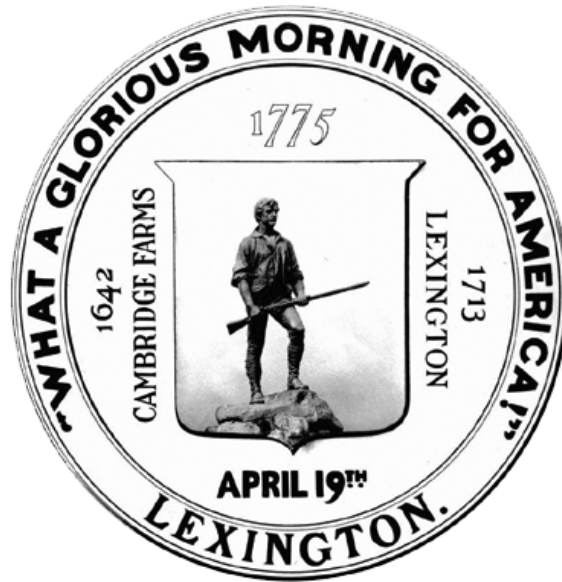


# APPROPRIATION COMMITTEE TOWN OF LEXINGTON



## REPORT TO THE 2023 ANNUAL TOWN MEETING

RELEASED MARCH 20, 2023

### APPROPRIATION COMMITTEE MEMBERS

Glenn P. Parker, Chair • Sanjay Padaki, Vice Chair • Alan Levine, Secretary  
Carolyn Kosnoff (ex officio; non-voting) • Anil A. Ahuja • John Bartenstein  
Eric Michelson • Sean Osborne • Lily Manhua Yan



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# Summary of Warrant Article Recommendations

*Abbreviations*

EF	Enterprise Fund	RE	Retained Earnings
CPF	Community Preservation Fund	RF	Revolving Fund
GF	General Fund	SF	Stabilization Fund
IP	A motion to Indefinitely Postpone is expected	SRF	Special Revenue Fund

**2023 ANNUAL TOWN MEETING**

Art icle	Title	Funds Requested	Funding Source	Committee Recommendation
<b>4</b>	Appropriate FY2024 Operating Budget	<i>See below</i>	<i>See below</i>	<b>Approve (8-0)</b>
<b>5</b>	Appropriate FY2024 Enterprise Funds Budgets	<b>\$11,906,855</b> <b>\$11,781,100</b> <b>\$3,015,074</b> <b>\$256,675</b>	<b>Water EF</b> <b>Wastewater EF</b> <b>Recreation EF</b> <b>Tax Levy</b>	<b>Approve (8-0)</b>
<b>6</b>	Establish Qualifications for Tax Deferrals	<b>None</b>	N/A	<b>Approve (8-0)</b>
<b>7</b>	Appropriate to Affordable Housing Trust	<b>None</b>	N/A	<b>Approve (8-0)</b>
<b>8</b>	Evaluation of Archeological Resource Potential	<b>\$65,000</b>	<b>Free Cash</b>	<b>Disapprove (2-5-1)</b>
<b>9</b>	Establish and Continue Departmental Revolving Funds	<i>See below</i>	<b>RF</b>	<b>Approve (7-1)</b>
<b>10</b>	Appropriate for the FY2024 Community Preservation Committee Operating Budget and CPA Projects	<i>See below</i>	<b>CPA</b>	<b>[a] Disapprove (1-7);</b> <b>[c] Approve (4-3-1);</b> <b>[e-f] Approve (7-1);</b> <b>[m] Tied (4-4);</b> <b>[b,d,g-l,n-r] Approve (8-0)</b>
<b>11</b>	Appropriate for Recreation Capital Projects	<b>\$309,000</b>	<b>Recreation EF RE</b>	<b>Approve (8-0)</b>
<b>12</b>	Appropriate for Municipal Capital Projects and Equipment	<b>\$12,961,091</b>	<i>See below</i>	<b>Approve (8-0)</b>
<b>13</b>	Appropriate for Water System Improvements	\$2,909,580 \$500,000 \$800,000 <hr/> <b>\$4,209,580</b>	<b>Water EF Debt</b> <b>Water EF RE</b> <b>Water User Rates</b>	<b>Approve (8-0)</b>
<b>14</b>	Appropriate for Wastewater System Improvements	\$715,404 \$400,000 <hr/> <b>\$1,115,404</b>	<b>Wastewater EF RE</b> <b>Wastewater EF Rates</b>	<b>Approve (8-0)</b>

## 2023 ANNUAL TOWN MEETING

<b>Article</b>	<b>Title</b>	<b>Funds Requested</b>	<b>Funding Source</b>	<b>Committee Recommendation</b>
<b>15</b>	Appropriate for School Capital Projects and Equipment	<b>\$1,465,488</b>	<b>Free Cash</b>	<b>Approve (8-0)</b>
<b>16</b>	Appropriate for Public Facilities Capital Projects	<b>\$6,999,113</b>	<i>See below</i>	<b>Approve (8-0)</b>
<b>17</b>	Appropriate to Post Employment Insurance Liability Fund	\$1,739,721 \$240,000 \$2,761 \$3,004 <hr/> <b>\$1,985,486</b>	<b>Free Cash</b> <b>Tax Levy</b> <b>Water EF</b> <b>Wastewater EF</b>	<b>Approve (8-0)</b>
<b>18</b>	Rescind Prior Borrowing Authorizations	<b>None</b>	<b>N/A</b>	<b>IP (8-0)</b>
<b>19</b>	Establish, Amend, Dissolve and Appropriate To and From Specified Stabilization Funds	<b>\$500,000</b> <b>\$1,733,137</b> <b>\$246,064</b> <b>\$210,000</b> <b>\$205,000</b> <b>\$439,402</b>	<b>Capital SF</b> <b>Tax Levy</b> <b>TMOD SRF</b> <b>Traffic Mitigation SRF</b> <b>TDM SRF</b> <b>Affordable Housing Capital SF</b>	<b>Approve (8-0)</b>
<b>20</b>	Appropriate for Prior Years' Unpaid Bills	<b>None</b>	<b>N/A</b>	<b>IP (8-0)</b>
<b>21</b>	Amend FY2023 Operating, Enterprise and CPA Budgets	<i>See below</i>	<i>See below</i>	<b>Approve (8-0)</b>
<b>22</b>	Appropriate for Authorized Capital Improvements	<b>None</b>	<b>N/A</b>	<b>IP (8-0)</b>
<b>23</b>	Establish Special Education Reserve Fund	<b>\$750,000</b>	<b>GF</b>	<b>Approve (8-0)</b>

# Preface

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

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

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

- The Town Manager's *Fiscal Year 2024 Recommended Budget & Financing Plan* (the "Brown Book"), dated February 17, 2023, and amended March 3, 2023, fully describes the annual budget of the Town. The Brown Book also summarizes budget laws and bylaws (Appendix B) and includes a glossary of financial terms (Appendix D).
- The *Level Service and Recommended Budget of the Superintendent of Schools*, dated January 3, 2023 (hereafter the "LPS Budget Book") details the budget plan for Lexington Public Schools.
- The Capital Expenditures Committee (CEC) *Report to the 2023 Annual Town Meeting*, which provides recommendations on appropriation requests for capital projects, and an analysis of the Town's long-term capital planning.
- The Community Preservation Committee (CPC) *Report to the 2023 Annual Town Meeting*, which details requests approved by the CPC that can be funded from the Community Preservation Fund.

The LPS Budget Book is available online at:

<https://sites.google.com/lexingtonma.org/lps-finance-and-operations/fy-24-budget>

All other reports for this Town Meeting will be available online at:

<https://www.lexingtonma.gov/2023atm>

## **Acknowledgments**

The content of this report, except where otherwise noted, was researched, written and edited by Committee members who volunteer their time and expertise, and with the support of Town staff. We have the pleasure and the privilege of working with Town Manager James Malloy; Assistant Town Manager for Finance Carolyn Kosnoff (an ex officio member of our Committee); Budget Officer Jennifer Hewitt; the Capital Expenditures Committee; the Community Preservation Committee; the School Committee; the Permanent Building Committee; the Planning Board; Superintendent of Schools Dr. Julie Hackett; Assistant Superintendent for Finance and Operations David Coelho; and the Lexington Select Board. We thank the municipal and school staff, Town officials, boards and volunteers who have contributed time and expertise to help us prepare this report.

This report was authored using Wdesk, a cloud-based application from Workiva that the Town licenses for use in producing financial documents. This allows the report to be integrated directly with the Town's internal finance database, so that budget figures and projections are updated and presented in a timely fashion.

# Introduction

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

The Committee's goal is to publish its report at least one week prior to the start of the Annual Town Meeting (ATM), with the understanding that financial articles could be taken up on the first night of the ATM. This year our report was published on the first night of the ATM. This year's ATM begins a week earlier than usual, which shortened our working time. In addition, the Town Manager's recommended budget was revised after being approved by the Select Board. This necessitated additional review by the Committee after renewed approval from the Select Board. As a result, financial articles will not be taken up until the second week of the ATM.

## **Committee Membership**

Meg Muckenhoupt stepped down from the Committee at the end of her term on June 30, 2022.

Sean Osborne was appointed to the Committee and began his first term on July 1, 2022.

The Committee currently has eight members with one unfilled seat.

The Committee has continued to meet virtually using the Zoom application, but the Governor's emergency provisions allowing remote meeting participation will expire on March 31, 2023. After that time, Committee meetings will comply with the Open Meeting Law, which currently requires a quorum of the Committee to be physically present in an accessible meeting location.

## **Reserve Fund**

The Committee approved a Reserve Fund transfer of \$750,000 on September 27, 2022, to fund the purchase and installation of a new Public Safety Communications (PSC) system. This consumed the full balance of the Reserve Fund. The full cost of the PCS was expected to be around \$800,000, and expenses in excess of \$750,000 were covered by the Select Board using ARPA funds. Components for the new system were ordered with the understanding that there would be a delay in delivery of approximately six months. Installation of the new system is anticipated to begin around the end of March 2023.

Under Article 4 at the November 2022-3 Special Town Meeting, an additional \$500,000 was appropriated into the Reserve Fund.

No further Reserve Fund transfers have been requested prior to publication of this report.

## ***Developments Since Adoption of the FY2023 Budget***

The April 2022-2 Special Town Meeting appropriated \$1,825,000 for a Feasibility Study for the renovation or reconstruction of Lexington High School.

The November 2022-3 Special Town Meeting appropriated newly available funds and made adjustments to the FY2023 budget.

Article 3 approved the following appropriations related to specified stabilization funds:

- \$100,000 for the Transportation Demand Management/Public Transportation (TDM/PT) Stabilization Fund.
- \$250,000 for the Ambulance Stabilization Fund.
- \$107,554 for the Transportation Management Overlay (TMO) District.
- \$4,479.48 for the Affordable Housing Stabilization Fund.
- \$1,675,999 for the Capital Stabilization Fund.

Funding for the TDM/PT, Ambulance Stabilization and TMO Stabilization Funds came from payments by commercial property owners under agreements with the Town. The Affordable Housing Stabilization Fund received community impact fees from the state associated with short-term rentals. Appropriations to the Reserve Fund and Capital Stabilization Fund used additional “new growth” in the tax levy above the initial projection in the FY2022 budget.

Article 4 approved increases and decreases in the current year’s budget resulting in a net increase of \$1,666,152 for FY2023. These included a one-time payment of \$1,060,000 to Contributory Retirement, an additional \$500,000 for the Reserve Fund (as mentioned above), and an additional \$400,000 for the Public Facilities energy budget.

Article 5 appropriated \$400,000 from the Undesignated Fund Balance of the Community Preservation Fund to renovate the Center Playground bathrooms and maintenance building.

Article 8 appropriated \$75,000 to support preparations for the celebration of the 250th anniversary of the Battle of Lexington.

### ***FY2024 Budget***

Here we discuss some of the overarching factors that affect our Town finances and the proposed budget for the upcoming fiscal year.

#### **Budget Overview**

The first two tables below are based on the Town Manager’s Report in the *FY2024 Recommended Budget and Financing Plan* (the “Brown Book”). They provide a comprehensive overview of the estimated revenue and proposed budget for the coming fiscal year.

<b>Revenue Source</b>	<b>FY2023 Tax Recap</b>	<b>FY2024 Projected</b>	<b>\$ Change</b>	<b>% Change</b>	<b>% of Revenue</b>
Property Tax Revenue	\$ 213,394,083	\$ 221,805,935	\$ 8,411,851	3.94%	80.1%
Tax Levy Dedicated to CSF	\$ 1,733,137	\$ 1,733,137	\$ —	—%	0.6%
Tax Levy Dedicated to Pension	\$ 1,060,000	\$ 1,086,500	\$ 26,500	2.50%	0.4%
State Aid	\$ 17,056,598	\$ 19,638,632	\$ 2,582,034	15.14%	7.1%
Local Receipts	\$ 13,835,445	\$ 14,569,104	\$ 733,659	5.30%	5.3%
Available Funds	\$ 17,463,018	\$ 18,528,585	\$ 1,065,568	6.10%	6.7%
Revenue Offsets	\$ (1,902,341)	\$ (2,359,862)	\$ (457,521)	24.05%	(0.9)%
Enterprise Receipts	\$ 1,805,613	\$ 1,894,067	\$ 88,454	4.90%	0.7%
<b>Gross General Fund Revenues</b>	<b>\$ 264,445,553</b>	<b>\$ 276,896,098</b>	<b>\$ 12,450,545</b>	<b>4.71%</b>	<b>100.0%</b>
Less - Revenue Set-Aside for Designated Expenses	\$ 20,198,797	\$ 22,761,997	\$ 2,563,200	12.69%	8.2%
<b>Net General Fund Revenues</b>	<b>\$ 244,246,756</b>	<b>\$ 254,134,101</b>	<b>\$ 9,887,346</b>	<b>4.05%</b>	<b>91.8%</b>

The gross General Fund Revenue for FY2024 is projected to increase by 4.71%. State aid is estimated to grow by 7.1% this year, an exceptional year-to-year increase that is discussed below. We do not expect this rate of growth in state aid to be repeated in following years.

Once the Town’s “new growth” tax revenue is certified in the fall, the tax levy may increase resulting in higher gross revenue, and creating free cash that may be appropriated at a subsequent special town meeting.



The following table summarizes the FY2024 recommended budget in comparison to FY2023.

<b>Budget Program</b>	<b>FY2023 Restated</b>	<b>FY2024 Recommended</b>	<b>\$ Change</b>	<b>% Change</b>
Education 1000	\$ 131,478,345	\$ 138,232,221	\$ 6,753,876	5.1%
Shared Expenses 2000	\$ 65,846,454	\$ 68,783,939	\$ 2,937,485	4.5%
Municipal Departments 3000-8000	\$ 44,812,553	\$ 47,117,941	\$ 2,305,388	5.1%
<b><i>Subtotal - Operating Budget</i></b>	<b>\$ 242,137,353</b>	<b>\$ 254,134,101</b>	<b>\$ 11,996,749</b>	<b>5.0%</b>
Cash Capital	\$ 14,251,037	\$ 16,342,464	\$ 2,091,428	14.7%
Other (Approp. to reserves, misc.)	\$ 8,057,163	\$ 6,419,533	\$ (1,637,630)	(20.3)%
<b>Total - General Fund</b>	<b>\$ 264,445,552</b>	<b>\$ 276,896,098</b>	<b>\$ 12,450,546</b>	<b>4.7%</b>

The Report of the Town Manager at the start of the Brown Book opens with this statement:

*FY2024 will be particularly difficult due to inflationary pressure on goods and services including increasing wages, and rising healthcare premiums, energy, and refuse disposal costs, all of which had a significant impact on this FY2024 Recommended Budget. The Town also continues to experience supply chain delays and increasing costs for contract labor. The School Department is experiencing challenges with post pandemic learning loss and special education needs.*

Under a level-service budget model, rapidly increasing costs for existing services can limit the Town's ability to fund new or expanded services. As a result the Town Manager approved a fairly limited number of Program Improvement Requests (PIRs) for FY2024.

The recommended FY2024 Town budget was initially approved by the Select Board on February 13. In late February the Governor proposed a State budget for FY2024 with a substantial increase in Lexington's state aid for education. In response, the recommended budget was revised to include the increased state aid, and was approved on March 2.

Including other minor adjustments, the net result was an additional \$2,326,151 in revenue. An additional \$1,703,759 was directed to the operating budget of the Lexington Public Schools. The remaining \$622,392 went to the Municipal and Shared Expenses operating budgets. This allowed the Town Manager to eliminate the use of Free Cash in the operating budget, and to grant approval for a few more PIRs. One of the newly approved PIRs, a full-time Benefits Coordinator, had been initially denied even though it was considered a high priority request. Furthermore, \$140,000 of the \$622,392 is recommended to replace funds that were to be withdrawn from the Transportation Demand Management/Public Transportation Stabilization Fund to support operations of LexPress.

### **Tax Levy Dedicated to Capital Stabilization Fund**

The Town continues to appropriate money into the Capital Stabilization Fund, which supports ongoing capital projects like the new Police Headquarters, and will also be a crucial part of the funding strategy for the Lexington High School project.

Starting in FY2022, the budget incorporated a new line in the revenue summary for a portion of the tax levy that is earmarked for the Capital Stabilization Fund. This is based on a recommendation from the Town Manager's Financial Guideline Working Group which allocates a portion of new growth in the tax levy derived from development in commercially zoned areas of Lexington.

### **ARPA Funds**

For the last three years during the pandemic, the Town has budgeted conservatively in order to be prepared for unexpected financial shocks. While there have been some reductions in local receipts, driven largely by the downturn in tourism and restaurant industries, commercial and residential development have continued at a strong pace. This development has been responsible in large part for Lexington's continued fiscal growth. On top of that, Lexington was granted about \$9.9 million in federal funds under the American Rescue Plan Act (ARPA). These funds are meant to be used to support local businesses and residents that were most negatively affected by the pandemic. The ARPA grant is administered by the Select Board and is not subject to appropriation by Town Meeting. The Committee has discussed the use of ARPA funds with the Select Board and we have raised no objections.

## **Education Budget**

Total enrollment in Lexington Public Schools has held relatively steady for the last three years, but shifts in the needs of incoming students have required increases to special education support and staffing. This has put pressure on the Education budget. However, the decision to hire more full-time education staff also impacts the Shared Expenses budget, which covers employee health benefits for all Town employees.

The cost of providing special education services can vary greatly depending on individual student's needs, and since students may enter and exit the system at will, the annual cost is difficult to predict. The Town has a Special Education Stabilization Fund that can provide some flexibility, but using it requires a two-thirds vote of Town Meeting. This year, the recommended budget includes a new Special Education Reserve Fund, which will be more accessible during the year. This new reserve fund can be tapped with the combined approval of the School Committee and the Select Board. The balance of this new reserve fund will carry forward to successive fiscal years, unlike the main Reserve Fund which is re-appropriated each year.

On March 1, the Town was invited by the Massachusetts School Building Authority (MSBA) to conduct a Feasibility Study in regard to the replacement or renovation of Lexington High School. This is the third module of the MSBA process which will "develop and evaluate alternatives, and recommend the most cost effective and educationally appropriate preferred solution to the MSBA Board of Directors". An appropriation for this work was approved at the April 2022-2 Special Town Meeting. In practice, the Feasibility Study will be funded with short-term borrowing in anticipation of a future debt exclusion referendum that will cover all design and construction costs for the high school project.

## **PEG Access Fund**

This year \$100,000 from the tax levy will be used to supplement funding for the operations of LexMedia. The PEG Access fees that in the past have supported LexMedia are declining. Many residents have reduced or dropped their subscriptions to standard cable TV service, which is the source of those fees. The use of tax levy funding for LexMedia is expected to increase in the future.

## **Refuse and Recycling Collection Revolving Fund**

While renewing a 3-year trash collection and disposal contract, the Town received unexpectedly large bids for this service, with increases roughly 50% over prior years. To partially offset increased costs, the Town Manager recommends that residents be charged a fee for disposing of mattresses, white goods, and other bulky items. A new revolving fund to hold these fees will ensure that they are applied exclusively to the associated disposal costs.

## ***Program Improvement Requests***

A Program Improvement Request (PIR) is part of the Town's process to develop an annual operating budget. The Town first develops a "level service" operating budget that supports existing services at rates comparable to those of the prior year. Each PIR is a proposal from a Town department to update or initiate new services funded by the operating budget.

The Town Manager reviews and approves PIRs for the recommended municipal operating and shared expenses budgets, and the Superintendent of Schools does likewise for the LPS operating budget. Once the complete operating budget is approved by Town Meeting, the successful PIRs become part of the "level service" operating budget in subsequent years. Thus, PIRs offer a transparent view into the growth of the budget beyond the core economic drivers.

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

<b><i>Recurring Expenses</i></b>		
<b>Line Program</b>	<b>Description</b>	<b>Funding</b>
2630 Shared Facilities	VFA Software Annual Subscription	\$ 24,000
3210 Highway Maintenance	Streetscape Maintenance Program	\$ 28,000
3100 Engineering		
7110 Building and Zoning	Sealer of Weights and Measures *	\$ 15,000
8110 Select Board Office	LexMedia Supplemental Funding †	\$ 100,000
8220 Human Resources	Benefits Assistant	\$ 82,731
8220 Human Resources	Full-Time Administrative Assistant	\$ 44,727
7300 Economic Development	Full-Time Tour Service Coordinator ‡	\$ 76,817
<b>TOTAL Recurring Expenses</b>		<b>\$ 371,275</b>

\* A part-time position shared with the Town of Burlington.

† The \$100,000 recommended for LexMedia Supplemental Funding will be reflected as a reduction in revenue from the PEG Access Special Revenue Fund, rather than an addition to expense.

‡ Formerly the Liberty Ride Coordinator, this position will be funded with the Tourism Revolving Fund.

<b><i>One-Time Expenses</i></b>		
<b>Line Program</b>	<b>Description</b>	<b>Funding</b>
8220 Human Resources	Classification and Compensation Study	\$ 30,000
<b>TOTAL One-Time Expenses</b>		<b>\$ 30,000</b>

The Brown Book's Appendix A provides a complete list of submitted PIRs, including those not incorporated into the recommended operating budget.

### **Updates**

This report presents the official positions of the Committee as of the date of publication. The Committee will continue to meet as necessary prior to and during Town Meeting and it may revise its official positions based on new or updated information. The Committee also reports orally to Town Meeting on each article. The oral report summarizes the Committee's final recommendation.

# Warrant Article Analysis and Recommendations

## 2023 ANNUAL TOWN MEETING

<b>Article 4</b>	<b>Appropriate FY2024 Operating Budget</b>	
Funds Requested <i>See below</i>	Funding Source <i>See below</i>	Committee Recommendation <b>Approve (8-0)</b>

The Operating Budget is broken out by major categories based on budget line numbers below.

### **Education (1000)**

#### ***Lexington Public Schools (1100)***

Per the revised revenue allocation for the Lexington Public Schools (LPS) operating budget, an appropriation of \$134,730,244 is recommended for FY2024. The request represents an increase of 5.05% over the FY2023 appropriation. Based on the Governor’s preliminary budget released on February 23, 2023, the allocated amount for LPS was revised upward by \$1.7 million and approved by the Select Board on March 2, 2023.

The appropriation under this article does not include:

- The school portion of Shared Expenses (2000), below, including public facilities, employee & retiree benefits, pension, debt service, liability insurance, and reserve funds.
- Revenue from federal, state, local, and private grants, or revolving and donation fund activity, none of which are subject to appropriation by Town Meeting.

In addition to the amount requested under this article, the revenue allocation process yielded \$211,873 to cover health insurance, Medicare, worker’s compensation costs, etc., associated with new LPS positions. Those funds will be appropriated in the shared expenses part of the operating budget. Since the \$1.7 million increase in the allocation came late in the budget process, decisions as to whether to fund new positions have not been made. According to present plans, amounts for the benefits for any new positions will be transferred to shared expenses by amendments to the FY2024 budget at a fall special town meeting.

The amount requested for line 1100 was, in mid-January, less than the original recommendation of the Superintendent, with a possible increase in expenses for special education needs being of particular concern. To partially address this, Article 19 will request that \$500,000 be appropriated into the Special Education Stabilization Fund, and a new fund, the Special Education Reserve Fund, is to be created and funded with \$750,000 under Article 23. Approval to spend monies from the latter fund will not require any action by town meeting, just votes of the School Committee and Select Board.

Further information about the budget request may be found in the “Education” section of the Brown Book and in the LPS Budget Book (this refers to the “Lexington Public Schools Fiscal Year 2024, The Level Service and Recommended Budget of the Superintendent of Schools”, dated January 3, 2023).

A breakdown of this operating budget into salaries and wages, and expenses is shown below.

Category	FY2023 Budget	FY2024 Recommended	\$ Change	% Change
Salaries & Wages	\$ 106,450,152	\$ 112,791,505	\$ 6,341,353	6.0 %
Expenses	\$ 21,804,295	\$ 21,938,740	\$ 134,445	0.6 %
1100 Lexington Public Schools	\$ 128,254,447	\$ 134,730,245	\$ 6,475,798	5.0 %

**School enrollments**

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

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

The following table shows student enrollments for the past three years and the projected enrollment for the fall of 2023 (since we do not have a projection of pre-K enrollment, the entry with an asterisk is simply assumed to be the same as on October 1, 2022). Since the beginning of the pandemic, it has been difficult to put enrollment projections on a sound basis. The October 1, 2022, enrollment figures show an increase from the year before of 55 students (47 not including pre-K), rather than the projected decrease of 48 students. This may represent a partial rebound from the 2020 pandemic-related drop. This suggests that the projected enrollment for FY2024, which is 91 students lower than the FY2023 October 1 number, may be significantly underestimated.

	Oct. 1, 2020 Enrollment	Oct. 1, 2021 Enrollment	Oct. 1, 2022 Enrollment	Projected FY2024 Enrollment
Early Childhood	57	67	75	75*
Elementary	2,790	2,702	2,702	2,656
Middle School	1,793	1,748	1,765	1,719
High School	2,261	2,273	2,303	2,304
<b>Total</b>	<b>6,901</b>	<b>6,790</b>	<b>6,845</b>	<b>6,679</b>

**Salaries and Wages**

In FY2024, salaries and wages are recommended to increase by \$6,341,355 (5.96%) as a result of cost of living adjustment increases for current personnel, lane changes, and step increases, and the plan to hire additional staff. Salaries and wages make up 84% of the FY2024 request. Of the recommended net increase of 13.43 full time equivalent (FTE) positions, approximately 10 would be in special education, and two would involve either health or physical education/wellness. See the LPS Budget Book for a list of positions that will be consolidated, eliminated, or created.

Salary and wage changes result from changes in the number of employees, step increases, cost of living adjustments (COLA), and position reclassifications. The FY2024 budget includes both anticipated collective bargaining unit settlements and increases for non-union positions. The effective dates of the most recent collective bargaining agreements may be found in the LPS Budget Book on pages *Budget Overview –10* and *–11*.

**Expenses**

Expenses make up 16% of the FY2024 budget request. Special education out-of-district tuition is the largest single line in the detailed expense budget (see the *Expenses* section of the LPS Budget Book). We note that both this and previous school appropriated budgets are based on projected net expenses after the application of revenue that is not appropriated. Such revenue includes “Circuit Breaker” funds and substantial special education grant funds. The Operational Services Division, a Massachusetts state agency, has approved, for FY2024, an across the board allowance for special education tuition increases at private schools of 14%. However, roughly 10% of the special needs students from Lexington that are currently in out-of-district placements will “age-out” of LPS financial responsibility in FY2024, and this will offset the tuition increases, at least in part. A detailed picture of the funding for out-of-district tuition may be found in the LPS Budget Book on page *9000 Programs with Other School Districts–7*.

### **Funding Sources Not Subject To Appropriation**

The majority of the School Department's annual budget is funded by appropriations made by Town Meeting. However, LPS also receives substantial funding from state, federal and other sources that are not subject to appropriation by Town Meeting and are therefore not included in the request under this article. The amounts of these funds vary year to year.

- *Federal Grants* – In the current and previous budget years (FY2022 and FY2023), the Town and schools benefited from Covid-19 related aid through the federal CARES and ARPA acts. For FY2024, the School Department does not expect to receive such funding again; however it does expect to receive \$2,227,080 in other federal grants. For details, see the LPS Budget Book *Grant Fund Summary*–2.
- *State Grants* – The School Department projects that it will receive \$1,748,947 in FY2024 from the METCO program, which represents no change from FY2023. The METCO enrollment is not quite at the target of 240 students. The projected METCO grant represents \$7,287 per METCO student, based on 240 students. Cherry-sheet local aid for education, i.e., Chapter 70 aid, is treated as General Fund revenue and is not included in state grants.
- *“Circuit Breaker” Reimbursements* – Reimbursements are received from the state when the costs of special education services for an individual student, whether in-district or out-of-district, exceed a multiple of four times the statewide foundation budget. In the past, reimbursement rates have varied between 35% and 75% of the tuition cost. Circuit Breaker reimbursement funds are paid to the district quarterly based on the prior year's approved claims. Funds received go into the Circuit Breaker Revolving Account, do not require further appropriation, and must be expended by June 30 of the following fiscal year. The Lexington Public Schools' current practice is to apply a large fraction of the funds received in a given fiscal year (based on SPED expenses in the prior fiscal year) as a revenue offset in the following fiscal year. A detailed exposition of the LPS Circuit Breaker funding may be found in the LPS Budget Book on page *Revenue Offsets*–5.

### **Fee Programs**

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

### ***Regional High School (1200)***

Lexington's FY2024 projected assessment for the Minuteman Regional High School (MRHS) of \$3,501,978 represents an increase of \$278,080, or 8.63%, over FY2023. It follows on the prior year's increase of 3.00% and an increase of 9.32% from FY2021 to FY2022. Lexington's four year rolling average enrollment, the enrollment number that our assessment is based on, grew from 63 to 70 students, and our assessment increase is higher than the increase in the District budget because Lexington's enrollment is a higher percentage of the district's total enrollment.

### **The District's Budget**

This budget is the first to be submitted by the new District Superintendent Dr. Kathleen Dawson. The Minuteman Regional High School (MRHS) Committee has approved a FY2024 budget of \$30,316,325, a \$1,305,703 increase (4.5%) over FY2023. The increase is the net effect of a 5.9% increase in the cost of operations and a \$35,243 decrease in debt costs.

This will be the fifth year of operations in the new school building, which was designed for an enrollment of up to 628 students. Response to the new facility has been very strong and current high school enrollment is 701 students. Of the total, 621 students come from the nine member towns of the school district, and the remaining 80 students come from out-of-district communities.

### **District Developments**

For the last four years, and for the upcoming year, more than 350 applications have been received from in-district students. In-district students are given priority, and for four consecutive years almost all of the incoming freshman class will be in-district. This enrollment trend means that by FY2025 the school enrollment will consist entirely of in-district students. Based on applications received to date, total school enrollment is expected to approach 740 students in September 2023.

**Enrollment at Minuteman Regional High School**

<b>Enrollment</b>	<b>FY 19</b>	<b>FY 20*</b>	<b>FY 21</b>	<b>FY 22</b>	<b>FY 23</b>	<b>FY 24 est.</b>
In-district	354	395	467	538	621	698
Out-of-district	162	207	167	117	80	36
<b>Total</b>	<b>516</b>	<b>602</b>	<b>634</b>	<b>655</b>	<b>701</b>	<b>734</b>

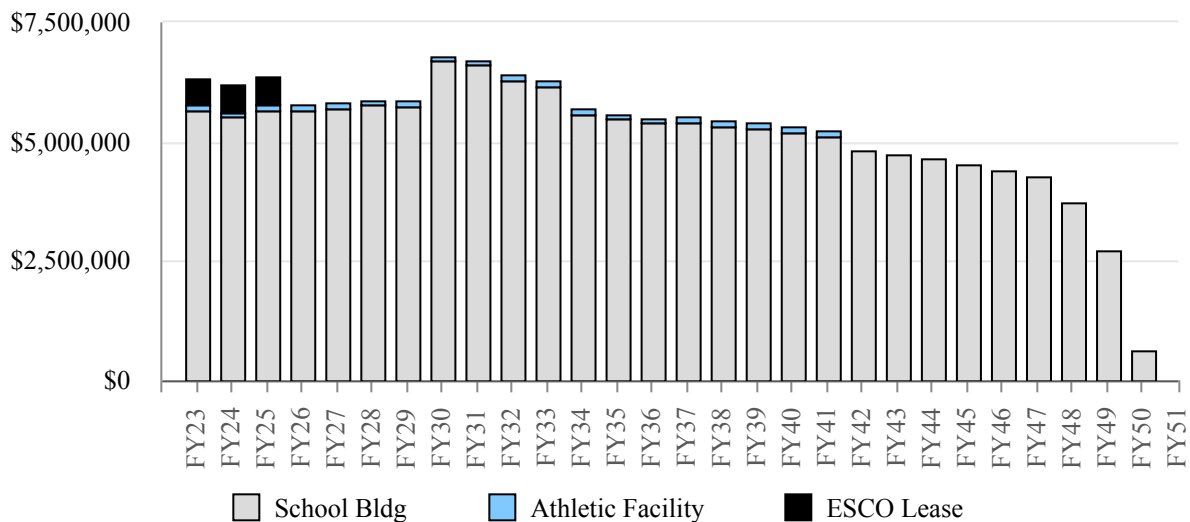
\* new school occupied

The district has undertaken steps to increase school capacity to 800 students, with graduating classes in the range of 200 students. While the flexible design of the school’s technical training spaces would allow this higher capacity, the school is creating academic space in other on-site buildings. The district continues to contribute \$500,000 to their Capital Stabilization Fund to accommodate future enrollment needs without incurring any additional debt.

Phase 1 of the District’s athletic facilities project, construction of the playing fields with lighting, was completed and the fields are now being used. Phase 2, construction of six tennis courts, stadium seating (approx. 1,200 seats) with a press box, a building containing locker rooms, bathrooms, a concession stand with a kitchen, storage spaces, and mechanical rooms, has been awarded. The RFP calls for the construction and lease management of the athletic complex. Phase 2 will be done at no cost to the District members. Rental income will be posted to the district’s Facilities Revolving Fund. While this revenue will not show in their revenue plan, the revolving fund revenue will be used to offset overhead and will result in a reduction in that line item starting with the FY2024 budget.

The district’s long-term capital and debt obligations last through FY2050 and are summarized in the chart below.

**MRHS District Debt Service - FY2023-FY2051**



It is comprised of three components, with differing terms. The debt on the school building ends in FY2050, that on the athletic facility ends in FY2041, and the ESCO Lease ends in FY2026. The annual ESCO Lease payments of over \$550,000 is for equipment used in the prior school building and is paid with assessments from the 16 member towns that were in the district when the lease began.

The debt service for both the school building and the athletic facility project is funded via assessments to district members and by a state-authorized facilities fee for capital costs charged to non-member towns that enroll students at the school. This fee is set by the Department of Elementary and Secondary Education (DESE) and towns are classified by whether they offer at least five Chapter 74 (vocational-technical) programs. Of the facilities fees collected in FY2023, \$373,430 is available to be applied to the FY2024 budget. The per-student charge in FY2024 has still not been set by DESE, yet with declining out-of-district enrollment, this will become an irrelevant source of revenue.

According to FY2021 state data, MRHS continued to have the highest average per-pupil costs of any Massachusetts regional vocational district (RVD). The drivers include a high teachers/100 students ratio of 12.3 (the highest, compared to an average of 9.3 for all RVDs), a very high enrollment rate in special education of 41% (the highest

rate across all RVDs in the state), and a high average teacher compensation of \$100,101 (the third highest across all RVDs, compared to an overall average pay of \$89,585).

**District Budget Overview**

The FY2024 budget includes efforts to handle continuing growth in enrollment and reductions in revenue from out-of-district tuition and fees, all while addressing student educations and wellness needs in the post-pandemic world. The district will also be monitoring the facilities needs of the new building in an effort to properly budget for ongoing operational costs.

Teaching staff will see an increase of 3.0 FTEs. The increased enrollment requires more staffing in Math, Animal Sciences and Engineering/Robotics..

Debt service is almost 23% of the total budget, and salaries comprise over 47% of the budget. Unlike the Lexington Public Schools operating budget, this budget includes debt service for major capital projects. The teachers’ contract is expiring at the end of FY23, and \$1.56 million is budgeted for contract renewal and for new FTEs. Legal Services are increased by \$100,000 (+42.7%). Utilities and heating expenses are conservatively budgeted to increase \$69,200, and a commitment to provide proactive facilities maintenance increases those line items by \$34,000.

While health insurance rates are projected to rise 10%, the budget only reflects a slight net increase because the actual FY2023 total expenses were lower than budgeted. Transportation costs have decreased \$132,894 (-8.48%) due to more accurately budgeting the 5% CPI increase in the bus contract. A \$66,642 payment will be made toward the funding of the district’s \$20,850,743 Other Post-Employment Benefits (OPEB) unfunded liability.

Roughly 16% of the revenue in the MRHS FY2024 budget comes from a combination of state aid, reserves, and fees shown in the table below, down from 23% in FY2023, mainly due to reduced out-of-district enrollment. In total, this non-assessment revenue decreases by \$(1,780,467) in FY2024. Chapter 70 funds and transportation aid are estimated based on the Governor’s H-1 budget. MRHS’s share of Chapter 70 aid increases 8.3% due to increased in-district enrollment. Transportation Aid appears to decrease (21.5)% compared to what was budgeted for FY2023, but because the FY2023 aid covered reimbursement of transportation expenses incurred in FY2022 (COVID), the FY2024 to FY2023 aid comparison is not useful. FY2024 Transportation Aid, based on FY2023 expenses, will exceed the aid actually received in FY2023 for FY2023 expenses.

<b>Revenue Sources</b>	<b>FY2023</b>	<b>FY2024</b>	<b>Change \$</b>
Chapter 70	\$ 2,028,744	\$ 2,197,552	\$ 168,808
Transportation Aid	\$ 1,029,441	\$ 807,615	\$ (221,826)
Prior Year Tuition	\$ 1,367,364	\$ 805,817	\$ (561,547)
Current Year Tuition	\$ 950,000	\$ —	\$ (950,000)
Excess and Deficiency (E&D) Funds	\$ 650,000	\$ 650,000	\$ —
Current Year Nonresident Capital Fee	\$ 289,332	\$ 373,430	\$ 84,098
Prior Year Nonresident Capital Fee	\$ 300,000	\$ 0	\$ (300,000)
Assessments	\$ 22,395,741	\$ 25,481,911	\$ 3,086,170
<b>TOTAL</b>	<b>\$ 29,010,622</b>	<b>\$ 30,316,325</b>	<b>\$ 1,305,703</b>

**Lexington’s Assessment**

The remainder of the revenue, \$25,481,911, is raised through assessments on member towns. Member towns are assessed a share of the District’s total costs for the upcoming year, net of the District’s non-assessment revenue, based on four components:

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

The first three assessment components fund the member’s share of the school’s operating costs. Debt service is charged to member towns using a two-part formula. One percent of the debt service cost is assessed equally to each



of the nine member towns, and the remaining 91% is apportioned based on the most recent four-year rolling average of student enrollment and the State’s “combined effort” factor as determined by the Chapter 70 formula.

A breakdown of the Town’s FY2023 and FY2024 MRHS assessments is shown below. The projected assessment for FY2024 is \$3,501,978, an increase of \$278,080 (8.63%) over the final FY2023 assessment.

**Projected Lexington Assessment – Based on Unapproved House-1 Budget Bill**

	Enrollment Basis		Assessment Components		Per-Student
	FY2023	FY2024	FY2023	FY2024	FY2024
State-Required Minimum	68	78	\$ 1,156,993	\$ 1,158,939	\$ 16,795
Regular Day Students*	63	69.5	\$ 935,559	\$ 969,283	\$ 17,018
Transportation	68	77	\$ 109,594	\$ 78,524	\$ 1,021
<b>Total Operating Costs*</b>			\$ 2,206,746	\$ <b>2,572,408</b>	
Debt Service*	63	69.5	\$ 1,017,152	\$ 929,570	\$ 13,375
<b>TOTAL ASSESSMENT</b>			\$ 3,223,898	\$ <b>3,501,978</b>	
	<i>Annual % increase (decrease)</i>		3.00%	8.63%	

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

The FY2024 operating cost assessment per student (excluding debt service) works out to \$32,980 (based on Lexington’s October 2022 enrollment of 78 students), an increase from last year’s per-student cost of \$32,452. This is comparable to the \$32,586 average assessment for in-district students. Due to the assessment formula, during periods of growing enrollment the assessed per-student amount lags behind short-term enrollment trends. A rising enrollment will tend to lower per-student costs (and vice versa) until the 4-year average stabilizes. Enrollment from other member towns can also affect this figure, as Lexington’s percentage of the total member enrollment changes.

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

**Shared Expenses (2000)**

Shared Expenses covers appropriations for various activities that serve multiple departments but are managed or carried out by a single office. Although these amounts do not appear in the budgets of LPS or individual municipal departments, most are driven primarily by the complement of employees of or the facilities and capital equipment used by the various departments. Others, including insurance premiums and payments related to solar energy facilities, concern the overall operation of the Town.

As shown in the table below, 65% of shared expenses fund employee benefits, which are administered by municipal staff, but which are driven by current and past staffing decisions made by both LPS and the municipal departments. The second largest line item supports facilities managed by the Public Facilities Department for use by LPS and municipal departments. The third largest line item is within-levy debt service, which is administered by the Finance Department. Debt service is driven by current and past capital expenditures and financing decisions.

For FY2024, the \$750,000 appropriation for the Reserve Fund is at the same level as it was initially funded in FY2023. An additional \$500,000 was appropriated to the Reserve Fund at the 2022-3 Special Town Meeting. For a longer-term history, see Brown Book Appendix C, “Summary of Reserve Fund Transfers.”

Program 2000	Description	FY2023 Restated	FY2024 Budget	% of Shared Expenses	\$ Change	% Change
2100	Employee Benefits & Insurance	\$ 42,787,638	\$ 45,622,435	66.3 %	\$ 2,834,797	6.6 %
2200	Property & Liability Insurance	\$ 1,095,000	\$ 1,192,000	1.7 %	\$ 97,000	8.9 %
2300	Solar Producer Payments	\$ 390,000	\$ 390,000	0.6 %	—	— %
2400	Within-Levy Debt Service	\$ 7,254,509	\$ 6,854,101	10.0 %	\$ (400,408)	(5.5) %
2500	Reserve Fund	\$ 1,250,000	\$ 750,000	1.1 %	\$ (500,000)	(40.0) %
2600	Facilities	\$ 13,069,307	\$ 13,975,403	20.3 %	\$ 906,096	6.9 %
	<b>Total</b>	<b>\$ 65,846,454</b>	<b>\$ 68,783,939</b>	<b>100.0 %</b>	<b>\$ 2,937,485</b>	<b>4.5 %</b>

The recommended total Shared Expenses budget for FY2024 is \$68,783,939, representing an increase of \$2,937,485 or 4.5% from the restated amount for FY2023.

### ***Employee Benefits & Insurance (2100)***

As shown in the table below, Line 2100 includes costs for retirement; health, dental, and life insurance; workers' compensation, unemployment insurance, and the Medicare tax. The total request for Employee Benefits and Insurance is \$45,622,435, a \$2,834,797 (6.63%) increase over the FY2023 appropriation. The table below provides a breakdown of the benefits budget by category.

Benefits Category	Amount	Percent of Total
Retirement	\$ 9,984,800	21.89 %
Medicare	\$ 2,189,679	4.80 %
Health Insurance	\$ 31,612,815	69.29 %
Dental Insurance	\$ 1,110,141	2.43 %
Life Insurance	\$ 25,000	0.05 %
Unemployment	\$ 200,000	0.44 %
Workers Compensation	\$ 500,000	1.10 %
<b>Total</b>	<b>\$ 45,622,435</b>	

All of the appropriation for retirement will go toward the contributory retirement (pension) program, i.e., into the Retirement Fund; as of FY2023 there are no retirees who receive non-contributory retirement benefits. The appropriation will address both current year payouts from the Retirement Fund and an amount that moves the Fund toward full funding of the Town's pension liabilities. To fully fund these liabilities, the Retirement Board has increased the planned appropriations into the Retirement Fund and has stretched out the funding schedule by two years, i.e., to 2030. For FY2024, the recommended contributory retirement appropriation is increasing by 8.3% to \$9,984,800. Of that amount, \$400,000 will be funded from Free Cash, as was done for FY2023. In the Retirement Board's present plan the appropriations under this line item will increase by about \$750,000 per year until 2030. Once the full funding goal is reached, and, assuming the full-funding status is maintained, the annual costs for contributory retirement will be significantly lower.

Health insurance costs make up the bulk of the Employee Benefits budget. The FY2024 request for health insurance is \$31,612,815, which represents a 7.0% increase over the revised appropriation for FY2023. The Town remains a member of the State's Group Insurance Commission (GIC) health insurance program, which has helped hold down the rate of cost increases. Since joining the GIC program in FY2016, the split of healthcare premiums between employer and subscribers is 82/18 or 75/25 depending on the health plan chosen by the employee (the town pays a larger share for employees who choose a lower cost plan). The Brown Book, on pp. IV-6 and IV-7, contains a discussion of health-benefit costs, including changes in the numbers of subscribers since FY2019. The projected number of subscribers used for the FY2024 budget represents a 0.6% increase over FY2023 and an 8% increase since FY2019.

### ***Solar Producer Payments (2300)***

This line item reflects payments for the installation and operating costs of the solar array at the Hartwell Ave compost facility. Against the annual cost of \$390,000, which covers both the initial capital cost and maintenance

costs, staff estimates that the array will generate net-metering credit payments from the electric utility Eversource, payments in lieu of taxes, and a small amount of lease income, so the array is projected to generate a net contribution to the General Fund of \$366,400.

Note this budget item does not include the Town’s rooftop solar arrays and payments in lieu of taxes for the solar operations, which are recorded under personal property taxes per the Massachusetts Department of Revenue. The Brown Book includes tables on p. IV-11 that present a more complete set of estimates for the Town’s solar installations, with projected net revenues of \$570,400 in FY2024.

***Debt Service (2400)***

Line item 2400 covers annual payments for within-levy debt service. Gross within-levy debt service is projected to be \$6,854,101.

The Town must also make annual payments for exempt debt service. They are funded by collecting additional property tax revenue that is exempt from the limits imposed by Proposition 2½. The funds for these payments are not appropriated by Town Meeting. Every project funded with exempt debt must be approved by a majority of voters in a town-wide referendum, after which the Select Board sets the tax levy to provide sufficient funding. The Town may use the Capital Stabilization Fund to mitigate the impact of exempt debt service, effectively lowering the total tax levy that must be collected.

The recommended budget proposes the appropriation of \$500,000 from the Capital Stabilization Fund under Article 19(a) to provide tax relief related to exempt debt service, which includes the new Police Headquarters.

***Reserve Fund (2500)***

The Reserve Fund is a small fund reserved for time-critical, extraordinary and unforeseen expenses. Once appropriated, it can be used during the fiscal year without further approval from town meeting. Requests for transfers from this fund require formal approval by the Appropriation Committee and the Select Board, but they are generally initiated by Town or LPS staff, or the Select Board.

The FY2024 requested appropriation for the Reserve Fund is \$750,000.

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

***Public Facilities (2600)***

The Department of Public Facilities manages the operation, maintenance, utilities, and custodial servicing for Lexington’s municipal and school buildings. This Department also manages recurring maintenance of roofs, building envelopes, and all building systems including HVAC, as well as other priority facility-related projects. Finally, the Department supports efforts to plan major renovations, building replacement, or new building construction. The FY2024 Public Facilities General Fund operating budget is \$13,975,403, which represents a 6.93% increase over FY2023.

***Municipal (3000-8000)***

The municipal operating budget comprises all line items from 3000 to 8999. As shown in the table below, the FY2024 recommended budget of \$47.12 million represents a \$2.31 million or 5.1% increase. The largest components within the municipal budget are Public Safety, Dept. of Public Works, and General Government.

<b>Municipal Budgets</b>	<b>FY2023 Restated</b>	<b>FY2024 Recommended</b>	<b>\$ Change</b>	<b>% Change</b>
3000 Public Works	\$ 11,968,145	\$ 12,717,509	\$ 749,364	6.26%
4000 Public Safety	\$ 16,333,845	\$ 17,144,601	\$ 810,756	4.96%
5000 Culture & Recreation	\$ 3,336,219	\$ 3,385,820	\$ 49,601	1.49%
6000 Human Services and Health	\$ 1,985,291	\$ 2,229,011	\$ 243,720	12.28%
7000 Land Use, Housing & Development	\$ 2,334,743	\$ 2,399,116	\$ 64,373	2.76%
8000 General Government	\$ 8,854,311	\$ 9,241,884	\$ 387,573	4.38%
<b>Total</b>	<b>\$ 44,812,553</b>	<b>\$ 47,117,941</b>	<b>\$ 2,305,388</b>	<b>5.14%</b>

### ***Public Works (3000)***

This article covers the portions of the Public Works budget lines 3100-3500 that are supported through the General Fund. Spending for Public Works operations in these areas is also covered by several revolving funds, with authorization provided under Article 9. The budgets for the Water and Sewer Divisions, lines 3600 and 3700, which are part of the respective enterprise funds, will be acted on under Article 5.

The recommended appropriation for Public Works under this article represents a 6.26% increase over FY2023. Of the total, \$11,685,047 is covered by the tax levy, \$633,912 is covered by payments from the enterprise funds for services rendered, and the remainder, i.e., about \$400,000, comes from other sources, primarily fees and the Cemetery Trust Fund. About 39% of the recommended budget is for compensation, i.e., salaries and wages, while the remaining 61% is for expenses.

The net increase in compensation of \$136,682 (2.8%) from FY2023 is attributable to the cost of contractually obligated step increases and cost of living adjustments.

The net increase in expenses is \$612,682, up 8.6% from FY2023. The current 5-year contract for trash and recycling collection and disposal expires on June 30, 2023. Negotiations on a new 5-year contract beginning in FY2024 have taken place, but, at the time this report is being written, a new contract has not been signed. With this caveat noted, the costs in FY2024 under the new contract are expected to increase by about \$611,000 or just under 19%; most of this increase is for collection rather than disposal. This budget assumes that a Refuse and Recycling Collection Revolving Fund will be created and that Town Meeting will approve the associated disposal fees. If that does not happen, then the \$230,000 of expenditures proposed under the new revolving fund will need to be shifted to the Environmental Services line (3400).

### ***Public Safety (4000)***

Public Safety covers Law Enforcement (4100) and Fire and Rescue (4200). Of the total recommended appropriation of \$17,144,601, about 53% is for Law Enforcement and 47% for Fire and Rescue. However, the latter budget does not include any increases that arise when a Fire Department union contract that is under negotiation is settled. Per the standard protocol, the increases in FY2024 will be covered by the Salary Adjustment account in the Town Manager's budget.

The recommended FY2024 appropriation for Law Enforcement is \$9,042,530 which is a 9.40% increase over the FY2023 budget. About 87% of the budget is for compensation and approximately 13% is for expenses. The net increase in compensation of \$699,355 (9.75%) reflects the results of step increases and settlements within the last year or so in multiyear contracts. The net increase in expenses is \$77,798 (7.10%) reflects costs of moving to hybrid and electric vehicles as well as a number of minor other changes.

The recommended FY2024 appropriation for Fire and Rescue is \$8,102,071, which is a 0.42% increase over the FY2023 budget. About 90% of the budget is for compensation while approximately 10% is for expenses. The net increase in compensation of \$16,546 (0.23%) does not reflect all of the increases that will be needed after settlements are reached will all of the Department's bargaining units (a major Fire Department bargaining unit contract is under negotiation at this time). The recommended budget for expenses has increased by \$17,057 (2.14%).

### ***Culture and Recreation (5000)***

Culture and Recreation covers Cary Memorial Library and Recreation and Community Programs. The FY2024 recommended appropriation of \$3,385,820 represents a 1.49% increase over the FY2023 budget. About 80% of the recommended budget is for compensation while the remaining 20% is for expenses. Note that the budget to be appropriated under this article is only for the Cary Memorial Library. The Recreation and Community Programs budget is funded under Article 5 by the Recreation Enterprise Fund and, to a lesser extent, by the tax levy.

### ***Human Services and Health (6000)***

The recommended appropriation for Human Services and Health of \$2,229,011 represents an 12.28% increase from the FY2023 budget. The Human Services General Fund appropriation request is \$1,701,698 which is made up of 44% for compensation and 56% for expenses. In addition to this appropriation, Human Services is funded by a Massachusetts Office of Elder Affairs grant, Veteran's Services Regional Funding, an MBTA Suburban Transportation grant, and the Senior Services Revolving Fund (see Article 9).

The net increase in compensation for Human Services of \$31,267 (4.4%) is driven by contractual step increases and cost of living adjustments. The net increase in expenses of \$143,010 (18%) reflects an increase for the William James Interface Mental Health Referral Service, and a \$140,000 increase for LexPress. Because the cost to maintain the same LexPress service in FY2024 is projected to increase very significantly, and because ridership has declined significantly, the Select Board and an ad hoc committee are examining alternative ways of operating a transportation system.

The Health Department has been moved and elevated from inside the Land Use, Health, and Development Department to a stand-alone department alongside Human Services. This change, which is associated with minor promotions of several positions, e.g., the Health Director will become a member of the senior management team, at an annual cost of just over \$12,000, provides a location within the Town’s organizational structure commensurate with the importance of the office’s functions.

The recommended appropriation for Health of \$527,313 represents a 15% increase from the FY2023 budget. Part of this request, \$40,000, would come from permit revenue. About 81% of the recommended budget is for compensation while 19% is for expenses. The increase in compensation includes the transfer of an administrative assistant from the administrative arm of the Land Use, Health, and Development Department as well as the usual step and cost of living increases.

The Health Department’s work on vaccine clinics, etc., is also funded through the Health Programs Revolving Fund and its regulatory work is partly funded through the Lab Animals Permits Revolving Fund.

***Land Use, Housing, & Development (7000)***

Land Use, Health, & Development has been renamed as Land Use, Housing, & Development. The new name reflects the outward transfer of the Health Department and the increase in attention being put on affordable housing. The Department now covers five different budgeting units, i.e., Building and Zoning, Administration, Conservation, Planning, and Economic Development. The recommended appropriation of \$2,399,116 represents a 2.76% increase over the FY2023 budget restated so as to be comparable, i.e., without including any of the funding for the Health Department. About 84% of the recommended budget is for compensation while 16% is for expenses. Spending from the Residential Engineering Review and Tourism Revolving Funds, which are closely related to the operations of this department, will be considered under Article 9. The proposed new Tourism Revolving Fund would consolidate the revenue and spending of the Liberty Ride and Visitors’ Center Revolving Funds.

The net increase in compensation of \$45,923 (2.32%) is driven by contractual step changes and cost of living adjustments. The part-time position of Liberty Ride Coordinator is recommended to transition to a full-time Tour Services Coordinator. The additional cost will be supported by the Tourism Revolving Fund.

The net increase in expenses of \$18,450 (5.18%) would be slightly lower except that the Town will share the cost with the Town of Burlington of a Sealer of Weights and Measures, since the State no longer provides the latter services.

***General Government (8000)***

General Government covers six different budgeting units. The recommended appropriation of \$9,241,884 represents a 4.38% increase from the FY2022 restated budget.

<b>Program 8000 General Government</b>	<b>FY2023 Restated</b>	<b>FY2024 Budgeted</b>	<b>\$ Change</b>	<b>% Change</b>
8100 Select Board	\$ 1,298,802	\$ 1,334,327	\$ 35,525	2.74%
8200 Town Manager	\$ 2,132,393	\$ 2,210,252	\$ 77,859	3.65%
8300 Town Committees	\$ 70,160	\$ 66,208	\$ (3,952)	(5.63)%
8400 Finance	\$ 2,058,151	\$ 2,115,172	\$ 57,021	2.77%
8500 Town Clerk	\$ 627,297	\$ 597,360	\$ (29,937)	(4.77)%
8600 Innovation & Technology	\$ 2,667,509	\$ 2,918,565	\$ 251,057	9.41%
<b>Total</b>	<b>\$ 8,854,312</b>	<b>\$ 9,241,884</b>	<b>\$ 387,573</b>	<b>4.38%</b>

The Select Board budget includes funding for LexMedia. That funding has previously come wholly from cable TV fees via the PEG Access Special Revenue Fund. Because cable TV revenues, and hence the derived fees, have fallen this year the budget includes \$100,000 for LexMedia from the tax levy.

Line 8200 Town Manager includes \$725,300 for the Salary Adjustment Account, line 8230. The amount budgeted for this item varies from year to year depending on the status of collective bargaining settlements, other anticipated wage increases, and compensated leave payments due certain employees at retirement. An HR Administrative Assistant position in the Town Manager’s office that has been funded from ARPA funds will be funded by the tax levy. Line 8200 also includes two increases for recommended program improvement requests (PIRs). The first PIR is a one-time expenditure of \$30,000 for a classification and compensation study. The other recommended PIR is for a benefits assistant in Human Resources. A presently vacant management analyst position will not be filled. The Town Manager line for expenses will cover the CodeRED notification system that was previously funded through the Police Dispatch expense budget.

The transfer of the compensation for a webmaster from the Innovation & Technology budget to the Town Manager budget affects those individual line items but does not affect the total for line 8000.

The Innovation & Technology expense budget recommendation of \$2,110,426 represents an increase of 13.7% to cover a number of changes in technology purchases. Please see the Brown Book for details.

Article 5 Appropriate FY2024 Enterprise Funds Budgets			
Funds Requested	Funding Source	Committee Recommendation	
\$11,906,855	Water EF	Approve (8-0)	
\$11,781,100	Wastewater EF		
\$3,015,074	Recreation EF		
\$256,675	Tax Levy		

Enterprise Fund	FY2022 Appropriated	FY2023 Appropriated	FY2024 Requested
<b>a. Water</b>			
Personal Services	\$ 823,447	\$ 875,670	\$ 892,639
Expenses	\$ 462,428	\$ 533,500	\$ 577,500
Debt Service	\$ 1,097,696	\$ 1,224,746	\$ 1,093,902
MWRA Assessment	\$ 8,743,912	\$ 8,493,467	\$ 9,342,814
<b>Total Water Enterprise Fund</b>	<b>\$ 11,127,483</b>	<b>\$ 11,127,383</b>	<b>\$ 11,906,855</b>
<b>b. Wastewater</b>			
Personal Services	\$ 279,417	\$ 399,848	\$ 421,922
Expenses	\$ 329,323	\$ 458,400	\$ 517,400
Debt Service	\$ 1,352,192	\$ 1,595,417	\$ 1,492,248
MWRA Assessment	\$ 8,177,213	\$ 8,499,573	\$ 9,349,530
<b>Total Wastewater Enterprise Fund</b>	<b>\$ 10,138,145</b>	<b>\$ 10,953,238</b>	<b>\$ 11,781,100</b>
<b>c. Recreation and Community Programs</b>			
Personal Services	\$ 1,250,760	\$ 1,567,753	\$ 1,682,935
Expenses	\$ 1,346,285	\$ 1,571,240	\$ 1,588,814
<b>Total Recreation and Community Programs Enterprise Fund</b>	<b>\$ 2,597,045</b>	<b>\$ 3,138,993</b>	<b>\$ 3,271,749</b>

This article addresses the operating budget of the Town’s three enterprise funds: the Water Enterprise Fund, the Wastewater Enterprise Fund, and the Recreation Enterprise Fund.<sup>1</sup> Enterprise funds allow a municipality to account

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

separately for certain “business operations” in which a fee is charged in exchange for goods or services, and it may or may not receive support from the tax levy. For an overview of the legal framework and accounting concepts that apply to the operation of an enterprise fund, please see Appendix B.

The operating and capital costs of the Water and Wastewater enterprises are funded exclusively by rates and fees charged to users, with no support from the tax levy or General Fund. The operating costs of the Recreation Fund enterprise are funded to the extent feasible by user fees, but also receive subsidies from the General Fund. Recreation capital projects are funded from the Community Preservation Fund whenever feasible, and if such funding is not available, from the Recreation Fund’s retained earnings or the General Fund.

### **Water and Wastewater Enterprise Funds**

Most of the costs in the water and wastewater operating budgets are appropriated under this article, per the table above. Certain other recurring costs, however — including “indirect expenses” (for support services provided by other Town departments), cash to be raised in the rates for continuous system capital improvements, and contributions to the post-employment health benefits (OPEB) fund — are addressed in other articles. For completeness, the table below summarizes all of the line items which comprise the annual water and wastewater operating budgets found in the Brown Book, showing changes from the prior fiscal year and the articles under which item is appropriated. Further details may be found in the Brown Book, pp. V-28, 32.

The table below also differs from the table above and the motion which will be presented under Article 5 in two important respects. (1) it replaces the projected MWRA assessments used in the table and in the motion, which are based on 10% “placeholder” increases over last year, with the much smaller preliminary assessments recently issued by the MWRA. (The MWRA issues preliminary assessments for planning purposes each year in mid-February, then follows up with final assessments in June. The final assessments, used to set water and wastewater rates in the fall, are typically a bit lower than the preliminary assessments.); and (2) it replaces the MWRA wastewater assessment for FY2023 appropriated at last year’s ATM with the slightly lower final assessment to which the original FY2023 appropriation was amended at last fall’s special town meeting (the MWRA assessment for water was unchanged). Including these changes more accurately reflects the actual year-over-year increases in the water and wastewater budgets.

<b>Water Enterprise Fund</b>	<b>FY2023 Appropriated</b>	<b>FY2024 Requested</b>	<b>\$ Change</b>	<b>% Change</b>
Compensation	\$ 875,670	\$ 892,639	\$ 16,969	1.94 %
Expenses	\$ 533,500	\$ 577,500	\$ 44,000	8.25 %
Debt Service	\$ 1,224,746	\$ 1,093,902	\$ (130,844)	(10.68) %
MWRA Assessment	\$ 8,493,467	\$ 8,828,116	\$ 334,649	3.94 %
<b>Total Requested in Article 5</b>	<b>\$ 11,127,383</b>	<b>\$ 11,392,157</b>	<b>\$ 264,774</b>	<b>2.38 %</b>
Indirect Expenses ( <i>Article 4</i> )	\$ 977,093	\$ 1,011,340	\$ 34,247	3.50 %
Cash Capital ( <i>Article 13</i> )	\$ 600,000	\$ 800,000	\$ 200,000	33.33 %
OPEB Contribution ( <i>Article 17</i> )	\$ 2,761	\$ 2,761	\$ —	—
<b>Total Water Enterprise</b>	<b>\$ 12,707,237</b>	<b>\$ 13,206,258</b>	<b>\$ 499,021</b>	<b>3.93 %</b>

<b>Wastewater Enterprise Fund</b>	<b>FY2023 Appropriated</b>	<b>FY2024 Requested</b>	<b>\$ Change</b>	<b>% Change</b>
Compensation	\$ 399,848	\$ 421,922	\$ 22,074	5.52%
Expenses	\$ 458,400	\$ 517,400	\$ 59,000	12.87%
Debt Service	\$ 1,595,417	\$ 1,492,248	\$ (103,169)	(6.47)%
MWRA Assessment	\$ 8,432,789	\$ 8,984,837	\$ 552,048	6.55%
<b>Total Requested in Article 5</b>	<b>\$ 10,886,454</b>	<b>\$ 11,416,407</b>	<b>\$ 529,953</b>	<b>4.87%</b>
Indirect Expenses ( <i>Article 4</i> )	\$ 542,416	\$ 588,040	\$ 45,624	8.41%
Cash Capital ( <i>Article 14</i> )	\$ 300,000	\$ 400,000	\$ 100,000	33.33%
OPEB Contribution ( <i>Article 17</i> )	\$ 3,004	\$ 3,004	\$ —	—
<b>Total Wastewater Enterprise</b>	<b>\$ 11,731,874</b>	<b>\$ 12,407,451</b>	<b>\$ 675,577</b>	<b>5.76%</b>

The most significant components of the budget increase are addressed briefly below. The first, a relatively modest increase in the Town's MWRA assessment, has a positive impact. The second, the continuation of a long-term plan to transition the funding of the enterprises' recurring capital investment programs from debt to cash raised in the rates, increases the combined budget by about 1.25%, but should ultimately result in cost savings to rate-payers.

*MWRA Assessment.* The largest component of both the water and wastewater budgets is the assessment charged by the Massachusetts Water Resources Authority (MWRA), which now represents 70% of the total combined budget. As shown in the table immediately above, those assessments are increasing by 3.94% and 6.55% respectively, resulting in a combined increase of 4.81%. This increase is higher than last year's increase of 2.85%, but nevertheless not unreasonable given recent levels of inflation. The Town is assessed a share of the MWRA's total FY2024 water budget based on its proportionate usage in the most recent full calendar year (CY2022) relative to other towns in the MWRA community (the wastewater share formula is similar but a bit more complicated). In CY2022, Lexington's water system share remained level, compared with a *decrease* of about 7% the year before. The volatility of Lexington's system share results primarily from its pattern of fluctuating irrigation usage, compared with other more urban towns in the MWRA community where water usage is more stable.

*Transition to Cash Capital.* Beginning in FY2021,, a plan was initiated to transition the funding of regularly recurring capital investments in the Town's water and wastewater systems (targeted at \$2,200,000 annually for the water system and \$1,000,000 annually for the wastewater system) from borrowing to cash raised in the rates (referred to in the Brown Books as "cash capital"). Since the intent is ultimately to fund the entire cost of the annual capital investment program with cash raised in the rates, the cash component is treated as an annual operating cost at rate-setting, much like debt service, even though applied to capital investment and appropriated in Articles 13 and 14. See Brown Book, pp. V-28, 32. To minimize the impact of the changeover on rates – which would be significant if done on a one-time basis – the transition is being phased in gradually: in the case of the water fund, by adding an additional \$200,000 in "cash capital" each year for eleven years; and in the case of the wastewater fund, \$100,000 per year for ten years. See the Brown Book, pp. V-27 and V-31. The transition currently adds about 1.6% to the increase in the water fund budget and 1% to the increase in the wastewater rate budget, for a combined impact of 1.2%. As the phase-in proceeds, the reduction in debt service will gradually offset the increase in cash capital costs, reducing the impact on annual budget increases and saving interest costs. This year, for the first time, the effect of the reduced borrowing can be seen in the reduction of debt service costs by nearly 11% in the water fund and 6.5% in the wastewater fund.

### **Water and Wastewater Rate-Setting Issues**

Because increases to the operating budgets of the water and wastewater enterprises approved at this annual town meeting will ultimately translate into increases to the FY2024 water and wastewater rates when set later in the year, a brief comment on the rate-setting process and the impact of this year's budget is in order.

Next fall, the Select Board will conduct rate hearings and set water and wastewater rates for FY2024. Two main components factor into the rates: (1) the approved budget for the fiscal year; and (2) estimates of the amount of water which will be consumed during the fiscal year by Lexington residents at each of the three graduated "tiers" of usage, as well as by certain other users for which Lexington serves as a conduit, primarily the Town of Bedford, the Bedford VA hospital, and Hanscom Air Force Base/Lincoln Labs.

The goal at rate-setting is to establish rates which will generate sufficient revenue, given the anticipated usage, to cover the budget established by Town Meeting for the fiscal year. If projected water usage is unchanged from the prior fiscal year, then the required rate increase for each enterprise should generally match the year-over-year increase in the budget approved by Town Meeting. If anticipated water usage increases from the prior fiscal year, the required rate increase may be lower than the increase in the budget; and if anticipated water usage decreases, the rate increase must be higher since most of the water and wastewater funds' costs are fixed, not variable.

By and large, water and wastewater rate increases have been relatively modest for more than a decade. From FY2010 through FY2023, combined rate increases fluctuated between -3.8% and 12.6% for an average annual rate increase of 3.3%. Last year (FY2023), the combined rate increase was 4.3%. If there are no significant changes in projected usage in FY2024, this fall's rate increase should be about the same. It should be noted, however, that there has been a recent trend of declining water usage for non-irrigation purposes as plumbing fixtures are modernized and residents pay more attention to water conservation. If that trend continues, a somewhat higher rate increase could be required in FY2024.



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

**Water and Wastewater Retained Earnings**

Accumulated surpluses resulting from the operations of an enterprise fund, referred to as “retained earnings”, remain with the fund as a reserve, and may be used only for capital expenditures of the enterprise, subject to appropriation, or to reduce user charges. See Appendix B. Deficits must be funded with existing reserves or, in the absence of such reserves, made up in the following year’s rates. The Town’s policy is to maintain a balance of approximately \$1 million of retained earnings in each fund as a buffer against revenue shortfalls resulting from unexpected reductions in usage or unanticipated extraordinary expenditures. Retained earnings in excess of that amount are now typically applied to help fund capital projects in lieu of debt. The table below shows how the balance of retained earnings has been deployed over the past several years and their proposed appropriation at this ATM for FY2024.

**Retained Earnings: Appropriations and Year-End Balances**

<b>Annual Town Meeting</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
<b><i>Water</i></b>				
Starting Balance <sup>(1)</sup>	\$ 1,346,448	\$ 1,737,914	\$ 3,537,851	\$ <b>769,999</b>
Appropriation for Rate Relief <sup>(2)</sup>	–	–	–	–
Appropriation for Capital <sup>(3)</sup>	\$ 130,000	\$ 520,000	\$ 1,820,000	\$ <b>575,000</b>
Projected End Balance <sup>(4)</sup>	\$ 1,216,448	\$ 1,217,914	\$ 1,717,851	\$ <b>194,999</b>
<b><i>Wastewater</i></b>				
Starting Balance <sup>(1)</sup>	\$ 998,736	\$ 1,297,665	\$ 2,565,157	\$ <b>1,807,854</b>
Appropriation for Rate Relief <sup>(2)</sup>	–	–	–	–
Appropriation for Capital <sup>(3)</sup>	–	\$ 110,000	\$ 1,365,000	\$ <b>715,404</b>
Projected End Balance <sup>(4)</sup>	\$ 998,736	\$ 1,187,665	\$ 1,200,157	\$ <b>1,092,450</b>

(1) Certified retained earnings as of the end of the prior fiscal year (for this year, 6/30/2022) and available for appropriation at this annual town meeting

(2) The Town’s former practice of appropriating from retained earnings to subsidize the next fiscal year’s operating budget has been discontinued since FY2015 (see discussion below).

(3) Proposed appropriations for capital projects for the next fiscal year (FY2024 at this ATM). Note that such appropriations must be deducted as a liability from the projected retained earnings to be certified as of the end of the current fiscal year even though the funds appropriated will not be spent until the following year.

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

As can be seen from the table, the water retained earnings balances as of the end of FY2022 and available for appropriation at this annual town meeting is unusually low. In the case of the water fund, the reason for the low balance is an FY2022 operating deficit of nearly \$1.0 million, attributable to an unexpected drop in water use at Hanscom Air Force Base, a continued reduction in tiered rate usage, and unusually low irrigation usage during the very wet summer of 2021. In the case of the wastewater fund, the healthier balance is attributable to an FY2021 operating surplus of about \$400,000.

**Recreation Enterprise Fund**

The Recreation Enterprise Fund, or Recreation Fund for short, has for many years been the principal source of funding for the Town-sponsored recreational programs for residents, most of which are fee-generating. Prior to 2015, recreation activities were managed by the Recreation Department and both the Department and the activities were financed through the enterprise fund. In 2015, following the inauguration of the Lexington Community Center (LCC), the Recreation Department was reorganized to include responsibility for the community center and renamed the Department of Recreation and Community Programs (the Department, or DRCP). The Department now comprises four divisions: Recreation, Pine Meadows Golf Club, Community Center, and the Administrative Division. The enlarged Department is still funded largely through the enterprise fund, which receives income from a wide range of fee-supported programs. The Department receives supplementary support from the tax levy.

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

The proposed appropriations for FY2024, and changes from the prior fiscal year, are shown in the table below. The total FY2024 budget is about \$140,000, or 4%, more than the appropriated FY2023 budget. The main contributor to the change is a 7.35% increase in compensation expenses, reflecting a return to more comprehensive programming as the pandemic winds down, step increases and cost-of-living adjustments, and the impact of a statewide increase in the minimum wage on seasonal staff hired for camp and other recreational programs during the summer.

<b>Recreation and Community Programs</b>	<b>FY2022 Actual</b>	<b>FY2023 Approp’d</b>	<b>FY2024 Requested</b>	<b>\$ Change</b>	<b>% Change</b>
Compensation	\$ 1,250,760	\$ 1,567,753	\$ 1,682,935	\$ 115,182	7.35%
Expenses	\$ 1,346,285	\$ 1,571,240	\$ 1,588,814	\$ 17,547	1.12%
Debt Service	–	–	–	–	–
<b>Total Requested in Article 5</b>	<b>\$2,597,045</b>	<b>\$ 3,138,993</b>	<b>\$ 3,271,749</b>	<b>\$ 132,756</b>	<b>4.20%</b>
Indirect Expenses ( <i>Article 4</i> )	\$ —	\$286,104	\$ 294,687	\$ 8,583	3.00%
<b>Total</b>	<b>\$ 2,597,045</b>	<b>\$ 3,425,097</b>	<b>\$ 3,566,436</b>	<b>\$ 141,139</b>	<b>4.13%</b>

The sources of funds to support the FY2024 budget of the Department, including the tax levy, are as follows:

- Enterprise Fund retained earnings, \$375,000
- Projected recreation user charges, \$1,707,530
- Projected Community Center user charges, \$327,231
- Projected Pine Meadows Golf Club user charges, \$900,000
- Tax levy, \$256,675

The projected distribution of funding in FY2024 among the four divisions of the Department is as follows:

- Recreation, \$1,529,855
- Pine Meadows Golf Club, \$569,500
- Community Center, \$663,321
- Administration, \$509,073

*Fee-Setting.* The Director of Recreation and Community Programs and the Recreation Committee set fees from time to time for use of the Town’s playing fields, gyms, other recreational facilities, and for certain recreational programs with the goal of covering all operating costs of those fee-generating activities. The proposed fees are subject to the approval of the Select Board. If actual revenues come in higher than projections, the resulting surplus becomes part of the Recreation Enterprise Fund’s retained earnings and can be used for future operating expenses, capital costs of the enterprise, to lower fees, or to absorb future losses.

*Capital Costs.* The capital costs of the Recreation Fund are covered, to the extent projects are eligible under the Community Preservation Act (CPA), by the Community Preservation Fund. This year’s CPA-funded projects, for which appropriations totaling \$3,017,000 are sought under Article 10, consist of Lincoln Field improvements, park and playground improvements, public grounds irrigation improvements, and a public art project near the Center Field Recreational Complex. For more detail on these projects, see the discussion of Article 10 (CPA) below.

Capital projects not eligible for CPA funding may receive support from the General Fund through the appropriation of free cash, within-levy debt or excluded debt, and may also be supported by the Recreation Fund’s retained earnings to the extent feasible. Capital costs of the Pine Meadows Golf Club are typically funded from retained earnings attributable to golf user fees, as is the case this year with the proposed appropriation under Article 11 (Recreation Capital) of \$274,000 for course improvements. An additional appropriation of \$120,000 in free cash is sought under Article 16 (Public Facilities Capital) for design and engineering costs associated with renovation of the Club House at the Pine Meadows Golf Club.

*Looking Forward.* As noted above, the operations of the Community Center for which fees are not charged are supported by the tax levy, and additional support from the tax levy has recently been required due to the stress placed on the Recreation Fund by the pandemic. Looking ahead, the Town Manager has convened a Financial

Policy Working Group which will examine, among other things, the funding of the Town’s recreational programs and services, and whether the use of an enterprise fund for this purpose continues to make sense.

<b>Article 6      Establish Qualifications for Tax Deferrals</b>		
Funds Requested	Funding Source	Committee Recommendation
<b>None</b>	<b>N/A</b>	<b>Approve (8-0)</b>

This article proposes to raise the income limit for participation in the Town’s property tax deferral program from the current \$90,000 to \$96,000 for FY2024; and to peg it in future years, without the need for further Town Meeting action, to the limit under the Massachusetts Senior Circuit Breaker Tax Credit program (the “Circuit Breaker”) for married couples filing jointly. The Town’s deferral program, authorized by Chapter 59, § 5, Cl. 41A of the general laws, allows qualifying residents aged 65 or older to postpone payment of some or all of their property taxes, in an amount up to half the value of their home, until the property is sold or otherwise conveyed. For more information about Clause 41A, as well as other programs offering property tax relief to seniors, please see Appendix D to this report and the Town brochure linked below.<sup>2</sup>

**Income Limits Under the 41A Program**

Under the state’s general laws, the highest income limit a Town may adopt for participation in the Clause 41A program is that established by the Department of Revenue each year under the Circuit Breaker for a single person who is not a head of household, currently \$64,000 for tax year 2022<sup>3</sup>. Under special legislation (Chapter 190 of the Acts of 2008) that Lexington obtained in response to a home rule petition, however, the Town is permitted to set higher income limits, and otherwise to expand eligibility, beyond that permitted under the general laws. Among other things, Chapter 190 permits the Town, by vote of Town Meeting and with the approval of the Select Board, to set a higher income limit for deferrals.<sup>4</sup> Town Meeting most recently raised that limit from \$75,000 to \$90,000 at the 2020 Annual Town Meeting to match the highest Circuit Breaker income limit, that for married couples filing jointly.

**The Proposed Increase**

This year, the Tax Deferral and Exemption Study Committee (TDESC) recommends, in the first part of the Article 6 motion, that the Town again increase the deferral income limit to match the highest Circuit Breaker limit, which this year is \$96,000. The increase is intended to help ensure that all persons who have been participating in the program can continue to do so, notwithstanding inflation, and to allow more residents to participate.

In addition, to avoid the need for Town Meeting periodically to increase the income limit, but to ensure that the limit continues to be adjusted for inflation, the second part of the motion would set the income limit automatically each year, beginning in FY2025, at the amount of the then-applicable Circuit Breaker limit for married couples filing jointly. This automatic adjustment would continue in all future years unless and until the Select Board and Town Meeting acted to change it.

The Select Board has voted unanimously to approve both parts of the motion.

<sup>2</sup> <https://www.lexingtonma.gov/168/Elderly-Other-Tax-Relief> links to a brochure titled *Property Tax Relief Programs* on the Town web site. This brochure has detailed and up-to-date information about all property tax relief options available to residents, including who qualifies for Clause 41A deferrals.

<sup>3</sup> The state Circuit Breaker allows qualified owners or renters to take a refundable dollar-for-dollar credit on their state income tax if their real estate taxes, or 25% of their rent, exceeds 10% of their annual income.

<sup>4</sup> The special law also permits the Town to adopt a lower age of eligibility than 65, or to condition eligibility on objective criteria of disability or other hardship for persons who would not otherwise qualify based on their age, but the Town has not, to date, taken either of these steps.

**Committee Recommendation**

As can be seen in the slides the TDESC included in support of the motion under Article 6, steady increases in the income limit over the last decade, together with a significant reduction in interest rates, have had the desired effect of increasing participation in the 41A program (which has traditionally been underutilized) without imposing a significant burden on the Town’s finances. Participation has roughly doubled since 2009, from 26 to 53 households, as has the total amount of taxes deferred in any given year and the amount of such deferrals as a percentage of the total tax levy. The total amount of outstanding deferrals, however, has remained modest, representing just 0.27% of the total tax levy in 2022.

As the Committee has noted before, the 41A property tax deferral program is a particularly effective tool in the tax relief toolbox. It provides substantial tax relief to those willing to use it, allowing them to remain in their homes despite living on a fixed income. At the same time, aside from a slight impact on liquidity, the program results in no long-term cost to the Town because the Town is essentially making a well-secured, risk-free loan as evidenced by the 100% payback rate for all years prior to 2007.

<b>Article 7      Appropriate to Affordable Housing Trust</b>		
Funds Requested <b>None</b>	Funding Source <b>N/A</b>	Committee Recommendation <b>Approve (8-0)</b>

This article seeks Town Meeting approval to redirect all future payments made by Brookhaven, under the 2017 Memorandum of Agreement (MOA), into the Affordable Housing Trust (AHT). In order to complete this process a motion under Article 19(g) will rescind Town Meeting’s prior action that directed those payments into the Affordable Housing Capital Stabilization Fund (AHCSF).

The MOA requires Brookhaven to pay the Town \$1,536,369 in lieu of constructing affordable housing units. Annual installments on this payment will be made over a period of 15 years, ending in FY2034. Including interest, the total payment will be \$2,080,631.

Additional funding for the AHT will be provided under Article 19(f) to appropriate the balance of the AHCSF to the AHT, and under Article 10(n) to appropriate CPA funds to the AHT. The AHCSF will remain as the depository for the Short Term Rental surcharge until FY2026.

The Affordable Housing Trust is described in more detail at the end of Appendix E in this report.

<b>Article 8      Evaluation of Archeological Resource Potential</b>		
Funds Requested <b>\$65,000</b>	Funding Source <b>Free Cash</b>	Committee Recommendation <b>Disapprove (2-5-1)</b>

The proposed project would fund a survey to identify the archeological resource potential for prehistoric and historic archaeological sites throughout Lexington. The scope would first involve an overall analysis of the various terrain types and historic landscapes located throughout the town. An accompanying analysis would map the resource areas, provide recommendations on the appropriate methods for future investigation and provide mitigation methods.

This is a Citizen’s Petition, and the proponent originally brought this request to the Community Preservation Committee (CPC). The CPC voted against the request, citing a lack of involvement from either the Historical Commission or the Department of Public Works. The motion now seeks funding from Free Cash, which Town staff has advised against. The Select Board voted unanimously to reject this request because they felt it should be funded with CPA funds, and based on the staff recommendation against the use of Free Cash.

While there is some support for the goals in this request, the Committee is reluctant to contradict the recommendations of the Select Board and Town staff regarding the funding source, and has voted against recommending this request.

<b>Article 9      Establish and Continue Departmental Revolving Funds</b>		
Funds Requested <i>See below</i>	Funding Source <b>RF</b>	Committee Recommendation <b>Approve (7-1)</b>

This article seeks reauthorization of all existing revolving funds, plus the creation of a Refuse and Recycling Collection Revolving Fund and a Tourism Revolving Fund in FY2024, as shown in the table below. Information regarding the nature and purpose of revolving funds can be found in Appendix C of this report.

The spending limit proposed for each of the 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. A summary of the historical receipts, expenditures, and balances for each fund during FY2022 and the first half of FY2023 can be found in Appendix C of the Brown Book.

<b>Program or Purpose for Revolving Funds</b>	<b>FY2024 Authorization</b>
School Bus Transportation	\$ 1,150,000
Building Rental	\$ 603,000
Regional Cache - Hartwell Avenue	\$ —
Lexington Tree Fund	\$ 90,000
DPW Burial Containers	\$ 60,000
DPW Compost Operations	\$ 854,000
Minuteman Household Hazardous Waste Program	\$ 300,000
Refuse and Recycling Collection	\$ 230,000
Senior Services	\$ 75,000
Residential Engineering Review	\$ 57,600
Health Programs	\$ 90,000
Lab Animal Permits	\$ 40,000
Tourism	\$ 490,000

For FY2024, there is no requested funding for the Regional Cache Revolving Fund. The Town is no longer serving as the host community for emergency equipment that was stored at Hartwell Avenue.

The new Refuse and Recycling Collection Revolving Fund will allow the Town to establish a fee for curbside collection of mattresses, white goods and other bulky items.

The Tourism/Liberty Ride Revolving Fund and Visitors Center Revolving Fund will be combined to create the Tourism Revolving Fund.

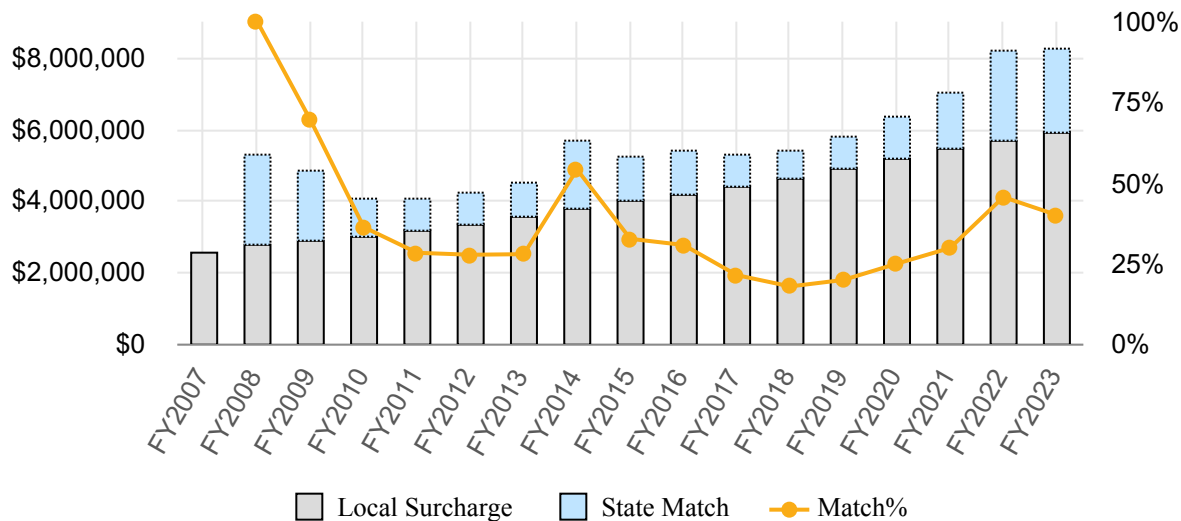
<h2>Article 10      Appropriate for the FY2024 Community Preservation Committee Operating Budget and CPA Projects</h2>		
Funds Requested	Funding Source	Committee Recommendation
<i>See below</i>	<b>CPA</b>	<b>[a] Disapprove (1-7);</b> <b>[c] Approve (4-3-1);</b> <b>[e-f] Approve (7-1);</b> <b>[m] Tied (4-4);</b> <b>[b,d,g-l,n-r] Approve (8-0)</b>

Community Preservation Act (CPA) projects are funded using the Community Preservation Fund (CPF), which is managed as four separate sub-funds for Affordable Housing, Open Space, Historic Resources, and Unbudgeted Reserves.

As stipulated by the Community Preservation Act, the CPF has two sources of revenue; a 3% surcharge applied to property tax bills, and a variable annual state match of surcharge revenues collected by the Town. In the 16 years since the Town enacted the CPA, the state match has averaged out to roughly 38%, and only once met the full 100% allowed by the Community Preservation Act. Increases in the fees charged on all real estate transactions, as well as a FY2023 state budget surplus, have boosted the total match of FY2023 surcharges to 39.96%.

The funds available for appropriation in the CPF total \$16,772,276. The reduced spending in FY2023 resulted in a carry-forward balance of \$8,697,276. The local surcharge revenue and an estimated FY2024 state match of 30% results in budgeted revenue of \$8,075,000. The CPF appropriations requested in this article total \$15,922,910, of which \$2,000,000 would be obtained by issuing debt, which would leave a balance of \$2,849,366. This conforms to CPC policy to maintain a balance of around \$2 million or more that would serve as a reserve for unanticipated requests, such as purchasing a parcel of land for conservation.

Annual CPA Revenue & State Matching Rate



Lexington has received \$2,323,956 in matching funds for FY2023, a 39.96% match from the state. This exceeded the 38% rate projected in the FY2023 budget. Revenues in excess of the budget projections will be appropriated as an adjustment to the FY2023 budget under Article 21.

Funding requests for the FY2023 CPA projects are detailed below. CPA expenditures from the prior year were below normal, resulting in large cash balances in each of the four CPA accounts.

Article	Item	Funding Request	CPF Funding Account
10(a)	Stone Building Design and Repairs	\$ 400,000	Unbudgeted Reserve
10(b)	Munroe Center for the Arts	\$ 6,635,191	Unbudgeted Reserve/ Undesignated Fund Balance
10(c)	Hancock-Clarke Barn Restoration	\$ 118,419	Unbudgeted Reserve
10(d)	Archives and Records Management	\$ 35,000	Historic Resource
10(e)	First Parish Church Clock Restoration	\$ 12,000	Historic Resource
10(f)	East Village Clock at Follen Church Restoration	\$ 9,600	Historic Resource
10(g)	Willard's Woods Site Improvements	\$ 1,211,675	Open Space
10(h)	Whipple Hill Trail Repair, Fire Access	\$ 300,000	Unbudgeted Reserve
10(i)	Lincoln Park Field Improvements including Lighting	\$ 3,391,500	Unbudgeted Reserve
10(j)	Park and Playground Improvements, Bridge School	\$ 285,000	Unbudgeted Reserve
10(k)	Park and Playground Improvements, Justin Park	\$ 155,000	Unbudgeted Reserve
10(l)	Public Grounds Irrigation Improvements	\$ 200,000	Unbudgeted Reserve
10(m)	Transforming Trees Into Art	\$ 22,000	Unbudgeted Reserve
10(n)	Affordable Housing Trust Funding	\$ 1,500,000	Community Housing
10(o)	LexHAB Property Acquisition Prefunding	\$ 400,000	Community Housing
10(p)	LexHAB Rehabilitation/Preservation and Installation of Solar Panels	\$ 345,125	Community Housing
10(q)	Projected Debt Service	\$ 1,788,900	CPA
10(r)	Administrative Budget	\$ 150,000	CPA

### **10(a) Stone Building Design and Repairs**

This request is to appropriate \$400,000 for the design of the first phase of the renovation and new addition at the historic Ellen Stone Building. This is pursuant to the report of the *Ad hoc Stone Building Feasibility/Reuse Committee* in 2020. The building is in need of major repairs and the goal of this first phase is to stabilize the building, prevent further deterioration and allow the Town to find a suitable tenant. The overall renovation project is expected to cost around \$10 million in the next 3–4 years.

The Committee feels that the timing of this funding request goes against established Town policy for major capital projects. The Committee objects to the appropriation of design funds prior to identifying a suitable tenant and investigating their requirements.

### **10(b) Munroe Center for the Arts**

This request is to appropriate \$6,635,191 to renovate the Munroe Center for the Arts (MCA). The objective of the project is primarily to make the building ADA-compliant. It includes the installation of an elevator and the relocation of restrooms. These restrooms will be wheelchair accessible and gender neutral. The project will also replace the antiquated existing HVAC system that uses fossil fuels with a modern electric heat pump. The park area behind the building will also be leveled making it more usable.

### **10(c) Hancock-Clarke Barn Restoration**

This request is to appropriate \$118,419 for funding to stabilize the Barn located directly behind the Hancock-Clarke House. The Barn needs a new roof, repairs to the foundation and modifications to the grounds to prevent water from entering the basement and at the same time bring it up to code in terms of accessibility, lighting and climate control.

Three members voted against recommending approval of this project because they do not believe the limited historic value of the barn justifies the short and long-term expense contemplated. In particular: (1) the barn, built c. 1850 and of unidentified origin, has no historical connection to the Hancock-Clarke house, which was built in 1737, and moved across the street and back in 1895 and 1974, respectively; (2) neglected for many years, the barn is in extremely poor condition, with an end-of-life roof, rotting clapboards, a crumbling stone foundation and water infiltration in its cellar; (3) the proposed “stabilization”, even if successful, would only be a precursor to the need for a much greater investment in the future if the windowless barn is to be converted to a functional use other than

storage; (4) converting the barn to a classroom, as proposed, would require, at a minimum, a complete re-sheathing of the exterior and the addition of windows, which would significantly impair whatever historical value the barn may have now; and (5) if additional educational space is needed, it would make more sense to build a new building on the site than to try to renovate and modernize a severely deteriorated barn that was not designed for this purpose.

One member abstained as a board member of the Lexington Historical Society, which owns the Barn.

#### **10(d) Archives and Record Management**

This request is to appropriate \$35,000 for the conservation and preservation of a 19th century three-volume map book set. The map book includes street plans, county roads and other engineering information. Some members of the committee have voiced concern about the overall cost of the project which are mostly driven by the non-standard sizes of the book set.

#### **10(e) First Parish Church Clock Restoration**

This request is to appropriate \$12,000 to repair and restore the 1868 E. Howard clock located in the steeple of the First Parish Church which is located across from the Lexington Green. This project would repair the mechanism that drives the three clock faces, along with the bevel gear, pivots and bushings.

One member believes the repairs should be funded by the church or through private donations.

#### **10(f) East Village Clock at Follen Church Restoration**

This request is to appropriate \$9,600 for the repair and restoration of the 1914 E. Howard Clock located in the steeple of Follen Church in East Lexington. The village clock, reputedly owned by “the Citizens of the East Village”, has been entrusted to the church since 1914. The clock is not owned by the Town of Lexington and has been maintained by church volunteers. The clock needs professional overhaul, as it is beginning to show significant signs of distress. The repair and restoration will include the strike trip lever, time and striking gears, vertical shaft and bevel gear, clock frame and dials.

One member believes the repairs should be funded by the church or through private donations.

#### **10(g) Willard’s Woods Site Improvements**

Willard’s Woods is the largest and most popular conservation area in Lexington, with over 100 acres of open meadows, old growth pine forests, wetlands and a historic mill pond, as well as over three miles of trails. At the 2019 Annual Town Meeting, \$138,273 was approved for Phase I of the project to produce a comprehensive land management and site plan at Willard’s Woods. The second phase, the subject of the present article, is to request construction funding of \$1,211,675 to achieve Universal Accessibility (UA) under the Americans with Disabilities Act (ADA) at Willard’s Woods. It will expand trail segments including a loop trail in the northern meadow and around the Millpond connecting the North Street parking lot, and a stone dust bike path to Brent Road. It will also construct a trail to provide access to the two UA improved fire pits, and an observation deck and wayside interpretive panel at the millpond. Lastly, it will improve parking areas and create handicap-accessible parking spaces at North Street and the Hathaway Road entrance.

#### **10(h) Whipple Hill Trail Repair, Fire Access**

Whipple Hill is Lexington’s second largest conservation area, with more than 120 acres of land and over four miles of trails. The article requests \$300,000 to reconstruct a wetland crossing along the Whipple Hill trail system. The existing crossing that serves as emergency fire access has been evaluated as not fit for purpose by the Conservation Division, Engineering, and Fire Department staff. The requested upgrades will allow for a 17,200-pound fire truck to safely traverse the trail and access areas that could be affected by fire. The current state of erosion at the site also means that the trail is under constant repair. This project will not only provide appropriate fire access but also meet the needs of people who use the trail system.

#### **10(i) Lincoln Park Field Improvements including Lighting**

This \$3,391,500 request (\$216,500 Free Cash, \$700,000 tax levy, \$2,475,000 CPA) is for construction and preparation in regard to the three athletic fields at Lincoln Park, as well as construction of lighting at Lincoln Fields 1 and 3. The fields are approaching the end of their life and must be replaced for safe and anticipated use. The improvements will allow for increased utilization of the fields, alleviating the shortage of available hours currently experienced by the Recreation Department.



The project will start with a professional evaluation to determine if the subsurface/based pad can be reused or if a replacement is required for safe function of the field. This request also provides funding for design, engineering, and construction of Lincoln Field 1, including laser grading of the subsurface, inspection and repair of the drainage system, replacement of the base pad if indicated by evaluation, replacement/recycling of the infill material and synthetic surface turf. This request will also install four light towers at both Lincoln Field 1 and Lincoln Field 3 consistent with those currently installed at Lincoln Field 2. Lastly, this request will fund restoration of the walkways, guardrails, and plantings surrounding the fields. Future funding requests are expected to replace the turf at Lincoln Fields 2 and 3.

#### **10(j) Park and Playground Improvements, Bridge School**

This ongoing capital program is to address safety and playability concerns, and to provide adequate and safe field conditions. The program funds improvements to athletic fields, including renovation to natural turf, drainage, new irrigation systems, and site amenities including benches, backstops and signage. The FY2024 request of \$285,000 will be used for improvements to the Bridge School Fields including updates and replacements to irrigation systems and installation of new natural grass. In addition, based on recommendations from a 2017 ADA Compliance Study, the route to the fields from the sidewalk that runs along the school's entrance driveway will be improved to become compliant with accessibility regulations, and new paths will be constructed between the two softball fields and the playground to provide universal access throughout the site.

#### **10(k) Park and Playground Improvements, Justin Park**

The requested \$155,000 will be used to replace the playground equipment, upgrade to pour-in-place safety surfacing, and replace signage at Justin Park. The new playground equipment will be designed for children ages 2-5 and/or ages 5-12 depending on the needs of the community as determined through public outreach. This funding will also be used to renovate the pathway from the parking spaces to the park. The existing playground equipment was last replaced in 2003 and is approaching the end of its useful life. The proposed improvements will bring the park into compliance with the Consumer Product Safety Commission (CPSC), the American Society for Testing and materials (ASTM), and the American with Disabilities Act (ADA).

#### **10(l) Public Grounds Irrigation Improvements**

This \$200,000 request (\$120,000 Free Cash, \$80,000 CPA) is to upgrade the irrigation systems at several locations around the Town, including the lawns at the Town Office Building, the Cary Memorial Building, Hastings Park and the Battle Green. Funding will be used to replace water lines, valves, irrigation heads, and water controllers to promote greater efficiency in water distribution. These improvements will help prevent the deterioration of turf from lack of proper irrigation and also reduce the costs associated with overwatering natural grass.

#### **10(m) Transforming Trees into Art, Birds of New England**

This \$22,000 request would fund a public art project, called Birds of New England, to carve sculptures of birds from eight white pine stumps along a path bordering the Center Recreational Complex. The stumps are remnants of a row of tall white pines, located between the edge of the Complex and abutting neighbors, most of which were recently removed by the Town after being deemed dangerous by an arborist. The stumps are located adjacent to the tennis courts. Abutters have complained about noise generated by pickleball on those courts, but the placement of the sculptures would not preclude future sound controls. The project was submitted by the Lexington Council for the Arts and the carving would be done by a noted Massachusetts sculptor. The art work is budgeted at \$20,000, and \$2,000 would be used to create an educational website accessed by QR codes mounted on the sculptures.

The committee members were tied on whether to recommend approval of this request.

#### **10(n) Affordable Housing Trust Funding**

This is a request to appropriate \$1,500,000 from the CPF's Community Housing Reserve to the Affordable Housing Trust (AHT). The newly formed AHT is intended to be the primary repository of the Town's affordable housing funds going forward. This appropriation of CPA funds, together with the transfer under Article 19 of the roughly \$450,000 in Brookhaven mitigation funds now accumulated in the Affordable Housing Capital Stabilization Fund, would constitute the initial "seed" funding for the AHT.

The AHT, created at last fall's 2022 Special Town Meeting No. 3, will have the authority to use its funds to create affordable housing. A description of the purposes and procedures of the trust can be found in the write-up of Article 7 above. The CPA funding requested in this article could be used for acquisitions, hiring of consultants to prepare RFP's, preparation of housing needs assessments, and other expenses allowable under the CPA.

The AHT must follow all CPA rules for use of CPA funds. To comply with CPA requirements, the AHT would have to enter into agreements with public and private developers that conform to CPA guidelines, and/or the affordable housing would have to be deed-restricted in perpetuity. Grant agreements could be executed between the CPC and the AHT to track and ensure proper accountability of CPA funds.

The CPA requires that the Town set aside a minimum of 10% of its annual CPA revenue, currently about \$800,000, for affordable housing. Any funds not spent accumulate in the Community Housing Reserve, which presently has a balance of about \$2.5 million. The CPA is the most common source of funding for municipal housing trusts in Massachusetts.

Going forward, the CPC could request Town Meeting to appropriate most or all CPA affordable housing funds to the AHT. Under this scenario, the AHT would become the primary source of funding for CPA-qualified projects by LexHAB, the Lexington Housing Authority, or others to renovate or expand the Town's affordable housing stock.

#### **10(o) LexHAB Property Acquisition Prefunding**

As another tool to create affordable housing, for which appropriations have been made a number of times in the past, this \$400,000 request would provide LexHAB with prefunding for the purchase at market rate of houses which could be converted to affordable housing. LexHAB is actively pursuing the purchase of small homes in the \$600,000 - \$800,000 range. The prefunding gives LexHAB the flexibility to make immediate down payments, and to compete with developers seeking to buy such homes for tear-down and replacement with much larger homes.

The purchase and conversion of small homes is LexHAB's immediate priority. It is awaiting action on special legislation which would allow it to transition from a quasi-municipal body to an independent non-profit development corporation. This could take up to two years. If the legislation is enacted, LexHAB would be able to more cost-effectively create multi-family developments, such as completing the Vine Street development. Until that time, LexHAB has determined that its most effective strategy is to concentrate on a home-buying program.

#### **10(p) LexHAB Rehabilitation/Preservation and Installation of Solar Panels**

This \$345,125 request would provide LexHAB with funds to preserve, rehabilitate and restore a number of affordable housing units it owns and manages, as well as to install solar panels on two buildings. In accordance with CPA requirements, \$152,000 would be used for *renovation* work on six units acquired with CPA funds, and for the installation of solar panels on two properties, as described below; \$124,100 would be used for *preservation* work on five units not acquired with CPA money; and the balance would be a project contingency of \$69,025. Work will include such things as kitchen/bath renovations; electrical upgrades; new doors and exterior painting to prevent damage; roof replacements and retaining walls. This request is similar to prior LexHAB requests. The solar panels would be installed: (1) at a single family home at 454 Marrett Rd that would be sufficient to generate all electricity used there; and (2) at 34A Lowell Street ("Farmview") to supplement existing solar arrays which lack sufficient generating capacity to meet all the demands of the six new high-efficiency, all-electric units.

#### **10(q) Projected Debt Service**

This section requests the appropriation of \$1,788,900 to meet debt service obligations for three previously-approved CPA projects:

1. Wright Farm Acquisition \$309,750 (2012 Annual Town Meeting, Article 9)
2. Community Center Acquisition \$771,750 (2013 Special Town Meeting, Article 2)
3. Cary Memorial Building Upgrades \$707,400 (2014 Special Town Meeting, Article 2)

This appropriation would retire all remaining debt for the Wright Farm and Community Center acquisitions. The debt for the Cary Memorial Building Upgrade will be retired with one more payment of \$681,200 in FY2025.

#### **10(r) Administrative Budget**

This appropriation of \$150,000, made annually, would be used to fund the Committee's administrative assistant, member dues to the non-profit Community Preservation Coalition, administrative expenses, legal and miscellaneous expenses and land planning, appraisal and legal fees for open space proposed to be acquired using CPA funds.

<b>Article 11      Appropriate for Recreation Capital Projects</b>		
Funds Requested <b>\$309,000</b>	Funding Source <b>Recreation EF RE</b>	Committee Recommendation <b>Approve (8-0)</b>

For basic capital requests, the Appropriation Committee defers to the report of the Capital Expenditures Committee when there is general agreement on our committees’ recommendations to Town Meeting.

The requested appropriations are listed below together with a funding breakdown. Additional information on the items in this request is available in the Brown Book (relevant pages for each item are cited below).

Article	Description	Amount	Funding Source	Brown Book Page
11(a)	Pine Meadows Golf Course improvements	\$ 150,000	Recreation RE	XI-18
11(b)	Pine Meadows Golf Course equipment	\$ 124,000	Recreation RE	XI-18
11(c)	Pool Water Chemistry Automated Controllers	\$ 35,000	Recreation RE	XI-19

<b>Article 12      Appropriate for Municipal Capital Projects and Equipment</b>		
Funds Requested <b>\$12,961,091</b>	Funding Source <b>See below</b>	Committee Recommendation <b>Approve (8-0)</b>

For basic capital requests, the Appropriation Committee defers to the report of the Capital Expenditures Committee when there is general agreement on our committees’ recommendations to Town Meeting.

The requested appropriations are listed below together with a funding breakdown. Additional information on the items in this request is available in the Brown Book (relevant pages for each item are cited below).

Article	Description	Amount	Funding Source	Brown Book Page
12(a)	All Terrain Vehicle (ATV) - Forestry	\$ 65,000	Free Cash	XI-18
12(b)	TMOD Implementation - Permitting and Progress Tracking	\$ 42,000	TMOD SF	XI-17
12(c)	Transportation Mitigation	\$ 7,685	TNC SRF	XI-18
		\$ 80,000	TM SF	
		<b>\$ 87,685</b>		
12(d)	Bedford St and Hartwell Ave - Long Range Transportation Improvements	\$ 1,024,728	GF Debt	XI-7
		\$ 655,272	Free Cash	
		\$ 70,000	BAN	
		\$ 1,750,000	Premiums	
		<b>\$ 3,500,000</b>		
12(e)	Townwide Culvert Replacement	\$ 390,000	Free Cash	XI-19
12(f)	Equipment Replacement	\$ 1,755,000	Free Cash	XI-19
12(g)	Sidewalk Improvements	\$ 800,000	Free Cash	XI-20
12(h)	Storm Drainage Improvements and NPDES compliance	\$ 570,000	Free Cash	XI-21
12(i)	Comprehensive Watershed Stormwater Management	\$ 390,000	Free Cash	XI-21

Article	Description	Amount	Funding Source	Brown Book Page
12(j)	Street Improvements	\$ 2,688,312	Tax Levy	XI-22
		\$ 990,428	Chapter 90	
		<b>\$ 3,678,740</b>		
12(k)	Hydrant Replacement Program	\$ 75,000	Free Cash	XI-23
		\$ 75,000	Water RE	
		<b>\$ 150,000</b>		
12(l)	Municipal Parking Log Improvements	<b>\$ 575,000</b>	Free Cash	XI-23
12(m)	New Sidewalk Installations	<b>\$ 1,620,000</b>	GF debt	XI-7
12(n)	Network Core Equipment Replacement	<b>\$ 980,000</b>	Free Cash	XI-23
12(o)	Network Redundancy & Improvement Plan	<b>\$ 988,094</b>	Free Cash	XI-23
12(q)	Scanning - Electronic Document Management	<b>\$ 110,000</b>	Free Cash	XI-24

Article 13 Appropriate for Water System Improvements			
Funds Requested	Funding Source	Committee Recommendation	
\$2,909,580	<b>Water EF Debt</b>	<b>Approve (8-0)</b>	
\$500,000	<b>Water EF RE</b>		
\$800,000	<b>Water User Rates</b>		
<b>\$4,209,580</b>			

This article addresses proposed capital expenditures to be made during FY2024 to upgrade and maintain the assets of the Water Enterprise Fund. For general background on the enterprise funds and the relationship between the budget process and the water rate setting process, please see Appendix B and the discussion under Article 5.

**Work to Be Done and Funding**

*Lead and Copper Line Replacement Program.* Normally, a total of \$2,200,000 is requested each year to fund an ongoing annual program to replace unlined or inadequate water mains and deteriorated service connections and to eliminate dead ends in water mains. Capital appropriations for similar purposes have been made in most years over the last decade. The goal is to assure dependable service with high water quality, pressure, and volume for domestic needs, commercial needs, and fire protection, as well as to minimize water main breaks.

This year, the annual main replacement program is being paused because there are a significant number of projects already in progress from prior years’ funding which need to be completed before new main replacements can be undertaken. Instead, it is proposed to apply this year’s annual maintenance funds toward a special, one-time project required by new regulations from the EPA and the Massachusetts DEP to identify and replace water lines in town which contain lead or copper. See Brown Book, p. XI-8. Approximately 150 such lines have been identified so far during the automated meter reader replacement program (now almost complete), and it is anticipated that a total of approximately 300 homes in all will be affected when the evaluation is complete. The Town is responsible for the replacement of lead and copper service connections from the main to the valve or connection near the edge of the private property, and the homeowners will be responsible for the replacement of lines from the valve into their homes. Copper and lead lines will be replaced with PVC piping.

The total appropriation requested for this project is \$4,209,580, of which \$2,909,580 will be funded by Water Fund debt; \$500,000 from Water Fund retained earnings; and \$800,000 from user charges, i.e., charges built into the rate structure when water and sewer rates are set next fall. Some or all of the authorized debt may be covered by a no-interest loan from the MWRA.

The user charge component of this year’s capital funding continues a plan initiated several years ago gradually to transition the funding of the annual water distribution system maintenance and improvement program from debt to cash, increasing cash and reducing debt by an additional \$200,000 each year. To mitigate pressure on water rates in the short term, the changeover is being phased in over eleven years, and this is the fourth such increase. The goal is to reduce debt service costs associated with borrowing for this purpose. See the discussion under Article 5 above and the Brown Book, p. V-27. It should be noted that debt service costs in the Water Fund operating budget are projected to decrease by a little over 10% in FY2024, a meaningful saving reflecting the gradual reduction in the amount borrowed.

*Miscellaneous Appropriations under Other Articles.* For completeness, certain capital items funded by the Water Fund are typically funded under other articles, particularly Article 12 (Municipal Capital). As has been the case for many years, half of the cost of the Town’s annual hydrant replacement program is proposed for funding this year by an appropriation of \$75,000 from water fund retained earnings. See Article 12(k); Brown Book, p. XI-23. The rationale for sharing this cost is that hydrants are used not only for fire prevention but also for water system flushing purposes. No other appropriations are requested this year under Article 12 or any other article..

**Committee Recommendation**

The Committee recommends approval of both the appropriation amount and the funding methods requested in this article. It supports the principle of continuous capital investment to assure the safety, soundness and longevity of the Town’s water and wastewater infrastructure. It also supports the eventual funding of the cost of the ongoing system maintenance and improvement program—essentially, a required annual expense of the enterprise fund—with cash raised directly in the rates, supplemented by “excess” retained earnings as available, rather than by debt. Although the gradual transition to cash will result in somewhat higher rate increases in the short run, in the long run it will more transparently and directly reflect the true current cost of system upgrades and maintenance, and it will also save interest costs, as is already beginning to occur.

<b>Article 14      Appropriate for Wastewater System Improvements</b>		
Funds Requested	Funding Source	Committee Recommendation
\$715,404	<b>Wastewater EF RE</b>	<b>Approve (8-0)</b>
\$400,000	<b>Wastewater EF Rates</b>	
<b>\$1,115,404</b>		

This article addresses proposed capital expenditures to be made during FY2024 as part of a continuing program to upgrade and keep current the assets of the Wastewater Enterprise Fund, including both sewer mains and pumping stations. For general background on the enterprise funds, and the relationship between the budget process and the water rate-setting process, please see Appendix B and the discussion under Article 5.

**Work to Be Done and Funding**

*Annual Sanitary System Investigation and Improvement program.* A total of \$1,040,404 is requested this year as part of an ongoing annual program to investigate the condition of and rehabilitate sanitary sewer infrastructure. The goal is to improve the system’s operation, reduce backups and potential overflows, prevent malfunctions, and reduce infiltration, thereby lowering measured flows through the MWRA meter. A description of the program can be found in the Brown Book, pp. XI-22-23. It is proposed that this year’s program be funded with a combination of retained earnings (\$640,404) and user charges (\$400,000).

The user charge component continues a plan initiated several years ago gradually to transition the funding of the wastewater maintenance and improvement program, about \$1,000,000 per year, from debt to cash, increasing cash and reducing debt by an additional \$100,000 each year. To mitigate pressure on sewer rates in the short term, the changeover is being phased in over ten years, and this is the fourth such increase. The goal is to reduce debt service costs associated with borrowing. See the discussion under Article 5 above and the Brown Book, p. V-31. It should be noted that debt service costs for FY2024 in the Wastewater Fund operating budget are already projected to decrease by about 6.5%, a meaningful saving reflecting the gradual reduction in the amount borrowed.

*Pump Station Upgrades.* Over the course of the last ten years, Town Meeting has made an annual appropriation, generally in the range of \$400,000-\$800,000, to upgrade the Town’s ten sewer pump stations. Last year, an extraordinary appropriation of \$2,000,000 was made to bring the project to a conclusion. With the remaining two projects now underway – the Hayden Avenue pump station is under construction and bids are out for the North St. Station – it is believed that the amounts already appropriated for those projects will be sufficient to complete the replacement program.

With the ten-year replacement program nearing an end, this article seeks an appropriation of \$75,000 to fund an update to the existing asset management plan, which was originally adopted in 2013, and to determine the next steps in this capital program. It is proposed that the appropriation be funded from the wastewater fund’s retained earnings.

*Miscellaneous Appropriations under Other Articles.* Certain capital items necessary for the operations of the sewer department, such as trucks and equipment, are typically funded under other articles, particularly Article 12 (Municipal Capital). This year, no such appropriations are requested.

**Committee Recommendation**

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

<b>Article 15      Appropriate for School Capital Projects and Equipment</b>		
Funds Requested	Funding Source	Committee Recommendation
<b>\$1,465,488</b>	<b>Free Cash</b>	<b>Approve (8-0)</b>

This request of \$1,465,488 addresses the District’s strategic goal of enhancing the capacity to utilize technology as an instructional and administrative tool. The request will continue to support student access to devices for innovative learning methods that integrate supportive technologies, problem-solve based approaches and higher order thinking skills. It also maintains and improves, when needed, current infrastructure such as networks, access points and servers. This is an ongoing annual request. For details, please see Brown Book p. XI-14.

<b>Description</b>	<b>Amount</b>
Tech Workstations	\$ 177,900
PreK-5 Mobile Devices	\$ 280,477
1:1 Middle School Program	\$ 218,205
1:1 Lexington High School	\$ 176,250
STEM/Art/Computer Science	\$ 51,000
Interactive Projectors/Whiteboard Units and Document Cameras	\$ 241,656
District and Building Network Infrastructure	\$ 300,000
Server/Storage Infrastructure	\$ 20,000
<b>Total Amount Requested:</b>	<b>\$ 1,465,488</b>

<b>Article 16      Appropriate for Public Facilities Capital Projects</b>		
Funds Requested <b>\$6,999,113</b>	Funding Source <i>See below</i>	Committee Recommendation <b>Approve (8-0)</b>

For basic capital requests, the Appropriation Committee defers to the report of the Capital Expenditures Committee when there is general agreement on our committees’ recommendations to Town Meeting.

This article requests funds for the facilities projects summarized below. For further discussion of these items, please see the report of the Capital Expenditure Committee and the capital projects section of the Brown Book.

Item	Description	Free Cash	Tax Levy	GF Debt
16(a)	Public Facilities Bid Documents	\$ 125,000		
16(b)	Public Facilities Interior Finishes	\$ 407,200		
16(c)	Public Facilities Mechanical/Electrical/Plumbing Replacements	\$ 849,200		
16(d)	School Paving and Sidewalks	\$ 265,000		
16(e)	Municipal Building Envelopes and Associated Systems		\$ 225,029	
16(f)	School Building Envelopes and Associated Systems	\$ 1,457,684		
16(g)	Pine Meadows Clubhouse Renovation – Design	\$ 120,000		
16(h)	173 Bedford Street Renovation – Design	\$ 100,000		
16(i)	Solar Canopy & System – Police Station			\$ 3,400,000
16(j)	East Lexington Fire Station – Feasibility Study	\$ 50,000		
<b>Totals</b>		<b>\$ 3,374,084</b>	<b>\$ 225,029</b>	<b>\$ 3,400,000</b>

<b>Article 17      Appropriate to Post Employment Insurance Liability Fund</b>		
Funds Requested	Funding Source	Committee Recommendation
\$1,739,721	<b>Free Cash</b>	
\$240,000	<b>Tax Levy</b>	
\$2,761	<b>Water EF</b>	<b>Approve (8-0)</b>
\$3,004	<b>Wastewater EF</b>	
<b>\$1,985,486</b>		

This article requests the appropriation of \$1,985,486 into the Post Employment Insurance Liability (PEIL) Fund. Of the requested amount, \$1,739,721 would come from free cash, \$240,000 from the tax levy, \$2,761 from the Water Enterprise Fund, and \$3,004 from the Wastewater Enterprise Fund. The tax levy amount corresponds to the withdrawal of an equal amount, \$240,000, from the Health Claims Trust Fund (HCTF) under Article 4 to support the employee benefits line of the operating budget. This will be nearly all of the remaining balance of the HCTF. Any residual balance in the HCTF will be appropriated out at another town meeting in the near future, i.e., this fall or next spring. The amounts requested from the two enterprise funds are based on the benefits earned by the employees of the Water and Wastewater Departments.

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

The Town of Lexington’s future OPEB liabilities are not fully funded. The unfunded liability is the sum of the actuarially determined obligations incurred during current and prior fiscal years that have not been funded (via contributions to the PEIL Fund). Every year, the total amount of the unfunded liabilities grows by the present value

of future benefits earned during the current year, less the value of benefits provided to retirees during the current year through the operating budget, and less any contribution to the PEIL Fund for future liabilities.

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

<b>Article 18      Rescind Prior Borrowing Authorizations</b>		
Funds Requested	Funding Source	Committee Recommendation
<b>None</b>	<b>N/A</b>	<b>IP (8-0)</b>

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

No rescissions have been recommended by Town staff at this time.

<b>Article 19      Establish, Amend, Dissolve and Appropriate To and From Specified Stabilization Funds</b>		
Funds Requested	Funding Source	Committee Recommendation
<b>\$500,000</b>	<b>Capital SF</b>	
<b>\$1,733,137</b>	<b>Tax Levy</b>	
<b>\$246,064</b>	<b>TMOD SRF</b>	
<b>\$210,000</b>	<b>Traffic Mitigation SRF</b>	<b>Approve (8-0)</b>
<b>\$205,000</b>	<b>TDM SRF</b>	
<b>\$439,402</b>	<b>Affordable Housing Capital SF</b>	
<b>\$500,000</b>	<b>Free Cash</b>	

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

Town Meeting may create a new specified stabilization fund, alter a fund’s specified purpose, approve appropriations into a fund, appropriate money from a fund, or dissolve a fund. Town Meeting may also direct specific revenue sources to be deposited directly into a stabilization fund, bypassing the need for Town Meeting to formally appropriate those revenues into the fund. Appropriations into specified stabilization funds do not authorize expenditures, but rather put aside funds for specified future uses. Additions or withdrawals not addressed by other specific warrant articles are approved in this article.



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

<b>Stabilization Fund</b>	<b>Estimated Balance 12/31/2022</b>	<b>Deposit / (Withdrawal)</b>	<b>Source / Destination</b>
Capital		<b>(\$500,000)</b>	<b>Exempt debt payments</b>
		\$ 1,733,137	Tax levy
TMOD		\$ 246,063.75	TMOD SRF - Mitigation payments from zoning special permit applications
TM		\$ 210,000	TM SRF - Mitigation payments from zoning special permit applications
TDM/PT		\$ 205,000	TDM/PT SRF - Lexpress and contribution to Rev Shuttle
AHC		<b>(\$439,402.27)</b>	<b>Affordable Housing Trust</b>
SPED		\$ 500,000	Free Cash
<i><b>TMOD:</b> Transportation Management Overlay District; <b>TM:</b> Traffic Mitigation;  <b>TDM/PT:</b> Transportation Demand Management/Public Transportation; <b>AHC:</b> Affordable Housing Capital; <b>SPED:</b> Special Education</i>			
<i>* Estimates are calculated starting with the prior fiscal year ending balance, less appropriations made from the funds during the current fiscal year, plus contributions into the funds that did not require appropriation, along with an estimate of interest earned.</i>			

The following transfers are proposed under this article:

19(a) Withdraw \$500,000 from the Capital Stabilization Fund to fund debt service for projects excluded from the limits of Proposition 2½.

19(b) Appropriate \$1,733,137 into the Capital Stabilization Fund from the tax levy.

Items 19(a) and 19(b) may seem to be at cross purposes, with the first withdrawing from and the second adding to the Capital Stabilization Fund. This approach to the fund management offers transparency regarding the use of funds.

19(c) Appropriate \$246,063.75 into the Transportation Management Overlay District Stabilization Fund from its associated Special Revenue Fund.

19(d) Appropriate \$210,000 into the Traffic Mitigation Stabilization Fund from its associated Special Revenue Fund.

19(e) Appropriate \$205,000 into the Transportation Demand Management/Public Transportation Stabilization Fund from its associated Special Revenue Fund.

19(f) Withdraw \$439,402.27 from the Affordable Housing Capital Stabilization Fund (AHCSF) to fund the Lexington Affordable Housing Trust (AHT).

19(g) The developer of Brookhaven at Lexington (Symmes Lifecare, Inc.) makes payments in lieu of affordable housing under a 2017 Memorandum of Understanding. Under Article 19 of the 2020 Annual Town Meeting these payments were directed to the AHCSF, meaning that the funds are transferred without appropriation. Following the reorganization of LexHAB and the creation of the AHT, the AHCSF has become redundant.

Redirecting these mitigation payments to a new fund requires a two-part action. This sub-motion is the first part, which terminates the current direction to the AHCSF at the end of FY2023. The second part under Article 7 will direct these payments to the AHT starting in FY2024.

Revenue from Short Term Rental Surcharge taxes will still be directed to the AHCSF, as approved last year. Mass General Law requires that such revenue sources must remain in effect for a minimum of three years. We anticipate that Town Meeting will redirect this revenue to the AHT at the end of FY2026, and then dissolve the AHCSF.

19(h) Appropriate \$500,000 into the Special Education (SPED) Stabilization Fund from Free Cash. In FY2022 \$500,000 was appropriated from the SPED stabilization fund to support the school department budget during the pandemic. This funding was ultimately unused and is being returned to the SPED Stabilization Fund.

<b>Article 20      Appropriate for Prior Years’ Unpaid Bills</b>		
Funds Requested	Funding Source	Committee Recommendation
<b>None</b>	<b>N/A</b>	<b>IP (8-0)</b>

This is an annual article to request funds to pay bills after the close of the fiscal year in which the goods were received or the services performed and for which no money was encumbered.

There are no unpaid bills from the prior fiscal year, and no action is required under this article.

<b>Article 21      Amend FY2023 Operating, Enterprise and CPA Budgets</b>		
Funds Requested	Funding Source	Committee Recommendation
<i>See below</i>	<i>See below</i>	<b>Approve (8-0)</b>

This article allows needed revisions to current year operating, enterprise, and CPA budgets. As of press time, the motion includes the following revisions.

Previous Articles	Line Item	Description	Budgeted Amount	Change	Revised Amount
2022 ATM Article 4	2210	Property & Liability Insurance	\$ 895,000	\$ 25,085	\$ <b>920,085</b>
	4100	Law Enforcement Personal Services	\$ 7,169,307	\$ 130,000	\$ <b>7,299,307</b>
2022 ATM Article 10	CPA	Allocation to Community Housing Reserve	\$ 813,600	\$ 50,000	\$ <b>863,600</b>
	CPA	Allocation to Historic Resources Reserve	\$ 813,600	\$ 50,000	\$ <b>863,600</b>
	CPA	Allocation to Open Space Reserve	\$ 813,600	\$ 50,000	\$ <b>863,600</b>

**Operating Budget Adjustments**

The estimate of property and liability insurance premiums made for the FY2023 budget was a bit low and needs to be increased. The articles seeks an increase of \$25,085, which corresponds to an overall year-to-year increase in premiums of about 10%.

More overtime hours are projected to be needed for the Police Department in FY2023 than were budgeted, due mainly to the actual numbers of vacancies and disabilities. This article will add \$130,000 to the Law Enforcement Personal Services budget to cover the cost of additional overtime.

Free Cash will be used as the source of the funds for both budget increases.

**Community Preservation Act (CPA)**

The State’s matching contribution for the CPA surcharge exceeded the projection. This article requests the appropriation of an additional \$50,000 into each of the three designated CPA reserves, which is supplemental to the mandated appropriation of 10% of the total revenue into each of the three specific CPA reserves.

<b>Article 22      Appropriate for Authorized Capital Improvements</b>		
Funds Requested	Funding Source	Committee Recommendation
<b>None</b>	<b>N/A</b>	<b>IP (8-0)</b>

This is an annual article to request supplemental funding for ongoing capital projects that were approved during previous town meetings.

There are no requests for supplemental funding of existing capital projects at this time.

<b>Article 23      Establish Special Education Reserve Fund</b>		
Funds Requested	Funding Source	Committee Recommendation
<b>\$750,000</b>	<b>GF</b>	<b>Approve (8-0)</b>

This article seeks, first, to establish a Special Education Reserve Fund as allowed by the Municipal Modernization Act (G.L. c. 40, § 13E). This would be a reserve that could be utilized by votes of both the School Committee and the Select Board without any further appropriation by Town Meeting. A provision in the state law limits the amount in the fund to 2% of annual net school spending, which would, at present, be equivalent to about \$2,600,000.

The second part of the article seeks the appropriation of \$750,000 into the Fund. The balance in this Fund would be available in the case of an extraordinary increase in special education costs, with special education out-of-district tuition expenses especially in mind. The recommended Education budget already includes funding for anticipated special education costs, but this reserve will serve as a backup in event of unforeseen additional expenses.

This Fund will be distinct from the Special Education Stabilization Fund which was established for very similar purposes, but requires a  $\frac{2}{3}$  vote of town meeting for the withdrawal and subsequent utilization of funds (see Article 19).

Any unspent balance in the Special Education Reserve Fund will carry forward from one year to the next. In this respect it differs from the general-purpose Reserve Fund where any unspent balance does not carry forward to the next fiscal year.

## Appendix A: 5-Year Budget Projections

The Town’s Finance Department prepares a 5-year forecasts for use in the Budget Summit process to develop a budget for the next fiscal year. This report summarizes the Finance Department’s projections and discusses their implications in planning for future Town budgets.

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

**Summary of Projections**

Table A-1 summarizes total revenues and expenses, showing actual results for FY2021-22, revised budgeted figures for FY2023 (still underway), the proposed budget for FY2024 presented in the Brown Book, and projected figures for FY2025-FY2028. The bottom line shows net surpluses (deficits).

For FY2021 and FY2022 the Town ran substantial overall surpluses, about 5.7% of expenses in FY2021 and about 4.8% in FY2022. These surpluses flowed to free cash in the following year, and were available to fund one-time expenses. For the current fiscal year (FY2023), the revised budget shows income and expenses in balance, as required under state law. After the tax levy new growth and Free Cash have been certified, the current year, FY2023, may also show a surplus. Normally, fiscal years will end with a surplus because Town budgets are developed conservatively—they avoid overestimating revenues or underestimating expenses, limiting the chance that the Town be short of funds for budgeted expenses. Towns may not run a deficit during the fiscal year, except in very limited circumstances.

Similarly, the recommended budget for FY2024 is balanced, and it seems likely that the final actual figures will result in a surplus due to the Town’s conservative budgeting policy.

Table A-1. Actual and Projected Revenues and Expenses (\$1,000s)

	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028
Revenue Category	Actual	Actual	Revised	Proposed	Projection	Projection	Projection	Projection
<b>Total Revenues</b>	\$ 237,690	\$ 254,914	\$ 264,446	\$ 276,896	\$ 278,383	\$ 286,638	\$ 294,619	\$ 304,284
<b>Total Expenses</b>	\$ 224,774	\$ 243,290	\$ 264,446	\$ 276,896	\$ 282,645	\$ 292,531	\$ 303,749	\$ 317,068
<b>Revenue - Expenses</b>	\$ 12,916	\$ 11,624	\$ —	\$ —	\$ (4,262)	\$ (5,893)	\$ (9,130)	\$ (12,784)
<b>As % of expenses</b>	5.7 %	4.8 %	— %	— %	(1.5)%	(2.0)%	(3.0)%	(4.0)%

The projections beyond the FY2024 budget under consideration show projected expenses exceeding projected revenues, yielding deficits ranging from 1.5% of expenses in FY2025 to 4.0% in FY2028. However, any projection of revenues or expenses is subject to considerable uncertainty, as we discuss in greater detail below. When the time comes to prepare a budget for one of those years, if the projection still indicates a deficit, changes will be made to bring budgeted expenses and revenues in line. This can be accomplished with a combination of adjustments, including limited program improvements and increasing the use of available funds.

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

**Projected Revenues**

Table A-2a shows projections of various revenue categories and provides notes on the assumptions behind those projections. Property taxes dominate revenues, accounting for 82% of total revenues in FY2021 (actuals) rising to 86% in the projection for FY2028. As a result, the assumptions concerning property tax revenues are critical to the projections.

Table A-2a. Projected Revenues by Category (\$1,000s)

Revenue Category	FY2021 Actual	FY2022 Actual	FY2023 Revised	FY2024 Proposed	FY2025 Projection	FY2026 Projection	FY2027 Projection	FY2028 Projection
1 Property Tax Levy	\$194,330	\$ 204,229	\$ 216,187	\$ 224,626	\$ 233,241	\$ 242,072	\$ 251,124	\$ 260,402
2 State Aid	\$ 16,221	\$ 16,684	\$ 17,057	\$ 19,639	\$ 19,878	\$ 20,117	\$ 20,354	\$ 20,592
3 Local Receipts	\$ 15,358	\$ 16,714	\$ 13,835	\$ 14,569	\$ 14,719	\$ 14,926	\$ 15,139	\$ 15,358
4 Available Funds	\$ 11,805	\$ 17,825	\$ 17,463	\$ 18,529	\$ 10,996	\$ 9,960	\$ 8,424	\$ 8,338
5 Revenue Offsets	\$ (1,774)	\$ (1,971)	\$ (1,902)	\$ (2,360)	\$ (2,402)	\$ (2,446)	\$ (2,491)	\$ (2,538)
6 Other Revenues	\$ 1,749	\$ 1,432	\$ 1,806	\$ 1,894	\$ 1,951	\$ 2,009	\$ 2,070	\$ 2,132
<b>7 Total Revenues</b>	<b>\$237,690</b>	<b>\$ 254,914</b>	<b>\$ 264,446</b>	<b>\$ 276,896</b>	<b>\$ 278,383</b>	<b>\$ 286,638</b>	<b>\$ 294,619</b>	<b>\$ 304,284</b>

Notes on assumptions		
1	Property Tax Levy	Reflects statutory allowable growth of 2.5% and assumed new growth of \$3 million annually.
2	State Aid	Assumes a \$370 per pupil change in FY2024 based on the Governor's prelim. budget, and increases at \$30 per pupil for FY2025-28. (minimum aid). School enrollment for FY2024-2026 is from School Dept budget documents. UGGA projected to increase by 2% per year.
3	Local Receipts	Assumes modest growth in local receipts based on evaluation of historical averages.
4	Available Funds	Free Cash estimate of \$10,000,000 available for FY2025, \$9,000,000 for FY26, and \$7,550,000 for FY2027-2028. Annual contribution of \$171,000 from TDM Stabilization Fund to support Lexpress and the Alewife Shuttle. In FY2024, \$240,000 from balance of Health Claims Trust Fund to be used to fund health insurance. Includes \$50,000 in grant funding to support Visitor Center operations for FY2024-FY2027. Further annual contributions from PEG Special Revenue Fund and Cemetery Sale of Lots Fund reflect anticipated spending tied to those areas.
5	Revenue Offsets	\$750K for overlay (property tax abatement and exemptions) in FY2025-28. \$400K set-aside for snow & ice deficit annually; Also includes Cherry Sheet Assessments increasing at 3.5% annually and Cherry Sheet Offsets (State Aid to Public Libraries).
6	Other Revenues	Water, Wastewater and Recreation FY2024 Enterprise Indirects increasing by 3% annually.

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

Table A-2b shows the projected year-to-year percentage increases in the various revenue categories. Keep in mind that many sources of FY2022 revenues were heavily impacted by the pandemic. Note that the Property Tax Levy grows more slowly from FY2024–FY2028 than in the earlier years. The substantial growth rate in FY 2024 Chapter 70 State Aid is not expected to continue, although it is still uncertain how revenue generated by the Fair Share Amendment, aka the “Millionaire’s Tax”, will affect Lexington’s future aid and this is not factored in this projection. Local Receipts also are greatly reduced from the proposed FY2024 levels. In both cases, the differences appear to reflect conservative assumptions, which we discuss in more detail below for property tax revenues. The other notable change is in Available Funds, which shrink in the projected years due to conservative budgeting which lowers levels of free cash.

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

Revenue Category	FY2022 Actual	FY2023 Revised	FY2024 Proposed	FY2025 Projection	FY2026 Projection	FY2027 Projection	FY2028 Projection
1 Property Tax Levy	5.1%	5.9%	3.9%	3.8%	3.8%	3.7%	3.7%
2 State Aid	2.9%	2.2%	15.1%	1.2%	1.2%	1.2%	1.2%
3 Local Receipts	8.8%	(17.2)%	5.3%	1.0%	1.4%	1.4%	1.4%
4 Available Funds	51.0%	(2.0)%	6.1%	(40.7)%	(9.4)%	(15.4)%	(1.0)%
5 Revenue Offsets	11.1%	(3.5)%	24.1%	1.8%	1.8%	1.9%	1.9%
6 Other Revenues	(18.1)%	26.1%	4.9%	3.0%	3.0%	3.0%	3.0%
<b>7 Total Revenues</b>	<b>7.2%</b>	<b>3.7%</b>	<b>4.7%</b>	<b>0.5%</b>	<b>3.0%</b>	<b>2.8%</b>	<b>3.3%</b>

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

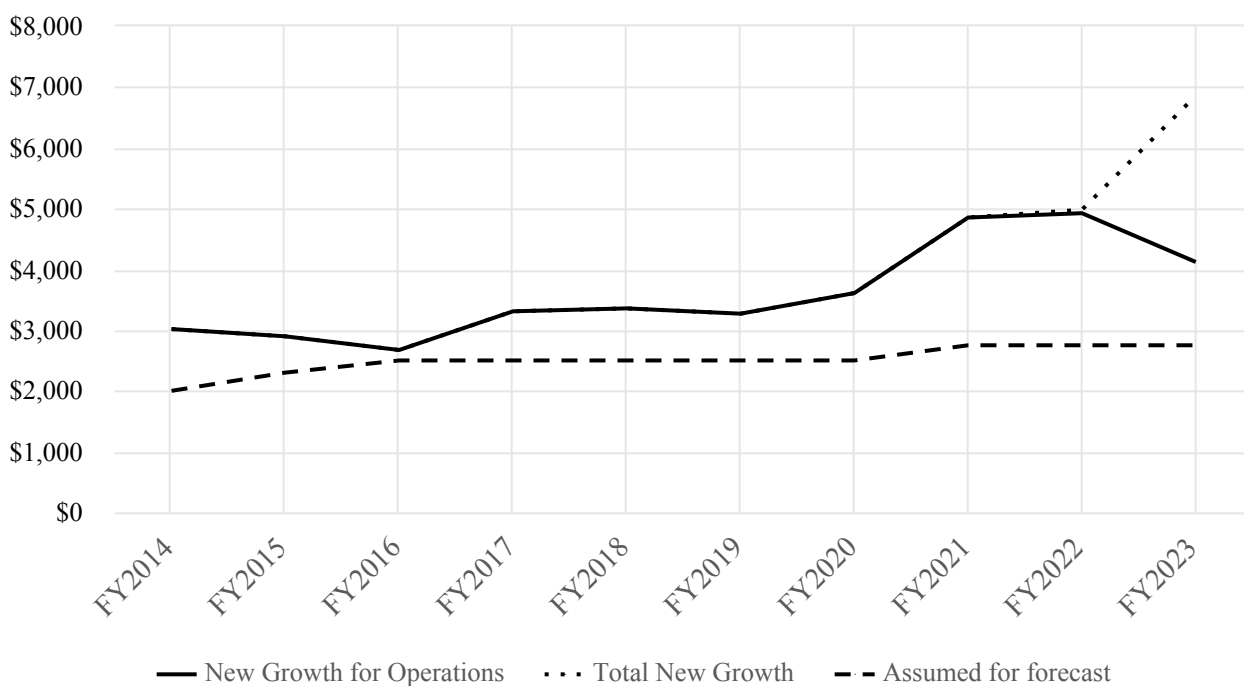
It is important to note that the use of Free Cash to supplement the operating budget is now phased out under a 5-year program. The FY2019 budget used \$3.74 million, and this amount was reduced by \$700,000 per year, with the program suspended in FY2022 due to the pandemic, then completed in FY2023. This transition has the net effect of

having \$700,000 more available in each of these years to fund non-recurring items such as Cash Capital, OPEB, or the Capital Stabilization Fund. The increased use of using cash for capital projects has resulted in less within-levy debt and the associated interest costs. The Town does not intend to return to using Free Cash for future fiscal years.

Proposition 2½ limits growth in the property tax levy to 2.5% each year plus the additional revenue resulting from “New Growth” in the tax base. This New Growth is the incremental tax revenue from the assessed value of a property following capital investment, e.g., construction and renovation. The limit on the tax levy may be temporarily exceeded to cover debt service on projects that are deemed exempt from Proposition 2½ as the result of a town-wide referendum. In addition, a successful operating override referendum can permanently increase the tax levy limit.

Leaving aside exempt debt service and operating overrides, New Growth is a key determinant of increases in property tax revenue. The Finance Department’s projections assume that New Growth will be \$3 million per year, up slightly from the \$2.75 million assumed in recent prior years. As shown in the figure below, this assumption is conservative in the sense that it has been lower than the actual new growth in nine of the last ten fiscal years.

New Growth Levy: Budgeted vs. Actual (\$1,000s)



Based on a fiscal guideline adopted last year, the New Growth resulting from PSDUP rezonings or that occurs in the Hartwell Overlay District, is to be appropriated to the Capital Stabilization Fund to be used to offset future debt service payments made on the Lexington High School project. Of the \$6,857,000 FY2023 New Growth, \$1,676,000 was in this category. In addition, \$1,060,000 of FY2023 new growth resulted from a change in tax status at Takeda Pharmaceutical company in regards to their personal property assets. This unexpected revenue from Takeda was set-aside into the Pension Fund. These two set-aside amounts totaled \$2,735,999 in new growth revenue that was unavailable to support the operating budget in FY2023.

The Finance Department’s projection assumes that the conservative figure assigned for New Growth in the budget can be used as a valid projection, but in the long run this will underestimate future tax revenue. The budget for New Growth is intentionally set well below the expected value as a safeguard against a budget shortfall, which could result if actual New Growth fell below the budgeted amount. A more realistic projection should instead be based on measurable trends, including, but not limited to, the long-term average for New Growth that has used to fund the operating budget.

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

However, for total revenues in the last three completed fiscal years (FY2020–FY2022), actual revenues have been higher than projected, especially for projections made several years in advance. For example, projections for FY2022 made in 2018 were 7.5% below actuals and those for FY2021 made in 2017 were 5.5% lower than the actual.

### **Projected Expenses**

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

Table A-4a. Projections of Expenses (figures shown in \$1,000’s)

<b>Expense Category</b>	<b>FY2022 Actual</b>	<b>FY2023 Revised</b>	<b>FY2024 Proposed</b>	<b>FY2025 Projection</b>	<b>FY2026 Projection</b>	<b>FY2027 Projection</b>	<b>FY2028 Projection</b>
<b><u>Education</u></b>	<b><i>\$ 123,767</i></b>	<b><i>\$ 131,478</i></b>	<b><i>\$ 138,232</i></b>	<b><i>\$ 145,319</i></b>	<b><i>\$ 152,777</i></b>	<b><i>\$ 160,628</i></b>	<b><i>\$ 168,893</i></b>
8 LPS Wages	\$ 101,248	\$ 106,450	\$ 112,792	\$ 118,431	\$ 124,353	\$ 130,570	\$ 137,099
9 LPS Expenses	\$ 19,389	\$ 21,804	\$ 21,939	\$ 23,036	\$ 24,187	\$ 25,397	\$ 26,667
10 Minuteman	\$ 3,130	\$ 3,224	\$ 3,502	\$ 3,852	\$ 4,237	\$ 4,661	\$ 5,127
<b><u>Municipal</u></b>	<b><i>\$ 53,717</i></b>	<b><i>\$ 58,125</i></b>	<b><i>\$ 61,350</i></b>	<b><i>\$ 63,026</i></b>	<b><i>\$ 64,646</i></b>	<b><i>\$ 66,320</i></b>	<b><i>\$ 68,059</i></b>
11 Municipal Wages	\$ 34,824	\$ 36,530	\$ 38,035	\$ 39,020	\$ 39,915	\$ 40,826	\$ 41,760
12 Municipal Expenses	\$ 18,893	\$ 21,595	\$ 23,315	\$ 24,006	\$ 24,732	\$ 25,495	\$ 26,298
<b><u>Shared Expenses</u></b>	<b><i>\$ 19,670</i></b>	<b><i>\$ 18,403</i></b>	<b><i>\$ 18,819</i></b>	<b><i>\$ 21,094</i></b>	<b><i>\$ 22,311</i></b>	<b><i>\$ 23,548</i></b>	<b><i>\$ 24,807</i></b>
13 Debt Service	\$ 10,364	\$ 7,255	\$ 6,854	\$ 8,330	\$ 8,746	\$ 9,184	\$ 9,643
14 Mitigate Within Levy	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
15 OPEB	\$ 1,880	\$ 1,930	\$ 1,980	\$ 2,030	\$ 2,080	\$ 2,130	\$ 2,180
16 Retirement	\$ 7,426	\$ 9,219	\$ 9,985	\$ 10,735	\$ 11,485	\$ 12,235	\$ 12,985
<b><u>Benefits</u></b>	<b><i>\$ 29,568</i></b>	<b><i>\$ 32,743</i></b>	<b><i>\$ 34,938</i></b>	<b><i>\$ 36,683</i></b>	<b><i>\$ 38,516</i></b>	<b><i>\$ 40,442</i></b>	<b><i>\$ 42,464</i></b>
17a Medicare	\$ 1,987	\$ 2,055	\$ 2,190	\$ 2,321	\$ 2,460	\$ 2,608	\$ 2,764
17b Health Insurance	\$ 26,484	\$ 29,554	\$ 31,613	\$ 33,193	\$ 34,853	\$ 36,596	\$ 38,426
17c Dental	\$ 1,080	\$ 1,109	\$ 1,110	\$ 1,143	\$ 1,178	\$ 1,213	\$ 1,249
17d Life	\$ 17	\$ 25	\$ 25	\$ 25	\$ 25	\$ 25	\$ 25
18 Reserve Fund	\$ —	\$ 1,250	\$ 750	\$ 750	\$ 750	\$ 750	\$ 750
19 Workers' Comp.	\$ 750	\$ 625	\$ 500	\$ 450	\$ 400	\$ 400	\$ 400
20 Unemployment	\$ 88	\$ 200	\$ 200	\$ 200	\$ 200	\$ 200	\$ 200
21 Property & Lib. Ins.	\$ 831	\$ 895	\$ 992	\$ 1,042	\$ 1,094	\$ 1,148	\$ 1,206
22 Uninsured Losses	\$ 250	\$ 200	\$ 200	\$ 200	\$ 200	\$ 200	\$ 200
23 Solar Production	\$ 360	\$ 390	\$ 390	\$ 390	\$ 390	\$ 390	\$ 390
24 Capital	\$ 10,136	\$ 14,251	\$ 16,342	\$ 9,308	\$ 8,284	\$ 6,759	\$ 6,736
25 Other	\$ 365	\$ 367	\$ 1,450	\$ 1,450	\$ 230	\$ 230	\$ 230
26 Approp. to Capital Stab	\$ 3,731	\$ 3,785	\$ —	\$ —	\$ —	\$ —	\$ —
27 Unallocated Revenue	\$ —	\$ —	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000
28 Tax Levy Dedicated to CSF	\$ 57	\$ 1,733	\$ 1,733	\$ 1,733	\$ 1,733	\$ 1,733	\$ 1,733
29 <b>Total Expenditures</b>	<b><i>\$ 243,290</i></b>	<b><i>\$ 264,446</i></b>	<b><i>\$ 276,896</i></b>	<b><i>\$ 282,645</i></b>	<b><i>\$ 292,531</i></b>	<b><i>\$ 303,749</i></b>	<b><i>\$ 317,068</i></b>

*Note: Amounts in italics are subtotals.*

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

Table A-4b. Notes on Projected Expenses

<b>Expense Category</b>	<b>Notes on Assumptions</b>
<b><u>Education</u></b>	
8 LPS Wages	Assumes a 5% increase.
9 LPS Expenses	Assumes a 5% increase.
10 Minuteman	FY2025-28 projections increase by 10%.
<b><u>Municipal</u></b>	
11 Municipal Wages	Projections based on step increases for current staff, settled collective bargaining contracts, and anticipated contract settlements for out-years.
12 Municipal Expenses	Level-service budget using CPI of 7% for electricity, 5.5% for natural gas, 10% for IT software expenses, and 1.8% for all other expenses.
<b><u>Shared Expenses</u></b>	
13 Debt Service	Within levy debt service from General Fund debt table. Includes projections on all authorized unissued debt service, plus an increase of 5% in newly authorized debt funded projects each year. (This is a maximum amount of in-levy debt for existing authorizations).
14 Mitigated Within Levy Debt Service	Debt service increases in FY2026-2028 above 5% will be mitigated by use of the Capital Stabilization Fund. (N/A)
15 OPEB	Continued funding of OPEB with a \$50,000 annual increase.
16 Retirement	Contributory Retirement assessment (based on 2030 amortization of unfunded liability and 7.25% interest rate assumption) .
<b><u>Benefits</u></b>	
17a Medicare	6% increase in Medicare, reflecting an increase in the number of eligible employees and increases in wages.
17b Health Insurance	FY2024, growing at 5% annually.
17c Dental	FY2024, growing at 3% annually.
17d Life	Level Funding
18 Reserve Fund	Level Funding
19 Workers' Comp.	Gradual reduction planned to maintain fund balance of \$2 million. Staff will continue to monitor and adjust out-year projections as needed.
20 Unemployment	Level Funding.
21 Property & Lib. Ins.	FY2022, growing at 5% annually.
22 Uninsured Losses	Level Funding. Staff may recommend further reductions in out-years to maintain fund balance at \$1 million.
23 Solar Production	Payments to Syncarpha for construction costs of Hartwell Ave. solar arrays. Level Funding.
24 Capital	Assumes all available Free Cash not set aside for pension, current year needs or unallocated will be used for cash capital, plus, \$2.69M for Street Improvement and \$225K for Municipal Building Envelope, portions of which grow at 2.5% through FY2028.
25 Other	Reflects various warrant articles such as Senior Tax Work-Off and \$200K in unanticipated needs in FY2024-28.
26 Approp. to Capital Stab. Fund	Reflects past and projected transfers to continue funding the Capital Stabilization Fund to cover the high school project.
27 Unallocated Revenue	Proposed allocation set-aside for yet to be determined priorities.
28 Tax Levy Dedicated to CSF	Set-aside of tax levy tied to commercial new growth for Capital Stabilization Fund. Anticipated to grow in future years, tied to new revenue that is not captured in this model.

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



Table A-5a. Expense Projections Aggregated

Expense Category	FY2021 Actual	FY2022 Actual	FY2023 Revised	FY2024 Proposed	FY2025 Projection	FY2026 Projection	FY2027 Projection	FY2028 Projection
<i>Education</i>	<i>\$ 117,327</i>	<i>\$ 123,767</i>	<i>\$ 131,478</i>	<i>\$ 138,232</i>	<i>\$ 145,319</i>	<i>\$ 152,777</i>	<i>\$ 160,628</i>	<i>\$ 168,893</i>
LPS	\$ 114,464	\$ 120,637	\$ 128,254	\$ 134,730	\$ 141,467	\$ 148,540	\$ 155,967	\$ 163,765
Minuteman	\$ 2,863	\$ 3,130	\$ 3,224	\$ 3,502	\$ 3,852	\$ 4,237	\$ 4,661	\$ 5,127
<i>Municipal</i>	<i>\$ 51,242</i>	<i>\$ 53,717</i>	<i>\$ 58,125</i>	<i>\$ 61,350</i>	<i>\$ 63,026</i>	<i>\$ 64,646</i>	<i>\$ 66,320</i>	<i>\$ 68,059</i>
<i>Shared Expenses</i>	<i>\$ 56,205</i>	<i>\$ 65,864</i>	<i>\$ 76,576</i>	<i>\$ 79,047</i>	<i>\$ 76,033</i>	<i>\$ 76,840</i>	<i>\$ 78,534</i>	<i>\$ 81,850</i>
OPEB	\$ 750	\$ 1,880	\$ 1,930	\$ 1,980	\$ 2,030	\$ 2,080	\$ 2,130	\$ 2,180
Capital	\$ 7,812	\$ 10,136	\$ 14,251	\$ 16,342	\$ 9,308	\$ 8,284	\$ 6,759	\$ 6,736
Capital Stabil. Fund	\$ —	\$ 3,788	\$ 5,518	\$ 1,733	\$ 1,733	\$ 1,733	\$ 1,733	\$ 1,733
Other	\$ 47,643	\$ 50,060	\$ 54,877	\$ 58,992	\$ 62,962	\$ 64,744	\$ 67,912	\$ 71,201
<b>Grand Total</b>	<b>\$ 224,774</b>	<b>\$ 243,347</b>	<b>\$ 266,179</b>	<b>\$ 278,629</b>	<b>\$ 284,378</b>	<b>\$ 294,264</b>	<b>\$ 305,483</b>	<b>\$ 318,801</b>

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

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

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

Expense Category	FY2022 Actual	FY2023 Revised	FY2024 Proposed	FY2025 Projection	FY2026 Projection	FY2027 Projection	FY2028 Projection
<i>Education</i>	<i>5.5%</i>	<i>6.2%</i>	<i>5.1%</i>	<i>5.1%</i>	<i>5.1%</i>	<i>5.1%</i>	<i>5.1%</i>
LPS	5.4%	6.3%	5.0%	5.0%	5.0%	5.0%	5.0%
Minuteman	9.3%	3.0%	8.6%	10.0%	10.0%	10.0%	10.0%
<i>Municipal</i>	<i>4.8%</i>	<i>8.2%</i>	<i>5.5%</i>	<i>2.7%</i>	<i>2.6%</i>	<i>2.6%</i>	<i>2.6%</i>
<i>Shared Expenses</i>	<i>17.2%</i>	<i>16.3%</i>	<i>3.2%</i>	<i>(3.8)%</i>	<i>1.1%</i>	<i>2.2%</i>	<i>4.2%</i>
OPEB	150.6%	2.7%	2.6%	2.5%	2.5%	2.4%	2.3%
Capital	29.8%	40.6%	14.7%	(43.0)%	(11.0)%	(18.4)%	(0.3)%
Capital Stabilization Fund	**	45.7%	(68.6)%	—%	—%	—%	—%
Other	5.1%	9.6%	7.5%	6.7%	2.8%	4.9%	4.8%
<b>Grand Total</b>	<b>8.3%</b>	<b>9.4%</b>	<b>4.7%</b>	<b>2.1%</b>	<b>3.5%</b>	<b>3.8%</b>	<b>4.4%</b>

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

Planned contributions to the Capital Stabilization Fund to reduce the future impacts on taxes of the High School project show the greatest volatility, increasing significantly from zero dollars in FY2021 to \$3.8 million in FY2022 and \$5.5 million in FY2023. They then drop to \$1.7 million in FY2024 and the last 4 years of the projection which represents only the current amount dedicated from tax levy new growth as outlined earlier in this section. The amount set aside from tax levy new growth in future years is expected to increase, and the Town may also elect to appropriate free cash or other available funds to the Capital Stabilization Fund, neither of which are reflected in this projection. Capital spending is projected to drop off in FY2024, which correlates to the decrease in projected free cash available in those periods. However capital spending is prone to actually increase when one-time sources of revenue such as Free Cash exceed projections and are applied to expand this annual program. Other shared expenses are projected to rise at relatively low rates.

**Concluding Remarks**

The Finance Department’s projections appear to suggest that over the next five years, the Town will have to find ways to reduce expenses or increase revenues to maintain a balanced budget as required by state law. To further complicate matters, we know that these projections may not take into account the probability that the current high inflation environment will exceed projections. Due to rises in the costs of materials and labor, the Town has received bids for performing capital projects that greatly exceed the appropriations made to fund them. Energy prices have also been rising rapidly, which will generally increase the cost of goods and services. An extended period of inflation could also trigger wage increases that are much larger than those assumed by these projections. Additionally, it is unclear how long high interest rates will persist and increase the carrying cost of our debt

funding. However, our review suggests that the impact of these problems may be partially mitigated by the Town's conservative approach in forecasting revenues.

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

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

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

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

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

## Appendix B: Enterprise Funds

The Town of Lexington has maintained Water, Wastewater (Sewer), and Recreation Enterprise Funds since soon after 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. An enterprise fund provides management and taxpayers with information to measure performance, analyze the impact of financial decisions, and determine the cost of providing a service. Enterprise funds may be operated on a stand-alone basis, i.e., supported by fees, or subsidized by the General Fund.

The Water and Wastewater Enterprise Funds operate on a completely stand-alone basis. These funds do not rely on any tax-levy revenues but cover their complete operating and capital needs with user charges and fees.

The Recreation Enterprise Fund is only partially stand-alone. Before the Community Center began to operate, the Recreation Department's operating costs were funded by user charges and fees. In the same time period, the Enterprise Fund contributed to the debt service on certain recreation capital projects, such as the Lincoln Field restoration project for which the debt has now been fully repaid, but projects, such as the renovation of playgrounds, that were associated with facilities that do not generate fees were funded by the tax levy. With the advent of the Community Center, the Recreation Department was reorganized into the Department of Recreation and Community Programs. Since the Community Center provides a range of fee-free services to the community, the salaries and benefits of a group of Community Center related employees is now funded through the tax levy. Most recreation capital costs are subsidized by the General Fund through a combination of tax levy funding, within-levy borrowing, Community Preservation Act (CPA) funding, and debt exclusion funding.

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

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

Depending on the accuracy of the usage projections, the actual revenue realized by the enterprise during the year may exceed or fall short of the appropriated amount. Any operating surplus must be retained in the enterprise fund. The funds accumulated (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 retained earnings), must be made up in the succeeding fiscal year's appropriation.

Since FY2007, the annual town meeting warrant has contained a separate article for the appropriation of the enterprise fund operating budgets (previously, appropriations for the enterprise funds were commingled with those for the General Fund). This presentation makes it easier to understand the operating budgets of the enterprise funds. However, it should be noted that certain indirect costs that are charged by the General Fund to the enterprise funds are still appropriated as part of the operating budget, and that certain other components of the budget, including contributions to OPEB and funding for capital projects and programs, are appropriated in other articles. For the complete operating costs of the enterprise funds, including indirect costs, OPEB contributions and cash applied toward capital projects,, see the Brown Book sections on Water, Wastewater, Recreation.

To present a more meaningful picture of the complete enterprise fund operating budgets, the tables included in our write-up of the enterprise fund operating budget article have been expanded to show all components of the budget, however appropriated.

## Appendix C: Revolving Funds

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

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

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

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

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

## Appendix D: Tax Relief Programs

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

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

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

A brief description of each of the programs follows. Detailed and up-to-date information about eligibility criteria, the amount of relief available, and which programs may be combined can be found in a brochure on the Town website entitled *Property Tax Relief Programs* which is updated annually by the Assessor’s office. See <https://www.lexingtonma.gov/168/Elderly-Other-Tax-Relief>.

### **State Income Tax “Circuit Breaker”**

The “Circuit Breaker” provides state income tax relief to low- and moderate-income homeowners and renters age 65 and over. Qualified homeowners are entitled to a refundable dollar-for-dollar credit on their state income tax to the extent that their real estate taxes and one half of their water and sewer bills exceed 10% of their income. Qualified renters are entitled to the credit to the extent that 25% of their annual rent exceeds 10% of their income. This program is administered by the Massachusetts Department of Revenue and has no direct impact on Town finances.

### **The “41A” Deferral Program**

This property tax deferral program, available to low and moderate-income homeowners 65 and over, is authorized by state law, G.L. c. 59, § 5, Clause 41A, and administered at the local level. Although not widely used, it offers immediate and substantial property tax relief to seniors who may be having trouble paying their taxes. Those who qualify may defer any part or all of their property tax in any given year, up to a cumulative total of half the assessed valuation of the property. The deferred taxes do not have to be repaid until the property is sold or transferred, whether before or after the resident’s death. Towns are permitted to set their own interest rates for this program at any rate up to 8%. Lexington’s interest rate is a floating Treasury rate, updated annually, which is intended to be equivalent to the Town’s return on its funds in the year of deferral. The rate set each year remains in effect for the life of deferrals granted in that year.

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

### **The “41C” Exemption Program**

For many years, the Town has made available to qualifying seniors a property tax exemption under Clause 41 of G.L. c. 59, §5, and its successor, Clause 41C. Under the “41C” Program, the State partially reimburses the Town

for exemptions granted, subject to appropriation. Exemptions not reimbursed by the State are funded from the Town's overlay account.

Prior to 2004, the credit was limited to \$500 per year and eligibility criteria were quite restrictive. Since then, the Town has increased the exemption to \$2,000 and taken a number of steps to expand eligibility, taking advantage of local options made available by the legislature from time to time.

In 2005, Town Meeting voted to adopt the provisions of G.L. c. 59, § 5, Clause 41D, which automatically adjusts the income and asset limits for Clause 41C (but not the exemption amount) by a COLA established annually by the state Department of Revenue. The current income and asset limits are detailed in the *Property Tax Relief Programs* brochure mentioned above.

### **The Senior Service Program**

The Senior Service program allows low-income seniors to perform volunteer work for the Town in exchange for a reduction in their property tax. This program is locally controlled. Eligibility criteria, the "wage" rate, and the maximum amount which may be worked off are established by the Select Board from time to time. The Senior Service program, formerly funded from the overlay account, is now funded as part of the Town's annual budget and is subject to appropriation.

### **CPA Surcharge Exemption**

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

## Appendix E: Specified Stabilization Funds

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The table below shows estimates of the balances in stabilization funds as of December 31, 2022.

<b>Stabilization Fund</b>	<b>Balance</b>
Transportation Demand Management / Public Transportation	\$ 886,779
Traffic Mitigation	\$ 417,727
Special Education	\$ 666,614
Capital	\$ 26,784,070
Center Improvement	\$ 10,571
TMOD	\$ 147,414
Visitors Center	\$ 243,254
Affordable Housing Capital	\$ 438,945
Ambulance	\$ 250,000
Water System Capital	\$ 287,242

**Affordable Housing Trust**

Lexington’s Affordable Housing Trust (AHT) is a municipal entity that accumulates and distributes funds to support affordable housing in the Town. It was created by Article 12 of the 2022-3 Special Town Meeting. Primary funding for the trust comes from the Community Preservation Act and affordable housing mitigation payments made by developers. The AHT has a Board of Trustees that provides oversight and administers grant making, while the Town Finance Department handles its accounting. AHT funds are managed by the Town Treasurer using a conservative investment policy that prioritizes liquidity and stability.

AHT funds are not subject to further appropriation by Town Meeting, therefore the AHT can act independently whenever opportunities arise. A limit on the total annual grants made by the AHT is set by the Select Board. The Affordable Housing Trust Study Committee has recommended setting this limit to the median sales price of a home in Lexington. Grants in excess of the annual limit are subject to Select Board approval.

The AHT does not develop or own housing units. Instead, the trust provides grants for the creation of affordable housing to private developers (either nonprofit or for-profit), including LexHAB. Such housing may be new construction, or use existing housing that is acquired and converted. Projects funded by the AHT are subject to existing bylaws that govern development in the Town.



In addition to creating affordable housing, the trust may:

- Increase affordability in existing and future housing developments
- Preserve properties faced with expiring affordability restrictions
- Assist low- and moderate-income homebuyers
- Help low- and moderate-income families make health and safety repairs
- Educate and advocate to advance affordable housing initiatives
- Hire administrative staff, consultants, housing specialists, and contractors

Future revenue supporting the AHT could include funds generated from special legislation. Currently Lexington is waiting for legislative approval for two such home rule petitions: Bill H.3891 *An Act to Establish a Surcharge on Specific Commercial Development Activities for the Purpose of Funding the Creation of Community Housing*, and Bill H.4314 *An Act Authorizing a Development Surcharge for Community Housing*.

## Appendix F: Other Post Employment Benefits

### **The OPEB Liability**

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

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

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

- real (inflation-adjusted) increases in the cost of health care,
- growth in the number of retirees receiving benefits, and
- actuarial adjustments to the projected longevity of retirees.

### **Pay-As-You-Go versus Pre-Funding**

There are two approaches to funding the OPEB liability. The first is a *pay-as-you-go* model where annual OPEB expenses are paid entirely through appropriation from the tax levy. This model uses current dollars to pay for current expenses related to benefits earned in previous years. The Town’s pay-as-you-go OPEB cost for FY2023 is approximately \$8.2 million and the projected cost for FY2024 is approximately \$8.7 million not including small amounts for the Town’s shares of retiree dental and life insurance.

The other approach is a *pre-funded* model in which expenses are paid from a trust fund called the Post-Employment Insurance Liability Fund, or PEIL Fund. This fund exists, but it is only partially funded. Once it is fully funded, withdrawals from the Fund will cover the annual OPEB expenses, and the Town will make annual contributions to the Fund equal to the “normal cost”, or “service cost”, i.e., the present value of future benefits earned during the current year. The balance of the Fund will be maintained at or near the full-funding level by investment returns in addition to these annual contributions. This model, which pays for future expenses using current dollars, is also how the Retirement Fund (pensions) will operate once it is fully funded.

The difference between the current balance of the PEIL Fund and the amount needed for it to be considered fully funded is called the “unfunded liability”. Currently, contributions to the PEIL Fund act to reduce the size of the unfunded liability, and current-year OPEB expenses are funded from the operating budget, i.e., not by withdrawals from the Fund.

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

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

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

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

On March 10, 2014, based on a recommendation from the OPEB Working Group, the Board of Selectmen endorsed a formal policy for making annual appropriations to the OPEB trust fund:

It is the policy of the Board of Selectmen to recommend to Town Meeting each year a budget contribution to the OPEB Trust Fund in an amount that ranges from 35 to 100 percent of the full Normal Cost, with the General and Enterprise Funds bearing their respective shares of those contributions. This approach will mitigate growth in the Unfunded Actuarial Accrued Liability, reducing the amount the Town will need to budget for health insurance by approximately one-third, as the assets of the OPEB Trust Fund will be used to underwrite the annual cost of retiree benefits.

Further, it is recognized that there are competing claims for limited Town funds, which are considered as part of the annual budget process. Consequently, the annual recommendation for OPEB funding shall be made in the context of other capital and operating budget needs, such that recommended OPEB funding shall not have a material, detrimental impact on service delivery or the maintenance of Town capital assets and infrastructure.

The Committee has supported this policy, and since 2014 the Town has made annual contributions of roughly 35% of the OPEB normal cost to the PEIL Fund, with the exception of 2020 when the contribution was lower due to uncertainty about the impact of the Covid-19 pandemic.

In FY2021, the Town Manager assembled a Financial Policy Working Group to review the above policy and consider possible modifications. To date, the Working Group has considered minor adjustments to the policy, but has not made any specific recommendations.

### **The Post Employment Insurance Liability (PEIL) Fund**

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

The Retirement Board is responsible for the management of the PEIL Fund as well as the Retirement Fund, which supports the Town pension system. The rules governing the management of these two funds are similar. Unlike most other Town monies, the balance in each of these two funds may be invested in equities with degrees of risk and rates of return that are suitable for long-term growth.

As articulated in the above policy statement of the Board of Selectmen and as confirmed by the Financial Policy Working Group, the intention is to continue with the transition to the pre-funded approach. Hence, there have been appropriations into the PEIL Fund at each annual town meeting since 2008. Until the Town fully funds its OPEB liability, moving toward the pre-funded model will require the Town to continue paying for a number of years for annual pay-as-you-go OPEB expenses, while also appropriating funds into the PEIL Fund. This combination of appropriations could be continued until the PEIL Fund is fully funded.

### **GASB standards and the determination of the OPEB liability**

The Town of Lexington follows standards set by the Government Accounting Standards Board (GASB) in its "statements". In regard to OPEB accounting, GASB statements 74 and 75 (GASB 74 and GASB 75) lay out the relevant standards, having superseded the previous set of standards described in GASB statements 43 and 45. Briefly, these statements require the determination of the actuarial value of the Town's OPEB liability according to specified metrics every two years, and the inclusion of a summary of the results in the Town's financial statements. Bond rating agencies consistently ask about the actuarial report, suggesting that the size of the OPEB liability, and its current funding level, factor into the Town's bond rating.

Estimating the present value of a complicated long-term liability like OPEB involves many actuarial assumptions, and the final results are very sensitive to some of these factors, especially the discount rate (the rate of return on the funds to be used to pay the future obligations), the predicted rate of inflation of per-capita medical costs, and the number of active and retired employees. An understanding of the actuarial analyses in a proper context requires consideration of the underlying assumptions, and judgment of how well they might mirror real-world conditions.

Each year, the Town engages an actuarial consultant who must follow the procedures and reporting templates established by the GASB standards to produce a report. A full actuarial analysis is done every two years. A briefer update based on the previous year’s full analysis is done in each intervening year.

The primary purpose of the actuarial reports is to provide information that is presented in the Town’s financial statements. This information, in turn, informs potential investors about one specific aspect of the present financial health of the Town, and enables uniform comparisons of the financial health of multiple municipalities.

A secondary use of the actuarial reports is to provide guidance to a municipality when policies regarding the OPEB liability are considered. A municipality may use additional modeling scenarios with a broader range of financial assumptions when the formally mandated assumptions used for the report do not fully capture the municipality’s OPEB funding process and liabilities.

**Recent Status of OPEB Funding**

The most recent full actuarial analysis, received in August 2022, presents the picture of the Town’s OPEB liabilities and funding as of June 30, 2021. This report and two previous reports are available on the Town’s Finance Department web page under “Finance Documents”. The actuarial firm used a discount rate calculated according to GASB directives. For this analysis, the actuaries used a discount rate of 3.94% which is the equivalent of a 6.75% rate for a certain interval followed by a 2.16% rate. Using this discount rate, the total OPEB liability as of June 30, 2021, was estimated at approximately \$266 million. Using a 4.94% discount rate, the liability would be reduced to approximately \$207 million. The actuarial analysis was done to satisfy GASB requirements, not to generate data that is appropriate for determining a funding schedule. The Town’s OPEB liabilities for policy-setting purposes are likely to be much lower than those in the actuarial report because different assumptions, especially with regard to the discount rate, would likely be used. This is illustrated by a calculation done in 2020 by a different actuarial firm in which the total liability was estimated to be about \$146 million based on a 7.5% discount rate. A fair estimate of the liability is likely between \$146 million and \$266 million; obtaining such an estimate would require a detailed calculation using a fair discount rate likely near 6.75%.

**History of the PEIL Fund**

The history of appropriations into the PEIL Fund is given in the following table. Since the monies in the Fund are invested, the Fund balance will fluctuate up and down, but will generally be significantly larger than the sum of past appropriations into the Fund. The balance, as of December 31, 2022, is reported to be \$25,999,290, while the sum of the previous appropriations is \$17,068,655.

**Appropriations Into the PEIL Fund**

<b>Appropriation Approved</b>	<b>Amount</b>	<b>Appropriation Approved</b>	<b>Amount</b>
2008 Annual Town Meeting	\$ 400,000	2018 Annual Town Meeting	\$ 1,842,895
2009 Annual Town Meeting	\$ 440,690	2019 Annual Town Meeting	\$ 1,885,486
2010 Annual Town Meeting	\$ 479,399	2020 Annual Town Meeting	\$ 750,000
2011 Annual Town Meeting	\$ 500,000	2021 Annual Town Meeting	\$ 1,885,486
2012 Annual Town Meeting	\$ 500,000	2022 Annual Town Meeting	\$ 1,935,486
2013 Annual Town Meeting	\$ 775,000		
2014 Annual Town Meeting	\$ 1,119,000		
2015 Annual Town Meeting	\$ 1,200,000		
2016 Annual Town Meeting	\$ 1,512,318		
2017 Annual Town Meeting	\$ 1,842,895		