APPROPRIATION COMMITTEE

TOWN OF LEXINGTON

REPORT TO THE

2016 ANNUAL TOWN MEETING

&

SPECIAL TOWN MEETINGS 2016-2, 2016-3

Released March 21, 2016

APPROPRIATION COMMITTEE MEMBERS

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

Contents

Summary of Warrant Article Recommendations

Abbreviations

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

Special Town Meeting 2016-2

Article	Title	Funds Requested	Funding Source	Committee Recommendation
2	Land Purchase – 20 Pelham Road	Unknown	GF Debt	**Pending**

Special Town Meeting 2016-3

Article	Title	Funds Requested	Funding Source	Committee Recommendation
2	Appropriate for Middle Schools – Additions and Remodeling	$62,196,247	GF Debt (excluded debt)	**Approve (9-0)**
3	PEG Access and Cable Related Fund Acceptance	None	N/A	**IP**

2016 Annual Town Meeting

Article	Title	Funds Requested	Funding Source	Committee Recommendation
4	Appropriate FY2017 Operating Budget	$198,63,731	*See motion*	**Approve (7-0)**
5	Appropriate FY2017 Enterprise Funds Budgets	$21,707,817	*See below*	**Approve (7-0)**
6	Appropriate for Senior Service Program	$30,000	GF	**Approve (7-0)**
7	Establish and Continue Departmental Revolving Funds and Special Revenue Fund	*See below*	RF	**Approve (7-0)**
8	Appropriate the FY2017 Community Preservation Committee Operating Budget and CPA Projects	$4,838,365	CPF	**8(c) Disapprove (3-6); 8(l) Pending; 8(a-b, d-k, m-q) Approve (9-0)**
9	Appropriate for Recreation Capital Projects	$65,000	Recreation EF	**Approve (7-0)**
10	Appropriate for Municipal Capital Projects and Equipment	*See below*	*See below*	**10(a) Pending; 10(b-s) Approve (9-0)**

Article	Title	Funds Requested	Funding Source	Committee Recommendation
11	Appropriate for Water System Improvements	*None*	*N/A*	**IP**
12	Appropriate for Wastewater System Improvements	$1,800,000	*See below*	**Approve (7-0)**
13	Appropriate for School Capital Projects and Equipment	$1,384,087	*See below*	**Approve (7-0)**
14	Appropriate for School Zone Traffic Calming	None	N/A	**Refer to Committee**
15	Appropriate for Public Facilities Capital Projects	$1,878,249	*See Below*	**15(g,h) IP; 15(a-f, i-p) Approve (9-0)**
16	Appropriate for Advice and Analysis – Getting to Net Zero	$40,000	GF	**Approve (7-1-1)**
18	Appropriate to Post Employment Insurance Liability Fund	$1,512,318	GF	**Approve (9-0)**
19	Appropriate Bonds and Notes Premiums	None	N/A	**IP**
20	Rescind Prior Borrowing Authorizations	None	N/A	**Approve (6-0)**
21	Establish and Appropriate To and From Specified Stabilization Funds	$5,112,434	Free Cash	**Approve (6-0)**
22	Appropriate to Stabilization Fund	None	N/A	**IP**
23	Appropriate from Debt Service Stabilization Fund	$124,057	DSSF	**Approve (9-0)**
24	Appropriate for Prior Years' Unpaid Bills	None	N/A	**IP**
25	Amend FY2016 Operating, Enterprise and CPA Budgets	Unknown	Unknown	**Pending**
26	Appropriate for Authorized Capital Improvements	Unknown	Unknown	**Pending**
27	Establish Qualifications for Tax Deferrals	None	N/A	**Approve (7-0)**
28	Accept Chapter 59, Section 2D of the MGL	None	N/A	**IP**
31	Amend General Bylaws – Contracts and Deeds	None	N/A	**Pending**
40	Amend Zoning Bylaw – Accessory Apartments	None	N/A	**Disapprove (1-5-1)**
41	Amend Zoning Bylaw – Gross Floor Area	None	N/A	**None**
42	Amend Zoning Bylaw – Two-Family Homes	None	N/A	**Disapprove (1-6)**

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 2017 Recommended Budget & Financing Plan*, dated February 29, 2016, 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 2017 School Committee Recommended Budget* (the "Gray Book") dated February 2, 2016, which details the budget plans for the Lexington Public School System. `http://lps.lexingtonma.org/Page/7718`
- Capital Expenditures Committee (CEC) *Report to the 2016 Annual Town Meeting,* which provides a detailed report on appropriation requests for capital projects.
- Community Preservation Committee (CPC) *Report to the 2016 Annual Town Meeting.*

Special Town Meetings (STM) are now identified by the calendar year in which they are called, plus a sequence number in the calendar year. Thus, the two meetings addressed in this report are "2016-2" and "2016-3". An STM *article* is identified by appending the article number to the STM identifier, for example "2016-2.2" refers to Article 2 of the second STM in 2016. While this is sufficient to uniquely identify any article, we will typically mention the article title for ease of recall.

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, Rob Addelson; our Budget Officer, Patricia Moore; the Capital Expenditures Committee; the Community Preservation Committee; the School Committee; the Permanent Building Committee; the Planning Board; Superintendent of Schools, Dr. Mary Czajkowski; Interim Director of Finance and Operations, Ian Dailey; and the Board of Selectmen. We thank the municipal and school staff, Town officials, boards and volunteers who have contributed time and expertise to help us prepare this report. Last but not least, we thank Sara Arnold, who records and prepares the minutes for our meetings.

Introduction

The Appropriation Committee is appointed by the Town Moderator and serves as an advisory group to the elected members of Town Meeting. The Committee is required by Town bylaw to present its recommendations to Town Meeting prior to any vote with a financial impact on the Town. This report summarizes the Committee's deliberations and analyses 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, 2016, a week prior to the session when financial articles are anticipated to be taken up in Town Meeting.

Due to the scheduling of Special Town Meeting 2016-3, a portion of this report was released on Monday, March 14, 2016, one week prior to the start of debate on Article 2016-3.2 "Appropriate for Middle Schools – Additions and Remodeling".

This report also contains a section for Article 2016-2.2: "Land Purchase – 20 Pelham Road". Special Town Meeting 2016-2 was convened on February 22, 2016, and immediately adjourned until March 21, 2016.

Committee Membership

Susan McLeish resigned from the Committee at the end of FY2015. We are grateful for her service. We welcome Kathryn Colburn who joined the Committee at the start of FY2016.

Reserve Fund

The Committee has approved the following Reserve Fund transfers so far during FY2016:

Date	Amount	Description
9-10-2015	$150,000	Cary Memorial Building Renovation
3-10-2016	$26,800	Supplemental funding of 2015 Annual Town Meeting Article 8(l) Reconstruction of Basketball Courts at Marvin and Southerland Parks
	$176,800	**Total Transfers**

As of publication, the remaining balance in the FY2016 Reserve Fund is $723,200.

Developments Since Adoption of the FY2016 Budget

Since the start of FY2016, the Town has called a total of four special town meetings on two dates. Two were called in November 2015, and two more were called in February 2016.

November 2015 Special Town Meeting #1

The November 2015 STM #1 was focused on school capital, and resulted in the appropriation of $5,386,000 under Article 2 (Appropriate for School Facilities Capital Projects). Of that amount, $1,951,000 was designated for design work on renovations at the Clarke and Diamond Middle Schools. In the event that the Massachusetts School Building Authority (MSBA) did not offer state matching funds for Hastings, $520,000 was designated for design work on that building. The remaining $2,915,000 was designated for the purchase and installation of up to six modular classrooms at three elementary schools. These appropriations were all approved.

In the meantime, the MSBA has invited the Town into its funding process for Hastings Elementary. This necessitated a new appropriation by Town Meeting for feasibility and schematic design work in compliance with the MSBA process (see Article 2016-1.3 below). The original $520,000 appropriation for Hastings at the November 2015 STM #1 will be rescinded if it cannot be used for any other valid purpose.

November 2015 Special Town Meeting #2

The November 2015 STM #2 requested $2,500,000 under Article 4 (Appropriate for Water System Improvements). The request was funded using debt under the Water Enterprise Fund. The request was approved and, as a result, there will be no further requests for debt-based appropriations under the Water Enterprise Fund in the FY2017 budget.

Special Town Meeting 2016-1

Article 2016-1.2 (Amend Regional School District Agreement of the Minuteman Regional Vocational School District) was approved, allowing six member communities to exit the Regional District, and paving the way for reconstruction of the Minuteman High School with significant financial support from the MSBA.

Article 2016-1.3 (Appropriate for Hastings School Feasibility Study) was approved. This will fund the feasibility study and schematic design work at Hastings Elementary under the MSBA process. Once the resulting design is approved by the MSBA, a second appropriation will be requested to fund full construction documents and the actual construction. The project cost has been estimated at $60 million, of which approximately $20 million would be eligible for MSBA reimbursement. This estimate assumes a 30-classroom school, and is subject to change based on the MSBA review. We anticipate that a new Hastings Elementary will be ready for occupancy by September 2019.

Special Town Meeting 2016-2

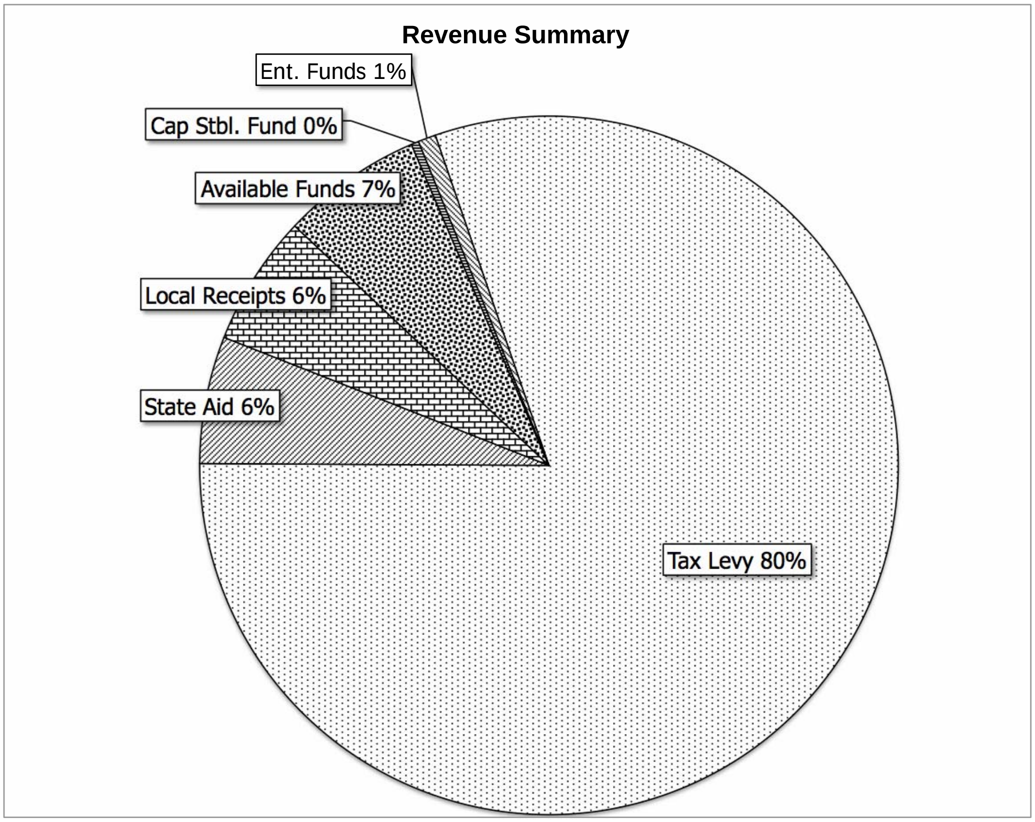
Article 2016-2.2 (Land Purchase – 20 Pelham Road) has not been taken up by Town Meeting due in part to delays in negotiations with the current owners, but also to obtain results from an engineering study considering ways to improve roadway access to the site. On March 21, 2016, Town Meeting will consider a motion from the Selectmen on how to proceed with this article.

School Master Plan

The School Committee, in cooperation with the Superintendent, Town staff and the finance committees, has continued to refine their recommended plan to address the growing enrollment, particularly in the elementary and middle school levels. The plan contains a mix of administrative and physical changes. Major renovations to the two middle schools will add more space while also integrating key maintenance work. Redistricting some students will improve classroom utilization district-wide. Changing the way some educational programs are implemented will reclaim a small amount of additional space.

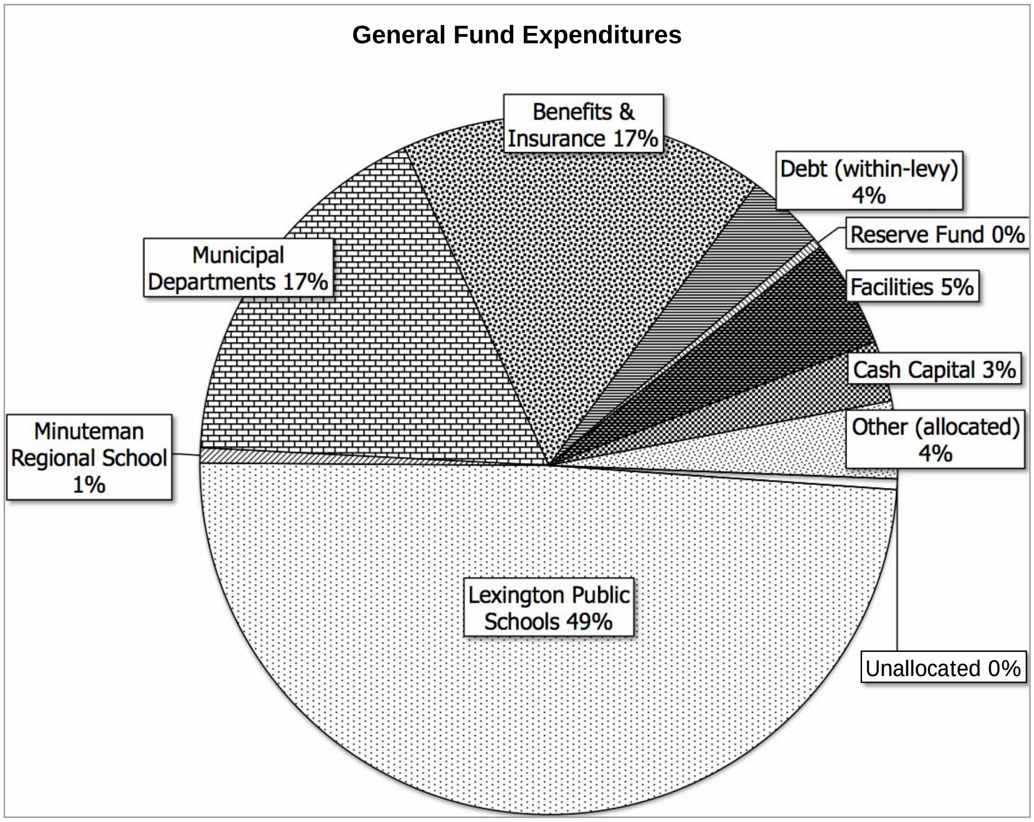
The FY2017 Budget

The Town Manager has proposed a balanced, level-service budget that is not contingent on an operating override. The table and chart below comprise the General Fund budget totaling $198,562,732. This does not include enterprise funds, revolving funds, Community Preservation Act funds, grants, or exempt debt service.



FY2017 Revenue Summary

Tax Levy	$161,138,273	80.4%
State Aid	$11,804,630	5.9%
Local Receipts	$12,130,550	6.0%
Available Funds	$13,093,204	6.5%
Cap Stbl. Fund	$710,000	0.4%
Ent. Funds	$1,629,135	0.8%



FY2016 Municipal Budget Summary

Lexington Public Schools	$97,293,299	49.0%
Minuteman Regional School	$1,396,528	0.7%
Municipal Departments	$34,536,720	17.4%
Benefits & Insurance	$33,607,231	16.9%
Debt (within-levy)	$7,199,028	3.6%
Reserve Fund	$900,000	0.5%
Facilities	$9,984,116	5.0%
Cash Capital	$5,554,789	2.8%
Other (allocated)	$7,107,759	3.6%
Unallocated	$983,261	0.5%

The following table compares the FY2016 operating budget with the proposed FY2017 operating budget.

Program	**FY2016 Appropriated Budget**	**FY2017 Recommended Budget**	**Change $**	**Change %**
Education	$93,233,052	$98,689,827	$5,456,775	5.9%
Shared Expenses	$50,614,515	$51,690,375	$1,075,860	2.1%
Municipal Departments	$33,594,270	$34,536,720	$942,450	2.8%
Subtotal – Operating Budget	**$177,441,838**	**$184,916,922**	**$7,475,085**	**4.2%**
Cash Capital	$4,642,987	$5,554,789	911,802	19.6%
Other *(Approp. to reserves, misc.)*	$10,904,668	$8,091,020	($2,813,647)	-25.8%
Total General Fund	**$192,989,492**	**$198,562,732**	**$5,573,239**	**2.9%**
Projected Revenue	$193,186,829	$198,562,732	$5,375,902	2.8%
Surplus / (Deficit)	$197,337	$0	($197,337)	

As always, the Town crafts its budget using assumptions about how much State funding to expect, primarily in the form of aid under Chapter 70 (schools) and Chapter 90 (roads).

The Committee may update its recommendation on the floor of Town Meeting if new information becomes available.

Special Town Meeting 2016-2
Analysis and Recommendations

The Warrant for Special Town Meeting 2016-2 contains a single financial article. This STM was convened on February 22, 2016 and immediately adjourned to March 21, 2016.

Article 2016-2.2: Land Purchase – 20 Pelham Road		
Funds Requested	Funding Source	Committee Recommendation
Unknown	**GF Debt**	**Pending**

As of publication, the Town was in negotiations with owners of 20 Pelham Road and was not prepared to proceed with this Article.

The Committee has taken no position on this request.

Special Town Meeting 2016-3
Analysis and Recommendations

The Warrant for Special Town Meeting 2016-3 contains two Articles with financial implications for the Town. This Special Town Meeting will allow the Town to proceed quickly with a debt exclusion referendum, and to begin the Middle Schools projects under a schedule that is coordinated with the school year.

Article 2016-3.2: Appropriate for Middle Schools – Additions and Remodeling

Funds Requested	Funding Source	Committee Recommendation
$62,196,247	**GF Debt (excluded debt)**	**Approve (9-0)**

This article seeks Town Meeting authorization to borrow $62,196, 247 to fund renovations and additions to Clarke and Diamond Middle Schools. These projects are the first in an expected series of school construction projects intended to increase school capacity system-wide and thereby help alleviate overcrowding resulting from a recent trend of significant enrollment growth.

A town-wide referendum in the spring of 2016 will request approval of the use of excluded debt to fund the full cost of the middle school renovations. The referendum would also cover previous appropriations totaling approximately $4.5 million in borrowing for design work already in progress (see below).

Responding to Enrollment Growth in Lexington Public Schools

Student enrollment in Lexington Public Schools (LPS) K-12 has increased from 6,114 students in 2009 to 6,866 in the fall of 2015. Growth is occurring at every level, including preschool, and is projected to continue until at least school year 2020-21 (FY2021), when the total student population is projected to reach about 7,478.

In addition to the middle school projects, 6 modular classrooms (funded under Article 2 of the November 2015 Special Town Meeting #1) will be installed at three elementary schools in late 2016, and the MSBA-supported project to build a new Hastings Elementary School is targeted for completion in the fall of 2019.

Future enrollment growth may require additional capital investment for increased elementary school capacity, a new or expanded preschool, and a new or renovated high school.

The Clarke and Diamond Middle School projects will modify existing space and add additional space to accommodate rising student populations. Enrollment at the middle school level has been growing since FY2010, and it is reasonable to assume that the growth will continue for at least a few more years. Thus, LPS projections of the middle school enrollments based on recent history include continuing growth at least through FY2021. The School Committee has chosen a target total capacity for the middle schools of 1,830 students. This number was the midpoint of enrollment projections for FY2020 (school year 2019-20) developed by the Enrollment Working Group in 2014.

Lexington's middle school students are divided into "teams" of students, and each team has dedicated core subject teachers. Presently, the two middle schools together have capacity for 18.5 teams, but contain 19 teams' worth of students, with overcrowding more severe at Clarke. With large classes of sixth-graders coming in the fall of 2016, there is an urgent need for additional space. These construction and renovation projects will create capacity for three additional teams across both middle schools, increasing capacity to 21.5 teams with 86 students per team, or 1849 students.

Clarke Project

The Clarke project will include a 17,400 square foot addition and 21,600 square feet of interior renovations. The project will increase Clarke's capacity from 9 to 10.5 teams, adding 5 general education classrooms, 2 science classrooms, 3 rooms for art, music, drama and engineering, and improved special education space. Site work around the school will provide better separation of cars and buses and will improve student safety. The construction will occur in phases and is expected to be complete by August 2017, when a large enrollment increase is expected. The total estimated project cost for Clarke is $21,675,000.

Diamond Project

The Diamond project will include a 36,000 square foot addition and 44,000 square feet of interior renovations. In conjunction with increased sharing of spaces by teachers, the project will increase Diamond's capacity from 9 to 11 teams. The 6 deteriorating modular classrooms currently in use will be replaced with brick and mortar classrooms in a new wing. The addition and interior renovations will also add 3 science rooms, 3 rooms for art, music, drama, and engineering, and improved special education spaces. The kitchen and cafeteria will be relocated to larger spaces to accommodate current and future enrollment growth. Site work around the school will provide better separation of cars and buses and will improve student safety. In addition, the HVAC system, which has reached the end of its useful life, will be replaced. The current HVAC system provides heat and ventilation capabilities. The new HVAC system will be able to heat or cool the building as well as provide ventilation, depending on the seasonal need. The construction will occur in phases, with classroom work to be completed by August 2017, when a large enrollment increase is expected, and the new cafeteria and site work to be substantially completed in mid-2018. The total estimated project cost for Diamond is $44,940,000.

Although these renovations and additions are not LEED projects, the energy and indoor environmental quality design follow the LEED protocol.

Prior Appropriations Related to Middle School Projects

Plans for building capacity in the Lexington school system began in June 2014, when Town Meeting appropriated $250,000 to hire a consultant to assist the School Department in developing a master plan for school capacity. The School and Public Facilities Departments hired Symmes, Maini, and MacKee Associates (SMMA) and the School Committee formed the Ad Hoc School Master Planning Committee (AHSMPC) to complete the master plan.

In January 2015, SMMA produced its final report, which identified multiple options for building school capacity system-wide. During the budget collaboration/summit process in early 2015, recommendations of SMMA and the AHSMPC were considered and building options were refined further.

At a March, 2015 Special Town Meeting, the School Committee requested an appropriation of $4,080,000 to fund further investigation of these options though concept-confirmation studies, design-development work, and construction documents. $2,467,753 of that appropriation is attributable to design work on the middle schools.

An architecture firm, DiNisco Design Partnership, and project manager/management consultants, Hill International, Inc., were hired. They then worked under the oversight of the middle school principals, LPS administration, community members, the Permanent Building Committee, the finance committees, the Board of Selectmen and the School Committee and completed the design development for Clarke and Diamond by December 2015. Among the many design options considered were (1) those recommended by the AHSMPC and SMMA, (2) building a third middle school and changing the grade configuration to 5-8, and (3) building only at Diamond, but enlarging the addition to accommodate all middle school growth. This process also included cost estimation and value engineering of designs.

At a Special Town Meeting on December 7, 2015, Town Meeting appropriated $5,386,000 for further design and construction work at several schools, of which $1,951,000 has been used to develop construction documents for the Clarke and Diamond projects.

Pursuant to a request made by the Chairman of the Permanent Building Committee, consultants from Hill International who had not previously worked on the Lexington projects were hired in January 2015 to conduct a peer review of the Clarke and Diamond designs. The purpose of the review was to test whether the DiNisco designs met capacity goals, satisfied the requirements of the schools' educational programs and were cost-effective compared to other design alternatives. Although Hill identified two alternative design options at Clarke, it was determined that they would not meet educational needs as well as the original design. No design changes were recommended as a result of the peer review process.

The current requested appropriation of $62,196,247 will fund the Clarke and Diamond projects to completion. The following table summarizes past and current appropriation requests for the middle school projects:

Project Component	**Appropriation**	**Date of Appropriation**
Schematic Design/Design Development	$2,467,753	March, 2015
Construction Documents	$1,951,000	December, 2015
Construction	$62,196,247	Requested at STM 2016-3
TOTAL	**$66,615,000**	

<u>Financing With Excluded Debt</u>

Because of the school year calendar, and the need for a debt exclusion referendum to finance the majority of this project, work on the middle school project will be split into two phases.

The first phase, estimated to cost $4,104,940, will fund renovations that must be completed during the summer of 2016 in order to guarantee adequate space for students arriving in the fall of 2016. The second, more significant phase, estimated to cost $58,091,307, will be completed after the fall of 2016.

Debt service for all the appropriations listed in the table above will be part of a debt exclusion question presented to the voters this spring, but the contract for the first phase of renovations must be signed by the first week of April, before the debt exclusion vote, in order to maintain the targeted occupancy dates. The Town cannot execute a contract without guaranteed funding, so the Town is prepared to fund this initial phase using within-levy debt if necessary. The work associated with the second phase of the appropriation will proceed only if the voters approve a debt exclusion.

This debt exclusion referendum question will not be limited to a dollar amount. Consistent with state law, it will seek approval to finance the complete costs of this project with excluded debt, thus allowing some leeway for further Town Meeting appropriations in the event of unanticipated cost overruns.

<u>History of Debt Exclusions in Lexington</u>

A table with a complete history of prior debt exclusions, amounts, and dates is in the Brown Book (Fiscal Year 2017 Recommended Budget & Financing Plan, February 29, 2016, page ix). The most recent debt exclusion, for the new Estabrook School and renovations at the Bridge and Bowman Schools, was approved in 2012. The largest previous amount covered by a debt exclusion, $52,235,000, was approved in the year 2000 for renovations at the High School and the two middle schools. The present middle school projects would be somewhat larger in absolute dollar amounts, but not when corrected for inflation ($52 million is 2000 would be worth approximately $71.5 million in 2016).

<u>Property Tax Impacts</u>

If, as anticipated, the debt service for these projects is excluded from the limits imposed by Proposition 2½, local property tax bills will be augmented for the duration of the debt service, in this case about 30 years. The debt service comprises both principal and interest payments, with level payments of principal and a declining interest component as the principal is retired.

Assuming that $66,000,000 is borrowed with a 30-year pay-down schedule, then $2,200,000 would be due annually for principal. The size of the interest payments depends not only upon the amount of principal outstanding but also upon the interest rate of the borrowing. Conservatively assuming a rate of 4%, the first full interest payment would be about $2,640,000. The interest payments would then decline linearly to zero over the term of the bonds. The total of principal and interest due in the peak year would be about $4,800,000.

With these assumptions, the tax bill impact on the owner of a residence of average assessed value would be an amount in the range of $350 to $400 in the peak impact year. After the peak year, which will be within a few years of project commencement, the impact would decline to roughly $200 in the last year of full principal and interest payments. It is expected that funds from the Capital Stabilization Fund will be applied to mitigate the impact on taxpayers for some portion of the debt service during the peak years.

Committee Comment

The Appropriation Committee supports this request. Committee members are cognizant of the taxpayer impact, particularly in light of other expensive capacity-building projects that are needed at the elementary and high school levels, but are satisfied that appropriate efforts have been made by the School Department and the Public Facilities Department to reduce project costs as much as practicable. Consultants have considered many design alternatives suggested by other boards and committees, undertaken a value engineering process, and subjected the designs to peer review, while remaining on schedule to have new capacity available by the fall of 2017, when enrollment is expected to rise significantly.

The Committee recognizes that if these projects do not move forward, the overcrowding that exists now will become much worse. According to the Superintendent and middle school administrators, class and team sizes would continue to rise, core spaces would become even more compressed, specialist spaces could be sacrificed, and more students could be sent out of district for special education. These conditions would likely result in an unacceptable degradation of educational quality.

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

Article 2016-3.3: PEG Access and Cable Related Fund Acceptance

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

The inclusion of this Article on the Special Town Meeting warrant was motivated by recent changes in State finance regulations that would have required the Town to modify the accounting method used for monies collected by the Town from local cable franchises. These funds are primarily used to pay for services from LexMedia, which provides access to local cable channels and video recording and broadcast for many boards and committees in the Town.

The State has since indicated that the accounting changes may be unnecessary. Therefore, the Town has chosen to defer implementing any changes.

The Committee anticipates that this Article will be indefinitely postponed.

2016 Annual Town Meeting
Analysis and Recommendations

The Warrant for the 2016 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 FY2017 Operating Budget

Funds Requested	Funding Source	Committee Recommendation
$198,63,731	***See motion***	**Approve (7-0)**

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

Each major section of this request is discussed separately below.

Program 1100: Lexington Public Schools	**Funds Requested**	**Funding Source**
	$97,727,216	*See Motion*

Overview

The School Committee has voted to recommend an appropriation of $97,727,216 for school operating expenses for fiscal year 2017. This amount includes $433,917 from the schools' portion of the revenue allocation that will be appropriated within lines under Shared Expenses for the purposes of health insurance, Medicare, and workers' compensation for new positions. The request represents an increase of $5,666,900 or 6.16% above the FY2016 appropriation (5.68% if benefits costs are not included). The primary drivers of the FY2017 increase include contractual requirements (1.51%) such as collective bargaining agreements, legal requirements for special education and transportation services (2.21%), enrollment increases (1.69%), and programmatic improvements (0.27%).

Salaries and Wages

In the FY2017 request, there are increases in salaries and wages of $3,158,073 (4.02% over FY2016) for the addition of 30.00 full time equivalent (FTE) positions. The additional 30.00 FTE positions address a variety of needs: 5.4 FTE positions are associated with legally-mandated special education requirements; 23.49 of the additional FTEs are intended to sustain the current level of service amid rising enrollment and include teachers, paraprofessionals, school support personnel, finance and business positions, a new Special Assistant to the Superintendent, and a transportation support position; 1.95 FTEs represent program improvements, including a 0.25 FTE world language coordinator, who is charged with developing a plan for re-instituting an elementary foreign language program; and 0.85 FTE was removed from the budget as a result of base changes such as eliminated positions, reallocation of positions, corrections, etc.

The School Department has stated that from FY2014 to FY2016, every 1% increase in student enrollment required hiring 14.25 additional FTEs. Enrollment is projected to increase by 2.1% (149 students) in FY2017, so the current request for 30 FTEs is in line with this recent pattern. The expected enrollment growth in FY2017 is greater than the average growth of 1.7% experienced over the past five years, however. The latest projections developed by the School Department, using methods developed by the Enrollment Working Group, show enrollment growth continuing at least through FY2021 at an average rate of 1.8% per year, which will continue to put pressure on the operating budget. This enrollment growth is also driving significant school capital projects that are needed to alleviate the overcrowding occurring at every grade level.

Expenses

Expenses in FY2017 are budgeted to increase by $2,074,909, or 15.45%. A significant portion of the increase, $1,122,806, is budgeted for special education out-of-district tuitions. The out-of-district tuitions budget includes an amount held in reserve for students at high risk of needing out-of-district placement. This "High Risk Category" was reduced by 50% in FY2016 to match prior years' actual expenditures, though the School Department has stated that FY2015 final expenses were not yet available at the time. Because actual high-risk out-of-district tuition payments have exceeded the 50% level in FY2016, the FY2017 budget includes a reinstatement of the High Risk Category at the 100% level. The School Department has stated that its budgeting practices regarding tuition have improved and support this adjustment, and that spending will be monitored closely for future budgets.

The total FY2017 budget for special education out-of-district tuition is $10,062,292, which is offset by funds received through the state Circuit Breaker Reimbursement (discussed below), expected to be $3,306,288 in FY2017, and LABBB credits of $250,000. Therefore, the total adjusted budget for out-of-district tuitions is $6,506,004.

Transportation expenses are budgeted to increase by $640,284. Rising enrollments, increased bus ridership, and increased contracted rates account for $392,043 of the increase. Special education transportation expenses are budgeted to increase by $224,121 due to expanded needs for in-district programs, additional out-of-district placements, and expected rate increases. The McKinney-Vento portion of the transportation budget, whereby school transportation is provided to homeless students, has nearly doubled from $25,000 in FY2016 to $49,120 in FY2017, despite our population of homeless students decreasing from 31 to 7. The reason for this counterintuitive increase is that more of these students will require the use of vans in FY2017, which are more expensive per student than the regular school buses that were mostly used in the past.

Other expense increases related to enrollment growth include $35,000 for a consultant to advise on developing a redistricting strategy to address increasing enrollment, a $127,317 increase in expenses due to a 1.8% COLA adjustment and rising enrollment, and $2,000 for increased translation services in grades K-12.

Expenses due to program improvements total $134,515, and include $80,725 in increases to the per pupil rate provided to elementary principals for supplies, $17,915 to purchase software used to schedule middle school students into pilot intervention and extension blocks, $18,600 to develop a compost hauling proposal to manage new compostable cafeteria trays, and $15,275 to increase financial assistance for field trips.

One-time expenses include $76,450 for literacy professional development for K-5 teachers, $80,000 for year 3 of 3 of adopting new math textbooks in grades 6-8, and $14,364 for year 4 of the K-12 Guidance Program Review.

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 FY2017, the School Department projects that it will receive $1,931,735 in federal grants, the same amount that was received in FY2016.
- **State Grants** – The Town receives grants from the state to support METCO, School Health, Academic Support, Full-Day Kindergarten, and Special Education Program Improvement. State grants do not include cherry-sheet local aid for education, because local aid is considered to be

General Fund revenue. The School Department projects that it will receive $1,826,336 in state grants in FY2017, the same amount it received in FY2016.

- **"Circuit Breaker" Reimbursements** – Reimbursements are received from the state when the tuition costs of special education services for an individual student, whether in-district or out-of-district, 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.

Since FY2014, the School Department's practice has been to use the prior year's Circuit Breaker reimbursement rate for the next budget year. The School Department projects the FY2017 rate will be the same as the FY2016 reimbursement rate of 73%. With a base of 139 students, the total reimbursement for FY2017 is estimated to be $3,306,288, a 3.74% increase over FY2016. Note that this projection is contingent on the Massachusetts legislature passing a FY2017 budget that funds the equivalent of at least a 73% reimbursement rate. The Governor has proposed funding the Circuit Breaker at the same dollar amount as FY2016, so it is possible that with rising special education costs, the reimbursement rate will be less than 73%. To illustrate the potential impact of a lower rate, the School Department estimates that if the reimbursement rate were 70%, the Town would receive $127,000 less than it would receive at 73%. The School Department is comfortable that it could manage the FY2017 budget at this lower rate, if necessary.

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 fees are anticipated in FY2017, except that the school bus fee for those paying after July 1, 2016 will be increased incrementally based on the full cost per seat in FY2017.

More detailed information about the School Committee recommended budget is available at `http://lps.lexingtonma.org/Page/7718`

Program 1200: Regional Schools	Funds Requested	Funding Source
	$1,377,449	GF

The Minuteman Regional High School (MRHS) Committee has accepted an FY2017 budget of $19,728,097, a $102,906 decrease (-0.52%) from FY2016. The $102,906 decrease is the net effect of a 1.5% decrease in the costs of operations and a 15% increase in capital and debt costs. The FY2017 budget reflects a reduced high school enrollment of 628 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. It is estimated that the transition to the new model will be completed in time for the beginning of school in the fall of 2020 and the occupancy of a new school building.

District Developments

The amended Regional Agreement was finally approved in February 2016 with support from all sixteen member towns. The changes include weighted voting on the school committee based on number of students enrolled; changes to the assessment formulas to smooth out fluctuations in a town's enrollment; and explicit language that ensures non-member towns will be charged for their shares of operating and capital costs. It also included a provision that permits seven member towns to exercise an option to leave the district. Six towns will exercise the option. As of July 1, 2017, Boxborough, Carlisle, Lincoln, Sudbury, Wayland and Weston will no longer be part of the Minuteman District.

The remaining 10 member towns are now poised to take advantage of 44.75% MSBA matching funding for a new school building. The District School Committee has voted to issue the debt necessary to fund the project. If no member towns disapprove of this call for debt issuance by May 26, 2016, the project is cleared to proceed. The total project cost is $144.9 million, though, with $45 million in MSBA reimbursement, the net cost to the district is very nearly $100 million. Lexington's share of the debt service begins in FY2017 and will steadily grow to annual amounts over $500,000 by FY2020.

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 and special education staffing of 7 FTEs, net reduction of administration positions of 1 FTE, a 1 FTE reduction in guidance, and support staff reduction of 2.5 FTE. The school also anticipates further enrollment dependent staff changes may emerge in this current budget cycle. Salaries, which make up 60% of the operating budget, decreased $378,708 (-0.3%).

Changes in transportation expenses for FY2017 include a 9% contract increase that is partially offset by a decrease in student population for an overall net increase of 7.46%. Total health insurance premiums drop due to staff reductions, and assume a 5% individual premium increase. Additionally a $50,000 payment will be made against the District's $17,000,000 Other Post-Employment Benefits (OPEB) liability. Anticipating a new building, infrastructure renewal is limited with an annual capital budget of $160,000. Debt service payments are estimated to more than double to $1,116,951, of which $500,000 may be attributed to the beginning phases of the new building project.

As of October 1, 2015, 635 full-time students were enrolled. Roughly 60% of these students are from in-district towns and 40% are from out-of-district towns. The District School Committee has maintained its earlier position not to accept school choice students at MRHS. Total full-time enrollment decreased by 48 students (7%) consisting of an in-district enrollment decrease of 12 students (-3%) and out-of-district enrollment decrease of 36 students (12.5%). Special education (SPED) students comprise 47.7% of the school's enrollment.

The FY2016 out-of-district tuition, set by the Massachusetts Department of Elementary and Secondary Education (DESE), decreased to $17,556 per student and is estimated to decrease to $16,830 in FY2017. Despite lobbying efforts by MRHS, the state-imposed tuition is determined by a formula, which continues to underfund the district. In addition, out-of-district towns will continue to be assessed for non-resident SPED tuition at $4,500 per student and all transportation costs will continue to be assumed by the sending community.

Revenues and expenses related to postgraduate (PG) programs, including tuition charged to in-district students and those assessed to towns, continue to be managed through a revolving account. This financially isolates these programs from the rest of the school's operating budget. PG enrollments have continued to drop as school enrollment is reduced, and fewer spots are open to PG students.

With the approval of the revised regional agreement by the Commissioner of DESE effective March 11, 2016, FY2017 assessments are calculated under the new assessment formula. Member towns are assessed for the upcoming year based on their most recent 4-year average student enrollment for operating costs. Debt and capital costs are assessed based on 3 factors: the most recent 4 year rolling average, a "combined effort" factor as determined by the Chapter 70 formula, and 1% of the annual debt is assessed equally to all member towns. These assessments are used to fund the portion of this budget that is not funded by the combination of: (1) all other projected revenues, and (2) member towns' State Required Minimum (SRM) per-student payments. This year's assessments are based on an MRHS budget funded with a projected $2,184,747 of Chapter 70 funds and $928,943 in transportation aid. These estimates are based on the Governor's H-1 budget, which indicates modest increases in funding of Chapter 70 aid and transportation aid compared with FY2016. These amounts are preliminary until final approval of the State's FY2017 budget. Total assessments are increasing 0.5%.

The school district maintains an Excess & Deficiency (E&D) account that is similar in function to "Free Cash", i.e., it contains monies received but not expended or encumbered. The balance in the account is certified annually by the Massachusetts Department of Revenue. For this year $825,000 of E&D funds are being applied to reduce the assessments to the member towns; the amount is $680,000 more than was applied last year. This large variation is due to the prior year's E&D being the low point of the eight-year period while the current E&D is the high point of the same period.

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

	Enrollment Basis		Assessment Components	
	FY16 *	**FY17 ****	**FY16**	**FY17**
State-Required Baseline	43	46	$607,512	$673,939
Regular Day Students	41.5	47.8	$441,297	$521,822
Capital	41.5	47.8	$117,176	$174,938
Post-Graduate Programs	2	2	$6,750	$6,750
TOTAL ASSESSMENT			$1,172,735	**$1,377,449**
Annual % increase (decrease)			(5.76%)	17.46%

** enrollment as of October 1 in prior year (old method)*

*** average enrollment over prior 4 years (new method)*

A breakdown of the full assessment is shown above. Lexington's FY2016 enrollment (as of October 1, 2015) was 49.5 full-time regular students in grades 9-12. This is an increase in enrollment of 8 Regular Day students.

Due to the Town's higher enrollment, and a 15% increase in the per-student capital assessment, the preliminary FY2017 assessment for Lexington is $204,713 (17.46%) higher than the FY2016 assessment. Note that the recently approved Minuteman Regional District Agreement revised the formula for calculating a portion of the assessment, and now uses the average enrollment over the prior 4 years.

Program 2000: Shared Expenses	**Funds Requested**	**Funding Source**
	$51,708,675	*See Motion*

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

	FY2016 Restated	**FY2017 Recommended**	**$Change**
Benefits & Insurance	$32,423,749	$33,607,231	$1,183,482
Debt Service	$7,212,135	$7,199,028	$(13,106)
Reserve Fund	$900,000	$900,000	0
Public Facilities	$10,078,631	$10,002,416	$(76,215)
Total	**$50,614,515**	**$51,708,675**	**$1,094,160**

The recommended total Shared Expenses line represents an increase over the FY2016 restated amount by 2.13%.

<u>Employee Benefits and Insurance</u>

The total request for Employee Benefits and Insurance for FY2017 is $23,612,444, which represents a 3.79% increase from the restated FY2016 amount. Retiree health benefits costs for FY2017 are projected to increase by 10.09%, driven by a more accurate projection of the number of retirees who will be under

65 years old and thus not eligible for Medicare supplemental health insurance, and by an increase in the number of retiree subscribers projected to be covered by individual and family plans in FY2017.

The Town and the Public Employees Committee (PEC) have successfully negotiated a three-year successor agreement to remain in the state-administered Group Insurance Commission (GIC) health insurance program through FY 2018. Participation in the GIC program has yielded reduced costs for both the Town and most Town employees. The administrators of the GIC work aggressively to attempt to control the growth of the costs of health care for the covered individuals and families.

Debt Service

The amounts for debt service in the above table do not include those needed for service of exempt debt, because exempt debt service does not need to be appropriated by Town Meeting. For FY2017, the total exempt debt service budget is $9,164,780, about 7.32% above the amount for FY2016. In FY2016, $215,000 of the exempt debt service was covered by a transfer out of the Capital Projects Stabilization Fund. No such transfer is anticipated for FY2017.

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 FY2017 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.

In FY2014, a total of $118,000 in reserve funds was used for supplemental funding of property and liability insurance, and for Patriots' Day security. In FY2015, a total of $289,620 was used to fund Economic Development projects, Board of Health contractual services, LHS Modular Classrooms, and Board of Selectmen legal services.

So far in FY2016, $150,000 in reserve funds has been used for Cary Memorial Building hazardous material remediation, and $26,800 has been used to supplement the appropriation for the 2015 ATM Article 8(l) Reconstruction of Basketball Courts at Marvin and Southerland Parks. The current balance in the Reserve Fund is $723,200.

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 FY2017 projected total Public Facilities operating budget, inclusive of General Fund appropriation requests under this article and of revolving funds, is $10,482,177, which represents a 0.36% decrease from FY2016.

Programs 3000-8000: Municipal	Funds Requested	Funding Source
	$34,536,720	*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 FY2016 to FY2017 of $942,450 or 2.81%. The increase is limited because Town management has tightly controlled the approval of program improvement requests (PIRs) during budget development. Appendix A of the Brown Book (Fiscal Year 2017 Recommended Budget) contains a list of the PIRs that were reviewed and whether each one is recommended for approval by the Board of Selectmen and Town Meeting; the list is not duplicated here.

Municipal Budget Line	FY 2016 Restated	FY2017 Recommended	$ Change	% Change
3000 Public Works	$8,832,668	$9,032,239	$199,571	2.3%
4100 Police	$6,741,405	$6,774,543	$33,138	0.5%
4200 EMS/Fire	$6,379,387	$6,409,755	$30,368	0.5%
5000 Library	$2,374,295	$2,459,653	$85,358	3.6%
6000 Human Services	$1,206,234	$1,205,914	($320)	0.0%
7000 Land Use/Health/Development	$2,129,848	$2,232,642	$102,794	4.8%
8000 General Government	$5,930,432	$6,421,974	$491,542	8.3%

The Committee recommends approval of this request (7-0).

Article 5: Appropriate FY2017 Enterprise Funds Budgets

Funds Requested	Funding Source	Committee Recommendation
$9,890,441 $8,938,082 $2,626,287 $253,007 **$21,707,817**	**Water EF** **Wastewater EF** **Recreation EF** **Tax levy**	**Approve (7-0)**

This Article governs the appropriation of funds for the operation of the Town's three enterprise funds: the Water Enterprise Fund, the Wastewater Enterprise Fund, and the Recreation and Community Programs Enterprise Fund. For an overview of the legal framework and accounting concepts that apply to the operation of an enterprise fund, please refer to Appendix B.

The appropriations addressed in this article cover the complete operating costs of the respective enterprises with the exception of indirect costs, which are appropriated under Article 4. The following discussion will focus on the anticipated expenses and revenues of the enterprise funds for FY2017 and issues they raise. Capital appropriations are addressed in Articles 9 (Recreation Capital), 10 (Municipal Capital) and 12 (Wastewater System Improvements).

Water and Wastewater Enterprise Funds

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

Water Enterprise Fund	FY2015 Actual	FY2016 Appropriated	FY2017 Requested	% Change
Compensation	$593,594	$695,679	$699,218	0.51%
Expenses	$386,371	$389,400	$404,025	3.76%
Debt Service	$1,378,688	$1,344,114	$1,408,576	4.80%
MWRA Assessment	$6,035,893	$6,695,144	$7,378,622	10.21%
Total Requested in Article 5	$8,394,546	$9,124,337	**$9,890,441**	**8.40%**
Indirect Expenses (Article 4)	$789,725	$898,614	$877,411	-2.36%
Total Water Enterprise Budget	$9,183,821	$10,022,951	**$10,767,852**	**7.43%**

Wastewater Enterprise Fund	**FY2015 Actual**	**FY2016 Appropriated**	**FY2017 Requested**	**% Change**
Compensation	$217,497	$296,917	$298,234	0.44%
Expenses	$334,817	$345,650	$347,525	0.54%
Debt Service	$1,199,243	$1,060,456	$981,220	-7.47%
MWRA Assessment	$7,177,387	$6,970,176	$7,311,103	4.89%
Total Requested in Article 5	$8,928,944	$8,673,199	**$8,938,082**	**3.05%**
Indirect Expenses (Article 4)	$465,030	$478,354	$503,898	5.34%
Total Wastewater Enterprise Budget	$9,393,974	$9,151,553	**$9,441,980**	**3.17%**

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

MWRA Assessments. The largest expense components of both the Water and Wastewater Enterprise Fund budgets are the assessments charged by the Massachusetts Water Resources Authority (MWRA), which now represent 70-75% of the total budget for each fund. The Town will be assessed a share of the MWRA's total FY2017 water and sewer budgets based on the Town's proportionate water and sewer usage in the most recent full calendar year (CY2015), compared with other towns in the MWRA community. Based on the MWRA's preliminary assessments,[1] the MWRA rate increases for FY2016 will be as follows

MWRA Assessments

Fund	**FY2016 Appropriated**	**FY2017 Prelim. Assmt.**	**% Change**
Water	$6,695,144	$7,378,622	10.21%
Sewer	6,970,176	$7,311,103	4.89%
Combined	$13,665,320	**$14,689,725**	**7.50%**

Lexington's combined MWRA assessment increase of 7.5% for FY2017 is substantially higher than the MWRA system-wide rate increase of 3.9%. This difference is attributable to another substantial spike in Lexington water usage compared with the rest of the MWRA community in calendar year 2015. The primary cause for that spike was the Town of Bedford's decision temporarily to shut down several Bedford town wells for maintenance following an earlier contamination issue that has been discussed in previous reports of this Committee, requiring it to purchase more MWRA water from Lexington.[2]

[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 enterprise capital improvements. All of these direct costs are increasing at moderate levels or decreasing (see Brown Book, pp. V-27, V-31).

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 at a targeted amount of approximately $1,000,000 for each of the two funds, and indeed more recently to draw some of the funds down for rate relief and capital investment as shown in the table below.

Retained Earnings: Appropriations and Year-End Balances

Annual Town Meeting	2011	2012	2013	2014	2015	2016
Water						
Starting Balance [1]	$1,622,052	$1,952,253	$2,066,566	$2,234,007	$2,119,458	$1,786,659
Approp. for Rate Relief [2]	$650,000	$350,000	$300,000	$250,000	$0	$0
Use of Bedford Surplus			$200,000	$250,000	$275,000	$131,000
Approp. for Capital [3]	$145,100	$25,000	$750,000	$873,500	$1,015,500	$620,500
Projected End Balance [4]	$826,952	$1,577,253	$816,566	$860,507	$903,958	$1,035,159
Wastewater						
Starting Balance [1]	$1,525,612	$1,168,190	$1,319,000	$1,990,816	$2,027,941	$1,032,942
Approp. for Rate Relief [2]	$300,000	$150,000	$100,000	$50,000	$0	$0
Approp. for Capital [3]	$300,000	$0	$200,000	$940,500	$1,390,500	$177,500
Projected End Balance [4]	$925,612	$1,018,190	$1,019,000	$1,000,316	$637,441	$855,422

[1] *Certified retained earnings as of the end of the prior fiscal year (as of 6/30/2015 for this year's ATM).*

[2] *Appropriations from retained earnings to subsidize the next fiscal year's operating budget. An appropriation of $200,000 was originally made from the Water Fund at the 2015 ATM for rate relief in FY2016; however, when it appeared at the fall 2015 rate-setting proceeding that FY2016 rate increases would be minimal even without such planned rate relief, a decision was made*

to net this amount out against an appropriation from retained earnings of a "Bedford surplus" of $275,000. This action was approved at the Special Town Meeting held on November 2, 2015, as described in our report to that STM.

[3] *Proposed appropriations for capital projects for the next fiscal year (FY2017 at this ATM); this year's proposals are found in Articles 10 (Municipal Capital) and Article 15 (Wastewater System Improvements). Also included for FY2017 is an "advance" appropriation of $400,000 from Water Fund retained earnings made under Article 4 at the 11/2/15 STM for repair and replacement of water mains under Massachusetts Avenue in East Lexington.*

[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).*

We are pleased to note that, capitalizing on an opportunity presented at the FY2016 rate-setting proceedings in the fall of 2015, as described in note 2 to the table above, the Selectmen were able to accelerate a gradual process of "weaning off" of annual retained earnings subsidies for rate relief and eliminate such subsidies altogether. Accordingly, this year's budget proposes no retained earnings subsidy for general rate relief for either the water or wastewater fund, though $131,000 will be appropriated from retained earnings to mitigate the effect on FY2017 MWRA water assessments of Bedford's extraordinary water use in calendar year 2015. Elimination of such annual rate relief subsidies will free up retained earnings to be applied instead to capital projects, which should promote long-term rate stability.

Recreational Enterprise Fund

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

The multi-year budget growth of $886,920 (51%) starting from 2015 has been due to the inauguration of the Lexington Community Center (LCC). The FY2016 LCC budget included $383,073 to fund 5.5 full time and seasonal staff to plan, manage and deliver community programs along with the supplies needed.

Recreational Enterprise Fund	**FY2015 Actual**	**FY2016 Approp.**	**FY2017 Requested**	**Dollar Increase**	**% Change**
Compensation	$657,739	$1,127,630	$1,190,742	$63,112	5.6%
Expenses	$981,628	$1,374,201	$1,335,545	$38,656	2.8%
Debt Service	$100,000	$100,000	$100,000	-	0.0%
Total Requested in Article 5	$1,739,367	$2,601,831	**$2,626,287**	**24,556**	**0.9%**
Indirect Expenses (transfer to General Fund)	$233,600	$240,608	$247,826	7,218	3.0%
Total	$1,972,967	$2,842,439	**$2,874,113**	**$31,624**	**1.1%**

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

Debt service costs are unchanged at $100,000.

Other factors contributing to the increase:

- Increases in compensation driven by costs of prospective step increases, cost of living increases and increases in the minimum wage for seasonal employees;
- Increase in compensation for the Department Director to reflect additional responsibility in overseeing the operation of the Community Center;

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

The balance of retained earnings in the Recreation Enterprise Fund at the close of FY2015 was $879,592. A withdrawal of $65,000 from this fund is proposed under Article 9 Recreation Capital Projects.

The Committee recommends approval of this request (7-0).

Article 6: Appropriate for Senior Service Program

Funds Requested	Funding Source	Committee Recommendation
$30,000	**GF**	**Approve (7-0)**

This article proposes an appropriation for the Town's Senior Service Program of $30,000. This amount is a $10,000 increase from the FY2016 request because there is an insufficient carryover balance from prior years to assure that the potential demands of the program in FY2017 can be met. Participation for this fiscal year remains at 23 participants, which will cost approximately $24,000 if the maximum allowable hours are worked and no additional participants join before the end of the year. The program allows rolling admission so the FY2017 request also allows for growth in the program.

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, § SK, to allow it more flexibility in setting the age criteria for participation, the wage rate, and the total amount of credit allowed.

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

Benefits and Criteria for Participation

The maximum amount of the tax reduction that may be earned, under guidelines established by the Selectmen and amended in July 2014, is $1,045/year (110 hours at $9.50 per hour) for an individual and $1,330/year (140 hours at $9.50 per hour) for a two-person household toward their property tax bills. 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. Currently there are no couples in the program and in the history of the program there has just been one couple.

Current income eligibility criteria are set forth in Appendix D.

Funding Requirements and Requested Appropriation

The program operates as a continuing balance account, and unexpended funds 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 state program during the 2004-2006 fiscal years. In anticipation of higher usage, the annual appropriation was subsequently increased over time from $36,000 in FY2007 to $45,000 in FY2010.

This level of funding, however, proved to be more than was required to allow the Town to admit all eligible applicants who wished to participate in the program. 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, a decrease of 33%. Accordingly, appropriation requests have been scaled back since FY2010 to reflect realistic funding requirements and the amount of carryover funds available.

The following table details participation in Lexington's Senior Services Program for FY2012 to FY2016, and the current FY2016 expenditures through December 2015:

Fiscal Year	Number of Participants	Hourly Rate	Cost of Program
2012	32	$8.50	$26,229
2013	28	$8.50	$24,280
2014	26	$9.50	$24,249
2015	23	$9.50	$19,884
2016	23	$9.50	* $4,019

* Reflects actual hours reported and paid through 12/2015 (some workers request payment at the end of the year, so the total hours worked is not reflected here).

The $30,000 appropriation requested for FY2017, together with an anticipated carryover balance from FY2016 of $7,000, would amply cover the cost of continued participation at the current level with some growth in the program.

To encourage greater participation in this worthy program, the Selectmen may wish to consider another wage increase, raising the maximum allowed hours, or relaxing the economic criteria for participants.

The Committee recommends approval of this request (7-0).

Article 7: Establish and Continue Departmental Revolving Funds and Special Revenue Fund

Funds Requested	Funding Source	Committee Recommendation
See below	**RF**	**Approve (7-0)**

This article seeks reauthorization of all existing municipal revolving funds for FY2017 as shown in the table below. Information regarding the nature and purpose of revolving funds can be found in Appendix C of this report.

Fund #	Program or Purpose	Authorized Representative or Board	Departmental Receipts	FY2016 Approved Limit	FY2017 Requested Limit
1100	School Bus Transportation	School Committee	School Bus Fees	$850,000	**$1,050,000**
2400	Building Rental	Public Facilities Dir.	Building Rental Fees	$425,000	**$460,000**
3100	Regional Cache - Hartwell Avenue	Public Works Dir.	User Fees	$20,000	**$10,000**
3320	Tree Fund	Board of Selectmen	Gifts and Fees	$45,000	**$45,000**

Fund #	Program or Purpose	Authorized Representative or Board	Departmental Receipts	FY2016 Approved Limit	FY2017 Requested Limit
3330	DPW Burial Containers	Public Works Dir.	Sales	$40,000	**$40,000**
3420	DPW Compost Operations	Public Works Dir.	Sales and Permits	$520,000	**$615,000**
3420	Minuteman Household Hazardous Waste Program	Public Works Dir.	Fees Paid by Consortium Towns	$180,000	**$180,000**
6120	Council on Aging Programs	Human Services Dir.	Fees and Gifts	$100,000	**$75,000**
7140	Health Programs	Health Dir.	Medicare Reimbursements	$14,000	**$14,000**
7320	Tourism/Liberty Ride	Town Manager and Tourism Committee	Liberty Ride Receipts	$280,000	**$285,000**
7340	Visitor Center	Economic Devel. Dir.	Sales, Program Fees and Donations	$117,000	**$191,000**
8140	PEG Access	Board of Selectmen and Town Manager	License Fees from Cable TV Providers	$565,000	**$500,000**

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 FY2015 and the first half of FY2016 can be found at Appendix C, page C-2, of the Brown Book.

Changes in Authorization Levels from FY2016

The School Bus Transportation Fund limit will be increased by $200,000 to accommodate two potential additional buses, which may be required by expanded ridership and redistricting needs, as well as an increase in rates. This reflects a continuing expansion of the program as three regular buses and two additional after-school buses were added in FY2016.

The Building Rental Fund limit will be increased by $35,000 to reflect an increase in staff and utility costs.

The DPW Compost Operations Fund limit will be increased by $95,000 to reflect increased staffing costs and revenues for disposal of compost tailings.

The Visitor Center Fund limit will be increased by $74,000 to reflect increased staffing and inventory costs, which are supported by increased revenues.

The PEG Access Fund limit will be reduced by $65,000 because the FY2016 budget contained an additional amount for the Cary Wireless Project, which has been completed.

Note that a proposal was made, following the issuance of new guidelines by the Department of Revenue (DOR), to convert the PEG Access Revolving Fund to a special revenue fund; however, after further consultation with the DOR, it was determined that this fund may continue as a revolving fund.

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

The Committee recommends approval of this request (7-0).

Article 8: Appropriate the FY2017 Community Preservation Committee Operating Budget and CPA Projects		
Funds Requested	Funding Source	Committee Recommendation
$4,838,365	**CPF**	**8(c) Disapprove (3-6); 8(l) Pending; 8(a-b, d-k, m-q) Approve (9-0)**

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

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

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

Since Lexington's adoption of the Community Preservation Act in 2006, the CPC has recommended and Town Meeting has approved a total of $60,227,454 for CPA projects. These funds have supported 50 historic preservation projects, preserved 87 acres of open space, created or preserved 27 recreational facilities, and created or supported 254 units of affordable housing. Of this total, $12,610,396 or 21% of the Town's total project costs (exclusive of Administrative expenses) has been received from the State as matching funds.

Funding Sources and CPA Categories

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

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. Receipts for FY2016 from the surcharge and state matching funds are preliminarily estimated at $5 million.

Article 8(a) Munroe Tavern Archaeological Dig – $15,000

Eligible for CPA Funding as Historic Resources.

The Lexington Historical Society plans to add a 25’ x 25’ Munroe Tavern Archives Wing with a full basement to house its archives of over three hundred years of Lexington history. The archaeological dig is part of that larger project estimated to cost $400,000, all of which would be ineligible for CPA funding. State grants and private donations will be secured to fund the archives wing construction. Because of the historic significance of the site, an archaeological dig is required in the basement footprint of the new wing before the construction can begin. The Society is requesting CPA funding for the dig and associated expenses.

Plymouth Archaeological Rediscovery Project (PARP) has been selected to conduct the dig in April 2016, and be completed by early May 2016. It will be conducted as a well-supervised community-involved project with educational opportunities for the public who choose to join in the dig. To enhance the public experience, there will be an on-site exhibit of the archaeological finds from the Hancock-Clarke House dig.

A ground penetrating radar survey of the entire Munroe Tavern site will identify significant features that might suggest future exploration. A completion memo will be submitted to the MHC within one week of the completion of fieldwork so that the project can proceed without delay as the report is written.

The area to be impacted by the proposed construction will measure 20’ x 24’ (6 x 7.5 meters) and the entire area to be impacted should be completely archaeologically excavated, leaving what is essentially an empty, relatively shallow, hole within the impact footprint. The impact area will be gridded off into the one-meter squares that will form the basis of the excavation.

The historic sites in Lexington are of local, state and national significance. Adding an archives wing to Munroe Tavern will permit the Society to provide more adequate care for the town's historic archives and to make them much more accessible to visitors from near and far. A professional archaeological dig that meets state requirements will permit the Society to move forward with this important project.

The preliminary budget for the dig and the ground penetrating radar is $15,000. The proposal from PARP estimates $9,000 for archaeology, and the ground penetrating radar is $1,500. The request for a contingency of $4,500 is included, as the size of the dig may need to be expanded somewhat if the building footprint is larger than anticipated in initial plans.

Article 8(b) Munroe Center for the Arts Window Study – $30,000

Eligible for CPA Funding as Historic Resources.

The Munroe Center for the Arts seeks funds to complete a study of the 117 windows at their facility. The windows are believed to be original to the 110-year-old building and are in poor condition. The air infiltration makes the building uncomfortable in the colder months and decreases the buildings energy efficiency. Additionally, the windows are difficult to operate and many are potentially dangerous. Over one thousand people a year subscribe to programs at the Munroe Center for the Arts, making it a major recreational resource for Town residents.

The proposed engineering study will provide recommendations for the replacement or restoration of the windows, construction documents and cost estimates. The Munroe Center anticipates that additional CPA funds will be requested in FY2018 to complete the replacement or restoration, based on the study’s recommendation.

The Department of Public Facilities would oversee the study.

Article 8(c) Lexington Arts & Crafts Society Parsons Gallery Lighting Renovation – $24,280

Eligible for CPA Funding as Historic Resources.

The lighting system in the Parsons Gallery was installed 40 years ago with an expected service life of approximately 20 years. After 40 years of use, the fixtures are worn, some are electrically unsafe, and a number cannot be aimed or adjusted. The track system that provides power to the lights is failing in some locations.

The Lexington Arts and Crafts Society plans to remove and replace the lighting system in its Parsons Gallery and requests $24,280 in CPA funds to complete the renovation. The Society is also contributing private funds towards the project. The plan is to replace all of the current fixtures and the track system with an LED system designed to deliver light for an art gallery.

The Historic Commission has determined that the society is "significant" in the history, archeology, architecture or culture of the Town of Lexington, as required by the Community Preservation Act, and there is a significant public benefit derived from the grant.

Item	Detail	Cost
Edison Price - Minimax LED fixtures	60	$27,000
Edison Price - lighting track	128 ft.	$1,280
Replacement switches and wiring		$2,000
Labor, remove existing system and install new system		$6,000
Total		**$36,280**

The appropriation request is for $24,280. The remaining funds would come from other sources, including $8,000 in cash and in-kind donations raised by LASC.

The Committee does not feel that it is prudent to use CPA funds for typical maintenance needs of a non-historic component in a building owned by a private organization that is largely supported by membership dues. A majority of the Committee recommends disapproval of this request by a vote of (3-6) against.

Article 8(d)Visitors Center Renovation – IP

The Committee anticipates that this request will be indefinitely postponed.

Article 8(e) Keeler Farm Community Housing Acquisition – $185,000 (or $115,000)

Eligible CPA Funding as Affordable Housing.

LexHAB requested $185,000 to potentially fund the purchase of one unit of affordable housing at the new Keeler Farm development. The unit will be utilized as affordable housing for one family in perpetuity.

LexHAB applied for US Department of Housing and Urban Development HOME funds for this project and expects to receive approximately $70,000 to pay of a portion of the costs. Advertising and selecting renters for CPA funded properties will be in compliance with current State requirements for units to count toward the Town's stock of affordable housing units for Chapter 40B purposes. If HOME funds are received, the request for CPA funds will be reduced accordingly.

Article 8(f) Greeley Village Rear Door and Porch Preservation – $263,000

Eligible for CPA Funding as Affordable Housing.

The Lexington Housing Authority (LHA) requests CPA funds to help finance the preservation of all rear exit doors and porches at Greeley Village. LHA has identified the over 100 failing doors and porches as priority needs and will utilize CPA funds in conjunction with an allocation received from the State. The proposal includes replacement of the dilapidated rear doors with new doors and doorframes. The rear porches would be rehabilitated with new steps and railings. The current doors leak water causing a serious water infiltration issue leading to a deterioration of supportive beams, sagging and warped doors and loss of energy. Concurrently, the rear porches (75 total) leading to the doors are sagging and pose a structural hazard for each building.

If funded, the bid will go out in 2016, and door replacements will be completed by summer 2017.

Other funding sources include $87,750 of State DHCD funding.

Article 8(g) Wright Farm Barn Needs Assessment and Feasibility Study – $35,000

Eligible for CPA Funding as Open Space and Historic Resources.

At the 2015 Annual Town Meeting, voters approved $618,000 to fund the Town's purchase of the remaining parcel of the Wright Farm residential lot. The Town now has an enclosed barn on a portion of land to be incorporated into the previously acquired 12.6 acre conservation parcel of land acquired in 2012, located at 241 Grove Street, the northernmost property in Lexington.

The historic barn is a three-story structure with a shed portion at the rear. In its present state, the historic barn is only suitable for storage, and is already in need of some maintenance, and will continue to deteriorate without maintenance and upkeep. Although it appears structurally sound, it would need significant upgrades to be used as a public space.

This request is for funds to conduct a feasibility study of the barn to determine if it can be utilized as an environmental education facility. The feasibility study would consist of a structural analysis, needs assessment and architectural assessment. As an educational facility the barn could house a number of activities for adults and school aged youngsters. Such programing could put Lexington on the forefront of public environmental education. In addition, maintaining the historic barn it will preserve a piece of Lexington's history as an agricultural village.

We have learned that school field trips for off-site learning opportunities are increasingly difficult to schedule, for reasons of both available time during the school day and associated costs. An in-town environmental and outdoor learning center, potentially open to schools of neighboring towns as well, would allow easy access to three diverse natural environments – open meadows and grassland areas, protected wetland resource areas, and forested areas. A renovated historic barn could add shelter, bathrooms, classroom, and exhibit space. Such a use would ensure continued presence and preservation of an historic barn structure at the northern entrance of the Town. If this is feasible it is an opportunity that the Town should not miss out on.

This is a long-term project considering the actual, physical rehabilitation of the Wright Farm Barn, but the needs assessment and feasibility study could be completed before the end of FY2017.

The budget request is for $35,000

Article 8(h) Antony Park Construction Funds – $60,000

Eligible for CPA Funding as Open Space, Recreation, and Historic Preservation.

The *Lexington-Antony Sister City Association* is dedicated to promoting goodwill, friendship, educational, civic and cultural exchange between the people of Lexington and Antony, France. In 1999, the city of Antony dedicated *Place de Lexington* to celebrate the relationship between our two communities. Place de Lexington is a center island in a public roadway, and it contains a 15-foot tall obelisk bearing a commemorative plaque, surrounded by a garden.

In 2010, the Board of Selectmen authorized the Tourism Committee to design and construct a park to commemorate Antony, France. The selected location is at the far right corner of Tower Park at 1200 Massachusetts Avenue, Lexington.

The project began with a budget of $60,000, which was raised through private contributions.

A portion of these funds was spent for design work, and some initial site preparation was done. The Town worked with the Tourism Committee to install a water line at the site and completed initial grading. Public bids to complete the construction came back much higher than budgeted, so the work could not proceed. In the fall of 2016, trees were donated and planted but they did not survive due to the record-breaking winter weather. Six years after the initial approval, the project is stuck.

The total estimated cost to complete Antony Park is $120,000 including architect fees, irrigation, parts of the waterline, and construction. This amount includes the original $60,000 in private donations. The appropriation request for $60,000 would provide the supplemental funding needed to complete the construction. Efforts to raise more funds through private donations to support this project are still ongoing.

The design of the park includes a sitting wall, pathways, landscaping and a memorial linking the two cities. The park will be an enhancement to Tower Park and be open to all residents and groups visiting Lexington. It will provide gathering space, quiet space and demonstrate the Town's commitment to the sister city program.

Presently DPW mows and string-trims the area as part of Tower Park and this labor is covered in the Park Division Budget. This would continue and the DPW would seek volunteers to maintain the planting beds.

Article 8(i) Minuteman Bikeway Wayfinding Signs Implementation – $120,000

Eligible for CPA funding with a recreation purpose.

The 2015 Annual Town Meeting approved $39,000 to fund the design of wayfinding and etiquette signage relating to the Minuteman Bikeway in Lexington. The current request would fund the purchase and installation of approximately 220 signs containing information on bikeway access and etiquette and nearby attractions. The signage is one of the recommendations in the report entitled *Navigating the Minuteman Bikeway*, completed with the cooperation of the Bicycle Advisory Committee and representatives from the towns of Arlington and Bedford. Those two towns are not ready to install signage within their boarders, but Lexington can proceed. The signage will provide information to users which includes direction on accessing the bikeway, what can be found near the bikeway (e.g. businesses, shops, banks, restaurants, etc.), and describe the rules of bikeway etiquette for users.

The tasks include the purchase and installation of the signs, project oversight and GIS mapping of the signs.

It is anticipated that the signs would have to be replaced every ten years.

The annual maintenance cost is anticipated to be $200 to cover the cost of repairs due to storm damage and/or vandalism.

Article 8(j) Town Pool Renovation Design and Engineering Costs – $166,000

Eligible for CPA funding as recreation.

This request will partially fund Phase III of a multi-phase renovation program to the Irving H. Mabee Pool Complex. Phases I and II (approved in 2010 and 2011) are complete. The current request is for design and engineering documents for the replacement of the existing filtration system, which is past its life expectancy, and additional work required to ensure the successful operation of the pool complex.

The building will have to be enlarged in order to accommodate four new filtration systems. The Main Lap and Diving Pools share a common filter system. The Department of Public Health regulations have changed over the years and replacement of the filtration system now requires each pool to have its own filter. When pools share a common filter, if a situation occurs that warrants closing a pool, all three pools must be closed. Phase III of the project will also include a reconfiguration of the wading pool with the inclusion of new amenities such as water spray features which will help attract families with young children to the facility.

The estimated cost of the construction for Phase III is $1,620,000, based on the Pool Facility Audit completed by Bargmann Hendrie + Archetype, Inc. in February 2008. It was updated in the spring of 2015.

Design and engineering costs are based on 10% and contingency is based on 8%. A request to fund the construction is expected to follow the completion of the design and engineering phase.

Article 8(k) Park Improvements - Hard Court Resurfacing – $61,000

Eligible for CPA funding as recreation.

This request from the Recreation Committee is for design, engineering, and construction funds to rehabilitate the basketball courts at Rindge Park and Kineen's Park. This project will include reconstruction of the courts and installation of new backboards and poles. The program would include resurfacing, painting, and striping the hard-court surfaces. It will also include installation of a bike rack at each site.

Article 8(l) Granite Forest Pocket Park Construction at Lincoln Park – $30,000

Eligible for CPA funding as Open Space and Recreation.

This project proposes construction of a Public Art greenway corridor within Lincoln Park modeled after Thoreau's Path at Sisters Hill in Concord. The project connects the lower park to the upper park with the installation of "The Granite Forest." It is made up of granite benches and will be landscaped with trees and shrubs. It will be located in the meadow between the multipurpose athletic field and the woodland/meadow gardens of Lincoln Park. This is along a high traffic path connecting the high school campus to the upper section of Lincoln Park.

The primary material for the design started with the opportunity to utilize 11 antique granite foundation stones from the Isaac Mulliken House built around 1850 and located at 2013 Massachusetts Ave. This house was being moved and renovated as part of the Inn at Hastings Park project. Mr. and Mrs. Michael Kennealy donated the granite. These 11 pieces of hand carved granite range in size from 5 feet to 11 feet and are a priceless reminder of earlier methods of building. Ultimately, it is the intent to have text carved into the granite adding a layer of ecology, history and poetry art.

The appropriation request of $30,000 would supplement $45,000 in private donations raised by the Lincoln Park Subcommittee.

Article 8(m) Park Improvements -Athletic Fields – $120,000

Eligible for CPA funding as Recreation.

The request would fund renovation of Adams Park Multipurpose Athletic Field, located behind the Waldorf School. Renovations will include laser grading the athletic field, grading for proper drainage and adding permanent park benches. The athletic field is utilized by the Waldorf School and youth organizations and undergoes excessive wear.

This is part of a multi year effort to maintain and renovate town athletic fields. DPW staff hours, equipment and materials costs should decrease with improved field conditions.

Article 8(n) Park and Playground Improvements – $75,000

Eligible for CPA funding as Recreation.

The Recreation Committee requests $75,000 to replace the safety fencing at the Center Recreation Complex along Worthen Road and at the Muzzey Multipurpose Field along Massachusetts Ave. Currently, the fence is falling over and posts are coming out of the ground due to frost heave damage.

The improvements will include removal, disposal, and installation of a new chain link fences at both locations. The project also includes installation of an eight-foot fence next to the baseball and softball fields at the Center Recreation Complex to minimize incidents of balls hitting cars along Worthen Road.

Article 8(o) Grain Mill Alley Design Implementation – $214,114

Eligible for CPA funding as Recreation.

The Grain Mill Alley project will improve the pedestrian and bicycle network in the Center by creating a safe passage and a defined bikeway node that will visually connect to a well-designed passive seating area in the public right of way at Massachusetts Avenue.

The project has been in the planning stages for over five years in consultation with key stakeholders. It has met the concerns of and received the support from:

- Historic District: All materials, location, placement, and plantings are in keeping with the architectural heritage and integrity of the town.
- Lexington Center Committee: Supports this as a way to increase social and cultural activity, enhance aesthetics, improved traffic flow for pedestrians.
- Bicycle Advisory Committee: Supports this as an effort to continue to improve bicycle routes.
- Center Streetscape Project: The project includes streets and sidewalks along Mass. Ave, including this area, and focuses on improving pedestrian safety, accommodating bicycle traffic, and making sidewalks and crosswalks more accessible and safer for people with disabilities. Economic Development has worked with the town engineer and this design has been integrated into the Center Streetscape vision and preliminary plans. There would be no additional cost, the Grain Mill Alley would serve as an accent point and help aesthetically pull the area together.
- The Commission on Disabilities: Supports this project as a means of promoting greater crossing safety for pedestrians and cyclists. Additionally, improving the surface makes is easier for people with mobility devices to safely cross the parking lot area and access the center.
- Douglas House: supports this project because it will make it easier for its residents in wheelchairs to navigate through the parking lot area and access the Center.

The project would even out the ground surface at the bikeway node and add a speed table intended to slow down vehicles that drive through the public parking lot. The work would also improve the lighting, and enhance way-finding to orient people to the Center.

The Board of Selectmen approved the closing off that alley to vehicle traffic five years ago for safety and aesthetic reasons. There is no interference with the fire code.

The redesign improves only the property currently owned by the Town. There remains disagreement among the private owners of that parcel regarding whether to leave it as is. Any future use of that parcel would require a zoning change and at that time, the town and the property owners would resume their discussion. None of the benefits of these improvements are undermined by the absence of full integration of the space between the Bank of America and the Office Condominiums.

Town Meeting approved $18,000 in FY2016 for design development and field-testing concepts of the space; to date, there remains $5,000 in this account. This request includes $20,000 to bring the conceptual designs to 100%, $153,165 for construction, and $45,949 of contingency funding.

The request would appropriate $209,114 in CPA funds. Another $10,000 would come from the Center Stabilization Fund. The previously appropriated $5,000 would complete the funding.

Article 8(p) CPA Debt Service – $3,289,722

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 ATM 2012	$3,072,000	$2,090,000	$410,050 *Debt service ending FY2024*	-
Community Center Acquisition STM 3/2013	$10,950,000	$7,652,500	$1,028,100 *Debt service ending FY2024*	-
Community Center Renovation STM 11/2013, Amended STM 3/2014	$6,320,000	$451,000	$321,829 *Debt service ending FY2020*	-
Cary Memorial Building Upgrades STM 3/2014	$8,677,400	$8,241,350	$1,529,743 *Debt service ending FY2025*	-
Totals			**$3,289,722**	**-**

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

Article 8(q) 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 FY2017 revenue from the surcharge and Sate supplemental match is $269,300. 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 disapproval (3-6) of 8(c).

The Committee has taken no position on 8(l).

The Committee recommends approval (9-0) of 8(a-b, d-k, m-q).

Article 9: Appropriate for Recreation Capital Projects		
Funds Requested	Funding Source	Committee Recommendation
$65,000	**Recreation EF**	**Approve (7-0)**

This request will fund the reconstruction of the 4th putting green, and the men's tee-box on the 8th hole of the Pine Meadows Golf Course. The unfavorable contours on the 4th green have resulted in significant turf injury during the past several winters. Reconstruction of the men's tee-box on the 8th hole (middle tee) would also be funded under this request. The back tee is located in an environmentally sensitive and densely wooded part of the golf course with very little sun.

The Committee recommends approval of this request (7-0).

Article 10: Appropriate for Municipal Capital Projects and Equipment		
Funds Requested	Funding Source	Committee Recommendation
See below	***See below***	**10(a) Pending; 10(b-s) Approve (9-0)**

Financial details of the request are summarized below. For a discussion of the items in this request, please see the Brown Book (relevant pages are cited in the Comments column). The Capital Expenditures Committee Report to the 2016 Annual Town Meeting contains further discussion about these capital requests.

We caution that, as of publication, the details of the request for 10(a) Center Streetscape Improvements were not settled. The Committee has reserved judgment on 10(a) until the Board of Selectmen clarifies their intended motion.

Present Description	**Funds Requested**	**Funding Source**	**Comments**
a. Center Streetscape Improvements	$2,700,000	GF debt	p. XI-5
b. DPW Equipment	$755,000	GF debt Free cash $449,000	p. XI-6; Water fund retained earnings ($145,500), wastewater retained earnings ($145,500)($15,000)
c. Street Improvements and Easements	$3,500,000	Tax levy $2,526,835 Chapter 9C $973,165	p. XI-21-22; Chapter 9C funds ($973,165)
d. Storm Drainage Improvements and NPDES Compliance	$340,000	GF debt	p. XI-6
e. Hydrant Replacement Program	$150,000	Free cash $75,000	p. XI-22; Water enterprise retained earnings ($75,000)
f. Comprehensive Watershed Storm Water Management Implementation	$390,000	GF debt	p. XI-7
g. Massachusetts Avenue – Three Intersections Improvements and Easements	$6,900,000	Free cash $75,000	p. XI-22; State Transportation Improvement Plan (TIP) funding $6,550,000
h. Sidewalk Improvements, Additions, Designs and Easements	$600,000	GF debt	p. XI-7
i. Town-wide Culvert Replacement	$390,000	GF debt	p. XI-8
j. Town-wide Signalization Improvements	$125,000	Free cash	p. XI-23
k. Cary Memorial Library Walkway Replacement	$149,500	GF debt	p. XI-8
l. Pleasant Street Sidewalk and Easements	$175,000	GF debt	p. XI-8
m. Replace Town-wide Phone Systems – Phase V	$21,000	Free cash	p. XI-20
n. Head End Equipment Replacement/Packet Shaper – Phase V	$150,000	Free cash	p. XI-21
o. Election System Upgrade	$81,000	Free cash	p. XI-25

Present Description	Funds Requested	Funding Source	Comments
p. Parking Meter Replacement – Phase 2	$230,265	Parking Meter Fund	p. XI-20
q. Transportation Mitigation	$30,000	Traffic Mitigation SF	p. XI-21
r. Ladder Truck Replacement; and	$875,000	GF debt	p. XI-5
s. Public Safety Radio Stabilization	$90,500	Free cash	p. XI-20

The Committee has taken no position on 10(a).

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

Article 11: Appropriate for Water System Improvements

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

At the November 2015 Special Town Meeting #2 held on November 2, 2015, an appropriation of $2,500,000 was made to repair and replace water mains underlying Massachusetts Avenue in East Lexington. This appropriation was effectively an “advance” on the annual appropriation for water system improvements that normally would have been made at the 2016 Annual Town Meeting for FY2017. The funds were sought ahead of schedule to permit completion of the pipe replacement project before the commencement of major, state-funded roadway work on this portion of Massachusetts Avenue, anticipated to begin as early as the spring of 2017. Accordingly, this article will be indefinitely postponed.

The Committee anticipates that this article will be indefinitely postponed.

Article 12: Appropriate for Wastewater System Improvements

Funds Requested	Funding Source	Committee Recommendation
$1,768,000 $32,000 **$1,800,000**	**Wastewater EF (Debt)** **Wastewater RE**	**Approve (7-0)**

This Article addresses proposed capital expenditures to be made during FY2017 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-11). Capital appropriations for similar purposes have been made in most years (except for FY2006, when engineering studies were not ready, and FY2011, when only pump station upgrades were performed).

The costs of this year’s wastewater system improvements will be funded by a combination of borrowing ($1,768,000) and retained earnings of the Water Enterprise Fund ($32,000). The resulting debt service costs for the portion borrowed will be borne by the operating budget for the Water Enterprise Fund in FY2014 and for an additional ten years until the debt is retired (see Brown Book, p. XI-11, Table III), and will be included each year as a component of the wastewater rates. Part of the funding may come from MWRA grants or loans.

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

Growth in Wastewater Fund Debt Service

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

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. Contributions from retained earnings to fund wastewater system improvements have recently been made in the amounts of: $300,000 in FY2012; $200,000 in FY2014; $900,000 in FY2015; and $1,350,000 in FY2016. 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.

This year, a smaller contribution of only $32,000 from retained earnings is proposed to help fund wastewater system improvements. Note, however, that an additional appropriation of $145,500 in wastewater fund retained earnings (matched by an equal amount from water fund retained earnings) will be requested under Article 10(b) (Municipal Capital) to cover the cost to acquire a rubber tire loader used in water and sewer operations, and 93% of the cost of a Ford F550 pick-up truck with a plow that is used both in water and sewer operations and general town snowplowing operations. 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 (7-0).

Article 13: Appropriate for School Capital Projects and Equipment

Funds Requested	Funding Source	Committee Recommendation
$1,384,087	***See below***	**Approve (7-0)**

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 2016 Annual Town Meeting and the Brown Book pages XI-9,15-16.

Project Description	**Funds Requested**	**Funding Source**	**Committee Recommendation**
(a) System Wide School Furniture, Equipment and Systems	**$186,087**	Free Cash	Approve (9-0)
(b) LPS Technology Capital Request	$427,607 $770,393 **$1,198,000**	GF Debt Free Cash	Approve (9-0)

The Committee recommends approval of this request (7-0).

Article 14: Appropriate for School Zone Traffic Calming

Funds Requested	Funding Source	Committee Recommendation
None	**N/A**	**Refer to Committee**

It is the understanding of the Committee that this Article will not involve a request for an appropriation. The proponent intends to make a motion to submit the proposed school zone traffic-calming project to the Transportation Safety Group (TSG), a Town Manager–appointed working group, for consideration. If the TSG decides to move forward with the project, it may use funds requested under Article 10(q) "Transportation Mitigation." Those funds are typically not appropriated for specific purposes, but are used throughout the year to fund projects brought forward by citizens and approved by the TSG.

As of publication, the Committee does not anticipate any request for an additional appropriation.

The Committee has taken no position on this article.

Article 15: Appropriate for Public Facilities Capital Projects

Funds Requested	Funding Source	Committee Recommendation
$1,878,249	***See Below***	**15(g,h) IP; 15(a-f, i-p) 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) Town-Wide Roofing Program	$176,400	GF Debt	Approve (9-0)
(b) School Building Envelopes and System Program	$215,000	Free Cash	Approve (9-0)
(c) LHS Heating System Upgrade - Design	$500,000	GF Debt (Exempt)	Approve (9-0)

Project Description	Funds Requested	Funding Source	Committee Recommendation
(d) Municipal Building Envelope and Systems	$187,329	Tax Levy	Approve (9-0)
(e) Building Flooring Program	$150,000	Free Cash	Approve (9-0)
(f) Public Facilities Bid Documents	$100,000	Free Cash	Approve (9-0)
(g) Diamond Middle School Renovations - Construction	*None*	*N/A*	IP
(h) Clarke Middle School Renovations - Construction	*None*	*N/A*	IP
(i) School Traffic Safety Improvements	$25,000	Free Cash	Approve (9-0)
(j) Security Camera Upgrade to Digital from Analog	$49,500	Free Cash	Approve (9-0)
(k) Munroe School Roof	$298,000	GF Debt financed with Tenant Lease Revenue	Approve (9-0)
(l) LHS Security Evaluation and Upgrade	$25,000	Free Cash	Approve (9-0)
(m) LHS Guidance Space Mining - Design	$13,800	Free Cash	Approve (9-0)
(n) LHS Nurse Office and Treatment Space - Design	$17,000	Free Cash	Approve (9-0)
(o) LHS Fitness Center/Athletic Training Floor	$41,220	Free Cash	Approve (9-0)
(p) Fire Headquarters Exercise Room	$80,000	Tax Levy	Approve (9-0)

The request under Art. 15(a) for $176,400 will cover work to stop water infiltration in the Central Administration building, with a specific focus on the front A-frame roof. Over the next few years, there are likely to be additional requests for funds for town-wide roof maintenance or replacement projects. The anticipated projects include:

1. Repair or replacement for the LHS Field House roof in FY2018 with a projected cost of $433,200;
2. Repair or replacement for the Central Administration building and the Diamond middle school building roofs in FY2019; and
3. Later work on the Bridge School and the Lexington High School roofs.

The total cost of the requests for FY2017 through FY2021 is projected to be approximately $7.7 million.

The middle school projects, Art. 15(g) and 15(h), were included in the warrant before STM 2016-3 was planned in detail. Since the appropriations for those projects will be requested under Article 2 of Special Town Meeting 2016-3, the Committee anticipates that these subsections will be indefinitely postponed.

The request regarding the Munroe School roof under Article 15(k) will be funded by General Fund debt issued by the Town, to be reimbursed through tenant lease payments.

For further discussion of other items in this request, please see the report of the Capital Expenditures Committee and the Brown Book.

The Committee anticipates that 15(g) and 15(h) will be indefinitely postponed.

The Committee recommends approval (9-0) of 15(a-f, i-p).

Article 16: Appropriate for Advice and Analysis – Getting to Net Zero		
Funds Requested	Funding Source	Committee Recommendation
$40,000	**GF**	**Approve (7-1-1)**

Background

This article was put forward by the Sustainable Lexington Committee to obtain funding for a Net Zero Task Force that will explore ways to achieve the goal of "Net Zero" energy use in buildings in the Town. A Net Zero building, is "a building with zero net energy consumption, meaning the total amount of energy used by the building on an annual basis is roughly equal to the amount of renewable energy created on the site or in other definitions by renewable energy sources elsewhere."[3] The Lexington Net Zero Task Force would apply the concept to the buildings in Lexington collectively rather than to each building individually. In turn, this goal would help reduce the emission of greenhouse gases associated with life and work in Lexington.

The Task Force will be comprised of Town staff, a professional meeting moderator, subject matter experts, members of the Sustainable Lexington Committee, representatives from other Town committees, residents, commercial landlords, and business owners.

The City of Cambridge has recently published a Net Zero action plan, which will serve as a starting template for the effort. Cambridge's plan has four components: Report, Reduce, Produce, and Purchase:

- Reporting current greenhouse gas emissions in the built environment
- Reducing energy use in new and existing building
- Producing renewable energy, both on and off site
- Purchasing renewable energy

As of now, no long-term cost estimate has been made available for the Cambridge Net Zero project, but it is expected that cost estimates will be released as each tasks is initiated.

Discussion

The list above would provide a blueprint for Lexington's Task Force. Many subtasks of the four components (Report, Reduce, Produce, and Purchase) are already being implemented in Lexington by residents, business owners, and by the Town. Bringing the effort under the umbrella of a Net Zero task force will serve to:

- Concentrate disparate efforts.
- Define policy changes that the Town can adopt to ease or accelerate implementation.
- Improve cost transparency for Net Zero policies.
- Track overall progress towards the Net Zero goal.

This project is intended to generate new policies and approaches to the construction, operation, and maintenance of buildings in the Town. To accomplish this, the Net Zero Task Force foresees spending a total of $100,000 over two years, with an initial expenditure of $40,000 in FY2017. The expenditures would fund 1) an energy use modeling company that would create a model of present-day energy use in Lexington buildings that would serve as a baseline, 2) services of a professional meeting facilitator who would chair Task Force meetings, and 3) consulting services from energy use reduction experts.

The expectation is that a large reduction in emissions would result from reductions in on-site energy use and from conversion to reliance on electric power from renewable sources for the energy that is used on

[3] Quotation from `https://en.wikipedia.org/wiki/Zero-energy_building`

site. Energy use reductions could be accomplished through better insulation, more efficient heating, lighting, and ventilation equipment, use of energy recovery systems, and other methods.

We cannot estimate the long-term costs of the project before the NetZero Task Force completes its initial analysis. Significant appropriations for the implementation of new policies may be requested in the future. Of course, any funding requests will have to be prioritized and carefully considered.

Given the great magnitude of the implications of climate change from greenhouse gas emissions, the investigation of methods of reducing emissions from buildings in Lexington is timely and potentially very important.

The Committee recommends approval of this request (7-1-1).

Article 18: Appropriate to Post Employment Insurance Liability Fund

Funds Requested	Funding Source	Committee Recommendation
$1,512,318	**GF**	**Approve (6-0)**

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

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

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

The request is approximately 85% of the maximum amount recommended by the Selectmen's policy for the annual appropriation to the PEIL Fund. If approved, this appropriation would increase the balance of the PEIL Fund from the current balance, reported at $6,978,443 as of December 31, 2015, to approximately $8.5 million.

Payments for health benefits of current retirees in FY2017 will also affect the Town's unfunded liability. The combination of the appropriation into the PEIL requested here, which increase the funding level, and payments to retirees, which lower the funding requirement, will improve the Town's OPEB funding ratio to approximately 10%. The next actuarial analysis of the OPEB liability for the Town will cover the period ending June 30, 2017, at 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 $1,200,000 from the Health Insurance Claims Fund to pay for annual health insurance costs. This frees up a matching amount in the General Fund for this request, or other potential uses. The remaining $312,318 is from Free Cash, but reflects the amount the Town received in Medicare Part D reimbursements from the federal government, which has been directed into the PEIL Fund for the past several years.

The Committee recommends approval of this request (6-0).

Article 19: Appropriate Bonds and Notes Premiums

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

This Article is routinely included in the Warrant for the Annual Town Meeting in the event that premiums are received as a result of issuing bonds. These premiums can be appropriated for project costs and will also rescind the bonding authorization for the same amounts. Doing so will not increase or decrease costs for the associated project. As of publication, the Town has not received any bond premiums that can be appropriated for project costs.

The Committee anticipates that this article will be indefinitely postponed.

Article 20: Rescind Prior Borrowing Authorizations

Funds Requested	Funding Source	Committee Recommendation
None	***N/A***	**Approve (6-0)**

State law requires that Town Meeting vote to rescind the unissued portions of borrowing authorizations (appropriations funded by debt) that are no longer required for the purpose stated in the authorization. Rescinding these authorizations is the final bookkeeping task for all debt-based appropriations. 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 on the Town.

Town Meeting	Article	Description	Amount
2012 ATM	12(d)	Culvert Replacement	$28,000
November 19, 2012 STM	6	Estabrook Construction Supplemental	$2,600,000
2013 ATM	10(l)	DPW Equipment	$83,365
2014 ATM	10(b)	DPW Equipment	$27,022
2014 ATM	10(m)	Ambulance Replacement	$21,789
March 13, 2015 STM #2	3	Fire Engine	$20,335
2015 ATM	18(b)	Middle School Circulation & Parking Improvements	$363,000

The next table lists unexpended balances of bond proceeds for projects that are completed. These funds were borrowed, but the projects are complete and the remaining funds are available for re-appropriation to finance capital projects.

Bond	Description	Available for Re-Appropriation
2010-12A	Replace Self-Contained Breathing Apparatus	$122
2012-12D	Culvert Repairs	$1,288
2012-16K	LHS Overcrowding	$778
2013-10L	DPW Equipment	$25,100
	TOTAL	$27,288

These unused funds will be appropriated in the motion for Article 15(p) Fire Headquarters Exercise Room. Their application to that article will free up tax levy funds that will be applied to "Unallocated".

The Committee recommends approval of this request (6-0).

Article 21: Establish and Appropriate To and From Specified Stabilization Funds

Funds Requested	Funding Source	Committee Recommendation
$3,100,000 $2,012,434 **$5,112,434**	**General Fund Tax Levy**	**Approve (6-0)**

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:

Specified Stabilization Fund	**Current Balance**	**Amount Deposited**	**Amount Withdrawn**	**Warrant Article**
Avalon Bay School Enrollment Mitigation Fund	$45	$0	$0	–
Center Improvement District S.F.	$86,666	$0	$0	–
Debt Service S.F.	893,379	$0	$124,057	Art. 23
School Bus Transportation S.F.	$18	$0	$0	–
Section 135 Zoning S.F.	$0	$0	$0	–
Special Education S.F.	$1,075,612	$0	$0	–
Traffic Mitigation S.F.	$69,129	$0	$30,000	Art. 10(q)
Transportation Demand Management S.F.	$147,220	$0	$137,000	Art. 4
Transportation Management Overlay District S.F.	$98,139	$0	$0	–
Capital S.F.	$16,687,470	$5,112,434	$710,000	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. This motion will extend 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 ($91,600) and the Rev Shuttle ($46,000). The Rev Shuttle is a bus that 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 $5,112,434 into the *Capital Stabilization Fund*. The motion under Article 4 will appropriate $710,000 out of that fund to offset within-levy debt service payments for the Lexington High School modular additions.

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 (6-0).

Article 22: Appropriate to Stabilization Fund

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

As of publication the Selectmen had made no recommendation for appropriation to the Stabilization Fund. We support this decision as a part of the recommended budget and therefore we support the anticipated indefinite postponement of this article. A fund history can be found in the appendices of the Town Manager's *FY2017 Recommended Budget & Financing Plan*.

The Committee anticipates that this Article will be indefinitely postponed.

Article 23: Appropriate from Debt Service Stabilization Fund

Funds Requested	Funding Source	Committee Recommendation
$124,057	**DSSF**	**Approve (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 24: Appropriate for Prior Years' Unpaid Bills		
Funds Requested	Funding Source	Committee Recommendation
None	***N/A***	**IP**

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

The Committee anticipates that this article will be indefinitely postponed.

Article 25: Amend FY2016 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 request.

Article 26: 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 27: Establish Qualifications for Tax Deferrals		
Funds Requested	Funding Source	Committee Recommendation
None	***N/A***	**Approve (7-0)**

This article proposes to raise the income threshold for participation in the Town's tax deferral program under G.L. c. 59, § 5, Clause 41A from $65,000 to $70,000. Under the deferral program, qualifying residents age 65 or older can defer payment of some or all of their property taxes, in an amount up to half the value of their home, until the property is sold or otherwise disposed of. For general background on Clause 41A and other programs offering property tax relief to seniors, please see Appendix D to this Report.[4]

[4] A brochure prepared by the Selectmen's Tax Deferral and Exemption Study Committee entitled *Property Tax Relief Programs* is available on the Town web site: `http://www.lexingtonma.gov/assessor`

The 41A Program and the Home Rule Amendment

Under generally applicable state law, the highest income threshold a Town may adopt for participation in the 41A program is the limit established by the DOR each year under the state's Circuit Breaker program. In 2008, Lexington obtained a home rule amendment allowing it to expand eligibility beyond that permitted under the general laws. The special act permits the Town, by vote of Town Meeting and with the approval of the Selectmen, to set its own income limit for deferrals. Town Meeting most recently raised the income threshold from $60,000 to $65,000 in 2013.

The Proposed Increase

This year, the Tax Deferral and Exemption Study Committee (DESC) has recommended that the Town increase the threshold by an additional $5,000 to $70,000. The change is intended to help ensure that all persons who have been participating in the program can continue to do so, and to allow more residents to participate.

With a history of low utilization, and a participation rate that has not changed after previous income limit increases, it is unlikely that this change will add significantly to the number of deferrals, or produce a material impact on the Town's finances.

The Committee believes that the proposed increase in the threshold to $70,000 will offer needed property tax relief to some moderate-income senior homeowners who cannot currently take advantage of the deferral program. Given the nature of the program, which essentially involves well-secured temporary loans by the Town, the financial risk to the Town is minimal.

The Committee recommends approval of this request (7-0).

Article 28: Accept Chapter 59, Section 2D of the MGL

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

Chapter 59, Section 2D(a) of the MGL states in part:

> Whenever in any fiscal year real estate improved in assessed value by over 50 per cent by new construction is issued a temporary or permanent occupancy permit after January 1 in any year, the owner of the real estate shall pay a pro rata amount or amounts, as herein defined, to the city or town where such real estate is located that would have been due for the applicable fiscal year under this chapter if the real estate had been so improved on the assessment date for the fiscal year in which the occupancy permit issued.

In essence, this law allows the Town to more promptly update a property tax bill when the assessed value of a property has changed. However, due to the way the law is written, it is not within the purview of Town Meeting to accept this law. The Committee understands that the Article proponent will ask the Selectmen to consider a change in the current policy regarding tax bills for new growth.

The Committee anticipates this article will be indefinitely postponed.

Article 31: Amend General Bylaws – Contracts and Deeds		
Funds Requested	Funding Source	Committee Recommendation
None	**N/A**	**Pending**

The purpose of this article is to update and clarify the Town's bylaw governing the maximum duration of contracts that the Town staff and Board of Selectmen may approve without seeking further authorization by Town Meeting.

State procurement law provides that local officials may not enter into any contract procuring or disposing of supplies, services or real property for a term exceeding three years unless authorized by a majority vote of Town Meeting. The authorization granted may be either on a contract-by-contract basis or across-the-board for general categories of contract. Mass. Gen. Laws Ann. 30B, §§ 1, 12.

The current bylaw, Section 32-4 of the Code of Lexington ("Authorization to solicit, award and enter [into] certain contracts"), was adopted in 2008 (and amended from time to time thereafter) to give the Town staff and Board of Selectmen additional autonomy to contract without the need for Town Meeting approval, but with specified limits as to term. Under the structure of the existing bylaw, Town staff under the supervision of the Town Manager can sign contracts for terms up to 3 years. Contracts for terms longer than 3 years and up to the specified limits (e.g., 10 years for the lease of equipment) may be entered into with the approval of the Board of Selectmen alone. Anything beyond that must go to Town Meeting for approval. All contracts requiring the expenditure of Town funds are subject to appropriation by Town Meeting.

The proposed amendment to the Town bylaw would accomplish two main objectives.

First, it would increase the length of a contract term for which the Town, with the approval of the Board of Selectmen only, may lease a public building from 20 years to 30 years. This is the maximum now allowed under state law, G.L. c. 40, § 3 (as amended in 2010).

Second, it would clarify that the bylaw and its contract term limits – including the default limit of 5 years for "all other contracts" – apply only to contracts governed by the state's Uniform Procurement Act, Chapter 30B of the General Laws, and not to other kinds of contracts, the terms and duration of which have traditionally been within the discretion of the Board of Selectmen and Town Manager or various boards acting within their regulatory authority. Examples of such contracts are: inter-governmental agreements, settlement agreements, copyright agreements, and subdivision covenants, some of which are intended to be perpetual or very long-term.

Prior to publication, the final text of the proposed bylaw was not available for the Committee to review, therefore the Committee has not taken a position on this article. The Committee will report its position when this article is taken up.

<u>The Committee has taken no position on this request.</u>

Article 40: Amend Zoning Bylaw – Accessory Apartments		
Funds Requested	Funding Source	Committee Recommendation
None	**N/A**	**Disapprove (1-5-1)**

The Planning Board proposes amendments to the existing Zoning Bylaw that authorizes accessory apartments. The text of the current bylaw states its intent to increase the creation of small dwelling units in Town, increase the range of housing types available, encourage population diversity, "with particular attention to young adults and senior citizens," and encourage a more economic and energy-efficient use of the Town's housing supply while maintaining the appearance and character of one-family neighborhoods. Currently, less than 200 accessory apartments exist in Lexington. The Appropriation Committee offers its recommendation on this article because, in the opinion of a majority of the Committee, its adoption could have a material impact on the Town's finances. We make related comments below in our report on Article 42.

The existing bylaw authorizes the creation of three types of accessory apartments: (1) a basic accessory apartment, which must be located within the principal dwelling, not exceed 1,000 square feet of gross floor area (GFA), and have no more than two bedrooms; (2) an expanded accessory apartment, which must be located within the principal dwelling and must not exceed 40% of the gross floor area of the dwelling, which must be of a size consistent with typical nearby one-family dwellings; and (3) an accessory structure apartment with not more than 1,000 square feet of GFA, which is located in an accessory structure on the same lot as a one-family dwelling. Both the expanded accessory apartment and the accessory structure apartment require a special permit.

There are a number of conditions and requirements that currently apply to all three types of accessory apartments. The proposed bylaw amendments would remove some of the conditions that the Planning Board believes are unnecessary and limit the creation of accessory apartments. The amendments would remove: restrictions on allowing roomers in the apartment; the requirement that the structure be connected to public water and sewer systems; the requirement for particular types of off-street parking; a 10,000 square foot minimum lot size requirement; and the restriction that any structure containing an accessory apartment must have been in existence for 5 years prior to the application to create an apartment. If Town Meeting approves these amendments, a special permit will still be required to create expanded accessory apartments and accessory structure apartments.

To the extent that passage of these amendments would lead to the creation of more basic or accessory structure accessory apartments, this article raises some of the same concerns about population density described below with respect to Article 42. These concerns are somewhat tempered for by-right accessory apartments and accessory structure apartments by the 1000 square foot, two-bedroom size limit.

The Committee notes, however, that expanded accessory apartments can have more than two bedrooms, could be quite large, might not meet the goal of creating small dwelling units, and, if many more are created, could lead to population density challenges like those presented by two-family homes. The special permit process ideally would help ensure that only proposed units that satisfy the intent of the bylaw will be created; however, it is unclear whether the cumulative impact of such projects on the Town's finances is a consideration that could be properly taken into account by the Board of Appeals.

Service need and budget impacts from this proposed bylaw change could be estimated on the basis of a projection of the numbers of accessory apartments of each type that would be created over the next few decades and the numbers and age distributions of the likely residents of such units. However, as we note below for Article 42, there is no such projection with any plausible degree of reliability. Hence we do not have good estimates of the impacts of the bylaw change. A basic first step would be to have a complete detailed census and analysis thereof of the current complement of accessory apartments in Lexington.

The Committee supports the goal of creating more small, affordable dwelling units in Lexington, but is not convinced that encouraging more accessory apartments, particularly expanded accessory apartments, is an effective method to accomplish that goal. The Committee would like to see further in-depth study and discussion of the likely economic and financial consequences in addition to the housing and population consequences of this proposed bylaw change before recommending it.

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

Article 41: Amend Zoning Bylaw – Gross Floor Area		
Funds Requested	Funding Source	Committee Recommendation
None	**N/A**	**None**

The Town's existing bylaws regulate the size of residential construction primarily by a combination of minimum setbacks from the lot boundaries, and caps on the total height with a maximum number of floors allowed. The proposed bylaw would impose additional limits on the gross floor area of homes based on the size of the parcel they occupy. The proposed changes are not unprecedented. Brookline and Newton have limits on gross floor area that are comparable, or more restrictive, than the changes proposed here. Concord is considering similar limits. Other communities in our region regulate home size by constraining site coverage, or by requiring a site review process for homes exceeding some gross floor area threshold. As of now, Lexington is one of the least restrictive communities in this regard.

New Growth

The Committee considered possible effects on the Town's property tax revenue as a result of the proposed bylaws, particularly as regards "new growth". Under Proposition 2½, the Town's levy limit grows by 2.5% annually, plus the amount of property tax attributable to "new growth". This "new growth" occurs when an existing building is replaced by a new building with a higher assessed value, or when renovations to an existing building result in a higher assessed value. "New growth" has factored strongly in the Town's tax revenue growth for many years, in part due to the number of homes that are torn down and rebuilt by developers each year, but also from growth and development in commercial real estate.

There are two scenarios that, *in theory,* could impact the Town's annual "new growth" figure under the proposed bylaws. Assume that an owner wants to sell a residential property, and a developer is interested purchasing it. The developer plans to tear down the house and construct a new house with the hope of reselling it at a profit. However, there is another buyer who is interested in purchasing the house to use as-is. The developer and the buyer make competing offers for the property.

The developer's offer is strongly influenced by the anticipated profit margin, which is roughly correlated with the planned size of the new house. If the size of the house allowed under the proposed bylaws is lower, then the developer's offer might be lower than the buyer's, in which case the buyer's offer wins and there is no "new growth".

Alternatively, the developer may purchase the property and build a house smaller than would have been allowed under the current bylaws. The increase in assessed value for the new house would be lower than the theoretical maximum, producing less "new growth". However, developers are building new homes today that already conform to the proposed bylaws, so it is hard to say how much of an impact this scenario would produce.

Planning Board Analysis

The Planning Board has offered a rather complicated statistical analysis to predict the impact on "new growth" tax revenue. The analysis is based on empirical data for Lexington home sales and teardowns in 2013, the most recent year for which comprehensive assessment data was available. It attempts to replay the property transactions from that year as if the proposed bylaws were in effect, and it makes some simple assumptions about the resulting decisions by developers and buyers. Their analysis suggests that in today's housing market, "new growth" could be reduced by around $200,000 annually, but also that increasing competition for property would push the annual impact down to $100,000 in a few years. To put those amounts in context, $200,000 is a little over one tenth of 1% of the tax levy in FY2016.

This analysis has some limitations. First, it did not consider the overall impact on assessed values that might result from creating neighborhoods where the houses were generally constrained by the new bylaws. In such a neighborhood, even though some of the houses would be smaller, the cumulative assessed value of *all* the properties might be greater by virtue of being located in an environment with more open space and more proportionately sized houses. In other words, the whole can be worth more than the sum of its parts, and if the total assessed value is maintained then the resulting tax revenue is also preserved.

The analysis also did not consider that, in many cases, a buyer will proceed to make additions or other renovations that may generate "new growth," albeit with less impact on the surrounding neighborhood.

Committee Comment

The consensus of the Committee is that the connection between the proposed bylaw and the ultimate impact on tax revenue is full of complex and contradictory linkages all operating in a changing market. It would be impossible to make financial predictions with any useful degree of certainty. Any conclusion about the net financial impact on the Town is speculative, but we feel the proposed bylaw will not dramatically affect tax revenue. Furthermore, the annual volatility that we typically experience for "new growth" from all types of property could easily overwhelm the financial impact from this change.

Thus, the Committee takes no position on this article from a financial perspective, and we urge Town Meeting Members to consider its merits as a planning measure.

The Committee has taken no position on this article.

Article 42: Amend Zoning Bylaw – Two-Family Homes

Funds Requested	Funding Source	Committee Recommendation
None	**N/A**	**Disapprove (1-6)**

The Planning Board proposes an amendment to the Zoning Bylaw to permit the construction of two-family homes by special permit in all districts in which one-family dwellings are permitted. Currently, two-family dwellings may be built by right only in the RT district, which is a section along Massachusetts Avenue east of Maple Street, and by special permit only in certain designated residential developments. Less than 250 two-family homes exist in Lexington today. The Appropriation Committee offers its recommendation on this article because it believes its adoption could have a material impact on the Town's finances.

The stated purpose of this bylaw change is to "increase the number of small dwelling units available in the Town" and "increase the range of choice of housing accommodations." All existing dimensional controls applicable to single-family homes, such as height limits, would apply to two-family structures. In addition, the floor area ratio limits currently proposed under Article 41 would be written into Article 42 and would thus apply to two-family homes, even if Article 41 fails. This would help ensure that two-family homes are built in proportion to their lot sizes, though it will not ensure that two-family homes are "small dwelling units." For example, a lot on which a single home of up to 6000 square feet could be built would support a two-family home comprised of two 3000 square foot units.

Without stricter size limits, it is unclear to this Committee whether such two-family homes would be substantially more affordable than the current housing stock or achieve the stated purpose of increasing the number of small dwelling units in town. Though the Special Permit Granting Authority must take the stated purposes of the bylaw into account, there is no guidance given on what constitutes a "small" dwelling unit.

It is clear, however, that this bylaw change could lead to the creation of more housing units in Lexington, potentially many more if permitted in any residential neighborhood. Allowing any housing lot to accommodate two households instead of one could lead to a significantly higher population density without a correspondingly large increase in the Town's revenue base (the "new growth" value attributable to the construction of a two-family home would not likely be double that of a single-family home). This, in turn, could put severe pressure on town infrastructure and services like roads, traffic control, sewers, schools, recreational facilities, and public safety, some of which are already strained for space and resources. There could also be implications for the Town's compliance with Chapter 40B.

The impact on operating and capital budgets from this proposed bylaw change could be estimated on the basis of a projection of the numbers of two-family units that would be created per year over the next few decades and the numbers and age distributions of changes in Lexington's population related to the bylaw change. However, there is no such projection with any plausible degree of reliability and no expectation that any such projection is feasible. Hence the impacts are impossible to predict; they could be quite large and significant. As we note above for accessory apartments, a basic first step would be to have a complete detailed census and analysis thereof of the current complement of two-family buildings in Lexington.

It is not clear that the special permit process would take issues of population density or infrastructure into account. Because of the risks to the short and long-term financial stability of the Town, this Committee does not believe that the Planning Board's proposal to allow two-family housing by special permit in any residential neighborhood is prudent without further in-depth study and discussion of the likely economic and financial consequences in addition to the housing and population consequences.

Minority View

The potential fiscal impacts, i.e. concerns about tax revenues, increased pressure on municipal services, and tighter school budgets, are all valid considerations, but they should not be the only considerations. Lexington benefits from a diverse community, which depends in part on offering a range of housing types. Recently, residential construction has focused on the high end of the market, with few if any new housing units affordable to middle-income buyers. If Lexington were to set a goal to encourage construction of more modestly sized housing units for middle-class families, then the budget could be planned with that objective in mind.

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

Appendix A: 3-Year Budget Projection

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

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

We assume that modest economic growth continues in FY2018, FY2019, and FY2020. 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. This recent history of new growth exemplifies the volatility of this factor. In light of this, the model straight-lines new growth using a number slightly less than the midpoint of the 10-year (FY2007-2016) and 15-year (FY2002-2016) 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 (2013 through 2017) 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 project here at $5.7 million for FY2017-2019 with $4 million applied to the operating budget and the remaining $1.7 million applied to cash capital.

  The more stable parts of Available Funds include the Parking Fund and the Cemetery Fund. They are assumed to be $335,000 and $105,000, respectively. Additionally we've included the town management's recommendation that, for FY2018 and FY2019, $1.2 million will be transferred out of the Health Claims Trust Fund for health insurance premiums, thereby freeing up the same amount to fund the Post Employment Insurance Liability (aka OPEB) Trust Fund. To maintain some flexibility in future health benefits spending, no further transfers from this fund are recommended after FY2019.
- We have illustrated projected transfers from the Capital Stabilization Fund to mitigate within-levy debt service. Our projection currently shows transfers of $689,000 in FY2018, $1,146,000 in FY2019, and $570,000 in FY2020. Additional appropriations from this fund are anticipated to mitigate the tax impact from excluded debt service for the proposed school capital program.
- 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 2020; and

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

- Water and Wastewater Enterprise Fund indirect expenses are assumed to increase by 3% annually. Recreation Enterprise Fund indirect expenses are assumed to increase by $5,000 per year. Additionally, in FY2017 Recreation Enterprise Fund expenses will be offset by $253,007 in tax levy funding for Community Center operations personnel. This expense will grow by 1.3% annually to accommodate step increases, and the tax levy funding will increase with at that pace also.

Expense Assumptions

- Line items for FY2018-FY2020 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 FY2018 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 1.2% in FY2018, 1.85% in FY2019 and 1.72% in FY2020. An increase in enrollment of 1% is estimated to require a staffing increase of 14.38 FTE's at $53,000 per FTE, an increase of approximately $762,000 in the operating budget.
- The Lexington Public School expenses for programs other than special education are assumed to increase by 3% per year. Special education expenses for out-of-district tuition are net of the State Circuit Breaker reimbursement and are assumed to increase by 5% annually, while the expenses for special education consultants and out-of-district transportation are assumed to increase by 3% per year.
- Municipal personnel costs are assumed to increase by 1.3% annually for step changes.
- Municipal expenses are assumed to increase by 3% per year.
- The assessment for Lexington's share of expenses for Minuteman Career and Technical High School is assumed to increase by 4.5% per year. Additional debt service payments for capital improvements will be $128,000 in FY2018 and $162,000 in FY2019 and FY2020, with debt payment of over $550,000 in FY2020.
- Appropriations for current and future contributory pension payments are assumed to follow the schedule set up by the Retirement Board following the most recent actuarial evaluation of pension costs. These costs are $5,755,537 in FY2018, $6,005,537 in FY2019 and $6,255,537 in FY2020.
- Health insurance costs are assumed to increase annually by 5%. While this growth is primarily driven by anticipated increases in school staffing due to enrollment, the combination of inflation and other staffing growth also contribute.
- Non-exempt debt service costs are assumed to support annual debt-funded project appropriations that will grow at the rate of 5% per year. That translates to project cost in FY2018 of $6,100,000, FY2019 of $6,400,000 and FY2020 of $6,700,000. Debt costs are shown as unmitigated debt payments. The proposed mitigation payments are described in the revenue section.
- Dept. of Public Facilities costs include salaries and wages (assumed to grow by 1.3% annually for step changes), utility bills, and other expenses (assumed to grow by 3% annually). Utility costs are assumed to increase by 1.5% annually.
- 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; $110,000 of revenue set aside as a hedge for State or Federal aid reductions; $200,000 set aside for unanticipated current fiscal year needs, and annual $1,200,000 contribution to the trust fund for future costs of health insurance for retired employees in FY2018 and FY2019.
- The offsetting revenues and expenses for revolving funds, grants, and enterprise fund operations, except the Recreation Enterprise Fund, are projected using the 5-year trend from FY2012-2016. 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 FY2018 shows an increase of approximately $1,558,000 in total General Fund revenue. This increase is significantly lower than the projected $5,375,000 increase in the FY2017 General Fund revenue because we expect there will be a large decrease in Free Cash (the largest component of Available Funds) compared to the FY2017 budget. Free Cash results from an excess of actual revenues over actual expenditures. Traditionally, when additional Free Cash becomes available it is not used to fund operating expenses, but is applied to one-time expenses such as capital projects or stabilization funds.

The projection shows General Fund revenue growth of $8,270,000 in FY2019 falling to $6,090,000 in FY2020. The drop in FY2020 revenue is due to discontinuing transfers from the Health Trust Fund, discussed above in the revenue section.

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

COLAs of 1% in FY2017 for the schools, municipal departments, and Public Facilities Department would increase their respective budgets by $844,000, $237,000 and $53,000. Note that we have adjusted our FY2018 school COLA line to reflect an existing Teachers Union agreement that runs through the end of that fiscal year. Our table illustrates the cumulative effect that COLAs of varying percentages would have on reducing any surpluses for FY2018-2020.

Revenue Summary	**FY2015** actual	**FY2016** recap	**FY2017** budgeted	**FY2018** projected	**FY2019** projected	**FY2020** projected
Property Tax Levy	$141,843,658	$148,286,733	$154,769,047	$161,138,273	$167,816,730	$174,662,148
Allowable 2.5% inc.	$3,546,091	$3,709,681	$3,869,226	$4,028,457	$4,195,418	$4,366,554
New Growth	$2,896,983	$2,772,633	$2,500,000	$2,650,000	$2,650,000	$2,650,000
Excess Levy Capacity	($74,194)	($18,897)	$0	$0	$0	
Tax levy limit	**$148,212,539**	**$154,750,150**	**$161,138,273**	**$167,816,730**	**$174,662,148**	**$181,678,702**
State Aid	$11,193,462	$11,568,637	$11,804,630	$12,394,862	$13,014,605	$13,665,335
Local Receipts	$13,756,778	$11,880,214	$12,130,550	$12,312,508	$12,497,196	$12,684,654
Available Funds	$11,012,293	$15,654,839	$13,093,204	$7,340,000	$7,340,000	$6,140,000
Debt Svc. Mitigation	$919,000	$620,567	$710,000	$689,000	$1,146,000	$570,000
Revenue Offsets	($2,492,221)	($2,905,154)	($1,943,061)	($2,107,695)	($1,989,464)	($2,022,346)
Enterprise Funds *(Indirect)*	$1,487,905	$1,617,576	$1,629,135	$1,675,574	$1,723,257	$1,772,220
Total General Fund	**$184,089,756**	**$193,186,829**	**$198,562,731**	**$200,120,979**	**$208,393,741**	**$214,488,565**
Other Revenues						
Revolving Funds	$2,292,723	$3,096,176	$3,434,532	$2,605,895	$2,605,895	$2,605,895
Grants	$102,916	$103,000	$99,841	$100,497	$100,497	$100,497
Enterprise Funds	$21,116,857	$23,066,866	$21,917,810	$22,121,035	$22,757,334	$23,393,667
Sub-Total Other Revenues	**$23,512,496**	**$26,266,042**	**$25,452,183**	**$24,827,426**	**$25,463,725**	**$26,100,058**
Total Revenues	**$207,602,252**	**$219,452,871**	**$224,014,915**	**$224,948,405**	**$233,857,466**	**$240,588,623**

Expense Summary	FY2015 actual	FY2106 recap	FY2017 budgeted	FY2018 projected	FY2019 projected	FY2020 projected
Education						
LPS Wages	$73,057,650	$78,627,324	$81,785,398	$84,497,027	$86,596,926	$88,639,745
LPS Expenses	$6,728,472	$7,118,010	$7,980,101	$8,219,504	$8,466,089	$8,720,072
Out-of-District SPED	$5,486,679	$6,314,982	$7,527,800	$8,146,254	$8,532,518	$8,937,463
Lex. Pub. Schools	**$85,272,801**	**$92,060,316**	**$97,293,299**	**$100,862,785**	**$103,595,533**	**$106,297,281**
Minuteman Reg. School	$1,244,384	$1,172,735	$1,377,449	$1,567,434	$1,666,209	$1,950,703
Sub-Total Education	**$86,517,185**	**$93,233,051**	**$98,670,748**	**$102,430,219**	**$105,261,742**	**$108,247,983**
Municipal						
Municipal Wages	$21,570,546	$22,963,067	$23,408,984	$23,713,301	$24,021,574	$24,333,854
Municipal Expenses	$10,490,156	$10,631,203	$11,127,736	$11,461,568	$11,805,415	$12,159,578
Sub-Total Municipal	**$32,060,702**	**$33,594,270**	**$34,536,720**	**$35,174,869**	**$35,826,989**	**$36,493,432**
Shared Expenses						
Benefits & Insurance	$27,630,669	$32,423,750	$33,607,231	$35,307,314	$37,081,563	$38,933,885
Debt (within-levy)	$6,523,281	$7,212,135	$7,199,028	$7,497,303	$8,291,414	$8,068,890
Reserve Fund	$0	$900,000	$900,000	$900,000	$900,000	$900,000
Facilities	$9,894,474	$10,078,632	$9,984,116	$10,120,483	$10,302,989	$10,489,119
Sub-Total Shared Expenses	**$44,048,424**	**$50,614,517**	**$51,690,375**	**$53,825,100**	**$56,575,965**	**$58,391,894**
Capital & Reserves						
Cash Capital	$5,958,117	$4,642,987	$5,554,789	$4,532,018	$4,601,568	$4,672,857
Capital Stabilization Fund	$5,910,726	$9,447,832	$5,112,434	$600,000	$600,000	$600,000
PEIL Fund (OPEB)	$1,119,000	$1,200,000	$1,512,318	$1,500,000	$1,500,000	$300,000
Other	$20,000	$256,836	$483,007	$590,000	$590,000	$590,000
Other (unallocated)			$983,262			
Capital & Reserves Total	**$13,007,843**	**$15,547,655**	**$13,645,810**	**$7,222,018**	**$7,291,568**	**$6,162,857**
Total Oper, Cap & Res	**$175,634,154**	**$192,989,493**	**$198,543,653**	**$198,652,206**	**$204,956,264**	**$209,296,166**
Revolving Funds	**$2,292,723**	**$3,096,176**	**$3,434,532**	**$2,605,895**	**$2,605,895**	**$2,605,895**
Grants	**$102,916**	**$103,000**	**$99,841**	**$100,497**	**$100,497**	**$100,497**
Enterprise Funds						
Water	$8,394,546	$9,124,336	$9,890,441	$8,953,774	$9,439,938	$9,926,102
Wastewater (Sewer)	$8,928,944	$8,673,199	$8,938,082	$8,864,882	$9,012,383	$9,159,885
Recreation	$1,739,367	$2,601,831	$2,626,287	$2,922,862	$2,928,828	$2,934,871
Enterprise Capital	$2,054,000	$2,667,500	$463,000	$1,635,813	$1,635,813	$1,635,813
Enterprise Funds Total	**$21,116,857**	**$23,066,866**	**$21,917,810**	**$22,377,331**	**$23,016,962**	**$23,656,670**
Total Expenses	**$199,146,650**	**$219,255,535**	**$224,014,915**	**$223,735,928**	**$230,679,617**	**$235,659,227**
Balance (w/o COLA)	**$8,455,602**	**$197,337**	**$0**	**$1,212,478**	**$3,177,849**	**$4,929,396**

COLA Projection	FY2017
Each 1% COLA for schools	$844,970
Each 1% COLA for municipal	$237,133
Each 1% COLA for public facilities	$53,432
Incremental Expense for 1% COLA	$1,135,535

COLA	Projected Balance (Deficit) for COLAs implemented in FY2018		
1%	$321,984	$1,140,465	$1,733,652
2%	($568,510)	($919,630)	($1,530,905)
3%	($1,459,004)	($3,002,436)	($4,864,957)

** There are no contracts settled for FY2018 or beyond, except LEA for FY2018.*

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.[5] 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.

[5] *DOR Enterprise Funds Manual (April 2008)*

Appendix C: Revolving Funds

Ordinarily, revenue received by any municipal department must be deposited in the General Fund, and cannot be expended for any purpose without further appropriation by Town Meeting. A revolving fund allows Town Meeting to dedicate in advance a specific source of anticipated revenue from fees and charges, on an ongoing basis and without the need for further appropriation, to pay expenses for rendering the services for which those fees and charges are collected.

Revolving funds managed by municipal departments are generally governed by G.L. c. 44, § 53E1/2. (There are also a number of revolving funds managed by the School Department, such as the School Lunch Fund, which are governed by other statutes and are not within the control of Town Meeting.) Under Section 53E1/2, a municipal revolving fund can be established only by vote of Town Meeting.

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

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

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

Appendix D: Tax Relief Programs

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

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

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

State Income Tax "Circuit Breaker"

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

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 qualify may defer any part or all of their property tax for a given year, up to a cumulative total of half the assessed valuation of their house, at a very generous interest rate. The deferred taxes are eventually paid when the property is sold or transferred. The interest rate is based on a floating Treasury rate equivalent to Lexington's cost of funds in the year of deferral (capped at 8% but normally less than 1%), which remains in effect for the life of each year's deferral (see table below).

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

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

The "41C" Exemption Program

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

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

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

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

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

The Senior Service Program

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

In 1999, the Legislature authorized cities and towns, by accepting G.L. c. 59, § 5K, to offer residents, age 60 and over, the opportunity to reduce their property-tax obligation by up to $500 in exchange for community service.[6] Lexington, which had earlier maintained its own program, accepted this statute shortly after it was enacted. The statute allows towns to set rules and procedures for their implementation, but limits participation to persons age 60 or over, and also limits the hourly credit to the state's minimum wage of $8/hour.

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

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

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

CPA Surcharge Exemption

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

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[6] In 2002, the maximum amount of the Section 5K credit was increased to $750. In 2009 it was increased to $1,000, and the 2010 Municipal Relief Act added a provision allowing towns to adopt a local option to set the limit at 125 hours of service at the prevailing minimum wage (now $8.00 per hour), which would automatically increase the limit if the minimum wage increases.

Tax Relief Programs – Limits and Qualifications as of January 2014

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

Limits and Qualifications as of 2015

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

Appendix E: Specified Stabilization Funds

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

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

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

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

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

Section 135 Zoning 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 medical costs did not outpace inflation, the size of the OPEB liability (in inflation-adjusted dollars) would be relatively stable, because the increases and decreases would tend to balance out. In practice, however, the inflation-adjusted value of the OPEB liability generally increases each year, because of the increasing cost of health care, the growth in the number of retirees receiving benefits, and the upward trend in longevity.

The Post Employment Insurance Liability (PEIL) Fund

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

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

GASB 45 and the choice of a discount rate

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

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

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

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

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

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

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

Pre-Funding OPEB

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

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

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

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

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

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

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

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

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

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

The Committee supports this policy.