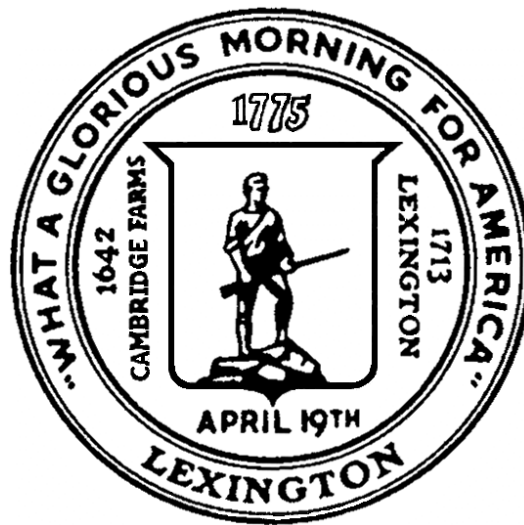


# APPROPRIATION COMMITTEE

## TOWN OF LEXINGTON



## REPORT TO THE 2010 ANNUAL TOWN MEETING

*Released March 31, 2010*

### **Appropriation Committee Members—Fiscal Year 2010**

**Alan M. Levine** *Chair* • **Glenn Parker** *Vice Chair*  
**John Bartenstein** *Vice Chair/Secretary* • **Robert N. Addelson** *(ex-officio; non-voting)*  
**Richard Eurich** • **Mollie Garberg** • **Susan McLeish** • **Eric Michelson** • **Joe Pato**



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## Summary of Warrant Article Recommendations

*Abbreviations: GF = General Fund; EF = Enterprise Fund; RF = Revolving Fund;  
 CPA = Community Preservation Act Fund; BAN = Bond Anticipation Note;  
 DSSF = Debt Service Stabilization Fund  
 An entry of "Indefinitely Postpone" in the right-hand column merely signifies our expectation.*

Article	Title	Funds Requested	Funding Source	Committee Recommendation
4	Appropriate FY2011 Operating Budget	<b>\$142,363,311</b>	<i>See report</i>	<b>Approve (8-0)</b>
5	Appropriate FY2011 Enterprise Funds Budgets	\$6,976,607 + \$7,669,703 + \$1,720,088 <b>\$16,366,398</b>	<b>Water EF Wastewater EF Recreation EF</b>	<b>Approve (8-0)</b>
6	Appropriate for Senior Service Program	<b>none</b>	<b>n/a</b>	<b>IP</b>
7	Continue and Approve Departmental Revolving Funds	<b>\$2,416,375</b>	<b>RF</b>	<b>Approve (8-0)</b>
8	Appropriate the FY2011 CPC Operating Budget and for CPA Projects	\$7,859,482 + \$483,043 <b>\$8,342,525</b>	<b>CPA GF</b>	<i>See report</i>
9	Land Purchase – Off Marrett Road	<b>\$4,000,000</b>	<b>CPA</b>	<b>Pending</b>
10	Land Purchase – Off Farm Road	<b>none</b>	<b>n/a</b>	<b>IP</b>
11	Appropriate for Recreation Capital Projects	\$50,000 + \$25,000 <b>\$75,000</b>	<b>GF Recreation EF</b>	<b>Approve (8-0)</b>
12	Appropriate for Municipal Capital Projects and Equipment	<b>\$3,001,382</b>	<i>See report</i>	<b>Approve (8-0)</b>
13	Appropriate for Water Distribution Improvements	<b>\$1,060,000</b>	<b>Water EF (debt)</b>	<b>Approve (8-0)</b>
14	Appropriate for Sewer Improvements	<b>\$100,000</b>	<b>Wastewater EF (debt)</b>	<b>Approve (8-0)</b>
15	Appropriate for School Capital Projects and Equipment	<b>\$951,071</b>	<b>GF (debt)</b>	<b>Approve (8-0)</b>
16	Appropriate for Public Facilities Capital Projects	\$1,071,400 + \$728,000 + \$73,000 + \$161,534 <b>\$2,033,934</b>	<b>GF (debt) Free Cash CPA Tax Levy</b>	<b>Approve (8-0)</b>

<b>Article</b>	<b>Title</b>	<b>Funds Requested</b>	<b>Funding Source</b>	<b>Committee Recommendation</b>
<b>17</b>	Approve Minuteman Regional Vocational Technical School District Borrowing	<b>none</b>	<b>n/a</b>	<b>Approve (8-0)</b>
<b>18</b>	Appropriate for Post Employment Benefits	<b>\$479,399</b>	<b>Free Cash</b>	<b>Approve (8-0)</b>
<b>19</b>	Rescind Prior Borrowing Authorizations	<b>none</b>	<b>n/a</b>	<b>IP</b>
<b>20</b>	Establish and Appropriate to Specified Stabilization Funds	<i>See report</i>	<i>See report</i>	<b>Approve (8-0)</b>
<b>21</b>	Appropriate to Stabilization Fund	<b>none</b>	<b>n/a</b>	<b>IP</b>
<b>22</b>	Appropriate from Debt Service Stabilization Fund	<b>\$124,057</b>	<b>DSSF</b>	<b>Approve (8-0)</b>
<b>23</b>	Appropriate for Prior Years' Unpaid Bills	<b>none</b>	<b>n/a</b>	<b>IP</b>
<b>24</b>	Amend FY2009 Operating and Enterprise Budgets	<b>unknown</b>	<b>unknown</b>	<b>Pending</b>
<b>25</b>	Appropriate for Authorized Capital Improvements	<b>none</b>	<b>n/a</b>	<b>IP</b>
<b>26</b>	Amend Bylaw – Length of Contracts	<b>none</b>	<b>n/a</b>	<b>Approve (8-0)</b>
<b>28</b>	Amend Bylaw- Town Meeting Procedure	<b>none</b>	<b>n/a</b>	<b>Disapprove (0-8)</b>
<b>30</b>	Establish Qualifications for Tax Deferrals	<b>none</b>	<b>n/a</b>	<b>Approve (8-0)</b>
<b>31</b>	Petition General Court for Municipal Utility Act	<b>none</b>	<b>n/a</b>	<b>Approve (8-0)</b>
<b>36</b>	Resolution on Munroe School	<b>none</b>	<b>n/a</b>	<b>Disapprove (0-7-1)</b>

## **Preface**

This preface contains general information about our reports and other sources of information. It is followed by an introduction setting forth the financial context from the last year, an overview of the revenue picture for fiscal year 2011 (FY2011) and the future, and a discussion of issues pertinent to the Town's general financial situation. We then present article-by-article discussions and recommendations on those articles that, in our opinion, have substantial financial relevance. Committee votes are always presented as the number of members for, followed by the members against, and lastly (when applicable) the members abstaining.

Since this report is primarily intended to document our recommendations, we have tried not to repeat information that is readily available to Town Meeting members from other sources. In particular, an excellent overview of the estimated revenues and proposed expenditures for FY2011 can be found in the Town Manager's Report, published in the *FY2011 Recommended Budget & Financing Plan*, dated March 1, 2010 (the "Brown Book"). This document was distributed to all Town Meeting members and is available online<sup>1</sup>. Likewise, a great deal of information about the budget of the Lexington Public Schools can be found in the *Superintendent's Budget Document* (the "Blue Book") and in the more recently published *School Committee Town Meeting Budget Document*, which is more concise and more up to date. Both of these school budget documents are available online<sup>2</sup>. Overviews from the Town Manager and Superintendent, as well as many details on the nuts-and-bolts aspects of the budget, may be found in these materials. In addition, the Brown Book summarizes relevant budget laws and bylaws (see Appendix B therein) and includes a glossary of financial terms (see Appendix D therein). The *TMMA Warrant Information Report* (March 2009) and the forthcoming report of the Capital Expenditures Committee (CEC) are also important references for this Town Meeting.

Continuing a useful practice, we participated again this year with the Board of Selectmen, School Committee, and CEC in a series of budget collaboration/summit meetings wherein staff presented background information and the participating boards and committees discussed major issues relating to both revenues and expenditures in an effort to achieve consensus.

It has again been a pleasure to work with Town Manager Carl Valente, Assistant Town Manager for Finance Rob Addelson, Budget Officer Micah Niemy, Superintendent of Schools Dr. Paul Ash, Assistant Superintendent for Finance and Operations Mary Ellen Dunn, the Board of Selectmen, the School Committee, the CEC, and the Community Preservation Committee (CPC). We also thank the many other municipal and school staff, Town officials, and citizens who have contributed to our work in a wide variety of ways.

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<sup>1</sup> *FY2011 Recommended Budget & Financing Plan* – <http://www.lexingtonma.gov/budget/fy2011budget.cfm>

<sup>2</sup> Lexington Public Schools budget material – <http://lps.lexingtonma.org/businessandfinance.html>

## **Introduction**

In this Introduction, we give an overview of financial developments since the 2009 Annual Town Meeting, the proposed FY2011 budget, the current status of the Town's financial reserves, and comment briefly on the financial outlook for FY2012 and beyond. The "Report of the Town Manager" in the FY2011 Brown Book (see link in the Preface) is useful to read before this introduction.

### **Developments since adoption of the FY2010 budget**

The Lexington Public Schools received a federal grant for FY2010 of \$818,090 via the American Resource and Recovery Act (ARRA). The funds were provided for special education and other purposes (see the School Budget document for details). The Schools expect to receive a similar grant in the same amount for FY2011. A major portion of the FY2010 ARRA funds are being used for special education tuitions and expenses that will not be covered by State circuit breaker funding which was reduced from the levels of the past few years.

Prior to the Special Town Meeting in November 2009, the Massachusetts Department of Revenue certified the Town's free cash balance as of July 1, 2009, to be \$6,159,509. The DOR also certified the balances, also known as "retained earnings", in the Water Enterprise Fund (\$2,113,729), the Sewer Enterprise Fund (\$1,831,967), and the Recreation Enterprise Fund (\$1,427,466). The Assessors and the State determined the final figure for new growth for FY2010, viz., \$2,431,902, which is substantially larger than the amount of \$1,900,000 that was assumed for the recommended budget for FY2010. At a total of \$9,017,027, state aid for FY2010 came in slightly below the \$9,058,898 estimate used in the adopted budget, as reported in the 2009 Brown Book. The State's financial situation and the economic crisis is apparent when one compares these numbers with the State aid that was anticipated in March 2008 for FY2009, \$9,963,843 (2009 Brown Book), and that actually received for FY2009, \$8,854,044 (2010 Brown Book).

After the 2009 Annual Town Meeting concluded, the State legislature approved the elimination of an exemption of utility poles and wires from the property tax. This expected to generate approximately \$600,000 to \$700,000 per year in revenue starting in the current fiscal year (FY2010).

At the special town meeting in November, several financial articles were approved. A summary of the actions may be found in Appendix A. Of particular note is the approval of increases in local taxes on meals and room occupancy per the new provisions in the State FY2010 budget legislation. The increase in the meals tax became effective on January 1, 2010 while the increase in the room occupancy tax will become effective on July 1, 2010. These two tax increases are projected to yield a total of roughly \$440,000 per year in additional revenue. We also note the appropriation of \$669,843 into the Stabilization Fund, this amount representing the net change in projected revenues relative to appropriations from the time of the Annual Town Meeting to the fall.

As of press time, the most recent review by the Town's professional staff of the current fiscal year (FY2010) reveals only one area that will end the fiscal year in deficit, i.e. snow and ice removal. Snow removal costs as of March 29, 2010, were approximately \$1,476,000 while the formally budgeted amount is \$737,455 (as a component of the DPW budget). In addition to this amount, \$300,000 is proposed to be set aside via a revenue offset in the FY2011 budget to address year-end deficits. Since snow removal costs increase in a most unpredictable manner, we will present an update orally at Town Meeting.

The Town Manager and staff may request the approval of adjustments to the FY2010 budget to address the snow removal deficit or other presently unidentified financial issues under Article 24. This will be done late in Town Meeting. The Reserve Fund can be used, upon approval of this Committee, to address deficits that arise after the end of this Town Meeting. There is also a mechanism for making limited inter-

line-item transfers at the end of the year. Finally, the Town Manager has recommended setting aside \$200,000 of the Free Cash balance in case it is needed to help cover FY2010 deficits.

As of press time, there have been no transfers out of the Reserve Fund in FY2010, and therefore, the entire \$550,000 that was appropriated is still available, per approval of this Committee, to address unforeseen and extraordinary expenses.

The Lexington Retirement Fund's investments declined in value from roughly \$120,000,000 in early 2008 to roughly \$80,000,000 early in 2009. Since then, the stock market has recovered a substantial fraction (but certainly not all) of its earlier values, and the value of the Retirement Fund's investments has followed this partial recovery, being \$96,600,000 at the end of January, 2010. This may not be sufficient to fully cover future liabilities. An actuarial evaluation of the Retirement Fund is being done and will lead to discussions of the amounts of future appropriations needed to reach 100% funding of the liabilities. However, the need for such appropriations will depend on the future performance of the stock market and investment returns as well as on other factors that are difficult to forecast. When full funding of the pension liabilities has been achieved once again, we expect that annual appropriations of amounts similar to those being appropriated for FY2011 to fund future pension liabilities will then be made to address the Town's liabilities for future retiree health care costs.

We applaud the completion of the new Public Services facility and the transition of the DPW staff, the Engineering Department, and the Public Facilities Department into their new location.

### **FY2011**

Every Town budget depends upon an estimate of revenues. While most – those from the property tax and available funds – are more or less definite (with the exception of new growth) given that there is no intent to seek approval of a Proposition 2½ override, the amounts of state aid and local receipts that will be received are less certain. New growth, i.e., the property tax on newly constructed buildings and new commercial equipment, is estimated at \$1,500,000. The corresponding number for FY2010 was \$1,900,000. The reduction of the estimate from FY2010 to FY2011 was made in response to a decrease in construction activity.

As has been done for several years, the FY2011 budget earmarks \$300,000 to be applied to any snow removal deficit remaining from FY2010; that amount is carried in the budget as a revenue offset.

The recommended budget assumes that State aid will be level-funded, i.e., the same as for FY 2010. As of mid-March, key legislators have suggested that a reduction in the neighborhood of 3% to 5% is likely. The Town Manager recommends that reductions in State aid below the budgeted level be covered by first reducing uncommitted funds within the budget (about \$427,000 as of press time) and then by appropriation of funds from the Stabilization Fund. The filling of temporary revenue shortfalls is one of the main purposes of the Stabilization Fund.

In his report in the Brown Book, the Town Manager discusses the development of the recommended budget. Among other parts of the process, he tells about the allocation of “new” revenue to the schools and municipal budgets in a 71.5/28.5 ratio. Our comment about this last year is worth repeating. Even though this revenue allocation has now been the practice for several years, it should be regarded as a starting point for discussions and not as an inviolable end point. If circumstances demand that the new revenue be allocated in a different way, e.g., because of differing priorities of unfunded programs, then the revenue allocation should be adjusted accordingly.

The Minuteman Regional High School assessment is lower than last year's assessment by about 10%. Please see the discussion under Article 4 for details.

In regard to health insurance for Town and School employees, the Town's consultant and Blue Cross have recommended an appropriation sufficient to cover an 11% increase in health care prices. That, together with the projection that 65 additional employees will sign up for Town health insurance plans,



yields an estimated increase of 13.34% in the budgeted FY2011 amount over the FY2010 projected amount. See the discussion under the health insurance section of Article 4 for further information.

The Town Manager is recommending the use of \$3,860,110 of Free Cash for FY2011 operating expenses. This amount is a bit more than the amount of \$3,668,576 that was taken from Free Cash in FY2010 to support the operating budget. In addition, the recommended budget includes the use of \$1,270,000 to support recommended capital expenditures and/or debt service, the transfer of \$350,000 from Free Cash to the SPED Stabilization Fund, and the transfer of \$479,399 from Free Cash to the Post-Employment Insurance Liability Fund (for details see the discussion under Article 18 below). Given the Town's current financial situation, there is no plan this year to transfer any funds into the general-purpose Stabilization Fund. This proposal is summarized in Table 1.

<b>Table 1: Anticipated Free Cash Changes—2010 Annual Town Meeting</b>	
Certified Free Cash, as of July 1, 2009	\$6,159,509
Set aside for FY2010 (Article 24)	(\$200,000)
Less use for operating budget (Article 4)	(\$3,860,110)
Less use for FY2011 debt service or cash capital (various articles)	(\$1,270,000)
Less transfer to Post-Employment Fund (Article 18)	(\$479,399)
Less transfer to SPED Stabilization Fund (Article 20)	(\$350,000)
Less transfer to Stabilization Fund (Article 21)	(\$0)
Remaining balance at end of Town Meeting (see text)	\$0

The recommended FY2011 budget (with projects proposed for CPA funding) includes approximately \$12,800,000 for capital expenditures in regard to Town projects; this amount is at least \$1,000,000 more than was appropriated for FY2010 (see the FY2010 Brown Book page XI-3 and the FY2011 Brown Book page XI-4). Note that purchases or work related to LexHAB and Lexington Housing Authority properties are not considered to be Town projects and the funding for those projects is not included in the above totals. The funding sources for FY 2011 capital projects include the tax levy, enterprise funds, CPA funds, Free Cash, a revolving fund, and state funding (Chap. 90).

### **FY2012 and beyond**

This year it seems that the balanced FY2011 budget proposal that will be presented to Town Meeting did not require any difficult tradeoffs or sacrifices. This was definitely a positive development, but there are areas of concern for observers of the Town's finances. Two areas in particular that will need concerted effort and guidance are employee benefits and the growing list of large capital projects required to maintain and upgrade the Town's infrastructure.

We don't need to elaborate about the need to control the growth of the costs of health insurance for Town employees and retirees. It is not hard for many to point to aspects of the current program that they don't like, but it is difficult to make major changes in these benefits because they are contractual matters requiring the support of both management and unions. Nevertheless, the Town must strive to reach agreements where the complete picture of compensation and benefits is fair to current and future employees, to Town retirees, as well as the taxpayers.

In regard to major capital projects the town must consider in the coming years, the list includes street resurfacing and reconstruction work beyond the usual annual expenditures in order to catch up with that which has been deferred past the time of due diligence, renovation and expansion of the High School, renovation or reconstruction of the four older elementary schools, reconstruction or renovation of the Fire Department's main building on Bedford St., work on the Police Station, a senior and/or community center, renovation of the Stone Building in East Lexington, and probably other projects. The total cost of these projects will approach \$100,000,000, and most of them will only be feasible if financing is

approved in debt exclusion referenda. It will be most prudent for the Town to allocate funds at a level sufficient to address all of the high priority capital needs over some reasonable period of time.

In short, we need to plan for a high level of spending on important capital projects over the coming 10 to 15 years. The Town will need all the help it can get, e.g. by taking advantage of state and federal funds when they are available, from the CPA, and from citizen support of well-formulated debt exclusion overrides. Clearly Town officials, boards, and committees will need to engage in discussions of strategies for managing both areas over the coming months and years.

## Warrant Article Analysis and Recommendations

<b>Article 4: Appropriate FY2010 Operating Budget</b>	<b>Funds Requested</b>	<b>Funding Source</b>	<b>Committee Recommendation</b>
	<b>\$142,363,311</b>	<i>See motion</i>	<i>See below</i>

Each major section of this request is discussed separately below.

<b>Description</b>	<b>Funds Requested</b>	<b>Funding Source</b>	<b>Committee Recommendation</b>
Lexington Public Schools	<b>\$68,747,426</b>	<i>See motion</i>	<b>Approve (8-0)</b>

### Overview

The School Committee has approved a school operating budget that comprises \$68,747,426 in Town funds and \$818,090 of federal stimulus funds for a total of \$69,565,516. The \$818,090 represents the second half of federal stimulus funds (American Reinvestment and Recovery Act or ARRA) received by the Lexington Public Schools. The first half of the ARRA funds, also in the amount of \$818,090, is being spent in the current fiscal year (FY2010). In light of the continuing economic downturn, this budget assumes a 15% reduction in non-ARRA federal and state grants except for the federal special education (IDEA) grant which is anticipated to be level funded. The requested appropriation is 2.67% more than was appropriated for this line item in FY2010.

The bottom-line total is the amount required for a level-services budget that was prepared by the Superintendent at the request of the School Committee. However, the budget includes internal adjustments that allow for certain service improvements without requiring any increase in the requested funding amount. To be specific, needed improvements in technology education, the restoration of a K-5 social studies coordinator and the addition of a math coach are being funded by the elimination of a vacant position and a speech/language position.

### American Recovery and Reinvestment Act of 2009 (ARRA)

The use of ARRA funds is regulated by highly specific rules and guidelines. Due to the rules and guidelines the district considers these funds to be non-recurring in nature. For these reasons, the district has designated the funds for special education and professional development. As a result, funds for Special Education Tuition will need to be appropriated by Town Meeting in FY12; and the source of funds to continue the professional development program will need to be identified in the existing appropriation or additional funds sought from Town Meeting. The funds made available through ARRA are proposed to be used as follows:

<b>ARRA supported expenses</b>	<b>Amount</b>
AIMSweb (K-5 literacy assessment tool)	\$25,000
Conference Registrations	\$10,000
Travel Costs	\$10,000
Materials & Supplies	\$30,000
Equipment	\$10,000

<b>ARRA supported expenses</b>	<b>Amount</b>
Professional Services	\$50,000
Teacher Stipends	\$75,000
Technology Integration Specialist	\$80,150
Prof. Devel. Program Admin. Support	\$11,000
Field Technician	\$19,500
Out-of-District Tuitions	\$409,045
Support Staff/Paraprofessional	\$88,395
<b>Total</b>	<b>\$818,090</b>

### **Enrollments**

Projected enrollments for FY2010 and FY2011 are as follows:

<b>Grades</b>	<b>FY2010 Actual (as of 10/09)</b>	<b>FY2011 Projected</b>	<b>Change</b>	<b>%Change</b>
K-5	2675	2649	-26	-0.97%
6-8	1486	1484	-2	-0.13%
9-12	1970	1981	11	0.56%
<b>Total</b>	<b>6131</b>	<b>6114</b>	<b>-17</b>	<b>-0.28%</b>

The number of children living at Avalon at Lexington Hills has exceeded the threshold of 111 students stipulated in the agreement between Avalon and the Town of Lexington. With an anticipated matriculation of 166 students this year, a transfer from the education trust fund of \$390,500 set up for this purpose by Avalon Bay Communities will be executed. The School Committee has laid out a plan to use a portion of these funds to offset the FY12, FY13, and FY14 budgets to partially replace the ARRA funds.<sup>3</sup>

### **Athletics Fees**

The school administration has not been able to restore program or staff cuts from previous years or lower fees for various programs and services. After the Spring 2006 override was not approved by voters, fees were instituted or increased in September of 2006 to cover some of the costs of the elementary instrumental music program, athletics, transportation to school, preschool, full-day kindergarten, and school lunches. Detailed fee schedules are available on page 19 of the Blue Book.

The Superintendent has recommended a fee increase for Middle School athletics in FY2011 as the program has not been self-funding and has been subsidized in part by High School athletic fees. If voted by the School Committee later this spring, fees for Middle School varsity sports would increase to \$200 per sport from \$100 currently, junior varsity sports would increase to \$100 per sport from \$65 currently, and intramural and before school sports would increase to \$75 from \$65 per session. An increase in an administrative policy cap on the prices of school lunches is also being considered, and, if approved, could lead to an increase in costs to students.

<b>Program</b>	<b>FY2010 Fee</b>	<b>FY2011 Proposed Fee</b>	<b>Change</b>
High School Athletics	\$300 for 1 <sup>st</sup> or 2 <sup>nd</sup> sport, 3 <sup>rd</sup> sport free. Family cap of \$600	\$300 for 1 <sup>st</sup> or 2 <sup>nd</sup> sport, 3 <sup>rd</sup> sport free. Family cap of \$600	No change
Middle School	\$100 per varsity sport;	<b>\$200</b> per varsity sport;	+\$100 varsity

<sup>3</sup> <http://lps.lexingtonma.org/Current/FY11bud/2010-01-26LPS3yr-proj.pdf>

Program	FY2010 Fee	FY2011 Proposed Fee	Change
Athletics	\$65 per junior varsity sport; \$60 per intramural session	<b>\$100</b> per junior varsity sport; <b>\$75</b> per intramural session Family cap of \$600	+\$35 junior varsity +\$15 per intramural
Elementary School Athletics	\$65 for Before School Sports program	<b>\$75</b> for Before School Sports Program	+\$15
School Lunch	Breakfast: \$2 Lunch: \$3.50 Milk: \$0.60 Elem. Sensible Sides: \$0.50-\$1.25 Middle School and High School: a la carte and premium: \$0.50 - \$1.25	Breakfast: \$2 Lunch: <b>\$3.75</b> Milk: \$0.60 Elem. Sensible Sides: \$0.50-\$1.25 Middle School and High School: a la carte and premium: \$0.50 - \$1.25	Lunch: +\$0.25 This is a policy cap adjustment, not an actual lunch price increase as yet. It will not be known until June if the Administration will have to raise lunch prices.

### Expenses

Expenses are comprised of supplies, materials, special education out-of-district tuition and transportation, consultants, etc. Full details are provided within the Blue Book, p.8<sup>4</sup>. Expenses are projected to increase 4.98% in FY2011 but expenses still comprise only 16.1% of the total budget. Salaries and wages grew at a more modest 2.23%. Total budgeted costs will grow by an aggregate rate of 3.89%, but because of one-time ARRA funding the town's FY2011 expenditure for the school budget will only grow by 2.67%.

Type	FY2009 Actual	FY2010 Revised	FY2011 Request	%Budget	%Change
Salaries and Wages	\$53,418,882	\$56,290,945	\$57,548,883	82.7%	2.23%
Expenses	\$10,410,466	\$10,667,348	\$11,198,543	16.1%	4.98%
<b>Appropriation Request</b>	<b>\$63,829,347</b>	<b>\$66,958,293</b>	<b>\$68,747,426</b>		<b>2.67%</b>
ARRA			\$818,090	1.2%	
<b>Budget Total</b>	<b>\$63,829,347</b>	<b>\$66,958,293</b>	<b>\$69,565,516</b>		<b>3.89%</b>

### Special Education Expenses

Special education expenses constitute significantly more than 50% of all expenses in this proposed school budget. They remain a challenge and major driver of the school budget and so are discussed more extensively here.

*Major reduction in State "circuit breaker" reimbursements for out-of-district tuition:* After town meeting last year, the State reduced the reimbursement rate to all school districts from 72% to 42% for out-of-district placement that exceed four times the foundation budget. In FY2011, the Lexington Public Schools are projecting a 40% reimbursement rate and anticipate receipt of \$1,304,154 based on November 2009 eligible students. Out-of-District tuition increased 16.38%, net of circuit breaker funding.

Out of District Budget	FY2010 Revised	FY2011 Projected	%Change
Total Number of Students	93	98	5.38%
Total Cost	\$6,957,080	\$7,346,252	5.59%
Circuit Breaker	\$1,720,001	\$1,304,154	-27.23%
Net Cost to Town	\$5,237,079	\$6,094,662	+16.38%

<sup>4</sup> More line item detail is available in the Superintendent's budget document located at <http://lps.lexingtonma.org/Current/TOC.htm>

*Increases in contracted services for specialized service delivery to students:* Annual reviews of individual education plans have warranted an increase in the need for outside contractors who provide assistance with regard to specialized services and legal proceedings.

*Transportation savings:* A decrease in special education out-of-district transportation costs is expected due to a program that was started recently. Lexington collaborates with Arlington, Burlington, Waltham, and Watertown to enable multiple students who attend the same school to be transported in one vehicle. This successful program has resulted in \$186,166 savings to the town in FY2009 and is anticipated to yield over \$400,000 in savings in FY2010. The FY2011 savings from the collaborative routing is projected to be \$297,000 (see page 118 of the Blue Book). However, a route reconfiguration among the member communities may be required that could reduce savings slightly.

*Additional staffing requirements:* Fiske and the High School intensive learning programs (ILP) and Clarke's developmental learning program (DLP) will likely need additional staffing due to increases in the numbers of students served by these programs. This budget holds in reserve two unallocated teaching positions.

**The Committee unanimously (8-0) recommends approval of this request.**

Description	Funds Requested	Funding Source	Committee Recommendation
Minuteman Regional High School Assessment	\$1,538,811	GF	Approve (8-0)

The MRHS School Committee has accepted a budget for FY2011 of \$16,238,679, a \$1,257,322 or 7.19% budget decrease over the current year. This budget implements programs intended to lower extraordinarily high per-pupil expenditures and extraordinarily low student/teacher ratios which have resulted from a declining enrollment. Savings generated will help offset decreases in state aid and are one factor in a temporary cessation in the escalation in member town assessments.

This budget assumes level out-of-district enrollment and a small growth of in-district students. Salaries, which make up 57% of the budget, decreased \$1,094,725 (-10.6%). Staff reductions include 8 teaching positions, 5 administrators, and up to 6 FTE's of support staff. Non-salary expenses decreased \$167,401 (2.3%). Two programs, auto body and office technology, have been eliminated, supply budgets have been reduced 10-20% and numerous adjustments have been made. The school continues its commitment to infrastructure renewal with an identical annual capital budget of \$380,000. An expanded discussion of the school's capital needs can be found under Article 17, Minuteman Borrowing.

As of October 1, 2009, 621 full-time students were enrolled. Roughly 60% of these students are from in-district towns and 40% are from out-of-district towns. There are no "Choice" students attending. The in-district enrollment is 7 students (+1.9%) higher and the out-of-district enrollment is 9 students (-3.5%) lower than one year earlier. Special education students comprise 40% of the FTE enrollment.

Although the State caps the non-resident student tuition rate, that rate is now set using the actual in-district average cost as a factor. The non-resident tuition rate for FY2010 was set at \$16,500 per student, and is expected to rise to \$16,800 for FY2011. Non-resident SPED tuition assessments will rise to \$5,000 per student.

Member towns are assessed for the upcoming year based on their student enrollment in the current year. These assessments are used to fund the portion of this budget that is not funded by the combination of: (1) all other projected revenues, and (2) member towns' State Required Minimum (SRM) per-student payments. This year's assessments are based on an MRHS budget funded with a projected \$2,029,285 of Chapter 70 money and \$360,000 in transportation aid. These estimates are based on the Governor's budget H-1, which indicates a decrease of \$324,040 in state aid (-\$208,383 [-9.3%] in Chapter 70 aid and -\$115,657 [-24.3%] in transportation aid) compared with FY2010. Of course, all of these figures, with the

exception of the bottom line MRHS total, are preliminary until final approval of the State's FY2010 budget.

The current revenue plan may lead to future financial problems. The other significant revenue source under item (1) is out-of-district tuition. Average yearly tuitions collected over the last five years is \$3.5 million. Up until FY2002 the school budgeted very conservatively, considering anticipated but uncollected tuitions to be too speculative, and only applied the tuition collected from the prior year towards its budget. Starting in FY2003, \$280,000 of current year (anticipated) tuition was applied towards the budget. In FY2008 the amount was \$375,000 and in FY2009 it was \$382,000. When deteriorating state finances led to unanticipated cuts in FY2010 state aid, MRHS took the emergency measure of offsetting lost revenue by increasing the use of current tuition money to \$888,000, instead of increasing already-set district assessments. Prior and current year tuition contributions in FY2010 totaled \$4.3 million. This use of FY2010 current year tuition creates a problem for FY2011, since the available prior-year tuition consequently drops from \$3.46 million to \$2.9 million. In response, MRHS plans to use \$1.63 million in current year tuition as part of the FY2011 budget. However, this number may make up the shortfall, but increases the total amount of tuition applied to \$4.54 million which is far in excess of the annual tuition collection of \$3.4 million. The District has thus reduced the funds it could draw on to make up for any further decreases in state aid. While this practice has the short-term benefit of reducing in-district assessments by \$240,000, it is not sustainable. Future budgets will require either significantly increased state aid, increased out-of-district tuitions, reduced expenses, or some combination thereof, or else in-district assessments will increase substantially.

**Minuteman's Projected Assessment - based on the unapproved House-1 budget**

PROGRAM	FTE BASIS ENROLLMENT*		AVE PER PUPIL CHG		ASSESSMENT	
	FY10	FY11	FY10	FY11	FY10	FY11
<b>Grades 9-12:</b>						
Regular Day Students	64.5	62.5	\$8,223	\$5,808	\$530,374	\$363,025
Special Education Assessment	26	21	\$4,500	\$4,500	\$117,000	\$94,500
State Minimums for Lexington	70	69	\$13,579	\$13,847	\$950,514	\$955,450
Totals, grades 9-12(inc. SPED)	64.5	62.5	\$24,773	\$22,608	\$1,597,888	\$1,412,975
<b>Special Program:</b>						
"Reduced Charge" Pupils	11	11	\$4,909	\$5,773	\$54,000	\$63,500
<b>TOTAL OPERATING</b>	75.5	73.5	\$21,879	\$20,088	\$1,651,888	\$1,476,475
Capital Assessment (based on enrolled 9-12)			\$950	\$997	\$61,275	\$62,336
<b>TOTAL ASSESSMENT</b>			\$22,691	<b>\$20,936</b>	\$1,713,163	<b>\$1,538,811</b>
percentage increase over prior year			18.62%	-7.73%	13.41%	-10.18%

\* - prior year's enrollment as of October 1

A breakdown of the full assessment is given above. The preliminary assessment for Lexington for FY2011 is \$174,352 (-10.2%) less than the FY2010 actual assessment. The main portion of this assessment is based on Lexington's FY2010 Base Enrollment (as of October 1, 2009) of 62.5 full-time regular students in grades 9-12, 2 FTE's less than last year. Lexington's enrollment has decreased while the overall MRHS in-district enrollment has increased, lowering our Town's share of in-district enrollment by 5%. This has decreased our total full-time student operating-share assessment by \$167,349 (-31.5%) to \$363,025, a per-pupil decrease of 29.4%. In addition, Lexington's total SRM payment increased \$4,936 due to an increase in our per-student SRM payment.

**The Committee unanimously (8-0) recommends approval of this request.**

Description	Funds Requested	Funding Source	Committee Recommendation
Shared Expenses	<b>\$44,775,186</b>	<i>See motion</i>	<b>Approve (8-0)</b>

Shared Expenses encompasses Line 2100, Employee Benefits; Line 2200, Debt Service; Line 2300, Reserve Fund; and Line 2400, Public Facilities. See pages IV-1 to IV-18 in the Brown Book for more information.

**Employee Benefits (Line 2100)** includes the costs for current and future pensions for retired employees; health (self-insured) and dental (insured through a group policy) insurance for current and retired employees; premiums for property and liability insurance policies; and potential unemployment and workers compensation liabilities. It does not include any sums for the funding of health benefits for future retirees. The latter is covered under Article 18.

Health benefits for both municipal and school employees are included in line 2130, a practice that began with the FY2007 budget. The estimated expense for all health benefits (including health [“medical”] and dental) to be paid by the Town totals \$24,596,032, by far the largest portion of this section. Of that amount, \$23,801,632 is allocated to health insurance, and \$794,400 to dental insurance. The health insurance figure reflects an increase of \$2,801,748, or 13.34%, over the restated FY2010 figure. Conversely, the dental insurance cost figure is 7.83% less than in FY2010, a decrease of \$57,530.

The 13.34% increase in health insurance is not unique to Lexington. As shown in the Special Report feature in the February 28 and March 1 editions of The Boston Globe, “runaway health costs are rocking municipal budgets” across the Commonwealth. Lexington is no exception. The projected increase for FY2011 continues an unbroken string of steadily mounting health care costs which have confronted the Town since 2000. Higher premiums and increasing enrollment of employees and their families in the various health care plans offered by the Town both contribute to the increase in health costs.

Consistent with the FY2008, FY2009 and FY2010 budgets, the budget for FY2011 identifies the portions of the projected health benefit costs attributable to municipal, school, and retired employees (see page IV-6 of the Brown Book). The projected percentage increase of health costs for municipal employees is 15.7%, almost the same percentage increase as in FY2010. The increase for school employees is 14.6%, compared to an FY2010 increase of 8.7%. The percentage increase in health costs attributable to retired employees (which includes spouses) is 9.8%. The number of enrollees in each category is expected to increase, both in individual and in family subscriptions. Most retirees have only individual, as opposed to family, plans. Individual plans for retirees are less expensive than individual plans for active employees. The total dollar amounts of the FY2011 estimates for municipal (\$4,522,098) and school employees (\$12,088,572) differ because a significantly greater number of individuals are employed on the school side.

The total amount budgeted for Line 2130 is \$25,714,261. As previously mentioned, employee/retiree health insurance is \$24,596,032 and dental insurance is \$794,400. Medicare tax, which the Town pays for all Town and School Department employees hired after 1986, is \$1,097,929, a 10.69% increase over last year. The remaining \$20,300 is for life insurance.

The FY2011 budget includes a figure of \$198,600 for line 2140, Unemployment Benefits, to fund the Town’s statutory liability for unemployment compensation payments for employees who may be laid off. Last year the amount budgeted was \$267,300 in anticipation of the elimination of a sizeable number of part-time, benefit-eligible School Department positions (see page IV-4 in the Brown Book). This year’s figure is lower than the FY2010 figure by 25.7% because many fewer positions are expected to be eliminated.



The Workers Compensation recommended appropriation in Line 2150, \$480,302, is a 19.5% increase over FY2010, which itself was 19.8% more than the FY2009 appropriation. This reflects actual experience and assures an adequate balance in this continuing balance account.

The second largest line in Shared Expenses is line 2110, Contributory Retirement, \$3,718,549. This represents a 2.06% increase over the amount appropriated in FY2010. The sum is paid by the Town to the Lexington Retirement Trust Fund, which is managed and overseen by the Lexington Retirement Board, to fund the Town's liabilities for pension payments to retirees in FY2011 as well as to help fund liabilities for future payments due to current or past obligations. Every three years the Town has consultants make an actuarial determination of the total amount of the future pension liabilities.

The Commonwealth of Massachusetts had required that municipalities fully fund all such liabilities by 2028. Because of the economic difficulties over the past few years, that deadline was extended to 2030. Based on the annual payments the Town has made, and is projected to continue to make, the Trust Fund is expected to be fully funded by 2015. "Full funding" is somewhat of a mercurial concept, since it must necessarily encapsulate a number of disparate and constantly changing factors. Primarily due to judicious investment and management decisions by the Lexington Retirement Trust Fund and a seemingly never-ending robust economy, the Trust Fund was actually "fully funded" as of January 1, 2008. At that time, the value of the Trust Fund was approximately \$120 Million. However, the economic downturn dramatically affected the value of the Fund so that, as of January 1, 2009, it had fallen by one-third, to approximately \$80 Million.

Despite that drop, the appropriation request last year, coupled with the resurgence of the stock market and the Fund's other investments, has restored the Fund to where it is again on track to be fully funded by 2015. This year's appropriation is intended to continue that process.

Funding of the Retirement Trust Fund may be coupled to the funding of health benefits for future retirees. Once the Lexington Retirement Trust Fund is fully funded, at least a portion of the approximately three and one-half million plus dollars which annually is appropriated for the Trust Fund can perhaps be redirected to funding this future liability. The final decision whether or not to do that must be deferred until the Trust Fund is fully funded. See the discussion of Article 18 in this Report.

**Debt Service (Line 2200)** includes interest and principal payments for within-levy long-term debt (bonds) and for temporary borrowing. The budgeted debt payment recommended for FY2011 is \$4,669,173, which is \$197,740, or 4.42%, higher than in FY2010. The total amount is broken down as follows: temporary-borrowing interest payments of \$144,829; long-term debt interest payments of \$726,605; and long-term debt principal payments of \$3,797,740. The long-term debt principal payment is 4.84% higher than in FY2010, which in turn was 16.5% higher than in FY2009, more than offsetting a substantial decrease in temporary-borrowing payments.

Debt service also includes interest and principal payments for exempt long-term debt and temporary borrowing. The total of this portion of the budget is \$5,871,767, an increase of \$125,382, or approximately 2.18%, over FY2010. Coupled with the figures for within-levy long term debt and temporary borrowing, the FY2010 recommended total for debt service is \$10,540,941, an increase of \$323,123, or 3.16%, over FY2010.

**The Reserve Fund (Line 2300)** acts as a reserve from which the Appropriation Committee approves transfers for extraordinary and unforeseen expenses. The recommended amount for FY2011 is \$550,000. This is the same amount as appropriated in FY2010. Over the past several years, the amount appropriated to the Reserve Fund has increased from \$150,000 in FY2005 to \$532,500 in FY2009.

This year's recommended appropriation of \$550,000 will, in conjunction with other measures, continue the Town's intent to build sufficient contingency funds into the budget to obviate the need to rely, for most purposes, upon Free Cash or the Stabilization Fund. The Stabilization Fund is not intended to be a basic operating reserve; rather it is intended to be a source of funds to offset revenue losses that typically occur during a recessionary period (see page vi in the Brown Book). The purpose of the Reserve Fund is

to provide contingency funds in the budget to deal with unexpected and substantial cost overruns without having to turn to other reserves. The Reserve Fund also relieves individual municipal and school departments from the need to include reserves in their respective individual budgets.

**Public Facilities (Line 2400)** In FY2008 a single, unified Department of Public Facilities (DPF) was created by consolidating municipal and school facilities management and maintenance functions. The Department administers major capital projects, building maintenance, and custodial services. The DPF operates under the direction and control of a Public Facilities Board which comprises the Town Manager and the Superintendent of Schools.

The Department management is now located in the Public Services Building near the Department of Public Works. This facilitates communication and coordination on projects.

Overall, DPF expenses are projected to decrease by 2.74% from FY2010. This reflects an overall increase of 0.92% in compensation and a decrease of 5.36% in expenses.

Personal Services (salaries & wages and overtime combined) is expected to increase by approximately \$35,000. Approximately \$60,000 of the increase comes from an expected increase in the DPF headcount by one person, i.e., the LHS Facility Manager, who will be transferred from the School Department. This increase is offset by a decrease in anticipated overtime as negotiations were undertaken to allow the department to change the assigned shift of three custodians upon one-day notice. This flexibility, along with a procedure that requires the custodial supervisor to approve overtime in advance is expected to result in less overtime. Please note that in FY2011 the Public Facilities Revolving Fund budget is presented as a component of the budget. This affects the comparability of the individual line items of salaries & wages and overtime from year to year, but, since this is only a presentation issue, has no impact on the overall budget.

The increase in contracted services results from a change in the outside contractor for custodial services. Proposals were sought under a State contract versus a proposal process to identify the lowest bidder in an effort to increase the level of service.

Overall, the utilities budget is projected to decrease by approximately 9% or \$313,000. This continues a trend in savings for the past few years and results from specific and general energy-saving projects (Clarke Middle School conversion from electric heat to natural gas in FY2009, LHS efficiency improvements, Estabrook School conversion from oil to natural gas, a full year of reduced contracted rates, controls upgrades as examples). In general, utility costs are projected based on FY2009 usage and contracted rates for FY2011. To the extent that a specific project has been undertaken (e.g. conversion of Estabrook School heating from oil to natural gas) the estimated impact has also been factored into the estimated usage.

Contracts for electricity (through December 2013), natural gas (through September 2012) and oil (annual through a consortium including other communities) are in place.

We noted last year that the DPF is working toward the goal of reducing the overall energy consumption at Town-owned buildings for FY2010, but that the estimated savings were not fully factored into the budget. Indeed, the department is currently projecting actual utility expenses for FY2010 to be an additional \$200,000 under the budgeted amount. We applaud the energy savings that the DPF has achieved.

**The Committee unanimously (8-0) recommends approval of this request.**

<b>Article 5: Appropriate FY2010 Enterprise Funds Budgets</b>	<b>Funds Requested</b>	<b>Funding Source</b>	<b>Committee Recommendation</b>
	\$6,976,607 + \$7,669,703 + \$1,720,088 <b>\$16,366,398</b>	<b>Water EF Wastewater EF Recreation EF</b>	<b>Approve (8-0)</b>

A detailed breakdown of the funding request for this article is shown in the following table:

<b>Enterprise Fund</b>	<b>FY2009 Actual</b>	<b>FY2010 Appropriated</b>	<b>FY2011 Requested</b>
<b>1. Water</b>			
Personal Services	\$609,985	\$640,290	\$645,488
Expenses	\$448,842	\$363,186	\$385,620
Debt Service	\$751,641	\$1,108,100	\$1,200,406
MWRA Assessment	\$4,565,881	\$4,482,551	\$4,745,093
<b>Total Requested in Article 5</b>	<b>\$6,376,349</b>	<b>\$6,594,127</b>	<b>\$6,976,607</b>
Indirect Expenses	\$820,952	\$782,176	\$743,400
<b>Total Water Enterprise Budget</b>	<b>\$7,197,301</b>	<b>\$7,376,303</b>	<b>\$7,720,007</b>
<b>2. Wastewater</b>			
Personal Services	\$236,450	\$270,073	\$276,152
Expenses	\$340,817	\$325,600	\$330,600
Debt Service	\$488,135	\$633,497	\$658,519
MWRA Assessment	\$5,855,209	\$6,245,946	\$6,404,432
<b>Total Requested in Article 5</b>	<b>\$6,920,611</b>	<b>\$7,475,116</b>	<b>\$7,669,703</b>
Indirect Expenses	\$714,536	\$691,763	\$668,690
<b>Total Wastewater Enterprise Budget</b>	<b>\$7,635,147</b>	<b>\$8,166,879</b>	<b>\$8,338,393</b>
<b>3. Recreation</b>			
Personal Services	\$572,781	\$636,560	\$631,992
Expenses	\$871,952	\$956,815	\$950,896
Debt Service	\$101,227	\$132,600	\$137,200
<b>Total Requested in Article 5</b>	<b>\$1,545,960</b>	<b>\$1,725,975</b>	<b>\$1,720,088</b>
Indirect Expenses	\$106,200	\$188,583	\$203,583
<b>Total Recreation Enterprise Fund</b>	<b>\$1,652,160</b>	<b>\$1,914,558</b>	<b>\$1,923,671</b>

### **Overview**

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 or subsidized by the General Fund.

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

### **Establishing the Enterprise Fund Budgets**

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

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

Since FY2007, the Annual Town Meeting Warrant has contained a separate Article for the appropriation of the enterprise fund operating budgets (previously, appropriations for the enterprise funds were commingled with those for the General Fund). This presentation makes it easier to understand the operating budgets of the enterprise funds. However, it should be noted that certain indirect costs that are charged by the General Fund to the enterprise funds (see discussion below) are still appropriated as part of the municipal operating budget, this year in Article 4. For the complete operating costs of the enterprise funds, including indirect costs, see the Brown Book, pp. V-25 (Water), V-29 (Wastewater) and VII-9 (Recreation).

To present a more meaningful picture of the complete enterprise fund operating budgets, the tables included above 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. (See Article 11 - Recreation Capital Projects, Article 13 - Water Distribution Improvements, and Article 14 - Sewer Improvements.)

### **Water/Wastewater Fund Expense Issues**

The largest component of the Water and Wastewater Enterprise Fund budgets is the charge imposed by the Massachusetts Water Resources Authority (MWRA) for water and wastewater. These assessments are based on the Town’s proportionate share of the total MWRA budget, based on its usage in the prior calendar year, and are an expense component over which the Town has no control. The requested appropriations in the motion for this article have been adjusted downward from the higher “placeholder” figures in the warrant to reflect the MWRA’s preliminary estimates of the assessments for Lexington for FY2010 for water and sewer issued in February 2010, as shown in the following table:

**MWRA Assessments**

<b>Fund</b>	<b>FY2010 Actual</b>	<b>Warrant Placeholder</b>	<b>% Change</b>	<b>FY2011 Prelim. Assmt.</b>	<b>% Change</b>
Water	\$4,482,551	\$4,930,806	10.0%	\$4,745,093	5.9%
Sewer	\$6,245,946	\$7,182,838	15.0%	\$6,404,432	2.5%
Combined	\$10,728,497	\$12,113,644	12.9%	\$11,149,525	3.9%

As can be seen in this table, the anticipated increases in MWRA costs for FY2011 are far less dramatic than might have seemed the case when the warrant was first published. Final MWRA assessments, which are published in June, are typically lower than the preliminary assessments, and the costs that will be used during the rate-setting process will be further adjusted accordingly. (At last fall's Special Town Meeting, the original appropriations for MWRA water and wastewater assessments were lowered by approximately \$120,000 and \$250,000 respectively to reflect the reduced final assessments.) Consequently, MWRA cost increases are not likely to create significant pressure for rate increases when rates are set for FY2011 next fall, as they have in the past.

The Water and Wastewater Fund budgets include direct costs, which are primarily for: (1) the wages and salaries of the employees in the DPW's Water and Sewer Divisions, (2) the expenses of the water and sewer maintenance activities and equipment, and (3) debt service on prior borrowings for water and sewer enterprise capital improvements.

It should be noted that debt service costs have steadily increased over the past several years as most of the recent capital improvements have been financed exclusively with debt, rather than with a combination of debt and cash as had been the previous practice. See Tables in discussions of Articles 13 and 14. While the increased reliance on debt financing helps to better spread the costs of projects over their useful life, the effect of the transition has been a temporary lowering of current-year capital costs that are now beginning to return to the original, higher levels through increases in debt service. In addition, the Water and Sewer Enterprise Funds' debt service burden has been increased by their assumption of responsibility for approximately 25% of the debt service costs for the construction of the new DPW facility (17% and 7% respectively, based on their expected usage of the new building). It may be possible to mitigate some of the rate pressure these increased debt service costs will generate with a judicious application of retained earnings to capital improvement projects (see discussion below of reserves).

The budgets also include indirect costs for services provided to the Enterprise Funds by other departments, such as insurance costs (health and liability), retirement funding, engineering costs, and the cost of support services provided by the Comptroller, the Management Information Systems (MIS) Department, and the Revenue Department. In the fall of 2006, following up on a recommendation made in the final report of the Water and Sewer Rate Study Committee, the Town staff conducted an analysis of the basis for the indirect charges, and concluded that the level of indirect expenses charged to the Water and Wastewater Enterprise Funds was significantly higher than could be justified. To address this issue without causing undue disruption to the Town Budget, it was decided to implement a gradual phase-down of the indirect expenses charged to the Water and Wastewater Funds to the levels supported by the Town staff's analysis over a period of five years. Consistent with this multi-year phase-down plan, the recommended budget for FY2011 contemplates modest reductions in the levels of indirect expenses charged to the Water and Wastewater Funds for a fourth year, as set forth on pages V-22 and V-26 of the Brown Book.

Previously, the budgets for the Water and Sewer Enterprise Fund budgets included charges, recovered in the water and sewer rates, for payments in lieu of taxes (PILOTs): \$500,000 for the Water Enterprise Fund and \$250,000 for the Sewer Enterprise Fund. From fiscal year 2007 through fiscal year 2010, the Town phased out these PILOTs at the rate of 25% per year. The Water and Sewer Enterprise Fund budgets no longer include PILOTs.

**Water/Wastewater Fund Rate-Setting, Revenue and Reserve Issues**

As previously noted, the state statute governing enterprise funds, G.L. c. 44, § 53F1/2, requires that accumulated surpluses resulting from the operations of an enterprise fund, referred to as retained earnings, remain with the fund as a reserve, and that they be used only for capital expenditures of the enterprise, subject to appropriation, or to reduce user charges. Deficits must be funded with existing reserves or, in the absence of such reserves, made up in the following year's rates.

During the early 2000s, difficulties in forecasting usage and other accounting issues resulted in rates being set at less than adequate levels in several rate years. This, in turn, reduced the retained earnings in the Water and Sewer Enterprise Funds to levels of concern. Since 2005, the Town's ability to measure and forecast water and sewer usage, and thereby to anticipate revenues and reserve levels, has improved significantly. This has enabled the Town to restore and stabilize the water and sewer enterprise fund reserve balances, as shown in the table below.

**Water/Sewer Enterprise Fund Reserves**

	<b>6/30/06</b>	<b>6/30/07</b>	<b>6/30/08</b>	<b>6/30/09</b>	<b>Proposed Draw for FY2011</b>
<b>Water</b>	\$2,090,334	\$2,496,655	\$2,537,249	\$2,113,729	(\$500,000)
<b>Sewer</b>	\$ 447,441	\$2,137,540	\$2,763,179	\$1,831,967	(\$375,000)
<b>Total</b>	\$2,537,775	\$4,634,195	\$5,300,428	\$3,945,696	\$(875,000)

In view of the steadily increasing levels of reserves, which as of the end of FY2008 had grown to about 35% of the annual budget for each fund, net of indirect costs, this Committee urged that a policy be adopted defining the appropriate level of retained earnings to be maintained for emergency purposes for both funds, and setting forth guidelines for the use of such funds either to mitigate future rate increases or to finance capital projects. Although a definitive policy still has not been adopted, the Town Manager has recommended an interim target of 15% of the annual budget as a reasonable amount to be maintained in reserve to cover unanticipated costs and/or revenue shortfalls.

In recognition of the difficult economic climate and its impact on ratepayers, the budget approved last spring for FY2010 applied \$500,000 of water retained earnings and \$600,000 of sewer retained earnings toward the mitigation of rates. These appropriations, reflected as reductions to the retained earnings balances as of 6/30/09 set forth above, allowed a *reduction* in the FY2010 rates when they were set last fall, of 1.8% in the water rates and 3.8% in the sewer rates (even though enterprise fund costs had increased). The proposed budget for FY2011 includes a similar, but smaller, appropriation of \$450,000 of water retained earnings and \$375,000 of sewer retained earnings to mitigate potential FY2011 rate increases. While this use of retained earnings should still leave reserve balances well above the 15% target at the end of FY2011, dependence on such funding is being phased out gradually to avoid the need for major "catch-up" rate increases down the road when excess reserves are no longer available.

As an alternative to the use of excess reserves to subsidize rates, this Committee has advocated applying some portion of those reserves to funding the capital needs of the Water and Sewer Enterprise funds. By lowering future debt service costs, such funding would help to provide long-term rate stability instead of merely short-term rate relief. We are pleased to note that this year's proposed appropriation for Municipal Capital Projects and Equipment (Article 12) does include some modest capital funding of this nature: \$25,000 in funding from water retained earnings for the hydrant replacement program (Article 12(o)) and \$45,000 in funding from sewer retained earnings for the purchase of a Jet Vac on tracks (Article 12(d)). See Brown Book, p. XI-16.

**Recreation Fund Issues**

This budget represents a decrease of \$5,887 (-0.34%) from last year. Wages and salaries have decreased slightly for five full-time staff and 175+/- seasonal staff. The decrease is due to the salary differential of a

new hire replacing a retired employee. Debt service has grown slightly to cover additional issued debt. Despite a slight drop in expenses, the proposed budget includes more funding for repair and maintenance of the Town Pool facilities and for tennis, ballfield and basketball lighting.

Of the total revenue for the Recreation Enterprise Fund operating budget, 55% or \$1,060,526 will come from user fees for fields and registration fees for programs. All programs offered by the Recreation Department are designed to be revenue-neutral with charges to users matching the program's operating costs. The other main source of revenue, \$776,800, is from golf course fees and is budgeted at a 3.55% decrease. This adjustment will correct a slightly optimistic estimate from the current fiscal year. The three-year golf course management contract, which runs on a calendar year, will be at the end of its second and beginning of its third year in FY2011, and it expires December 31, 2011. It has a base fee plus an additional payment for of 5% of collected course fees for this golf season. The base fee for the second year (starting January 1, 2010) is \$360,000 and increases to \$368,000 in the third year. There are also options to extend the contract for two additional years at \$374,000 per year.

In FY2011, indirect, shared, and capital charges against the Recreation Enterprise Fund will total \$340,783. Under Article 5 (Enterprise Funds Budgets), \$100,000 of the Enterprise Fund revenue will be used to continue funding the Lincoln Field debt service and \$37,200 for other debt service. The remaining \$203,583 will be appropriated under Article 4 (Operating Budget) to cover indirect expenses, a \$15,000 increase from last year's appropriation.

An ongoing Finance Department analysis has identified over \$279,000 of indirect expenses incurred by the Enterprise Fund, which indicates that the General Fund is subsidizing the Recreation Enterprise Fund in the amount of about \$75,000. The indirect expenses consist of: over \$90,000 to cover DPW services provided to the aquatics facilities and field maintenance, as well as a minimal amount of work at the golf course and tennis courts; over \$54,000 of apportioned services for payroll, accounting, computing, and oversight through the Comptroller, MIS and Town Manager's offices; and \$134,487 for the department's shared expenses such as employee benefits, insurance and pensions. The long-term goal is to better understand the Fund's complete operating costs and incrementally adjust the annual appropriation to cover them (which may, in turn, require adjustment of user fees). The fund's retained earnings balance as of July 1, 2009 was \$1,427,467.

**The Committee unanimously (8-0) recommends approval of these requests.**

<b>Article 6: Appropriate for Senior Service Program</b>	<b>Funds Requested</b>	<b>Funding Source</b>	<b>Committee Recommendation</b>
	<b>none</b>	<b>n/a</b>	<b>IP</b>

In the Annual Town Meeting in 2006, the acceptance of the statewide senior property tax work-off program under Chapter 59, Section 5K of the General Laws was rescinded and a locally controlled program was put in place. This gave the Town the flexibility to:

- Allow participation by persons under age 60, such as the disabled and handicapped, who might be able to benefit from the program,
- Pay a wage in excess of the minimum wage
- Allow more than \$750 to be credited against a participant's property tax bill.

The most recent set of guidelines, which became effective in FY2008, are more advantageous to participants than the state program in the following respects:

- Income eligibility is \$46,300 for single taxpayers or \$52,950 for a couple (versus \$36,750 if single, \$42,000 if married under the State program)

- Hourly rate is \$8.50 (versus minimum wage under the State program which is \$8.00 as of January 1, 2010)
- Maximum credit of \$935 (110 hours) for one participant or up to \$1,190 (140 hours) for two participants per household (versus \$750 per participant under the State program).

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.

### **Funding**

The Senior Service Program is funded by direct appropriation from the tax levy rather than through the Town's overlay account. The original funding amount of \$25,000 was established at a level which was slightly higher than the amount that had been expended from the overlay account during the 2004-2006 fiscal years.

As applications to the program originally exceeded expectations, in the Fall of 2006, Town Meeting voted to increase the FY2007 appropriation by \$11,000 to \$36,000 to make it possible for all eligible applicants to participate. The appropriation for FY2008 was increased to \$40,000 and again to \$45,000 for FY2009. The appropriation for FY2010 remained at \$45,000.

This level of funding has been more than sufficient to allow the Town to admit all eligible applicants who wish to participate in the program. Despite an increase in the advertising of the program in the last two years, the number of participants decreased from 34 in 2008 to 31 in 2009 and there have been 28 participants in FY2010 as of publication. As a result, the funding appropriated in prior years has not been fully expended and the continuing balance account for this program has grown to \$72,251 as of February 23, 2010, or more than twice the amount required in either of the last two years.

Because the existing balance in the senior service account is more than adequate to fulfill FY2011 needs, the Selectmen requested that this article be indefinitely postponed. Future appropriation requests for this program should be adjusted to reflect realistic funding requirements.

<b>Article 7: Continue and Approve Departmental Revolving Funds</b>	<b>Funds Requested</b>	<b>Funding Source</b>	<b>Committee Recommendation</b>
	<b>See table below</b>	<b>RF</b>	<b>Approve (8-0)</b>

<b>Program or Purpose</b>	<b>Authorized Representative or Board to Spend</b>	<b>Departmental Receipts</b>	<b>FY2010 Authorization</b>	<b>FY2011 Authorization</b>
Building Rental	Public Facilities Director	Building Rental Fees	\$275,000	\$275,000
DPW Burial Containers	Public Works Director	Sale of Grave Boxes and Burial Vaults	\$35,000	\$35,000
DPW Compost Operations	Public Works Director	Sale of compost and loam, yard waste permits	\$315,000	\$397,000
LexMedia Operations	Board of Selectmen and Town Manager	License fees from cable TV providers	\$400,000	\$400,000
Trees	Board of Selectmen	Gifts and fees	\$20,000	\$20,000



<b>Program or Purpose</b>	<b>Authorized Representative or Board to Spend</b>	<b>Departmental Receipts</b>	<b>FY2010 Authorization</b>	<b>FY2011 Authorization</b>
Minuteman Household Hazardous Waste Program	Public Works Director	Fees paid by consortium towns	\$175,000	\$175,000
Health Programs	Health Director	Medicare reimbursements	\$10,000	\$10,000
Council on Aging Programs	Social Services Director	Program fees and gifts	\$100,000	\$100,000
Tourism/Liberty Ride	Town Manager and Tourism Committee	Liberty Ride receipts, including ticket sales, advertising revenue and charter sales	\$166,000	\$174,375
School Bus Transportation	School Committee	School bus fees	\$830,000	\$830,000

### **Overview**

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

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

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

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

### **Requested Reauthorizations**

Ten existing municipal revolving funds are proposed to be reauthorized this year as shown in the table above. The spending limit proposed for each of the funds is based on a reasonable estimate of the fees and charges likely to be received, as well as of the expenditures likely to be required.

### **Changes in Authorization Levels from FY2010**

The DPW Compost Operations Revolving Fund authorization request is increasing by \$82,000 (26.03%). This increase is related to the “Security Gate & Access Control System” capital improvement project at the Compost Facility. The Town Manager has proposed to fund this project through the revolving fund

and as a result the \$82,000 has been integrated into the FY2011 authorization. You can find a description on the Security Gate project on page XI-15 of the Brown Book.

The Tourism/Liberty Ride Fund authorization request is increasing by \$8,375 (5.05%) due to increases in fees and additional hours of operation for the Liberty Ride.

The final fund balances that will carry over from FY2010 to FY2011 won't be known until the end of the fiscal year. As of December 31, 2009, the fund balances were as follows:

Program or Purpose	December 31, 2009 Balance
Building Rental	\$2,316
DPW Burial Containers	\$71,631
DPW Compost Operations	\$400,845
LexMedia Operations	\$343,086
Trees	\$2,316
Minuteman Household Hazardous Waste Program	\$(6,036) <sup>1</sup>
Health Programs	\$9,636
Council on Aging Programs	\$20,975
Tourism/Liberty Ride	\$31,662
School Bus Transportation	\$(113,863) <sup>2</sup>

Notes:

<sup>1</sup> The current balance in the fund as of March 15, 2010 is \$23,692.22. The deficit balance shown above as of 12/31/09 was due to timing of anticipated receipts to offset costs incurred.

<sup>2</sup> This shortfall will be eliminated by a transfer of expenditures posted to the revolving fund being transferred to the School Operating Budget.

**The Committee unanimously (8-0) recommends approval of this request.**

Article 8: Appropriate the FY2011 CPC Operating Budget and for CPA Projects	Funds Requested	Funding Source	Committee Recommendation
	Details in table below	CPA	See below

### **Background**

The Community Preservation Act (CPA) is a state statute that allows municipalities to raise a surcharge on property taxes for local use for purposes related to historic preservation, open space (including recreation), and affordable housing. The State provides matching funds (the amount depending on monies available and demand from adopting communities) from fees imposed on real estate transactions, including mortgage refinancing. While the CPA provides broad guidance on the appropriate use of funds, it allows for a considerable measure of local control through (1) the establishment of a local Community Preservation Committee (CPC) to review and make recommendations on candidate CPA projects to Town Meeting, and (2) the authority of Town Meeting to vote CPC-recommended projects up or down. Town Meeting may not *increase* a CPC-recommended appropriation, but it may amend to *decrease* a recommended appropriation.

Communities adopting CPA have each implemented the statute in a way that reflects local opportunities, priorities and needs. One of Lexington's opportunities lies in the inventory of municipal and school buildings that qualify as historic buildings and therefore are eligible for CPA funding. This is a win for the taxpayers, who benefit from leverage offered by State matching funds, and a win for the Town, which

benefits from the availability of an alternative funding source to address a backlog of capital projects that compete each year for limited resources within the tax levy and might not otherwise get done. The CPA allows this opportunity to be accommodated, if the CPC and Town Meeting so choose, along with other opportunities for historic preservation, acquisition and preservation of open space and land for recreational use, and providing affordable housing.

### **The State Match**

The state match awarded for FY2007, the first year following Lexington's adoption of the CPA, was 100%, as it had been since the CPA was enacted in 2001. (Note that state matching funds are disbursed to communities in the fall of the fiscal year after the surcharge revenues are raised. For example, Lexington will receive in the fall of FY2011 state funds to match its FY2010 surcharge revenues.) However, as real estate transaction revenue has declined with the dwindling economy, and as more communities have adopted the CPA, the matching level has since gone down. In October 2009, the first round match awarded to all CPA communities for FY2009 was 34.8%. Because Lexington adopted CPA with a full 3% surcharge, it received additional funding in the second and third round distributions, bringing its total match for FY2009 to 36.17%. The latest estimates released by the DOR in March 2010 anticipate that in October of 2010 the first round match will fall to 31%.

### **Funds Available for Appropriation**

There is over \$10,700,000 in CPA funds available for appropriation at this Town Meeting: \$6,600,000 in carry-forward reserves and \$4,100,000 in FY2011 anticipated revenues. Thee latter includes anticipated FY2011 surcharge collections of \$3,133,886 and a State match of about \$938,000 (estimated at 31% of the collected FY2010 surcharges).

### **This Year's Requests**

As of press time Town Meeting is being asked to appropriate in Article 8 \$7,859,482 of the available CPA funds and \$483,043 of general funds. Additionally, Articles 9 and 10 concern the appropriation of CPA funds for the purchase of two parcels of land; properties off of Marrett Rd. and Farm Rd., respectively. As of press time, discussion of a land acquisition under Article 9 is ongoing. Article 10 has been indefinitely postponed. (See the discussion of Article 9 in this report). The projects which the CPC has recommended for funding in FY2011 under Article 8 are listed in the following table:

<b>Project Description</b>	<b>Funds Requested</b>	<b>Funding Source</b>	<b>Committee Recommendation</b>
8(a) Minuteman Bikeway Preservation [XI-20]	<b>\$320,000</b>	<b>CPA</b>	<b>Approve (8-0)</b>
8(b) Storm Water Mitigation - the Old Reservoir [XI-20]	<b>\$190,047</b>	<b>CPA</b>	<b>Approve (8-0)</b>
8(c) Center Playground Drainage –Implementation Phase [XI-21]	<b>\$875,173</b>	<b>CPA</b>	<b>Approve (8-0)</b>
8(d) Greeley Village Siding Replacement [XI-22]	<b>\$386,129</b>	<b>CPA</b>	<b>Approve (8-0)</b>
8(e) Vynebrook Village Drainage – Design Study [XI-23]	<b>\$10,000</b>	<b>CPA</b>	<b>Approve (8-0)</b>
8(f) LexHAB Purchase of Two Affordable Housing Properties [XI-22]	<b>\$695,000</b>	<b>CPA</b>	<b>Approve (8-0)</b>
8(g) Archives & Records Conservation and Preservation [XI-21]	<b>\$150,000</b>	<b>CPA</b>	<b>Approve (8-0)</b>
8(h) Cary Library Preservation Project - Archives [XI-18]	<b>\$100,000</b>	<b>CPA</b>	<b>Approve (7-0-1)</b>
8(i) Cary Memorial Building Venue Improvements Study [XI-20]	<b>\$60,000</b>	<b>CPA</b>	<b>Approve (8-0)</b>

8(j) Cary Memorial Building Signage [XI-21]	<b>\$25,000</b>	<b>CPA</b>	<b>Approve (8-0)</b>
8(k) Building Envelope [XI-17&19]	<b>\$161,534</b> <b>\$73,000</b>	<b>GF</b> <b>CPA</b>	<b>Approve (8-0)</b>
8(l) Town Office Building Renovation [XI-20]	<b>\$321,509</b> <b>\$1,500,000</b>	<b>GF</b> <b>CPA</b>	<b>Pending</b>
8(m) Cary Memorial Building/TOB HVAC Controls Upgrade [XI-19]	<b>\$35,000</b>	<b>CPA</b>	<b>Approve (8-0)</b>
8(n) Police Station Ventilation System [XI-19]	<b>\$31,700</b>	<b>CPA</b>	<b>Approve (8-0)</b>
8(o) Muzzey Senior Center Improvements Study [XI-19]	<b>\$45,100</b>	<b>CPA</b>	<b>Approve (8-0)</b>
8(p) White House Historic Structures Report [XI-20]	<b>\$18,000</b>	<b>CPA</b>	<b>Approve (7-1)</b>
8(q) Stone Building Exterior Stabilization [XI-19]	<b>\$202,933</b>	<b>CPA</b>	<b>Approve (8-0)</b>
8(r) Munroe Tavern Capital Improvements [XI-22]	<b>\$400,000</b>	<b>CPA</b>	<b>Approve (8-0)</b>
8(s) Comprehensive Cultural Resources Survey – Supplemental Appropriation [XI-22]	<b>\$5,300</b>	<b>CPA</b>	<b>Approve (6-2)</b>
8(t) Battle Green Master Plan Study [XI-18]	<b>\$25,000</b>	<b>CPA</b>	<b>Approve (8-0)</b>
8(u) Busa Farm Debt Service	<b>\$2,562,100</b>	<b>CPA</b>	<b>Approve (8-0)</b>
8(v) Administrative Budget	<b>\$150,000</b>	<b>CPA</b>	<b>Approve (8-0)</b>

Cross-references to the *Fiscal Year 2011 Recommended Budget & Financing Plan* (the “Brown Book”) are given in square brackets.

*Article 8(f) LexHAB Purchase of Two Affordable Units \$695,000* - LexHAB recently purchased, with the Selectmen’s permission, two existing housing units and has funded those purchases with interest-only loans. They are requesting CPA funds to pay the full principal of the loans though not any interest (interest will be paid by LexHAB using its other funds). The closings have occurred and the purchases of the properties are complete. If the Town Meeting does not support this article, LexHAB would pay part of the principal of each interest-only loan using its cash reserves and convert the remaining outstanding amounts to traditional mortgages. Therefore, this article does not address whether LexHAB should purchase these properties. Rather, the requested funds would essentially enable LexHAB to preserve its existing reserves for use in future purchases or in projects to build housing on available Town land.

Our Committee is supportive of LexHAB’s efforts to increase the state-qualified affordable rental stock within the town. We are also aware that the timing of the opportunity to purchase existing properties most likely will not coincide with Town Meeting. However, as stated above, articles such as this one and similar ones that were approved at the 2008 and 2009 Annual Town Meetings do not give Town Meeting the ability to approve or disapprove LexHAB’s prior purchases.

We believe that it is time to consider changing this practice. At this moment, we favor a model in which there would be an annual appropriation of CPA funds, placed under the CPC’s control, for LexHAB to use for purchasing existing housing stock; with the amount of such appropriation sufficient to fund anticipated purchase opportunities for the upcoming year. If such a model is adopted, we believe it would be important for LexHAB to notify the community of its intent to purchase a property using CPA funds with sufficient time to reasonably allow finance committee members, Town Meeting members, and others to be able to give meaningful input to the CPC and Board of Selectmen prior to their decision to approve or disapprove of the purchase.

*Article 8(g) Archives and Records Conservation and Preservation \$150,000* – This request will provide funding for Year 3 of a projected 5-year project for conservation and preservation of historic municipal documents and records. The project will include conservation/preservation, equipment and supplies, microfilming and/or digitization, consulting services, computerization and data migration.

*Article 8(h) Cary Library Preservation Project – Archives \$ 100,000* – This project will convert part of an existing storage room into a fireproof, climate-controlled room for valuable, irreplaceable historic materials owned by the Library. A recent preservation study has found that temperature and humidity levels fluctuate significantly in the areas of the library housing historic collections placing the materials at risk.

*Article 8(i) Cary Memorial Building Venue Improvements Study \$60,000* – This study will examine the state of the facility in meeting its current uses as a public venue. A previous study authorized in 2007 was not conducted due to a determination that expanding public performances in the Cary Memorial Building as an economic engine for the center district was not practical. In conjunction with the White House Assessment (Article 8(p)) and the completion of the studies in progress on the facilities of the Fire and Police Departments, this study will provide the basis to produce a Master Plan and prioritize capital spending over the next several years on municipal facilities.

*Article 8(j) Cary Memorial Building Signage \$25,000* – This project will install directional information signage inside and outside the Cary Memorial Building. Exterior signage will include a "campus" sign and identification signs on all three buildings: Police Station, Cary Memorial Building, and Town Office Building. Cary Hall interior signage will include directories on columns in front lobbies, ADA-compliant room signs, hallway and stairway signs where needed, and miscellaneous regulatory signs.

*Article 8(k) Building Envelope \$234,534* - Funds requested for the Municipal Building Envelope project total \$234,534, of which \$73,000 for 4 items is requested through CPA funding (see page XI-18 in the Brown Book). The remaining \$161,534 is for projects to be identified and will be funded from the tax levy. This amount follows from an override that included \$150,000 for municipal building envelope work in 2006.

*Article 8(l) Town Office Building Renovation \$1,823,881* - The project is driven by the need to make the building accessible – the entrances as well as the interior (counters, restrooms, aisle widths, water fountains) and up to code from a safety perspective. This work is required to be done; there is leeway in terms of the timing. The vacancy created by the move of the Engineering Department to the new Public Services Building affords an opportunity to perform the work with minimal relocation of departments to other buildings during construction. Additionally, it is a favorable time to engage in construction as pricing is competitive in the current economic environment. Prior to the CPC voting on this project, this Committee voted to recommend approval of this project with full CPA funding. We understand, however, that the CPC voted to recommend this project at a funding level of \$1,500,000 rather than the full amount requested. It is our intent to obtain more information on the details of how the remainder of the project will be funded and we will make a new recommendation on the floor of Town Meeting as we had insufficient time to address this project as currently proposed prior to the printing of this report.

*Article 8(p) White House Historic Structures Report \$18,000* - This will fund a historic structure report on the "White House" to study the building and its history so that a determination of what repairs/maintenance is warranted may be made. One Committee member feels that using these CPA funds will escalate the historic status of the building, forcing preservation and ultimately limiting the options that the town will have when it comes time to reuse the site.

*Article 8(q) Stone Building Stabilization \$202,933* – This funding will enable additional stabilization work to the Stone Building to be completed during the summer of 2010. The work includes a new roof, gutters, removal of aluminum siding, repair and painting of wood siding, and reglazing of windows.

*Article 8(r) Munroe Tavern Capital Improvements \$400,000* - The Lexington Historical Society was awarded \$50,000 in CPA funds last year for a historic structures report and building needs assessment for Munroe Tavern. This year's request would fund a portion of the project cost of \$820,000 (the remaining funds will come from the Historical Society and will be raised from private individuals). This is a non-governmental use of CPA funds. In its deliberations, the Committee considered the importance of the

Munroe Tavern to the history of Lexington, its impact in terms of attracting tourists to Lexington, and the resulting benefits to the Town.

*Article 8(s) Comprehensive Cultural Resources Survey – Supplemental Appropriation \$5,300* – Two Committee members were originally opposed to the expansion of the historical designation to homes of this recent period without an opt-in clause for the owners, and continue to oppose additional funding, which will serve to further strengthen the protected status of these properties.

*Article 8(t) Battle Green Master Plan \$25,000* – This proposal will fund development of a master plan document for the Battle Green Area with the assistance of a professional consultant. This master plan will develop a design that represents the expectation and needs of all stakeholders and will provide a suitable stewardship framework to oversee the Green's future care.

*Article 8(u) Busa Farm Debt Service \$2,562,100* - The Busa Farm property was purchased for \$4,197,000 under Article 6 of the 2009 spring Special Town Meeting. At the time of purchase the method of payment, cash or bonding, was under debate and it was agreed to temporarily fund the Article using Bond Anticipation Notes (BAN) and that a final decision on the funding mechanism would be discussed and brought forward the 2010 Annual Town Meeting. Discussions held in the fall between the Board of Selectmen and the Appropriation, Capital Expenditures and Community Preservation Committees yielded a consensus to bond the entire purchase using a three year bond with a high principal payment in the first year. This funding mechanism will help maintain the Community Preservation Trust Fund balance while not encumbering the taxpayers with long term debt service. The three-year note has a first year payment of \$2,562,100, second year payment of \$974,000 and final payment of \$930,000. The total interest paid will be \$270,000. This article appropriates money for the first payment. Each additional payment will require a new appropriation.

*Article 8(v). CPC Administrative Budget* - This year's request of \$150,000 for administrative expenses is identical to the amount requested and appropriated in FY2010. The CPC's anticipated expenses include 3/5 of a staff member's salary and benefits (this full-time employee is shared with other departments), dues for membership in the Community Preservation Coalition, and office supplies, and total less than \$50,000. Another \$50,000 is allocated to fund due diligence, surveys and appraisals, of potential land purchases. The amount is that estimated to be needed in the course of preparation for the possible purchase of two parcels. The remaining funds are reserved for legal expenses. The CPC necessarily relies on legal counsel for rulings on project eligibility, drafting conservation and deed restrictions, drafting grant agreements for historic and affordable housing projects, and interpreting court rulings on CPA issues, and this budget attempts to carry sufficient funding for legal opinions on many items. In FY2009, the CPC's legal expenses were \$36,600. Current year-to-date legal expenses are \$17,835.

The CPA statute permits the appropriation of up to 5% of the anticipated CPA revenue for the year, i.e., \$200,599 for FY2011, to be appropriated for administrative expenses to pay for staff salaries, mailings, public notices, overhead, legal fees, membership dues, and other miscellaneous expenses related to CPC projects. Any funds that are not expended close to the undesignated CPA account at the end of the fiscal year.

**The Committee, by a vote of 8-0, supports items (a), (b), (c), (d), (e), (f), (g), (i), (j), (k), (m), (o), (q), (r), (t), (u), and (v) of this request.**

**The Committee, by a vote of 7-0-1, supports item (n) of this request.**

**The Committee, by a vote of 7-1, supports item (p) of this request.**

**The Committee, by a vote of 6-2, supports item (s) of this request.**

<b>Article 9: Land Purchase — Off Marrett Road</b>	<b>Funds Requested</b>	<b>Funding Source</b>	<b>Committee Recommendation</b>
	<b>\$4,000,000</b>	<b>CPA</b>	<b>Pending</b>

The negotiations on the purchase of a portion of the Cotton Farm together with other provisions concluded in mid-March. The CPC's public hearing on this purchase has not yet been held. Hence our report and recommendation on this article will be provided later under separate cover.

<b>Article 10: Land Purchase — Off Farm Road</b>	<b>Funds Requested</b>	<b>Funding Source</b>	<b>Committee Recommendation</b>
	<b>none</b>	<b>n/a</b>	<b>IP</b>

This article was indefinitely postponed because the Town had not reached an agreement with the owners of the property.

<b>Article 11: Appropriate for Recreation Capital Projects</b>	<b>Funds Requested</b>	<b>Funding Source</b>	<b>Committee Recommendation</b>
Park Improvement – Athletic Fields [XI-17]	<b>\$50,000</b>	<b>GF</b>	<b>Approve (8-0)</b>
Town Pool Renovation [XI-17]	<b>\$25,000</b>	<b>Recreation EF</b>	<b>Approve (8-0)</b>

Cross-references to the *Fiscal Year 2011 Recommended Budget & Financing Plan* (the “Brown Book”) are given in square brackets.

Both projects are described in page XI-17 of the Brown Book. Part (a) is phase one of a multi-year capital plan for the renovation of the town’s athletic fields. This year’s project requests that it be paid for with \$50,000 from the General Fund. A review of field permit fees show an estimated \$230,000 of anticipated revenue offset by an equivalent amount of field-associated expenses (including an annual \$100,000 annual payment against the Lincoln St. fields bond). Part (b) is the first and least expensive phase of a three-phase project to renovate the pool facility. Each phase is a stand-alone project which does not rely on future work. This project will be funded with \$25,000 from the Recreation Enterprise Fund.

**The Committee unanimously (8-0) recommends approval of this request.**

<b>Article 12: Appropriate for Municipal Capital Projects and Equipment</b>	<b>Funds Requested</b>	<b>Funding Source</b>	<b>Committee Recommendation</b>
12(a) Replace Self Contained Breathing Apparatus [XI-5]	<b>\$260,000</b>	<b>GF (debt)</b>	<b>Approve (8-0)</b>
12(b) Street Intersections Improvements and Easements [XI-5]	<b>\$125,000</b>	<b>GF (debt)</b>	
12(c) Comprehensive Storm Management Watershed Study [XI-5]	<b>\$110,000</b>	<b>GF (debt)</b>	
12(d) DPW Equipment [XI-6, XI-16]	\$45,000 + \$91,429 <u>+ 366,375</u> <b>\$502,804</b>	<b>Wastewater EF Free Cash GF (debt)</b>	
12(e) Head End Equipment [XI-6]	<b>\$240,000</b>	<b>GF (debt)</b>	
12(f) Reconstruct and Equip Town Office Building Server Room [XI-6]	<b>\$170,000</b>	<b>GF (debt)</b>	
12(g) Sidewalk Improvements and Easements [XI-7]	<b>\$200,000</b>	<b>GF (debt)</b>	
12(h) Storm Drainage Improvements [XI-7]	<b>\$260,000</b>	<b>GF (debt)</b>	
12(i) Marrett/Waltham Intersection Traffic Signal Poles [XI-7]	<i>none</i>	<b>IP</b>	
12(j) Dam Repair [XI-15]	<b>\$10,000</b>	<b>Free Cash</b>	
12(k) Traffic Mitigation [XI-15]	<b>\$50,000</b>	<b>Free Cash</b>	
12(l) Hayden Avenue/Spring Street Traffic Master Plan [XI-15]	<b>\$125,000</b>	<b>TMSF</b>	
12(m) Concord Avenue Sidewalk Preliminary Design [XI-15]	<b>\$90,000</b>	<b>TMSF</b>	
12(n) Central Business District Sidewalks Master Plan / Engineering [XI-15]	<b>\$50,000</b>	<b>Free Cash</b>	
12(o) Hydrant Replacement Project [XI-16]	\$25,000 <u>+ \$25,000</u> <b>\$50,000</b>	<b>Water EF Free Cash</b>	
12(p) Pedestrian Signal Improvements [XI-16]	<b>\$42,000</b>	<b>Free Cash</b>	
12(q) Cary Library Material Handling and Workflow Study [XI-16]	<b>\$25,000</b>	<b>Free Cash</b>	
12(r) Fire Headquarters Alarm Receiver [XI-16]	<b>\$30,000</b>	<b>Free Cash</b>	
12(s) Replace Town Buildings Phone Systems [XI-17]	<b>\$55,000</b>	<b>Free Cash</b>	
12(t) MUNIS Upgrades [XI-17]	<b>\$55,000</b>	<b>Free Cash</b>	
12(u) Street Improvements and Easements [XI-18]	<b>\$551,578</b>	<b>Tax Levy</b>	
<b>TOTAL FUNDS REQUESTED</b>	<b>\$3,001,382</b>		

Cross-references to the *Fiscal Year 2011 Recommended Budget & Financing Plan* (the “Brown Book”) are given in square brackets.



Appropriations for FY2010 municipal capital projects summarized by funding source:

<b>Funding Source</b>	<b>Amount</b>
General Fund (debt)	\$1,731,375
Free Cash	\$433,429
Transportation Mitigation Stabilization Fund	\$215,000
Water Enterprise Fund	\$25,000
Sewer Enterprise Fund	\$45,000
Tax Levy	\$551,578

The Brown Book and the TMMA Warrant Information Book provide a wealth of detail about these requests which we try to avoid repeating in this report. Many items in this request represent a single phase in multi-year programs. The comments below attempt to place these individual requests in their full context.

*12(c) Comprehensive Storm Management Watershed Study* – This is phase 2 of 3 to be used for a Shawsheen River watershed study. The final phase next year will request \$110,000.

*12(d) DPW Equipment* – The annual cost of replacing equipment varies based on the expected life of the equipment and the actual wear and tear. Estimates for the next five years are show here:

<b>FY</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
Amount	\$502,804	\$453,700	\$533,700	\$531,000	\$427,000

*12(e) Head End Equipment* – This is phase 3 of 3 in a process to relocate, replace, and upgrade the equipment used to implement the Town's wide area network. The Town will begin a new 3-phase replacement cycle in 2013.

*12(f) Reconstruct and Equip Town Office Building Server Room* – This is phase 1 of a 5 year program to upgrade the Town Office Building Server Room. Projected costs:

<b>FY</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>5 Year Total</b>
Amount	\$170,000	\$220,000	\$120,000	\$0	\$64,000	\$574,000

*12(g) Sidewalk Improvements and Easements* – This is an ongoing program to repair sidewalks throughout the town. Note that in FY2010 the Town did not spend any money on this program. The recent history and projected spending are summarized here:

<b>FY</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
Amount	\$100,000	\$275,000	\$0	\$200,000	\$200,000	\$300,000	\$400,000	\$400,000

*12(h) Storm Drainage Improvements* – This is part of a multi-phase program to address issues with out-dated storm drain systems and to comply with new EPA and DEP regulations. The projected costs are shown here:

<b>FY</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
Amount	\$260,000	\$210,000	\$210,000	\$210,000	\$210,000

*12(k) Traffic Mitigation* – This is the fourth of four annual requests for the Traffic Mitigation Group. Potential study areas for FY20011 are the southern Waltham St. corridor, town-wide signal compliance study, as well as evaluation of traffic calming requests.

*12(l) Hayden Avenue/Spring Street Traffic Master Plan & 12(m) Concord Avenue Sidewalk Preliminary Design* – The Traffic Mitigation Stabilization Fund (TMSF) is supported by payments made to the Town

under provisions of Memoranda of Understanding between the Town and developers of certain properties that have been commercially re-zoned, including Beal Companies, Patriot Partners and Cubist Pharmaceuticals.

*12(n) Central Business District Sidewalks Master Plan/Engineering* – This request will begin the process of a significant re-design of the pedestrian walkways in this area, which will involve changes to lighting, bringing ramps into ADA compliance, and possibly closing off the alley next to the Bank of America branch. There is no estimate available for the cost of the implementation phase.

*12(o) Hydrant Replacement Project* – The town expects to spend \$50,000 to replace 25 hydrants each year for at least the next five years.

*12(q) Cary Library Material Handling and Workflow Study* – This is phase 1 of a 3 phase program to study existing conditions and recommend improvements. Phases 2 and 3 will be for design and construction, respectively. There are no estimates available for phases 2 and 3.

*12(r) Fire Headquarters Alarm Receiver* – Install an alarm receiver at Fire Headquarters capable of receiving radio box and telegraph signals. The town really does maintain underground telegraph wires between dispatch and the stations as a backup communication system.

*12(s) Replace Town Buildings Phone Systems* – This is phase one of a two-year project. This year's request covers \$10,000 in design/engineer costs and \$45,000 for equipment. Next year's request for phase 2 will total \$750,000, including \$100,000 for design/engineer, \$50,000 for construction, and \$600,000 for equipment.

*12(t) MUNIS Upgrade* – This is a mandatory software and hardware upgrade for the MUNIS installation used by the Town.

*12(u) Street Improvements and Easements* – The \$551,578 appropriated in this item will be combined with \$700,000 the Town receives as State Aid (Chapter 90) funds. Town Meeting must vote to accept the Chapter 90 funds, but they are not actually subject to appropriation by Town Meeting.

The amount appropriated from the tax levy for this item is treated as a set-aside following from the approval of the FY2001 Proposition 2½ Override that included \$500,000 for annual road maintenance. Each year, this set-aside is increased by 2.5%.

**The Committee unanimously (8-0) recommends approval of this request.**

<b>Article 13: Appropriate for Water Distribution Improvements</b>	<b>Funds Requested</b>	<b>Funding Source</b>	<b>Committee Recommendation</b>
	<b>\$1,060,000</b>	<b>Water EF (debt)</b>	<b>Approve (8-0)</b>

This Article addresses proposed capital expenditures to be made during FY2011 to upgrade and keep current 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 the discussion under Article 5, which addresses the Enterprise Fund operating budgets.

13(a) – As part of a multi-year project to upgrade aging water infrastructure, a total of \$900,000 is requested this year to replace approximately 5,800 linear feet of unlined or inadequate water main and deteriorated service connections, and to eliminate dead ends in water mains.

13(b) – An additional \$160,000 is requested to drain, clean and rehabilitate water storage tanks to comply with a new “disinfection by-product” rule issued by the EPA and to help maintain the quality of the stored water. The details of the projects, including the locations where work is expected to be done in FY2011, can be found in the Brown Book (p. XI-9-10).

The costs of this year's capital projects will be funded entirely by borrowing, although part of the funding for the pipe replacement project may come from an MWRA loan. The costs of the debt service will be borne by the operating budgets for the Water Enterprise Fund in FY2011 and future years until the debt is retired (see the debt service schedule contained on the same page in the Brown Book), and will be included each year as an element of the water rates.

Capital appropriations for similar purposes, have been made in most years since the Water Enterprise Fund was established (except for FY2006 when engineering studies were not completed in time), as illustrated in the table below. The goal is to keep the system current so the Town can assure dependable high water quality, pressure, and volume for domestic needs, commercial needs, and fire protection as well as minimization of water main breaks.

<b>Fiscal Year</b>	<b>Purpose</b>	<b>Cash</b>	<b>Borrowing</b>	<b>Total</b>
2003	Water Dist. Improvements	\$340,000	\$560,000	\$900,000
2004	Water Dist. Improvements	\$400,000	\$500,000	\$900,000
2005	Water Dist. Improvements	\$400,000	\$450,000	\$850,000
2006	None	\$0	\$0	\$0
2007	Water Dist. Improvements Water Meters	\$0 \$0	\$900,000 \$250,000	\$1,150,000
2008	Water Dist. Improvements	\$0	\$1,800,000	\$1,800,000
2009	Water Dist. Improvements	\$0	\$1,800,000	\$1,800,000
2010	Water Dist. Improvements Equipment	\$0 \$0	\$900,000 \$119,000	\$1,019,000
2011	Water Dist. Improvements Water Tank Rehab	\$0 \$0	\$900,000 \$160,000	\$1,060,000

Prior to FY2007, as shown in the table above, capital expenditures for water distribution and related improvements were funded by a combination of Enterprise Fund cash capital and borrowing. Since then, there has been a transition to funding these ongoing improvements exclusively with debt. As the Committee has previously noted, this transition to exclusive debt financing has helped to mitigate the need for rate increases in the short term; however, it has also increased, and will continue to increase, the future debt service costs of the Water Enterprise Fund — as illustrated in the Brown Book, p. XI-9, Table II and summarized below — which in turn is likely to create greater rate pressure in the future.

**Water Enterprise Fund Debt Service Costs**

<b>Fiscal Year</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
<b>Amount</b>	\$490,833	\$850,350	\$1,108,100	\$1,200,406	\$1,495,365

Recent borrowings, including the water fund's 17% contribution to the financing of the new DPW facility, have nearly tripled the annual debt service costs since FY2008 to a level that represents a significant portion of the overall Water Enterprise Fund operating budget (currently about \$7 million). Future borrowings for water distribution improvements will continue to increase the annual debt service costs of the Water Enterprise Fund, until a new equilibrium between issuance and retirement of debt is reached. As noted in the discussion of Article 5, judicious use of some of the fund's accumulated retained earnings could help defray the impact of these growing capital costs and help to maintain long-term rate stability.

It should be noted that one additional capital expenditure proposed to be funded by the Water Enterprise Fund, the planned purchase of an emergency response box truck for \$57,240 for use by the DPW's Water Division as described in the Brown Book (p. XI-10), is not included in Article 13 but is addressed under

Article 12 (Appropriate for Municipal Capital Projects and Equipment). Borrowing for this purpose will add to the water fund's growing debt burden.

13(c) – The proposed appropriation of \$707,250 to fund the first phase of a three-year program to install an automated water meter reading system is expected to be indefinitely postponed. Weston & Sampson Engineers, Inc. recently delivered a draft report (funded by a \$50,000 appropriation at last year's Annual Town Meeting) recommending the installation of such a system. However, because the Weston & Samson report does not address a critical element – the operating budget impacts of migrating to an automated meter reading system – Town Staff has concluded that it is premature to move this project forward for consideration at the 2010 ATM and will defer this proposal to a future Town Meeting.

**The Committee unanimously (8-0) recommends approval of this request.**

<b>Article 14: Appropriate for Sewer Improvements</b>	<b>Funds Requested</b>	<b>Funding Source</b>	<b>Committee Recommendation</b>
	<b>\$100,000</b>	<b>Wastewater EF (debt)</b>	<b>Approve (8-0)</b>

This Article addresses proposed capital expenditures to be made during FY2011 to upgrade and keep current the assets of the Wastewater Enterprise Fund. For general background on the Enterprise Funds, and the relationship between the budget process and the water rate setting process, please see the discussion under Article 5, which addresses the Enterprise Fund operating budgets.

A total of just \$100,000 is requested to fund year four of a five-year program to upgrade Lexington's ten sewer pumping stations. The details of the project, including the locations where the work is expected to be done, can be found in the Brown Book (p. XI-10). This year's appropriation request does not include funding for the ongoing rehabilitation of sanitary sewer infrastructure for which significant amounts were appropriated in Fiscal Years 2008-2010.

The costs of the pumping station upgrade will be funded entirely by borrowing. The costs of the debt service for this borrowing will be borne by the operating budgets for the Wastewater Enterprise Fund in FY2011 and in future years until the debt is retired (see Brown Book, p. XI-10, Table III), and will be included each year as an element of the sewer rates.

Capital appropriations for similar purposes have been made in most years (except for FY2006 when engineering studies were not completed in time) since the Wastewater Enterprise Fund (formerly the Sewer Enterprise Fund) was established, as illustrated in the table below.

<b>Fiscal Year</b>	<b>Purpose</b>	<b>Cash</b>	<b>Borrowing</b>	<b>Total</b>
2003	Storm Sewer Improvements	\$100,000	\$0	\$100,000
2004	San./Storm Sewer Improvements	\$225,000	\$0	\$225,000
2005	San./Storm Sewer Improvements	\$750,000	\$0	\$750,000
2006	None	\$0	\$0	\$0
2007	Sewer Improvements	\$0	\$300,000	\$0
	Water Meters	\$0	\$250,000	\$550,000
2008	Sewer Improvements	\$0	\$1,300,000	\$1,300,000
2009	Sewer Improvements	\$0	\$1,300,000	\$1,300,000
2010	Sewer Improvements	\$0	\$1,300,000	
	Equipment	\$0	\$263,000	\$1,563,000
2011 (rec)	Pump Station Upgrades	\$0	\$100,000	\$100,000

Prior to FY2007, as shown in the table above, capital expenditures for sewer distribution improvements were funded primarily by enterprise-fund cash capital. Since then, there has been a transition to funding these ongoing improvements exclusively with debt. As the Committee has previously noted, this transition to exclusive debt financing has helped to mitigate the need for rate increases in the short term; however, it will also increase the future debt-service costs of the Wastewater Enterprise Fund, as illustrated in the Brown Book, p. XI-10, Table III and summarized below.

**Wastewater Enterprise Fund Debt Service Costs**

<b>Fiscal Year</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Amount	\$473,256	\$569,971	\$633,497	\$658,519	\$785,074

As can be seen, recent borrowings, including the sewer fund's 7% contribution to the financing of the new DPW facility, have increased debt service costs to a level that represents a more significant portion of the overall Wastewater Enterprise Fund operating budget (currently about \$8.5 million, net of indirect expenses). Future borrowings for sewer improvements will continue to increase the annual debt service costs until a new equilibrium between newly incurred and retired debt is reached. However, because the capital improvements proposed this year are significantly reduced from prior years, the increase to future debt service resulting from this year's appropriations will be minimal.

One additional capital expenditure proposed to be funded by the Sewer Enterprise Fund, the planned purchase of a Jet Vac on tracks for \$45,000 for use by the DPW's Sewer Division, as described in the Brown Book (p. XI-9), is not included in this article but is addressed under Article 15 (Appropriate for Municipal Capital Projects and Equipment). Because this expenditure would be funded exclusively from retained earnings, it would not add to the Wastewater Fund's debt service burden.

**The Committee unanimously (8-0) recommends approval of this request.**

<b>Article 15: Appropriate for School Capital Projects and Equipment</b>	<b>Funds Requested</b>	<b>Funding Source</b>	<b>Committee Recommendation</b>
	<b>\$951,071</b>	<b>GF (debt)</b>	<b>Approve (8-0)</b>

Details of the capital request are shown here:

<b>Project Description</b>	<b>Funds Requested</b>
15(a) School Technology [XI-6]	<b>\$696,000</b>
15(b) Food Service Equipment [XI-16]	<b>\$99,500</b>
15(c) Time Clock/Time Reporting System [XI-16]	<b>\$97,000</b>
15(d) Classroom Furniture [ XI-16]	<b>\$58,571</b>

An informative and detailed description of these requests, approved by the School Committee and submitted for Town Meeting approval, can be found in the "School Capital Plan" section of the Blue Book and also in Section XI (Capital Investment) of the Brown Book (pages XI-8, XI-9 and XI-13). Additionally, the TMMA Warrant Information Report contains a comprehensive review of Article 15.

In short, the technology request is a continuation of a five-year plan designed to purchase equipment described in detail in the School Department's long range technology plan. The plan includes upgrading network equipment, information delivery systems for administration and instruction programs, desktop and mobile computing, printers/peripherals and LCD projectors. The request for the replacement of kitchen equipment is the third annual request and will replace the walk-in refrigerator and freezer at the

Bowman School and a walk-in freezer at Lexington High School. The purchase and implementation of the KRONOS Time Keeper System will bring the school system into compliance with the Fair Labor Standards Act, and improve accuracy, and efficiency in the determination, reporting and compensation of employees' actual work time. This is the third year of a multi-year request to replace worn, aging and unsafe classroom furniture and other furnishings throughout the school system. This year's request will benefit the Bowman, Clarke, Diamond, Estabrook and Hastings schools.

**The Committee unanimously (8-0) recommends approval of this request.**

<b>Article 16: Public Facilities Capital</b>	<b>Funds Requested</b>	<b>Funding Source</b>	<b>Committee Recommendation</b>
16(a) School Building Roofing Program	<b>\$147,400</b>	<b>GF (debt)</b>	<b>Approve (8-0)</b>
16(b) Clarke Middle School Auditorium Safety and Technology Upgrade	<b>\$174,000</b>	<b>GF (debt)</b>	
16(c) Bridge and Bowman Schools Renovation Design, Development and Engineering	<b>\$750,000</b>	<b>GF (debt)</b>	
16(d) School Improvement Projects ( <i>details below</i> )	<b>\$378,000</b>	<b>Free Cash</b>	<b>Approve (8-0)</b>
16(e) School Building Envelope Program	<b>\$125,000</b>	<b>Free Cash</b>	
16(f) Cary Library Energy Management Systems	<b>\$50,000</b>	<b>Free Cash</b>	
16(g) School Grounds Improvement Projects ( <i>details below</i> )	<b>\$175,000</b>	<b>Free Cash</b>	
16(h) Municipal Building Envelope Program	\$73,000 +161,534 <b>\$234,534</b>	<b>CPA Tax Levy</b>	<b>Approve (8-0)</b>
<b>TOTAL</b>	<b>\$2,033,934</b>		

<b>Article 16(d): School Improvement Projects</b>	<b>Funds Requested</b>
16(d)(i) School Accessibility Improvements	\$30,000
16(d)(ii) Relocation of Modular Classrooms from School Administration Building	\$30,000
16(d)(iii) Hastings School Modular Classroom Upgrade	\$75,000
16(d)(iv) Hastings School Cabinetry Replacement	\$38,000
16(d)(v) School Building Flooring Program	\$100,000
16(d)(vi) Diamond Middle School Boiler Controls	\$30,000
16(d)(vii) High School Independent Learning Space Program	\$75,000

<b>16(g) School Grounds Improvement Projects</b>	<b>Funds Requested</b>
16(g)(i) Hastings School Parking Area Improvements	\$50,000
16(g)(ii) Estabrook School Playground Replacement	\$125,000

Ten of the requests in Article 16 are for single year allocations, while the remaining five are part of multi-year projects. Town Meeting will only be voting to approve the current fiscal year's expenditure, but it is helpful to consider these projects in their full context. The estimated future costs for these five items are detailed here:

<b>Multi-Year Projects in Article 16</b>							
<b>Item</b>	<b>Description</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>5 YR. TOTAL</b>
16(a)	School Building Roofing Program	\$147,400	\$532,507	\$527,882	\$570,500	\$550,000	\$2,328,289
16(b)	Clarke Middle School Auditorium Safety and Technology Upgrade	\$174,000	\$167,000	\$100,000	\$60,000	\$0	\$501,000
16(d)(v)	School Improvement Projects - Flooring	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000	\$500,000
16(e)	School Building Envelope Program	\$125,000	\$125,000	\$125,000	\$125,000	\$132,000	\$632,000
16(h)	Municipal Building Envelope Program	\$234,534	\$165,572	\$169,711	\$173,954	\$178,302	\$922,073

Item 16(a), School Building Roofing, addresses a serious maintenance issue with our school buildings and the Committee sees this as a crucial need.

Item 16(b) – This is a 4-year project to restore and expand the auditorium facilities at Clarke Middle School. Currently the auditorium is not serving the needs of the school's or the town's users very well. There are also elements of the original technology that have completely failed and should be replaced.

Item 16(d)(v) is part of a multi-year program to repair and/or replace major flooring systems throughout the school.

Item 16(e) covers the ongoing maintenance and repair for the exteriors of our school buildings.

Item 16(h) does the same for other municipal buildings. Some portions of this work qualify for CPA funding, therefore this item will be funded by a combination of CPA funds and the Tax Levy. As a result, this item will be voted on prior to Article 16 when Town Meeting considers Item 8.k in Article 8. The motion for 8.k will specify \$73,000 from the CPC budget and \$161,534 from the tax levy.

Item 16(c), the Bridge and Bowman Schools Renovation, is the precursor to a major renovation of these two school buildings. This will likely require a debt exclusion override in 2011 to fund all or part of an estimated \$12,325,000 in costs for that work (\$6,490,573 for Bowman and \$5,135,152 for Bridge).

All of these items are detailed and justified to the satisfaction of the Committee in the *Recommended Budget & Financing Plan* (the "Brown Book").

**The Committee unanimously (8-0) recommends approval of this request.**

<b>Article 17: Approve Minuteman Regional Vocational Technical School District Borrowing</b>	<b>Funds Requested</b>	<b>Funding Source</b>	<b>Committee Recommendation</b>
	<b>none</b>	<b>n/a</b>	<b>Approve (8-0)</b>

The Minuteman Career and Technical High School (MCTHS) is attempting to undertake a renovation program that will address multiple issues that exist in the 30+ year old facility including, but not limited to, areas of learning, accessibility, and building plant and envelope updates. The MCTHS submitted a Statement of Interest to the Massachusetts School Building Authority (MSBA) in an attempt to qualify for 40% reimbursement. The MSBA evaluated the statement and leapfrogged the project over other districts' requests, asking MCTHS to conduct a feasibility study. The study is estimated to cost \$725,000 before reimbursement. The study will be paid for with a 5-year bond issued by MCTHS and the bond costs will be allocated to member towns according to annual enrollments as well as to the number of tuition students. Minuteman may only move forward as long as no town votes against funding the feasibility study.

This article asks Town Meeting to approve borrowing to conduct the feasibility study. In order to proceed, the study must be approved by all member towns, and then the first payments would be due in FY2012. At current enrollment levels, Lexington's share would total approximately \$76,000 paid out in five payments ranging from about \$2,500 to \$19,000. It is not anticipated that a request for permission to proceed with the project implementation would be put forward by MCTHS before FY2013. MCTHS has formed a project oversight committee to assist in defining and evaluating the study and, when the time comes, to oversee the project. Member towns have been asked to provide citizens and staff. Lexington will be represented by Public Facilities Director Pat Goddard and Selectman Norman Cohen.

**The Committee unanimously (8-0) recommends approval of this request.**

<b>Article 18: Appropriate for Post Employment Benefits</b>	<b>Funds Requested</b>	<b>Funding Source</b>	<b>Committee Recommendation</b>
	<b>\$479,399</b>	<b>Free Cash</b>	<b>Approve (8-0)</b>

Retired Lexington employees receive two types of post-employment benefits: a pension and health insurance. School teachers' pensions are paid by the State pension fund. All other Town employees receive their pensions from the Lexington Retirement Trust Fund. Health benefits for all retirees, including teachers, are funded through the Town's health plans. Annual appropriations to the pension fund and to the health care trust fund, under the Shared Expenses portion of the operating budget (see the discussion of Article 4 and its constituent elements, including Shared Expenses, in this Report) cover the costs of these benefits for current retirees.

There is a future liability, in the case of both types of benefits, for current employees and for past employees who have not yet reached retirement age. The annual appropriation for pensions, made to the Lexington Retirement Trust Fund (line 2110 of the operating budget), includes an amount for the funding of the future pension liability. It does not, however, include any amount for the future health benefit liability.

As of FY2008, the Government Accounting Standards Board (GASB) Statement 45 (GASB-45) required municipalities to determine and report the unfunded liability for retiree health benefits in the annual audit. Based on a 30-year funding schedule, the Town's unfunded liability approximates \$100 Million.

There is as yet no mandate that this future liability be funded. However, in preparation to do so, Town Meeting had voted to request the Massachusetts General Court to pass special legislation to establish a



trust fund for that purpose. The Trust Fund was established by Chapter 317 of the Massachusetts Acts and Resolves of 2002.

Starting in FY2009, the Town began to fund this liability, appropriating the sum of \$400,000 to the trust fund. In FY2010, \$440,690 was appropriated by Town Meeting. This article requests that \$479,399 be appropriated in FY2011, bringing the total amount, including interest, set aside for this future liability to approximately \$1,324,000. This figure pales in comparison to the palpably astronomical \$100,000,000 unfunded liability. As a practical matter, however, until the Lexington retirement Trust Fund is fully funded, now estimated to occur in 2015, larger sums are not available to be appropriated to this Post Employment Insurance Liability Fund.

The funding for this appropriation is from Free Cash. Principally, if not totally, the source of these funds is the Federal Government, which partially reimburses the Town for the prescription drug benefits it provides retirees in place of Medicare Part D prescription coverage. Under current law, this Federal Government annual reimbursement will continue so long as the Town offers this prescription drug benefit to retirees.

**The Committee unanimously (8-0) recommends approval of this request.**

<b>Article 19: Rescind Prior Borrowing Authorizations</b>	<b>Funds Requested</b>	<b>Funding Source</b>	<b>Committee Recommendation</b>
	<b>none</b>	<b>n/a</b>	<b>IP</b>

This article will be indefinitely postponed because there are no known prior borrowing authorizations that need to be rescinded at this time.

<b>Article 20: Establish and Appropriate to Specified Stabilization Funds</b>	<b>Funds Requested</b>	<b>Funding Source</b>	<b>Committee Recommendation</b>
	<i>See below</i>	<i>See below</i>	<b>Approve (8-0)</b>

This article requests Town Meeting to appropriate funds from developer payments and other sources, to the extent available, into some or all of six specified stabilization funds.

**The Specified Stabilization Funds**

The state statute authorizing towns to create and maintain a stabilization fund, G.L. c. 40, section 5B, was amended in 2003 to permit the creation of multiple, separate stabilization funds for specified purposes. The creation of such funds, the specification of their purpose, any alteration of their purpose, and any appropriation into or out of the funds, must be approved by a two-thirds vote of Town Meeting at an annual or special town meeting. To supplement its general stabilization fund, which is addressed in Article 30, Lexington has created several specified stabilization funds, which are described below.

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

- *Transportation Demand Management/Public Transportation (TDM/PT) Stabilization Fund.* Contains payments negotiated with developers to support the operations of Lexpress.

- *Traffic Mitigation (TM) Stabilization Fund.* 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 Stabilization Fund.* Supports daily school bus operations, and was originally funded with \$200,000 contained in the Avalon Bay School Bus Transportation special revenue account.
- *Section 135 Zoning By-Law Stabilization Fund.* 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, a *Special Education Stabilization Fund* was created to provide a vehicle for setting aside reserves to help cover unexpected out-of-district special education expenses that exceed budget. A related goal was to create greater 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. The *Special Education Stabilization Fund* was funded in FY2009 with an initial appropriation of \$350,000. The ultimate goal is to build a \$1,000,000 reserve to help buffer the regular education budget from extraordinary and unforeseen increases in out-of-district special education expenses. Another \$350,000 was added to the Fund by an appropriation 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. Decisions as to uses of the funds have not yet been made.

### **Proposed Additions to Funds**

The current balances of, the amounts of funds currently available for appropriation into, and the amounts proposed to be withdrawn from, the respective stabilization funds (SF), are as follows:

- TDM/PT SF: Current balance is \$216,361. The Town is expecting a payment of \$50,000 from Cubist Pharmaceuticals, Inc., and if it is received prior to this Article being discussed at Town Meeting, it will be included as an amount available for contribution. An appropriation of \$83,000 from the Fund is requested under Article 4 to support the operations of Lexpress (\$78,000) and membership in the 128 Business Council (\$5,000) in FY2011.
- TM SF: Current balance is \$284,235. There are amounts expected to be received from Patriot Partners (\$80,000 - \$65,000 for traffic planning for the Spring Street and Hayden Avenue corridors and \$15,000 for a traffic calming study on Shade Street) and Cubist Pharmaceuticals (\$25,000 for traffic planning for the Spring Street and Hayden Avenue corridors). If these amounts are received prior to this Article being discussed at Town Meeting, they will be included as available for contribution.
- School Bus Transportation SF: Current balance is \$4,599. No funds are available for appropriation into the Fund. An appropriation of \$4,587 is requested under Article 4 to support school bus transportation.
- Section 135 Zoning SF: Current balance is 0. No funds are available for appropriation into the Fund.
- Special Education SF: Current balance is \$709,880. It is proposed that \$350,000 of Free Cash be appropriated into the Fund.
- Center Improvement District SF: Current balance is \$100,285. No funds are available for appropriation into the Fund.

**The Committee unanimously (8-0) recommends approval of this request.**

<b>Article 21: Establish and Appropriate to Debt Service Stabilization Fund</b>	<b>Funds Requested</b>	<b>Funding Source</b>	<b>Committee Recommendation</b>
	<b>none</b>	<b>n/a</b>	<b>IP</b>

It is our understanding that the motion under this article will be for indefinite postponement, i.e. there is no plan to add to the Fund's balance, about \$7,497,000 as of December 31, 2009, at this town meeting. The Town Manager and Board of Selectmen have proposed the following strategy that pertains to the Stabilization Fund. At press time, the FY2011 budget includes approximately \$427,000 in assumed revenue that is not committed to particular uses. If State aid to Lexington is reduced below the level assumed in building the FY2011 budget, as indicated by leaders in the State legislature, the uncommitted revenue will be reduced accordingly up to the full amount. State aid reductions beyond the full amount of the uncommitted revenue will be covered (at this or a future town meeting depending on the timing) by withdrawal via appropriation from the Stabilization Fund for use in the operating budget. The Appropriation Committee concurs with this strategy.

<b>Article 22: Appropriate from Debt Service Stabilization Fund</b>	<b>Funds Requested</b>	<b>Funding Source</b>	<b>Committee Recommendation</b>
	<b>\$124,057</b>	<b>DSSF</b>	<b>Approve (8-0)</b>

The 2009 Annual Town Meeting voted to establish a new specified stabilization fund under G.L. c. 40 Section 5B called the *Debt Service Stabilization Fund* (DSSF). The purpose of the fund is to provide a vehicle to allow the Town to invest bond proceeds beyond the one-year arbitrage limit that would otherwise apply.

An initial appropriation of \$1,739,894 was approved at the 2009 Annual Town Meeting with funds remaining from a set-aside in FY2007 when the monies were initially received. In August 2006, the Town received reimbursement of approximately \$14 million from the Massachusetts School Building Authority for construction projects completed at Clarke and Diamond Middle Schools and Lexington High School. The funds were in excess of the amount necessary to repay a note that was due and were set aside as reimbursement for the exempt costs of the High School project per a directive from the Massachusetts Department of Revenue. The balance is to be drawn down over the life of the bond related to the High School construction project, payable through 2023.

This article requests that \$124,057 be appropriated from the Debt Service Stabilization Fund to offset the debt service in fiscal year 2011 for this same High School construction project.

**The Committee unanimously (8-0) recommends approval of this request.**

<b>Article 23: Appropriate for Prior Years' Unpaid Bills</b>	<b>Funds Requested</b>	<b>Funding Source</b>	<b>Committee Recommendation</b>
	<b>none</b>	<b>n/a</b>	<b>IP</b>

This article will be indefinitely postponed because no unpaid bills from prior years for which no funds were encumbered have been identified.

<b>Article 24: Amend FY2010 Operating Budget</b>	<b>Funds Requested</b>	<b>Funding Source</b>	<b>Committee Recommendation</b>
	<b>unknown</b>	<b>unknown</b>	<b>Pending</b>

This article is pending. Town staff have not identified any concrete need to amend the current year budget as of press time, but the article will not be acted upon until close to the end of this Town Meeting in case some need for emendation arises.

<b>Article 25: Appropriate for Authorized Capital Improvements</b>	<b>Funds Requested</b>	<b>Funding Source</b>	<b>Committee Recommendation</b>
	<b>none</b>	<b>n/a</b>	<b>IP</b>

As of press time, we know of no need for action under this article.

<b>Article 26: Amend Bylaw – Length of Contracts</b>	<b>Funds Requested</b>	<b>Funding Source</b>	<b>Committee Recommendation</b>
	<b>none</b>	<b>n/a</b>	<b>Approve (8-0)</b>

This article would amend Chapter 32, § 32-4, of the Code of the Town of Lexington regarding limits on the lengths of contracts specific to community television services. Currently there is a five-year limit on community television services contracts. This article, which was submitted per the request of the Communication Advisory Committee, would permit contracts for community television services to extend to as long as ten years. If Town Meeting approves this article, the Town intends to sign with the selected access provider a 10 year contract - consisting of an initial three-year term, followed by a three-year extension and then a final four-year extension.

The extended contract length would bring Lexington's practices in line with other nearby communities (see the table below) and it would lessen the frequency with which resources are devoted to the RFP process. It would also allow the access provider to undertake longer term initiatives.

<b>Town</b>	<b>Length of Contract with Community Television Provider</b>
Arlington	10 yrs (renewal at yrs three and six yrs)
Bedford	5 yrs
Burlington	4 yrs
Cambridge	10 yrs (five yrs with five yr renewal)
Concord/Carlisle	10 yrs
Medford	10 yrs
Somerville	10 yrs
Stoneham	10 yrs
Waltham	10 yrs

*Source: LexMedia*

**The Committee unanimously (8-0) recommends approval of this request.**

<b>Article 28: Amend Bylaw – Town Meeting Procedure</b>	<b>Funds Requested</b>	<b>Funding Source</b>	<b>Committee Recommendation</b>
	<b>none</b>	<b>n/a</b>	<b>Disapprove (0-8)</b>

The motion under Article 28 seeks to streamline Town Meeting procedure by changing when a notice of reconsideration may be made. This is not a financial article and we would normally not comment on it, but we were asked to do so as the process that is proposed to be changed is routinely used by the finance committees.

Reconsideration is a parliamentary procedure which allows a motion that has been decided by Town Meeting to be revisited. This process is typically used for financial articles to make sure that the budget is balanced at the conclusion of Town Meeting. Members of the Appropriation Committee routinely rise to serve notice of reconsideration on completed financial articles, so the need for a change in this by-law is not urgent. However, we applaud the aim to streamline the process and reduce interruptions arising from these notices.

In reflecting on the value of allowing a notice of reconsideration to be delayed to a later session of Town Meeting, the Committee notes that a motion to adjourn the meeting at the end of a night is sometimes greeted with great enthusiasm and can be passed before notice of reconsideration can be issued for other motions that were completed late in the evening. We also note that sometimes reflection on the consequences of a motion a day or two after it has been decided can create legitimate misgivings. As a result, the Committee supported the proposed amendment to the bylaw as it appeared on the blue motion sheets provided to Town Meeting on Monday, March 22.

The motion that is to be brought to the floor of Town Meeting, however, changes the threshold for reconsideration from a simple majority to a super majority of 2/3 when notice is delayed. The Committee believes that this change in threshold is unnecessary, that the current majority vote requirement is adequate for deterring frivolous attempts at reconsideration. Further, this change in threshold for delayed notices of reconsideration defeats the stated aim of the motion as the finance committees should be expected to continue to issue timely notices of reconsideration to avoid difficulty in meeting the higher threshold specified in this motion. Finally we note that the effect of changing procedural rules can be subtle and we would like to see a deeper investigation of this change and how it interacts with other rules for reopening articles conducted by a broader cross section of affected committees and Town Meeting.

**The Committee unanimously (0-8) recommends disapproval of this article.**

<b>Article 30: Establish Qualifications for Tax Deferrals</b>	<b>Funds Requested</b>	<b>Funding Source</b>	<b>Committee Recommendation</b>
	<b>none</b>	<b>n/a</b>	<b>Approve (8-0)</b>

This article seeks to raise the income threshold for participation by seniors in the Town's 41A tax deferral program from \$50,000 to \$51,000. The change is authorized by recently enacted home rule legislation for which the Town petitioned in 2007.

#### **Background**

In early 2004, the Board of Selectmen created an ad hoc Tax Deferral and Exemption Study Committee to explore ways in which the property tax relief available to senior citizens and other needy residents could be enhanced and made more accessible. Since then, Town Meeting has taken a succession of steps to

expand such relief, for the most part maximizing the options that the Town is allowed to adopt under existing State law. The principal programs now available to Lexington homeowners are:

- a *tax exemption* program, under which homeowners age 65 or over with limited income and limited assets other than the value of their home may deduct \$1,000 from their annual property tax, G.L. c. 59, § 5, cl. 41C (“the 41C Program”);
- a Community Preservation Act *surcharge exemption* program, under which 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;
- a locally-controlled *Senior Service* program, adopted by Town Meeting in 2006 to replace the preexisting state program, under which 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 \$935 or a maximum credit of \$1,190 for a two person household;
- an exclusively State-run program called the “*Circuit Breaker*” program under which low- and moderate-income homeowners age 65 and over, whose homes have an assessed valuation not greater than a specified ceiling (\$788,000 for tax year 2009), may obtain a tax credit on their state tax returns (up to \$960 for tax year 2009) for the amount that their property tax, plus half their annual water and sewer bill, exceeds 10% of their annual income, G.L. c. 62, § 6(k); and
- a tax *deferral* program, under which homeowners age 65 or over with a household income of not more than \$50,000 may defer any or all of their property tax due, after applying any available exemptions, up to half the value of their house, at an interest rate equal to the Town’s cost of funds (.68% for FY2010 deferrals), until the house is sold or transferred, G.L. c. 59, § 5, cl. 41A (“the 41A Program”)

#### **The 41A Deferral Program**

The 41A deferral program, although it has not been widely used, is an important tool in the tax-relief toolbox because it offers immediate and substantial property tax relief to cash-strapped seniors. Those who qualify may defer any part or all of their property tax for a given year, until the property is ultimately disposed of, at an interest rate that is now quite reasonable. The interest rate, formerly pegged at 8%, is now based on a floating Treasury rate equivalent to Lexington’s cost of funds in the year of deferral, but not to exceed 8%, which remains in effect for the life of each year’s deferral. The interest rate for FY2008 deferrals was 4.77%, for FY2009 deferrals was 1.66%, for FY2010 deferrals was 0.68%, and for FY2011 deferrals will be just 0.34%.

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

#### **The Home Rule Amendment**

In 2007, Town Meeting approved a citizen’s article calling for a petition to the State legislature to enact a home rule amendment to 41A that would allow the Town to expand eligibility beyond that permitted under the existing state law. The special act, signed into law on July 22, 2008, permits the Town, by vote of Town Meeting and with the approval of the selectmen, to set its own income limit for deferrals; to

lower the age limit (which would otherwise be 65 years of age); and to condition eligibility for deferral by those under 65 on objective criteria of hardship or disability.<sup>5</sup>

**Proposed Increase in Income Threshold**

Last year, Town Meeting approved an increase in the income limit for deferrals from \$40,000 to \$50,000. This year the Tax Deferral and Exemption Study Committee (TDESC) has recommended that the Town increase the income threshold for the 41A deferral program from \$50,000 to \$51,000, an income level consistent with the state Circuit Breaker limit.

Although the number of households eligible to defer property taxes is now substantial (approximately 1,350) and might increase slightly with this change, it is unlikely that the proposal will result in a large number of additional deferrals or have any material impact on the Town's finances. Utilization of the program has traditionally been very low because senior citizens who have paid off their mortgages have traditionally been reluctant to place a new lien on their home and accumulate debt, or to reduce the value of an asset that can be passed on to their heirs. After the increase approved by the 2009 Annual Town Meeting which made approximately 180 additional households eligible for the program, utilization levels remained fairly constant. When the interest rate for 41A deferrals was changed several years ago from 8% to a lower, floating rate based on Lexington's cost of funds, participation increased somewhat, but not substantially, as shown in the table below.

Fiscal Year	Interest Rate	Number of Deferrals	Amount Deferred
2002	8.00%	24	\$99,582
2003	8.00%	21	\$80,459
2004	8.00%	23	\$80,459
2005	8.00%	16	\$75,000
2006	8.00%	16	\$74,000
2007	4.77%	15	\$73,578
2008	4.92%	20	\$101,832
2009	1.66%	26	\$154,380
2010	0.68%	27 <sup>6</sup>	<i>not yet available</i>
2011	0.34%		

**The Committee unanimously (8-0) recommends approval of this request.**

<b>Article 31: Support and Petition for Municipal Utility Act</b>	<b>Funds Requested</b>	<b>Funding Source</b>	<b>Committee Recommendation</b>
	<b>none</b>	<b>n/a</b>	<b>Approve (8-0)</b>

The 2005 Annual Town Meeting approved, in Article 14, the submission of a home rule petition to the state legislature that would enable the Town to establish a municipal utility company. Because that home rule petition was not acted on during the legislature's following two-year session, the 2008 Annual Town Meeting, in Article 44, voted to reaffirm the petition as a prerequisite to its continued consideration. At

<sup>5</sup> Prior to 2008, the highest income threshold towns could adopt under the 41A program was \$40,000. In 2008, the legislature amended Clause 41A generally to permit towns to adopt an income limit equal to the Circuit Breaker threshold for an individual. That threshold was \$49,000 for tax year 2008 and will be \$51,000 for tax year 2009.

<sup>6</sup> 27 residents have applied for the program as of February 2010. Residents may apply for the program until three months after the final (generally the third quarter) tax bill is mailed.

the 2009 Annual Town Meeting Article 38 called for Town Meeting once again to reaffirm its desire for a home rule petition, as well as to support related bills working their way through both houses that would enable any municipality state-wide to establish a municipal utility company. This year's article seeks to provide similar support. The Appropriation Committee supported the above articles and continues its support of legislation that would give the Town the option to create a municipal utility.

**The Committee unanimously (8-0) recommends approval of this request.**

<b>Article 36: Resolution on Munroe School</b>	<b>Funds Requested</b>	<b>Funding Source</b>	<b>Committee Recommendation</b>
	<b>none</b>	<b>n/a</b>	<b>Disapprove (0-7-1)</b>

In early March, the Committee discussed the motion to be presented under this article as drafted at that time (hereafter the "motion"). That draft consisted of two parts concerning the disposition of the former Munroe School building and land. The first part was entitled 'Terms of Request for Proposal ("RFP")' and the second was entitled 'Terms of Agreement'.

Committee members expressed support for the idea that ample time needs to be made available for Town Meeting representatives and citizens to become informed in regard to all aspects of any proposed sale of Town property and to be able to express their opinions on the sale or other action in connection with the long-term disposition of Town property. It was generally agreed that the process last fall was far from ideal in these respects.

Committee members also support fuller exploration of the range of possible arrangements, such as leases.

However, a number of objections were raised to the motion under discussion. In the opinions of some members, the motion is inappropriately focused on a presumptive RFP stage of the process, and furthermore, appears to aim to limit the possible decisions to come out of future discussions about the disposition of the former Munroe School property. Under Item 1(a) any RFP in connection with the property must allow for either purchase or lease (the intent that both possibilities be allowed for in any RFP is a bit ambiguous in the present wording). Item 2 states "The RFP shall contain no restrictions or preference as to the future use of the property". Such limitations could be problematic when it comes to giving guidance to proposers with regard to the Town's real preferences including the preferences of the Board of Selectmen. In regard to process, there has not been adequate discussion of the issue to allow proper decisions on limitations of the decisions to be made at present. In our view, it is preferable to allow for a fully free exploration and discussion of the possibilities followed by consensus building on the best course of action. Such a course could but doesn't necessarily involve the issuance of another RFP.

**The Committee by a vote of (0-7-1) recommends disapproval of the motion as drafted in early March.**

Note: we have received late notice that the motion may be revised. In that case, we will reconsider our position.



## **Appendix A**

### **Summary of Financial Actions at the November 2009 Special Town Meeting**

Please see the Committee's "Report to the November 9, 2009 Special Town Meeting" for background information on the actions taken (this report and others are available at <http://www.lexingtonmma.org/> or at <http://www.lexingtonma.gov/towngovernment/2009fallstm.cfm>).

**Article 6:** An increase of 0.75% in the meals tax was approved effective January 1, 2010. Lexington will receive the revenue from this increase.

**Article 7:** An increase of 2% in the room occupancy tax was approved effective July 1, 2010. Lexington will receive the revenue from this increase.

**Article 10:** The amount of \$35,000 received from a developer for traffic mitigation purposes was appropriated into the Traffic Mitigation Stabilization Fund in accordance with Department of Revenue regulations.

**Article 11:** The amount of \$669,843, representing the net change in projected revenues relative to appropriations from the time of the Annual Town Meeting to the fall, was appropriated into the Stabilization Fund.

**Article 12:** The amount of, \$25,000 was appropriated from the Traffic Mitigation Stabilization Fund for use in the design of a pedestrian crossing on Waltham St.

**Article 13:** The actions included changes in various line items in the FY2010 operating budget shown in the table below that net out to a decrease of \$8,274.

<b>Approved Changes to the FY2010 Operating Budget</b>			
<b>Line Item</b>	<b>Program</b>	<b>From</b>	<b>To</b>
2150	Worker's Compensation	\$351,625	\$401,625
3100-3500	DPW Expenses	\$4,732,743	\$4,747,743
6100-6200	Social Services Personal Services	\$409,285	\$294,840
6100-6200	Social Services Expenses	\$171,578	\$121,749
8400	Finance Expenses	\$301,328	\$342,328
8500	Town Clerk Personal Services	\$269,513	\$291,413
8500	Town Clerk Expenses	\$84,000	\$112,100

**Article 14:** The Water Enterprise Fund operating budget was changed from \$6,711,570 to \$6,594,121 because the estimate of the MWRA water assessment was changed from \$4,600,000 to the final figure of \$4,482,551. The Sewer Enterprise Fund operating budget was changed from \$7,729,170 to \$7,475,116 because the estimate of the MWRA sewage assessment was changed from \$6,500,000 to the final figure of \$6,245,946.