APPROPRIATION COMMITTEE

TOWN OF LEXINGTON

REPORT TO THE
2011 ANNUAL TOWN MEETING

Released March 23, 2011

Appropriation Committee Members—Fiscal Year 2011

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

Contents

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; TMSF = Traffic Mitigation Stabilization Fund
An entry of "IP" (Indefinitely Postpone) in the right-hand column merely signifies our expectation.

Art.	Title	Funds Requested	Funding Source	Committee Recommendation
4	Appropriate FY2012 Operating Budget	**$148,893,524**	***See motion***	**Approve (9-0)**
5	Appropriate FY2012 Enterprise Funds Budgets	$7,016,412 $7,701,968 $1,741,388 **$16,459,768**	**Water EF** **Wastewater EF** **Recreation EF**	**Approve (9-0)**
6	Appropriate for Senior Service Program	**$45,000**	**GF**	**Pending**
7	Continue and Approve Departmental Revolving Funds	***See Report***	**RF**	**Approve (9-0)**
8	Appropriate the FY2012 CPC Operating Budget and for CPA Projects	$4,274,982 + $216,885 **$4,491,867**	**CPA** **GF**	**Approve (9-0)** **[8(h) IP]**
9	Appropriate for Recreation Capital Projects	$50,000 + $165,000 **$215,000**	**Free Cash** **Recreation EF**	**Approve (9-0)**
10	Appropriate for Municipal Capital Projects and Equipment	**$4,202,602**	**GF Debt** **Water EF** **TMSF** **Tax Levy** **Free Cash**	**Approve (9-0)**
11	Appropriate for Sewer Improvements	**$1,300,000**	**Wastewater EF (debt)**	**Approve (9-0)**
12	Appropriate for School Capital Projects and Equipment	**$921,000**	**GF (debt)**	**Approve (9-0)**
13	Appropriate for Public Facilities Capital Projects	**$4,413,572**	**GF (debt)** **Free Cash** **CPA** **Tax Levy**	**Approve (9-0)**
14	Street Acceptance – Frances Road	**$200,000**	**GF**	**Approve (9-0)**
15	Appropriate for Community Center	**none**	**n/a**	**IP**
16	Accept MGL Chapter 32, Section 101 Supplemental Annual Allowance	**none**	**n/a**	**Approve (9-0)**
17	Reduce Community Preservation Act Surcharge	**none**	**n/a**	**Disapprove (1-8)**

Art.	Title	Funds Requested	Funding Source	Committee Recommendation
18	Appropriate to Post Employment Insurance Liability Fund	**$500,000**	**Free Cash**	**Approve (9-0)**
19	Rescind Prior Borrowing Authorizations	**none**	**n/a**	**Pending**
20	Establish and Appropriate to Specified Stabilization Funds	***See report***	***See report***	**Approve (9-0)**
21	Appropriate to Stabilization Fund	**none**	**n/a**	**IP**
22	Appropriate from Debt Service Stabilization Fund	**$124,057**	**DSSF**	**Approve (9-0)**
23	Appropriate for Prior Years' Unpaid Bills	**unknown**	**unknown**	**Pending**
24	Amend FY2011 Operating and Enterprise Budgets	**unknown**	**unknown**	**Pending**
25	Appropriate for Authorized Capital Improvements	**unknown**	**unknown**	**Pending**
26	Establish Qualifications for Tax Deferrals and Exemptions	**none**	**n/a**	**Approve (9-0)**
27	Amend General Bylaws – Private Ways	**none**	**n/a**	**Approve (9-0)**
30	Amend Bylaw – Town Meeting Procedure	**none**	**n/a**	**Approve (9-0)**
33	Accept State LAND Grant – Cotton Farm Purchase	**none**	**n/a**	**Approve (9-0)**
36	Analyze Employee Health Benefits	**none**	**n/a**	**Disapprove (0-9)**
37	Commercial Assessments	**none**	**n/a**	**Tie (4-4-1)**
38	Residential Assessments	**none**	**n/a**	**Disapprove (4-5)**

Preface

This report of the Appropriation Committee to the 2011 Annual Town Meeting discusses the state of the Town's finances as of March 2011 and highlights changes that have occurred since the conclusion of the 2010 Annual Town Meeting. The report provides a summary of the Committee's discussions and a formal recommendation for each warrant article that we deem to have substantial financial relevance.

A tabular summary of Committee recommendations appears immediately before this Preface. Throughout the report, Committee votes are presented uniformly by listing the number of members for, followed by the number of members against, and lastly (when applicable) the number of members abstaining.

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 (see Appendix B therein) and includes a glossary of financial terms (see Appendix D therein).
- *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.
- Appropriation Committee *Report to the 2010 Annual Town Meeting* and *Report to the 2010 Special Town Meeting*.
- *TMMA Warrant Information Report* (March 2011), published by the Town Meeting Members Association.
- Capital Expenditures Committee (CEC) *Report to the 2011 Annual Town Meeting* and *Report to the 2010 Special Town Meeting.*
- Community Preservation Committee *Report to the 2011 Annual Town Meeting.*

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 extends thanks and appreciation to Carl Valente (Town Manager), Rob Addelson (Assistant Town Manager for Finance), Micah Niemy (Budget Officer), Dr. Paul Ash (Superintendent of Schools), Mary Ellen Dunn (Assistant Superintendent for Finance and Operations), Pat Goddard (Director, Department of Public Facilities), Denise Casey (Human Resources Director), the Board of Selectmen, the School Committee, the Capital Expenditures Committee, and the Community Preservation Committee. 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.

Introduction

The Appropriation Committee is required to create a report with a review of the budget as adopted by the Board of Selectmen, including an assessment of the budget plan and a projection for future years' revenues and expenses. This report includes the Committee's 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 FY2011 Budget

During FY2011 the Town requested transfers from the Reserve Fund in response to several budget issues. Most notably, there was an urgent need to remediate poly-chlorinated biphenyl (PCB) contamination at the Estabrook Elementary School. The costs of this work, which included hiring environmental consultants, performing measurements and tests, and removing or otherwise controlling sources of contamination, put an unexpected stress on the Department of Public Facilities (DPF) and School budgets. A total of $400,000 ($150,000 on August 23, 2010 and $250,000 on September 22, 2010) was transferred from the Reserve Fund to the DPF budget. There is an unexpended balance of about $41,000 remaining from that transfer.

On February 9, 2011, $50,000 was transferred from the Reserve Fund to the Unemployment Insurance account, to cover anticipated expenditures up until the 2011 Annual Town Meeting. During the first six months of FY2011 the Town was required to pay over $189,000 in unemployment claims, leaving a balance of about $8,000 in this account. The increase in costs was mainly attributable to higher than expected claims from former school department employees.

On March 14, 2011, $25,000 was transferred from the Reserve Fund to the Human Services account to cover anticipated expenses for veterans assistance which exceed the budgeted amount of $25,000. This is a result of increasing demand by U.S. veterans living in Lexington for assistance with needs such as medical benefits, fuel, food, and housing. The State ultimately reimburses the Town for 75% of these costs. As of March 18, $34,000 had been spent or obligated for these benefits.

The FY2011 budget may be amended under Article 24, and it is possible that further changes to the Unemployment Insurance and the Human Services accounts will be proposed at that time. Due to the very high amount of snow this past winter, the FY2011 snow/ice budget will be amended under Article 24.

Total State Aid for FY2011 was $8,508,839, which was $508,188 (6%) below the estimate used in the FY2011 budget. Town staff anticipated this and included a set-aside in the FY2011 budget to cover the resulting revenue shortfall.

The Town's Free Cash certified as of June 1, 2010 was $7,125,000.

The FY2011 "new growth" figure ($3,426,550) was larger than the budget estimate due to on-going commercial construction in the Spring St-Hayden Ave. corridor. At the Special Town Meeting in November 2010, the resulting additional funds were appropriated into the Reserve Fund ($400,000), the DPF budget ($541,600), the School budget ($400,000) the Stabilization Fund ($710,000).

The FY2012 Budget

The Report of the Town Manager, which is the first section of the *Fiscal Year 2012 Recommended Budget & Financing Plan,* provides a succinct analysis of the FY2012 budget. We highlight a few points from this report below, but also recommend the full report to the reader.

Overall, the proposed budget has increased 4% over the previous year. Town staff have proposed a level-service budget without the need for an operating override request. The revenue allocation model used as a starting point for the level-service budget began by funding Shared Expenses, then allocated 71.6% of available funds to the Schools, and the remaining 28.4% to municipal departments.

The School budget faced particular challenges due to increased expenses for special education, reduced revenue to offset transportation costs, a sharp increase in student enrollment, and the discontinuation of federal grants and subsidies. During the Budget Summit an additional $250,000 of previously unallocated funds was added to the School budget to replace the anticipated loss of State aid (SPED Circuit Breaker). There is a possibility that the State will restore those aid cuts, which might necessitate an adjustment in next year's revenue allocation model.

The appropriation request for Schools represents an increase of 4.4% (after adjustments are made for certain non-tax revenue sources; see the discussion under Article 4). The Town's assessment for Minuteman Regional School increased by 10.67% due to rising enrollment. The request for Shared Expenses represents a smaller than average increase of 1.3% (see the discussion under Article 4). In aggregate, the requests for all municipal expenses increased by 3.17%.

When preparing the budget, the Town manager must make an estimate of the year's State aid well before the amount is finalized by the State government. This year's recommended budget assumes that FY2012 State aid will be level-funded, i.e., the same as the amount of State aid actually received in FY2011. Based on the State's budget situation, Town staff expects that FY2012 State aid will likely decline this year, though it is difficult to estimate the actual decrease. The motion under Article 4 will likely include a provision to set aside about $697,000 from Free Cash as a hedge against potential aid cuts. This provision would allow some or all of these funds to be applied against a reduction in State aid without requiring a Special Town Meeting to appropriate them.

The Town Manager has estimated new growth at $1,800,000 this year.

The Board of Selectmen commissioned the *2010 Pavement Management Study*, which provided a quantitative assessment for every road that the Town maintains. This study recommends an aggressive road maintenance schedule to avoid much more expensive road construction in the future. Fully implementing the recommended schedule would increase the DPW budget by $2,000,000 annually. This year, the BoS has proposed an additional $100,000 towards road maintenance. The Committee will consider the recommendations from the *Pavement Management Study* in a broader discussion about the Town's maintenance priorities and forecasted capital needs.

FY2013 and Beyond

The rate of increase in the cost of health benefits continues to surpass the local Consumer Price Index, and this represents a threat to the long-term stability of the Town budget. The cost of health benefits in FY2012 is projected to rise by 9% after several years when CPI increases were closer to 1%.

This year's capital budget contains two proposals that, if passed, would each require debt exclusion overrides under Proposition 2½ next year. The first proposal requests $280,000 for additional design services following a vote by the School committee to augment the scope of the proposed renovation projects for Bridge Elementary School and Bowman Elementary School. The expanded scope would allow for additional classrooms and permit long-term energy savings. The complete project cost for the Bridge and Bowman renovations is now estimated to be approximately $19,400,000.

The second proposal requests $1,050,000 for a feasibility study that would be undertaken, in cooperation with the Massachusetts School Building Authority (MSBA), as the first phase of a plan to replace the Estabrook School. This study would establish the need for a new building and provide design documents with a complete cost projection for the construction. It would also determine the portion of the total cost (31-40%) to be covered by the MSBA, including a partial reimbursement for the cost of the feasibility study itself. The total project costs for replacement of the Estabrook School are expected to be in the range of $30,000,000.

Warrant Article Analysis and Recommendations

Article 4: Appropriate FY2011 Operating Budget	Funds Requested	Funding Source	Committee Recommendation
	$148,893,524	***See below***	**Approve (9-0)**

Description	**Funds Requested**	**Funding Source**
Program 1100: Lexington Public Schools	**$73,144,885**	***See motion***

Overview

The School Committee has voted to recommend a FY2012 appropriation of $73,144,886. 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. To compare the FY2012 request with the appropriations from recent years one needs to understand the appropriation request in the context of the larger school budget that also includes funds from state, federal, and other sources that do not have to be appropriated. Points of note in FY2012 budget include reductions in state and federal grants and the need to replace ARRA (federal stimulus) funds that were received for two years only.

Two years ago, the federal government passed the American Reinvestment and Recovery Act (ARRA) in part to protect school districts from massive budget cuts for two years. Lexington was allocated $818,090 for FY2010 and $818,090 for FY2011. The Lexington Public Schools chose to use $1,060,370 ($818,090 plus $242,280 rolled over from FY2010) of the ARRA funds in FY2011 for special education expenses and professional development costs. The ARRA federal grant program does not continue in FY2012; therefore the FY2012 school budget needs to use other sources of funding to cover the essential items that were supported by ARRA funds in FY2011. This gap will be partially offset in FY2012 by using $548,918 received by the Schools in FY2011 under a new, one-time federal grant program commonly known as the Federal Education Jobs (Ed Jobs) program. The gap will be closed a bit more by using $37,654 received by the Schools in FY2011 as a State Fiscal Stabilization Fund grant (also derived from federal ARRA funding). Neither grant was used in FY2011; the funds are available to be used in FY2012 (see pages 23 and 76 of http://lps.lexingtonma.org/Current/FY12Budget/FY12Grants).

We have been informed that when a grant is used to fund salaries and wages, State regulations require the Town to pay 9% of the amount to the State to partially cover future pension costs of the employees funded under the grant. The School Administration has stated that the Town is free under the terms of the grant to use the funds to cover either salaries or benefits of school employees, so the Ed Jobs grant funds will be used to defray $548,918 in benefits costs under line item 2130 Health Insurance. Therefore line 2130 has been reduced by $548,918 and line 1100 increased by the same amount. This allows the Town to make full use of the grant and not have to make the 9% payment to the State.

The FY2012 school budget appropriation includes $250,000 to be transferred from the Avalon Bay Student Mitigation Fund. This Fund holds payments made pursuant to an agreement reached when the Avalon Bay at Lexington Hills residential development was approved. Under that agreement, payments are to be made annually (up to a maximum cumulative amount) to the Town when the number of students attending the Lexington Schools from that development exceeds a specific guideline. The final payment into the Avalon Bay Student Mitigation Fund will be transferred this spring from an escrow established by the developers and will bring the total of the payments to $750,000.

In FY2012 the School System will use $138,000 of credit from the LABBB[1] program in partial payment of Lexington's LABBB bills. Several years ago, the LABBB program had an uncommitted balance that was allocated to the participating towns; Lexington's allocation was approximately $580,000.

School operations and expenses are also supported by other federal, state, and local grants as well as fees. The appropriation request follows from a revenue allocation model used by the Town Manager in making the initial recommendation as to how spending should be divided among the schools, the municipal departments, shared expenses, and capital expenses. The Town Manager's initial recommendation included approximately $947,000 in revenue that was not allocated to any of these categories but was to be held in reserve in case of reductions in state aid or current year budget overruns. In order to help reach agreement on a budget request and in light of the reductions in non-Town sources of funds, $250,000 of unallocated revenue was shifted to the school budget request.

The bottom line request is $73,144,885. After adjusting for the education jobs grant and the Avalon Bay Student Mitigation funds, this represents an increase of $3,102,441 or 4.5% above the FY 2011 restated appropriation. [2] The School Administration also adjusts the total for small transfers to the health insurance line $(53,501) and from the unemployment insurance line $82,500 that were made during the budgeting process in light of staffing changes and experience with unemployment claims during the current fiscal year. With this additional net adjustment of $28,999 the increase is $3,073,442 or 4.4%.

Special Education Costs

Special education out-of-district expenses continue to be a key driver of the Lexington Public Schools budget. The School system has built significant in-house SPED capabilities but many students still require specialized out-of-district services. The district currently serves 101 such special needs students. While this is only a slight increase over the prior year, there was an increase in the number of students in high-need categories. In addition, private program tuition rates have increased and contribute to an overall increase in SPED expenses. The tuition obligation is projected to increase by approximately 7.4% in FY2012, but with elimination of ARRA funds used last year to offset this expense, the increase in tuition costs net of federal and state offsets is projected to be $664,686 or 11.7%. The appropriation request includes a total of $6,350,303 for out-of-district tuition expenses.

Though the regionalization of special education transportation saved at least $400,000 over the last three years of participation, those savings have now leveled off. The regional group is currently out to bid for a new five year contract. The regional group of public schools (Arlington, Belmont, Burlington, Lexington, and Watertown) is being joined this year by Waltham Public Schools.

Finally, several new positions are needed and existing positions need to be reclassified to serve the special needs population. There is a need for Student Support Instructors for the Fiske Intensive Learning Program (ILP) and the reclassification of positions in the Hastings Intensive Learning Program to address increased behavioral needs of students. Finally, a Student Services Data Specialist is being requested to manage required student and services data.

An overview of the Schools FY2012 budget and other information may be found in the document "Fiscal Year 2012 School Committee Annual Town Meeting Budget Request As voted: February 15, 2011". These may be found online at http://lps.lexingtonma.org/Current/FY12Budget/FY12BudgetOverview.pdf and at http://lps.lexingtonma.org/Current/FY12TOC.htm.

[1] Lexington, Arlington, Burlington, Bedford, and Belmont comprise the LABBB collaborative. LABBB provides educational programming and support services for over 350 special needs students from over 60 districts.

[2] The other special revenue funds described above are not subject to Town Meeting appropriation and are not relevant to the FY2011/FY2012 appropriation comparison.

Description	Funds Requested	Funding Source
Program 1200: Regional Schools	**$1,702,930**	**GF**

The Minuteman Regional High School (MRHS) Committee has accepted a budget for FY2012 of $16,435,472, a $176,794 or 1.1% budget increase over the current year. This budget is designed to continue last year's efforts to reduce high per-pupil expenditures and to raise unnecessarily low student/teacher ratios. It is $671,989 below a proposed level-service budget. In addition the school has seen a reversal of declining in-district enrollment, is anticipating receiving less state aid for FY2012, and is striving to stabilize 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 56% of the budget, decreased $414,889 (-4.3%). The proposed budget includes a staff reduction of 16.5 FTE's for a savings of $671,989. At this time specific staff reductions have not been identified, but will be spread among administration, support, and teaching staff as well as program eliminations. The school continues its commitment to infrastructure renewal with an annual capital budget of $400,000.

As of October 1, 2010, 682 full-time students were enrolled. Roughly 55% of these students are from in-district towns and 45% are from out-of-district towns. The School Committee continues to vote to not accept School Choice students at MRHS. Enrollment increased by 61 students (9.7%). In-district enrollment increased by 5 students (1.2%) and out-of-district enrollment increased by 56 students (22%). Special education students comprise 44% of the FTE enrollment.

The FY2011 non-resident tuition rate, which is capped by the State was set at $16,800 per student, and is expected to rise to $18,000 for FY2012. In addition non-resident SPED tuition assessments will continue to be $5,000 per student (in-district SPED costs are $4,500 per student) and a $3,100 average transportation cost is assumed by the sending community. FY2012 is also the first year that post-graduate students will be paying a tuition fee. This will be charged to all post-graduate students including in-district students, and is expected to increase total revenue by $75,000.

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 $2,066,921 of Chapter 70 money and $495,000 in transportation aid. These estimates are based on the Governor's H-1 budget, which indicates a decrease of $40,167 (-5%) in Chapter 70 aid (in the face of increased student enrollment) and level funding in transportation aid compared with FY2011. All of these figures, with the exception of the bottom line MRHS total, are preliminary until final approval of the State's FY2012 budget.

The Application of Out-of-District Tuition Revenue

	FY2008	FY2009	FY2000	FY2011	FY2012
Current Year Tuition	375,392	382,181	888,363	1,541,984	1,300,000
Prior Year Tuition	3,112,724	3,473,927	3,457,303	2,888,748	3,035,000

Last year's report included a criticism of the use of prior year and current year tuition money. 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. The application of anticipated current tuition then began a potentially dangerous increase (see table above) that trended towards a point where all anticipated tuition revenue would be applied. We are pleased to report that the unanticipated 22% increase in out-of-district enrollment created a $146,000 surplus in tuition collections.

This surplus, combined with higher than anticipated FY2011 State Aid, has temporarily reversed the trend of the escalating use of current year tuitions.

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

	FTE BASIS ENROLLMENT *		AVE PER PUPIL CHG		ASSESSMENT	
PROGRAM	**FY11**	**FY12**	**FY11**	**FY12**	**FY11**	**FY12**
Grades 9-12:						
Regular Day Students	62.5	62.5	$5,808	$5,668	$363,025	$354,248
Special Education Assessment	21	25	$4,500	$4,500	$94,500	$112,500
State Required Minimums (SRM) for Lexington	69	78	$13,847	$13,801	$955,450	$1,076,493
Totals, grades 9-12 (inc. SPED)	62.5	62.5	$22,608	$24,692	$1,412,975	$1,543,241
Post Graduate Programs:	11	21	$5,773	$4,500	$63,500	$94,500
TOTAL OPERATING	73.5	**83.5**	$20,088	$19,614	$1,476,475	$1,637,741
Special Assessments (based on enrolled 9-12)						
Capital Assessment			$997	$991	$62,336	$61,930
Feasibility Study Interest				$52		$3,259
TOTAL ASSESSMENT			$20,936	**$20,394**	$1,538,811	**$1,702,930**
percentage increase over prior year			-7.73%	-2.59%	-10.18%	10.67%

* - prior year's enrollment as of October 1

A breakdown of the full assessment is given above. The preliminary FY2012 assessment for Lexington is $164,119 (10.67%) more than the FY2011 actual assessment. The Regular Day Student, Capital and Feasibility Study Assessments are based on Lexington's FY2011 Base Enrollment (as of October 1, 2010) of 62.5 full-time regular students in grades 9-12. This is the same enrollment as last year. However due to the increase in overall MRHS in-district enrollment our Town's share of in-district enrollment has dropped slightly. This has decreased our total full-time student operating-share assessment slightly to $354,248, a per-pupil decrease of 2.4%. Unfortunately Lexington's total SRM payment increased. This payment is based on a different census number which increased by 9 students (13%). In addition the number of students enrolled in post-graduate programs increased by 90%, raising that charge by $31,000.

Description	**Funds Requested**	**Funding Source**
Program 2000: Shared Expenses	**$45,724,502**	***See Motion***

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-20 in the Brown Book for more information.

Employee Benefits (Line 2100) includes the costs of pensions for retired employees; an amount for future pension costs of 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.

Focus on Health Benefits: The largest single component of employee benefits expenses is health insurance for current and retired employees (Line 2130). The FY2012 budget for line 2130 health insurance is $23,247,896, an increase of $130,664 (0.57%) over the FY2011 restated budget. This modest increase understates the true increase in this expense because it is a result of the application of one-time funding from the Education Jobs (EdJobs) federal stimulus grant provided to school departments and a surplus in the FY2011 budget. When these two items are accounted for as explained below, the true increase in this expense is $1,929,581 (8.82%).

The Education Jobs grant funding can be used in FY2012 for compensation and benefits for teachers and other employees who provide school-level educational and related services. Lexington is applying the entire balance of this grant to fund health insurance expenses for the covered school department employees. This reduces the general fund expense by $548,918. Without this offset, the actual budget for line 2130 health insurance is $23,796,814.

The $1,250,000 surplus in the FY2011 line 2130 budget is attributable to three factors. More than half of the surplus results from a reduction in the final FY2011 rates that were established after the 2010 Annual Town Meeting. The remainder is due to fewer employees electing to take Town insurance benefits during open enrollment and a double counting of open positions as was disclosed during the 2010 Annual Town Meeting. Adjusting for this surplus yields a FY2011 baseline of $21,867,233 for line 2130 expenses. Thus, note (4) in table 2 on page IV-8 of the Brown Book shows the true increase in the health insurance budget as $1,929,581 (8.82%).

	FY2011 Restated	**FY2012 Projected**	**%Increase 2011 to 2012**
Line 2130 - Health Insurance	$23,117,233	$23,247,896	0.57%
Adjustment for EdJobs		$548,918	
Correction for surplus	$(1,250,000)		
Total	$21,867,233	$23,796,814	8.82%

Projected Enrollment: As presented in Table 1 on page IV-7 of the Brown Book, actual November enrollments have held fairly steady over the past 5 years. From a low of 2027 in FY2007 to a high of 2117 in FY2009, this represents an increase of 90 (4.44%) in the actual enrollment counts. For the last three years, FY2009-FY2011 the enrollment rate has remained essentially flat.

Additions to enrollments can occur, as shown in Table 1, when open positions are filled, during the open-enrollment period after the end of Town Meeting, or as a result of a qualifying event (e.g., addition of dependent, change in marital status, etc.) during the year. The FY2012 budget can accommodate an enrollment reaching 2190, an increase of 78 subscribers (3.69%). This increase allows for the changes in staff and hence enrollments upon filling 24 currently open positions (1.14%) and the elimination of one position (-0.05%), as well as a buffer of 55 potential new subscribers (2.60%). For FY2011, the highest enrollment level through March 2010 has been 2132. This is below the budgeted level of 2197 and suggests that this buffer is larger than needed. Economic conditions remain mixed, however, with a reasonable probability of employees electing to take the Town's coverage or opting to switch from individual to family coverage as a spouse or dependent loses their coverage. The size of the buffer (2.60%) is consistent with the observed fluctuation in monthly enrollment levels during the past year (2.45%) and we continue to believe it is prudent.

Consequences of New Coalition Bargaining Agreement: Under state law, the Town's health insurance benefits program is subject to bargaining between the Town and the Employee Health Insurance Coalition. Changes to the benefits plans offered to employees must be approved by a 70% weighted vote of the Coalition. In June of 2010 the Town and its employees reached a coalition bargaining agreement governing healthcare benefits for FY2011 and FY2012. In addition to plan design changes that should lead to decreased utilization which reduces the overall health care costs, the agreement increases the employee insurance contribution rate to 20% and reduces the Town's contribution rate to 80%. It is too early to tell if the change in contribution rate will lead to a change in enrollment rates. For FY2011 (when the contribution rate changed by the first 2.5% of the total 5% realized in FY2012) over 90% of eligible municipal employees remain enrolled in the Town's health benefits. Data from the school department is incomplete so we cannot begin an analysis of the effects of the new agreement on enrollment rates.

General Comments on Health Insurance: Rapidly increasing health care costs continue to be an area of concern for the Town's budget. It is important to note that the "true increase" in the line 2130 budget amount discussed above does not directly characterize changes in underlying costs of health services. The change in plan design adopted through coalition bargaining in 2010 coupled with a relatively healthier year for our employees have allowed the Town to moderate projections of cost increases. The relatively modest increase in these expenses for FY2012 cannot be repeated without additional changes to plan design and/or changes to the Town's contribution percentage. We encourage the Town and its employees to continue to consider total compensation when negotiating coalition bargaining and collective bargaining agreements. We also suggest exploring new plan design alternatives for future contracts that will further reduce underlying costs while providing necessary care.

As this report goes to press, efforts continue by the Governor and the State Legislature to provide relief to municipalities by allowing them to make plan design changes unilaterally. New legislation is being considered that would simplify the process for municipalities to join the Commonwealth's Group Insurance Commission (GIC) plans. Greater flexibility in plan design should make it easier to control the healthcare expense growth rate, but this is not without its own challenges. If Lexington takes advantage of the ability to make unilateral changes (or is compelled to do so – as in the original plan from Governor Patrick) we would trigger a clause in the 2010 coalition bargaining agreement that reverts the employee/town premium split to 15%/85% while retaining the salary increases included in that agreement.

Further we are concerned that underlying increases in health care services costs are still not adequately controlled by the bargaining power of a plan like the GIC. While the size of the GIC population may provide greater negotiating power, it does not change the underlying cost structure of the health care system. Fundamental changes in healthcare provision, which are beyond the Town's control, are needed to truly control increases in cost.

Line 2100 in aggregate: The total amount budgeted for Line 2130 is $25,267,080. As previously mentioned, employee/retiree health insurance is $23,247,896 and dental insurance is $781,617. Medicare tax, which the Town pays for all Town and School Department employees hired after 1986, is $1,217,567, a 10.9% increase over last year. The remaining $20,000 is for life insurance.

The FY2012 budget includes a figure of $310,000 for line 2140, Unemployment Benefits, to fund the Town's statutory liability for unemployment compensation payments for employees who may be laid off. This is a 56.09% increase over FY2011 reflecting recent experience with the extension of unemployment benefits by the federal government

The Workers Compensation recommended appropriation in Line 2150, $542,658, is a 12.98% increase over FY2011 and continues the Towns response to actual experience and efforts to build a reserve balance in this continuing balance account.

The second largest line in Shared Expenses is line 2110, Contributory Retirement, $4,083,286. This represents a 9.81% increase over the amount appropriated in FY2011. 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 pension payments to retirees in FY2012 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 2040. 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 2020. "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 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 2020. This year's appropriation is intended to continue that process.

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 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 .91% from FY2011. This reflects an overall increase of 4.68% in compensation and a decrease of 4.85% in expenses.

Personal Services (salaries & wages and overtime combined) is expected to increase by approximately $187,000. The department is currently in negotiation and is reviewing the potential to add 3 positions and to reduce the use of outside contracted services. This change, if adopted, would be cost neutral but would provide efficiencies in terms of managing the overall group of custodial and licensed staff. Absent this headcount change, personal services is anticipated to increase by 2.98% reflecting pay increases (2.85%) and an increased amount of overtime (4.4%) relating to afterhours use of the facilities which is billed to the organization renting the facility.

Additionally, a Clerk of the Works position has been included as a contract position in the headcount for FY2012 and is expected to be filled during FY2012 if the Bridge/Bowman school renovation project is approved. This position would be funded from the capital budget.

Expenses are expected to decrease by approximately $275,000 on an overall basis. A decrease of $341,600 is attributable to a reduction in PCB mitigation expenses at Estabrook School ($541,600 of expenses in contractual services were charged to the DPF in FY2011, and an additional $400,000 of expenses were funded through the Appropriation Committee Reserve Fund). Costs related to PCB mitigation in FY2012 are anticipated to be $200,000 for ongoing monitoring, additional energy use, and the anticipated move of the Estabrook School kindergarten classes in the summer of 2011.

Contractual services have also been reduced consistent with the addition of three positions as described in the Personal Services paragraph above. The DPF budget is voted as one line so that the department has the flexibility to manage services effectively.

Overall, the utilities budget is projected to increase by approximately 3% or $93,000. In general, utility costs are projected based on FY2010 usage and contracted rates for FY2012. To the extent that a specific project has been undertaken the estimated impact has also been factored into the estimated usage. Please note that electricity usage increased towards the end of FY2010 and continued into FY2011 which is most likely attributable to a warm spring and summer. The department is continuing to investigate and monitor the usage going forward. The budgeted amounts for electricity in FY2012 have increased approximately $85,000 over the FY2011 amount because of a slight increase in the distribution rate as well as increased usage. Oil usage has decreased but the estimated cost is anticipated to increase by approximately $24,000 due to rising prices. Natural gas is used in more buildings, yet the cost is expected to decrease by approximately $19,000 over FY2011. Savings of $13,000 are projected in telephone costs and gasoline is forecast to increase by $11,000. The remaining increase is related to increased sewer charges of $6,000.

One of the stated goals of the department is to utilize work orders and a preventive maintenance program to improve equipment reliability. The amount of maintenance performed by the department on a planned, rather than emergency basis, has increased 25% over a two year period from FY2008 to FY2010 (an increase from 2,740 work orders to 3,419).

Additionally, the department supports the town-wide goal of energy efficiency resulting in a town-wide reduction in facility energy consumption. See Table 7 in the report from the Town Manager in the Brown Book for a comparison of energy costs from FY2009 through the FY2012 recommended budget. Conversion of heating systems from oil/electricity to natural gas at schools (Clarke and Estabrook) and Central Administration, and to efficiency measures put in place at the High School have contributed to the decrease.

Contracts for electricity (through December 2015 – extended prior to the end of the current contract as rates were favorable), natural gas (through September 2012) and oil (annual through a multi town consortium) are in place.

Description	**Funds Requested**	**Funding Source**
Program 4000: Public Safety	**$11,089,436**	**GF**

This section of the budget document deals with the two public safety agencies that serve the Town of Lexington, the Police Department, line 4100 and the Fire Department, line 4200. These two departments provide 24-hour coverage, 365 days a year, for the residents of Lexington in all aspects of public safety. The joint Dispatch division directed over 14,700 service calls in FY2011, of which approximately 11,000 were 911 calls. In total, the Dispatch division logged over 53,000 calls or over 145 per day.

These two departments operate out of three of the Town's buildings, located at 1575 Massachusetts Avenue (Police Station), 45 Bedford Street (Fire Department Headquarters), and 1006 Massachusetts Avenue (East Lexington Fire Station).

The FY2012 line 4100 (Law Enforcement) increase is $202,009 which is a 3.61% increase over the FY2011 restated budget. This increase is mainly driven by contractual compensation increases, though it is important to note that not all of the bargaining agreements have been completed for FY2012, thus there is neither a compensation increase in the budget for the Lieutenants & Captains unit nor for the Crossing Guards unit.

Line 4200 (Fire & Rescue) increases $127,416 which is a 2.47% increase over the FY2011 restated budget. Most of this budget increase comes from a request to create a new position to provide additional EMS oversight. Line 4210 includes $50,000 to conduct an organizational review of Fire/EMS services and $45,433 for a new position that is expected to be specified by this review and implemented in the second half of the year. There are also outstanding bargaining agreements for the Fire Department, thus there are no salary adjustments budgeted for the agreement with IAFF local 1481 (no agreement has been in place for FY2010 or FY2011 either).

The break-out of these increases is as follows; Police (line 4100) increases compensation by $153,452 and expenses by $48,557. Fire (line 4200) increases compensation by $92,874 and expenses by $34,452.

The combined budgets for public safety are $11,089,436. The increase to their combined budgets equals $329,425 or 3.06% over the restated FY2011 budget.

Article 5: Appropriate FY2011 Enterprise Funds Budgets	Funds Requested	Funding Source	Committee Recommendation
	$7,240,820 + $8,155,868 + $1,741,388 **$17,138,076**	**Water EF** **Wastewater EF** **Recreation EF**	**Approve (9-0)**

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

Enterprise Fund	FY2010 Actual	FY2011 Appropriated	FY2012 Requested
1. Water			
Personal Services	$626,926	$645,488	$641,423
Expenses	$275,100	$385,620	$384,400
Debt Service	$1,074,551	$1,193,333	$1,202,906
MWRA Assessment	$4,482,551	$4,745,093	$5,012,091
Total Requested in Article 5	**$6,459,128**	**$6,969,534**	**$7,240,820**
Indirect Expenses	$782,176	$743,400	$704,624
Total Water Enterprise Budget	**$7,241,304**	**$7,712,934**	**$7,945,444**
2. Wastewater			
Personal Services	$253,315	$276,152	$275,369
Expenses	$321,827	$330,600	$330,450
Debt Service	$575,357	$651,446	$683,223
MWRA Assessment	$6,245,946	$6,404,432	$6,866,826
Total Requested in Article 5	**$7.396.445**	**$7,662,630**	**$8,155,868**
Indirect Expenses	$691,763	$668,690	$646,217
Total Wastewater Enterprise Budget	**$8.088.208**	**$8,331,320**	**$8,802,085**
3. Recreation			
Personal Services	$587,623	$632,922	$643,143
Expenses	$925,751	$950,896	$966,745
Debt Service	$138,100	$137,200	$131,500
Total Requested in Article 5	**$1,651,474**	**$1,721,018**	**$1,741,388**
Indirect Expenses	$155,848	$203,583	$213,600
Total Recreation Enterprise Fund	**$1,807,322**	**$1,924,601**	**$1,954,988**

Note that this table differs from that contained in the warrant in several respects: the MWRA assessments for water and wastewater reflect the MWRA's preliminary assessments issued in February rather than level-funded placeholders assumed in the warrant; the figure for debt service has been adjusted downward; and indirect expenses that will be charged to the enterprise funds, although appropriated separately under Article 4, have been included for completeness.

Overview

For an overview of the legal framework and accounting concepts that apply to the operation of an enterprise fund, please refer to Appendix B: Enterprise Funds. The following discussion will focus on the anticipated expenses and revenues of the enterprise funds for FY2012 and issues they raise.

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 will be adjusted from the "placeholder" figures in the warrant to reflect the MWRA's preliminary estimates of the assessments for Lexington for FY2012 for water and sewer issued in February 2011, as shown in the following table:

MWRA Assessments

Fund	FY2011 Actual	Warrant Placeholder	% Change	FY2011 Prelim. Assmt.	% Change
Water	$4,745,093	$4,745,093	0.0%	$5,012,091	5.6%
Sewer	$6,405,551	$6,405,551	0.0%	$6,866,826	7.2%
Combined	$11,150,406	$11,150,406	0.0%	$11,878,917	6.5%

Final MWRA assessments, which are published in June, are typically lower than the preliminary assessments (although last year they were essentially unchanged), and if there is a reduction the costs that will be used during the rate-setting process for FY2011 in the fall will be further adjusted accordingly. Because other expenses of the water and sewer enterprise funds are not increasing commensurately, but in many cases are falling a bit, the MWRA cost increases will be the main driver of any rate increases next fall, and the combined rate increases will likely be somewhat less than the combined 6.5% increase in MWRA assessments.

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. All of these direct costs are down slightly for FY2012 (see Brown Book, pp. V-25, V-29) with the exception of debt service costs, which are discussed below.

As this Committee has noted in past reports, debt service costs have 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 Brown Book, p. XI-3.) While the increased reliance on debt financing helps to spread the costs of projects over their useful life, the effect of the transition was 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 usage of the new building). This year, some of the increase in debt service costs has been mitigated by the application of $300,000 of Sewer Fund retained earnings and $25,000 in Water Fund retained earnings to water and sewer improvement projects (see Article 11 and 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 2006, following up on a recommendation made in the final report of the Water and Sewer Rate Study Committee, 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 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 FY2012 contemplates modest reductions in the levels of indirect expenses charged to the Water and Wastewater Funds for a fifth year, as set forth on pages V-22 and V-26 of the Brown Book.

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

As discussed in the appendix, 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,[3] and indeed more recently to draw some of the funds down for rate relief or other purposes, as shown in the table below.

Water/Sewer Enterprise Fund Reserves

	6/30/06	6/30/07	6/30/08	6/30/09	6/30/10	Proposed Draw for FY2012
Water	$2,090,334	$2,496,655	$2,537,249	$2,113,729	$1,622,052	($475,000)
Sewer	$ 447,441	$2,137,540	$2,763,179	$1,831,967	$1,525,612	($600,000)
Total	$2,537,775	$4,634,195	$5,300,428	$3,945,696	$3,147,664	$(750,000)

In recognition of the difficult economic climate and its impact on ratepayers, the budget for FY2010 applied $500,000 of water retained earnings and $600,000 of sewer retained earnings toward the mitigation of rates. The budget for FY2011 included 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. This year, it is proposed to appropriate $450,000 of water retained earnings and $300,000 of sewer retained earnings to mitigate rates, which will still leave a balance in each fund of approximately $1,000,000.[4] Dependence on such funding is being phased out gradually, however, 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 helps 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 rehabilitation and maintenance of the sanitary sewer system under Article 11 includes $300,000 to be funded from retained earnings, and that the proposed appropriation for hydrant replacements under Article 10 again includes $25,000 in water retained earnings.

[3] 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 maintaining reserves of approximately $1,000,000 in each of the fund.

[4] It should be noted that, as a result of heavier than normal use of irrigation water during last year's dry summer, which is billed at the highest rate, the water fund has been running a substantial surplus in FY2011, estimated to be approximately $1,500,000. Therefore, the retained earnings balance in the water fund as of June 30, 2011, will likely be substantially higher than the approximately $1,000,000 that this table would suggest. Because surpluses of this nature are non-recurring, we understand that the Town Manager may propose appropriating a substantial amount of the surplus toward capital projects in FY2013.

Recreation Fund

This budget represents an increase of $30,386 (1.58%) from last year. Wages and salaries have increased $10,220 (1.61%) to a total of $643,143 for FY2012 for five full-time staff and 175 plus or minus seasonal staff. Although the cost of expenses increased from $950,896 to $966,745 (1.67%), debt service decreased from 137,200 to 131,500 (4.15%).

Approximately 53% of the revenue for the recreation enterprise fund operating budget, ($1,133,490 in FY2010) 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 main source of other revenue, ($714,431 in FY2010) is from golf course fees, and is budgeted at $816,800 for FY2012 based upon the increasing usage. The golf course management contract began January 1, 2009 with a base fee of $355,000 as well as additional payment for golf course management of 5% of collected course fees from the golf season. The base fee increased by $5,000 last year and to $368,000 in 2011. There are also options to extend the contract two additional years at $374,000 per year. In FY2012, indirect, shared and capital charges against the recreation enterprise funds will total $213,600.

Article 6: Appropriate for Senior Service Program	**Funds Requested**	**Funding Source**	**Committee Recommendation**
	$45,000	**GF**	**Pending**

Since 2006, the Town has operated its own Senior Service Program, under which low-to-moderate-income seniors may perform volunteer work for the Town in exchange for a reduction in their property tax. The Town adopted this program, in substitution for a similar program previously operated under the auspices of G.L. c. 59, § 5K, to allow it more flexibility in setting the age criteria for participation, the wage rate, and the total amount of credit allowed.

The maximum amount of the tax reduction that may now be earned, under guidelines that have been established by the Selectmen, is $935 (110 hours at $8.50 per hour) for an individual and $1,190 (140 hours at $8.50 per hour) for a couple. Participants may receive property tax reductions under this program in addition to any other exemption for which they qualify, such as the $1,000 Clause 41C exemption, and may also defer the balance of their taxes under Clause 41A if they are eligible to do so.[5]

The Senior Service Program is funded by direct appropriation from the tax levy rather than through the Town's overlay account. The program operates as a continuing balance account, and unexpended funds carry over from year to year. When first established in 2006, the program was funded at $25,000, an amount slightly higher than the average annual amount that had been expended from the overlay account under the pre-existing state program during the 2004-2006 fiscal years. In anticipation of higher usage, the funding amount was subsequently increased for FY2007 (at a fall special town meeting) to $36,000, for FY2008 to $40,000, and for FY2009 and FY2010 to $45,000

This level of funding, however, proved to be more than was required to allow the Town to admit all eligible applicants who wished to participate in the program in fiscal years 2007 through 2010. Because the balance in the account had grown to approximately $70,000 as of the spring of 2010, or more than twice the amount expended in either of the previous two years, no additional funds were appropriated for FY2011. This Committee recommended in its report to the 2010 Annual Town Meeting that future appropriation requests be adjusted to reflect realistic funding requirements.

[5] For more details on the Senior Service Program, and for general background on other programs offering property tax relief to seniors, please the Appendix to this Report at pp. ____.

The amount requested in this year's warrant article is again $45,000. Town staff is currently reviewing usage and program needs, and if it is determined that this amount is more than will be required, the amount of the appropriation request will be reduced. The total amount expended in FY2010 was $22,549, the total amount expended in the first half of FY2011 (as of December 31, 2010) was $13,218, and the current balance in the account for this program is $50,647. The number of participants in the program has not been growing (34 in FY2007, 34 in FY2008, 31 in FY2009, 31 in FY2010 and 32 in FY2011 to date), and at current utilization rates the retained balance in the fund will be more than sufficient to fund the program through FY2012. However, there is a possibility that income thresholds and allowable credit amounts will be revisited for FY2012, in which case there could be a need for a somewhat higher level of funding going forward. The Committee would support an appropriation of up to $45,000 for this program if the need is demonstrated, but will defer its recommendation until the amount of the request has been determined.

Article 7: Continue and Approve Departmental Revolving Funds	Funds Requested	Funding Source	Committee Recommendation
	See below	**RF**	**Approve (9-0)**

Fund #	Program or Purpose	Authorized Representative or Board to Spend	Departmental Receipts	FY2011 Authorization	FY2012 Requested Authorization
1100	School Bus Transportation	School Committee	School bus fees	$830,000	$830,000
2400	Public Facilities	Public Facilities Director	Building Rental Fees	$275,000	$325,000
3320	Trees	Board of Selectmen	Gifts and fees	$20,000	$20,000
3330	DPW Burial Containers	Public Works Director	Sale of Grave Boxes and Burial Vaults	$35,000	$35,000
3420	DPW Compost Operations	Public Works Director	Sale of compost and loam, yard waste permits	$397,000	$499,000
3420	Minuteman Household Hazardous Waste Program	Public Works Director	Fees paid by consortium towns	$175,000	$175,000
6120	Council on Aging Programs	Social Services Director	Program fees and gifts	$100,000	$100,000
7140	Health Programs	Health Director	Medicare reimbursements	$10,000	$10,000
7320	Tourism/Liberty Ride	Town Manager and Tourism Committee	Liberty Ride receipts, including ticket sales, advertising revenue and charter sales	$174,375	$199,000
8140	PEG Access	Board of Selectmen and Town Manager	License fees from cable TV providers	$400,000	$430,000
3110	Regional Cache	Public Works Director	User fees from participating municipalities	N/A	$20,000

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 FY2011

The Public Facilities Revolving Fund authorization request is increasing by $50,000 (18.18%) to more accurately reflect the anticipated expenditures in this fund. Note that the authorization for this fund was increased in July 2010 by action of the Board of Selectmen and the Appropriation Committee. The increase reported here is the cumulative increase since the level authorized at the 2010 Annual Town Meeting.

The DPW Compost Operations Revolving Fund authorization request is increasing by $102,000 (25.7%). This increase supports the Culvert Replacement capital project and the Compost Facility Green Waste study (see page XI-15 of the Brown Book). In addition this supports increases in the recycling and refuse collection contracts.

The Tourism/Liberty Ride Revolving Fund authorization request is increasing by $24,625 (14.1%) due to an extension of operations for 20 days in FY2012 and for additional advertising.

The PEG Access Revolving Fund authorization request is increasing by $30,000 (7.5%). This increase will support additional cablecasting of meetings and the costs to equip room G-15 in the Town Office Building to support cablecasting.

The Regional Cache Revolving Fund is new and will support the operations and maintenance of the Northeast Homeland Security Regional Advisory Council's cache of emergency response equipment hosted by the Lexington DPW.

Article 8: Appropriate the FY2012 CPC Operating Budget and for CPA Projects	Funds Requested	Funding Source	Committee Recommendation
	$4,274,982 + $216,885 $4,491,867	CPA Free Cash	Approve (9-0) [8(h) IP]

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 state funds to match its FY2011 surcharge revenues in the fall of FY2012.) However, as real estate transaction revenue has declined with the economy, and as more communities have adopted the CPA, the matching level has since gone down. In October 2010, the first round match awarded to all CPA communities for FY2010 was 27.2%. 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 FY2010 to 28.2%.

Funds Available for Appropriation

There is over $6,900,000 in CPA funds available for appropriation at this Town Meeting: $2,732,341 in carry-forward reserves and $4,199,000 in FY2012 anticipated revenues. The latter includes anticipated FY2012 surcharge collections of $3,307,000 and a State match of about $859,000 (estimated at 27.2% of the collected FY2011 surcharges) and $33,000 interest income.

This Year's Requests

As of press time Town Meeting is being asked to appropriate $4,274,982 of the available CPA funds and $216,885 of general funds.

The projects which the CPC has recommended for funding in FY2011 under Article 8 are listed in the following table:

Project Description	Funds Requested	Funding Source	Committee Recommendation
8(a) Archives and Records Management/Conservation	$150,000	CPA	**Approve (9-0)**
8(b) East Lexington Fire Equipment Doors Replacement	$60,000	CPA	**Approve (9-0)**
8(c) Leary Property Planning Funds	$30,000	CPA	**Approve (9-0)**
8(d) LexHAB – Set Aside for Housing Acquisition	$450,000	CPA	**Approve (9-0)**
8(e) Battle Green Monument Restoration	$50,000	CPA	**Approve (9-0)**
8(f) Battle Green Master Plan Implementation	$50,000	CPA	**Approve (9-0)**
8(g) Center Playfields Drainage – Phase II	$911,863	CPA	**Approve (9-0)**
8(h) Muzzey High Condo Association – Window Replacement	none	CPA	**IP**
8(i) Vynebrooke Village Drainage Improvements	$364,800	CPA	**Approve (9-0)**
8(j) Busa Farm Debt Service	$757,715 + $216,885 $974,600	CPA Free Cash	**Approve (9-0)**
8(k) Cotton Farm Debt Service	$1,300,000	CPA	**Approve (9-0)**
8(l) Administrative Budget	$150,000	CPA	**Approve (9-0)**

Article 8(a) Archives and Records Management/Conservation $150,000 – This request will provide funding for year 4 of a projected 5-year project for conservation and preservation of historic municipal documents and records. This project will include conservation/preservation, equipment and supplies, microfilming and/or digitalization, consulting services, computerization and data migration. The emphasis for FY2012 will be on digitization for ready access of selected at-risk historical records and records conserved and preserved.

Article 8(b) East Lexington Fire Equipment Doors $60,000 – Funds are requested for the design and widening of the door openings at the East Lexington Fire Station. The fire vehicles closely fit the current opening and widening will prevent damage to the equipment/building and will facilitate department response to incidents. The design will be presented to the HDC for their review and approval prior to implementation.

Article 8(c) Leary Property Planning Funds $30,000 – The Ad Hoc Leary Property Community Task Force is requesting funds to continue public outreach and pre-development activities (including architects, engineers, lawyers), site control expenses and program development for the property at 116 Vine Street.

Article 8(d) LexHAB – Set Aside for Housing Acquisition - $450,000 – LexHAB has requested funding for the acquisition of additional housing units. When they identify a housing unit or land for acquisition, they have agreed to submit a proposal to the CPC and CEC for comment prior to submittal to the Board of Selectmen for approval (Board of Selectmen approval is required for any LexHAB Purchase of a unit or land) in addition to various other guidelines agreed upon jointly with the CPC.

In the past LexHAB had committed to housing purchases prior to seeking funding from CPA funds. In its report to the 2010 Annual Town Meeting, this committee noted that it favored an annual appropriation of CPC funds, placed under 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. We also indicated that we believed 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 give meaningful input to the CPC and Board of Selectmen prior to their decision to approve or disapprove of the purchase.

Article 8(e) Battle Green Monument Restoration - $50,000 – In preparation for the Town's 300th year celebration in 2013, funding to restore and repair monuments (Obelisk, Minuteman Statue, Minuteman Monument, Common flagpole and other monuments in Lexington) is requested. The work will commence in the Fall of 2011 and is anticipated to be complete in the fall of 2012. The Lexington Battle Green Area Draft Master Plan (dated 12/6/2010 and funded with CPA funds appropriated at the FY2010 Annual Town Meeting) contains "Recommendation #4 Statue and Monument Preservation" and this work will be coordinated with the final plan.

Article 8(f) Battle Green Master Plan Implementation - $50,000 – A draft master plan for the Battle Green area has been issued (12/6/2010) and contains recommendations for site improvements. This funding request is for initial work on the pathways leading to the monuments on the Green in advance the final plan. Additional funding may be requested in subsequent years.

Article 8(g)Center Playfields Drainage - $911,863 – This request is for Phase 2 of a 3 phase project to correct drainage and grading issues at the Center Playfields and impacts the football field and JV baseball area. In the original application the estimated expenditure for Phase 2 was $575,612. The estimate has been increased to $911,863 as investigative work has indicated that the existing pipes under the field cannot be used as was originally thought. This phase is independent of Phase 1 (funding was approved for Phase 1 in the amount of $875,173 at the FY2010 Annual Town Meeting)and the pipes will also be used to carry water for the fields involved in Phase 3. Please note the estimated cost for Phase 3 ($605,718) remains unchanged.

Article 8(h) Muzzey High Condo Association- $273,915 – This request has been withdrawn from the CPC.

Article 8(i) Vynebrooke Village Drainage Improvements - $364,800 – A design study was funded with CPA funds last year to assess the drainage problems at Vynebrooke Village, a state funded public housing development consisting of 48 units. The consultant hired to perform the design study has developed a remediation plan that includes the construction of a drainage system around the perimeters of the buildings, the development of a system to block existing vents that allow water infiltration, and the installation of a dehumidification system in each building. The Lexington Housing Authority will work with the Conservation Department to ensure that conservation guidelines are met.

Article 8(j) Busa Farm Debt Service - $974,600 - The Busa Farm property was purchased for $4,197,000 under Article 6 of the 2009 spring Special Town Meeting. A consensus among the Board of Selectmen and the Appropriation, Capital Expenditures and Community Preservation Committees yielded a decision to bond the entire purchase using a three year bond with a high principal payment in the first year. This article appropriates $974,600 for the second payment, of which $216,885 is coming from Free Cash. This use of Free Cash is the application of the bond premium earned on the sale of the note for Busa Farm in FY2010. The premium was originally deposited into the General Fund and then flowed into Free Cash at year's end. Next year's Town Meeting will be required to appropriate $930,000 for the final payment.

Article 8(k) Cotton Farm Debt Service - $1,300,604 - The Cotton Farm was purchased for $3,800,000 under Article 9 of the 2010 Annual Town Meeting. Final negotiations resulted in the following funding plan; $1,500,000 was paid at closing, and the seller would hold an interest free bond for the balance. The first bond payment of $1,297,400, which was discounted by the seller from the original $1,300,000 to allow the Town to absorb the short term interest payment, was due on 1/11/11 and the final payment of $1,000,000 is due on 8/1/12. The first bond payment was funded using a Bond Anticipation Note (BAN) (at 0.7% interest) which is due on 7/1/11. The $1,300,604 being appropriated will be used to retire the bond, although if all goes as planned the $500,000 LAND Grant (being considered under Article 33) will be applied to this payment and therefore reduce the amount needed from the CPA Trust Fund.

Article 8(l). CPC Administrative Budget - This year's request of $150,000 for administrative expenses is identical to the amount requested and appropriated in FY2011. 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 in FY2011. 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. As of now, no money was expended in FY2011 for land acquisition preparation. 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. FY2011 legal costs (for work done through January) were $15,000.

The CPA statute permits the appropriation of up to 5% of the anticipated CPA revenue for the year, i.e., $209,950 for FY2012, 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.

Article 9: Appropriate for Recreation Capital Projects	**Funds Requested**	**Funding Source**	**Committee Recommendation**
Town Pool Renovation [XI-17]	**$165,000**	**Recreation EF**	**Approve (9-0)**

At the request of the Recreation Committee, the Board of Selectmen has asked Town Meeting to appropriate $165,000 for town pool renovations. A description of the proposed project can be found in Section XI: Capital in the Brown Book.

This request is for phase II of a multi-phase program for renovations to the Irving H. Mabee Pool Complex. Phase I was approved at the 2010 annual Town Meeting. The proposed renovations are identified in a consulting study completed in 2008. The $165,000 requested for Phase II is for interior repairs and renovations to enhance environmental and energy efficiency at the complex, including the replacement of toilets, showers and sinks in the men's and women's locker rooms with water conserving systems. An estimated $1,100,000 will be requested in FY2016 for Phase III to replace the pool's filtration system which is beyond its useful life.

<table>
<tr><th>Article 10: Appropriate for Municipal Capital Projects and Equipment</th><th>Funds Requested</th><th>Funding Source</th><th>Committee Recommendation</th></tr>
<tr><td>10(a) Dam Repair</td><td>$270,000</td><td>GF Debt</td><td rowspan="17">Approve (9-0)</td></tr>
<tr><td>10(b) DPW Equipment</td><td>$365,000</td><td>GF Debt</td></tr>
<tr><td>10(c) Storm Drainage Equipment</td><td>$500,000</td><td>GF Debt</td></tr>
<tr><td>10(d) Sidewalk Improvements and Easements</td><td>$200,000</td><td>GF Debt</td></tr>
<tr><td>10(e) Replacement of Ambulance</td><td>$240,000</td><td>GF Debt</td></tr>
<tr><td>10(f) MIS Technology Improvement Program</td><td>$165,000</td><td>GF Debt</td></tr>
<tr><td>10(g) Townwide Electronic Document Management System</td><td>$410,000</td><td>GF Debt</td></tr>
<tr><td>10(h) Hydrant Replacement Program</td><td>$25,000
+ $25,000
$50,000</td><td>Free Cash
Water EF</td></tr>
<tr><td>10(i) South Lexington Transportation Master Plan</td><td>$125,000</td><td>Traffic Mitigation Stabilization Fund</td></tr>
<tr><td>10(j) Street Improvements and Easements</td><td>$846,602
+ $700,000
$1,546,602</td><td>Tax Levy
Chapter 90</td></tr>
<tr><td>10(k) Westview Cemetery Irrigation – Phase III</td><td>$35,000</td><td>Free Cash</td></tr>
<tr><td>10(l) Comprehensive Watershed Stormwater Management</td><td>$50,000</td><td>Free Cash</td></tr>
<tr><td>10(m) Townwide Signalization Improvements</td><td>$42,000</td><td>Free Cash</td></tr>
<tr><td>10(n) Waltham Street Pedestrian Safety Improvements</td><td>$66,000</td><td>Traffic Mitigation Stabilization Fund</td></tr>
<tr><td>10(o) Park Improvements – Athletic Fields</td><td>$50,000</td><td>Free Cash</td></tr>
<tr><td>10(p) Firefighter Protection Turnout Gear</td><td>$88,000</td><td>Free Cash</td></tr>
<tr><td>TOTAL FUNDS REQUESTED</td><td>$4,202,602</td><td></td></tr>
</table>

The Brown Book (XI-4 to XI-6 and XI-13 to XI-16) and the TMMA Warrant Information Book provide sufficient detail about these requests. Many items in this request represent an annual component of multi-year programs which are discussed in the Brown Book.

Article 11: Appropriate for Sewer Improvements	Funds Requested	Funding Source	Committee Recommendation
	$1,300,000	Wastewater EF (debt)	Approve (9-0)

This Article addresses proposed capital expenditures to be made during FY2012 as part of a continuing program to upgrade and keep current the assets of the Wastewater Enterprise Fund. For general background on the Enterprise Funds, and the relationship between the budget process and the water rate-setting process, please see the Appendix on Enterprise Funds and the discussion under Article 5, which addresses the Enterprise Fund operating budgets.

A total of $1,300,000 is requested this year: $1,200,000 as part of a multi-year plan to rehabilitate sanitary sewer infrastructure and $100,000 for year five of a five-year program to upgrade Lexington's ten sewer pumping stations. The details of the projects, including the locations where the work is expected to be done, can be found in the Brown Book (p. XI-9).

The costs of the pumping system upgrades will be funded entirely by borrowing, and the costs of the sanitary sewer rehabilitation will be funded partly by borrowing ($900,000) and partly from the retained earnings of the sewer enterprise fund ($300,000). The costs of the debt service for this borrowing will be borne by the operating budgets for the Wastewater Enterprise Fund in FY2012 and in future years until the debt is retired (see Brown Book, p. XI-9, 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 ready, and FY2011, when only pump station upgrades were performed) since the Wastewater Enterprise Fund (formerly the Sewer Enterprise Fund) was established, as illustrated in the table below.

Wastewater Capital Improvements History

Fiscal Year	Purpose	Cash	Borrowing	Total
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 Water Meters	$0 $0	$300,000 $250,000	$0 $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 Equipment	$0 $0	$1,300,000 $263,000	 $1,563,000
2011	Pump Station Upgrades	$0	$100,000	$100,000
2012 (rec)	Sewer Improvements	$300,000	$1,000,000	$1,300,000

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 primarily with debt. While the transition to debt financing in the enterprise funds has helped to mitigate the need for rate increases, it has also, together with the funds' contribution to the debt service for the new DPW facility and for the financing of trucks and other equipment, increased the debt-service costs of the funds. The use of $300,000 in retained earnings, in lieu of borrowing, will help to mitigate those debt service costs over the long term.

Article 12: Appropriate for School Capital Projects and Equipment	Funds Requested	Funding Source	Committee Recommendation
	$921,000	**GF (debt) Free Cash**	**Approve (9-0)**

Details of the capital request are shown here:

Project Description and Detail	Funds Requested	Funding Source
12(a) School Technology [XI-7]	$502,000 + $235,000 $737,000	GF debt Free Cash
12(b) Food Service Equipment [XI-7]	$34,000	GF debt
12(c) Classroom Furniture [XI-8]	$150,000	GF debt

An informative and detailed description of these requests, approved by the School Committee and submitted for Town Meeting approval, can be found in the Budget (Brown) Book Section XI (Capital) (School Projects, pages XI-7, XI-8). Additionally, the TMMA Warrant Information Report contains a comprehensive review of Article 12.

Item (a) is a request to continue a multi-phased plan designed to purchase equipment described in detail in the School Department's long range technology plan. This technology plan includes (1) replacing the oldest desktops, laptops, printers and peripherals, and (2) upgrading network equipment and adding workstations at the high school and middle schools to get closer to the state average number of computers for student use.

Item (b) is a request for the replacement of kitchen equipment and, in particular, a mixer, steamer and ovens at the high school which have exceeded their useful lives. The request for this equipment was originally $64,000 but has been reduced to $34,000 because $30,000 will be covered by the Food Service Revolving Fund that is maintained by the School Dept. (authority to use school revolving funds rests in the School Dept. and not in Town Meeting). This change follows the successful implementation of a point-of-sale system for school lunch sales, i.e. a system where students do not pay for food with cash but rather use personal account numbers. The School Dept. further reports that $20,000 worth of emergency kitchen equipment replacements have been done in the current year using funds from the same revolving fund. The School Dept. expects to continue to be able to fund kitchen equipment maintenance and replacement in future years at the $30,000 per year level.

Item (c) represents the fourth year of a multi-year request to replace worn, aging and unsafe classroom furniture and other furnishings throughout the school system.

Article 13: Public Facilities Capital	**Funds Requested**	**Funding Source**	**Committee Recommendation**
13(a) Bridge and Bowman Schools Renovation Design, Development and Engineering	$280,000	GF debt	**Approve (9-0)**
13(b) Estabrook School Feasibility and Related Street Access Improvements	$1,150,000	GF debt	**Approve (9-0)**
13(c) School Building Envelope and Systems	$300,000	Free cash	**Approve (9-0)**
13(d) School Improvement Projects (*details below*)	$645,000	GF debt Free cash	**Approve (9-0)**
13 (e) Clarke Middle School Paving Improvements	$125,000	GF debt	**Approve (9-0)**
13(f) Lexington High School Roof Repair	$998,000	$659,678 GF debt	**Approve (9-0)**
13(g) Hastings School Playground Expansion	$75,000	GF debt	**Approve (9-0)**
13(h) School Paving Program	$50,000	Free cash	**Approve (9-0)**
13(i) Diamond Middle School Extraordinary Repair	$75,000	Free cash	**Approve (9-0)**
13(j) Municipal Building Envelope and Systems	$165,572	Free cash	**Approve (9-0)**
13(k) Repair of Fire Station Floor	$450,000	GF debt	**Approve (9-0)**
13(l) Library Material Handling System Design	$100,000	Free cash	**Approve (9-0)**
Total Request	**$4,413,572**		

Article 13(d): School Improvement Projects	**Funds Requested**	
School Locker Program	$150,000	GF debt
Lexington High School Overcrowding – Phase I	$175,000	GF debt
School Building Flooring Program	$50,000	Free cash
Lexington High School Science Lecture Hall Replacement Seating	$75,000	Free cash
Hastings School French Drain	$50,000	Free cash
Diamond School Gym and Locker Room Public Address System Improvements	$25,000	Free cash
Hastings School Window Screens	$25,000	Free cash
Systemwide School Window Treatments	$50,000	Free cash
Reconfigure and Redesign K-5 Curriculum Rooms	$45,000	Free cash

13(a) *Bridge and Bowman Schools Renovation Design, Development and Engineering* is a precursor to the major renovation of these two school buildings. The actual construction work will require approval in a debt exclusion referendum (likely to be in early 2012) to fund all or part of an estimated $19.4 million in costs. This particular request is for engineering and design work to cover an increase in scope that has been approved by the School Committee. The engineering and design work for the base scope was funded by an appropriation of $750,000 at the 2010 Annual Town Meeting. The increase in scope of the project will change a 10 to 15 year extension of the useful life of these buildings in the base plan to an estimated 20 to 25 years, provides better building security and classroom conditions, and improves environmental systems including ventilation and humidity controls. The revised project plan also addresses newly identified school system capacity requirements that are based on enrollment projections that, in turn, take this year's elementary enrollment increase into account. To be specific, the project plan has been revised to increase the number of classrooms by four in each of the two buildings.

13(b) *Estabrook School Feasibility and Related Street Access Improvements* – For a number of years, the Lexington School Committee and Administration have planned to eventually build a new Estabrook School, but the replacement became urgent upon the discovery of the presence of polychlorinated biphenyls (PCB's) throughout the current building. An Emergency Statement of Interest (SOI) was recently approved by the Massachusetts School Building Authority (MSBA) thereby securing at least 31% of the funding necessary for the replacement. Most of the amount requested under this section of this Article ($1,050,000) will fund a feasibility study critical to allowing the project to proceed. That study is a joint Town-State effort in which (1) a determination of the best approach to the project is jointly made, (2) a concept is chosen, (3) the concept is developed in terms of a schematic, i.e., preliminary, design, and (4) the total project cost is estimated. Design development, construction drawings, and actual construction follow in a later phase. The balance of the request ($100,000) funds the design and engineering of right-of-way modifications and upgrades of Robinson Road that would be necessary for the access of construction vehicles to the rear of the school site where the new building would be located.

13(c) *School Building Envelope and Systems* is part of an annual maintenance program to prevent deterioration of school building exteriors and systems.

13(d) *School Improvement Projects* covers projects that address specific needs within the schools including measures that improve current physical and learning environments and enhance space utilization.

13(e) *Clarke Middle School Paving Improvements* consists of two projects to improve pedestrian and traffic safety including creating a safe walkway to the pedestrian bridge over Clematis Brook and improvements to the parking lot.

13(f), *Lexington High School Roof Repair* will replace approximately 66,000 sq ft of roofing using funding from the MSBA under the Green Repair program for 33.95% of the total cost.. The request is net of the external funding.

13(g) *Hastings School Playground Expansion* request will expand the playground to include equipment suitable for children in grades 3-5. The existing equipment does not accommodate their needs.

13(h) *School Paving Program* requests funds to maintain school parking and paved pedestrian surfaces in a safe and suitable condition for public use. Past paving improvements have been implemented through this program at Estabrook, Bridge, Bowman and Hastings. The Department of Public Facilities and the Department of Public Works Engineering partner on these projects to utilize the DPW paving bids.

13(i) *Diamond Middle School Extraordinary Repair* will repair the portable classrooms that are in need of maintenance after 10 years of use. With every classroom space filled, the portables must be maintained as viable classrooms.

13(j) *Municipal Building Envelope and Systems* is part of an on-going request for funds to maintain municipal buildings and systems to avoid safety hazards and support their intended function as public spaces.

13 (k) *Repair of Fire Station Floor* will extend the useful life of the fire station by shoring up and supporting the slab floor.

13 (l) *Library Material Handling System Design* – The Cary Memorial Library participates in the Minuteman Library Network, which is a network of participating regional libraries that exchange books and materials for public use. Circulation of materials has increased and this project will allow for the design of a handling system to expedite sorting and shipping of materials.

All of these items are detailed in the *Recommended Budget & Financing Plan* (the "Brown Book"), Section XI. Capital.

Article 14: Street Acceptance – Frances Road	Funds Requested	Funding Source	Committee Recommendation
	$200,000	**GF**	**Approve (9-0)**

This article, brought by the residents of Frances Road, requests that the unaccepted portion of that street be accepted as a town way. Acceptance is the formal process which converts a private street (owned by abutters) into a public street. After the street is accepted, the town takes responsibility for all future upkeep of the street. The $200,000 funds requested bring the street up to town standards and such costs will be allocated among the affected residents through the assessment of a betterment which abutters may elect to repay to the Town over a period of several years.

Article 15: Appropriate for Community Center	Funds Requested	Funding Source	Committee Recommendation
	none	**n/a**	**IP**

We expect that this article will be indefinitely postponed.

Article 16: Accept MGL Chapter 32, Section 101 Supplemental Income Allowance	Funds Requested	Funding Source	Committee Recommendation
	none	**n/a**	**Approve (9-0)**

Massachusetts General Laws, Chapter 32, Section 101 provides for the payment by a community's retirement system of an annual allowance to widows of former public employees who either (a) retired as a result of injuries sustained while in the performance of official duties, or (b) retired for ordinary disability and were unable to provide for such an allowance. Although the statute refers by its terms only to widows, it has been interpreted to apply to widowers as well. Prior to 1995, the amount of the allowance was $3,000 and in 1995 the amount was increased to $6,000. The benefit is paid monthly and the base amount is adjusted annually by a COLA.

In July, 2010, the legislature amended the statute to allow communities, by vote of their retirement board and subject to approval of Town Meeting, to adopt an optional "supplemental" allowance that would bring the total "base" allowance to $9,000 instead of $6,000. If the supplement is adopted, the total allowance would continue to be adjusted by a COLA.

Currently, four widows receive a Section 101 allowance from the Lexington retirement system and receive no other benefits from the Town. The total annual cost is $25,675, representing an average annual allowance of $6,418.75 per recipient with COLA adjustments. (COLA adjustments begin only the year after the allowance is first received and thus are different for each recipient.) If Article 16 is adopted, the total annual cost of the benefit for current recipients will increase to approximately $38,500, representing an average annual allowance of $9,625 with COLA adjustments.

In addition to the four current recipients, there are five other spouses of current retirees who may become eligible in the future to receive this annual allowance. Because the retirement benefits now available to active employees include alternative provisions for a surviving spouse, no other potential recipients of a section 101 allowance are anticipated going forward.

Article 17: Reduce Community Preservation Act Surcharge	Funds Requested	Funding Source	Committee Recommendation
	none	n/a	Disapprove (1-8)

This article proposes to reduce the CPA surcharge from 3% to 1%. If approved by Town Meeting, the question of reducing the surcharge would be placed on the ballot of the next regularly scheduled election in Lexington.

Proponents of the motion argue that a number of large capital expenditures will be coming before the town in the next decade. Reducing the CPA surcharge will provide relief to the taxpayer by offsetting some of the anticipated increases in property tax due to the likely debt exclusion overrides associated with these capital projects.

In 2005, this committee, in its report to the annual town meeting, expressed some concerns about adopting the CPA because the list of projects to be considered for funding under the CPA had not been available for analysis and for comparison with a prioritization of the town's needs. In addition, the committee was concerned that adopting the CPA might make it more difficult to pass both operating budget overrides necessary to maintain level-service and reserve-fund building goals, as well as debt-exclusion overrides needed for high-priority capital projects like the DPW facility.

Since that time, however, the committee has seen the CPA in action and has generally supported the projects brought forth by the CPC. Furthermore, Town Meeting has approved a number of projects addressing the town's priority capital expense plan. It has used CPA funds to preserve or rehabilitate historic town properties such as Town Hall, Cary Memorial Building, and the police and fire stations. It has used CPA funds to stabilize the exterior of the Stone Building, preventing that historic structure from slipping into decline and preserving it for community use in the future.

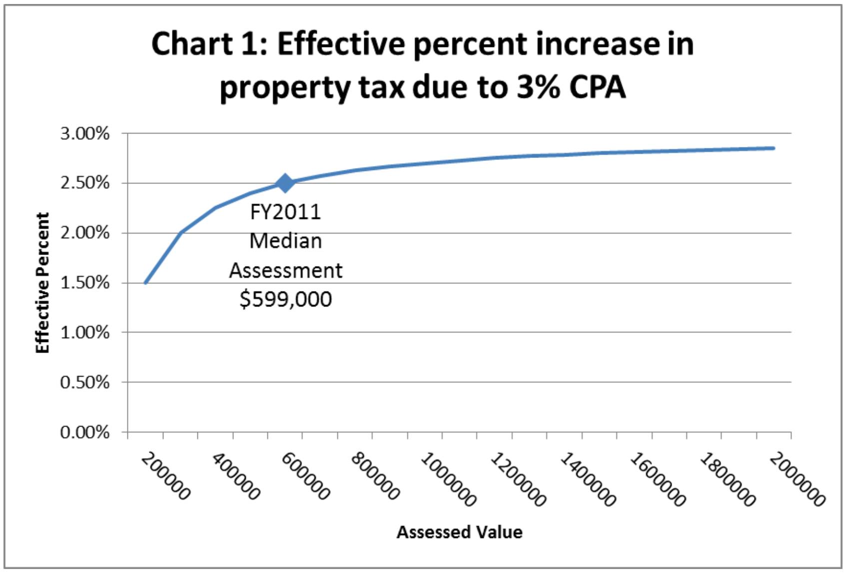
Proponents of reducing the CPA surcharge are correct that the Town faces a backlog of capital projects that will require citizens to reflect upon their priorities for Lexington and determine if and how to fund these projects. Many of these projects, however, are for historic structures that are eligible for CPA funding. The question need not be one of debt-exclusion versus the CPA surcharge. We can choose to devote a greater percentage of CPA funds to historic preservation projects that are consistent with the Town's priority capital plan.

Why keep the CPA surcharge at the maximum 3% rate?

As this committee pointed out in its *Message to Lexington Voters on the Community Preservation Act* in February 2006, there are several benefits that accrue to the town from adopting the CPA. State matching funds provide additional "buying power" for each dollar raised by the surcharge. Even with the decline in the amount of the state match – which has reached a low of 28.2% for FY2010 – this represents a significant win for Lexington taxpayers.

The benefits are not only in additional funds available to Lexington. Unlike many other sources of revenue for the Town, we have had the ability to adopt several generous exemptions for residents. Lexington does not provide exemptions for commercial taxpayers. For all residential taxpayers, the first $100,000 of property value is exempted from the surcharge. For half the residential properties in Lexington, those below the median assessed value[6], the net surcharge rate is 2.5% or lower. This means that the surcharge falls less heavily on lower value properties (see chart 1 for an effective CPA surcharge rate).

[6] The current median residential property value in Lexington is reported to be $599,000 in the Brown Book.



A full exemption of the CPA surcharge is available to moderate-income based seniors (earning below the region median income) and for all low-income residents (earning below 80% of the region median income) regardless of age. For FY2011 the following tables show the income limits for exemption eligibility:

Eligibility: all property owners under 60 years of age	
Household Size	**Annual Income Limit**
1	$ 51,400
2	$ 58,750
3	$ 66,100
4	$ 73,450
5	$ 79,300
6	$ 85,200
7	$ 91,050
8	$ 96,950

Eligibility: 60 years of age or older	
Household Size	**Annual Income Limit**
1	$ 64,250
2	$ 73,450
3	$ 82,600
4	$ 91,800
5	$ 99,150
6	$ 106,500
7	$ 113,850
8	$ 121,200

Lexington has processed applications for the CPA surcharge exemption since FY2007. In both FY2007 and FY2008 approximately 260 applications were received. In FY2009 the count dropped to approximately 170 and for FY2010 approximately 180 exemption requests were made.[7]

At the time this report went to press, we did not have data on the number of households that are eligible to obtain a CPA surcharge exemption. However, the 2007 IRS tax return data[8] show that 965 Lexington residents filed returns with an adjusted gross income (AGI)[9] less than $50,000, and also claimed an itemized property tax deduction. In 2008, the year in which 2007 IRS tax return data was used to establish

[7] Data provided by the Lexington Assessor's Office, 21 March 2011.
[8] SOURCE: IRS, Statistics of Income Division, Individual Master File (IMF), May 2010. 2007 is the latest year for which data reported by zip-code is publicly available.
[9] AGI is a close proxy for the income used in calculating eligibility for the CPA surcharge exemption. However, not all deductions from gross income used to calculate the AGI for federal tax purposes are the same as those used for calculating eligibility for the exemption.

exemption qualification, the unrestricted eligibility for the CPA exemption for a household of two was $52,736.[10]

Effects of the CPA surcharge on override requests

The CPA surcharge was adopted by Lexington in 2006 and went into effect for FY2007. Since that time there have been two operating budget override requests approved and one debt exclusion override approved. During the same period one operating budget override request was denied. In 2007 voters were given the option of passing overrides for selected services – some of which passed and others did not. In the five years prior to 2006 there was the same number of override requests with the same distribution of results. There is no evidence based on the results of override requests that the CPA surcharge effects voter behavior.

Fiscal Year	Operating Override	Debt Exclusion	Details
2011	none	none	
2010	none	none	
2009	none	none	
2008 – approved	$4,636,987	$27,600,000	Public Services Building
2007 – approved	$1,858,435	none	
2007 – not approved	$3,166,166	none	
2006	none	none	
2005 – approved	$4,224,340	none	
2004 – not approved	$4,957,000	none	
2003 – approved	none	$42,550,000	Schools, Roads, Lincoln Park
2002	none	none	
2001 – approved	$3,440,829	none	

Conclusion

The CPA surcharge provides significant relief for those taxpayers least able to pay – relief that is not available for the base property tax. In addition, the state match provides additional funds to support Lexington projects. We therefore do not believe that it is preferable to reduce the CPA surcharge to make it easier to increase the base property tax through debt-exclusion. Any such relief is better obtained by increasing the proportion of priority capital projects that are supported by CPA funds.

Article 18: Appropriate to Post Employment Insurance Liability Fund	Funds Requested	Funding Source	Committee Recommendation
	$500,000	**Free Cash**	**Approve (9-0)**

The Town of Lexington is required by State law to provide health benefits to retired employees that are comparable to those provided for active employees. Much of the cost of retiree health insurance is borne by Medicare, but the Town must provide supplementary coverage and coverage for retired employees not on Medicare. Since the Town is obligated to provide this benefit on an ongoing basis, the costs that will

[10] The 2007 IRS data also show that there were a total of 6,339 returns filed with income under $50,000 out of a total of 15,583 returns from Lexington. This is 40.68% of all returns, but does not correct for returns filed by minors or by couples filing as individuals, so we use the more conservative count of returns claiming an itemized real estate deduction to get an approximation of the number of households eligible for exemption from the CPA surcharge.

be incurred over the lifetimes of the current and future retirees represent a liability. The actuarial value of this liability must be included in the Town's financial statements and is in the hundreds of millions of dollars. In FY2012 the Town will pay about $7,400,000 for current year retiree health benefits costs, but the actuarial value of the *new* liability, the so-called normal cost, of the future health benefits that will be incurred in FY2012 is in the range of $2,400,000 to $3,800,000 more than what will be paid this year.

The Town has no legal obligation to fund this liability, but nonetheless has taken modest steps toward that goal. A Post Employment Insurance Liability (PEIL) Fund was created in 2007 and in each of the last three years (FY2009-2011) Town Meeting has appropriated into the Fund a portion of Free Cash that approximated the previous year's reimbursement from the federal government for the prescription drug coverage the Town provides to retirees in lieu of Medicare Part D coverage. These reimbursements go into the General Fund and become part of the following year's Free Cash balance. The balance in the PEIL Fund is now about $1,484,000. The Town received approximately $331,000 in Medicare Part D reimbursements in FY2010. The proposal under this article is to appropriate $500,000 from Free Cash to the PEIL Fund.

During the budget process, the Committee began examining the rationale for using the PEIL Fund and for the amounts that might be appropriated into it; below we attempt to frame some relevant issues.

There are at least three points in favor of funding the liability. First, any balance in the PEIL Fund provides assurance that the Town will be able to satisfy that portion of its future liability. Bond rating agencies look favorably upon this although it is not clear that it is necessary to have such a balance in order to maintain a AAA bond rating.

Second, the balance in the Fund is invested and earns income.

Third, the Fund could be used as a reserve, e.g., to fund retiree health costs during a particularly difficult fiscal environment.

However, money invested in the PEIL Fund will be unavailable for other uses and this represents an opportunity cost to the Town. For example, one may ask whether funding the PEIL should take priority over other liabilities such as the anticipated costs of maintaining or replacing roads and buildings in a timely manner. Choosing the latter might generate significant future savings.

Also, even if the Town was able to fully fund this liability, the Town would still need to make substantial annual appropriations for retiree health benefits.

At this time, the Committee has no specific recommendations on the Town's policy regarding the long-term liability for retiree health benefits, but the Committee does intend to examine this issue in greater depth in the coming year. Because the amount requested is very small compared to the estimated long-term retiree health benefit liability, the Committee recommends approval of this Article.

Article 19: Rescind Prior Borrowing Authorizations	Funds Requested	Funding Source	Committee Recommendation
	none	**n/a**	**Pending**

The Committee has not been informed of any need to take action under this Article, but consideration of the Article is normally deferred until the end of Town Meeting to allow for the possibility of a motion if it is deemed necessary.

Article 20: Establish and Appropriate to Specified Stabilization Funds	Funds Requested	Funding Source	Committee Recommendation
	See below	*See below*	**Approve (9-0)**

This article requests Town Meeting to appropriate funds received from developer payments and other sources into the town's specified stabilization funds. It also requests Town Meeting to create two new stabilization funds and to appropriate funds into each of them.

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 21, Lexington has created several specified stabilization funds, which are described below.

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

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

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

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

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

At the 2008 Annual Town Meeting, the *Special Education Stabilization Fund* was created to 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 and another $350,000 was added to the fund by an appropriation at the spring 2009 Annual Town meeting. 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.

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. There have been no decisions regarding the use of the funds yet.

New Specified Stabilization Funds

A new specified stabilization fund, the *Avalon Bay School Enrollment Mitigation Fund*, is proposed to be created, and will be funded with payments received from Avalon Bay pursuant to an Education and Trust Fund Escrow Agreement dated May 31, 2006. The terms of that agreement called for the establishment of an escrow fund in the amount of $750,000 with disbursements made to the Town annually if the number of students residing at the development (Avalon at Lexington Hills) on the former Metropolitan State Hospital site exceeded 111. The amount payable per student in excess of 111 is $7,100.

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

Status of Funds and Appropriation Requests

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

Specified Stabilization Fund	Current Balance	Deposit *(this Article)*	Withdraw *(other Articles)*
Avalon Bay School Enrollment Mitigation S.F.	new	$418,900	$250,000
Center Improvement District S.F.	$100,634	$0	$15,000
School Bus Transportation S.F.	$18	$0	$0
Section 135 Zoning S.F.	$0	$0	$0
Special Education S.F.	$1,063,031	$0	$0
Traffic Mitigation S.F.	$327,056	$56,667	$125,000 + $66,000 $191,000
Transportation Demand Management / Public Transportation S.F.	$305,505	$64,308	$83,560
Transportation Management Overlay District S.F.	new	$10,680	$0

Avalon Bay School Enrollment Mitigation S.F.: In the 2008/09 school year there were 115 students enrolled in the Lexington Public School system and a payment of $28,400 was received from the Education and Trust Fund Escrow Account (see above). A payment of $390,500 was received for 55 students above the threshold for the 2009/10 school year. A final payment request is expected to be submitted for the balance of the escrow fund shortly after verification of the student listing for the 2010/11 school year. This article would appropriate the total of all the payments from the escrow account to establish the fund. An appropriation of $250,000 from this fund for the school budget is requested under Article 4.

Center Improvement District S.F.: $15,000 is requested under Article 4 for Economic Development Expenses for the Lexington Center Committee through the economic development office to conduct a survey of the embankment area along the Minutemen bike path for pedestrian landscape improvements.

Traffic Mitigation S.F.: It is anticipated that $56,667 will be received from Shire Pharmaceuticals by the end of March for traffic mitigation in the south Lexington area. If this amount is received prior to this Article being discussed at Town Meeting, it will be included as available for contribution. Article 10 requests appropriations from this fund: $125,000 for a South Lexington Transportation Master Plan and $66,000 for Waltham Street Pedestrian Safety Improvements.

Transportation Demand Management/Public Transportation S.F.: A total of $64,308 is available to appropriate into the fund from payments received from Shire Pharmaceuticals ($21,630), Avalon Bay ($39,002) and Watertown Savings Bank ($3,676). An appropriation of $83,560 from the fund is requested under Article 4 to support the Transportation Fund (including the operation of Lexpress).

Transportation Management Overlay District S.F.: A payment of $10,680 was received from Josco Realty, the owners of 12-18 Hartwell Ave in connection with redevelopment plans for that property. This amount would be used to establish the new fund.

Article 21: Appropriate to Stabilization Fund	**Funds Requested**	**Funding Source**	**Committee Recommendation**
	none	**n/a**	**IP**

At the 2010 Special Town Meeting in November, $710,000 was appropriated to this fund and the current balance is $8,311,371.

No contribution to the Town's general stabilization fund is anticipated at this time as all remaining available funds have been set-aside for potential local aid reductions and an expected snow removal budget shortfall. We support the decision as a part of the recommended budget not to appropriate funds to the Stabilization Fund and therefore we support the indefinite postponement of this article.

Article 22: Appropriate from Debt Service Stabilization Fund	**Funds Requested**	**Funding Source**	**Committee Recommendation**
	$124,057	**DSSF**	**Approve (9-0)**

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 ($1,499,107) 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 2012 for this same High School construction project.

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

The Committee has not been informed of any need to take action under this Article, but consideration of the Article is normally deferred until the end of Town Meeting to allow for the possibility of a motion if it is deemed necessary.

Article 24: Amend FY2011 Operating Budget	Funds Requested	Funding Source	Committee Recommendation
	unknown	unknown	Pending

Town staff has informed the Committee to expect a motion under this Article, but no further details were available at the time of publication. Consideration of this Article, which is included in every Annual Town Meeting Warrant, is normally deferred until the end of Town Meeting to allow Town staff to coordinate the final adjustments to the prior year's budget into a single motion. The Committee will report further on this article if the Town staff recommends any changes to the FY2011 operating or enterprise budgets.

Article 25: Appropriate for Authorized Capital Improvements	Funds Requested	Funding Source	Committee Recommendation
	none	n/a	Pending

The Committee has not been informed of any need to take action under this Article, but consideration of the Article is normally deferred until the end of Town Meeting to allow for the possibility of a motion if it is deemed necessary.

Article 26: Establish Qualifications for Tax Deferrals and Exemptions	Funds Requested	Funding Source	Committee Recommendation
	none	n/a	Approve (9-0)

This article proposes to raise the income threshold for participation by seniors in the Town's tax deferral program under G.L. c. 59, §5, Clause 41A (the "41A Deferral Program") from $51,000 to $60,000, which would allow more residents to participate.[11]

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, up to a cumulative total of half the assessed valuation of their house, at an interest rate that is

[11] For general background on programs offering property tax relief to seniors, please see the Appendix to this Report at pp. ___. For additional information, an excellent resource is a booklet prepared by the Selectmen's Tax Deferral and Exemption Study Committee entitled *Property Tax Relief for Seniors – Fiscal Year 2011,* which can be found on the Town web site at: http://www.lexingtonma.gov/finance/assessor.cfm.

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 FY2011 deferrals was 0.34%, and for FY2012 deferrals will be just .26%.

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. The total amount of deferred taxes now carried by the Town as accounts receivable is approximately $750,000. 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 Proposed Increase

Last year, Town Meeting approved an increase in the income limit for deferrals from $50,000 to $51,000, which is the highest amount now allowed under generally applicable state law.[12] Under special home rule legislation that the Town obtained in 2008, however, the Town is allowed to set a higher limit. This year, the Tax Deferral and Exemption Study Committee (TDESC) has recommended that the Town increase the threshold to $60,000.

Although the number of households eligible to defer property taxes is now substantial (estimated to be well over 1,000 based on state tax statistics) and might increase slightly with this change, it is unlikely that the proposal will result in a large number of additional deferrals or have a 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 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 a similar increase in the income threshold was made for FY2010, utilization levels increased only slightly as shown in the table below. After 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, there was a more meaningful but not dramatic increase in the number of participants and in the amount (both total and average) deferred.

Fiscal Year	Threshold	Interest Rate	Number of Deferrals	Average Amount Deferred	Total Amount Deferred
2002	$40,000	8.00%	24	$4,149	$99,582
2003	$40,000	8.00%	21	$3,836	$80,459
2004	$40,000	8.00%	23	$3,502	$80,459
2005	$40,000	8.00%	16	$4,688	$75,000
2006	$40,000	8.00%	16	$4,625	$74,000
2007	$40,000	4.77%	15	$4,905	$73,578
2008	$40,000	4.92%	20	$5,092	$101,832
2009	$40,000	1.66%	26	$5,938	$154,380
2010	$50,000	0.68%	28	$6,287	$176,034
2011	$51,000	0.34%	23[13]	*not yet available*	*not yet available*

In preparing this year's recommendation, the TDESC surveyed a group of "peer" towns (the same group used by the School Department for collective bargaining purposes). Two other towns that have also obtained home rule legislation have established significantly higher income thresholds of $77,000

[12] See Appendix D: Senior Tax Relief

[13] 23 residents had applied for the program as of February 15, 2011. Residents may apply for the program until three months after the final (generally the third quarter) tax bill is mailed.

(Sudbury) and $70,000 (Weston). One town (Newton) has a threshold of $60,000. Most of the other communities surveyed are at or about the maximum threshold now allowed under the general laws, $51,000, and two (Acton and Westwood) were still at the previous state maximum of $40,000.

The Committee believes that the proposed increase in the threshold from $51,000 to $60,000 is a reasonable one that could enable some moderate-income senior homeowners who cannot now take advantage of the deferral program to obtain needed property tax relief. Given the nature of the program, and based on the utilization experience after past increases in the income thresholds, the change should not pose a significant burden on other taxpayers or a financial risk to the Town.[14]

Article 27: Amend General Bylaws – Private Ways	Funds Requested	Funding Source	Committee Recommendation
	none	**n/a**	**Approve (9-0)**

G.L., c. 40, §6N provides the towns may by bylaw (or ordinance) make limited, temporary repairs on private ways without incurring any liability. G.L. c. 40, §6N(f). Without this bylaw being adopted, the Town cannot avoid potential liability for temporary repairs to unaccepted streets. Since the Town picks up trash, plows snow, and may want to utilize emergency vehicles (fire, ambulance, and police) on unaccepted streets, it may be in the interest of the Town from time to time to make repairs of them. Amending the bylaw as requested will limit financial risks to the Town when such repairs are necessary. Without this change, the Town will face a strong disincentive when deciding whether to make any repairs to unaccepted streets. Currently all such repairs have been suspended.

Only unaccepted streets shown on the zoning map under the Planning Board development regulations, Chapters 175, are eligible for repairs under this section. Repairs are limited to grading, patching and layering of gravel to establish a uniform grade, make drainage repairs, accommodate the town's emergency vehicles or otherwise protect or repair the town's infrastructure.

The Board of Selectmen (BoS) must make a finding of public necessity in consultation with the Director of Public Works. The BoS may make a determination of the need for repairs, or may entertain a petition signed by 51% of the abutters along the road to be repaired, or a petition submitted by an association of landowners specific to the road.

The Director of Public Works determines the scope of repair work subject to approval by the BoS. Betterment charges may be assessed by the BoS on the abutters up to an amount equal to the cost of such repairs. Funding shall be appropriated at any Special or Annual Town Meeting.

Article 30: Amend Bylaw – Town Meeting Procedure	Funds Requested	Funding Source	Committee Recommendation
	none	**n/a**	**Approve (9-0)**

Article 30 would amend sections of the Code of Lexington governing the closure of questions considered by Town Meeting. This article follows a failed attempt at the 2010 Annual Town Meeting to achieve the same goal. In 2010, the Appropriation Committee recommended against approval of the motion as certain

[14] Subpart(b) of Article 26 would reconfirm the action taken at an earlier Town Meeting to increase the property tax exemption available to qualifying seniors under G.L. c. 59, §5, Clause 41C from $500 to $1,000. Since it has been determined that that this adjustment need not be re-voted each year, but remains in effect unless and until further adjusted, this portion of the article will be indefinitely postponed.

ambiguities in the language of bylaws were not corrected and the fundamental motivation – to avoid serving notice of reconsideration for all financial articles was not achieved.

This year, the draft motion successfully addresses the shortcomings in the Code of Lexington. It consolidates the methods for readdressing the substance of a warrant article into a single mechanism. The draft motion explicitly recognizes the requirement to complete Town Meeting with a balanced budget by allowing a majority vote of Town Meeting to reconsider a question when a majority of the Board of Selectmen or of one of the Finance Committees proposes reconsidering a previously decided motion for the purpose of technical correction or balancing the budget. This mechanism eliminates the need to serve notice of reconsideration for financial articles.

The new motion also recognizes that there are times the assembly wishes to revisit a question, even when there is no technical flaw or budgetary issue and notice of reconsideration had not been offered. In this case, the new code allows a 2/3 majority of members voting to reconsider a previous motion. A similar mechanism currently exists in §118-12E of the Code of Lexington but contains some ambiguities. The draft motion consolidates this mechanism with reconsideration and removes the ambiguities.

Article 33: Accept State LAND Grant – Cotton Farm Purchase	**Funds Requested**	**Funding Source**	**Committee Recommendation**
	none	**n/a**	**Approve (9-0)**

This Article allows Town Meeting to confirm its authorization for the Conservation Commission to apply for and receive a grant under the State program known as Massachusetts Local Acquisitions for Natural Diversity. The program description on the State Energy and Environmental Affairs web site gives the following brief description.

"The LAND Program (formerly the Self-Help Program) was established in 1961 to assist municipal conservation commissions acquiring land for natural resource and passive outdoor recreation purposes. Lands acquired may include wildlife, habitat, trails, unique natural, historic or cultural resources, water resources, forest, and farm land. Compatible passive outdoor recreational uses such as hiking, fishing, hunting, cross-country skiing, bird observation and the like are encouraged. Access by the general public is required."

The application has been submitted and the LAND Program has awarded a grant of $500,000 to reimburse the Town for a part of the Town's costs in acquiring the Cotton Farm. The LAND Program requires the Town Meeting to act as set forth in this article. Hence, this is essentially a formality, albeit a necessary one.

If and when the Town receives the grant funds, they will be applied toward the approximately $1.3M FY2012 payment for the Cotton Farm property and thereby reduce the use of the Town's CPA funds for this acquisition.

Article 36: Analyze Employee Health Benefits	**Funds Requested**	**Funding Source**	**Committee Recommendation**
	none	**n/a**	**Disapprove (0-9)**

This article reiterates Town Meeting's concerns over escalating Health Benefits costs and calls on the Appropriation Committee to broaden the scope of its analysis to include plan design. Should the Appropriation Committee deem that this study is beyond its expertise, this article suggests the committee draw on support available from Lexington residents with the necessary technical expertise.

The increasing costs of health benefits remains of great concern to the Appropriation Committee – see the discussion in this report under Article 4. In response to the 2010 resolution, the Appropriation Committee has worked with Town Staff to more closely scrutinize health benefit enrollment and utilization rates. Beginning with the report of the Appropriation Committee to the Fall 2010 Special Town Meeting a more detailed explanation of health benefits has been submitted to Town Meeting. Similarly, the ongoing collaboration between the Appropriation Committee and Town Staff has led to information provided in the Fiscal Year 2012 Recommended Budget & Financing Plan (Brown Book) containing more details and a clearer explanation of how health benefit budget estimates are produced.

In June 2010 the Town reached a new coalition bargaining agreement with Town employees and retirees. This agreement governs health benefit plan design for FY2011 and FY2012 and is a step in the right direction, balancing compensation and benefits in a manner fair to current and future employees, to Town retirees, as well as the taxpayers. At the Fall 2010 Special Town Meeting, the line-to-line budget transfers needed to implement the new agreement were approved.

Given that the new agreement runs through FY2012, FY2013 is the next practical target to implement plan design changes that go beyond those in the new agreement. Coalition bargaining is anticipated to commence in the fall of 2011 so as to reach an agreement for FY2013 and possibly later years. Responsibility for negotiating and reaching agreement on health benefits plan design through coalition bargaining lies with the Town Manager. Members of the Appropriation Committee provide the Town Manager with support and guidance on policy objectives for this negotiation. The Committee, however, does not believe that it will be productive to work independently of the Town Manager and staff on benefit plan design.

The Committee does not endorse the expansion of its role to include health benefit plan design. The Committee is not empowered to intervene in coalition bargaining negotiations conducted by Town staff, nor is the Committee privy to the details of those negotiations. Passage of this resolution would indicate the desire of Town Meeting to place an additional task on the Committee without the necessary means to implement the task.

Article 37: Commercial Assessments	**Funds Requested**	**Funding Source**	**Committee Recommendation**
	none	**n/a**	**Tie (4-4-1)**

The Article's proponents note that local assessors must "determine the fair cash evaluation" of each real property pursuant to G.L., c. 59, §2A(a), unless exempt from taxation, according to "rules, regulations and guidelines" established and revised from time to time by the Department of Revenue (DOR). G.L., c. 58, §1. The proponents assert that in most cases a commercial property's market value increases immediately after Town Meeting approves an "up-zoning" requested by the property owner (loosely defined as a change in zoning that grants increased commercial use). Lexington assessors applying existing DOR regulations have generally not increased the assessments of commercial properties following an up-zoning unless and until actual construction occurs. The proponents points to two examples, 1075 Waltham Street, rezoned in 2005, and 95 Hayden Avenue, rezoned in 2009. A more prompt recognition of increased value resulting from up-zonings would benefit the town by qualifying as "new growth" immediately, instead of at some future date when construction triggers a new assessment. See DOR Information Guideline Release No. 10-42.

The article calls upon the Commissioner of Revenue to develop rules, regulations and guidelines for local assessors to recognize increased value resulting from an up-zoning <u>granted at the request of the property owner</u>. The article also asks the Lexington Planning Board to require in its regulations regarding applications for rezonings, particularly Section 175-71-B(9) of the Code of Lexington, that the fiscal impact analysis include an estimate by a licensed real estate appraiser of the anticipated immediate change in market value to the property should the zoning change applied for be granted. Finally, the article requests the town clerk to transmit this resolution to the Commission of Revenue, the Lexington Planning Board and the Legislature's Joint Committee on Revenue.

Adoption of this article would cost nothing to the Lexington taxpayers and has the potential, if implemented by the Commissioner of Revenue, to have more prompt recognition of increased value resulting from up-zonings voted by town meeting at the request of the property owner.

The article contains nothing specific as to what the content would be of the proposed rules, regulations and guidelines, but recognizes that this falls within the expertise of the DOR.

The committee is sympathetic with the desire to seek clarification or new regulations from the DOR on how to properly capture value created by changes in zoning in response to the request of a property owner. Recent communications from the DOR, however, suggest that the DOR is aware of the issues and is not currently disposed to act favorably on this request. This resolution, as it currently stands, does not provide enough clarifying information to have the DOR receive the request more favorably. The committee was evenly divided on whether or not to recommend approval.

Article 38: Residential Assessments	Funds Requested	Funding Source	Committee Recommendation
	none	n/a	Disapprove (4-5)

DOR regulations require that local assessors group single family house sales each calendar in four sets of equal number of sales, by ascending the sales price. For example, for FY2008 assessments based on 2006 sales, the four sets were as follows: (from Form LA9-12 filed by our assessors on 11/1/07 with DOR):

Quartile	Number of Sales	Lowest	Highest	Range
1	84	320,000	553,000	233,000
2	84	555,000	712,000	157,000
3	84	750,000	929,900	214,900
4	83	935,000	2,600,000	1,665,000

Total: 333 sales of single family homes in Lexington in 2006.

The proponents suggest that the problem is that the span of home values in set number 4 is "too wide" ($1,665,000 versus $157,000 – $233,000 in sets 1, 2, and 3) for the 23 homes over $1,500,000 to be properly captured by the DOR's methodology. The resolution calls upon the Commissioner of Revenue to update its rules, regulations and guidelines for local assessors on how to assess single family homes in order to ensure that such assessments better capture the fair market value for all houses sold for over $1.5 million than under the current methodology and requests the Town Clerk to transmit the resolution to the Commissioner of Revenue and the Legislature's Joint Committee on Revenue.

The article's proponents do not ask for specifics as to what the rules, regulations and guidelines would be but call upon the Commissioner of Revenue to use its expertise in this area.

The committee is sympathetic with the desire to determine if there are anomalies that arise in the assessment of high-value properties for which there are relatively few transactions in a town. However, as was the case with Article 37, we have become aware that the DOR has seen this material and does not agree with the views expressed by the proponents. The current resolution does not go far enough to address the concerns raised by the DOR. A majority of the committee does not recommend approval.

Appendix A: 3-Year Budget Projection

In recent years a projection of Town revenues and expenses for the next few fiscal years has been included as an appendix in the report of this committee to the annual town meeting. A projection can help us understand the challenges that Lexington will face if, e.g., revenues do not grow as fast as the expenses for "same service" budgets. The projections are also an opportunity to obtain a better qualitative as well as quantitative understanding of known trends and cost drivers.

We emphasize that the process of making revenue and expense projection differs in an essential manner from the process of building a balanced budget. In the latter, one errs on the side of caution to help avoid ending up in a deficit at the end of a fiscal year, or even worse, having to lay off employees in the middle of a fiscal year. In the projection process, one simply makes best estimates or, in many cases, guesses about future revenue and expense changes regardless of whether they would lead to surpluses or deficits. These assumptions are not meant to represent targets or goals.

We have adopted what we consider to be good assumptions as the basis for the projection presented herein without having done anything but rather limited investigations to establish their plausibility. We note below the most important aspects.

In regard to revenue, our intent has been to assume that the economy in FY2013 shows modest growth, that modest growth continues in FY2014 and that the recovery of the Town's revenue stream is in full swing in FY2015. We will, however, caution the reader that it is unclear whether our detailed assumptions capture this intent. The following points outline the basis of our assumptions regarding revenue changes.

- The tax levy is assumed to grow annually by 2.5% of the previous year's base and by an amount for new construction. No amounts are included for Proposition 2½ overrides.
- New growth (the increase in the tax levy from new construction) in FY2013 is assumed to be equal to the average over the 5-year period ending with FY2010 (FY2010 new growth is reduced by $1M to adjust for Shire's TIF delayed growth), and then, for FY2014 and FY2015, is assumed to increase by 10% per year.
- State aid in FY2013 is assumed to be equivalent to the lowest anticipated FY2012 aid (5% lower than that budgeted for FY2012) and then, for FY2014 and FY2015, is assumed to increase by 5% annually.
- Available funds include free cash as well as amounts in the Parking Fund and the Cemetery Fund. The amounts in the latter two categories are assumed to be $340K and $120K, respectively, and free cash is assumed to total $3M for FY2013 and 2014, increasing to $3.2M in FY2015. We also include in the available funds line $250K for FY2013 and FY2014 to capture the anticipated transfer of funds from the Avalon Bay Student Mitigation Fund. These assumptions imply that available funds will total $3.71M, i.e., lower than the corresponding totals for the previous five fiscal years (FYs 2007 through 2011) which ranged from a low of approximately $4.2M for FY2008 to as high as $7.7M for FY2012. We also note, however, that the average total available funds for FY2002 through FY2007 were much lower than $3.9M.
- Revenue offsets include amounts from cherry sheet assessments that are assumed to grow by 3.5% annually, amounts for the Assessors' overlay ($750K in FYs 2013 and 2015 and $900K in FY2014, a revaluation year), and $300K that is intended to help cover any snow and ice removal deficits.
- Water and Wastewater Enterprise Fund indirect expenses are now at a level which brings them into line with actual costs. Recreation Enterprise Fund indirect expenses are assumed to increase by $15K per year.

The major assumptions that we made regarding expenses are as follows.

- Line items do NOT include any increases for as of now unsettled cost-of-living adjustments (COLAs) for salaries and wages. The potential impact of COLAs is summarized below.
- The Lexington Public Schools personnel costs are assumed to increase by 1.5% annually for step changes.
- The Lexington Public School expenses for items other than special education are assumed to increase by 2% per year. Special education expenses for out-of-district tuition are assumed to increase by 8% annually (3 year average annual growth was 12.6%, 5 year average annual growth was 8%), while the expenses for SPED consultants and out-of-district transportation are assumed to increase by 3% per year.
- Municipal personnel costs are assumed to increase by 1.3% annually for step changes.
- Municipal expenses are assumed to increase by 3% per year.
- The assessment for Lexington's share of expenses for Minuteman Career and Technical High School is assumed to increase by 4% per year.
- Appropriations for current and future pension payments are assumed to follow a schedule set up by the Retirement Board following the most recent actuarial evaluation of pension costs.
- Health insurance costs are assumed to increase by 10% per year.
- Non-exempt debt service costs are assumed to remain near the projected FY2013 level of about $5.6M per year.
- Dept. of Public Facilities costs include salaries and wages (assumed to grow by 1.3% annually for step changes), utility bills (assumed to increase by 6%), and other expenses (assumed to grow by 3% annually).
- Expenses for cash capital are assumed to include amounts for road and building envelope maintenance (following from overrides) that increase annually by 2.5%, as well as $850K for other capital expenses.
- We assume that no funds are available for appropriation into the Stabilization Fund.
- Other expenses are assumed to include $45K annually for the senior tax work-off program, an annual contribution of $400K to the trust fund for future costs of health insurance for retired employees.
- No expenses for unidentified new programs are built into these projections.

A 1% COLA on salaries and wages in FY2013 would impact the Lexington Public Schools, municipal, and facilities salaries and wages lines by $615K, $195K, and $42K, respectively. Similar amounts would apply to COLAs in FYs 2004 and 2015.

Table 1 shows actual, appropriated, budgeted, and projected amounts for revenues and expenses for FY2010 through FY2015. While actual, appropriated, and budgeted amounts are shown for all sectors, we have not projected revenues and expenses for budget lines that have direct offsets, i.e., exempt debt, enterprise fund direct expenses, and grants and revolving funds, as they do not affect the bottom line of the General Fund.

The projection for FY2013 shows an increase of approximately $1.6M in total revenue. This increase is far below the projected $5.7M increase in the tax levy revenue because we assume that there will be a large decrease in free cash (the major part of the available funds line) from that available for FY2012. We do not think it is prudent to expect that large amounts of free cash like that certified last November will continue to be certified every fall. Traditionally when additional Free Cash materializes it is applied to one-time expenses such as capital projects or stabilization funds. Free cash is built by an excess of actual revenues over actual expenditures. This makes it particularly difficult to project, and the uncertainty in the number is significant. The projection shows overall revenue growth of $6.7M in FY2014 and $7.4M in FY2015.

FY2013 expenses are projected to grow by approximately $4M, and the bottom line shows a deficit of about $2.4M. Any COLAs for salaries and wages would increase this deficit. We expect (not on the basis of any detailed analysis) that the actual range of uncertainty of this bottom line figure considering the universe of possible factors is very roughly one to three million dollars.

The bottom lines for FY2004 and FY2015 shows a smaller deficit of about $1.2M and FY2015 shows a small surplus of $0.4M. These values are relatively small in comparison with the uncertainties therein, especially those associated with the COLAs that are yet to be negotiated and with future increases of the cost of health insurance.

Revenue Summary	**FY2010** actual	**FY2011** appropriated	**FY2012** budgeted	**FY2013** projected	**FY2014** projected	**FY2015** projected
Tax Levy						
Property Tax Levy	$110,778,389	$115,934,719	$122,259,637	$127,116,128	$132,825,539	$138,930,836
Allowable 2 1/2% inc.	$2,769,460	$2,898,368	$3,056,491	$3,177,903	$3,320,638	$3,473,271
New Tax Levy Growth	$2,431,902	$3,426,550	$1,800,000	$2,531,508	$2,784,659	$3,063,125
Voter Approved Override		$(57,464)				
Tax levy limit	*$115,979,751*	*$122,202,173*	*$127,116,128*	*$132,825,539*	*$138,930,836*	*$145,467,232*
State Aid	$9,101,556	$8,508,839	$8,508,839	$8,083,397	$8,487,567	$8,911,945
Local Receipts	$10,728,657	$9,392,450	$9,773,634	$10,115,711	$10,469,761	$10,836,203
Available Funds	$6,253,619	$6,838,842	$7,712,670	$3,710,000	$3,710,000	$3,660,000
Revenue Offsets	$(1,713,630)	$(1,687,257)	$(1,966,001)	$(1,895,595)	$(2,075,191)	$(1,955,823)
Enterprise Funds (Indirect)	$1,662,522	$1,615,973	$1,564,441	$1,517,892	$1,532,892	$1,547,892
Total General Fund	*$142,012,475*	*$146,871,020*	*$152,709,711*	*$154,356,944*	*$161,055,865*	*$168,467,449*
Other Revenues						
Revolving Funds	$2,151,843	$2,458,531	$2,571,183	$-	$-	$-
Grants [1]	$126,821	$944,663	$944,663	$-	$-	$-
Enterprise Funds (Direct)	$17,280,568	$18,057,924	$18,057,924	$-	$-	$-
Exempt Debt	$5,746,375	$5,871,767	$5,871,767	$-	$-	$-
sub-total Other Revenues	*$25,305,607*	*$27,332,885*	*$27,445,537*	*$-*	*$-*	*$-*
TOTAL REVENUES	**$167,318,082**	**$174,203,905**	**$180,155,248**	**$154,356,944**	**$161,055,865**	**$168,467,449**

Expense Summary	**FY2010** actual	**FY2011** appropriated	**FY2012** budgeted	**FY2013** projected	**FY2014** projected	**FY2015** projected
Education						
Lex. Pub. Schools Wages	$54,440,050	$58,026,383	$60,636,052	$61,545,593	$62,468,777	$63,405,808
Lex. Pub. Schools Expenses	$4,370,307	$4,561,526	$5,297,430	$5,403,379	$5,511,446	$5,621,675
Out-of-District SPED	$6,207,079	$6,655,617	$7,211,403	$7,887,400	$8,466,939	$9,091,296
sub-total Lex. Pub. Schools [1]	*$65,017,436*	*$69,243,526*	*$73,144,885*	*$74,836,372*	*$76,447,161*	*$78,118,780*
Minuteman Reg. School	$1,711,554	$1,538,811	$1,702,930	$1,771,047	$1,841,889	$1,915,565
sub-total Education	*$66,728,990*	*$70,782,337*	*$74,847,815*	*$76,607,419*	*$78,289,051*	*$80,034,345*
Municipal						
Municipal Wages	$18,049,706	$18,768,865	$19,166,846	$19,513,095	$19,766,765	$20,023,733
Municipal Expenses	$8,351,264	$8,658,002	$9,129,361	$9,403,242	$9,685,339	$9,975,899
sub-total Municipal	*$26,400,970*	*$27,426,867*	*$28,296,207*	*$28,916,337*	*$29,452,104*	*$29,999,633*

Shared Expenses						
Benefits & Insurance	$27,157,159	$30,172,907	$30,934,424	$33,584,782	$36,495,477	$39,256,968
Debt (within-levy)	$4,256,097	$4,669,172	$5,002,111	$5,600,000	$5,600,000	$5,600,000
Reserve Fund		$950,000	$550,000	$550,000	$550,000	$550,000
Facilities	$8,763,578	$9,347,225	$9,237,967	$9,406,574	$9,771,126	$10,106,572
sub-total Shared Expenses	*$40,176,834*	*$45,139,304*	*$45,724,502*	*$49,141,357*	*$52,416,603*	*$55,513,540*
Capital & Reserves						
Cash Capital (inc. roads)	$1,518,169	$1,983,112	$2,382,174	$1,599,213	$1,617,944	$1,637,142
Stabilization Fund	$669,843	$710,000	$0	$-	$-	$-
Other (SrWorkOff, OPEB)	$835,690	$829,399	$1,459,013	$445,000	$445,000	$445,000
sub-total Capital & Reserves	*$3,023,702*	*$3,522,511*	*$3,841,187*	*$2,044,213*	*$2,062,944*	*$2,082,142*
Total Oper, Cap & Res	*$136,330,496*	*$146,871,019*	*$152,709,711*	*$156,709,326*	*$162,220,701*	*$167,629,659*
Revolving Funds	$2,151,843	$2,458,531	$2,571,183	$-	$-	$-
Grants	$116,122	$124,073	$124,073	$-	$-	$-
Enterprise Funds						
Water	$7,241,303	$7,712,934	$7,945,444	$-	$-	$-
Wastewater (Sewer)	$8,088,208	$8,331,320	$8,802,085	$-	$-	$-
Recreation	$1,840,057	$1,924,601	$1,954,988	$-	$-	$-
Enterprise Capital	$111,000	$90,000	$190,000	$-	$-	$-
sub-total Enterprise Funds	*$17,280,568*	*$18,058,855*	*$18,892,517*	*$-*	*$-*	*$-*
Exempt Debt						
Municipal	$2,853,441	$2,990,031	$2,811,830	$-	$-	$-
School	$2,892,934	$2,763,519	$2,854,393	$-	$-	$-
sub-total Exempt Debt	*$5,746,375*	*$5,871,767*	*$5,666,223*	*$-*	*$-*	*$-*
TOTAL EXPENSES	**$161,625,404**	**$173,384,245**	**$179,963,707**	**$156,709,326**	**$162,220,701**	**$167,629,659**

	FY2010 actual	**FY2011** appropriated	**FY2012** budgeted	**FY2013** projected	**FY2014** projected	**FY2015** projected
BALANCE (DEFICIT) without COLA	**$5,692,678**	**$819,660**	**$191,541**	**$(2,352,382)**	**$(1,164,836)**	**$837,790**

COLA Projection	
1% COLA for schools	$615,000
1% COLA for municipal	$195,000
1% COLA for public facilities	$42,000
	$852,000

BALANCE (DEFICIT) with various COLA assumptions			
1% COLA	**$(3,204,382)**	**$(2,877,356)**	**$(1,742,855)**
2% COLA	**$(4,056,382)**	**$(4,606,916)**	**$(4,377,132)**
3% COLA	**$(4,908,382)**	**$(6,353,516)**	**$(7,062,551)**

[1] - contains $818,045 ARRA funds

Appendix B: Enterprise Funds

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 in the write-up of this article have been expanded from those presented in the Warrant to show the indirect as well as the direct costs of the funds. Debt service costs for previously approved capital expenditures are shown in the enterprise fund operating budgets. However, it should be noted that appropriations for capital needs of the enterprises, whether funded by cash or borrowing, are addressed in separate capital warrant articles. (See Article 9 - Recreation Capital Projects, and Article 11 – Sewer System Improvements.)

Appendix C: Revolving Funds

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

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

- the purpose(s) for which monies deposited in the fund may be used;
- the source(s) of funds to be deposited;
- the board, department or officer authorized to expend monies from the fund; 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.

Appendix D: Senior Tax Relief

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 and, in some cases, increasing opportunities for tax relief beyond those that would ordinarily be available under state law.

The principal programs for property tax relief 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 $935or a maximum credit of $1,190 for a two-person household;
- a tax *deferral* program, under which low-to-moderate-income homeowners age 65 or over may defer any or all of their property tax due, after applying any available exemptions, up to half the value of their house, at an interest rate equal to the Town's cost of funds (.34% for FY2011 deferrals), until the house is sold or transferred, G.L. c. 59, § 5, cl. 41A ("the 41A Program"); and
- an income tax *"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).

Funding of the Programs

Each of these programs is funded in a slightly different way. Under the 41C Program, the Town receives reimbursement from the state for exemptions allowed up to an annual statutory cap ($29,500), subject to appropriation; exemptions beyond this amount are funded from the Town's overlay account and reduce the amount that may be spent for other purpose under the Proposition 2 ½ limits. Exemptions granted from the CPA's 3% surcharge lower the amount of CPA revenue that the Town would otherwise receive by the amount of the exemptions. The Senior Service program, formerly funded from the overlay, is now funded as part of the Town's annual budget (this year under Article 6). The 41A deferral program does not affect the amount of revenue that the Town may appropriate under Proposition 2 ½ , and it is essentially revenue-neutral over an extended period of time, though there may be short-term cash flow implications if deferrals are taken out faster than they are repaid. The Circuit Breaker program is funded entirely by the state.

The 41A Program and the Home Rule Amendment

Under generally applicable state law, the highest income threshold a Town may adopt for participation in the 41A program in FY2011 is $51,000.[15] However, in 2008, Lexington obtained a home rule amendment allowing it to expand eligibility beyond that permitted under the existing state law. The special act permits the Town, by vote of Town Meeting and with the approval of the selectmen, to set its own income limit for deferrals; 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.

The 41C Exemption Program

For many years, the Town has made available to qualifying seniors an exemption from the property tax under Clause 41 of G.L. c. 59, §5, and its successor, Clause 41C. Prior to 2004, the amount of the credit was limited to $500 per year and eligibility criteria were quite restrictive. Since then, the Town has taken a number of steps to expand both eligibility and the credit amount.

Taking advantage of new local options made available by the legislature in 2002, Town Meeting voted in 2004 to: (a) increase the amount of the credit to $750; (b) lower the age of eligibility from 70 to the minimum of 65; (c) increase the income threshold from $13,000(single)/$15,000(married couple) to the maximum of $20,000/ $30,000; and (d) increase the threshold for assets, not including the home, from $28,000/$30,000 to the maximum of $40,000/$55,000. In 2005, Town Meeting voted to adopt the provisions of G.L. c. 59, § 5, Clause 41D, which automatically adjusts the income and asset limits for Clause 41C (but not the exemption amount) by a COLA established annually by the Department of Revenue. For FY2011, the income limits are $23,706/$35,561 and the asset limits are $47,413/$65,193. In 2006, Town Meeting voted to increase the exemption to the maximum allowable amount of $1,000.

The Senior Service Program

In 1999, the Legislature authorized cities and towns, by accepting G.L. c. 59, § 5K, to offer residents, age 60 and over, the opportunity to reduce their property-tax obligation by as much as $500 in exchange for community service.[16] Lexington, which had earlier maintained its own program, accepted this statute shortly after it was enacted. The statute allows towns to set their rules and procedures for implementation but limits participation to persons age 60 or over and also limits the hourly credit to the state's minimum wage, currently $8 per hour.

In 2006, Town Meeting voted to rescind its acceptance of the statewide senior property tax work-off program under Chapter 59, Section 5K of the General Laws and to replace it with a locally controlled program. This gave the Town the flexibility to: allow participation by persons under age 60, such as the disabled and handicapped, who might be able to benefit from the program; pay a wage in excess of the minimum wage; allow a higher amount to be credited against a participant's property tax bill.

The most recent set of guidelines, which became effective in FY2008, are as follows: Income eligibility is $46,300 for single taxpayers or $52,950 for a couple; hourly rate is $8.50; maximum credit is $935 (110 hours) for one participant or up to $1,190 (140 hours) for a couple living in the same household.

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.

[15] 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 a single filer that is not a head of household. That threshold was $49,000 for tax year 2008, $51,000 for tax year 2009, and remains at $51,000 for tax year 2010. The 2010 Circuit Breaker threshold for a single filer who is a head of household is $66,000, and the threshold for a married couple filing jointly is $77,000.

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