

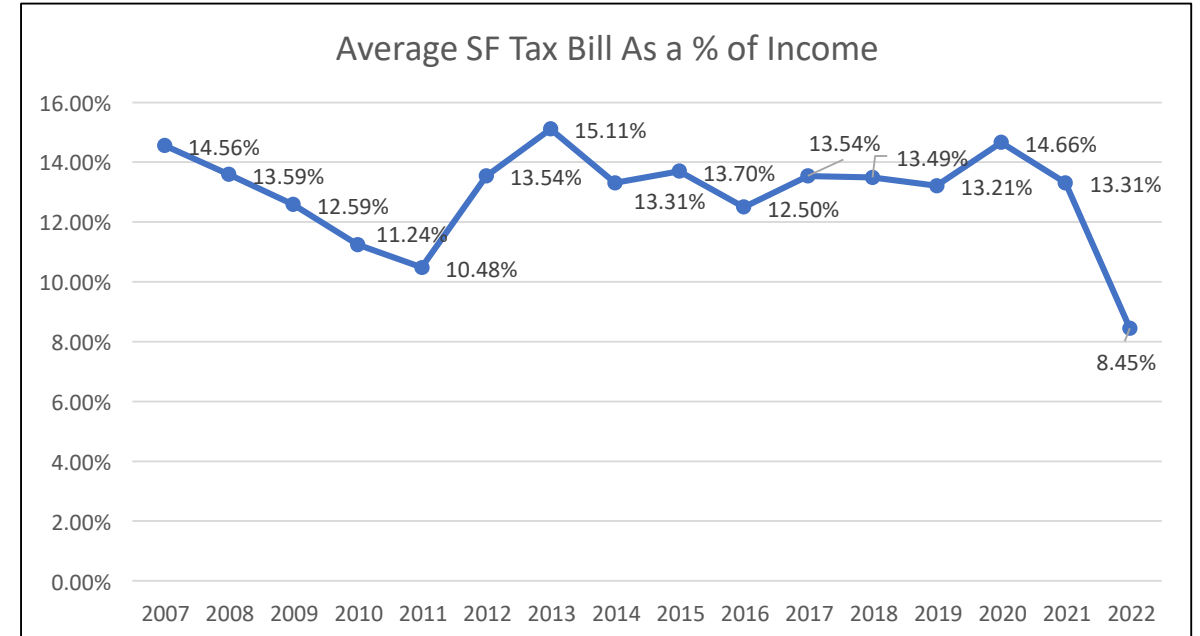
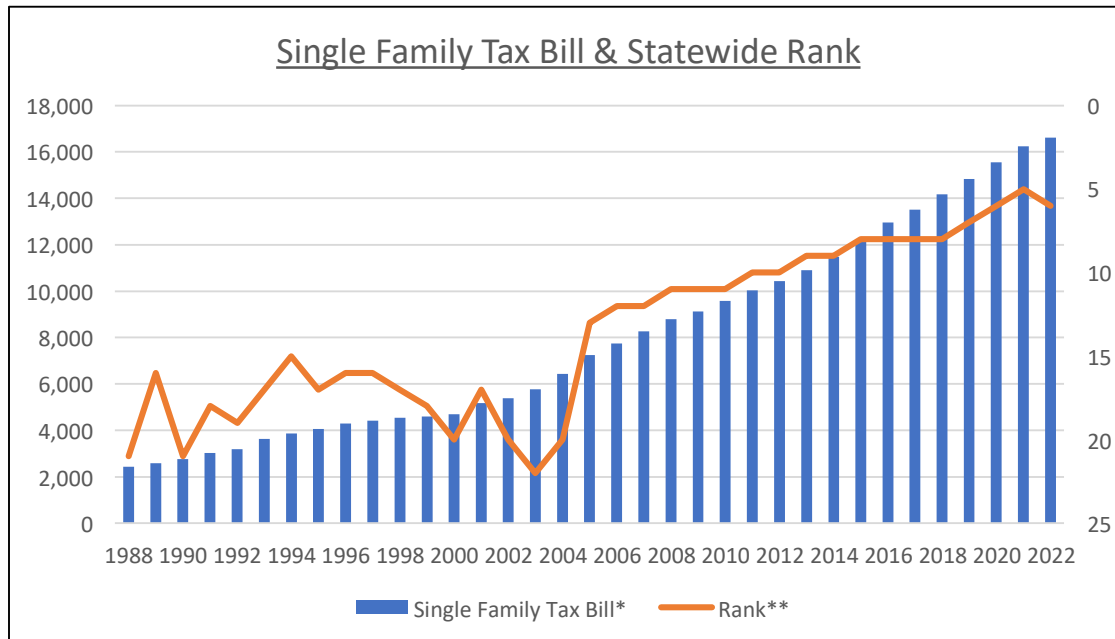
Long-Term Financial Planning

New Capital Stabilization Funding Framework

Jim Malloy, Town Manager

Lexington's Tax History

- Over the last 10-15 years the Town's tax levy and single family tax bill and have grown steadily. Our burden of taxes compared to other communities has also continued to increase.
- This increase in taxes is directly attributable to the Town's investments in infrastructure, schools and other services.
- In the last 5 years the Town invested over \$100M in new buildings (Hastings, Fire Station and LCP).
- The Town is now pursuing the LHS Project that is estimated to cost \$350M (or higher).



Source: MA Dept of Revenue Municipal Databank

Established Financial Goals for Town Management

- Developing long-term capital planning for both Town and School buildings, and particularly for a new High School project
- Achieve fiscal growth via commercial development
- Tying economic development and commercial growth to management of residential tax burden
- Maintain fiscal discipline and avoid operating overrides
- Ensure adequate financial planning and development of policies to meet the long-term budgetary needs of the Town

Long Term Financial Planning

- In 2020, the Finance Team developed a fiscal guideline to set-aside new commercial property tax revenue from redevelopment at Hartwell and PSDUP projects into the Capital Stabilization Fund.
- This guideline was reviewed and endorsed by the Town Manager's Fiscal Guideline Working Group, the Select Board, School Committee, Appropriation Committee and Capital Expenditure Committee.
- This new guideline aligns with all of the Financial Management goals noted above, and specifically ties commercial development to our long term capital investment goals and reducing the tax burden on residential tax payers.

New Capital Stabilization Framework

- This new fiscal guideline will set-aside new ongoing, annual revenue into the Capital Stabilization Fund.
- Revenue set-aside from the designated commercial developments will not be allocated to the Town and School departments for their annual operating budgets.
- Revenue from residential growth and other commercial growth will continue to be allocated between the Town and School operating budgets.
- The balance in the Capital Stabilization Fund will accumulate for the next few years and be available to draw-down to mitigate debt service for the High School when the debt service is due.
- At that same point in time the ongoing annual revenue generated by these projects can be transferred to the operating budget to pay for debt service on the High School project.
- We believe this will significantly reduce the impact of the High School Project on the residential tax payers.

How Much New Revenue are the Designated Commercial Developments Projected to Generate?

The following table represents **estimated* property taxes** from 3 new projects that would fall under the Capital Stabilization Framework:

	<u>475 Bedford</u>	<u>99 Hayden</u>	<u>440 Bedford</u>
Per s.f. value	\$ 400	\$ 400	\$ 400
Proposed s.f.	165,000	743,204	355,000
FY22 Commercial Tax Rate	\$ 27.18	\$ 27.18	\$ 27.18
Current Value	\$ 7,561,000	\$ 98,558,000	\$ 6,546,000
Current Taxes	\$ 205,508	\$ 2,678,806	\$ 177,920
Estimated Future Value	\$ 66,000,000	\$ 297,281,600	\$ 142,000,000
Estimated Future Taxes ¹	\$ 1,793,880	\$ 8,080,114	\$ 3,859,560
Amount to be transferred into CSF	\$ 1,588,372	\$ 5,401,307	\$ 3,681,640

The following table presents **estimated* property taxes** for the 3 new projects AND the 3 existing projects that fall under the Capital Stabilization Framework:

55 Watertown Street (Natl Dev)	\$ 1,050,000
186 Bedford Street	\$ 90,000
1050 Waltham Street	\$ 1,250,000
440 Bedford	\$ 3,681,640
475 Bedford (Not Approved Yet)	\$ 1,588,372
99 Hayden (Not Approved Yet)	\$ 5,401,307
Approved Projects	\$ 6,071,640
Not Approved Projects	\$ 6,989,679
Total Approved + Not Approved	\$ 13,061,319

¹ Based on the FY22 Tax Rate of \$27.18

** Estimates are generated with assumptions and presented for illustrative purposes - actual taxes will differ from estimates.*

How Will this Offset the Cost of the Police Station and High School Construction Projects?

The first year estimated date for the Police Station is FY25 and first year estimated date for the High School Project is FY29. Applying the estimated funds from the Capital Stabilization Framework on the previous slide informs the following analysis of the impact on debt service:

Fiscal Year	Police Station Debt	High School Debt	Police Station + High School Debt	Capital Stabilization Fund Use	Net Debt Cost	Average Single Family Cost	% Inc.
2025	\$ 3,015,000	n/a	\$ 3,015,000	\$ -	\$ 3,015,000	\$ 258	1.6%
2029	\$ 2,747,000	\$ 15,180,401	\$ 17,927,401	\$ 13,061,319	\$ 4,866,082	\$ 414	2.3%

The full debt analysis is on the Town's website under Articles 38 & 39. Without the use of the Capital Stabilization Fund dedicated for this purpose, the FY29 impact would be \$1,537 for the Average Single Family Cost or an 8.5% increase.*

** All analysis uses assumptions and estimates, and is presented for illustrative purposes. Actual taxes and debt service will differ from projections.*

Additional Information Related to the Town's Long-Term Financial Planning

- In addition to the Capital Stabilization Framework, the budget before Town Meeting includes the 4th year of a 5-year phase out of using approximately \$3.5 million per year from reserves (free cash) to support the operating budget.
- The long-term impact of phasing out this use of reserves is the ability for the Town to purchase smaller capital with the use of Free Cash instead of issuing debt, saving interest costs, providing lower cost capital replacement and projects.
- \$3.5 million in debt issued for 10 years at 4.0% generates \$770,000 in interest costs or a 22% increased cost that is now being saved.

Thank You.