way – $1,048,000

Eligible for CPA Funding as Affordable Housing.

Pine Grove Village, a 40-B Co-op on Judge's Way that received a Comprehensive Permit through the Housing Appeals Committee in 1976, is soon be released from the terms that regulate the affordability of its 16 dwelling units. To upgrade these units and keep them on the Subsidized Housing Inventory (SHI), the Town has requested a $1,048,000 CPA appropriation in order to financially assist the development and more importantly, to obtain permanent, affordable deed restrictions on the units. The key benefits of this article are that the units in question would remain affordable in perpetuity and the Town would gain direct control over a number of these units, likely through LexHAB. The $1,048,000 will fund the preservation of the affordability of 11 ownership units, and the acquisition by LexHAB or other Town-related agency and renovation of 5 rental units. The Committee recommends approval of this subpart (9-0).

Article 10(e) Willard's Woods and Wright Farm Meadow Preservation - $40,480

Eligible for CPA Funding as Open Space.

This project is part of a multi-year effort Conservation Meadow Preservation Program. In FY2015 and FY2016, Hennessey Field and Joyce Miller's Meadow were restored and preserved. This year, approximately 20 acres of conservation meadow at Willard's Woods and Wright Farm will be restored, preserved and protected, as follows:

- Meadow land overgrown by shrubs, trees and vines will be reclaimed,
- Stone walls, serving as historic resources for Lexington's agricultural past, will be restored,
- Encroachment of invasive species on the field edges and throughout the meadow will be managed, and

- An improved annual mowing and maintenance regime will be provided, to promote native vegetation, to enhance wildlife habitat and safe recreational opportunities.

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

Article 10(f) Cotton Farm Conservation Area Improvements - $301,300
Eligible for CPA Funding as Open Space.

The Cotton Farm Conservation Area is a 4-acre parcel purchased by the Town from the Cataldo Family in 2011 with assistance from the CPA program. Since the acquisition, various improvements were made, including:

- Improved access from Marrett Road by adding a crosswalk and mitigating draining issues,
- Nesting boxes installed for several bird species - a Girl Scouts project,
- Renovating signage across Marrett Road to be more visible and more attractive to visitors to the property,
- Improved mowing regime to better serve both passive recreation and wildlife habitat, and
- Maintenance of the orchard and picnic by the Conservation Stewards.

A Conservation Restriction for the property is currently being finalized, with assistance from the Citizens for Lexington Conservation.

The current appropriation is sought for design and construction funds to address the following long term goals:

- Removal and naturalization of a major portion of the current driveway and parking area,
- Relocation and construction of the new parking area, and
- Installation of an ADA accessible trail and pond viewing platform along the pond and wetlands on the property.

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

Article 10(g) Wright Farm Supplemental Funds - $37,900
Eligible for CPA Funding as Open Space.

The Town of Lexington acquired a 12.6-acre parcel at Wright Farm in 2012 at the cost of $3,072,000, for conservation purposes. A remaining portion of Wright Farm consisting of approximately 1 acre, including a house, a detached garage and a barn, was acquired in 2015 at the cost of $618,000.

Town staff is currently working on the division of the parcel on which the farmhouse/garage and barn sit for community housing and conservation purposes. The parcel was recently cleared of unexpected environmental issues (pesticides in the soil) and is awaiting final regulatory approval by the DEP. Once the parcel is divided, LexHAB intends to utilize $200,000 in CPA funds (authorized under Article 5/November 2015 STM) for improvements to the farmhouse and the Conservation Division intends to conduct a needs assessment and feasibility study of the barn to determine if the space is suitable for educational programming (as authorized under Article 8(g) of 2016 ATM).

The current request for $37,000 in CPA funds under Article 10 (g) will supplement the legal work, site assessment work and land management originally associated with the 2015 purchase of the parcel. The Committee recommends approval of this subpart (9-0).

Article 10(h) Stone Building Feasibility Study - $25,000
Eligible for CPA Funding as Historic Resources.

This study will investigate feasibility options available to preserve the Ellen Stone Building in East Lexington, with the goal to make it totally accessible, to keep secure the artifacts, art, and documents on display on the first floor, and to make the upper floor open and usable by the public. The building has been vacant since the East Lexington branch of the Cary Library closed, and could be used by the Historic Society and others to exhibit collections and contemporary work. The feasibility study will take as starting point proposals from a 2009 Spencer Vogt report commissioned by the Town.

A majority of the Committee would like to see programming options for the Stone Building explored a bit more deeply, and the plausibility of obtaining actionable results established before the feasibility study is funded by the appropriation of $25,000. The Committee recommends disapproval of this subpart (3-6).

Article 10(i) Munroe School Window Restoration - $620,000
Eligible for CPA Funding as Historic Resources.

This is a request for funding the restoration of 117 windows at Munroe School. The windows are in poor condition, and air infiltration makes the building uncomfortable and energy inefficient.

A window study, completed by Colin Smith Architects under a FY2017 appropriation, proposed two options: an estimated construction contract of $535,000 to restore the existing windows and add exterior storm windows, or an estimated construction contract of $607,000 for insulated replacement windows.

The CPC is requesting funds to restore the existing windows and add exterior storm windows ($535,000), with an additional $25,000 for design engineering and $60,000 for contingency, bringing the total of the request to $620,000. The Committee recommends approval of this subpart (9-0).

Article 10(j) Center Streetscape Improvements

The Committee concurs with Indefinite Postponement of this subpart (9-0).

Article 10(k) Community Center Sidewalk - $220,000
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 was proposed linking Marrett Road to the Community Center.

The design of the sidewalk was somewhat complex in that 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 Rite Masonic Museum. The conceptual plan is now finalized, and is proposed to be a bituminous concrete sidewalk with pedestrian level lighting. The Committee recommends approval of this subpart (9-0).

Article 10(l) Park Improvements - Athletic Fields - $125,000
Eligible for CPA Funding as Recreation.

This request would, first, allow irrigation to be more targeted on the playing fields and thereby reduce water use. Currently the Town of Lexington athletic fields receive intensive use and timely renovations and updates are critical to provide safe and playable fields for all user groups. In addition, there are safety issues with respect to faulty backstops, uneven turf, uneven infield areas, and drainage which need to be corrected. The Committee recommends approval of this subpart (9-0).

Article 10(m) Town Pool Renovation - $1,620,000
Eligible for CPA Funding as Recreation.

This request is for Phase III of a multi-phase program of renovations to the Irving H. Mabee Town Pool Complex. Phase I was completed in 2010 and Phase II was completed in 2011. The implementation of Phase III will include replacing the filtration systems which are beyond their life expectancy as well as other work necessary for the successful operation of the pool. Currently all pools share a common filter system. As a result, if one pool needs to be closed, then they all must be closed. The Department of Public Health Regulations have changed over the years and replacement of the filtration system will now require each pool to have its own filter to be in compliance with the current regulation. Approximately 75,000 people utilize the pools each summer. The filtration system was last updated in 1980. The Committee recommends approval of this subpart (9-0).

Article 10(n) Park and Playground Improvements - $60,000
Eligible for CPA Funding as Recreation.

This request is to replace and update swing sets and install bike racks at Bow Street Park, Franklin Park, and Monroe Park. These are heavily used park and playground areas and need to be replaced. The existing swing structures are not in compliance with current standards. The swings at Bow Street were last replaced in 1986 and the swings at Franklin and Monroe were last replaced in 1989.The Committee recommends approval of this subpart (9-0).

Article 10(o) CPA Debt Service – $2,390,998

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 allow interest-only short-term borrowing for a term of up to one year. They are issued for individual projects prior to bundling the debt from several projects to create a single multi-year bond. There are no BANs for CPA projects in the FY2017 budget.

Project / Approval	**Total Appropriation**	**Debt Financing**	**Debt Service**	**BAN Interest**
Wright Farm Purchase	$3,072,000	$2,090,000	$395,300	-
ATM 2012			*Debt service ending FY2024*	
Community Center Acquisition	$10,950,000	$7,652,500	$991,100	-
STM 3/2013			*Debt service ending FY2024*	
Community Center Renovation	$6,320,000	$451,000	$38,478	-
STM 11/2013, Amended STM 3/2014			*Debt service ending FY2020*	
Cary Memorial Building Upgrades	$8,677,400	$8,241,350	$966,120	-
STM 3/2014			*Debt service ending FY2025*	
Totals			**$2,390,998**	

The bond issuance costs for the Town Pool Renovation project will be financed with $13,261 in available cash on hand, instead of debt, and thus are not reflected in this table.

The debt service for the Wright Farm Purchase will be counted under the Open Space category, for the Community Center and Cary Memorial Building items under Historic Resources, and the expenditure for the Town Pool will be counted under Recreation.

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 of this subpart (9-0).

Article 10(p) 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, overheard, legal fees, membership dues, and other miscellaneous expenses related to CPA projects. Five percent of the anticipated FY2018 revenue from the surcharge and State supplemental match is $269,767. However, as in past years, the CPC is requesting an appropriation of $150,000. This money will be used to fund the Committee's part-time Administrative Assistant, membership dues to the non-profit Community Preservation Coalition, administrative expenses, legal and miscellaneous expenses, and land planning, appraisals and legal fees for open space proposed to be acquired using CPA funds. The Committee recommends approval of this subpart (9-0).

The Committee recommends disapproval (3-6) of 10(h) and approval (9-0) of 10(a-g, i-p). We concur with indefinite postponement of 10(j).

Article 11: Appropriate for Recreation Capital Projects		
Funds Requested	Funding Source	Committee Recommendation
$55,000	**Recreation EF**	**Approve (9-0)**

This request is to replace an existing lawn mower acquired in 2002 for the Pine Meadows Golf course. The new Toro Triplex mower has improved technology and specifications that will improve the quality of cut compared to that of the existing mower which has exceeded its ten-year useful life.

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

Article 12: Appropriate for Municipal Capital Projects and Equipment		
Funds Requested	Funding Source	Committee Recommendation
$13,643,927	**See below**	**(a) Support IP** **(b-p, r-x) Approve (9-0)** **(q) Approve (6-2-1)**

Financial details of the requests under this article are summarized below. For a discussion of the items, please see the Brown Book (relevant pages are cited in the Comments column). The Capital Expenditures Committee Report to the 2017 Annual Town Meeting contains further discussion about these capital requests.

Subsection Description	**Funds Requested**	**Funding Source**	**Comments (Brown Book page numbers provided for reference)**	**Committee Recommendation**
a) Center Streetscape Improvements and Easements	$2,870,000	GF Debt / CPA	We anticipate a motion for Indefinite Postponement.	N/A

b) Automatic Meter Reading System	$40,000	Water RE / Wastewater RE	p. XI-26; $20,000 from Water Retained Earnings; $20,000 from Wastewater Retained Earnings	Approve (9-0)
c) Equipment Replacement	$1,083,000	GF Debt / Compost Revolving Fund Debt	p. XI-7; $558,000 from General Fund Debt; $525,000 from Compost Revolving Fund Debt	Approve (9-0)
d) Street Improvements and Easements	$2,542,927	Tax Levy / Chapter 90	p. XI-27; $2,542,927 from Tax Levy. An additional $971,016 is anticipated from Chapter 90 funding bringing the total funds available to $3,513,943.	Approve (9-0)
e) Storm Drainage Improvements and NPDES Compliance	$340,000	Free Cash	p. XI-27	Approve (9-0)
f) Hydrant Replacement Program	$150,000	Free Cash / Water RE	p. XI-28; $75,000 from Free Cash; $75,000 from Water Retained Earnings	Approve (9-0)
g) Comprehensive Watershed Stormwater Management Study and Implementation	$390,000	GF Debt	p. XI-7	Approve (9-0)
h) Sidewalk Improvements, Additions, Design and Easements	$800,000	GF Debt	p. XI-8	Approve (9-0)
i) Dam Repair	$760,000	GF Debt	p. XI-8	Approve (9-0)
j) Town-wide Culvert Replacement	$390,000	GF Debt	p. XI-9	Approve (9-0)
k) Town-wide Signalization Improvements	$125,000	Free Cash	p. XI-28	Approve (9-0)
l) Hartwell Avenue Infrastructure Improvements – Supplemental Funds	$2,185,000	GF Debt	p. XI-9; The amount is estimated as the upper limit of funding needed and will be refined as the project design progresses. Phasing of the project is also being considered.	Approve (9-0)

m) Bikeway Bridge Renovations	$368,000	GF Debt / Free Cash	p. XI-9; $249,426 from General Fund Debt; $118,574 from Free Cash	Approve (9-0)
n) Hartwell Avenue Compost Site Improvements	$200,000	Compost Revolving Fund Debt	p. XI-19	Approve (9-0)
o) Westview Cemetery Building Design	$270,000	GF Debt	p. XI-14	Approve (9-0)
p) Westview Cemetery Irrigation	$35,000	Sale of Cemetery Lots SRF	p. XI-29; Special Revenue Fund	Approve (9-0)
q) Highway Sign Machine	$40,000	Free Cash	p. XI-29	Approve (6-2-1)
r) Townwide Phone Systems-Phase VI	$120,000	Free Cash	p. XI-24	Approve (9-0)
s) Municipal Technology Improvement Program	$100,000	Free Cash	p. XI-24	Approve (9-0)
t) Network Redundancy & Improvement Plan	$130,000	Free Cash	p. XI-24	Approve (9-0)
u) Bedford Street and Eldred St. Safety Improvements	$175,000	Free Cash	p. XI-26	Approve (9-0)
v) Transportation Mitigation	$100,000	Free Cash	p. XI-26	Approve (9-0)
w) Hill Street Sidewalk Design	$150,000	Free Cash	p. XI-26	Approve (9-0)
x) Ambulance Replacement	$280,000	GF Debt	p. XI-7	Approve (9-0)

The Committee recommends approval of 10(b-p, r-x) (9-0) and of 10(q) (6-2-1). We concur with indefinite postponement of 10(a).

Article 13: Appropriate for Water System Improvements

Funds Requested	Funding Source	Committee Recommendation
$1,000,000	**Water EF Retained Earnings**	**Approval (9-0)**

This article addresses proposed capital expenditures to be made 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-28). The costs of this year's system improvements will be funded entirely from retained earnings of the Water Enterprise Fund.

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

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

Growth in Water Fund Debt Service Costs

Fiscal Year	Water Debt Service	Total Budget	Debt Service Ratio
2006	$213,150	$6,237,235	3.4%
2007	$358,301	$6,514,502	5.5%
2008	$425,565	$6,469,388	6.6%
2009	$757,247	$7,190,800	10.5%
2010	$1,074,551	$7,241,304	14.8%
2011	$1,137,075	$7,619,919	14.9%
2012	$1,258,968	$8,039,413	15.7%
2013	$1,299,091	$8,124,846	16.0%
2014	$1,260,655	$8,707,219	14.5%
2015	$1,379,622	$9,270,880	14.9%
2016	$1,415,508	$10,094,344	14.0%
2017	$1,408,576	$10,738,891	13.1%
2018	$1,466,428	$10,751,332	13.6%

The Committee has noted that judicious use of some of the fund's accumulated retained earnings can help defray the impact of these growing capital costs and help to maintain long-term rate stability. This approach has been adopted again, with a substantial cash contribution from retained earnings funding the entire annual water distribution system improvements cost and, as noted below, also funding a portion of hydrant replacements. Even if this level of cash contribution from retained earnings cannot be sustained in future years, it can be seen from the table above that it has moderated the growth in debt service costs that would otherwise have to be included in rate requests going forward, and is a productive use of excess reserves.

Note that one additional capital appropriation will be funded by Water Enterprise Fund retained earnings under Article 12 (Municipal Capital). Under Article 12(f), $75,000 from the Water Enterprise Fund's retained earnings will be requested to fund half the cost of an ongoing hydrant replacement program shared 50-50 with the General Fund. For a more complete discussion of the status and use of water and sewer enterprise fund retained earnings, see the discussion of enterprise funds under Article 5.

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

Article 14: Appropriate for Wastewater System Improvements

Funds Requested	Funding Source	Committee Recommendation
$1,270,000 $530,000 **$1,800,000**	**Wastewater EF RE** **Wastewater EF (debt)**	**Approval (9-0)**

This article addresses proposed capital expenditures to be made 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-15, 28). Capital appropriations for similar purposes have been made in most years (except for FY2006, when engineering studies were not ready, and FY2011, when only pump station upgrades were performed).

The costs of this year's wastewater system improvements will be funded by a combination of borrowing ($530,000) and retained earnings of the Water Enterprise Fund ($1,270,000). The resulting debt service costs for the portion borrowed will be borne by the operating budget for the Wastewater Enterprise Fund in FY2018 and for an additional ten years until the debt is retired (see Brown Book, p. XI-15, Table III), and will be included each year as a component of the wastewater rates. Part of the funding may come from MWRA grants or loans.

Prior to FY2006, capital expenditures for sewer distribution 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%

Fiscal Year	Wastewater Debt Service	Total Budget	Debt Service Ratio
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	$1,063,349	$9,733,421	10.9%

Judicious use of some of the fund's accumulated retained earnings to fund capital needs has helped to defray the impact of these growing capital costs and helped to maintain long-term rate stability. These contributions were made possible by periodic operating surpluses and consequent growth of the retained earnings to levels well above the approximately $1,000,000 recommended to be held in reserve. As can be seen in the table above, they have moderated the growth in debt service costs that would otherwise have to be included in rate requests going forward, and where available they are a productive use of excess reserves. For a more complete discussion of the status and use of water and sewer enterprise fund retained earnings, see the discussion of the enterprise fund operating budgets in Article 5.

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

Article 15: Appropriate for School Capital Projects and Equipment

Funds Requested	Funding Source	Committee Recommendation
$1,454,900	**See below**	**Approve (9-0)**

Financial details of the request are summarized below. For a discussion of the items in this request, please see the Capital Expenditures Committee Report to the 2017 Annual Town Meeting and the Brown Book pages XI-12-13,21.

Note that Food Service Equipment comes from the school Food Service Revolving Fund, which is not subject to appropriation by the Town Meeting. Therefore, no entry is shown under "Funds Requested" in the line for that equipment, and the amount is not included in the total in the above header to this article.

Project Description	Funds Requested	Funding Source
(a) Food Service Equipment		$75,000 Food Service RF
(b) System Wide School Furniture, Equipment, and Systems	$123,000	Free Cash
(c) Technology	$1,331,900	GF Debt
Total:	**$1,454,900**	

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

Article 16: Appropriate for Public Facilities Capital Projects

Funds Requested	Funding Source	Committee Recommendation
See below	**See below**	**Approve (9-0)**

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

Project Description	Funds Requested	Funding Source	Committee Recommendation
(a) School Building Envelopes and System Program	$222,200	Free Cash	Approve (9-0)
(b) Lexington High School Air Conditioning – Teacher Planning Offices and Library	$600,000	GF Debt	Approve (9-0)
(c) Municipal Building Envelope and Systems	$194,713	Tax Levy	Approve (9-0)
(d) Facility and Site Improvements			
Building Flooring Program	$150,000	Free Cash	Approve (9-0)
School Paving Program	$172,226	Free Cash	Approve (9-0)
School Traffic Safety Improvements	$45,000	Free Cash	Approve (9-0)
(e) Public Facilities Bid Documents	$159,459	$100,000 Free Cash + $59,459 Unused bond proceeds from prior years' projects	Approve (9-0)
(f) Public Facilities Mechanical/Electrical System Replacements	$489,000	Free Cash	Approve (9-0)
(g) LHS Security Evaluation and Upgrade	$150,000	Free Cash	Approve (9-0)
(h) LHS Guidance Space Mining	$230,200	GF Debt	Approve (9-0)
(i) LHS Nurse Office and Treatment Space	$320,100	GF Debt	Approve (9-0)
(j) Parking Lot for Community Center	$425,000	Free Cash	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 each of the appropriations listed above.

The Capital Expenditures Committee has expressed concern about the three programs listed in sub-article (d) being consolidated for a single vote, and intends to request that Town Meeting take separate votes on each item. This Committee will address that procedural question if and when it arises during deliberation of Article 16.

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

Article 17: Appropriate for Hastings School Replacement Design		
Funds Requested	Funding Source	Committee Recommendation
$720,000	**GF Debt**	**Approval (9-0)**

On January 27, 2016, the Massachusetts School Building Authority ("MSBA") Board voted to approve the Town's application to the MSBA program for state funding for the Hastings School replacement. The MSBA follows a process divided into eight "modules", as follows: [3]

1. Eligibility Period
2. Project Team
3. Feasibility Study
4. Schematic Design
5. Project Scope and Budget and Project Funding Agreements
6. Design Development, Construction Documentation & Bidding
7. Construction Administration
8. Project Closeout

During the Eligibility Period, in early 2016, the Special Town Meeting 2016-1 appropriated $1,500,000 as the *Local Authorization of Funding* to pay for work required for the Feasibility Study and Schematic Design phases.

In a letter dated February 15, 2017, the MSBA informed the Town that "… the Board of the Massachusetts School Building Authority (the "MSBA") has voted to approve the Town of Lexington (the "Town"), as part of its invitation for Feasibility Study, to proceed into schematic design to replace the existing Maria Hastings Elementary School (the "Proposed Project") on the existing site."

With this approval, the Schematic Design module may now proceed. Per the MSBA website, "the District and its team [must in this phase] develop a final design program and robust schematic design of sufficient detail to establish the scope, budget and schedule for the proposed project." The resulting *Project Scope and Budget Agreement* will specify the total amount of funding that the Town must approve to complete the project. This amount must be sufficient to fund, without MSBA reimbursement, the creation of construction documents, and all construction costs. The MSBA Board is expected to vote in August 2017 to approve the *Project Scope and Budget Agreement*.

Studies and consideration of alternative concepts for heating, ventilating, and air conditioning of the new facility have begun. The goals are to achieve a sustainable design with the lowest net energy usage and low up-front and operating costs. The Town is now effectively committed to designing to LEED Silver standards. It may be desirable to go beyond those standards in certain areas with respect to net energy usage. Based on recent reports in the literature that student performance may be negatively affected by elevated ambient carbon dioxide concentrations, a goal has been adopted to design for CO_2 concentrations in the range of 720 to 810 parts per million, and to adopt all-electric systems, thereby eliminating local combustion of fossil fuels that could contribute to the local ambient CO_2 levels. These issues, including the use of geothermal systems for heating and cooling and provision of on-site solar panels, will be studied in more detail in the Schematic Design phase.

Within 120 days after the MSBA Board's approval of the *Project Scope and Budget Agreement*, the Town must secure all necessary approvals for funding the completion of the design and construction phases of the project. We anticipate that a request for the necessary appropriation will be presented at an early fall 2017

[3] See http://www.massschoolbuildings.org/building/modules_overview for a more detailed description of the MSBA program.

special town meeting, and that the requested appropriation will be contingent on voter approval of a Proposition 2½ debt exclusion referendum to be held later in the fall.

The appropriation of $720,000 requested by this article is intended to supplement the previous appropriation of $1,500,000 and allow design work to continue into the Design Development phase through the date of the debt exclusion referendum. The appropriation under the present article will not be contingent on a referendum. However, the anticipated debt exclusion referendum will, if successful, cover the costs of debt service from the current appropriation. In the event that no debt exclusion for the new school building is successful, replacement of the school will not proceed, and the debt for this and the prior appropriation would have to be serviced within the non-exempt tax levy.

Once full funding is secured by the passage of a debt exclusion referendum, the MSBA will issue a *Project Funding Agreement* specifying the rate of MSBA reimbursement for approved costs. The rate will be calculated based on economic considerations for Lexington, plus incentive points awarded for adherence to MSBA priorities. The total reimbursement is anticipated to cover approximately 25% of the total project cost.

Town staff estimate that construction documents will require 6 to 8 months of work starting in the spring of 2017, and that site preparation at Hastings could begin around the end of the 2017-2018 school year. Ideally, construction would commence in earnest at the end of the 2017-2018 school year, with a new building ready for occupancy by February of 2020.

A definitive cost estimate for the project will not be available until the Schematic Design module is completed. The Preferred Schematic Report, approved by MSBA on February 15, 2017, included a preliminary estimate of the project cost for a 30-section school of approximately $62,000,000. This figure includes the $1,500,000 previously appropriated and the $720,000 requested in the present article. A 25% MSBA reimbursement would result in a reimbursement of about $15,500,000, for a net cost to the Town of $46,500,000.

<u>The Committee recommends approval of this request (9-0).</u>

Article 18: Appropriate for Visitors Center (citizen article)

Funds Requested	Funding Source	Committee Recommendation
unknown	**GF**	**Pending**

This citizen's article was inserted in the Warrant by the Tourism Committee in order to request the appropriation of funds related to the design and construction of a new Visitors Center. The building would be located near the existing Visitors Center, across from the Battle Green. The article is worded broadly enough to cover the appropriation of funds both to complete earlier design work and to complete construction. However, because some funds still remain from a prior appropriation for design, which are currently the subject of discussions between the Tourism Committee and the Board of Selectmen, it is anticipated that the proponents of this article will either request an indefinite postponement or a seek a more modest appropriation for supplemental design costs.

Because it is not yet known as of the publication of this report what appropriation, if any, will be requested, and for exactly what purposes, this Committee is not yet able to make a recommendation on the article. Background information is provided below.

The current Visitors Center building was constructed more than 50 years ago. It was designed to meet the needs of tourists coming to commemorate the bicentennial of the Battle of Lexington in 1975. The building is not fully handicapped-accessible, lacks adequate restroom facilities for use by tourists and Minuteman Bikeway users, and is inadequate for accommodating the flow of visitors.

When 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,

$197,186 in FY2016, funds the Visitors Center's complete operating costs. Approximately 126,000 visitors entered the building in 2016.

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, 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 old building and of the new programmatic needs, stakeholders and the Selectmen decided to pursue a new building construction for the Visitor Center, rather than renovation, with conceptual plans provided by Mills Whitaker in 2015.

An article for the construction of a new Visitor 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 estimated design and construction cost 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 Town Meeting seeking an appropriation for 25% design funding. The Tourism Committee then placed the current citizen article on the Warrant to seek funds directly from Town Meeting. The Tourism Committee would like to move this project along so that a new Visitors Center can be completed in time for the upcoming Massachusetts 400th celebrations beginning in 2020 and the 250th anniversary of the Battle of Lexington in 2025.

Of the original 2014 appropriation for design development, $182,108 remains unspent. Of this amount, $133,496 is from the General Fund and the balance from the CPA fund. The CPA funds are not eligible for the planning or construction of a new facility. The Capital Expenditures Committee supports using the remaining $133,496 of the 2014 General Fund appropriation for value-engineering and program-specific considerations to reduce the projected Visitors Center construction costs.

In late February 2017, the Tourism Committee presented its case for the article for review by the Board of Selectmen. At this meeting, the Selectmen voted 4-1 in support of using previously appropriated funds to advance a design for a replacement Visitors Center, with a focus on value-engineering. The Tourism Committee and Board of Selectmen are in ongoing discussions whether those funds will be sufficient or should be supplemented with a modest additional appropriation under Article 18.

The Committee's recommendation on this article is pending.

Article 19: Appropriate for Advice and Analysis – Getting to Net Zero		
Funds Requested	Funding Source	Committee Recommendation
$40,000	**GF**	**Approve (5-3-1)**

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

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

Last year, under Article 16 of the 2016 Annual Town Meeting, Town Meeting appropriated $40,000 for the first phase of this study. This year, an additional $40,000 is sought under the current article.

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 prepared a Lexington Energy/Emissions Assessment – and the Integral Group / SPI was hired to facilitate task force meetings, to assess options and to recommend strategies for reducing emissions.

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 building emissions, while tracking the overall progress towards the Net Zero goal.

The Committee recommends approval of this request (5-3-1).

Article 20: Accept Harbell Street

Funds Requested	Funding Source	Committee Recommendation
$147,000	**Betterments**	**Approval (9-0)**

This article requests that Harbell Street from Paul Revere Road, a length of approximately 645 feet, be accepted as a Town way. Acceptance is the formal process that converts a private street owned by the abutters into a public street. The funds requested are $147,000 to bring the street up to Town standards and such costs will be allocated to and raised over a period of years from the owners of properties on the street through the assessment of betterments. Since the Town takes responsibility for the maintenance of all accepted streets without regard to when they were accepted, the Town will take responsibility for all future upkeep of Harbell Street after it is accepted.

The status of accepted streets is different from that of unaccepted streets. Although the Town plows unaccepted streets and collects trash from residents on unaccepted streets, the abutters on unaccepted streets are solely responsible for any street repairs.

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

Article 21: Appropriate to Post Employment Insurance Liability Fund

Funds Requested	Funding Source	Committee Recommendation
$1,842,895	**See below**	**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 and related issues, please see Appendix F.

Based on the two most recent actuarial reports, i.e., those received after the close of FY2013 and FY2015, the "Normal Cost" for FY2015 was likely in the range of $2 million to $4 million. These amounts were derived assuming the average rate of return on investments will be approximately 8%, a little higher than the 7.5% rate currently used for analysis of the Town's pension trust fund. Note that the estimate of the Normal Cost is strongly affected by the assumed average rate of return, with higher rates yielding lower Normal Cost estimates and vice versa. The FY2015 actuarial report presented an alternative Normal Cost estimate, using a 5% discount rate, of a little less than $8 million per year.

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

The requested amount is likely to be within the range of 35% to 100% of the Normal Cost for FY2018 calculated with the 8% discount rate, and therefore is consistent with the policy previously articulated by the Selectmen for the annual appropriation to the PEIL Fund. If approved, this appropriation would increase the balance in the PEIL Fund from the current balance of $9,308,872 as of December 31, 2016, to approximately $11,200,000.

Payments for health benefits of current retirees in FY2018 will also affect the Town's unfunded liability. 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 to a value most likely between 5% and 10%, again using an 8% discount rate. The next actuarial analysis of the OPEB liability for the Town will cover the period ending June 30, 2017, after which time the Town will receive an updated estimate of the funding ratio.

The bulk 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[4]. This frees up a matching amount in the General Fund for this request, or other potential uses. The amount of $1,079,721 is from Free Cash, $329,721 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. The requested amount also 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 has expressed a concern that if the actuary's alternative estimate of Normal Cost based on a more conservative 5% discount rate is used, the proposed contribution would fall short of the target funding rage of 35-100% of Normal Cost set forth in the Selectmen's policy.

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

Article 22: Appropriate Bonds and Notes Premiums to Pay Project Costs

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

See Article 5 of the Appropriation Committee Report to the March 2017 Special Town Meeting 2017-1. This article will be moved for Indefinite Postponement if Article 5 of STM 2017-1 is approved by Town Meeting.

The Committees recommendation of this article is pending.

[4] The Health Insurance Trust Fund will have a balance of $3,770,684 after transfer out under Article 4 of the $750,000 to support the health insurance budget.

Article 23: Rescind Prior Borrowing Authorizations		
Funds Requested	Funding Source	Committee Recommendation
None	**N/A**	**Approval (9-0)**

State law requires that, in order to make the monies available for other uses, 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. Town staff has recommended the following bond authorization rescissions.

This table lists amounts from various borrowing authorizations that were not part of any bond offering. Since these funds were never borrowed, approving the rescissions has no financial impact.

Town Meeting	Article	Description	Amount
2013 ATM	14(l)	Print Shop Renovation	$38,070
2015 ATM	16(a)	School Furniture & Equipment	$28,500
2015 ATM	18(f)	High School Heating Systems Upgrades - Design	$7,500
2016 ATM	15(c)	Lexington High School Heating Systems Upgrade	$242,000
		Total:	**$316,070**

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

Article 24: Establish and Appropriate To and From Specified Stabilization Funds		
Funds Requested	Funding Source	Committee Recommendation
$5,000,000 $2,690,398 **$7,690,398**	**General Fund** **Tax Levy**	**Approve (9-0)**

The State statute authorizing towns to create and maintain a stabilization fund (G.L. c. 40, § 5B) was amended in 2003 to permit the creation of stabilization funds for specified purposes. Multiple funds may be created for different purposes. They are separate and independent accounting entities. Each 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 a specified stabilization fund, alter a fund's specified purpose, or make an appropriation into or out of a fund by a two-thirds majority vote. Appropriations into specified stabilization funds do not authorize expenditures, but rather are transfers of funds into accounts for specified future uses.

Status of Funds and Appropriation Requests

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

			Fund Withdrawal References	
Specified Stabilization Fund	**Current Balance**	**Appropriation Amount**	**Withdrawal Amount**	**Warrant Article**
Avalon Bay School Enrollment Mitigation Fund	$45	$0	$45	Art. 4
Center Improvement District S.F.	$87,202	$0	$27,000	Art. 4
Debt Service S.F.	$774,396	$0	$124,057	Art. 26
School Bus Transportation S.F.	$18	$0	$18	Art. 4
Section 135 Zoning S.F.	$0	$0	$0	–
Special Education S.F.	$1,082,274	$0	$0	–
Traffic Mitigation S.F.	$118,068	$0	$0	–
Transportation Demand Management S.F.	$213,181	$24,527	$141,000	Art. 4
Transportation Management Overlay District S.F.	$98,205	$0	$0	–
Capital S.F.	$23,083,108	$7,690,398	$324,500	Art. 4

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

The *Transportation Demand Management Stabilization Fund* was initially created to support the Lexpress bus service and the 2016 Annual Town Meeting extended the purpose of this fund to “supporting the planning and operations of transportation services to serve the needs of town residents and businesses.” 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.

This article proposes to appropriate $7,690,398 into the *Capital Stabilization Fund*. The motion under Article 4 will appropriate $324,500 out of that fund to mitigate the increase in debt service for capital projects financed within the property tax levy limit.

In FY2018, the Avalon Bay School Enrollment Mitigation Fund and the Transportation Demand Management Stabilization Fund will be closed because these two funds are not being used any more, the balances of which will go to the General Fund.

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 25: Appropriate to Stabilization Fund		
Funds Requested	Funding Source	Committee Recommendation
None	**N/A**	**IP**

As of publication, the Board of Selectmen has made no recommendation for an appropriation into the Stabilization Fund. We support this decision that follows from the recommended budget, 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*.

The Committee anticipates that this article will be indefinitely postponed.

Article 26: 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 up-front reimbursements for those public school construction projects, and to apportion those funds over the life of the bonds related to the projects to help fund the debt service obligations.

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

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

Article 27: Appropriate for Prior Years' Unpaid Bills		
Funds Requested	Funding Source	Committee Recommendation
None	**N/A**	

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 28: Amend FY2017 Operating, Enterprise and CPA Budgets		
Funds Requested	Funding Source	Committee Recommendation
Unknown	**Unknown**	**Pending**

A recommendation from the Town Manager, Town staff, and the Board of Selectmen regarding actions, if any, under this article is not expected to be available until a date after the Annual Town Meeting commences. 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.

The Committee has taken no position on this article.

Article 29: Appropriate for Authorized Capital Improvements		
Funds Requested	Funding Source	Committee Recommendation
Unknown	**Unknown**	**Pending**

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

The Committee has taken no position on this request.

Article 30: Adjust Retirement COLA Base for Retirees		
Funds Requested	Funding Source	Committee Recommendation
None	**N/A**	**Approve (6-2-1)**

This article requests Town Meeting approval of the acceptance by the Retirement Board of an increase from $13,000 to $14,000 in the maximum base amount upon which a retiree's pension cost-of-living adjustment ("COLA") is calculated.

Background

The Town of Lexington has a Retirement Board that manages the pension fund for the Town's municipal and non-educational school employees. (Teachers' pensions are managed by the State.) The Retirement Board establishes the amount the Town must contribute each year to cover the Town's portion of the "normal cost" of funding these employees' pension benefits earned in that year, and also establishes the amount the Town must contribute to amortize the Town's unfunded liability. Per the most recent actuarial valuation, done in January 2016, the unfunded liability is scheduled to be fully funded by FY2024, at which point the annual appropriations of about $5 million will decrease substantially to the amounts needed solely to fund the Town's share of the normal costs, as can be seen in the table below.

History of COLA's

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

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

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

In 2010, the legislature amended G.L. c. 32, §103 to allow an increase in the maximum base amount on which the COLA is calculated, in multiples of $1,000, subject to a majority vote of the local retirement board and approval of Town Meeting. An increase in the base, once adopted, is irrevocable. In Lexington, Town Meeting voted in 2015 to approve an increase in the COLA base from $12,000 to $13,000. The current base in other localities with retirement boards varies, ranging from $12,000 (e.g., Concord, Belmont, Winchester), to $15,000 (e.g., Arlington, Wellesley), up to one outlier at $18,000 (Hampden County).[5]

The present article now seeks a further increase in the Lexington Retirement Board's COLA base from $13,000 to $14,000. The state-administered COLA base applicable to Lexington teachers remains at $13,000, although there are legislative initiatives to increase that base as well going forward. With a COLA base of $13,000 and a COLA of 3%, a benefit recipient may have his or her allowance increased by a maximum of $390 per year. With a COLA base of $14,000 and a COLA of 3%, a benefit recipient may have his or her allowance increased by a maximum of $420 per year.

The current median employee pension payment is $19,800 and the average is $24,233. Note that the average Lexington municipal employee pension benefit payments in 2016 were:

- To female retirees, $15,666
- To male retirees, $35,420
- To all retirees, $23,827.

About one-quarter of the Town's current 428 retirees and beneficiaries in pay status as of January 1, 2017, receive pensions of $13,000 or less and therefore will not be affected by this article as any COLA's apply to their entire pension payments.

Analysis

There is no immediate appropriation associated with this request. However, if the COLA base increase is approved by Town Meeting and the Retirement Board's currently proposed employer contribution and amortization schedule is followed, there will be a significant future impact on the operating budget, particularly in FY2023 and FY2024, as shown in the chart below. Note that the projected Town cost consists of the sum of both the "normal cost" and an amortization payment until FY2024, then is made up of just the "normal cost" thereafter.

[5] See website of the Public Employees Retirement Administration Commission (PERAC), which publishes a compendium of local option acceptances. http://www.mass.gov/perac/board-info/boardopt-17.html .

Projected Fiscal Impact of FY18 COLA Base Change

Fiscal Year	Town Cost at $13K Base	Town Cost At $14K Base	Incremental Cost of Change
2017	5,505,537	5,505,537	0
2018	5,755,537	5,755,537	0
2019	6,005,537	6,005,537	0
2020	6,225,537	6,225,537	0
2021	6,505,537	6,505,537	0
2022	6,755,537	6,755,537	0
2023	6,545,536	7,005,537	460,001
2024	1,587,205	3,606,534	2,019,329
2025	1,605,968	1,744,665	138,697
2026	1,626,128	1,771,066	144,938
2027	1,644,850	1,796,311	151,461
2028	1,661,964	1,820,240	158,276
2029	1,677,287	1,842,687	165,400
2030	1,690,625	1,863,347	172,722
2031	1,701,766	1,882,386	180,620
2031	1,710,486	1,899,234	188,748
2033	1,716,545	1,913,786	197,241
2034	1,719,685	1,925,803	206,118
2035	1,719,633	1,935,025	215,392
2036	1,716,093	1,941,178	225,085
2037	1,793,317	2,028,531	235,214
2038	1,874,016	2,119,815	245,799
2039	1,958,347	2,215,206	256,859
2040	2,046,472	2,314,891	268,419
2041	2,138,564	2,419,061	280,497
2042	2,234,799	2,527,919	293,120
2043	2,335,365	2,641,675	306,310
2044	2,440,457	2,760,550	320,093
2045	2,550,277	2,884,775	334,498
2046	2,665,040	3,014,590	349,550
2047	2,784,966	3,150,246	365,280
2048	2,910,290	3,292,008	381,718

Although there has been some confusion in the interpretation of official actuarial estimates, this Committee's best understanding is that the proposed increase in the COLA base would have an impact on the Town's annual Normal Cost obligation of about $100,000 in FY2018 (gradually climbing with inflation in later years as shown in the table); and on the Town's unfunded liability of approximately $1,000,000.

As the currently proposed funding schedule has been structured, the most significant projected *cash flow* impact to the Town budget, over $2 million, will occur in FY2023 and FY2024, as shown in the table. This impact is due to a deferral of some of the amortization costs that would otherwise be scheduled to occur in fiscal years 2018 through 2022, and back-end-loading those amortization costs into FY2023 and FY2024. Because the major cash flow impact of this proposed COLA base increase is timed to coincide with the sharp drop in the Town's total required annual payment to the pension fund which will occur when the pension obligation becomes fully funded, the Town theoretically can absorb that impact without major disruption to other operating programs. However, the impact on the Town's FY2024 budget is nevertheless a very real one because $2 million of the revenues freed up by the achievement of full funding would otherwise be available to contribute to the funding of unfunded OPEB liabilities, currently estimated at $100-200 million, further bolster our Capital Stabilization Fund, or meet other needs of the Town in that fiscal year.

Town staff has pointed out that one downside to the currently proposed funding approach is that deferral of the time when payments by the Town for the additional costs resulting from the COLA base increase are contributed to the pension fund delays the time when a higher rate of return can be earned on those funds, thus increasing the ultimate financial cost of the change to the Town. However, Town staff has also assured us that after FY2018, the Retirement Board's proposed funding schedule is not cast in stone but will be subject to negotiation between the Town and Retirement Board, giving the Town an opportunity to address this issue.

It should be noted that there may be future requests for increases to the COLA base, with similar impacts on the funding obligation of the Town for new unfunded liabilities.

<u>Recommendation of the Committee</u>

Because there is a compelling logic to the concept that a pension should not lose value due to changes in the cost of living, the Committee is generally supportive of steps that will bring the municipal pension COLA into closer alignment with CPI changes. At the same time, the Committee recognizes that a pension COLA is but one of many terms of employment the Town agrees to with its employees, the rest – including wages, hours, sick leave, vacation leave, and health benefits for both active and retired employees – being subject to negotiation in the collective bargaining process.

If Town Meeting is to award the Town's municipal employees "off line" from the collective bargaining process a material enhancement of a single benefit, in this case an increase in the COLA base, then such enhancement should be taken into account in the collective bargaining process. When collective bargaining is undertaken, the goal should be to achieve a "complete compensation" package that is fair, reasonable, and competitive.

Because negotiating such an outcome is the responsibility of the Board of Selectmen, acting through the Town Manager, this Committee, by a majority of 6-2-1, recommends approval of the Retirement Board's request to increase the COLA base from $13,000 to $14,000, along with the recommendation that the Selectmen take the COLA base enhancement into account as part of their "complete compensation" analysis when collectively bargaining with the Town employees affected.

<u>Minority Position</u>

A minority of the Committee recommends disapproval of this article for the following reasons:

- Lexington's current COLA base of $13,000 is in alignment with the Massachusetts Teachers' Retirement System, and as high as or higher than the bases of several comparable municipalities, including Brookline, Winchester, and Belmont.
- Retirement systems with the highest COLA bases are significantly less well-funded than the Lexington Retirement System. (Bristol County $18,000 base, 66% funded; Hampden County $18,000 base, 47% funded.) Funding adequacy has more value for employees than a higher COLA base.
- The COLA base increase approved in 2015, per Lexington's latest official actuarial valuation, added $757,749 to the Town's unfunded liability and $91,568 to its annual Normal Cost.

- The currently proposed COLA base increase would add another $1,000,000 in unfunded pension liability, or approximately $187,000 per year if spread over the next 7 years, and $100,000 to the annual Normal Cost.
- Since Lexington raised its COLA base in 2015, inflation has been low: Social Security COLA adjustments were zero and 0.3% in the last two years, respectively. For the average Social Security annual benefit of $16,104 and maximum of $32,244, last year's corresponding Social Security COLAs at 0.3% were $48 and $97 respectively, much lower than Lexington's 3% COLA adjustments on a $13,000 base of up to $390.
- With the operating and capital budgetary challenges the Town faces in the near future, including a proposed debt exclusion of more than $100,000,000, the minority would defer approval of a further increase in the COLA base until the Town and its taxpayers can better absorb the financial impact.

Desirability of a Policy on Pension COLA's

All members of the Committee are in agreement that future decisions with respect to annual COLAs, COLA base increases, and collective bargaining discussions would be greatly facilitated if there were a Town policy to guide the maintenance of pensions in the presence of increases in the costs of living in various economic sectors.

The Committee recommends approval of this article (6-2-1).

Article 36: Amend General Bylaws – Municipal Modernization Act		
Funds Requested	Funding Source	Committee Recommendation
None	**N/A**	**See Below**

The recent State law known as the Municipal Modernization Act is aimed at improving critical components of the partnership between the state and municipalities. It focuses on four specific goals:

1. Eliminate or update obsolete laws
2. Promote local independence
3. Streamline state oversight
4. Provide municipalities with greater flexibility.

Several provisions of the Municipal Modernization Act are subject to local acceptance. That is, a municipality has the choice whether to adopt these provisions or not, and to avail itself of one them, Town Meeting must accept that provision by a majority vote. The Board of Selectmen are proposing that several of the local options included in the statute be accepted at this Annual Town Meeting. This Committee addresses only those with financial implications.

Parking Meter Revenues

Before the Municipal Modernization Act, parking meter or other parking receipts had to be reserved for appropriation under MGL c. 40, Sections 22A, 22B, and 22C. As of the November 7, 2016, effective date of the Act, however, those receipts are unrestricted and unreserved general fund revenue unless the city or town accepts provisions in those statutes in order to credit them to a "receipts reserved for appropriation" special revenue fund. Acceptance of the local option provided by this statute would allow the Town to continue its existing practice of treating parking revenues as "receipts reserved for appropriation." The Committee recommends approval of this request (9-0).

Rental Revolving Fund

Acceptance of the local option provided by Chapter 40, Section 3, would allow the Town to establish a rental revolving fund for both school and non-school (municipal) properties and authorizes expenditures without appropriation for upkeep of such properties. This expansion of current law, which authorizes a revolving fund only for the rental of surplus school properties, would give the Town added flexibility to manage rented properties such as the former Munroe School. The Committee recommends approval of this request (9-0).

Special Injury Leave Indemnity Fund

MGL c. 41, Section 111F has been amended to allow municipalities, by local option, to create, appropriate money to and expend from a special injury leave indemnity fund for payment of police officer and firefighter injury leave compensation or medical bills, rather than charging them to current departmental appropriations. The Committee recommends approval of this request (9-0).

Annual Billing for Small Tax Bills

Acceptance of the local option provided by Chapter 59, Section 57A would allow the Town to bill for property tax bills less than $100 in a single annual bill rather than quarterly. This would be more efficient and less burdensome for both the Town and taxpayers. The Committee recommends approval of this request (9-0).

Article 38: Amend General Bylaws – Revolving Funds

Funds Requested	Funding Source	Committee Recommendation
None	**N/A**	**Approve (9-0)**

The recent State law known as the Municipal Modernization Act has amended Massachusetts General Laws, Chapter 44, Section 53E½ to provide more flexibility to towns by allowing them to permanently establish revolving funds by bylaw, instead of by an annual legislative body vote, and eliminating all statutory caps on spending. If such a bylaw is adopted, the amount authorized to be spent from each established fund would still require annual approval by Town Meeting.

Approval of this article will amend the Code of the Town of Lexington by adding a new Chapter 110 titled "Revolving Funds" in order to establish and authorize revolving funds for use by Town departments, boards, committees, agencies or officers. The motion will set forth the details of the new bylaw and the revolving funds thereby created. The bylaw could be amended by Town Meeting from time to time as necessary to add, remove, or change the name or purposes of revolving funds. Adoption of this article would streamline and improve the revolving fund process.

Because municipal bylaw amendments do not become effective until approved by the state Attorney General, which will be too late to get the newly established revolving funds up and running for operations during FY2018, the Governor has introduced special legislation to allow an orderly transition to the new authorization procedure. Under this transition procedure, we will re-establish our revolving funds for FY2018 by Town Meeting vote under Article 9, as we have always done, in anticipation of the bylaw adopted under Article 38 ultimately becoming effective for the future.

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

Article 40: Amend Zoning Bylaw – Special Permits Residential Developments		
Funds Requested	Funding Source	Committee Recommendation
None	**N/A**	**Pending**

The Committee has not, at the time of publication, discussed this article. Any recommendation will be made orally or in a supplemental written report.

Article 42: Amend Zoning Bylaw – Two-Family Homes		
Funds Requested	Funding Source	Committee Recommendation
None	**N/A**	**Pending**

The Committee has not, at the time of publication, discussed this article. Any recommendation will be made orally or in a supplemental written report.

Article 43: Amend Zoning Bylaw – Economic Development Refinements		
Funds Requested	Funding Source	Committee Recommendation
None	**N/A**	**Pending**

The Committee has not, at the time of publication, discussed this article. Any recommendation will be made orally or in a supplemental written report.

Article 44: Amend Zoning Bylaw – Brookhaven (owner article)		
Funds Requested	Funding Source	Committee Recommendation
None	**N/A**	**Pending**

The Committee has not, at the time of publication, discussed this article. Any recommendation will be made orally or in a supplemental written report.

Article 45: Amend Zoning Bylaw – Balanced Housing Developments (citizen article)		
Funds Requested	Funding Source	Committee Recommendation
None	**N/A**	**Pending**

The Committee has not, at the time of publication, discussed this article. Any recommendation will be made orally or in a supplemental written report.

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 quantitative as well as qualitative 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 FY2019, FY2020, and FY2021. We are aware that we may soon exit a period of unusually low inflation. Those assumptions suggest some uncertainty in the near future that will 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 increase 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, rising in FY2017 to $3,300,000. This recent history of new growth exemplifies the volatility of this factor. In light of this, the model straight-lines new growth using the midpoint of the 10-year (FY2008-2017) and 15-year (FY2003-2017) average.
- State aid is assumed to increase by 5% annually, driven primarily by increasing school enrollments leading to increased Chapter 70 aid.
- Available Funds are projected at lower levels than 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 FY2019-2021 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 have balances of $335,000 and $165,000, respectively, in time for the start of each fiscal year. Additionally, we extrapolate the Town Manager's recommendation for FY2018, so that, for each of the years FY2019 and FY2020, we assume that $750,000 will be transferred out of the Health Insurance Claims Trust Fund for health insurance premiums, thereby freeing up an identical amount to fund the Post Employment Insurance Liability (aka OPEB) Trust Fund. To maintain some flexibility in future health benefits spending, no further transfers from this fund are recommended after FY2020.
- We have illustrated projected transfers from the Capital Stabilization Fund to partially mitigate growth of within-levy debt service. Our projection currently shows transfers of $860,000 in FY2019, $782,000 in FY2020, and $747,000 in FY2021. Additional appropriations from this fund are anticipated to partially mitigate the tax impact of increases in excluded debt service.

- 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 2019 and 2021; and $900,000 in FY2020, a revaluation year), and $300,000 that is set aside annually for potential deficits in the snow and ice budget.
- Water and Wastewater Enterprise Fund indirect expenses are assumed to increase by 3% annually. Recreation Enterprise Fund indirect expenses are assumed to increase by $5,000 per year. Additionally, in FY2018 Recreation Enterprise Fund expenses will be offset by $220,152 in tax levy funding for Community Center operations personnel. This expense is taken to grow by 1.3% annually to accommodate step increases, and the tax levy funding for Community Center operations is taken to increase at that pace.

Expense Assumptions

- Line items for FY2019-FY2021 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 FY2019 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 154 in FY2019, 148 in FY2020 and 165 in FY2021. An increase in enrollment of 100 students is estimated to require a staffing increase of 21.15 FTE's at $59,300 per FTE, an increase of approximately $1,254,000 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 Regional High School is assumed to increase by 4.5% per year. Additions to the assessments to cover debt service payments for Minuteman capital improvements are projected to be $240,000 in FY2019, $371,000 in FY2020, and over $670,000 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 FY2019, $6,255,537 in FY2020 and $6,505,537 in FY2021.
- 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 growth in Town staff due to other drivers 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 project costs in FY2019 of $8,900,000, FY2020 of $9,400,000, and FY2021 of $9,800,000. Debt service 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.
- 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 annually for unanticipated current fiscal year needs, and a $1,500,000 contribution to the trust fund for future costs of health insurance for retired employees (OPEB) in FY2019, and $300,000 in each of FY2020 and FY2021.
- 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 in the time interval FY2012-2016. Reorganization of the Recreation Enterprise Fund in FY2017 increased its base budget ($453,007 in personal services) and those costs are now layered on top of the 5-year trend line. Enterprise capital is projected using the five averages for FY2012-2016.
- The projection contains no set-asides for unidentified new programs.

The projection for FY2019 shows an increase of approximately $365,000 in total General Fund revenue. This increase is significantly lower than the projected $9,880,000 increase in the FY2018 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 FY2018 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 put aside in stabilization funds.

General Fund revenue growth is reduced in FY2020 due to discontinuing transfers from the Health Trust Fund.

School budgets will be greatly affected by enrollment growth. This model is based on School Department enrollment projections that are subject to a great deal of uncertainty.

COLAs of 1% in FY2017 for employees in the schools, municipal departments, and Public Facilities Department would increase their respective budgets by $884,000, $240,000 and $57,000. Our table illustrates the cumulative effect that COLAs of varying percentages would have on reducing any surpluses for FY2019-2021.

Revenue Summary	**FY2016** actual	**FY2017** recap	**FY2018** budget	**FY2019** projected	**FY2020** projected	**FY2021** projected
Property Tax Levy			-			
Property Tax Levy	$148,286,733	$154,781,455	$161,960,336	$168,509,344	$175,547,078	$182,760,755
Allowable 2½% increase	$3,709,681	$3,869,536	$4,049,008	$4,212,734	$4,388,677	$4,569,019
New Growth	$2,772,633	$3,309,344	$2,500,000	$2,825,000	$2,825,000	$2,825,000
Excess Levy Capacity	-$18,897	-$94,519	$0	$0	$0	$0
Tax levy limit	**$154,750,150**	**$161,865,816**	**$168,509,344**	**$175,547,078**	**$182,760,755**	**$190,154,774**
State Aid	$11,568,637	$13,317,118	$13,552,552	$14,230,180	$14,941,689	$15,688,773
Local Receipts	$15,776,739	$12,039,540	$12,164,750	$12,347,221	$12,532,430	$12,720,416
Available Funds	$15,654,839	$11,995,171	$15,541,028	$6,950,000	$6,200,000	$6,200,000
In-Levy Debt Svc. Mitigation	$620,567	$710,000	$324,500	$860,000	$782,000	$747,000
Revenue Offsets	-$2,905,154	-$1,654,429	-$1,983,047	-$1,957,695	-$2,139,464	-$1,957,695
Enterprise Funds (Indirect)	$1,617,576	$1,629,135	$1,674,112	$1,721,690	$1,770,545	$1,820,717
Total General Fund	**$197,083,354**	**$199,902,351**	**$209,783,239**	**$209,698,473**	**$216,847,954**	**$225,373,985**
Other Revenues						
Revolving Funds	$3,212,677	$3,524,526	$3,704,629	$3,049,884	$3,049,884	$3,049,884
Grants	$123,082	$133,060	$135,223	$118,156	$118,156	$118,156
Enterprise Funds	$22,380,585	$21,843,616	$24,217,407	$23,097,866	$23,820,512	$24,731,982
Exempt Debt	$8,324,696	$8,330,185	$9,257,638	$10,163,610	$12,196,954	$14,435,967
Exempt Debt Svc. Mitigation	$215,000	$0	$2,400,000	$5,000,000	$6,800,000	$6,000,000
Sub-total Other Revenues	*$34,256,040*	*$33,831,387*	*$39,714,897*	*$41,429,516*	*$45,985,506*	*$48,335,989*
Total Revenues	**$231,339,394**	**$233,733,738**	**$249,498,136**	**$251,127,989**	**$262,833,460**	**$273,709,974**

Expense Summary	FY2016 actual	FY2017 recap	FY2018 budget	FY2019 projected	FY2020 projected	FY2021 projected
Education						
Lex. Pub Schools Wages	$76,222,211	$83,074,346	$85,948,669	$88,599,103	$91,264,856	$94,243,329
Lex. Pub Schools Expenses	$7,029,948	$8,255,553	$8,765,776	$9,028,749	$9,299,612	$9,578,600
Out-of-District SPED	$6,403,044	$5,963,400	$6,940,737	$7,527,860	$7,881,167	$8,251,446
Sub-total Lex. Pub. Schools	**$89,655,203**	**$97,293,299**	**$101,655,182**	**$105,155,712**	**$108,445,634**	**$112,073,375**
Minuteman Reg. School	$1,172,736	$1,377,449	$1,670,351	$1,780,517	$2,074,369	$2,667,199
Sub-total Education	**$90,827,939**	**$98,670,748**	**$103,325,533**	**$106,936,229**	**$110,520,003**	**$114,740,575**
Municipal						
Municipal Wages	$22,994,750	$23,547,663	$23,666,504	$23,974,169	$24,285,833	$24,601,549
Municipal Expenses	$10,012,108	$11,054,830	$11,708,555	$12,059,812	$12,421,606	$12,794,254
Sub-total Municipal	**$33,006,858**	**$34,602,493**	**$35,375,059**	**$36,033,980**	**$36,707,439**	**$37,395,803**
Shared Expenses						
Benefits & Insurance	$29,288,488	$33,609,477	$35,514,537	$37,298,198	$39,160,338	$41,105,089
Debt (within-levy)	$6,740,537	$7,199,028	$7,152,605	$9,584,089	$9,683,918	$10,059,474
Reserve Fund	$0	$900,000	$900,000	$900,000	$900,000	$900,000
Facilities	$9,820,826	$10,002,416	$10,402,986	$10,844,382	$11,038,181	$11,235,792
Sub-total Shared Expenses	**$45,849,851**	**$51,710,921**	**$53,970,128**	**$58,626,669**	**$60,782,437**	**$63,300,355**
Capital & Reserves						
Cash Capital	$4,642,987	$5,619,429	$6,182,099	$3,917,710	$3,939,501	$3,961,836
Stabilization Fund	$0	$0	$0	$0	$0	$0
Capital Stabilization Fund	$9,447,832	$6,991,205	$7,690,398	$0	$0	$0
PEIL Fund (OPEB)	$1,200,000	$1,512,318	$1,829,721	$1,500,000	$300,000	$300,000
Other (SrWorkOff,SPED,aid reduc)	$256,836	$323,007	$792,153	$453,014	$455,913	$458,850
Other(unallocated)	$0	$0	$618,148	$0	$0	$0
Sub-total Capital & Reserves	**$15,547,655**	**$14,445,959**	**$17,112,519**	**$5,870,724**	**$4,695,414**	**$4,720,686**
Total Operating, Capital & Reserves	**$185,232,303**	**$199,430,121**	**$209,783,239**	**$207,467,602**	**$212,705,293**	**$220,157,686**
Revolving Funds	**$3,212,677**	**$3,524,526**	**$3,704,629**	**$3,049,884**	**$3,049,884**	**$3,049,884**
Grants	**$123,082**	**$133,060**	**$135,223**	**$118,156**	**$118,156**	**$118,156**
Enterprise Funds						
Water	$9,004,927	$9,861,480	$9,869,784	$9,732,898	$10,357,279	$10,981,659
Wastewater (Sewer)	$8,497,733	$8,892,849	$9,182,509	$8,836,852	$8,917,681	$8,998,511
Recreation	$2,210,425	$2,626,287	$2,725,114	$2,929,053	$3,172,403	$3,415,753
Enterprise Capital	$2,667,500	$463,000	$2,440,000	$1,599,063	$1,599,063	$1,599,063
Sub-total Enterprise Funds	**$22,380,585**	**$21,843,616**	**$24,217,407**	**$23,097,866**	**$24,046,426**	**$24,994,985**
Exempt Debt	**$8,539,696**	**$8,330,185**	**$11,657,638**	**$15,163,610**	**$18,996,954**	**$20,435,967**
Total Expenses	**$219,488,343**	**$233,261,508**	**$249,498,136**	**$248,897,118**	**$258,916,712**	**$268,756,411**
Balance (w/o COLA)	**$11,851,052**	**$472,231**	**$0**	**$2,230,871**	**$3,916,748**	**$4,953,563**

COLA Projection		FY2018
each 1% COLA for schools =		$883,939
each 1% COLA for municipal =		$239,742
each 1% COLA for public facilities =		$56,983
		$1,180,664

COLA	implemented in FY2019		
1%	$1,050,207	$1,543,614	$1,376,033
2%	($130,457)	($853,134)	($2,273,045)
3%	($1,311,120)	($3,273,495)	($5,994,379)

**there are no contracts settled for FY19 or beyond, except Muni Managers through FY19*

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.[6] 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.

[6] 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.

Note that under the 2016 Municipal Modernization Act, revolving funds going forward will be established by bylaw, but will otherwise operate in substantially the same fashion.

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 *"Circuit Breaker"* program providing a refundable state tax credit for low- and moderate-income homeowners and renters age 65 and over equal to the amount by which their local property tax (plus half of water and sewer charges) exceed 10% of their total income, subject to an annual limit. This program, with an equivalent "renter's credit," provides property tax relief to Lexington homeowners and renters at no cost to the Town.
- "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, allowing residents age 60 or older to perform services for the Town in exchange for credit on their property tax.
- A Community Preservation Act *surcharge exemption* program.
- "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 taking any or all of the exemptions and credits above – 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.

<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 equal to the amount by which their local property tax, plus half of their water and sewer charges, exceeds 10% of their total income, subject to an annual limit. Renters are also eligible for an equivalent tax credit in the amount by which their annual rent exceeds 25% of their total income. (See table below for most recent eligibility and credit limits.) This program is administered by the Massachusetts Department of Revenue and has no direct impact on Town finances.

<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 annual appropriation by the state legislature. The portions of the exemptions that are not reimbursed are funded from the Town's overlay account.

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

- Increase the amount of the exemption to $750.
- Lower the age of eligibility from 70 to the minimum allowed age of 65.
- Increase the income threshold from $13,000 (single) / $15,000 (married) to the maximum allowed amount of $20,000 (single) / $30,000 (married).

- Increase the threshold for personal assets, not including the home, from $28,000 (single) / $30,000 (married) to the maximum allowed amount of $40,000 (single) / $55,000 (married).

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

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

The Senior Service Program

Low-income seniors may perform volunteer work for the Town in exchange for a reduction in their property tax, currently up to a maximum credit of $1,045 for an individual, or a maximum credit of $1,330 for a two-person household. The Senior Service program, formerly funded from the overlay account, is now funded as part of the Town's annual budget, and is subject to appropriation.

In 1999, the Legislature authorized cities and towns, by accepting G.L. c. 59, § 5K, to offer residents, age 60 and over, the opportunity to reduce their property-tax obligation by up to $500 in exchange for community service.[7] Lexington, which had earlier maintained its own program, accepted this statute shortly after it was enacted. The statute allows towns to set 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 (currently $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 and wage rate are detailed in the table below.

As can be seen in the footnote below, the wage rate and maximum credit limit offered under Lexington's Senior Service program has fallen behind that of the state program, which now allows credits to be earned up to a maximum of $1,500 and also allows a higher wage rate. It is expected that the Selectmen will revisit the terms of Lexington's program for FY2018 after the 2017 Annual Town Meeting.

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.

The "41A" Deferral Program

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

[7] In 2002, the maximum amount of the Section 5K credit was increased to $750. In 2009 it was increased to $1,000, and the 2010 Municipal Relief Act added a provision allowing towns to adopt a local option to set the limit at 125 hours of service at the prevailing minimum wage (now $11.00 per hour), which would automatically increase the limit if the minimum wage increases. The Municipal Modernization Act, which became effective in November of 2016, increased the maximum credit to $1,500.

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 recently less than 1%), which for each year's deferral remains in effect for the life of that deferral (see table below).

The 41A deferral program is an attractive form of tax relief from the Town's point of view because, although it affects cash flow, it is essentially revenue-neutral. Because repayment obligations are backed by a tax lien, which generally must be satisfied when property is sold, 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 receivables as of the end of the last fiscal year are shown in the table below.

Tax Relief Programs – Limits and Qualifications for Fiscal Year 2017/Tax Year 2016

State Income Tax Circuit Breaker		
Maximum assessed valuation		$720,000
Maximum credit for homeowners, renters		$1,070
41C Property Tax Exemption for Seniors	**Single**	**Married**
Income Limit	$25,900	$38,583
Assets Limit	$51,805	$71,230
41A Property Tax Deferral		
Interest rate on taxes deferred for FY2017		0.66%
Receivables for deferred taxes as of 6/30/16		$1,219,662
Senior Service Program	**Single**	**Couples***
Income eligibility	$53,000	$55,000
Maximum benefit	(110 hours) $1,045	(140 hours) $1,330
Hourly Rate	$9.50	$9.50
**Couples living in the same household.*		

Appendix E: Specified Stabilization Funds

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

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

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

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

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

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

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

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

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

Avalon Bay School Enrollment Mitigation Fund: funded with a $418,900 payment received from Avalon Bay pursuant to an Education and Trust Fund Escrow Agreement dated May 31, 2006. The terms of that agreement called for the establishment of an escrow fund in the amount of $750,000 with disbursements made to the Town annually if the number of students residing at the development (Avalon at Lexington Hills) exceeded 111. The amount payable per student in excess of 111 was $7,100. The fund has been almost fully withdrawn, leaving only a negligible residual balance.

Transportation Management Overlay District Fund (TMOD): funded by payments from those developers who choose to pay a transportation mitigation fee rather than taking responsibility for improving all the intersections in the area to a certain level as provided in Section 135-43.C of the Zoning Bylaw. Per Section 135-

43.C(5)(c) "any transportation mitigation fees paid to the Town are intended to be used to fund infrastructure improvements that are necessitated by the proposed development of the applicant."

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

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

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

Appendix F: Other Post Employment Benefits

The OPEB Liability

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

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

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

The Post Employment Insurance Liability (PEIL) Fund

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

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

GASB 45 and the choice of a discount rate

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

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

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

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

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 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 cannot 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, but even 4.5% is too low for our purposes.

The discount rate currently used by the Town's pension fund analysis is 7.75%, and the pension fund is quite similar in purpose and design to the PEIL Fund. At the Town's request, the 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. This is arguably the appropriate figure to contemplate for a pre-funding plan, because, in actuarial terms, it assumes that Town will actually follow through with a funding plan (while the blended discount rate assumes the Town will never complete a funding plan). An even more recent actuarial analysis, done at the end of FY2015, estimates the liability at $129 million assuming a discount rate of 8%.

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

Pre-Funding OPEB

There are two approaches to handling the OPEB liability. Currently, the Town is in the early phase of a transition away from a *pay-as-you-go* model where annual OPEB expenses are paid entirely through the operating budget. This model uses current dollars to pay for current expenses related to benefits earned in previous years. The Town's pay-as-you-go OPEB cost for FY2015 was $6.7 million.

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

Under the pre-funded model (ignoring the unfunded liability for now), the amount that would have been appropriated into the trust fund for FY2013 was approximately $1.7 million. This amount is referred to in the actuarial analysis as the "Normal Cost." The Normal Cost is an actuarially determined annual contribution that would fund the Town's share of future retiree benefits earned by active employees in the current fiscal year. The more recent analysis done for FY2015 gives a Normal Cost for that fiscal year of about $3.8 million (assuming an 8% discount rate).

Until the Town fully funds its OPEB liability, moving toward the pre-funded model will require the Town to continue paying for annual pay-as-you-go OPEB expenses, while also appropriating funds into the PEIL

Fund. Both types of payments reduce the OPEB liability. This combination of appropriations would continue until the PEIL Fund is fully funded, i.e., when the cost of all benefits earned in previous years is 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 significantly 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 is more expensive, but eventually results in lower annual appropriations from the operating budget.

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 for in the current year.

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

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

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

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

The Committee supports this policy.

<u>History of appropriations into the PEIL Fund</u>

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 (proposed)