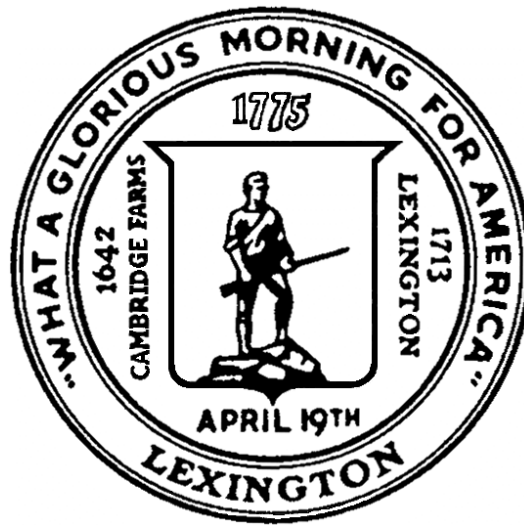


# APPROPRIATION COMMITTEE

## TOWN OF LEXINGTON



## REPORT TO THE NOVEMBER 2011 SPECIAL TOWN MEETING

*Released November 10, 2011*

### Appropriation Committee Members—Fiscal Year 2012

**Glenn Parker, *Chair* • John Bartenstein, *Vice Chair/Secretary* • Joe Pato, *Vice Chair*  
Robert N. Addelson (*ex-officio; non-voting*) • Robert Cohen • Mollie Garberg  
Alan Levine • Eric Michelson • Richard Neumeier • Jonina Schonfeld**



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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
2	Appropriate for Bridge and Bowman Schools Reconstruction	\$21,670,000	Excluded Debt	Approve (9-0)
3	Appropriate for Fire Communication System	\$180,000	GF	Approve (9-0)
4	Amend FY2012 Operating and Enterprise Fund Budgets	(\$176,800)	GF	Approve (9-0) (see article)
5	Establish and Appropriate to Specified Stabilization Funds	\$417,305	(see Article)	Approve (9-0)
6	Appropriate to Stabilization Fund	none	n/a	IP
7	Appropriate for Authorized Capital Improvements	\$65,000 \$35,000 \$100,000	GF CPA	Approve (9-0)

## Preface

This Preface describes the structure and stylistic conventions used in this report. It is followed by an Introduction discussing changes in the Town's financial status since the most recent Annual Town Meeting in May 2011, and issues pertinent to the Town's general financial situation. The main body of this report contains article-by-article discussions and recommendations on those articles that, in our opinion, have substantial financial relevance.

The discussion for each article presents the consensus view of the Committee, as well as any other considerations or cautions that we feel Town Meeting should be informed of. In the case where one or more committee members are strongly opposed to the majority position, we summarize the opposing perspective. Each Article discussion concludes with the most recent vote of the Committee prior to publication. This is summarized by the number of members in favor, followed by the number of members opposed, and lastly (when applicable) the number of members abstaining, e.g. "(6-2-1)" indicates six members in favor, two opposed, and one abstaining. For convenience, Committee votes are also summarized on the preceding page.

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

- *FY2012 Recommended Budget & Financing Plan*, dated February 28, 2011, commonly known as the "Brown Book", which documents the complete municipal budget of the Town of Lexington. The Brown Book also summarizes budget laws and bylaws (Appendix B) and includes a glossary of financial terms (Appendix D).
- *Fiscal Year 2012 School Committee Annual Town Meeting Budget Request*, commonly known as the "Blue Book", which details the budget plans for the Lexington Public School System.
- *TMMA Warrant Information Report* (November 2011), published by the Town Meeting Members Association.
- Capital Expenditures Committee (CEC) *Report to the 2011 Special Town Meeting*.
- Community Preservation Committee *Report to the 2011 Annual Town Meeting*.

### Acknowledgements

The content of this report, except where otherwise noted, was researched, written and edited by members of the Committee with support from town staff. Our Committee has the pleasure and the privilege of working with Town Manager, Carl Valente; Assistant Town Manager for Finance, Rob Addelson; our new Budget Officer, Theo Kalivas; the Capital Expenditures Committee; the Community Preservation Committee; the School Committee; the Superintendent of Schools, Dr. Paul Ash; the Assistant Superintendent for Finance and Operations, Mary Ellen Dunn; and the Board of Selectmen. We thank the municipal and school staff, Town officials, boards and volunteers who have contributed time and expertise in support of our work.

## Introduction

This report includes the Committee's advice and recommendations regarding all appropriations of Town funds that are anticipated in the Town Warrant, and other municipal matters that may come before Town Meeting. The report is published and distributed to the members of Town Meeting as a printed document and as an electronic document via the Town website. The Committee also makes presentations during Town Meeting, including recommendations on appropriations and other matters for which the Committee's formal position was pending at the time of publication.

### **Developments since adoption of the FY2012 budget**

Work has proceeded on the design and engineering for the proposed renovations at the Bridge and Bowman Elementary Schools. The November 2011 Special Town Meeting (STM) will consider the appropriation of funds for the construction phase of this project under Article 2, contingent on the passage of a debt exclusion override. Work on the design and engineering for the proposed replacement of the Estabrook School has also proceeded on schedule; however, the appropriation of funds for the Estabrook project will not be requested until the annual town meeting next spring since the final cost and the share to be paid by the Massachusetts School Building Authority (MSBA) have yet to be finalized. A debt exclusion referendum covering both the Bridge and Bowman and the Estabrook projects is expected to be presented to Town voters in late January 2012.

The Town endured two significant bouts of severe weather: Hurricane Irene in late August and the early snow storm of October 29. Each produced widespread power outages and extraordinary damage to roads and trees. The Board of Selectmen have requested an appropriation under Article 4 to cover some of the costs of the recovery.

The Board of Selectmen will also take this opportunity to propose various adjustments to the FY11 operating and capital budgets under Article 4.

### **Changes in Estimated FY12 Revenue since 2011 ATM**

The Town enters this STM with approximately \$2,820,000 available for appropriation. This is comprised of \$1,700,000 in revised revenue estimates above those presented at the 2011 ATM, and approximately \$1,970,000 in reduced expenses, less approximately \$650,000 for the FY11 Snow and Ice deficit, and less \$200,000 used to increase the overlay account.

The major driver of the revenue increase is attributable to "new growth" in the property tax levy being \$1,465,000 greater than the original estimate. New growth is subject to final approval by the Dept. of Revenue which is anticipated in late November or early December 2011. The other large factor is the release of the set-aside of \$300,000 for the anticipated FY11 Snow and Ice deficit.

The reductions in expenses result from two events. With Town Meeting approval, the Town will recognize a savings of \$1,250,000 on town employee health insurance costs that were lower than predicted due to reduced claims in the prior year. The Town will also release the set-aside of \$727,628 intended to offset any reductions in State Aid for FY12. This set-aside is technically similar to the FY11 Snow and Ice set-aside, but for presentation purposes it has been treated as an expense in this analysis. State Aid was reduced by only \$67,214 and the Town received a supplemental payment of \$93,726 from the State which negated this shortfall.

These positive events were modestly offset by a reduction in estimated FY12 Local Receipts of \$124,834. This reduction is driven by a more up-to-date analysis using the actual experience from FY11, but roughly one third of the shortfall (\$46,000) resulted from the School Committee's decision to reduce school music fees by 50%.

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The FY11 Snow and Ice deficit is \$654,053. This amount will be raised without appropriation from available funds, i.e., without any further action required by Town Meeting. The release of the two set-asides, including the original \$300,000 for the FY11 Snow and Ice budget, will make it easier to accomplish this.

The Overlay Account is an annual budget set-aside required by law to cover the cost of property tax abatements and exemptions that are awarded to taxpayers during the year. Because FY12 is a certification year for the Town, which may lead to an increase in these costs, Town staff has recommended increasing the set-aside by roughly \$200,000. The Overlay Account is currently budgeted at \$849,153.

The following table summarizes the sources and changes to funds available for appropriation at Town Meeting.

Source	Amount	Comments
Property Tax Levy	<b>\$1,465,000</b>	Increased revenue from “new growth” above budgeted projections
State Aid	<b>(\$67,214)</b>	Reduced State Aid
State Aid Restoration	<b>\$93,726</b>	State payment mitigating reduced FY11 State Aid
Local Receipts	<b>(\$124,860)</b>	\$46,000 reduced school music fees, \$42,000 municipal receipts, \$36,000 fines and forfeits
Available Funds	<b>\$0</b>	No change in transfers from Available Funds
Revenue Offsets	<b>\$330,953</b>	\$300,000 set-aside for FY11 Snow and Ice deficit, and small revisions to Cherry Sheet assessments
	<b>\$727,628</b>	Set-aside for potential reductions in State Aid
	<b>(\$654,053)</b>	FY11 Snow and Ice Deficit
	<b>(\$200,000)</b>	Increase to Overlay Account
Enterprise Fund Receipts	<b>\$0</b>	No change in transfers from Enterprise Funds
Health Insurance	<b>\$1,250,000</b>	Surplus from lower than expected increase health insurance costs ( <i>requires appropriation</i> )
<b>TOTAL</b>	<b>\$2,821,180</b>	<b>Additional funds available for appropriation</b>

As of publication, our Committee is aware of proposals for approximately \$1,320,000 in new and/or supplemental appropriations from the General Fund to fund capital projects, and to make adjustments in the Town’s operating budget. If these appropriations are all approved, approximately \$1,700,000 will remain available.

Any unappropriated funds will flow to Free Cash at the end of FY12 and become available for appropriation after Free Cash is certified in the fall of 2012 (mid-FY13). Town Meeting would be then able to appropriate them during FY13 at a fall 2012 Special Town Meeting (if necessary) or for the FY14 budget at the 2013 Annual Town Meeting.

Free Cash for FY11 has been certified at approximately \$8.1 million. These funds will be available for appropriation in the upcoming FY13 budget.

Details about proposed appropriations are covered in the article discussions that follow.

## Warrant Article Analysis and Recommendations

<b>Article 2: Appropriate for Bridge and Bowman Schools Reconstruction</b>	<b>Funds Requested</b>	<b>Funding Source</b>	<b>Committee Recommendation</b>
	<b>\$21,670,000</b>	<b>Excluded Debt</b>	<b>Approve (9-0)</b>

### **Background**

In 2006 and 2009 and in earlier years, the Lexington Public Schools adopted strategic facility master plans to guide the process of renovating current facilities and building new facilities. The objective of each plan was to ensure that the facilities adequately support the School System's educational program goals.

The 2009 Facility Master Plan identified the Bridge and Bowman Elementary Schools, among others, as buildings that require significant capital investment. The Bridge and Bowman buildings are 45 and 44 years old, respectively. Many of the building systems have not been updated since the original construction. Evaluation during the master planning found that the basic structures of the two buildings are for the most part sound, and that there is no need to replace them. However, the roof of the Bowman School and the HVAC and other mechanical systems of both schools are at or beyond their useful lives and it was recommended that they be replaced to maintain the schools in a condition suitable for education.

The School Committee followed up on the Master Plan in 2010 by requesting that design funds be appropriated, and that the Department of Public Facilities and the Permanent Building Committee support the development of detailed plans, for the renovation of Bridge and Bowman. At the 2010 Annual Town Meeting, \$750,000 in Design and Engineering (D&E) monies was appropriated to plan for renovations that would extend the useful lives of the buildings by about 10 years. This plan, called the "base scope," covers a new roof for Bowman, and new windows, HVAC systems, boilers, and hardware for handicapped accessibility in both buildings.

Later in 2010, the School Committee voted to enlarge the scope of the renovation plans for Bridge and Bowman to extend the useful lives of the buildings for 20 to 25 years, rather than just 10 years, and to address overcrowding concerns.<sup>1</sup> The enlarged scope includes all the items in the "base scope" and adds: the installation of sprinklers; floor plan changes to address security and administrative needs; upgraded plans for HVAC and lighting systems; the conversion of existing spaces to classrooms (four in each building); and new small-group instructional spaces in each school. The 2011 Annual Town Meeting appropriated \$280,000 to augment the previously appropriated D&E monies so that the design could address the enlarged scope.

The design process has proceeded, and the School Committee is now requesting appropriation of the funds necessary to carry out the project. As of the time of writing, the total estimated project cost is approximately \$22,639,000. This total includes contingencies, i.e., amounts to cover cost increases in case the bids received or the actual costs of construction exceed the best present estimates. It also includes the \$1,030,000 previously appropriated for D&E costs. This article requests an appropriation of \$21,670,000, the difference of the total estimated cost less the prior appropriation, rounded up for purposes of borrowing. The appropriation will be contingent upon the passage of a debt exclusion override referendum to be held in January 2012. Details of the project financing are described below.

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<sup>1</sup> As of August 31, 2011, Bowman had 517 students and Bridge had 513 students enrolled. Each school has 24 classrooms. Currently the schools are over their designed capacity, and teachers' rooms and closets have been converted for use as programmatic spaces.



The Capital Expenditures Committee report provides additional information and perspective on the rationale for and composition of the project. The report is available on the Town website.<sup>2</sup>

### **Financing the Project**

As noted above, Town Meeting has already appropriated a total of \$1,030,000 for D&E work in preparation for the construction phase of the project. The Town has raised these funds through short-term borrowing; these funds have largely been spent or committed in preparing project plans, documents, cost estimates, etc. If Town Meeting appropriates the construction funds and the debt exclusion referendum is successful, the short-term notes will be re-characterized as exempt debt and both the principal and interest will be fully repaid in FY13 outside the tax levy. If the project does not receive the necessary Town Meeting and referendum approvals, the notes will be rolled over and the debt will be repaid over multiple years within the levy.

If Town Meeting approves this Article and the exclusion of the project debt is approved by the voters, the \$21,670,000 in funds needed for the construction phase would be raised through the issuance of twenty-year bonds. The first payment on these bonds would be due in FY14. Principal payments would be constant through the life of the bonds. The first interest payment would therefore be the highest, and the subsequent payments would then decrease over the 20-year period. Payments would continue through FY2033. The projections shown below assume an interest rate of 4%, which is slightly higher than recent successful bond offerings completed by the Town.

Table 1 shows the Town's estimated debt service payments for the first 10 years of a 20-year term. The table includes data for the Bridge and Bowman projects as well as the pending Estabrook reconstruction project that will not be considered by Town Meeting until the 2012 Annual Town Meeting. Taxpayers would see the greatest financial impact in FY14 and declining impact from this debt over the 20 years.

**Table 1: Exempt Debt Service if Both the Bridge/Bowman and Estabrook Projects are Approved**

<b>Fiscal Year</b>	<b>Existing Exempt Debt Service</b>	<b>Bridge/Bowman Debt Service</b>	<b>Estabrook Debt Service</b>	<b>Total</b>
2012	\$5,728,255	—	—	\$5,849,706
2013	\$4,792,384	\$1,049,000*	—	\$5,841,384*
2014	\$4,663,204	\$1,950,300	\$2,295,000	\$8,908,504
2015	\$4,324,377	\$1,906,960	\$2,244,000	\$8,475,337
2016	\$4,189,516	\$1,863,620	\$2,193,000	\$8,246,136
2017	\$3,672,145	\$1,820,280	\$2,142,000	\$7,634,425
2018	\$3,540,570	\$1,776,940	\$2,091,000	\$7,408,510
2019	\$3,303,431	\$1,733,600	\$2,040,000	\$7,077,031
2020	\$3,151,065	\$1,690,260	\$1,989,000	\$6,830,325
2021	\$2,977,522	\$1,646,920	\$1,938,000	\$6,562,442
2022	\$2,869,925	\$1,603,580	\$1,887,000	\$6,360,505
2023	\$2,750,703	\$1,560,240	\$1,836,000	\$6,146,943

*Notes:*

(1) \* – Includes repayment of \$1,030,000 in principal and approximately \$19,000 in interest on the short-term debt issued for the Bridge/Bowman D&E.

(2) The Estabrook debt service was estimated assuming a loan of \$25,500,000 (total cost less Massachusetts School Building Authority reimbursement) over 20 years with a 4% interest rate.

### **Taxpayer Impact**

Table 2 shows the estimated impact of the exempt debt for a “tax bill on a residence of average value” over the first 10 years of the 20-year term. The dollar amounts are the component of a residential property tax bill that could be attributed to the exempt debt for a resident whose property was assessed at \$697,000 in FY11. The total tax bill in FY11 for this “average taxpayer” was \$9,936.

<sup>2</sup> CEC Report to the 2011 STM - <http://www.lexingtonma.gov/towngovernment/CECFinalReport2011STM.pdf>

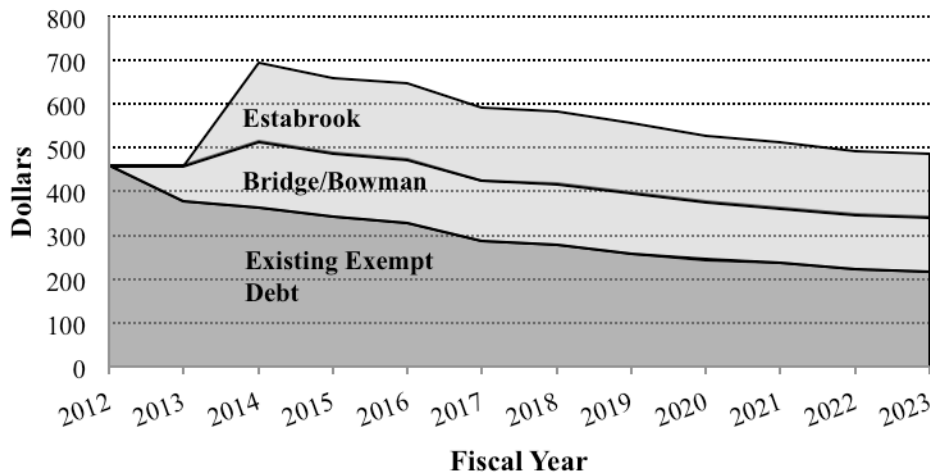
Table 2 shows that in FY14, the combined Bridge/Bowman project would have an estimated cost of about \$153 to the average taxpayer, and the Estabrook project would have an estimated cost of \$181. If both the Bridge/Bowman and the Estabrook projects are approved, the total increase for FY14 would be \$334. This amount added to the \$362 for existing for exempt debt service in FY14 would total \$696. The total exempt debt service would decline thereafter as illustrated in the chart below, unless and until additional excluded debt projects, such as the proposed reconstruction of the Town fire station, are approved in the future.

**Table 2: Estimates of Exempt Debt Service in the Tax Bills to be Paid by an Average Taxpayer**

Fiscal Year	Existing Exempt Debt Service	Impact of Bridge/Bowman Debt Service	Impact of Estabrook Debt Service	Total
2012	\$460	—	—	\$460
2013	\$377	\$83	—	\$460*
<b>2014</b>	<b>\$362</b>	<b>\$153</b>	<b>\$181</b>	<b>\$696</b>
2015	\$342	\$146	\$174	\$662
2016	\$328	\$146	\$174	\$648
2017	\$286	\$139	\$167	\$592
2018	\$279	\$139	\$167	\$585
2019	\$258	\$139	\$160	\$557
2020	\$244	\$132	\$153	\$529
2021	\$237	\$125	\$153	\$515
2022	\$223	\$125	\$146	\$494
2023	\$216	\$125	\$146	\$487

\* See notes on Table 1.

The estimates for the impact of exempt debt service listed above in Table 2 are plotted below.



### Analysis

The Bridge and Bowman renovation project, as envisioned in the recently completed designs, is appropriately targeted to meet the educational needs of each school by remedying key deficiencies in basic building systems and relieving overcrowding. The plan would achieve a comprehensive and coordinated upgrading of basic systems which are in present need of replacement due to their age, ongoing repair requirements and negative impact on the educational program. Both schools' HVAC and single pane windows are original to the buildings and well beyond their projected useful lives. The electrical system at Bridge is also original, and the Bowman roof needs to be replaced. In past years, classrooms have been closed due to roof leaks and the heating and ventilating systems have operated unreliably.

The project will also address the overcrowded conditions by creating four additional full-size classrooms within each school and by making more efficient use of space within each school. The new classrooms

will be used for activities that require classroom-size spaces but that are currently being performed under non-ideal conditions in smaller rooms. The project will include renovation of the modular classrooms at Bowman and will also provide for improved safety, security, and accessibility at both schools.

Finally, the renovation should have a positive impact on current operating costs. The new, more efficient systems are expected to provide long-term savings in energy usage and associated costs estimated at \$50,000 per year per building at current energy prices. It is our understanding that there is no plan to increase staff when the project is completed on account of the reconfigurations of space.

Considering the present needs, the risks associated with postponement, and the current favorable construction market and low interest rates, renovating the schools now is prudent. The consequences of postponing a comprehensive renovation of these two buildings could include higher annual repair costs in addition to unpredictable failures in aging building systems. A major system failure could result in costlier renovations, and the educational program would likely be severely disrupted in the meantime. In addition, unexpected and significant repair costs would generally be paid from funds within the levy, and the option to finance a major repair through excluded debt might not be available.

A decision to renovate the existing Bridge and Bowman School buildings rather than replace them is sensible, even though new buildings would have many obvious advantages. The cost to replace either building would likely be comparable to the cost of replacing Estabrook School, which is currently estimated at roughly \$35,000,000. The prospects of receiving State reimbursement for replacing either Bridge or Bowman are unlikely for a number of reasons, and there is no expectation that those prospects will improve in the foreseeable future. Thus, the net cost to the Lexington taxpayer of replacing both the Bridge and Bowman buildings (\$70,000,000) would be more than three times the cost of the proposed renovation project (approximately \$22,000,000) that will result in extending the useful lives of the two buildings by 20 to 25 years. Both the justification of full replacement of the two buildings and the feasibility of raising \$70,000,000 or more are doubtful at best.

### **Recommendation**

The Appropriation Committee considers the renovation of both Bridge and Bowman School buildings to be the most fiscally prudent way to preserve and leverage our capital assets and meet the needs of our schools. If the project is not carried out, there will be significant risks of building system failures that could disrupt the operation of the schools, require emergency expenditures, and substantially raise the total cost over the long term of maintaining these buildings. Furthermore, the overcrowded conditions of the buildings would not be addressed – this would undoubtedly continue to have some impact, even if hard to quantify, upon the educational programs in these buildings. This also appears to be an opportune time for the Town to get good value for its construction dollars.

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

<b>Article 3: Appropriate for Fire Communications System</b>	<b>Funds Requested</b>	<b>Funding Source</b>	<b>Committee Recommendation</b>
	<b>\$180,000</b>	<b>GF</b>	<b>Approve (9-0)</b>

The current radio system presents a life safety risk to firefighters and the community because it does not meet the needs of the Fire Department. The Fire Department began the transition from VHF to UHF in 2006 in an attempt to comply with upcoming FCC regulations and improve communications with mutual aid departments. The change in frequency and power transmission resulted in a loss in coverage both in the street reception and efforts to communicate from within buildings or structures. Two sites use leased copper lines which often cause interference and render the system out of service, preventing the officer or firefighter from being able to speak to the dispatch center.

There have been other failures during severe weather due to downed power and communication lines that are only partially addressed by the updates proposed here.

A local consultant and two engineering resources evaluated the system and recommended replacing the existing receivers with hardware by the same manufacturer as the transmitters to unify the installation, allowing better programing and troubleshooting capabilities. To improve coverage in weaker areas, two new repeater sites are recommended. To reduce radio interference, the copper line connections will be replaced with fiber optic lines beginning with the installation at Estabrook School. Equipment currently housed in the attic space of the Harrington Administration building will be relocated to the new Harrington School for better climate control of the equipment.

This is a stopgap measure. We anticipate a request for a comprehensive analysis of the Town's emergency communication infrastructure in FY13, with requests for additional infrastructure improvements to follow. However, given the present risks created by an unreliable communications system, it is important to begin addressing this now instead of waiting until the 2012 Annual Town Meeting.

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

<b>Article 4: Amend FY2012 Operating and Enterprise Fund Budgets</b>	<b>Funds Requested</b>	<b>Funding Source</b>	<b>Committee Recommendation</b>
	<b>(\$376,800)</b> <i>(see below)</i>	<b>GF</b>	<b>Approve (9-0)</b> <i>(see below)</i>

This Article is routinely included on the Warrant for Special Town Meetings to give Town Meeting an opportunity to make adjustments and/or additions to the previously approved operating budget and enterprise fund budgets for the current fiscal year (FY12).

The vote to recommend approval was unanimous (9-0) for all items in this request, except for the proposed appropriation of \$20,000 to Town Manager – Expenses for a Police Sergeant Assessment Center. The vote for this item was (8-1).

### ***Amendments to the General Fund Operating Budget***

The following table provides a summary of the anticipated proposals for operating budget amendments as of publication. A more detailed discussion follows. Note that the new appropriations are less than the reduction in Health Insurance costs, resulting in a net reduction in the operating budget.

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Purpose	Amount	Comments
Reserve Fund	<b>\$350,000</b>	Potential FY12 Snow and Ice spending in excess of current budget
Human Services – Expenses	<b>\$100,000</b>	Veterans' Benefits have increased substantially
Human Services – Salary	<b>\$30,000</b>	State-mandated Veterans' Agent
Community Development – Expenses	<b>\$5,000</b>	Consulting services for Noise Bylaw enforcement
Town Clerk – Expenses	<b>\$20,000</b>	Special Election for Debt Exclusion
Community Development – Salaries	<b>\$1,800</b>	Recording Secretary – Historical Commission
Fire Dept. – Expenses	<b>\$60,000</b>	Emergency repairs to Ladder truck
Facilities Dept. – Expenses	<b>\$36,400</b>	Revise budget for sewer fees; higher price for oil
Finance – Expenses	<b>\$50,000</b>	Legal fees for Assessing Dept., Appellate Tax Board cases
Town Manager – Expenses	<b>\$20,000</b>	Police Sergeant Assessment Center
Department of Public Works	<b>\$200,000</b>	October 2011 Storm Cleanup
<b>TOTAL APPROPRIATIONS</b>	<b>\$873,200</b>	

Health Insurance	<b>(\$1,250,000)</b>	Reduced budget based on lower Health Insurance costs
<b>NET BUDGET DECREASE</b>	<b>(\$376,800)</b>	

### **Reserve Fund**

As snow removal costs have increased, and the Town has experienced chronic deficits in this account that can be financially disruptive, there is a general consensus that it would be prudent to set aside additional funds for this purpose. However, the chaotic history of the Snow and Ice budget establishes the difficulty of forecasting the required amount from year to year. While it is possible to set aside a sizable amount to cover the maximal expense, State law only allows the Town to run a deficit in a fiscal year in which the amount budgeted for snow and ice removal was not decreased from the previous year. The ability to run a deficit is preserved by avoiding a future situation where the snow and ice budget would need to be decreased. Town staff have therefore recommended appropriating an additional \$350,000 to the Reserve Fund in place of augmenting the snow and ice budget as an additional buffer (above and beyond the customary \$300,000 revenue set-aside) to hedge against the risk of a sizeable shortfall in the FY12 Snow and Ice budget.

### **Veteran's Benefits**

The Town is obligated by law to provide Veterans' Assistance on request and receives a 75% reimbursement from the State for any financial assistance it renders. The budget for Veterans' Assistance in FY12 was \$100,186, which includes the costs of assistance payments and the necessary staff administration. As we noted in our previous report, the demand for Veterans' Assistance has been accelerating and the Town is already spending slightly ahead of the projected rate. This request would increase the budget for Veterans' Assistance sufficient to cover the needs for the rest of FY12.

### **Veteran's Agent**

The State recently mandated that all municipalities with over 12,000 residents must hire a full-time Veterans' Agent. The Town currently uses part-time staffing to administer Veterans' Assistance and the level of demand in Lexington does not necessitate a full-time position. The Town has appealed to the Attorney General for an exemption to this requirement, nevertheless this position will be included in the current budget pending a decision regarding the exemption.

### **Special Election**

The original FY12 budget covered the costs of two elections: the Annual Town Election and the March Presidential Primary. Moving the Town Election to the same time/date as the Presidential Primary (Tuesday, March 6, 2012) will save the town approximately \$15,000.

The Debt Exclusion Election planned for January 2012 was not part of the FY12 budget and is projected to cost \$35,000. The additional \$20,000 requested is the difference between the total cost of the debt exclusion and the anticipated savings from conducting two elections at the same time.

### **Legal Fees**

The Town is currently litigating multiple cases before the Appellate Tax Board that require legal representation that was not anticipated when the legal budget was adopted at the 2011 Annual Town Meeting. A supplemental appropriation of \$50,000 is estimated to be sufficient to cover these litigation costs.

### **Police Sergeant Assessment Center**

An "Assessment Center" is a formal examination process used to establish a Civil Service list to select a Police Sergeant. It substitutes for the traditional written exam process used by the Civil Service. The cost is driven by the number of candidates who apply and the number of professional assessors needed to conduct the examinations. Estimates from two consulting firms were used to derive the \$20,000 request.

The Police Chief anticipates a retirement in the spring of 2012. Due to contractual language, the Town must begin the RFP process for selecting a consultant to perform this examination six months in advance.

### **October 2011 Storm Cleanup**

The early winter storm has put a strain on the budget for the Department of Public Works and the Department of Public Facilities. Since we are only just entering the unpredictable winter season, the proposal to add \$200,000 to the DPW budget to cover these extraordinary costs now is a prudent one so that we are better prepared for the coming months.

## ***Amendments to Water and Sewer Enterprise Fund Budgets***

The paragraphs immediately below describe the three categories of proposed amendments to the FY12 water and sewer enterprise budgets previously approved at the 2011 Annual Town Meeting.

1. *Housekeeping Changes.* As is customary, the MWRA water and sewer expense line items in the enterprise fund budgets approved at the 2011 Annual Town Meeting were based on preliminary assessments published early in the year by the MWRA. The rates set by the Board of Selectmen on October 24, 2011 were based on final assessments that the MWRA published in June. Town Meeting is now requested, as a housekeeping matter, to amend the original MWRA estimates to reflect the final assessments, as follows:

<i>FY12 MWRA Assessments</i>			
	<b>Preliminary</b>	<b>Final</b>	<b>Change</b>
<b>Water</b>	\$5,012,091	\$5,049,999	\$37,908
<b>Sewer</b>	\$6,866,826	\$6,802,875	(\$63,951)
<b>Combined</b>	\$11,878,917	\$11,852,874	(\$26,043)

2. *Revision of Debt Service Costs.* The FY12 water and sewer enterprise fund budgets presented at the 2011 Annual Town Meeting contained estimates of certain anticipated debt service costs. Town Meeting is now asked to amend the original budgets to reflect the actual debt service costs determined after the issuance of bonds in February and notes in June. The original sewer budget also inadvertently failed to include approximately \$170,000 in debt service cost for an interest-free MWRA loan for a project target-

ing the elimination of infiltration and inflow (I/I) into the sewer system.<sup>3</sup> The proposed adjustments to debt service, which were taken into account this fall in setting the FY12 water and sewer rates, are as follows:

<i>FY12 Debt Service Costs</i>			
	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Change</b>
<b>Water</b>	\$1,202,906	\$1,258,968	\$56,062
<b>Sewer</b>	\$683,223	\$879,713	\$196,490

3. *Appropriation of Additional Retained Earnings.* Continuing a practice that has now been followed for several years, a portion of the certified retained earnings in both the water and sewer enterprise funds – \$450,000 from the water fund and \$300,000 from the sewer fund – was appropriated at the 2011 Annual Town Meeting to provide “rate relief,” i.e., to lower the increase in the FY12 water and sewer rates that would otherwise be required to cover anticipated increases in operating and capital costs.

At this fall’s rate-setting, faced with an unexpectedly large proposed rate increase, the Board of Selectmen voted to mitigate that increase by applying an additional \$200,000 of retained earnings from the water enterprise fund, above and beyond the amounts already appropriated at the Annual Town Meeting, bringing the total retained earnings draw to \$650,000 from the water fund and \$300,000 from the sewer fund. This had the effect of lowering the necessary water rate increase from 7.3% to 3.9% and the combined water and sewer rate increase from 12.8% to 11.8%. Town Meeting is now asked to appropriate the additional retained earnings required to implement that decision.

Given a recent history of relatively modest water and sewer rate increases, the much larger increase this year received some publicity and may have come as a surprise to some. We provide below a brief explanation of why this year’s water and sewer rate increase was unexpectedly large.

As reflected in the table below, increases in water and sewer rates have been extremely modest in recent years – until this year averaging only about 1.5% per year, well below the annual increases in MWRA assessments and Town operating costs, which together have averaged about 4% per year.

<i>Combined Water/Sewer Cost and Rate Increases</i>						
	<b>FY07</b>	<b>FY08</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12</b>
<b>MWRA Cost</b>	7.0%	0.9%	6.9%	3.0%	3.9%	6.3%
<b>Town Cost</b>	10.3%	-6.7%	5.7%	2.9%	1.9%	4.7%
<b>Total Cost</b>	8.1%	-1.63%	6.5%	2.9%	3.3%	5.8%
<b>Rates</b>	6.6%	0.0%	2.9%	-3.8%	1.7%	11.8%

Several factors have combined to keep the rate increases low during this time period: (1) the gradual elimination of PILOT payments to the general fund (begun in FY07 and completed in FY10); (2) the gradual reduction of indirect costs paid to the general fund to more closely reflect the enterprise funds’ usage of Town services (begun in FY07 and to be completed in FY12); (3) the shift of capital expenditures from largely cash capital to largely borrowing, which has had the effect of temporarily reducing capital costs; (4) earlier reliance on a conservative set of usage assumptions resulting in the receipt of higher-than-projected revenue, boosting the funds’ retained earnings; and (5) the initiation of a practice beginning in

<sup>3</sup> Debt service attributable to the same MWRA loan, in the amount of approximately \$140,000, was also omitted from the FY11 budget and in FY11 rate-setting. This cost was effectively covered by the sewer enterprise fund’s retained earnings during FY11, even though not appropriated, and the retained earnings balance in the sewer fund as of the end of FY11 (see Table below) is net of that amount.

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FY07 of appropriating at the annual town meeting some of the resulting “excess” retained earnings<sup>4</sup> to lower those balances and provide rate relief, as shown in the table below.

<i>Retained Earnings: Appropriations for Rate Relief and Year-End Balances</i>						
	<b>FY07</b>	<b>FY08</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11<sup>5</sup></b>	<b>FY12</b>
<i>Water</i>						
<b>Rate Rel. App.</b>	\$500,000	\$362,570	\$463,046	\$525,000	\$450,000	\$450,000
<b>End Balance</b>	\$2,496,655	\$2,537,249	\$2,113,729	\$1,622,052	\$1,950,000	—
<i>Sewer</i>						
<b>Rate Rel. App</b>	\$0	\$0	\$0	\$625,000	\$400,000	\$300,000
<b>End Balance</b>	\$2,137,540	\$2,763,179	\$1,831,967	\$1,525,612	\$1,120,000	—
<i>Combined</i>						
<b>Rate Rel. App.</b>	\$500,000	\$362,570	\$463,046	\$1,150,000	\$850,000	\$750,000
<b>End Balance</b>	\$4,634,195	\$5,300,428	\$3,945,696	\$3,147,664	\$3,070,000	—

Since many of these rate-suppressing factors were temporary in nature, they could not keep rate increases low indefinitely. In fact, the 1.7% combined rate increase adopted for FY11 turned out to be too low due to a rate-setting error. When the FY11 rates were set in the fall of 2010, the usage assumptions that had been used to set rates for FY07 through FY10 were updated to reflect the average of actual usages over the previous six years. However, an inadvertent error in the interpretation of the metering data resulted in an overstatement of water and sewer usages at the higher rate tiers (Tiers 2 and 3) and an understatement of the usage projected at the lowest rate tier (Tier 1).<sup>6</sup> As a consequence, revenues for FY11 (except for irrigation water revenues) came in lower than projected.

As of the end of FY11, the sewer fund experienced an operating deficit that effectively was drawn from that fund’s retained earnings. The water fund would have experienced a similar deficit but irrigation water billings came in substantially over projection due to the hot and dry summer of 2010, which more than offset the loss.<sup>7</sup>

Because the FY11 rates would have been inadequate to cover the costs of either the water or the sewer fund in a year with average rainfall, using corrected usage projections, the rate increase for FY12 effectively had to be set high enough to make up for this shortfall and account for two years of cost increases. Although the projected MWRA and Town costs collectively increased by only 5.8% between FY11 and FY12, the rate increases necessary to break even (even after the rate subsidies of \$450,000 from water

<sup>4</sup> Although the Board of Selectmen has yet to adopt a policy for retained earnings in the water and sewer funds, the Town Manager has suggested that an appropriate target of retained earnings to maintain for emergency purposes would be about 15% of the annual budget, or approximately \$1,000,000 per fund.

<sup>5</sup> Retained earnings balances as of the end of FY11 are estimated. FY12 appropriations are before the \$200,000 supplemental water fund appropriation requested in this article.

<sup>6</sup> When bills are prepared for the owners of multi-unit dwellings, which are typically serviced by a single meter, it has been the Town’s practice to override the tier allocations automatically generated by the MUNIS accounting system and to re-calculate the bill as though each resident of the dwelling had a separate meter, thereby lowering the water and sewer charges that might be passed on to building tenants. When the historical usage data was extracted from the MUNIS system, it was not adjusted to account for this practice.

<sup>7</sup> The sewer enterprise fund had a reported loss for FY11 of \$409,791 (an \$809,791 operating deficit excluding the \$400,000 subsidy appropriated from retained earnings at the 2010 annual town meeting). The water enterprise fund had a reported surplus for FY11 of \$879,988 (a \$429,988 operating surplus excluding the \$450,000 subsidy appropriated from retained earnings at the 2010 annual town meeting). On a combined basis, the water and sewer enterprise funds had a nominal surplus of \$470,197 but incurred an operating deficit of \$379,803 after excluding the \$850,000 in rate subsidies from retained earnings.



retained earnings and \$300,000 from sewer retained earnings appropriated at the 2011 annual town meeting) were 7.3% for water and 15.8% for sewer, or a combined rate increase of 12.9%. With the application of the additional \$200,000 in water retained earnings voted by the Board of Selectmen on October 24, 2011, the final rate increases set for FY11 (and that have already been included in fall water bills) were 3.9% for water and 15.8% for sewer, or a combined rate increase of 11.8%.

**The Committee recommends approval of each request in this article (9-0).**

<b>Article 5: Establish and Appropriate to Specified Stabilization Funds</b>	<b>Funds Requested</b>	<b>Funding Source</b>	<b>Committee Recommendation</b>
	<b>\$417,305</b>	<b>(see below)</b>	<b>Approve (9-0)</b>

This Article is routinely included on the Warrant to give Town Meeting the opportunity to appropriate money into stabilization funds created for specified purposes. These appropriations are not expenditures, but rather transfers of funds that Town has been holding temporarily into the proper accounts.

The State statute authorizing towns to create and maintain a stabilization fund (G.L. c. 40, § 5B) was amended in 2003 to permit the creation of multiple, separate stabilization funds for specified purposes. Creating these funds, altering their specified purpose, and appropriating into or out of them, requires a two-thirds vote of Town Meeting. At the 2007 Annual Town Meeting, four Specified Stabilization Funds were established to replace certain pre-existing special revenue accounts.

The amounts and sources for the Specified Stabilization Funds relevant to this Article are summarized in the following table:

<b>Specified Stabilization Fund (SF)</b>	<b>Amount</b>	<b>Source</b>
Traffic Demand Management/Public Transportation SF	<b>\$10,500</b>	Cubist Pharmaceuticals
Traffic Mitigation SF	<b>\$28,500</b>	Cubist Pharmaceuticals
Avalon Bay School Enrollment Mitigation SF	<b>\$378,305</b>	Avalon Bay

*Transportation Demand Management/Public Transportation (TDM/PT) S.F.:* Contains payments negotiated with developers to support the operations of Lexpress. A \$10,500 payment from Cubist Pharmaceuticals, as described in Article 3 of the 2009 Fall Special Town Meeting, will be transferred to this fund.

*Traffic Mitigation (TM) S.F.:* Contains payments negotiated with developers to support traffic mitigation projects, such as improvements to signals and pedestrian access at intersections, including funds previously contained in the Avalon Bay TDM special revenue account. A \$28,500.01 payment from Cubist Pharmaceuticals, as described in Article 3 of the 2009 Fall Special Town Meeting, will be transferred to this fund.

*Avalon Bay School Enrollment Mitigation S.F.:* Contains payments received from Avalon Bay pursuant to an Education and Trust Fund Escrow Agreement dated May 31, 2006 and can be used by the Lexington Public Schools. The final \$378,305.59 payment from Avalon Bay will be transferred to this fund.

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

<b>Article 6: Appropriate to 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>

This Article is routinely included on the Warrant to give Town Meeting the opportunity to appropriate funds to the Stabilization Fund, which is the Town's "rainy day" fund. This is a large reserve fund that helps to ensure the stability and reliability of the Town finances. Transferring money into or out of the Stabilization Fund requires a two-thirds majority vote of Town Meeting.

The current balance of the Stabilization Fund is approximately \$8,420,000.

There is no proposal to appropriate to the Stabilization Fund at this Special Town Meeting, therefore we anticipate that this Article will be indefinitely postponed.

<b>Article 7: Appropriate for Authorized Capital Improvements</b>	<b>Funds Requested</b>	<b>Funding Source</b>	<b>Committee Recommendation</b>
	<div>\$65,000</div> <div>\$35,000</div> <div><b>\$100,000</b></div>	<div><b>GF</b></div> <div><b>CPA</b></div>	<b>Approve (9-0)</b>

This Article is routinely included to give Town Meeting the opportunity to make supplemental appropriations for capital projects that have been authorized previously by Town Meeting.

**Clarke Middle School sidewalk.**

The 2011 Annual Town Meeting appropriated \$125,000 of General Fund debt under Article 13(e) to fund a project that would improve the traffic pattern for school buses in the Clarke Middle School parking lot. The project had two components: (a) corrections to the vehicle travel lanes and parking lot, and (b) rerouting of 700 feet of sidewalk to enhance pedestrian safety. Bids for the full project came in higher than expected, so only the first part of the project proceeded. This left \$20,000 from the initial appropriation, which was insufficient for the sidewalk component. This Article requests a supplemental appropriation of \$65,000 for a total of \$85,000 to fund the sidewalk component of the project. This amount covers \$75,000 in costs plus a \$10,000 contingency.

**Cary Library archive storage room.**

The 2010 Annual Town Meeting appropriated \$100,000 under Article 8(h) to fund a Cary Library Preservation Project using CPA funds. This project would convert an existing storage room into a fireproof, climate-controlled vault for the storage of Town and Library archives. Bids for the project came in at \$130,000 – \$163,000. The Public Facilities Department is exploring ways to reduce the total cost, and they are also seeking an additional \$4,151 for archival shelving that was not in the original construction specifications. The Community Preservation Committee has recommended an additional \$35,000 of CPA funds to complete the project. Town Meeting approval is required to appropriate these funds and allow the project to move forward.

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