APPROPRIATION COMMITTEE
TOWN OF LEXINGTON

REPORT TO THE
2021 ANNUAL TOWN MEETING

RELEASED MARCH 15, 2021

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

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

Art-icle	Title	Funds Requested	Funding Source	Committee Recommendation
4	Appropriate FY2022 Operating Budget	*See below*	*See below*	**Approve (7-0)**
5	Appropriate FY2022 Enterprise Funds Budgets	**$11,379,799** **$10,553,239** **$2,589,936**	**Water EF** **Wastewater EF** **Recreation EF, Tax Levy**	**Approve (7-0)**
6	Appropriate for Senior Services Program	**$15,000**	**Tax Levy**	**Approve (7-0)**
7	Appropriate for Municipal Organizational Assessment	**$100,000**	**GF**	**Approve (7-0)**
8	Appropriate for 20/20 Vision Survey	**$50,000**	**GF**	**Approve (7-0)**
9	Establish and Continue Departmental Revolving Funds	*See below*	**RF**	**Approve (7-0)**
10	Appropriate the FY2022 CPC Operating Budget and CPA Projects	**$2,684,550**	**CPA**	**Approve (7-0)**
11	Appropriate for Recreation Capital Projects	**$87,000**	**Recreation EF Retained Earnings**	**Approve (7-0)**
12	Appropriate for Municipal Capital Projects and Equipment	*See below*	*See below*	**Approve (7-0)**
13	Appropriate for Water System Improvements	$710,000 $400,000 $300,000 **$1,410,000**	**Water EF Debt** **Water EF Rates** **Water EF Ret'd Earnings**	**Approve (7-0)**
14	Appropriate for Wastewater System Improvements	$1,320,000 $200,000 **$1,520,000**	**Wastewater EF Debt** **Wastewater EF Rates**	**Approve (7-0)**
15	Appropriate for School Capital Projects and Equipment	**$1,186,236**	**Free Cash**	**Approve (7-0)**

Art-icle	Title	Funds Requested	Funding Source	Committee Recommendation
16	Appropriate for Public Facilities Capital Projects	$895,199 $2,171,000 $214,186 **$3,280,385**	Free Cash GF Debt Tax Levy	**16(a-h) Approve (7-0), 16(i) IP**
17	Appropriate to Post Employment Insurance Liability Fund	$1,129,721 $750,000 $2,761 $3,004 **$1,885,486**	Free Cash Tax Levy Water EF Wastewater EF	**Approve (7-0)**
18	Rescind Prior Borrowing Authorizations	**None**	**N/A**	**Approve (7-0)**
19	Establish, Amend, Dissolve and Appropriate To and From Specified Stabilization Funds	*See below*	*See below*	**Approve (7-0)**
20	Appropriate for Prior Years' Unpaid Bills	**None**	**N/A**	**IP**
21	Amend FY2021 Operating, Enterprise and CPA Budgets	*See below*	*See below*	**Approve (7-0)**
22	Appropriate for Authorized Capital Improvements	**None**	**N/A**	**IP**
23	Appropriate From Debt Service Stabilization Fund	**$124,057**	**DSSF**	**Approve (7-0)**
24	Appropriate for Lexington High School Feasibility Study	**$1,825,000**	**Debt**	**Pending**
25	Amend Borrowing Authorization Conservation Land Acquisition	**$100,000**	**CPA**	**Approve (7-0)**
29	Clean Heat—Authorize Special Legislation to Regulate Fossil Fuel Infrastructure	**None**	**N/A**	**No Position**
31	Street Acceptance: Penny Lane, Winding Road and Luongo Farm Lane	**None**	**N/A**	**Approve (7-0)**
32	Amend General Bylaws—Receive Appraised Value for Removed Trees	**None**	**N/A**	**Pending**
34	Amend General Bylaws—Tree Bylaw Fees and Mitigation Payments	**None**	**N/A**	**Approve (7-0)**
36	Authorize Special Legislation—Development Surcharge for Affordable Housing	**None**	**N/A**	**Approve (7-0)**

Preface

This preface describes the structure and stylistic conventions used in this report. It is followed by an introduction discussing changes in the Town's financial status since the previous Annual Town Meeting, along with issues pertinent to the Town's general financial situation. The main body of this report contains article-by-article discussions and recommendations on those articles that, in our opinion, have substantial financial relevance. The report references several appendices at the end of this document that provide a deeper explanation of particular financial issues.

The discussion for each article presents the prevailing view of the Committee, as well as any other considerations or cautions that we feel Town Meeting should be informed of. If one or more Committee members are strongly opposed to the majority position, we summarize the opposing perspective. Each article discussion concludes with the most recent vote of the Committee prior to publication. The vote is summarized by the number of members in favor, followed by the number of members opposed, and lastly (when applicable) the number of members abstaining, e.g., "(6-2-1)" indicates six members in favor, two opposed, and one abstaining. It is not always possible to collect a complete vote for every article from nine voting members. In such instances, the total number of votes and abstentions published will be less than nine. For convenience, Committee votes are also summarized on the preceding pages.

This report does not replicate information readily available to Town Meeting members elsewhere. Key documents that inform our analysis and provide a more thorough picture of the Town finances are:

- The Town Manager's *Fiscal Year 2022 Recommended Budget & Financing Plan* (the "Brown Book"), dated February 22, 2021, fully describes the annual budget of the Town. The Brown Book also summarizes budget laws and bylaws (Appendix B) and includes a glossary of financial terms (Appendix D).
- *The Level Service and Recommended Budget of the Superintendent of Schools*, as presented January 5, 2021 (hereafter the "LPS Budget Book", which details the budget plan for the Lexington Public Schools.
- Capital Expenditures Committee (CEC) Report to the 2021 Annual Town Meeting, which provides recommendations on appropriation requests for capital projects.
- Community Preservation Committee (CPC) Report to the 2021 Annual Town Meeting, which details requests approved by the CPC and funded using revenue from the CPA surcharge.

The LPS Budget Book is available online at:
`https://sites.google.com/lexingtonma.org/lps-finance-and-operations/fy-22-budget`

All other reports for this Town Meeting will be available online at:
`https://www.lexingtonma.gov/2021atm`

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 James Malloy; Assistant Town Manager for Finance Carolyn Kosnoff (an *ex officio* member of our Committee); Budget Officer Jennifer Hewitt; the Capital Expenditures Committee; the Community Preservation Committee; the School Committee; the Permanent Building Committee; the Planning Board; Superintendent of Schools Dr. Julie Hackett; Assistant Superintendent for Finance and Operations David Coelho; and the Lexington Select Board. We thank the municipal and school staff, Town officials, boards and volunteers who have contributed time and expertise to help us prepare this report. Last but not least, we thank Sara Arnold, who records and prepares the minutes for our meetings.

Introduction

The Appropriation Committee is required to create a report with a review of the budget as adopted by the Board of Selectmen, including an assessment of the budget plan and a projection for future years' revenues and expenses. This report includes the Committee's analysis and recommendations regarding all appropriations of Town funds that are anticipated in the Town Warrant, and other municipal matters that may come before Town Meeting. This report is distributed as an electronic document via the Town website. The Committee also makes presentations during Town Meeting, including recommendations on appropriations and other matters for which the Committee's formal position was pending at the time of publication.

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

Committee Membership

There have been no changes to the Committee's membership since the 2020 Special Town Meeting #1. With two vacant seats, the Committee presently has seven voting members. We anticipate the appointment of two new members in the near future, returning the Committee to its full complement of nine.

Reserve Fund

As of publication, the Committee has not been asked to approve any Reserve Fund transfers during FY2021, and the balance in the Fund remains at $750,000. As always, any remaining funds will revert to Free Cash at the end of the fiscal year.

Developments Since Adoption of the FY2021 Budget

The Committee held its last (socially distanced) in-person meeting on March 17, 2020, at which time some members attended via Zoom. Following the Governor's executive order granting a temporary exception to the Open Meeting Law, we transitioned to fully virtual meetings via Zoom.

During the October 2020 Special Town Meetings 2 and 3, Town Meeting:

- Approved a new short-term rental impact fee (Art. 2020-2.2), which applies to short-term rentals of homes in Lexington (for rentals under 30 days, e.g., Airbnb).
- Authorized special legislation for a development surcharge on residential development to fund community housing (Art. 2020-2.6). Town Meeting will now consider Article 36 to authorize special legislation for a development surcharge on commercial development, which would also fund community housing. These actions will not take effect until the State legislature approves special legislation per the Town's requests.
- Approved the acquisition of a 4.48 acre parcel on Highland Ave. (Art. 2020-3.7) for $3.56 million which covers both the purchase price and ancillary expenses. This land will be dedicated entirely to open space. Town Meeting will be asked to make an adjustment to the funding source for this purchase under Article 25 (there is no change to the amount of the appropriation).
- Indefinitely postponed any additional appropriation to the Post Employment Insurance Liability (OPEB) Fund (Art. 2020-3.6).

As a result of restrictions on public gatherings implemented in response to the Covid-19 pandemic, the Town has temporarily closed the Community Center to the public. Without the normal revenues from user fees, we have been forced to reconsider the funding model for a facility with some unavoidable fixed costs. At the same time, the municipal golf course grew in popularity as a safer alternative for outdoor recreation.

In February 2020, the School Committee resubmitted a Statement of Interest (SOI) to the Massachusetts School Building Authority (MSBA) regarding Lexington High School. We expected to learn whether the

Town would be invited to participate in the MSBA school building program in December 2020, but that decision has been delayed, and may not be received until after this Town Meeting is dissolved. Further discussion may be found under Article 24 below.

FY2022 Revenue and Budget

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

The *FY2022 Recommended Budget and Financing Plan* (the "Brown Book") opens with the *Report of the Town Manager*. The first two tables below are taken from that section, which provides a comprehensive overview of the estimated revenue and proposed budget for the coming fiscal year.

Revenue Source	FY2021 Tax Recap	FY2022 Projected	$ Change	% Change	% of Total Revenue
Property Tax Revenue	$194,329,879	$202,025,697	$7,695,818	4.0%	80.5%
Total Local Receipts	$12,054,341	$12,774,539	$720,198	6.0%	5.1%
Available Funds	$11,887,351	$20,575,379	$8,688,028	73.1%	8.2%
State Aid	$16,334,701	$16,515,527	$180,826	1.1%	6.6%
Revenue Offsets	($1,773,854)	($2,207,455)	($433,601)	24.4%	-0.9%
Enterprise Receipts	$1,749,435	$1,432,356	($317,079)	-18.1%	0.6%
Gross General Fund Revenues	**$234,581,853**	**$251,116,043**	**$16,534,189**	**7.0%**	**100.0%**
Less - Revenue Set-Aside for Designated Expenses	$9,180,935	$16,968,101	$7,787,166	84.8%	6.8%
Net General Fund Revenues	**$225,400,918**	**$234,147,942**	**$8,747,023**	**3.9%**	**93.2%**

The Gross General Fund Revenue for FY2022 is projected to increase by 7.0%, which is significantly higher than the FY2021 projected growth of 3.6%, in large part due to the year over year change in Available Funds.

In FY2021, major uncertainty about expenses and revenue arising from the Covid-19 pandemic led to a decision to limit transfers into the OPEB Fund (reduced by $1,185,486) and the Capital Stabilization Fund (reduced by $1,773,062). Since these appropriations were never made, FY2021 revenue was lowered by almost $3 million, leaving these funds as available Free Cash. Appropriating these funds in FY2022 increases the coming year's revenue by the same $3 million, doubling the apparent impact. Thus, $6 million of the reported growth in revenue is due to the shifting of unused Free Cash from the prior year.

A majority of the unexpected expenses in FY2021 for both municipal and school budgets have been covered by federal CARES Act funds. To date, the only expenditure of Town reserves related to the pandemic was a Reserve Fund transfer at the end of FY2020.

We continue to face uncertainty in the coming year, but the recommended FY2022 budget reflects a fairly typical fiscal scenario for the Town. The Town plans to resume annual transfers to the OPEB Fund and the Capital Stabilization Fund, while withholding $2 million in Free Cash to "guard against unexpected decreases in State Aid, local receipts or increases in operating expenses due to the pandemic", per the Report of the Town Manager. Additional federal aid is expected to be available in FY2022 for unexpected expenses related to the pandemic.

State aid is estimated to grow by only 1.1% this year, continuing a flattening trend that is driven largely by Chapter 70 aid.

As usual, when the Town's "new growth" tax revenue is certified in the fall, the revenue from property tax may be increased, resulting in higher gross revenue.

The following table summarizes the FY2022 recommended budget in comparison to FY2021.

Budget Program	FY2021 Appropriated	FY2022 Recommended Budget	$ Change	% Change
Education 1000	$121,220,803	$126,507,019	$5,286,216	4.4%
Shared Expenses 2000	$62,581,456	$64,640,036	$2,058,581	3.3%
Municipal Departments 3000-8000	$41,598,660	$43,000,887	$1,402,227	3.4%
Subtotal - Operating Budget	*$225,400,919*	*$234,147,942*	*$8,747,024*	*3.9%*
Cash Capital	$7,812,019	$8,496,491	$684,472	8.8%
Other (Approp. to reserves, misc.)	$1,368,916	$8,471,610	$7,102,694	518.9%
Total - General Fund	**$234,581,853**	**$251,116,043**	**$16,534,190**	**7.0%**

The proposed budget is balanced, as required by law, and it will provide the consistent and reliable level of service that is expected by residents. The 3.9% growth of the operating budget, which mirrors the growth in net General Fund revenues, is within the range of the growth in recent years. The outsized growth of the "Other" category is related to the deferred transfers to the OPEB Fund and the Capital Stabilization Fund discussed above.

Special Education Stabilization Fund

The proposed FY2022 budget requests a transfer of $500,000 from the Special Education (SPED) Stabilization Fund to support the School Department's operating budget. This will be the first withdrawal in the history of this stabilization fund, which had a balance of approximately $1.2 million as of June 30, 2020. The School Department requested this transfer to meet operating expenses above the funding provided under the Town's revenue allocation formula. There is currently no agreed upon timetable for replenishing the SPED Stabilization Fund.

While the Town has no formal policy on the use of stabilization funds, the Committee notes that this request was not made in response to a sudden and unexpected decline in revenue, nor due to a sudden rise in special education costs, but rather by expenses outpacing the revenue allocation. We emphasize that the $2 million revenue set-aside in the FY2022 budget comes from Free Cash. The Town has been working to lower its reliance on Free Cash for the operating budget, since it is not a reliable long-term source of funding.

Over the past ten years, the School Department budget has grown at a faster rate than Town revenues. We noted this in our report to the 2020 ATM as well. During this period of growth, the School Department has worked diligently to control expenses, but the trend indicates a structural imbalance in the operating budget. This imbalance is not simply a result of the School Department failing to keep expenses in line with Town revenue, because the budgetary needs of the schools do not correlate directly to Town revenues. This is especially true while enrollments are in flux, and now with the added uncertainty about per-student costs due to the pandemic. Nevertheless, the need to draw on a stabilization fund signals that the Town must immediately begin weighing options for future budgets.

The Committee has drafted a memorandum on long-term policy considerations for the various forms of reserves held in the Town's accounts. The memorandum includes a characterization of each fund based on its size and purpose, and a set of requirements to weigh before withdrawing money from a reserve. We hope this memorandum will be refined and ratified following input from the Town's major boards and committees in the coming year.

Program Improvement Requests

This year, the report includes a new section on Program Improvement Requests.

A Program Improvement Request (PIR) is part of the Town's process to develop an annual operating budget. This process starts with a "level service" budget that supports all existing services, then PIRs are submitted by Town departments to update or expand services. Following a review by the Town Manager, some PIRs may be included in the recommended budget. If approved by Town Meeting, the results become part of the “level service” budget in subsequent years. Thus, PIRs offer a transparent view into the growth of the budget beyond the basic inflationary factors.

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

Department	Recommended Funding	Article Reference
Public Works	$29,500	4
Public Safety	$9,950	4
Town Manager's Office	$212,182	4, 7
Miscellaneous Boards and Committees	$50,000	8
Finance	$69,921	4
Total General Fund Requests	**$371,553**	

Public Works

The Public Works budget includes two PIRs recommended for approval:

(a) Department 3200 Highway - $19,500 to fund expansion of the department's use of People GIS to more efficiently track hours worked by contractor and department staff during a snowstorm.
(b) Department 3300 Public Grounds - $10,000 to enhance maintenance of the Minuteman Bike Path.

Public Safety

The Public Safety budget includes one PIR recommended for approval:

- Department 4100 Law Enforcement - $9,950 to enhance training for senior officers in light of expected retirements, including that of Chief Corr, over the next few years. This department is funded in the Municipal budget under Article 4.

General Government

The General Government budget includes four PIRs recommended for approval:

- Department 8200 Town Manager - $112,182 for the Diversity Equity & Inclusion Officer that was approved by Town Meeting in 2020. This includes $95,000 in Salaries and Expenses and $17,182 in Benefits which is reflected in the Shared Expenses budget under Article 4.
- Department 8200 Town Manager - $100,000 for a Department Structure Review. This will be funded via Article 7.
- Department 8300 Town Committees - $50,000 Townwide Survey - 20/20 Vision Committee. This will be funded via Article 8.
- Department 8400 Finance - $69,921 to hire a payroll manager to oversee weekly management of municipal and school payroll processing. This includes $53,200 in Salaries and Expenses and $16,721 in Benefits which is reflected in the Shared Expenses budget under Article 4.

Please see the referenced articles.

Updates

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

Warrant Article Analysis and Recommendations

Article 4
Appropriate FY2022 Operating Budget

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

Education (1000)

Program 1000 Education	FY2021 Budget	FY2022 Recommended	% of Education	$ Change	% Change
1100 Lexington Public Schools	$118,357,656	$123,376,981	97.5%	$5,019,325	4.2%
1200 Regional High School	$2,863,147	$3,130,038	2.5%	$266,891	9.3%
1000 Total Education	**$121,220,803**	**$126,507,019**	**100%**	**$5,286,216**	**4.4%**

Lexington Public Schools (1100)

The School Committee has voted to recommend an appropriation of $123,376,981 for the Lexington Public Schools (LPS) operating budget for FY2022. This amount includes $500,000 proposed to be withdrawn from the Special Education Stabilization Fund to augment the funds for the school budget assigned through the revenue allocation process during budget development. The requested amount does not include:

- The school portion of Shared Expenses (2000) including public facilities, employee and retiree benefits, pension, debt service, and liability insurance funds;
- School revenues from federal, state, local, and private grants, or revolving and donation fund activity that are not subject to appropriation by Town Meeting.

The request represents an increase of 4.2% over the FY2021 appropriation.

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

A breakdown of this operating budget into salaries and wages, and expenses is shown below. In the LPS Budget Book, the $500,000 from the Special Education Stabilization Fund is counted apart from the other funds to be appropriated (see, e.g., the table at the top of page "Budget Overview – 10"). Since that amount will be appropriated as part of this article, and since the LPS Budget Book indicates that it will be used to fund out-of-district special education tuition expenses, here we fold the $500,000 into the budgeted expenses.

Category	FY2021 Budget	FY2022 Recommended	Dollar Increase	Percent Increase
Salaries & Wages	$98,932,332	**$102,654,658**	$3,722,326	3.8%
Expenses	$19,425,324	**$20,722,323**	$1,296,999	6.7%
1100 Lexington Public Schools	$118,357,656	**$123,376,981**	$5,019,325	4.2%

Source: Lexington Public Schools FY2022 Superintendent's Recommended Budget, January 5, 2021

Assumptions

This budget has been built on the basis of three major assumptions that are specific to this year's budget request.

1. The first is that the Covid-19 pandemic will have abated sufficiently to allow a full in-person return to school and that school operations will be similar to those conducted prior to the onset of the pandemic. Thus, the budget does not explicitly make allowances for students to attend school remotely.
2. The second is that the enrollment will recover to close to the level projected in 2019 prior to the pandemic for FY2022. This assumption is based on the idea that much of the substantial enrollment decrease seen this year (FY 2021) is pandemic-related and likely to be temporary.
3. The third is that the buses or other vehicles used for school transportation will be able to transport "normal" numbers of students and that bus fee revenue will not be low due to reluctance to utilize the bus system.

These assumptions demonstrate the exceptionally high level of uncertainty in budgeting when there is so much uncertainty as to how the Covid-19 pandemic will play out. Perhaps the enrollment will not return to the level of the pre-pandemic projection or there will still be a need to educate some students remotely. While lower enrollments will tend to lower costs, a need to educate students remotely will tend to raise them. If both effects occur, they could potentially offset each other. As long as the net costs do not significantly increase, such deviations from the plan may be able to be accommodated within the requested budget. Given the situation, the School Administration has noted that additional flexibility will be gained by delaying hiring decisions from March/April to May/June and, if necessary, delaying filling positions that become vacant in the summer.

Salaries and Wages

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

Salaries and wages make up 83% of the FY2022 request. The increase over FY2021 represents an upward change of 3.8%. A net decrease of 6.0 full-time equivalent (FTE) employees (including unallocated positions) is the sum of changes in staffing in a number of areas. See the LPS Budget Book on page "Budget Overview – 16" for a list of the positions that will be consolidated, eliminated, or created.

Expenses

Expenses make up 17% of the FY2022 request. The increase in special education out-of-district tuition of $559,679 is the largest for any single line in the detailed expense budget (see the "Expenses" section of the LPS Budget Book). This figure does not include the $500,000 from the Special Education Stabilization Fund which is intended to cover special education tuition expenses. We note that both this and previous school budgets are based on projected net expenses after the projected application of revenue that is not appropriated. Such revenue includes "Circuit Breaker" funds and substantial special education grant funds, but not monies from stabilization funds which do require appropriation. A detailed overall picture of funding of out-of-district tuition may be found in the LPS Budget Book on page "9000 Programs with Other School Districts – 6". There one may see that the total of out-of-district tuition expenses is increasing by 5.6% to $15,313,727 from the corresponding amount for FY2021.

The expense budget also includes sizable increases for transportation costs for regular education students ($95,386) and special education students ($170,990). The budget for LPS legal expenses has been reduced.

Benefits

The cost of the benefits associated with school staff is included under Shared Expenses (see below). In most recent years the net number of school positions increased and thereby contributed to increases in the costs of the associated benefits. Any change in the total cost of benefits for school staff would flow from changes in the number of employees, individual changes in benefits choices, and changes in per-capita benefits costs.

School Enrollments

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

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

This table shows student enrollments for the past three years and the enrollment projected for the fall of 2021. In more normal years, enrollment figures have sometimes been somewhat volatile, and trends are difficult to spot. This applies even more strongly this year, so a generous level of flexibility is warranted.

	Oct. 1, 2018 Enrollment	Oct. 1, 2019 Enrollment	Oct. 1, 2020 Enrollment	Projected FY2022 Enrollment
Early Childhood	69	68	57	74
Elementary	3,094	3,019	2,790	2,997
Middle School	1,833	1,828	1,793	1,876
High School	2,263	2,275	2,261	2,396
Total	**7,259**	**7,190**	**6,901**	**7,343**

The FY2021 LPS METCO program includes a total of 219 students. The METCO enrollment has been as high as 240 students. The target FY2022 enrollment is approximately 225 students.

In regard to special education, in the current school year (FY2021) a total of 1,135 students are on individualized education programs (IEPs). Of these, 966 are in-district and 169 students are in out-of-district placements. The overall proportion of K-12 students on IEPs is roughly 14%, which is similar to the ratio in communities comparable to Lexington.

Special Education Costs Including Out-of-District Tuitions

For at least the past five years, special education costs have tended to rise at a higher rate than other parts of the LPS operating budget. SPED expenses amounted to 33.7% of the actual expenditures in FY2020, represent 33.19% of the appropriated budget for FY2021, and represent 33.43% of the request for FY2022.

The FY2022 request for out-of-district tuition, inclusive of the funds from the Special Education Stabilization Fund, of $9,288,817 represents a 12.9% increase over the corresponding FY2021 amount. As noted above under "Expenses", the requested amount will be supplemented by non-appropriated sources of funds (pre-paid tuitions/LABBB credit, IDEA grant, and state Circuit Breaker reimbursements).

Funding Sources Not Subject to Appropriation

The annual appropriation through the operating budget supports the majority of the school budget. However, LPS will also expend funds from state, federal and other sources that are not subject to appropriation by Town Meeting and are therefore not included in the request under this article. The amounts of these funds vary year to year. Some of these sources of funds are:

- *Federal Grants* –In the current budget year (FY 2021), the Town and schools have benefitted from Covid-19 related aid through the federal CARES act. For FY2022, the School Department projects that it will receive $2,162,682 in federal grants, which is identical to the non-CARES-funds amounts in federal grants assumed for the FY2021 budget. The budget for FY2022 does not assume the availability of any Covid-19 relief funds.
- *State Grants* – The School Department projects that it will receive $1,581,826 in FY2022 from the state METCO program, which represents no change from FY 2021. Based on an enrollment of 225

students, the projected state aid averages to $7,030 per METCO student. Cherry-sheet local aid for education, i.e., Chapter 70 aid, is treated as General Fund revenue and is not included in state grants.

- *"Circuit Breaker" Reimbursements* – Reimbursements are received from the state when the costs of special education services for an individual student, whether in-district or out-of-district, exceed a multiple of four times the statewide foundation budget. In the past, reimbursement rates have varied between 35% and 75% of the tuition cost. Circuit Breaker reimbursement funds are paid to the district quarterly based on the prior year's approved claims. Funds received go into the Circuit Breaker Revolving Account, do not require further appropriation, and must be expended by June 30 of the following fiscal year. The Lexington Public Schools current practice is to apply a large fraction of the funds received in a given fiscal year (based on SPED expenses in the prior fiscal year) as a revenue offset in the following fiscal year. For example, LPS will receive (or has received) a reimbursement in FY2021 based on FY2020 SPED expenses and will use most of that reimbursement to offset SPED costs in FY2022.

  A detailed exposition of the LPS Circuit Breaker funding may be found in the LPS Budget Book on page "9000 Programs with Other School Districts – 7". In brief, the District projects that $4,249,910 will be received in FY2021 and then be available for expenditure in FY2022. Using a conservatively projected reimbursement rate of 60%, lower than the rates in the past few years due to the possible fiscal effects of the pandemic on the state budget, the Circuit Breaker reimbursement in FY2022 is projected to be $3,404,077. The requested budget assumes that $866,580 in the reimbursements to be received in FY2022 will be spent in FY2022, and thereby leave less to be expended in FY2023.

Fee Programs

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

Regional High School (1200)

Lexington's FY2022 projected assessment for the Minuteman Regional High School (MRHS) of $3,130,038 represents an increase of $266,891, or 9.3%, over FY2021. It follows on the prior year's increase of 15.9% and an increase of 16.2% from FY2019 to FY2020. The current increase primarily reflects two factors: (1) Lexington's enrollment growing from 62 to 71 students, and (2) sharply increased debt service costs for the recent completed new school building and athletic fields, of which Lexington's share is $763,227.

The District's Budget

The Minuteman Regional High School (MRHS) Committee has approved a FY2022 budget of $27,640,588, a $475,855 increase (+2.5%) over FY2021. The increase is the net effect of a 2.4% increase in the cost of operations and a $1,396,786 increase in debt costs attributable to construction of the new MRHS building and athletic fields.

This budget funds the third year of operations in the new school building, which was designed for an enrollment of up to 628 students. Response to the new facility has been very strong and current high school enrollment is 634 students. 467 students come from the 9 member towns of the school district, and 167 students come from out-of-district communities.

District Developments

The new school building was opened on schedule in September 2019 and was completed within budget, but construction of the new athletic fields had to wait for the demolition of the abandoned school building. In November 2020 the District School Committee selected an athletic field plan that included lighting the fields. This feature satisfies the school's requirements, and also allows the fields to be available for rental to local teams and leagues outside of school hours. Member towns approved the necessary additional

$1,900,000 bonding required to fund the enhanced project with the understanding that the rental income could significantly offset the field maintenance and debt service. The fields should be ready during FY2022 with rental income available for use in the FY2023 budget.

The debt service for both the school building and the field project is funded via assessments to district members and by a new state-authorized facilities fee for capital costs charged to non-member towns that enroll students at the school. This fee is set by the Department of Elementary and Secondary Education (DESE) and towns are classified by whether they offer at least five Chapter 74 (vocational-technical) programs. Of the facilities fees collected in FY2021, $591,967 is available to be applied to the FY2022 budget. Additionally, $508,033 of anticipated FY2022 collections will be used to directly fund the FY2022 budget. The per-student charge in FY2022 has still not been set by DESE, but for towns lacking access to vocational-technical education is estimated to be $7,500 and $5,600 for towns that have programs.

While it was anticipated that the new school building would drive increased applications, the success has exceeded expectations. For the last two years and for the upcoming year more than 200 applications have been received from in-district students. In-district students are given priority, and for two consecutive years almost all of the incoming freshman class will be in-district. If this enrollment trend continues, by FY2024 the school enrollment could consist primarily of in-district students. Based on applications received to date, total school enrollment is expected to exceed 670 students in September 2021.

Enrollment	**FY12**	**FY13**	**FY14**	**FY15**	**FY16**	**FY17**	**FY18**	**FY19**	**FY20***	**FY21**
In-district	430	409	437	410	391	347	337	354	395	467
Out-of-district	255	340	356	332	277	271	231	162	207	167
Total	685	749	793	742	668	618	568	516	602	634

** new school occupied*

This strong enrollment has the district studying how to increase school capacity to 800 students, allowing all graduating classes to be in the range of 200 students. The flexible design of the school's technical training spaces would allow this higher capacity, so the limiting factor is providing sufficient academic space. In anticipation of accommodating future enrollment needs at total annual contribution of $350,000 is budgeted for the Capital Stabilization Fund, $265,000 more than FY2021 contribution.

According to FY2019 state data, MRHS continued to have the highest average per-pupil costs of any Massachusetts regional vocational district. However, this was in the old building and with an enrollment of only 546 students (includes post-graduate students not shown in the table above). At that time the per-student average cost was $36,967, compared to a statewide median of $22,698. The second-highest district, Cape Cod Regional Vocational Technical, had a per-pupil average cost of $28,269. MRHS has a significantly lower student-teacher ratio when compared to similar districts, due in part to its 46.5% enrollment in special education (SPED). This is the highest level of SPED students in any public school in the state (the average is 18%). This level is similar for students coming from both in-district and out-of-district communities.

Towns sending out-of-district students are responsible for providing transportation to their students and are subject to additional fees beyond the base tuition. In addition, these towns are assessed a per-student "facilities fee" which represents a share of the debt service for new building. This facilities fee revenue is applied to that debt service, reducing assessments for member towns. Sending towns are also assessed tuition for supplemental SPED services when their students require them. The district will be recommending to DESE that the out-of-district per-student SPED tuition be increased to $6,100 in order to cover actual costs. DESE set the base out-of-district tuition rate at $18,400 per student in FY2021 with an expected increase for FY2022 to be recalculated in March. This does not cover the full cost of a district education, nor is the State Chapter 70 aid for out-of-district students sent to MRHS.

In prior years, even with paying all these fees, out-of-district students were effectively subsidized by member towns. However, increasing in-district enrollment has spread out the district's fixed costs over more students and has decreased the average MRHS member's per-student assessments for operating costs (excluding capital debt) to $27,825. Additionally, with FY2021 member enrollment at 73% of total enrollment, the per-student total that non-member towns paid came to within 15% of the average per-student cost that members being assessed. It is anticipated that in FY2022 the member enrollment should increase to over 80% of total enrollment, bringing the per-student non-member fees to within 10% of the per-student assessments paid by members. It is important to note that due to State funding formulas, wealthier member towns pay a higher per-student assessment. As you will see below, Lexington's average per-student operating cost exceeds the average member's per-student cost at over $30,000.

District Budget Overview

This is the second budget created since occupying the new school, yet due to COVID-based changes in learning the district has yet to have history to establish an accurate base budget. School closings and hybrid learning mean that facilities expenses such as utilities and maintenance are still being assessed.

With the anticipated enrollment for the incoming freshman class of 2025 being around 200 students, the school will again be above its 628-student capacity. As of October 1, 2020, 634 full-time students were enrolled. Roughly 74% of high school students were from the 9 in-district towns, up from 66% last year. Total full-time enrollment increased from October 2019 by 32 students, with in-district enrollment increasing by 72 students and out-of-district enrollment decreasing by 40 students.

Staffing changes include a net decrease in staff of 5.0 FTEs. These FTE changes reflect a reduction in support staff as well as an addition of Animal Science/Vet Assisting as a 19th program major. With the growth of debt service to 25% of the total budget, salaries now only comprise 45% of the budget. (This ratio is atypical because unlike most public schools, this budget includes major capital expenses.) Contractual obligations include a cost-of-living increase of 2.5% with a net growth in salaries of $313,629. Funding for technology, allowing each student to have a computer and to provide for remote learning, will increase by $70,441. Utilities and heating expenses will increase $263,000 (+51%), and a commitment to provide proactive building maintenance increases that line item by $104,487 (+19%).

The total health insurance budget is decreasing by $175,636 (6.8%), reduced by lower than anticipated utilization and decreased staffing. Favorable bidding resulted in a transportation contract that reduces costs by 3%. Debt service payments for FY2022 rise to $6,489,171 (+27%) as debt service for the new building peaks. A $60,000 payment will be made toward the funding of the district's $32,473,201 Other Post-Employment Benefits (OPEB) unfunded liability.

Roughly 30% of the revenue in the MRHS FY2021 budget comes from a combination of state aid, reserves, and fees shown in the table below. In total, this non-assessment revenue increases by $13,666 in FY2022. Chapter 70 funds and transportation aid are estimates based on the Governor's H-2 budget. MRHS's share of Chapter 70 aid decreases 5% and Transportation Aid decreases 20%. Chapter 70 aid is based on October 2020 enrollments, and Transportation Aid is based on bussing expenses incurred in FY2020 which included school being shut down in March. In FY2023 this aid should show a substantial increase, as it will be based on anticipated return to normal levels of transportation use in FY2022.

Non-Assessment Revenue Sources	FY2021	FY2022	Change $
Chapter 70	$2,095,633	$1,986,977	($108,656)
Transportation Aid	$977,179	$776,382	($200,797)
Prior Year Tuition	$3,048,695	$2,695,837	($352,858)
Current Year Tuition	$600,000	$1,080,000	$480,000
Excess and Deficiency (E&D) Funds	$540,000	$540,000	–
Current Year Nonresident Capital Fee	$904,023	$508,033	($395,990)
Prior Year Nonresident Capital Fee	–	$591,967	$591,967
TOTAL	**$8,165,530**	**$8,179,196**	**$13,666**

Lexington's Assessment

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

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

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

A breakdown of the Town's FY2021 and FY2022 MRHS assessments is shown below. The projected assessment for FY2022 is $3,130,038, an increase of $266,891 (9.32%) over the final FY2021 assessment.

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

	Enrollment Basis		Assessment Components		Per-Student
	FY2021	**FY2022**	**FY2021**	**FY2022**	**FY2021**
State-Required Minimum	65	77	$1,057,954	$1,156,993	$15,026
Regular Day Students*	55.13	59.38	$1,011,769	$935,559	$15,755
Transportation	65	77	$83,516	$109,594	$1,423
Total Operating Costs*			*$2,153,239*	***$2,202,146***	
Debt Service*	55.13	59.38	$709,908	$927,892	$15,626
Post-Graduate Programs	0	0	–	–	–
TOTAL ASSESSMENT			$2,863,147	**$3,130,038**	
Annual % increase (decrease)			*15.9%*	*9.32%*	

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

The FY2022 operating cost per student (excluding debt service) works out to $31,016 (based on Lexington's October 2020 enrollment of 71 students), a decrease from last year's per-student cost of $34,730. Due to the assessment formula, the assessed per-student amount lags behind short-term enrollment trends. A rising enrollment (as we expect this year) will tend to lower per-student costs (and vice versa) until the 4-year average stabilizes. Enrollment from other member towns can also affect this figure, as Lexington's percentage of the total member enrollment changes.

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

Shared Expenses (2000)

The Shared Expenses section of the budget covers appropriations for various activities that are managed centrally rather than by the Lexington Public Schools (LPS) or individual municipal departments. Although these expenditures do not appear in the budgets of LPS or individual departments, they are driven primarily by decisions by LPS and those departments.

As shown in the table below, over 61% of shared expenses fund employee benefits, which are administered by municipal staff, but which are driven by current and past staffing decisions made by LPS and the municipal departments. The second largest line item (18.8%) is to support facilities used by LPS and municipal activities that are managed by the Public Facilities Department. The third largest line item (16.1%) is for debt service, which is administered by the Finance Department. Debt service is driven by current and past capital expenditures and financing decisions.

For FY2022, a $750,000 appropriation for the Reserve Fund makes up 1.2% of the total budget, funded at the same level as in FY2021. For longer-term history, see Brown Book Appendix C, "Summary of Reserve Fund Transfers."

Program 2000 Shared Expenses	FY2021 Restated	FY2022 Budget	% of Shared Expenses	Change $	Change %
2100 Employee Benefits & Insurance	$37,964,483	$39,854,559	61.7%	$1,890,077	5.00%
2200 Property & Liability Insurance	$1,095,000	$1,095,000	1.70%	-	-
2310 Solar Producer Payments	$410,000	$390,000	0.60%	($20,000)	(4.90%)
2400 Within-Levy Debt Service	$10,371,583	$10,397,112	16.1%	$25,529	0.25%
2600 Facilities	$11,990,390	$12,153,365	18.8%	$162,975	1.40%
2510 Reserve Fund	$750,000	$750,000	1.2%	-	-
TOTAL	**$62,581,456**	**$64,640,036**	**100%**	**$2,058,580**	**3.30%**

The recommended total Shared Expenses budget for FY2022 is $64,640,036, which represents an increase of $2,058,580 or 3.3% over the restated amount for FY2021.

Employee Benefits & Insurance (2100)

As shown in the table below, Line 2100 includes costs for retirement; health, dental, and life insurance; workers' compensation, unemployment insurance, and the Medicare tax. The total request for Employee Benefits and Insurance is $39,854,559, which represents a $1,890,077 or a 5% increase over the FY2020 appropriation.

The table below provides a breakdown of the benefits budget by category. Retirement accounts for 18.7% of the total, with virtually all of it going into the contributory retirement (pension) fund. The Town is following a schedule of contributory retirement payments which have increased based on the updated January 1, 2020 actuarial valuation of the Lexington Retirement system, projected to eliminate unfunded pension liabilities by 2028. The contributory retirement funding is increasing by 10.95% to $7,417,500. Out of the $731,963 increase for FY2022, $400,000 is being funded via Free Cash. Once that goal is reached, and assuming the Town can maintain its fully funded pension status, the annual cost for contributory retirement will be significantly lowered by reducing or eliminating payments toward any unfunded pension liability.

Benefits Category	Amount	Percentage
Retirement	$7,433,827	18.7%
Medicare	$1,982,126	5.0%
Health Insurance	$28,270,148	70.1%
Dental Insurance	$1,093,459	2.7%
Life Insurance	$25,000	0.1%
Unemployment	$300,000	0.8%
Workers Compensation	$750,000	1.9%
TOTAL	**$39,854,560**	**100.0%**

Health insurance cost is by far the single largest item in the Employee Benefits budget, accounting for 70.1% of the total. The FY2022 request for health insurance is $28,270,148, which represents a 4.6% increase over the estimate for FY2021. The Town remains a member of the State's Group Insurance Commission (GIC) health insurance program, which has helped hold down the rate of increase, but health care costs (nationally as well as for the Town) continue to outpace general inflation. As it has been since FY2016, the FY2022 split of healthcare premiums between employer and subscribers is 82/18 or 75/25 depending on the health plan chosen by the employee (the town pays a larger share for employees who choose a lower cost plan). The Brown Book, p. IV-6, contains a discussion of health-benefit costs, including changes in the numbers of subscribers since FY2017. The projected number of subscribers used for the FY2022 budget represents a 3.2% increase compared to FY2021 and a 10% increase compared to FY2017.

Solar Producer Payments (2300)

This line item reflects payments for the installation and operating costs of the solar array at the Hartwell Ave compost facility. Against the annual cost of $390,000, which covers both the initial capital cost and maintenance costs, staff estimates that the array will generate $670,000 in payments from Eversource (the electric utility serving the Town), so the array is projected to generate a net contribution to the General Fund of $280,000. The recommended FY2022 budget is $20,000 less than the FY2021 budget.

Note this budget item does not include the Town's rooftop solar arrays and payments in lieu of taxes for the solar operations, which are recorded under personal property taxes per the Massachusetts Department of Revenue. The Brown Book includes a table on p. IV-11 showing more complete estimates for the Town's solar installations, with projected net revenues of over $492,000 in FY2022.

Debt Service (2400)

The Debt Service amount covers annual payments for within-levy debt service. Gross within-levy debt service is projected to rise 0.3% as indicated in the above table. When the set aside for land purchases and certain cemetery revenues are removed from the gross debt service totals, the net amount is projected to rise by 3.9%, which is below the Town's target ceiling of 5.0%, so there is no recommendation to use the Capital Stabilization Fund as a funding source here.

The Town also makes annual payments for exempt debt service, but the funds for these payments do not need to be appropriated by Town Meeting. Every project funded with exempt debt must be approved by a majority of voters in a town-wide referendum, after which the Select Board sets the tax levy to provide sufficient funding. The portion of the tax levy raised for exempt debt service is exempt from the limits imposed by Proposition 2½. See p. IV-12 in the Brown Book for details on exempt debt.

Staff estimates that the combined gross debt service for exempt and non-exempt debt will decrease by 1.6% in FY2022. For more details on debt service, see the Debt Service section in the Brown Book.

Reserve Fund (2500)

The Reserve Fund provides a critical source of funding for extraordinary and unforeseen expenses during the fiscal year that can be tapped without the need for appropriation by Town Meeting. Requests for transfers from this fund are generally initiated by the Select Board and/or Town staff and require formal approval by the Appropriation Committee.

The FY2022 requested appropriation for the Reserve Fund is $750,000, the same amount as appropriated in FY2021, and a reduction from the $900,000 that was appropriated from FY2014 to FY2020. During those years the fund saw limited use. In FY2019 the fund remained unused. In FY2020, $100,000 was transferred to the Fire Department to offset increases in spending due to the Town's response to the COVID-19 pandemic.

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

Public Facilities (2600)

The Department of Public Facilities manages the operation, maintenance, and custodial service of Lexington's municipal and school buildings. This Department also supports the School Master Planning process; manages recurring maintenance of roofs, building envelopes, and HVAC systems; and implements other priority projects. The FY2022 projected total Public Facilities General Fund operating budget is $12,153,365, which represents a 1.4% increase over FY2021.

Municipal (3000-8000)

The municipal operating budget comprises all line items from 3000 to 8999. As shown in the table below, the FY2022 Recommended Budget of $43.0 million represents a $1.4 million or 3.37% increase. The largest components of the municipal budget are those for Public Safety, the DPW, and General Government.

Municipal Budgets	FY2021 Appropriated	FY2022 Budget	Change $	Change %
3000 Public Works	$10,805,637	$11,528,143	$722,506	6.69%
4000 Public Safety	$15,536,792	$16,004,367	$467,575	3.01%
5000 Culture & Recreation	$2,959,426	$3,106,143	$146,717	4.96%
6000 Human Services	$1,486,822	$1,477,465	($9,357)	(0.63%)
7000 Land Use, Health & Development	$2,641,061*	$2,693,989	$52,9287	2.00%
8000 General Government	$8,168,922	$8,190,780	$21,858	0.27%
TOTAL	**$41,598,660**	**$43,000,887**	**$1,402,227**	**3.37%**

** Includes $16,300 appropriated at STM2020-3.*

Public Works (3000)

The recommended appropriation for Public Works of $11,528,143 represents a 6.69% increase over FY2021. Of the total, 92.4% is covered by the tax levy, 4.5% is covered by payments from the enterprise funds for services rendered, and 3.1% comes from other sources, primarily fees and the Cemetery Trust Fund. About 41% of the recommended budget is for compensation, i.e., salaries and wages, while the remaining 59% is for Expenses.

The net increase in compensation of $362,735 (8.37%) from FY2021 is attributable to the newly settled Public Works contract replacing one that expired on June 30, 2108. Following Town practice, the FY2019, FY2020 and FY2021 compensation was budgeted using the expired contract rate. The large percentage increase reflects only the budgeted cost of compensation for FY2022 hours. The money to fund the retroactive pay will occur within the FY2021 budget using end-of-year adjustments as well as with money transferred from the Salary Transfer Account. The contract is effective until June 30, 2024.

The net increase in expenses is $359,771, up 5.56% from FY2021. Embedded in this increase are two Program Improvement Requests (PIRs) for People GIS and Minuteman Bikeway maintenance (see Article 4 below). Also included is a transfer of $48,000 from the Department of Public Facilities budget (line 2600) to the Highway budget (line 3210) for the maintenance of bioretention basins on school properties.

Some noteworthy points in the budget are:

- Savings from conversion of the Town's streetlights to LEDs that was funded at the fall 2019 STM has not been fully budgeted in FY2022 since there has been a delay in the paperwork with the utility company. It is expected that the FY2023 budget will reflect a more realistic estimate.
- There is a net increase of $200,246 (6.6%) for the Environmental Services contracts for refuse collection, disposal, and recycling.

  - *Collection:* The refuse collection contract with EL Harvey includes both trash and recyclables collection and automatically increases 3% per year. This is the third year of a five-year contract.
  - *Disposal:* The refuse disposal contract is with Wheelabrator and is increasing from $78/ton in FY2021 to $80.54/ton in FY2022, escalating to $88.65/ton in FY2026. The town generates about 9,300 tons of refuse per year.
  - *Recycling:* The recycling costs are increasing $110,000 or 11%. A declining global market for recycled materials means that a large percentage of recyclable material cannot be sold, resulting in additional disposal costs to the Town. This trend started in FY2019 and the costs are expected to continue increasing in future years.
- Both Water Enterprise (3600) and Wastewater Enterprise (3700) have begun to transition the funding for the water and sewer main replacement programs from debt financing to cash capital. This will result in considerable savings in interest costs (see Article 5 below).

Public Safety (4000)

Public Safety covers Law Enforcement (4100) and Fire and Rescue (4200). Of the total recommended appropriation of $16,004,367, about 52% is for Law Enforcement and 48% for Fire and Rescue.

The recommended FY2022 appropriation for Law Enforcement is $8,235,057 which is a 2.44% increase over the FY2021 budget. About 88% of the budget is for compensation and approximately 12% is for expenses. The net increase in compensation of $130,439 (1.84%) is driven by contractual cost of living adjustments. The net increase in expenses of $66,060 (6.89%) includes a PIR for an Executive Development Program to enhance the training for senior officers, increased cost of equipment replacement, increased uniform costs and the addition of one hybrid cruiser to the fleet (see Article 4 Public Safety).

The recommended FY2022 appropriation for Fire and Rescue is $7,769,310, which is a 3.62% increase over the FY2021 budget. About 91% of the budget is for compensation while approximately 9% is for expenses. The net increase in compensation of $246,649 (3.63%) is driven by contractual cost of living adjustments. The budget for expenses has increased by $24,427 (3.50%).

Culture and Recreation (5000)

Culture and Recreation covers Cary Memorial Library and Recreation and Community Programs. The recommended appropriation of $3,106,143 represents a 4.96% increase over the FY2021 budget. Note that the budget to be appropriated under this article is only for the Cary Memorial Library. The Recreation and Community Programs budget is funded under Article 5 by the Recreation Enterprise Fund and, to a lesser extent, by the tax levy. About 80% of the recommended budget is for compensation while the remaining 20% is for expenses.

The net increase in compensation of $102,885 (4.34%) is driven by contractual cost of living adjustments.

The net increase in expenses of $43,832 (7.47%) is primarily driven by increases for supplies and materials and contractual services.

Human Services (6000)

The recommended appropriation for Human Services of $1,795,933 represents a 0.36% decrease from the FY2021 budget. About 47% of the recommended budget is for compensation while the remaining 53% is for Expenses.

The net increase in compensation of $29,726 (4.50%) is driven by contractual cost of living adjustments.

The net decrease in expenses of $39,083 (-4.73%) is driven by an increase in Lexpress costs that were offset by reduced veteran’s benefit costs and the cancellation of the Transit Service pilot program due to the pandemic.

In addition to the General Fund appropriation requested here, Human Services will also be funded by $318,468 from revolving funds (Article 9) and grants.

Land Use, Health, & Development (7000)

Land Use, Health, & Development covers six different budgeting units. The recommended appropriation of $2,693,989 represents a 2.00% increase over the FY2021 budget. About 81% of the recommended budget is for compensation while the remaining 19% is for expenses.

The net increase in compensation of $57,178 (2.70%) is driven by contractual cost of living adjustments.

The net decrease in expenses of $4,250 (-0.81%) reflects many small reductions offset by an increase in support to the Visitors Center.

In addition to the General Fund appropriation requested here, Land Use, Health, & Development will also be funded by $582,624 of revolving funds (Article 9).

General Government (8000)

General Government covers six different budgeting units. The recommended appropriation of $8,190,780 represents a 0.27% increase from the FY2021 restated budget.

Program 8000 General Government	**FY2021 Re-stated**	**FY2022 Budget**	**Change $**	**Change %**
8100 Select Board	$1,294,876	$1,259,086	$(35,068)	(2.71%)
8200 Town Manager	$1,524,432	$1,519,203	$(5,229)	(0.34%)
8300 Town Committees	$64,100	$65,233	$1,133	1.8%
8400 Finance	$1,902,345	$2,004,608	$102,263	5.38%
8500 Town Clerk	$590,452	$502,431	$(88,021)	(14.91%)
8600 Information Technology	$2,792,717	$2,839,497	$46,780	1.68%
TOTAL	**$8,168,922**	**$8,190,780**	**$21,858**	**0.27%**

Of the total net increase of $21,858, the primary drivers are two Program Improvement Requests (discussed in the Introduction) for a Chief Equity Officer and the hiring of a Payroll Manager. These increases have been offset by lower expenses for the Select Board (due to lower Legal and PEG Access budgets) and the office of the Town Clerk (due to fewer elections in FY2022).

The Committee recommends approval by a vote of (7-0).

Article 5
Appropriate FY2022 Enterprise Funds Budgets

Funds Requested	Funding Source	Committee Recommendation
$11,379,799	**Water EF**	
$10,553,239	**Wastewater EF**	**Approve (7-0)**
$2,589,936	**Recreation EF, Tax Levy**	

This article addresses the appropriation of funds for the operation of the Town's three enterprise funds: the Water Enterprise Fund, the Wastewater Enterprise Fund, and the Recreation Enterprise Fund.[1] Enterprise funds allow a municipality to account separately for certain "business operations" in which a fee is charged

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

in exchange for goods or services, and may or may not receive support from the tax levy. For an overview of the legal framework and accounting concepts that apply to the operation of an enterprise fund, please see Appendix B.

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

Water and Wastewater Enterprise Funds

A breakdown of the funding request for the Water and Wastewater Enterprise Funds, and changes from the prior fiscal year, are shown below. Further details may be found in the Brown Book, pp. V-27, 31. Although most of the costs in the water and wastewater operating budgets are appropriated under Article 5, certain others – including "indirect expenses" (for support services provided by other Town departments), cash to be raised in the rates in FY2022 for continuous system maintenance and investment, and contributions to the post-employment health benefits (OPEB) fund – are addressed in other articles as indicated.

Water Enterprise Fund	FY2021 Appropriated	FY2022 Requested	$ Change	% Change
Compensation	$804,234	$903,535	$99,301	12.35%
Expenses	$502,925	$514,300	$11,375	2.26%
Debt Service	$1,278,770	$1,179,794	($98,976)	(7.74%)
MWRA Assessment	$8,006,399	$8,782,170	$775,771	9.69%
Total Requested in Article 5	**$10,592,328**	**$11,379,799**	**$787,471**	**7.43%**
Indirect Expenses (Article 4)	$930,001	$918,245	($11,756)	(1.26%)
Cash Capital (Article 13)	$200,000	$400,000	$200,000	100.00%
OPEB Contribution (Article 17)	$0	$2,761	$2,761	–
Total Water Enterprise	**$11,722,329**	**$12,700,805**	**$978,476**	**8.35%**

Wastewater Enterprise Fund	FY2020 Appropriated	FY2021 Requested	$ Change	% Change
Compensation	$366,568	$401,775	$35,207	9.60%
Expenses	$444,150	$454,650	$10,500	2.36%
Debt Service	$1,388,579	$1,464,513	$75,934	5.47%
MWRA Assessment	$7,922,359	$8,232,301	$309,942	3.91%
Total Requested in Article 5	**$10,121,656**	**$10,553,239**	**$431,583**	**4.26%**
Indirect Expenses (Article 4)	$541,663	$514,111	($27,552)	(5.09%)
Cash Capital (Article 14)	$100,000	$200,000	$100,000	100.00%
OPEB Contribution (Article 17)	--	$3,004	$3,004	–
Total Wastewater Enterprise	**$10,763,319**	**$11,270,354**	**$507,035**	**4.71%**

With a water fund increase of 8.35% and a wastewater fund increase of 4.71%, the percent increase in the budget for the water and wastewater funds over FY2021 on a combined basis is 6.61%. The main reasons for this significant increase are addressed briefly below.

MWRA Assessment. The largest component of both the water and wastewater budgets is the assessment charged by the Massachusetts Water Resources Authority (MWRA), which now represents approximately 70% of the total of each fund. The Town will be assessed a share of the MWRA's total FY2022 water budget based on its proportionate usage in the most recent full calendar year (CY2020) relative to other towns in the MWRA community. In CY2020, Lexington's water system share increased 5%, meaning that its water usage increased (most likely due to heavy irrigation usage during last year's dry summer) faster than other towns. Based on the MWRA's preliminary assessments, Lexington's water assessment for FY2021 will increase by 9.69% (compared with a system-wide increase of 3.6%) and its wastewater assessment by 3.91%, for a combined increase of 6.82%. This percentage increase, about the same as last year's, is the main driver of this year's significant water and wastewater fund budget increases.

Compensation Costs. Increases in compensation costs for both the water fund (12.35%) and the wastewater fund (9.60%) are unusually high this year. This increase results from a recent settlement of the DPW union contract which includes a "catch-up" for three prior open years. (Retroactive wage increases for the three open years before FY2022 will be addressed in the FY2021 budget.) Because the settlement covers three years going forward, growth in compensation costs should return to normal levels after this year.

Transition to Cash Capital. Last year, a plan was initiated to transition the funding of regularly recurring capital investments for the maintenance and upgrade of the Town's water and wastewater systems (targeted at $2,200,000 annually for the water system and $1,000,000 annually for the wastewater system) from borrowing to cash (referred to in the Brown Books as "cash capital"). Since the intent is ultimately to raise the same amount each year in the rates to continuously maintain the system, this amount has been included in the enterprise fund operating budgets even though applied to capital investment. *See* Brown Book, pp. V-27, 31. To minimize the impact of the changeover on rates, the transition is being phased in gradually: in the case of the water fund, by adding an additional $200,000 in cash capital each year for eleven years[2]; and in the case of the wastewater fund, $100,000 per year for ten years. *See* the Brown Book, pp. V-26-27 and V-30-31. The transition currently adds about 1.5% to the increase in the water fund budget and about 1% to the increase in the wastewater rate budget. As the phase-in proceeds, the resulting reduction in debt service will increasingly offset the increase in cash capital costs.

<u>Water and Wastewater Rate-Setting Issues</u>

Because increases to the operating budgets of the water and wastewater enterprises approved at this annual town meeting will ultimately translate into increases to the FY2022 water and wastewater rates when set later in the year, a brief comment on the rate-setting process and the impact of this year's budget is in order.

Next fall, the Select Board will conduct rate hearings and set water and wastewater rates for FY2022. Two main components factor into the rates: (1) the approved budget for the fiscal year; and (2) estimates of the amount of water which will be consumed during the fiscal year by Lexington residents at each of the three graduated "tiers" of usage,[3] as well as by certain other users for which Lexington serves as a conduit, primarily the Town of Bedford, the Bedford VA hospital, and Hanscom Air Force Base/Lincoln Labs.

The goal at rate-setting is to establish rates which will generate sufficient revenue, given the anticipated usage, to cover the budget established by Town Meeting for the fiscal year. If projected water usage is unchanged from the prior fiscal year, then the required rate increase for each enterprise should generally match the year-over-year increase in the budget approved by Town Meeting. If anticipated water usage increases from the prior year, the required rate increase may be lower than the increase in the budget; and

[2] This year, and potentially in future years as well, the annual expenditure for water system improvements was cut back from $2,200,000 to $1,110,000. *See* discussion of Article 13 below. If the lower annual amount prevails going forward, the transition from borrowing to cash capital will be completed in less than 11 years.

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

if anticipated water usage decreases, the rate increase must be higher since most of the water and wastewater funds' costs are fixed, not variable.

By and large, water and wastewater rate increases have been relatively modest for more than a decade. From FY2007 through FY2021, combined rate increases fluctuated between -1.9% and 7.3% for an average annual rate increase of 2.8%. Last year (FY2021), the combined rate increase was approximately 4.0%. For FY2022, with a combined budget increase of 6.61%, a somewhat higher rate increase than last year can be expected if estimated water usage does not change.

For at least two reasons, however, that usage could decrease and the FY2022 rate increase could therefore be higher. First, there has been a recent trend of declining water usage for non-irrigation purposes as plumbing fixtures are modernized to waste less water and residents pay more attention to water conservation. If this trend continues, a higher rate increase will be required in FY2022.[4] Second, last summer's unusually hot, dry weather led to unusually large irrigation water usage which helped reduce the FY2021 rates. If those drought conditions do not recur this summer, a reduction in estimated irrigation water usage can be anticipated for FY2022 which will result in additional pressure on the water rates.

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

Water and Wastewater Retained Earnings

Accumulated surpluses resulting from the operations of an enterprise fund, referred to as "retained earnings", remain with the fund as a reserve, and may be used only for capital expenditures of the enterprise, subject to appropriation, or to reduce user charges. *See* Appendix B. Deficits must be funded with existing reserves or, in the absence of such reserves, made up in the following year's rates. The Town's policy is to maintain a balance of approximately $1 million of retained earnings in each fund as a buffer against revenue shortfalls resulting from unexpected reductions in usage or unanticipated extraordinary expenditures. The table below shows how the balance of retained earnings has been deployed over the past several years and their proposed appropriation at this ATM for FY2022.

Retained Earnings: Appropriations and Year-End Balances

Fiscal Year	FY2019	FY2020 (5)	FY2021	FY2022
Water				
Starting Balance (1)	$531,683	$1,612,998	$1,346,448	**$1,737,914**
Appropriation for Rate Relief (2)	–	–	–	–
Appropriation for Capital (3)	$105,000	$775,000	$130,000	**$520,000**
Projected End Balance (4)	$426,863	$837,998	$1,216,448	**$1,217,914**
Wastewater				
Starting Balance (1)	$576,523	$1,521,373	$998,736	**$1,297,665**
Appropriation for Rate Relief (2)	–	–	–	–
Appropriation for Capital (3)	–	$700,000	–	**$110,000**
Projected End Balance (4)	$576,523	$821,373	$998,736	**$1,187,665**

(1) Certified retained earnings as of the end of the prior fiscal year (6/30/2020 for FY2021) and available for appropriation at this annual town meeting

(2) The Town's former practice of appropriating from retained earnings to subsidize the next fiscal year's operating budget has been discontinued since FY2015 as it merely pushes necessary rate increases to the following year.

[4] Note that the higher rates should not result in higher bills for those who reduce their water usage consistent with the townwide decrease.

(3) Proposed appropriations for capital projects for the next fiscal year (FY2022 at this ATM). Note that such appropriations must be deducted as a liability from the projected retained earnings to be certified as of the end of the current fiscal year even though the funds appropriated will not be spent until the following year.

(4) The projection of the retained earnings balance available at the end of the fiscal year assumes break-even operational results, i.e., no surplus or deficit. A higher (lower) starting balance available for appropriation the following year indicates that the current year's operating results were higher (lower) than were projected at rate-setting, resulting in an operating surplus (deficit).

(5) The State Department of Revenue (DoR) under-certified water and wastewater retained earnings at the end of FY2018, and then corrected for this in its certification at the end of FY2019. This created the appearance of a combined surplus of over $2.1 million for FY2019 due to the difference between the FY2020 Starting Balance *and the* FY2019 Projected End Balance *for each fund. The actual FY2019 combined surplus was roughly half of that amount.*

As can be seen from the table, the primary use of retained earnings in excess of the amounts held in reserve is for capital projects. From roughly 2009 to 2014, excess retained earnings were appropriated on a regular basis to mitigate water and sewer rate increases in the next fiscal year. That practice was discontinued, however, as it provided only temporary rate relief and enhanced the rate increase required the following year if the retained earnings subsidy was not repeated. Since that time, as shown in the table above and consistent with recommendations made by this Committee, excess retained earnings, the availability of which cannot be guaranteed, have been used primarily for non-recurring capital investments of the enterprises, thereby lowering debt service costs and required future rate increases over a more extended period of time, as well as saving interest cost.

Consistent with this practice, excess water and wastewater retained earnings available this year are proposed for appropriation under other articles to fund, or help fund, the following FY2022 capital projects: under Article 12 (Municipal Capital), $145,000 from the water fund and $110,000 from the wastewater fund for maintenance equipment, and $75,000 from the water fund for the hydrant replacement program; and under Article 13 (Water System Improvements), $300,000 from the water fund for design work for the future replacement of the Town's two water tanks. *See* Brown Book, pp. XI-16, XI-18. As can be seen from the table above, the drawdown of retained earnings for these purposes will still leave the water and wastewater funds with healthy reserve balances of about $1.2 million each.

Recreation Enterprise Fund

The Recreation Fund has for many years been the principal funding mechanism for the Town's provision of recreational opportunities for residents, most of which are fee-generating. In 2015, following the inauguration of the Lexington Community Center (LCC), the Recreation Department, which manages the Recreation Fund's operations, was reorganized to include responsibility for the community center and renamed the Department of Recreation and Community Programs (the Department). The Recreation Fund is now comprised of four divisions: Recreation, Pine Meadows Golf Club, Community Center and the Administrative Division. The total recommended operating budget for all of the Recreation Fund's operations in FY2022 is $2,589,936.

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

The advent of the pandemic midway through FY2021 had a significant impact on the operations of the Recreation Fund. With the suspension of many recreational and Community Center activities and the consequent decimation of program and facility fees, it became necessary to shore up the Recreation Fund with additional funds from the tax levy.[5] At last fall's Special Town Meeting, an additional $400,000 was appropriated from the tax levy for this purpose. Combined with the prior appropriation at the annual town meeting for LCC staffing of $218,916, the total tax levy subsidy in FY2021 was $618,916.[6]

Anticipating that the effects of the pandemic will continue through at least part of the coming fiscal year, a continued subsidy of a similar magnitude from the tax levy is proposed for FY2022. To offset revenue losses, maintain core DRCP functions, and enable the Department to resume full operations more quickly, the proposed budget includes a direct transfer from the tax levy of $509,215, inclusive of the usual transfer for LCC staffing. It also suspends the Recreation Fund's annual payment of indirect expenses to the General Fund, which last year were $277,771, for a total effective FY2022 tax levy subsidy of approximately $800,000.

The FY2022 Budget. The proposed appropriations for FY2022, and changes from the prior fiscal year, are shown in the table below. Note that, due to decreased operations resulting from the pandemic, projected compensation and expense costs for FY2021 were revised downward by approximately $1,000,000 before the June Annual Town Meeting from those originally proposed. The total FY2022 budget is about $700,000, or 21%, *less* than the originally proposed FY2021 budget.

Recreation Enterprise Fund	FY2021 Original	FY2021 Revised	FY2022 Requested	Dollar Increase	% Change
Compensation	$1,535,363	$962,170	$1,342,201	$380,031	39.50%
Expenses	$1,480,045	$1,481,895	$1,247,735	$205,784	19.75%
Debt Service	–	–	–	–	–
Total Requested in Article 5	**$3,015,408**	**$2,004,121**	**$2,589,936**	**$585,815**	**29.23%**
Indirect Expenses (Article 4)	$277,771	$277,771	–	($277,771)	(100.00%)
Total	**$3,293,179**	**$2,281,892**	**$2,589,936**	**$308,044**	**13.50%**

The sources of funds to support the FY2022 budget, including the tax levy transfer, are as follows:

- Projected recreation user charges, $1,206,718
- Projected Community Center user charges, $297,655
- Projected Pine Meadows Golf Club user charges, $756,348
- Tax levy subsidy, $509,215

The projected distribution of funding in FY2022 among the four divisions of the Recreation Fund is as follows:

- Recreation, $1,100,745
- Pine Meadows Golf Club, $547,800
- Community Center, $528,777
- Administration, $413,414

Fee-Setting. The Director of Recreation and Community Programs and the Recreation Committee set fees from time to time for use of the Town's playing fields, gyms, and other recreational facilities with the goal of covering all operating costs of those fee-generating activities. The proposed fees are subject to the approval of the Select Board. If actual revenues come in higher than projections, the resulting surplus becomes

[5] Although the DCRP was able to reduce certain expenses, such as those of temporary and seasonal employees, many of its costs, such as administrative and field maintenance costs, are fixed.

[6] Additional losses incurred by the Recreation Fund in FY2021 were covered by its retained earnings, which dwindled from a balance of $672,277 at the end of FY2019 to $224,284 at the end of FY2020. Going into FY2022, a much smaller retained earnings buffer is available to absorb losses should the effects of the pandemic on fee-generating programs continue.

part of the Recreation Enterprise Fund's retained earnings and can be used for future capital costs of the enterprise, to lower fees, or to absorb future losses.

Capital Costs. The capital costs of the Recreation Fund are covered, to the extent projects are eligible under the Community Preservation Act (CPA), by the Community Preservation Fund. This year's CPA-funded projects, for which appropriations totaling $585,000 are sought under Article 10, consist of playground improvements, the renovation of Muzzey Field, and the installation of a sidewalk and patio at the Community Center. For more detail on these projects, see the discussion of Article 10 below.

Capital projects not eligible for CPA funding may receive support from the General Fund through the appropriation of free cash, within-levy debt or excluded debt, and may also be supported by the Recreation Fund's retained earnings to the extent feasible. Capital costs of the Pine Meadows Golf Club are typically funded from retained earnings attributable to golf user fees, as is the case this year with proposed appropriations under Article 11 (Recreation Capital) totaling $87,000 for maintenance equipment and course improvements.

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

The Committee recommends approval by a vote of (7-0).

Article 6
Appropriate for Senior Services Program

Funds Requested	Funding Source	Committee Recommendation
$15,000	**Tax Levy**	**Approve (7-0)**

This article seeks an appropriation for the Town's Senior Service Program of $15,000. Added to an existing balance of approximately $20,000 carried over from prior years, the appropriation would bring the total in this continuing balance account to about $35,000. That amount should be adequate to fund the program in FY2022 and provide flexibility for potential enhancements.

The Senior Service Program

The Senior Service Program allows a limited number of low to moderate income seniors (age 60 and over) to perform volunteer work for the Town in exchange for a reduction in their property tax.[7] The reduction which may be earned under this program supplements any other statutory exemption for which the participant qualifies. For more information on the Senior Service Program and other property tax relief options available to seniors, including exemptions and deferrals, please refer to Appendix D.

Benefits and Criteria for Participation

The Select Board is responsible for setting the age and income criteria for participation, the wage rate, and the maximum credit allowed. Under current guidelines, the program is available for persons age 60 years and older with household income up to $70,000. The maximum tax reduction which may currently be

[7] The Town adopted this program in 2006, in substitution for a similar program previously operated under the state's general laws, G.L. c. 59, § 5K, to allow it more flexibility.

earned, at a rate of $11.00 per hour for up to 140 hours of service, is $1,540 per household per year. The Select Board has enhanced the benefits available from time to time and may do so again in FY2022.

Funding Requirements and Requested Appropriation

The program operates as a continuing balance account, and unexpended funds carry over from year to year. When first adopted, appropriations were made annually to fund the program. More recently, with declining participation (and a suspension of the program for most of calendar year 2020 due to the pandemic), carryover account balances have been sufficient to fund the program for multiple years. The last appropriation made was $30,000 in FY2018.

If participation in FY2022 returns to a more typical level of about 15 households annually, and if each participating household earns the current maximum of $1,540, the projected funding needs for FY2022 would be a little less than $25,000. Combined with the existing account balance of $20,000, the $15,000 appropriation requested would be sufficient to meet those needs, while providing a buffer in the event of increased participation. It would also give the Select Board flexibility to expand eligibility and/or to enhance the benefits of the program for existing participants. Any unused funds would carry over and be available for use in the following year.

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

This Committee urges the Select Board to consider lifting the income eligibility ceiling for FY2022, and increasing the earnout rate and benefit cap to reflect the current minimum wage ($13.50 per hour as of January 1, 2021).

The Committee recommends approval by a vote of (7-0).

Article 7
Appropriate for Municipal Organizational Assessment

Funds Requested	Funding Source	Committee Recommendation
$100,000	**GF**	**Approve (7-0)**

This article requests $100,000 to hire a contractor to conduct a town-wide assessment of the Town's organizational structure. The goal is to determine if the Town is following best practices and to provide recommendations for more efficient and effective governance. This relatively modest expense could lead to savings in the municipal operating budget, as well as improved delivery of services.

The Committee recommends approval by a vote of (7-0).

Article 8
Appropriate for 20/20 Vision Survey

Funds Requested	Funding Source	Committee Recommendation
$50,000	**GF**	**Approve (7-0)**

This article requests $50,000 to allow the Lexington Vision Committee (formerly the "20/20 Vision Committee") to conduct a town-wide survey under the direction of the Town Manager. This survey, planned for 2022, follows on the committee's 2017 and 2012 surveys on residents' priorities and town performance.

The 2017 topics included economic development, public education, government, government services, and communications, environment and physical character, and population diversity. The 191-page final report on the 2017 survey is available at `https://bit.ly/2017LexSurvey`.

The new survey would include updated questions on public health, climate action, and diversity, equity, and inclusion. It would also be translated into languages other than English, and published online and in paper formats. This appropriation will enable the Lexington Vision Committee to provide valuable insight and guidance for future town planning, as they have done in the past.

The Committee recommends approval by a vote of (7-0).

Article 9
Establish and Continue Departmental Revolving Funds

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

This article seeks to establish FY2022 spending limits for all existing revolving funds, as shown in the table below. Generally speaking, a revolving fund allows Town Meeting to dedicate in advance a specific source of anticipated revenue from fees and charges to pay expenses for services associated with those fees and charges without the need for further appropriation. More detailed information regarding the nature and purpose of revolving funds can be found in Appendix C of this report.

The spending limit proposed for each of the Town's existing funds, as set forth in the table below, is based on a reasonable estimate of the fees and charges likely to be received, as well as of the expenditures likely to be required. A summary of the historical receipts, expenditures, and balances for each fund during FY2020 and the first half of FY2021 can be found in Appendix C of the Brown Book. No new revolving funds are proposed to be established this year.

Program or Purpose	Authorized Representative or Board	Departmental Receipts	FY2021 Request	FY2022 Request
School Bus Transportation	School Committee	School Bus Fees	$1,150,000	**$1,150,000**
Building Rental Revolving Fund	Public Facilities Dir.	Building Rental Fees	$560,000	**$570,000**
Regional Cache—Hartwell Avenue	Public Works Dir.	Participating Municipality Fees	$20,000	**$50,000**
Lexington Tree Fund		Gifts and Fees	$45,000	**$70,000**
DPW Burial Containers		Sales	$50,000	**$50,000**
DPW Compost Operations		Sales and Permits	$790,000	**$790,000**
Minuteman Household Hazardous Waste Program		Fees from Consortium Towns	$250,000	**$260,000**
Senior Services Programs	Human Services Dir.	Program Fees and Gifts	$75,000	**$75,000**
Residential Engineering Review	Engineering Dir.	Fees Paid by Developers	$57,600	**$57,600**
Health Programs	Health Director	Medicare Reimbursements	$45,000	**$45,000**

Program or Purpose	Authorized Representative or Board	Departmental Receipts	FY2021 Request	FY2022 Request
Lab Animal Permits	Public Health Dir.	Lab Animal Permit Fees	$40,000	**$40,000**
Tourism/Liberty Ride	Economic Development Dir.	Liberty Ride Receipts	$200,000	**$194,000**
Visitors Center		Sales, Program Fees and Donations	$205,000	**$247,000**

For the most part, the proposed spending limits have not changed substantially from those approved last year. A brief explanation of material changes is as follows:

Regional Cache-Hartwell Avenue: Budget request increased from $20,000 for FY2021 to $50,000 for FY2022. The Regional Cache operates as a fee-based program. Federal/regional funds purchased the equipment originally, and communities (including Lexington) pay for using the equipment. That usage has gone up recently, generating more revenue but also more wear and tear. The higher ceiling of $50,000 in FY2022 as compared with $20,000 in FY2021 will allow DPW to make larger equipment replacement purchases as needed, drawing on the fund balance.

Lexington Tree Fund: Budget request increased from $45,000 for FY2021 to $70,000 for FY2022. The Tree Committee has requested a Tree Canopy survey, anticipated to cost $25,000, using the balance that has built up in the Tree Fund. The increased ceiling capacity is expected to cover the cost of the survey in FY2022.

Visitor Center: Budget request increased from $205,000 for FY2021 to $247,000 for FY2022. The $247,000 is a potential spending level, including General Fund support; whereas the $205,000 in FY2021 discounted some of the General Fund support in an overall budget of $246,000. The underlying assumptions in developing both budget projections is essentially the same. The Revolving Fund model typically shows an equal amount of revenues and expenditures, but because of the pandemic and changes in operations in the new building, Visitor Center revenues are not expected to support this level of expenses. In anticipation of this challenge there is a considerable amount of General Fund support for the Visitor Center ($98,000 in FY2022, an increase from $69,000 in FY2021). In addition, staff have been/will try to minimize the amount of General Funds needed for this operation. Post-pandemic, the Visitors Center operations will be re-evaluated with an eye to developing a more reliable self-funded budget.

The Committee recommends approval by a vote of (7-0).

Article 10
Appropriate the FY2022 Community Preservation Committee Operating Budget and CPA Projects

Funds Requested	Funding Source	Committee Recommendation
$2,684,550	**CPA**	**Approve (7-0)**

CPA projects are funded using the Community Preservation Fund (CPF), which is managed as four separate sub-funds: Affordable Housing, Open Space & Recreation, Historic Resources, and Unbudgeted Reserves. The appropriation details for each project are shown below.

The Committee notes that both the scope and number of requests for CPA projects is significantly lower compared to last year, largely due to the pandemic. For reference, appropriations under the CPA for FY2021 totaled $8,960,225. This has resulted in additional cash available to pay off debt appropriated for the Highland Ave. property acquired under Article 7 at STM 2020-3 (see Article 25).

Item	Appropriation	CPF Funding
10(a) Community Center Mansion Sidewalk & Patio	**$110,000**	Historic Resources
10(b) Park and Playground Improvements – So. Rindge Ave	**$170,000**	Unbudgeted Reserves
10(c) Park Improvements – Athletic Fields – Muzzey Fields	**$155,000**	Unbudgeted Reserves
10(d) Playground Enhancements – Pour-in-Place Surfaces	**$150,000**	Unbudgeted Reserves
10(e) CPA Debt Service	$339,250 $660,500 $949,800 **$1,949,550**	Open Space Historic Resources Unbudgeted Reserves
10(f) Administrative Budget	**$150,000**	Unbudgeted Reserves
TOTAL	**$2,684,550**	

If Article 25 is not approved, 10(e) will include an additional $1,040,000 in debt service:

10(e) CPA Debt Service	$339,250 $660,500 $1,989,800 **$1,949,550**	Open Space Historic Resources Unbudgeted Reserves
TOTAL	**$3,724,550**	

10(a) Community Center Mansion Sidewalk and Patio

This $110,000 request would install a stamped concrete sidewalk and a patio directly abutting the older mansion wing of the Community Center. This new surface would replace the dilapidated bluestone surface that currently exists. The renovated sidewalk would provide an accessible surface around the building, and the patio would be used for programmed activities. This project is requested by the Recreation Committee and would be funded from the Historic Resources Reserves.

10(b) Parks and Playground Improvements – So. Rindge Ave.

This $170,000 request would improve the neighborhood park on South Rindge Ave. Work includes updating and replacing playground equipment and safety surfacing; installing fencing, signage, park benches, trash receptacle and bike rack; and improving and creating walkways for increased ADA accessibility. This project is requested by the Recreation Committee and follows on similar CPA-funded playground improvements projects from FY2016, 2017, 2018, and 2021. This project would be funded from the Unbudgeted Reserves.

10(c) Park Improvements – Athletic Fields – Muzzey Fields

This $155,000 request would renovate the Muzzey Field with irrigation upgrades, laser grading and the installation of new natural grass, and installation of accessible paths adjacent to the field. This project is requested by the Recreation Committee and follows on similar CPA funded field improvements projects from FY2016, 2017, 2018, 2020, and 2021. This project would be funded from the Unbudgeted Reserves.

10(d) Playground Enhancements – Pour in Place Surfaces

This $150,000 request would improve the Harrington School playground by removing the current bark mulch safety surfacing around the play equipment and installing Pour-In-Place safety surfacing. This impact-absorbing rubber/urethane surface is easy to maintain, has a 15-year life, and creates accessible access to the play area. For these reasons Lexington is installing it in all new playgrounds. Similar future projects to upgrade the playgrounds at the remaining elementary schools are anticipated. This project is requested by the Department of Public Facilities and would be funded from the Unbudgeted Reserves.

10(e) CPA Debt Service

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

Project **TM Approval** **Final Payment**	**Total Appropriation**	**Total Debt Financing**	**FY2021 Debt Service**
Wright Farm Purchase ATM 2012 FY2024	$3,072,000	$2,950,000	**$339,250**
Community Center Acquisition STM 3/2013 FY2024	$10,950,000	$7,390,000	**$850,500**
Cary Memorial Building Upgrades STM 3/2014 FY2025	$8,677,400	$8,241,350	**$759,800**
TOTAL	**$22,699,400**	**$18,581350**	**$1,949,550**

If Article 25 is not approved, this appropriation will be extended as follows:

Debt service for Highland Ave. Land Purchase	$3,560,000	$1,000,000	$1,040,000
TOTAL	**$26,259,400**	**$19,581,350**	**$2,989,550**

The entire debt service for the Wright Farm purchase will be paid from the Open Space Reserve, $660,500 of the Community Center Acquisition debt service will be paid from the Historic Resource Reserve, and the remaining debt service payments will be paid from the Unbudgeted Reserves. Note that Article 25 seeks to change the funding source for $1,000,000 of debt service for the Open Space Land purchase of the Ashley Property on Highland Ave (2020 STM 3 Article 7) to cash, and if Article 25 fails, the debt payments will need to be added here.

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 practice 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.

10(f) Administrative Budget

The Community Preservation Act permits up to 5% of annual CPA funds to be spent on the operating and administrative costs of the CPC. The CPC may pay for staff salaries, mailings, public notices, overhead, legal fees, membership dues, and other miscellaneous expenses related to CPA projects. As in past years, the CPC is requesting an appropriation of $150,000, which is well below the 5% cap. This money will be used to fund the Committee's part-time administrative assistant, membership dues to the nonprofit Community Preservation Coalition, administrative expenses, legal and miscellaneous expenses, land planning, appraisals, and legal fees for open space proposed to be acquired using CPA funds. For FY2022 the Committee also plans to fund a $50,000 update the Open Space and Recreation Plan from the administrative budget. Funds appropriated for administrative expenses are from the Unbudgeted Reserves and money not spent in a given fiscal year reverts to the CPA Undesignated Fund Balance at year's end.

The Committee recommends approval by a vote of (7-0).

Article 11
Appropriate for Recreation Capital Projects

Funds Requested	Funding Source	Committee Recommendation
$87,000	**Recreation EF Retained Earnings**	**Approve (7-0)**

Recreation Capital Projects

Item	Funding Request	Funding Source	Brown Book reference
11(a) Design & Engineering	$25,000	Recreation EF RE	p. XI-15
11(b) Pine Meadows Equipment	$62,000	Recreation EF RE	p. XI-15

The request under this article is for $87,000 of the balance in the Recreation Enterprise Fund retained earnings to be used for design and engineering costs required for drainage improvements at the Pine Meadows Golf Course and purchase of new equipment that would support golf course maintenance. These capital investments are described in Section XI of the Brown book, items 11 and 12, respectively. The Recreation Enterprise Fund is funded by user fees. Information on the available balance for this and other enterprise funds may be found in the discussion of Article 5.

A drainage improvement project on the 1st and 2nd fairways at the Pine Meadows Golf Course is scheduled to be completed in FY2025. The $25,000 request will fund the first phase of design and engineering leading to an accurate cost estimate for the construction phase.

An additional $62,000 is requested to purchase a new fairway mower to replace existing equipment acquired in 2012. The life expectancy of a fairway mower is 10 years. The new equipment will ensure proper maintenance of the turf, improved pace of play, and superior playing conditions. *Note:* An appropriation for this item under Article 11 at the 2020 ATM was referred back to the Select Board due to budget concerns resulting from the pandemic.

The Committee recommends approval by a vote of (7-0).

Article 12
Appropriate for Municipal Capital Projects and Equipment

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

The requested appropriations are listed below together with the funding details. The Committee was unanimous in its recommendation for all items. For a discussion of the items in this request, please see the referenced pages in the Brown Book. The Capital Expenditures Committee Report to the 2021 Annual Town Meeting contains further discussion of these capital requests.

Item	Amount	Funding Source	Brown Book p.
12(a) Transportation Mitigation	**$20,889.20**	Transp. Network Co. Special Revenue Fund	XI-15
12(b) Self-Contained Breathing Apparatus Replacement	**$416,545**	GF	XI-15

12(c) Townwide Culvert Replacement	**$390,000**	GF	XI-16
12(d) Equipment Replacement	**$1,420,000**	*(see below)*	XI-16
	$899,026	GF	
Unexpended Bond Proceeds	*$16*	Article 10(s) 2013 ATM	
Unexpended Bond Proceeds	*$12,636*	Article 10(b) 2016 ATM	
Unexpended Bond Proceeds	*$51,340*	Article 12(c) 2017 ATM	
Unexpended Bond Proceeds	*$23,166*	Article 15(b) 2017 ATM	
Unexpended Bond Proceeds	*$68,816*	Article 20 2017 ATM	
	$110,000	BAN Premiums	
12(e) Sidewalk Improvements	**$800,000**	*(see below)*	XI-5
	$34,525	GF	
	$765,475	Debt	
12(f) Storm Drainage Improvements and NPDES compliance	**$385,000**	GF	XI-17
12(g) Comprehensive Watershed Stormwater Management	**$390,000**	GF	XI-17
12(h) Street Improvements (Total Project Cost $3,629,591) (1)	**$2,651,674**	Tax Levy	XI-17
12(i) Hydrant Replacement Program	**$150,000**	*(see below)*	XI-18
	$75,000	Water Fund RE	
	$75,000	GF	
12(j) Public Parking Lot Improvement Program	**$100,000**	Parking Fund	XI-18
12(k) New Sidewalk Installations	**$650,000**	Debt	XI-6
12(l) Staging for Special Events	**$65,000**	GF	XI-18
12(m) Cary Library Network Upgrade	**$95,000**	GF	XI-19
12(n) Electric Vehicle Charging Stations	**$69,000**	GF	XI-19
12(o) Parking System (Total Project Cost $450,000) (2)	**$343,237**	Parking Fund	XI-19

(1) Item 12(h) is funded in part by $977,917 in Chapter 90 state aid, which is not subject to appropriation by Town Meeting.

(2) Item 12(o) is funded in part by $106,763 from an unexpended FY2017 appropriation from the Parking Fund for parking meter installation.

The Committee recommends approval by a vote of (7-0).

Article 13
Appropriate for Water System Improvements

Funds Requested	Funding Source	Committee Recommendation
$710,000	**Water EF Debt**	
$400,000	**Water EF Rates**	**Approve (7-0)**
$300,000	**Water EF Ret'd Earnings**	
$1,410,000		

This article addresses proposed capital expenditures to be made during FY2022 as part of a continuing program to upgrade and maintain the assets of the Water Enterprise Fund. For general background on the enterprise funds and the relationship between the budget process and the water rate setting process, please see Appendix B and the discussion under Article 5.

Work to Be Done and Funding

Annual Distribution System Improvement Program. A total of $1,110,000 is requested this year to fund an ongoing annual program to replace unlined or inadequate water mains and deteriorated service connections and to eliminate dead ends in water mains. The details of the projects can be found in the Brown Book, p. XI-8. Capital appropriations for similar purposes have been made in most years over the last decade. The goal is to assure dependable service with high water quality, pressure, and volume for domestic needs, commercial needs, and fire protection, as well as to minimize water main breaks.

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

This year, the requested appropriation for the ongoing program has been backed down to $1,110,000, at least temporarily. With a large number of other capital projects under way, including the installation of a new automated meter-reading system approved by Town Meeting in 2019, and given limited available resources, the Department of Public Works has determined that the lower amount is a reasonable annual expenditure to maintain and upgrade the water distribution system. The Town's five-year capital plan still shows ongoing future annual expenditures in the range of $2,200,000, *see* Brown Book, p. XI-20, but the need for that level of investment will continue to be evaluated.

It is proposed that this year's maintenance and upgrade work be funded with a combination of debt ($710,000) and cash capital raised in the rates ($400,000). This financing arrangement continues a plan initiated last year to gradually transition the funding of the ongoing water distribution system maintenance and improvement program practice from debt to cash capital, increasing cash capital and reducing debt by an additional $200,000 each year. To mitigate pressure on water rates in the short term, the changeover is being phased in over eleven years. See discussion of Article 5 above and Brown Book, p. XI-8.

Design Work for Water Tower Replacement. An additional appropriation of $300,000 is requested this year to fund design work for the future replacement of the Town's two water tanks, located on Morgan Hill, which are at or nearing the end of their 75-year useful life. It has not yet been determined whether the existing tanks would be replaced by one or two new ones. The replacement project is currently in the five-year capital plan for FY2024 at a cost of $6,270,000. It was originally planned to fund the design work for this project with debt. However, given the existence of a substantial retained earnings balance in the Water Enterprise Fund, *see* discussion under Article 5, it is now proposed to use retained earnings instead, saving interest costs.

Miscellaneous Appropriations under Other Articles. For completeness, it should be noted that appropriations for certain other capital expenses of the Water and Wastewater Enterprise Funds are requested in Article 12 (Municipal Capital Projects and Equipment). The purchase of a rubber-tired mini excavator and a generator/pump to be used in water and sewer maintenance operations would be shared between the two funds, with $145,000 from water fund retained earnings and $110,000 from wastewater fund retained earnings. Also, as has been the case for many years, half of the cost of the Town's annual hydrant replacement program would be funded by an appropriation of $75,000 from water fund retained earnings; the rationale for sharing this cost is that the hydrants are used not only for fire prevention but also for water system flushing purposes.

Committee Recommendation

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

The Committee recommends approval by a vote of (7-0).

Article 14
Appropriate for Wastewater System Improvements

Funds Requested	Funding Source	Committee Recommendation
$1,320,000 $200,000 **$1,520,000**	**Wastewater EF Debt** **Wastewater EF Rates**	**Approve (7-0)**

This article addresses proposed capital expenditures to be made during FY2022 as part of a continuing program to upgrade and keep current the assets of the Wastewater Enterprise Fund, including both sewer mains and pumping stations. For general background on the enterprise funds, and the relationship between the budget process and the water rate-setting process, please see Appendix B and the discussion under Article 5.

Work to Be Done and Funding

Annual Sanitary System Investigation and Improvement program. A total of $1,000,000 is requested as part of an ongoing annual program to investigate the condition of and rehabilitate sanitary sewer infrastructure. The goal is to improve the system's operation, reduce backups and potential overflows, prevent malfunctions, and reduce infiltration, thereby lowering measured flows through the MWRA meter. The details of the projects can be found in the Brown Book, p. XI-9.

It is proposed that this year's program costs be funded with a combination of debt ($800,000) and cash capital raised in the rates ($200,000). This financing arrangement continues a plan initiated last year to gradually transition the funding of the ongoing wastewater system maintenance and improvement program from debt to cash capital, increasing cash capital and reducing debt by an additional $100,000 each year. To mitigate pressure on water rates in the short term, the changeover is being phased in over ten years. See discussion of Article 5 above and Brown Book, p. XI-9.

Pump Station Upgrades. An additional $520,000 of borrowing is requested as part of a multi-year project to upgrade Lexington's ten sewer pumping stations. The details of the project, including this year's expected work sites, can be found in the Brown Book, p. XI-9. Capital appropriations for pump station upgrades have been made for several years and, with only modest additional work planned for FY2023, the project is nearing completion. *See* 5-year capital plan, Brown Book, p. XI-20. Because the project is not part of a continuous investment program which will continue indefinitely, but will nevertheless provide an ongoing benefit to future users, it is appropriately funded with debt.

Miscellaneous Appropriations under Other Articles. For completeness, it should be noted that appropriations for certain other capital expenses of the Water and Wastewater Enterprise Funds are requested in Article 12 (Municipal Capital Projects and Equipment). The purchase of a rubber-tired mini excavator and a generator/pump to be used in water and sewer maintenance operations would be shared between the two funds, with $145,000 from water fund retained earnings and $110,000 from wastewater fund retained earnings.

Committee Recommendation

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

The Committee recommends approval by a vote of (7-0).

Article 15
Appropriate for School Capital Projects and Equipment

Funds Requested	Funding Source	Committee Recommendation
$1,186,236	**Free Cash**	**Approve (7-0)**

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

We note that the funding strategy for annual school technology requests has transitioned from debt to cash capital, which is reasonable given the relatively limited lifetimes of the hardware. For a more detailed list and description of the items in this request, please see the Capital Expenditures Committee Report to the 2021 Annual Town Meeting and the Brown Book page XI-13.

The Committee recommends approval by a vote of (7-0).

Article 16
Appropriate for Public Facilities Capital Projects

Funds Requested	Funding Source	Committee Recommendation
$895,199	**Free Cash**	
$2,171,000	**GF Debt**	**16(a-h) Approve (7-0),**
$214,186	**Tax Levy**	**16(i) IP**
$3,280,385		

This article requests funds for the facilities projects summarized below. For further discussion of these items, please see the report of the Capital Expenditures Committee and the referenced Brown Book pages. The Committee concurs with the discussion presented by the Capital Expenditures Committee in its report, and is unanimous in its support for all these funding requests. We note that 16(i) is expected to be indefinitely postponed.

Item	Funds Requested	Funding Source	Brown Book
16(a) Public Facilities Bid Documents	$100,000	Free Cash	XI-14
16(b) Facility and Site Improvements:			
Building Floor Program	$125,000	Free Cash	XI-14
School Paving & Sidewalks Program	$125,000	Free Cash	XI-14
16(c) Public Facilities Mechanical/Electrical System Replacement	$728,000	GF Debt	XI-6
16(d) Municipal Building Envelopes and Associated Systems	$214,186	Tax Levy	XI-14
16(e) Townwide Roofing Program	$528,000	GF Debt	XI-6
16(f) School Building Envelopes and Associated Systems	$245,199	Free Cash	XI-14
16(g) Center Recreation Complex Bathrooms & Maintenance Building Renovation	$915,000	GF Debt	XI-7
16(h) Space Needs for School Year 2021-22	$300,000	Free Cash	XI-14
16(i) HVAC Improvements	–	N/A	N/A

The Committee recommends approval of 16(a-h) by a vote of (7-0).
The Committee supports indefinite postponement of 16(i).

Article 17
Appropriate to Post-Employment Insurance Liability Fund

Funds Requested	Funding Source	Committee Recommendation
$1,129,721	**Free Cash**	**Approve (7-0)**
$750,000	**Tax Levy**	
$2,761	**Water EF**	
$3,004	**Wastewater EF**	
$1,885,486		

This article requests the appropriation of $1,885,486 into the Post Employment Insurance Liability (PEIL) Fund.

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

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

Funding for this appropriation includes: $1,129,721 from Free Cash; $750,000 from the tax levy made available by an equal transfer from the Health Insurance Claims Trust Fund to fund FY2022 Health Insurance. In addition, the requested amount includes contributions from the Water Enterprise Fund and Wastewater Enterprise Fund that will go toward funding the liabilities for benefits of the employees of the respective departments.

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

The Committee recommends approval by a vote of (7-0).

Article 18
Rescind Prior Borrowing Authorizations

Funds Requested	Funding Source	Committee Recommendation
None	**N/A**	**Approve (7-0)**

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

The following rescissions have been recommended by Town staff:

Article	Town Meeting	Project Description	Amount
2(a)	2016 STM-5	Land Acquisition – 171-173 Bedford St.	$ 26,296.50
16(h)	2018 ATM	DPW Equipment	$ 109,500.00
19	2018 ATM	School Technology Systems	$ 125,300.00

The Committee recommends approval by a vote of (7-0).

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

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

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

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

As this report went to press, we were aware of the following transfers to be carried out under this article:

(a) That $3,217,674 from the General Fund unreserved fund balance (free cash) be appropriated into the Capital Stabilization Fund.

(b) That $2,800,000 be withdrawn from the Capital Stabilization Fund to mitigate debt service for projects exempt from Proposition 2½.
(c) That $615,365.86 from the Transportation Demand Management/Public Transportation Special Revenue Fund be appropriated into the Transportation Demand Management/Public Transportation Stabilization Fund.

Items 19(a) and 19(b) may seem to be at cross purposes, with the first adding to and the second withdrawing from the Capital Stabilization Fund. Alternatively, $2,800,000 of free cash could be appropriated for use in exempt debt service and $417,674 appropriated into the Capital Stabilization Fund. The Committee feels the former approach offers greater transparency regarding the designated use of funds.

The proposed $2,800,000 withdrawal will address higher exempt debt service costs. While these funds are not earmarked for specific projects, exempt debt service is still increasing to meet the costs associated with the new Hastings School, construction of the Lexington Children's Place School, and the new Fire Station. The appropriation into the fund recognizes that there will be significant increases in debt service for future projects, including the new Police Station and, further in the future, the likely very high costs of replacing or reconstructing Lexington High School.

Item 19(c) will appropriate the second of two payments received from King Street Properties in accordance with an MOU for a project on Hayden Avenue.

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

Stabilization Fund	Fund Balance (1/31/2021)	Deposit (Withdrawal)	Source/Destination	Committee Recommendation
Capital	$20,663,853	**$3,217,674**	General Fund unreserved balance	**Approve (7-0)**
		($2,800,000)	Exempt debt payments	**Approve (7-0)**
Special Education	$1,153,517	**($500,000)**	School budget	*See Article 4*
Debt Service	$314,821	**($124,057)**	Offset debt payments for 2003 school projects	*See Article 23*
Transportation Demand Management/Public Transportation	$284,042	**$615,365.86**	King Street Properties (MOU associated with a rezoning on Hayden Ave.)	**Approve (7-0)**
		($141,000)	Lexpress and contribution to REV shuttle	*See Article 4*

The Committee recommends approval by a vote of (7-0).

Article 20
Appropriate for Prior Years' Unpaid Bills

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

As of publication, no unpaid bills have been identified that require appropriations. As such, no action is anticipated under this article.

The Committee supports indefinite postponement for this article.

Article 21
Amend FY2021 Operating, Enterprise, and CPA Budgets

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

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

The first recognizes the receipt of $491,851.14 of insurance reimbursements during FY2021 by increasing FY2021 Article 4 line item 2220 "Uninsured Losses" from $250,000 to $741,851.14. The reimbursements are for expenditures the Town made for building repairs and the replacement of a significant amount of information technology equipment following a water pipe break in the Town Office building in February 2020. Per Massachusetts General Law, any insurance proceeds over $150,000 must be reserved for appropriation. The funds are currently held in, and will be transferred from, the Insurance Reimbursement Receipts Reserved for Appropriation Fund. We note that the Uninsured Losses line item functions as a continuing balance account, with funds carrying over from one fiscal year to the next. The balance in the account as of June 30, 2020 was $774,208. See Brown Book, p. IV-8.

The second revision recognizes a $32,000 reduction in the costs of the Town's contract with LexMedia in FY2021, following the renegotiation of that contract in June 2020, by decreasing FY2021 Article 4 line item 8140 "PEG" from $627,151.00 to $595,151.00. The funds will be restored to the PEG Access Special Revenue Fund, which is the source of funds for line item 8140, as well as small parts of two other line items, 2130 "Employee Benefits (Health/Dental/Life/Medicare)" and 2600 "Public Facilities."

The Committee recommends approval by a vote of (7-0).

Article 22
Appropriate for Authorized Capital Improvements

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

This article provides an opportunity to revise appropriations for capital spending authorized at previous Town Meetings. As of publication, no action is anticipated under this article.

The Committee supports indefinite postponement for this article.

Article 23
Appropriate From Debt Service Stabilization Fund

Funds Requested	Funding Source	Committee Recommendation
$124,057	**DSSF**	**Approve (7-0)**

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

The 2009 Annual Town Meeting voted to establish a specified stabilization fund under G.L. c. 40 Section 5B called the Debt Service Stabilization Fund (DSSF). The $1,739,894 remaining from the FY2007 set-aside was then appropriated into the DSSF. This fund allows the Town to invest the set-aside funds beyond the one-year arbitrage limit that would otherwise apply. The current balance in the DSSF is $314,821. The bonds for the subject school construction projects mature in 2023, which will also be the final year for the required annual appropriations from the DSSF.

The Committee recommends approval by a vote of (7-0).

Article 24
Appropriate for Lexington High School Feasibility Study

Funds Requested	Funding Source	Committee Recommendation
$1,825,000	**Debt**	**Pending**

This request is contingent on receiving notice from the Massachusetts School Building Authority (MSBA) that Lexington High School has been accepted into the State's list of approved school projects. This year, the timing of the annual announcement by the MSBA has been delayed and the Town may not learn of its status before the Annual Town Meeting is dissolved. If the Town is not invited, or if the MSBA decision is not delivered before Town Meeting considers this request, then we anticipate that this Article will be indefinitely postponed. Indefinite postponement at this time would not imply a negative recommendation, only that prerequisites in the timing of the appropriation request have not been met.

If the MSBA ultimately invites Lexington High School into the program after the Annual Town Meeting, the Town will have 270 days (9 months) following the notification to call a Special Town Meeting at which time this request can be reconsidered. The Town Manager has also confirmed that reconsidering this request would be sufficient justification to call a Special Town Meeting.

This request would fund a mandatory step to evaluate the feasibility of renovating or reconstructing Lexington High School with MSBA support. This study would determine what kind of project the MSBA would be willing to fund. Following MSBA approval, the cost of this study would be eligible for debt funding under a larger appropriation for the full project.

The Committee will issue its recommendation when this article is taken up by Town Meeting.

Article 25
Amend Borrowing Authorization Conservation Land Acquisition

Funds Requested	Funding Source	Committee Recommendation
$100,000	**CPA**	**Approve (7-0)**

The article requests a cash appropriation to replace debt funding that was previously authorized for the acquisition of the Highland Ave. conservation land approved under Article 7 of Special Town Meeting 2020-3. If approved, this is expected to eliminate approximately $20,000 in interest costs for the Town.

Technically speaking, Town Meeting is being asked to appropriate $1,000,000 from the Undesignated Fund Balance of the Community Preservation Fund and to rescind $1,000,000 of debt funding that was previously authorized. Fewer CPA project proposals have come forward for the FY2022 budget than in prior years, and therefore more cash is available than originally anticipated. This is an internal accounting change with no impact to the date of the real estate closing or to the sellers of the property.

If this article is not approved, a change in the motion for Article 10(e) CPA Debt Service will be required.

The Committee recommends approval by a vote of (7-0).

Article 29
Clean Heat—Authorize Special Legislation to Regulate Fossil Fuel Infrastructure and Adopt Bylaw Amendment Enabling Legislation

Funds Requested	Funding Source	Committee Recommendation
None	**N/A**	**No Position**

We offers some commentary on this proposal below without providing a formal recommendation. We have limited our discussion to the potential impact on Town finances, but since this proposal would likely have a much wider impact in areas beyond our purview, we do not think a recommendation from this Committee is appropriate.

This Committee considered the possible impacts approval of this article and an associated home-rule petition could have on the construction of new Town-owned buildings, such as a new high school or new structures for affordable housing. We conclude that the possible impacts are rather limited because the Town has previously adopted policies that specify that new Town-owned buildings should be built to be consistent with previously-approved sustainability goals and resolutions to address climate change and to reduce greenhouse gas emissions.

To be specific, the Select Board and School Committee each approved the “Integrated Building Design & Construction Policy” on October 7, 2019. An appendix to this policy statement “Integrated Building Design & Construction Goals Checklist” includes a list of items. The item “All electric, zero emissions on site design (excluding fuel for emergency backup power generators). Backup fossil fuel heating systems will require specific approval.” is noted to be “required”.

A resolution on the Town’s response to the present climate emergency and phasing out the use of fossil fuels (fall 2020) passed by a vote of 156-1-1 at the Special Town Meeting 2020-2 (Article 4 “Declare Climate Emergency”). The resolution concludes with “BE IT FURTHER RESOLVED, the Town of Lexington calls on the Commonwealth of Massachusetts, the United States of America, and peoples worldwide to initiate a mobilization effort to reverse global warming by restoring near pre-industrial global average temperatures and greenhouse gas concentrations, by immediately halting the development of all new fossil-fuel infrastructure, and as quickly as possible phasing out all fossil fuels and the technologies which rely upon them, ending other greenhouse gas emissions, and initiating an effort to safely draw down carbon from the atmosphere”.

The recently completed buildings for Lexington Children’s Place, Hastings Elementary School, and Headquarters Fire Station as well as the two Fairview and three Farmview affordable housing buildings have all been built with all-electric systems that are consistent with the above policy and resolution and with the bylaw proposed in the present article with the one small exception in that the Fire Station hot water system is not fully electric. There is no reason to expect that this approach will be modified for the construction of forthcoming new town-owned buildings.

The current draft motion under this article includes a waiver provision to provide assurance that approval will not result in significant financial impacts. One subsection of the motion reads, in part, "In the event that compliance with the provisions of this bylaw makes a project financially infeasible or impractical to implement, the Building Commissioner may grant a waiver … Particular consideration for waivers will be given to projects sponsored by non-profit or government-sponsored affordable housing entities."

Planning for a new building must consider life cycle costs, i.e., the costs to build the building and install all required equipment as well as operating costs over the life of the building. The planning also must consider the occupant-health-related characteristics of a facility design and the secondary effects of the facility construction and operation on both the nearby and global environments. In these regards, we briefly note that natural gas prices are expected to increase over time and may increase sharply, and that other fossil-fuel energy costs are also likely to increase. Of the available types of HVAC systems, heat pumps make the most efficient use of energy for heating and cooling and will likely minimize energy costs over the lives of buildings yet to be constructed. Furthermore, heat pump systems provide heating in winter and cooling in summer so greatly reduce the cost of adding capability for air conditioning. The considerations suggest that approval of this article will limit future increases in the costs of heating and cooling new town buildings.

The Committee takes no position on this request.

Article 31
Street Acceptance: Penny Lane, Winding Road and Luongo Farm Lane

Funds Requested	Funding Source	Committee Recommendation
None	**N/A**	**Approve (7-0)**

This article requests that the Town take title to Penny Lane, Winding Road and Luongo Farm Lane and accept them as Town ways. Acceptance is the formal process which converts a private street (owned by the abutters) into a public street. After the street is accepted, the Town takes responsibility for all future upkeep of the street. These three cul-de-sacs streets are the result of new construction with small connections to main roads. The costs of future upkeep of these roads is difficult to estimate but is expected to be minimal given their relatively small dimensions.

The Committee recommends approval by a vote of (7-0).

Article 32
Amend General Bylaws—Receive Appraised Value for Removed Trees

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

Massachusetts General Law Chapter 87, which regulates shade trees, requires a public hearing before removal of a public shade tree and gives Select Board the power to approve or deny a request to remove a public tree, but it does not explicitly provide for the Select Board to require payment of the appraised value of the tree if permission is granted.

The purpose of Article 32 is to amend Chapter 120 Trees of the Code of the Town of Lexington, to require that when an applicant applies for permission from the Town to remove a Town-owned tree or Public Shade Tree, the applicant shall be required to provide an appraisal of the tree's value and, if permission to remove the tree is granted, pay an amount up to the appraised value of the tree to the Lexington Tree Fund. This article will thereby ensure that the Town receives a fair value for a removed Town tree.

It is expected that this bylaw would apply to only a very small number of trees each year. Together with the wide range in possible appraised values, it is impossible to estimate the total dollar amount for FY2022 or future year with any reasonable degree of accuracy. The current balance of the Tree Fund is $183,502, and the FY2022 Revolving Fund request is $70,000. Revenue from this bylaw change could have a beneficial effect on the tree cover of Lexington by providing funds for planting additional trees.

The Committee recently learned of concerns about the added administrative burden on the Select Board that might result if this proposal is approved. We felt this matter deserved further review before issuing our recommendation.

The Committee will issue its recommendation when this article is taken up by Town Meeting.

Article 34
Amend General Bylaws—Tree Bylaw Fees and Mitigation Payments

Funds Requested	Funding Source	Committee Recommendation
None	**N/A**	**Approve (7-0)**

The purpose of this article is to increase the fees and mitigation payments under the Lexington tree bylaw to better reflect the costs associated with administering the bylaw and the costs of planting trees with mitigation funds, to incentivize applicants to replant trees versus making payments to the Lexington Tree Fund, and to better protect large trees.

In 2017, Town Meeting approved amendments which doubled the mitigation required when protected trees with trunk diameters of 24” or larger are removed; doubled mitigation credit when large shade trees are used in replanting to better increase future tree canopy cover; and increased mitigation payments to the Tree Fund for inches that are not replanted.

Since the 2017 tree bylaw amendments passed, tree removals in Lexington have decreased, and a smaller percentage of the trees removed were large trees. However, the large trees removed are still undervalued in the mitigation plan. At the current mitigation level, it is less expensive for an applicant to pay the mitigation fee rather than replant, which shifting the burden to the Town to find planting sites and to plant more trees; the costs to the Town are not adequately covered.

Article 34 applies to non-hazard trees in setbacks during significant construction. It increases the application fee; it increases the mitigation payments to the Tree funds; it doubles the current mitigation payment when very large (>24”) protected trees are removed; it doubles the current incentive for planting certain large tree species.

Article 34 proposes to increase the tree removal and mitigation application fee from $5 to $20 per DBH (diameter at breast height) inch of removed protected trees; to increase the required contribution to the Tree Fund for unplanted trees from $100 to $200 per replacement inch of removed trees not planted; to increase, for large trees with diameter 24” or larger, the mitigation payments from twice to 4 times as many inches as were removed; to replant, when planting from the list of approved large shade trees, ¼” of new trees for each replacement inch of tree removed, while for other species, 1” of new trees for each replacement inch of tree removed, so applicants are incentivized to replant using large shade tree species.

The 3-year average of Protected Tree Receipts from FY2018 to FY2020 is $8,512 under the 2017 tree bylaw amendment. Under the provisions of this article, it would have been twice this amount.

The financial impact on the Tree Fund would be significant, but the impact on the overall Town budget would not be significant. However, preserving trees especially large shade trees is important for protecting the environment, fighting climate change, and preserving neighborhood character.

The Committee recommends approval by a vote of (7-0).

Article 36
Authorize Special Legislation—Development Surcharge for Affordable Housing

Funds Requested	Funding Source	Committee Recommendation
None	**N/A**	**Approve (7-0)**

This article seeks to establish a surcharge on certain commercial development activities in order to fund affordable and community housing construction, renovation, associated land acquisition or easements.

The motion authorizes the Select Board to petition the Massachusetts legislature to enact legislation to enable this surcharge in Lexington, and it authorizes the Select Board to approve amendments to the act which are within the scope of the article's objectives before it is enacted by the legislature.

This surcharge would apply to all new commercial construction with over 30,000 square feet (sf) in gross floor area, and to modifications of existing structures that increase the gross floor area to more than 30,000 sf. In all cases the surcharge is applied to the resulting gross floor area less an exemption of 30,000 sf.

The size of the surcharge for a development is calculated using a rate specified in dollars per square-foot ($/sf). This rate would set by the Select Board and adjusted annually for inflation, and the rate would be studied every five years for suitability, effect, and possible changes. The owner of the development would be required to pay the surcharge in three annual installments.

These funds will be added to the Town's Affordable Housing Capital Stabilization Fund—the same fund where the residential community housing surcharge monies will be deposited, once that act is approved by the state legislature.

Similar surcharges on commercial development to support affordable housing have already been adopted in Boston, Cambridge, Somerville, Barnstable and Everett. Some of these surcharges have been in effect for over three decades. The surcharge rates vary from $2/sf in Everett to $20.10/sf in Cambridge, and each community tailors their exemption and threshold levels to reflect the local scale of development.

Analysis

Without a specific surcharge rate, it is difficult to estimate the revenue that might result from this proposal. Statistics gathered for Article 16 at the 2020 Special Town Meeting indicated a potential for up to 6,500,000 sf in new development near Hartwell Avenue. Keeping in mind that surcharge rates vary widely from roughly $2/sf to $20/sf, if Lexington adopted a modest surcharge of $5/sf, that would allow up to $25.5 million[8] in one-time revenue to be derived from this surcharge. Assuming the rate is maintained and adjusted annually for inflation, we can think of this figure as representing 2021 dollars.

Receipt of this revenue will be entirely dependent on the pace of large new commercial developments in Lexington. It would also be spread out over decades, and it would not start for at least five to ten years following enactment.

Given that any surcharge would increase the cost of commercial construction in Lexington, and that none of our neighboring communities impose a surcharge (yet), this could negatively impact the market for commercial development in the Town. Commercial development is sensitive to macro-economic factors, and a surcharge could impact the Town's commercial tax base, thus lowering the total surcharge revenue.

[8] This optimistically assumes 30 new commercial developments of 200,000 sf, less a 30,000 sf exemption for each.

However, if the surcharge rate is set with care, the impact on development could be limited while still helping to mitigate the increased demand for nearby housing by employees of businesses on Hartwell Avenue.

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

The Committee recommends approval by a vote of (7-0).

Appendix A: 5-Year Budget Projections

For the past two decades, the Appropriation Committee has prepared budget projections that were presented in appendices to the Committee's annual ATM reports. At the time those projections started, Town staff did not publish any comparable projections. More recently, however, the Town's Finance Department has begun to prepare its own forecasts for use in the Budget Summit process in preparation for the next fiscal year's proposed budget. Projections for FY2022 were presented at the first budget summit held on October 8, 2020. Subsequently, the department made modest revisions to reflect the proposed budget for FY2022 presented in the Brown Book.

Rather than prepare separate projections for Town Meeting, this year we will continue a practice begun last year and will summarize the Finance Department's projections and discuss their implications in planning for future Town budgets.

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

Summary of Projections

Table A-1 summarizes total revenues and expenses, showing actual results for FY2019-20, revised budgeted figures for FY20201 (still underway), the proposed budget for FY2022 presented in the Brown Book, and projected figures for FY2023-FY2026. The bottom line shows the net surplus (deficit). For FY2019 and FY2020 the Town ran substantial overall surpluses, about 4.7% of expenses in FY2019 and about 6.3% in FY2020. These surpluses were then available for the Town in the next year in the form of free cash. For FY2021, currently underway, the revised budget shows income and expenses in balance, as required under state law. The current year, FY2021, will show a larger surplus as contributions to the Capital Stabilization Fund and the OPEB Trust Fund were suspended to maintain financial flexibility during the pandemic. Normally fiscal years will end with a surplus because Town budgets are generally conservative in the sense that they strive not to overestimate revenues or underestimate expenses to ensure that the Town does not run a deficit (which is forbidden under state law). Similarly, the recommended budget for FY2022 is balanced, and it seems likely that the final actual figures will result in a surplus as a result of the Town's conservative approach to budgeting.

Table A-1. Actual and Projected Revenues and Expenses

Revenue Category	FY2019 Actual	FY2020 Actual	FY2021 Revised	FY2022 Proposed	FY2023 Projection	FY2024 Projection	FY2025 Projection	FY2026 Projection
Total Revenues	$ 224,910	$ 231,947	$ 234,582	$ 251,116	$ 252,029	$ 258,972	$ 266,872	$ 275,593
Total Expenses	$ 214,799	$ 218,291	$ 234,582	$ 251,116	$ 255,225	$ 268,324	$ 281,468	$ 294,533
Revenue - Expenses	$ 10,111	$ 13,656			$ (3,197)	$ (9,353)	$ (14,596)	$ (18,940)
As % of expenses	4.7%	6.3%	0.0%	0.0%	-1.3%	-3.6%	-5.5%	-6.9%

All dollar amounts shown in thousands.

The projections beyond the FY2022 budget under consideration show projected expenses exceeding projected revenues, yielding deficits ranging from 1.3% of expenses in FY2023 to 6.9% in FY2026. However, any projection of revenues or expenses is subject to considerable uncertainty, as we discuss in greater detail below. When the time comes to prepare a budget for one of those years, if the projection still indicates a deficit, changes will have to be made to bring budgeted expenses and revenues into line with one another. We note that the projections originally presented at the first budget summit in October 2020 for FY2022 showed a deficit of just over $3.4 million, but a combination of adjustments, including limited program improvements and increasing the use of available funds, brought that budget into balance.

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

Projected Revenues

Table A-2a shows projections of various revenue categories and provides notes on the assumptions behind those projections. Property taxes dominate revenues, accounting for 79% of total revenues in FY2019 (actuals) rising to 85% in the projection for FY2026. As a result, the assumptions concerning property tax revenues are critical to the projections.

Table A-2a. Projected Revenues by Category

	Revenue Category	FY2019 Actual	FY2020 Actual	FY2021 Revised	FY2022 Proposed	FY2023 Projection	FY2024 Projection	FY2025 Projection	FY2026 Projection
1	Property Tax Levy	$ 176,841	$ 184,822	$ 194,330	$ 202,026	$ 209,826	$ 217,822	$ 226,018	$ 234,418
2	State Aid	$ 16,013	$ 16,256	$ 16,335	$ 16,516	$ 16,732	$ 16,951	$ 17,171	$ 17,393
3	Local Receipts	$ 16,969	$ 16,734	$ 12,054	$ 12,775	$ 13,654	$ 13,870	$ 14,093	$ 14,322
4	Available Funds	$ 15,404	$ 14,314	$ 11,887	$ 20,575	$ 12,586	$ 11,092	$ 10,348	$ 10,362
5	Revenue Offsets	$ (1,964)	$ (1,875)	$ (1,774)	$ (2,207)	$ (2,244)	$ (2,283)	$ (2,322)	$ (2,513)
6	Other Revenues	$ 1,647	$ 1,696	$ 1,749	$ 1,432	$ 1,475	$ 1,520	$ 1,565	$ 1,612
7	**Total Revenues**	**$ 224,910**	**$ 231,947**	**$ 234,582**	**$ 251,116**	**$ 252,029**	**$ 258,972**	**$ 266,872**	**$ 275,593**

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

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

Table A-2b shows the projected year-to-year percentage increases in the various revenue categories. Note that Property Tax Levy grows more slowly from FY2023–FY2026 than in the earlier years, and State Aid grows more slowly than the pre-COVID years (see FY2020 rate). In both cases, the differences appear to reflect conservative assumptions, which we discuss in more detail below for property tax revenues. The other notable change is in Available Funds, which shrink in several of the projected years due to lower levels of free cash. This is due to some of the more aggressive changes noted above to close the shortfall in the FY2022 proposed budget, which will lower free cash for the next fiscal year.

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

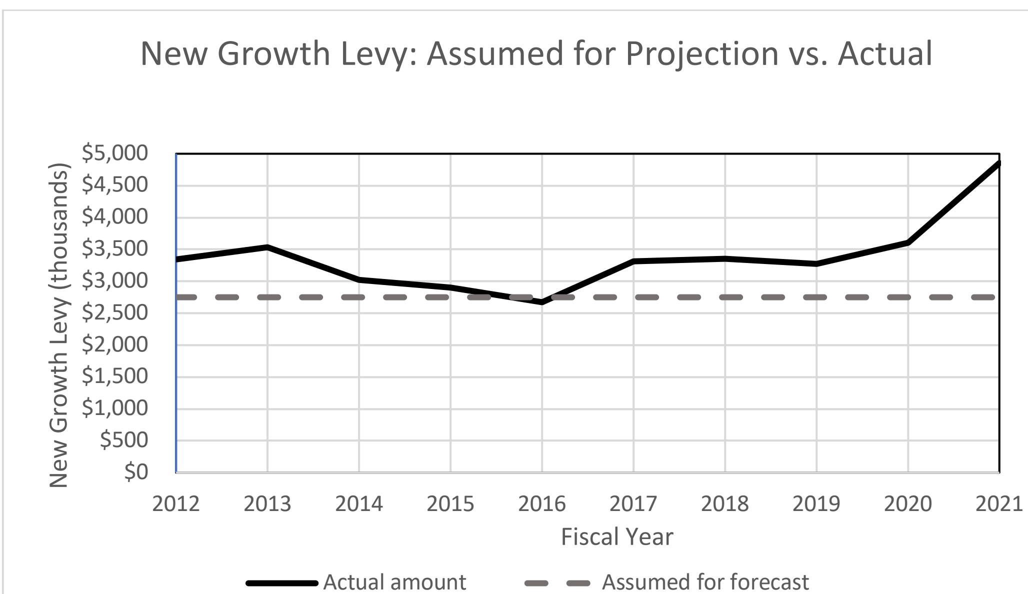
Revenue Category	FY2020 Actual	FY2021 Revised	FY2022 Proposed	FY2023 Projection	FY2024 Projection	FY2025 Projection	FY2026 Projection
1 Property Tax Levy	4.5%	5.1%	4.0%	3.9%	3.8%	3.8%	3.7%
2 State Aid	1.5%	0.5%	1.1%	1.3%	1.3%	1.3%	1.3%
3 Local Receipts	-1.4%	-28.0%	6.0%	6.9%	1.6%	1.6%	1.6%
4 Available Funds	-7.1%	-17.0%	73.1%	-38.8%	-11.9%	-6.7%	0.1%
5 Revenue Offsets	-4.5%	-5.4%	24.4%	1.7%	1.7%	1.7%	8.2%
6 Other Revenues	3.0%	3.1%	-18.1%	3.0%	3.0%	3.0%	3.0%
7 **Total Revenues**	**3.1%**	**1.1%**	**7.0%**	**0.4%**	**2.8%**	**3.1%**	**3.3%**

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

It is important to note that Available Funds that can be used for the operating budget is decreasing in the projected years due a program to transition out of using Free Cash for the operating budget. This program was suspended for the FY2022 budget, so the FY2021 and FY2022 operating budgets each relied on $2.2 million of Free Cash. Starting in FY2023 this is to be reduced by $700,000 annually, with $1.5 million to be used in FY2023, $800,000 in FY2024, and only $100,000 in FY2025. This transition has the net effect of having $700,000 more available in each of these years to fund non-recurring items such as Cash Capital, OPEB, or the Capital Stabilization Fund.

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

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



The average for New Growth over the last ten years was $3.38 million. If we use this average rather than the assumed $2.75 million, this results in an additional $630,000 per year in projected revenue, which is further compounded by the 2.5% annual increase in the tax levy.

The Finance Department's projection assumes that the conservative figure assigned for New Growth in the budget can be used as a valid projection, but in the long run this will underestimate future tax revenue. The budget for New Growth is intentionally set well below the expected value as a safeguard against a budget shortfall, which could result if actual New Growth fell below the budgeted amount. A more realistic projection should instead be based on measurable trends, including, but not limited to, the long-term average for New Growth. Table A-3 shows the cumulative increase in projected revenues over five years, which grows to $3,311,000 by FY2026. This represents roughly 17.5% of the projected revenue gap shown in Table A-1.

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

	FY2022	FY2023	FY2024	FY2025	FY2026
Annual increment	$ 630	$ 630	$ 630	$ 630	$ 630
Cumulative impact	$ 630	$ 1,276	$ 1,938	$ 2,616	$ 3,311

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

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

However, for total revenues in the last three completed fiscal years (FY2018–FY2020), actual revenues have been higher than projected, especially for projections made several years in advance. For example, projections for FY2020 made in 2016 were 7.2% below actuals and those for FY2019 made in 2015 were 11% lower than the actual.

Projected Expenses

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

Table A-4a. Projections of Expenses

	Expense Category	FY2020 Actual	FY2021 Revised	FY2022 Proposed	FY2023 Projection	FY2024 Projection	FY2025 Projection	FY2026 Projection
	Education	***$ 112,079***	***$ 121,221***	***$ 126,507***	***$ 132,676***	***$ 139,133***	***$ 145,901***	***$ 152,822***
8	LPS Wages	$ 94,476	$ 98,932	$ 102,655	$ 106,761	$ 111,031	$ 115,473	$ 120,091
9	LPS Expenses	$ 15,133	$ 19,425	$ 20,722	$ 22,472	$ 24,314	$ 26,262	$ 28,148
10	Minuteman	$ 2,470	$ 2,863	$ 3,130	$ 3,443	$ 3,787	$ 4,166	$ 4,583
	Municipal	***$ 48,371***	***$ 54,208***	***$ 55,663***	***$ 56,970***	***$ 58,479***	***$ 60,318***	***$ 61,812***
11	Municipal Wages	$ 32,062	$ 34,139	$ 35,209	$ 35,902	$ 36,780	$ 37,967	$ 38,791
12	Municipal Expenses	$ 16,309	$ 20,069	$ 20,454	$ 21,068	$ 21,700	$ 22,351	$ 23,021
	Shared Expenses	***$ 57,841***	***$ 59,153***	***$ 68,946***	***$ 65,580***	***$ 70,712***	***$ 75,250***	***$ 79,899***
13	Debt Service	$ 7,322	$ 7,968	$ 8,077	$ 8,607	$ 9,037	$ 9,489	$ 9,964
14	Mitigate Within Levy	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
15	Land Purchase Note	$ 2,235	$ 2,403	$ 2,320	$ 0	$ 0	$ 0	$ 0
16	OPEB	$ 1,880	$ 750	$ 1,880	$ 1,930	$ 1,980	$ 2,030	$ 2,080
17	Retirement	$ 6,350	$ 6,701	$ 7,434	$ 8,184	$ 8,934	$ 9,684	$ 10,434
18	**Benefits**	***$ 27,079***	***$ 30,188***	***$ 31,371***	***$ 32,927***	***$ 34,561***	***$ 36,276***	***$ 38,076***
18a	Medicare	$ 1,852	$ 1,996	$ 1,982	$ 2,081	$ 2,185	$ 2,295	$ 2,409
18b	Health Insurance	$ 24,133	$ 27,027	$ 28,270	$ 29,684	$ 31,168	$ 32,726	$ 34,363
18c	Dental	$ 1,073	$ 1,140	$ 1,093	$ 1,137	$ 1,183	$ 1,230	$ 1,279
18d	Life	$ 22	$ 25	$ 25	$ 25	$ 25	$ 25	$ 25
19	Reserve Fund	$ 0	$ 750	$ 750	$ 750	$ 750	$ 750	$ 750
20	Workers' Comp.	$ 887	$ 875	$ 750	$ 750	$ 750	$ 750	$ 750
21	Unemployment	$ 200	$ 200	$ 300	$ 200	$ 200	$ 200	$ 200
22	Property & Lib. Ins.	$ 805	$ 845	$ 845	$ 887	$ 932	$ 978	$ 1,027

Expense Category	FY2020 Actual	FY2021 Revised	FY2022 Proposed	FY2023 Projection	FY2024 Projection	FY2025 Projection	FY2026 Projection
23 Uninsured Losses	$ 250	$ 250	$ 250	$ 250	$ 250	$ 250	$ 250
24 Solar Production	$ 386	$ 410	$ 390	$ 390	$ 390	$ 390	$ 390
25 Capital	$ 8,178	$ 7,812	$ 8,496	$ 8,490	$ 9,214	$ 9,239	$ 9,264
26 Other	$ 0	$ 0	$ 365	$ 215	$ 215	$ 215	$ 215
27 Approp. to Capital Stab	$ 2,269	$ 0	$ 3,218	$ 1,500	$ 3,000	$ 4,500	$ 6,000
28 Unallocated Revenue	$ 0	$ 0	$ 500	$ 500	$ 500	$ 500	$ 500
29 State Aid Reserve	$ 0	$ 0	$ 2,000	$ 0	$ 0	$ 0	$ 0
30 **Total Expenditures**	**$ 218,291**	**$ 234,582**	**$ 251,116**	**$ 255,225**	**$ 268,324**	**$ 281,468**	**$ 294,533**

Note: Amounts in italics are subtotals.

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

Table A-4b. Notes on Projected Expenses

Expense Category	Notes on Assumptions
Education	
8 LPS Wages	Illustrates a level-services budget and does not include program improvements. Includes a 2.5% increase on base budget for step increases, current known salary COLA adjustments on settled contracts, and ($750,000) for annual staff turnover savings. Assumes anticipated funding for unsettled contracts in FY2022-25. Includes additional staffing due to projected enrollment increases in FY2023-26 based on preliminary FY2021 Enrollment projections from Oct. 1 data. Recurring additional staff-related costs are inclusive of benefits, workers comp., and Medicare.
9 LPS Expenses	Program budget per pupil rates are adjusted by 0% Consumer Price Index (CPI) in FY2022 and 2.00% in FY2023-26; applied against preliminary projected enrollment levels. All other lines adjusted by 0% in FY2022 and 2.0% in FY2023-26. Special Education Out-of-District Tuition and Transportation lines are projected based on program trends. Approximately 81-85% of total expense line increases are driven by these budget lines (FY2022-26).
10 Minuteman	FY2023-26 projections increase by 10%.
Municipal	
11 Municipal Wages	Projections based on step increases for current staff, settled collective bargaining contracts, and anticipated contract settlements for out-years.
12 Municipal Expenses	Level-service budget using CPI of 7% for electricity, 5.5% for natural gas, 10% for IT software expenses, and 1.8% for all other expenses.
Shared Expenses	
13 Debt Service	Within levy debt service is projected to grow by 5% annually. Amounts above that will be mitigated by use of the Capital Stabilization Fund.
14 Mitigated Within Levy Debt Service	Within levy debt service mitigated by use of the Capital Stabilization Fund. FY2022-26 left as $0 to not dilute the rest of the projections.
15 Land Purchase Note Retirement	Use of Free Cash to pay down short-term notes issued to pay for the land purchases at 173 Bedford St. and Pelham Rd.
16 OPEB	Continued funding of OPEB with a $50,000 annual increase - future funding levels under review by Town Manager's Fiscal Guideline Working Group.
17 Retirement	Contributory Retirement assessment (based on 2028 amortization of unfunded liability and 7.50% interest rate assumption) plus Non-Contributory payments
18 **Benefits**	
18a Medicare	5% increase in Medicare, reflecting an increase in the number of eligible employees and increases in wages.
18b Health Insurance	FY2022, growing at 5% annually.
18c Dental	FY2022, growing at 4% annually.
18d Life	Level Funding
19 Reserve Fund	Level Funding
20 Workers' Comp.	Level Funding. As a continuing balance account, full appropriation is effectively spent each year.
21 Unemployment	Pandemic blip is assumed to be one-time in FY2021-22; projected to return to pre-pandemic levels in FY2023 and beyond.
22 Property & Lib. Ins.	FY2022, growing at 5% annually.

Expense Category	Notes on Assumptions
23 Uninsured Losses	Level Funding. As a continuing balance account, full appropriation is effectively spent each year.
24 Solar Production	Payments to Syncarpha for construction costs of Hartwell Ave. solar arrays. Level Funding.
25 Capital	Includes $4.9M for cash capital in FY2022, $5.6M in FY2023, $6.3M in FY2024 and $7.0M in FY2025-26 from transition of Free Cash for operating budget. FY2022 also includes $156K from Prior Bond Authorizations, $110K from BAN Premium proceeds, $464K from Non-GF sources, $2.65M for Street Improvement and $214K for Municipal Building Envelope, portions of which grow at 2.5% through FY2026.
26 Other	Reflects various warrant articles such as Senior Tax Work-Off and $200K in unanticipated needs in FY2022-26.
27 Approp. to Capital Stab. Fund	Reflects past and projected transfers to continue funding the Capital Stabilization Fund to cover the high school project. Future contribution levels being discussed by Town Manager's Fiscal Guideline Review Committee.
28 Unallocated Revenue	Proposed allocation set-aside for yet to be determined priorities.
29 State Aid Reduction Reserve	Set-aside to guard against state aid reduction in FY2022.

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

Table A-5a. Expense Projections Aggregated

Expense Category	FY2019 Actual	FY2020 Actual	FY2021 Revised	FY2022 Proposed	FY2023 Projection	FY2024 Projection	FY2025 Projection	FY2026 Projection
Education	***$ 103,922***	***$ 112,079***	***$ 121,221***	***$ 126,507***	***$ 132,676***	***$ 139,133***	***$ 145,901***	***$ 152,822***
LPS	$ 102,252	$ 109,609	$ 118,358	$ 123,377	$ 129,233	$ 135,346	$ 141,735	$ 148,239
Minuteman	$ 1,670	$ 2,470	$ 2,863	$ 3,130	$ 3,443	$ 3,787	$ 4,166	$ 4,583
Municipal	***$ 46,452***	***$ 48,371***	***$ 54,208***	***$ 55,663***	***$ 56,970***	***$ 58,479***	***$ 60,318***	***$ 61,812***
Shared Expenses	***$ 57,973***	***$ 57,841***	***$ 59,153***	***$ 68,946***	***$ 65,580***	***$ 70,712***	***$ 75,250***	***$ 79,899***
OPEB	$ 1,830	$ 1,880	$ 750	$ 1,880	$ 1,930	$ 1,980	$ 2,030	$ 2,080
Capital	$ 6,422	$ 8,178	$ 7,812	$ 8,496	$ 8,490	$ 9,214	$ 9,239	$ 9,264
Capital Stabil. Fund	$ 7,690	$ 2,269	$ 0	$ 3,218	$ 1,500	$ 3,000	$ 4,500	$ 6,000
Other	$ 42,032	$ 45,514	$ 50,591	$ 55,352	$ 53,660	$ 56,519	$ 59,482	$ 62,556
Grand Total	**$ 208,347**	**$ 218,291**	**$ 234,582**	**$ 251,116**	**$ 255,225**	**$ 268,324**	**$ 281,468**	**$ 294,533**

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

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

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

Expense Category	FY2020 Actual	FY2021 Revised	FY2022 Proposed	FY2023 Projection	FY2024 Projection	FY2025 Projection	FY2026 Projection
Education	***7.8%***	***8.2%***	***4.4%***	***4.9%***	***4.9%***	***4.9%***	***4.7%***
LPS	7.2%	8.0%	4.2%	4.7%	4.7%	4.7%	4.6%
Minuteman	47.9%	15.9%	9.3%	10.0%	10.0%	10.0%	10.0%
Municipal	***4.1%***	***12.1%***	***2.7%***	***2.3%***	***2.6%***	***3.1%***	***2.5%***
Shared Expenses	***-0.2%***	***2.3%***	***16.6%***	***-4.9%***	***7.8%***	***6.4%***	***6.2%***
OPEB	2.7%	-60.1%	150.6%	2.7%	2.6%	2.5%	2.5%

Expense Category	FY2020 Actual	FY2021 Revised	FY2022 Proposed	FY2023 Projection	FY2024 Projection	FY2025 Projection	FY2026 Projection
Capital	27.3%	-4.5%	8.8%	-0.1%	8.5%	0.3%	0.3%
Capital Stabilization Fund	-70.5%	-100.0%	**	-53.4%	100.0%	50.0%	33.3%
Other	8.3%	11.2%	9.4%	-3.1%	5.3%	5.2%	5.2%
Grand Total	**4.8%**	**7.5%**	**7.0%**	**1.6%**	**5.1%**	**4.9%**	**4.6%**

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

Planned contributions to the Capital Stabilization Fund to reduce the future impacts on taxes of the High School project show the greatest volatility, increasing from zero dollars in FY2021. Even in FY2026, the planned contribution is lower than the actual in FY2019 (and the actuals in FY2016-18, not shown in the tables). Capital spending levels off in FY2023 as the land-purchase notes are fully retired in FY2022 and that money is then directed to new projects. Other shared expenses are projected to rise at relatively low rates.

Concluding Remarks

The Finance Department's projections appear to suggest that over the next five years, the Town will have to find ways to reduce expenses or increase revenues to maintain a balanced budget as required by state law. However, our review suggests that the problems may be less severe than they appear because the Town follows a fairly conservative approach in forecasting revenues.

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

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

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

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

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

Appendix B: Enterprise Funds

The Town of Lexington has maintained Water, Wastewater (Sewer), and Recreation Enterprise Funds since the state legislature enacted legislation authorizing such funds, G.L. c. 44, § 53F ½, in the late 1980's. An enterprise fund "establishes a separate accounting and financial reporting mechanism for municipal services for which a fee is charged in exchange for goods or services. Revenues and expenses of the service are segregated into a fund with financial statements separate from all other governmental activities" and are accounted for on an accrual basis. *DOR Enterprise Funds Manual (April 2008)*. An enterprise fund provides management and taxpayers with information to measure performance, analyze the impact of financial decisions, and determine the cost of providing a service. Enterprise funds may be operated on a stand-alone basis, *i.e.,* supported by fees, or subsidized by the General Fund.

The Water and Wastewater Enterprise Funds operate on a completely stand-alone basis. These funds do not rely on any tax-levy revenues but cover their complete operating and capital needs with user charges and fees. The Recreation Enterprise Fund is only partially stand-alone. It covers its operating costs with user charges and fees and contributes to the debt service on certain recreation capital projects (most recently, the Lincoln Field restoration project for which the debt has now been fully repaid). 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 an operating budget and authorizes capital expenditures for each of the three enterprise funds for the upcoming fiscal year. Later in the year (in the early fall in the case of the Water and Wastewater Enterprise Funds), user charges are set that are designed, based on projections of usage for the fiscal year, to be sufficient to cover the appropriations made by Town Meeting to run the enterprises.

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

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

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

Appendix C: Revolving Funds

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

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

Under the Municipal Modernization Act of 2016, a revolving fund may be established by bylaw and no longer requires annual reauthorization by Town Meeting. The bylaw must specify:

- the purpose(s) for which monies deposited in the fund may be used
- the source(s) of funds to be deposited
- the board, department or officer authorized to expend monies from the fund
- any other reporting requirement the Town may impose

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

Appendix D: Tax Relief Programs

In early 2004, the Board of Selectmen created an ad hoc Tax Deferral and Exemption Study Committee to explore ways in which the property tax relief available to low and moderate-income senior citizens and other needy residents could be enhanced and made more accessible. Since then, with the guidance of this committee, Town Meeting has taken a succession of steps to expand such relief, for the most part maximizing the options that the Town is allowed to adopt under existing state law and, in some cases, using home rule petitions to further increase opportunities for tax relief.

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

- A state income tax *"Circuit Breaker"* program providing a state tax credit for low and moderate-income homeowners and renters age 65 and over (at no cost to the Town).
- A *tax deferral* program under which low-to-moderate-income homeowners age 65 or over may defer any or all of their property tax, after applying any available exemptions, up to half the value of their house. The deferral need not be repaid until the house is sold or transferred. The interest rate applied to each year's deferral is a variable rate designed to match the Town's earnings on its funds. *See generally* G.L. c. 59, §5, clause 41A.
- A *tax exemption* program under which homeowners age 65 or over with limited income and limited assets other than the value of their home may deduct $2,000 from their annual property tax. *See generally* G.L. c. 59, § 5, clause 41C.
- A locally-controlled *Senior Service* program adopted by Town Meeting in 2006.
- A Community Preservation Act *surcharge exemption* program.

State Income Tax "Circuit Breaker"

Low- and moderate-income homeowners age 65 and over whose homes have an assessed valuation not greater than an annually adjusted ceiling may obtain a tax credit on their state tax returns (see table below). Low and moderate-income renters are also eligible for a tax credit. Qualified owners or renters are entitled to a refundable dollar-for-dollar credit on their state income tax, up to an annually established limit, to the extent that real estate taxes and one half of water and sewer bills (in the case of homeowners) or rent (in the case of renters) exceeds 10% of the applicant's income. This program is administered by the Massachusetts Department of Revenue and has no direct impact on Town finances.

The "41A" Deferral Program

This program is authorized by G.L. c. 59, § 5, Clause 41A. Although not widely used, it is an important tool because it offers immediate and substantial property tax relief to seniors with significant equity tied up in a residence. Those who qualify may defer any part or all of their property tax for a given year, up to a cumulative total of half the assessed valuation of the property. All deferred taxes are eventually paid when the property is sold or transferred, whether before or after the resident's death. Towns are permitted to set their own interest rates for this program at any rate up to 8%. Lexington's rate is based on a floating Treasury rate equivalent to the Town's return on its funds in the year of deferral. In FY2021, the rate is 1.41%. The rate set for each year remains in effect for the life of deferrals granted in that year.

In 2008, in response to a home rule petition, the state legislature enacted a special law (Chapter 190 of the Acts of 2008) allowing Lexington to establish a more generous income eligibility limit than that permitted under state law generally.[9] Town Meeting most recently raised the income limit from $75,000 to $90,000 for FY2021 at the 2020 ATM.

[9] The special law also permits the Town to adopt a lower age of eligibility than 65, or to condition eligibility on objective criteria of disability or other hardship for persons who would not otherwise qualify based on their age, but the Town has never done so.

The 41A deferral program is an attractive form of tax relief from the Town's point of view because it is essentially revenue-neutral. While a significant increase in the number of participants could potentially affect the Town's cash flow, there is little risk of loss since the Town is in effect making well-secured loans. The Town anticipates repayment of all deferred taxes with interest, and over time an equilibrium should be reached under which as many deferral agreements are repaid as are entered into.

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

The Senior Service Program

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

In 2006, Town Meeting voted to rescind its acceptance of the statewide senior property tax work-off program under G.L. c. 59, § 5K, and to establish a locally controlled program instead[10]. This gave the Town the flexibility, through its Board of Selectmen, to:

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

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

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, nor has it adopted a wage in excess of the state's minimum wage. The current eligibility qualifications and benefit limits are detailed in the table below.

Since the Town rescinded its acceptance of the statewide volunteer program in 2006, the State legislature has enacted several amendments to G.L. c. 59, § 5K enhancing the benefits of that program. As a consequence, the Town's maximum wage rate and benefit cap are now less generous than the State's.[11]

CPA Surcharge Exemption

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

Tax Relief Programs – Limits and Qualifications as of December 2020

State Income Tax Circuit Breaker		
Maximum assessed valuation		$848,000
Income limits		
• Single individual		$61,000
• Head of household		$76,000
• Married, filing jointly		$92,000
Maximum tax credit		$1,150
41A Property Tax Deferral		
Income limit (single or married)		$90,000
Interest rate for FY2021		1.41%
41C Property Tax Exemption	**Single**	**Married**
Income limit	$28,470	$42,708
Assets limit	$56,945	$78,298

Senior Service Program	
Income eligibility	$70,000
Maximum benefit per household	(140 hours) $1,540
Hourly Rate	$11.00

Complete details on all tax and utility relief programs available to Lexington residents are set forth in a brochure entitled *Property Tax Relief Programs, Fiscal Year 2021,* available on the Town web site at `http://www.lexingtonma.gov/taxrelief`.

[11] In 2002, the maximum amount of the Section 5K credit was increased to $750. In 2009 it was increased to $1,000, and in 2016 it was increased to $1,500. The *2010 Municipal Relief Act* added a provision allowing towns to adopt a local option to set the maximum at 125 hours of service at the prevailing minimum wage. With a minimum wage of $13.50 per hour as of January 1, 2021, the maximum credit is now $1,687.50, and that automatically increases if the minimum wage increases.

Appendix E: Specified Stabilization Funds

The state statute authorizing towns to create and maintain a stabilization fund, G.L. c. 40, section 5B, was amended in 2003 to permit the creation of multiple, separate stabilization funds for specified purposes. It was further amended by the Municipal Modernization Act in 2016. The creation of such funds, the specification of their purpose, any alteration of their purpose, and any appropriation out of the funds, must be approved by a two-thirds vote of Town Meeting. Appropriations into a fund may be approved by a majority vote of Town Meeting; and the dedication of a recurring revenue stream to a fund, which continues for a minimum of three years until revoked, may be made by a two-thirds vote of Town Meeting. To supplement its general Stabilization Fund, Lexington has created a number of specified stabilization funds, which are described below.

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

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

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

School Bus Transportation S.F.: Supports daily school bus operations and was originally funded with $200,000 contained in the Avalon Bay School Bus Transportation special revenue account. This fund was dissolved at the 2018 ATM.

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

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

At the 2009 Annual Town Meeting the *Center Improvement District Stabilization Fund* was created and was funded by a $100,000 payment received from the developer of Lexington Place in FY2010. The funds may be used for projects such as tree planting, sidewalk improvements to the abutting connector between the parking lot and the sidewalk. In each year from FY2018–2020, $27,000 was appropriated for the bike share program in Lexington Center.

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

Avalon Bay School Enrollment Mitigation Fund: funded with a $418,900 payment received from Avalon Bay pursuant to an Education and Trust Fund Escrow Agreement dated May 31, 2006. The terms of that agreement called for the establishment of an escrow fund in the amount of $750,000 with disbursements made to the Town annually if the number of students residing at the development (Avalon at Lexington Hills) exceeded 111. The amount payable per student in excess of 111 was $7,100. The fund was dissolved at the 2018 ATM.

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

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

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

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

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

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

Stabilization Fund	Balance
Transportation Demand Management / Public Transportation	$284,042
Traffic Mitigation	$645,868
Special Education	$1,153,517
Capital	$20,663,853
Center Improvement	$10,371
TMOD	$99,340
Debt Service	$314,821
Visitors Center	$23,779
Affordable Housing Capital	$191,202
Water System Capital	$135,438

Appendix F: Other Post Employment Benefits

The OPEB Liability

The Town of Lexington is required by State law to provide health benefits to retired employees that are comparable to those provided for active employees. These and other retirement benefits that are distinct from pension benefits are known as "other post-employment benefits" or OPEB for short. Health care benefits are by far the largest component of OPEB. Currently, all of the Town's retirees are eligible for Medicare and receive Medicare supplement coverage from the Town.

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

In a hypothetical world where the number of retirees remains constant and annual per-capita medical costs inflate at a rate close to a general inflation index, the size of the OPEB liability in terms of inflation-adjusted dollars would be relatively stable, because the increases and decreases would tend to balance out. In practice, however, the inflation-adjusted value of the OPEB liability most often increases each year, because of increases in the inflation-adjusted per-capita costs of health care, growth in the number of retirees receiving benefits, and an upward trend in longevity.

The Post Employment Insurance Liability (PEIL) Fund

The Post-Employment Insurance Liability Fund or PEIL Fund was created pursuant to authority granted to the Town through a special act of the Massachusetts legislature in 2002 (MGL Chapter 317). The Fund was created to allow the Town, at the discretion of Town Meeting, to set aside funds to pay for future retiree health benefits. Once money has been appropriated into the PEIL Fund, Town Meeting may only appropriate money out of it to pay for health care costs of retirees.

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

GASB standards and the choice of a discount rate

Government Accounting Standards Board statement 45 (GASB 45) requires the determination of the actuarial value of the Town's OPEB liability every two years and the inclusion of a summary of the results in the Town's financial statements. Bond rating agencies consistently ask about the actuarial report, suggesting that the size of the OPEB liability, and its current funding level, factor into the Town's bond rating.

Estimating the present value of a complicated long-term liability like OPEB involves many actuarial assumptions, and the final results are very sensitive to some of these factors, especially the *discount rate* (the investment rate of return assumed for the actuarial evaluation), the predicted *rate of inflation of per-capita medical costs*, and the *number of active and retired employees*, An understanding of the actuarial results in a proper context requires consideration of the underlying assumptions, and judgment of how well they mirror real-world expectations.

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

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

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

In 2011, the Town's OPEB report used a blended discount rate of 2.5% yielding a liability of $302 million. In 2013, with the consent of the Town's actuarial consultant, a higher blended discount rate of 4.5% was used, yielding a liability of $130 million. This large drop in the official estimate of the liability is mostly due to the use of a higher discount rate. At the Town's request, the FY2013 actuarial analysis was revised to include an auxiliary schedule using a discount rate of 7.75%. This yielded a liability of approximately $90 million as of June 30, 2013. The actuarial analysis done as of the end of FY2015 estimated the liability at $129 million assuming a discount rate of 8%. The latest actuarial report was received in January 2018. It reported the then-current unfunded liability at approximately $200 million using 5% for the discount rate and at about $138 million using 7.5% as a discount rate.

<u>GASB 74 and 75</u>

Two GASB statements, nos. 74 and 75, have recently superseded GASB 45. The impact will mainly be noticeable for financial reporting purposes, and in the reporting of the results of the actuarial analyses done for the Town every two years in two separate documents.

<u>Pre-Funding OPEB</u>

There are two approaches to handling the OPEB liability. The first is a *pay-as-you-go* model where annual OPEB expenses are paid entirely through appropriation from the tax levy. This model uses current dollars to pay for current expenses related to benefits earned in previous years. The Town's pay-as-you-go OPEB cost for FY2018 was approximately $6.8 million and the projected cost for FY2020 is approximately $7.5 million not including small amounts for the Town's shares of retiree dental and life insurance.

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

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

The most recent report done as of the end of FY2017 projects the normal cost for FY2021 will be about $4.8 million assuming a 7.5% discount rate.

Currently, the intention is to transition to the pre-funded approach; hence, there have been appropriations into the PEIL Fund at each annual town meeting since 2008. Until the Town fully funds its OPEB liability, moving toward the pre-funded model will require the Town to continue paying for a number of years for annual pay-as-you-go OPEB expenses, while also appropriating funds into the PEIL Fund. Both types of payments reduce the unfunded OPEB liability, and the Fund's ongoing investment earnings further decrease the unfunded liability. This combination of appropriations could be continued until the PEIL Fund is fully funded.

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

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

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

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

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

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

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

The Committee has supported this policy. In FY2021, the Town Manager assembled a Financial Policy Working Group to review the above policy and considering possible modifications.

History of appropriations into the PEIL Fund

The history of appropriations into the PEIL Fund is given in the following table. Since the monies in the Fund are invested, the Fund balance does not precisely track the sum of past appropriations into, and in the future, out of the Fund.

The balance in the PEIL Fund was $21,888,607 as of January 31, 2021.

Venue of Appropriation	Amount
2008 Annual Town Meeting	$400,000
2009 Annual Town Meeting	$440,690
2010 Annual Town Meeting	$479,399
2011 Annual Town Meeting	$500,000
2012 Annual Town Meeting	$500,000
2013 Annual Town Meeting	$775,000
2014 Annual Town Meeting	$1,119,000
2015 Annual Town Meeting	$1,200,000
2016 Annual Town Meeting	$1,512,318
2017 Annual Town Meeting	$1,842,895
2018 Annual Town Meeting	$1,842,895
2019 Annual Town Meeting	$1,885,486
2020 Annual Town Meeting	$750,000