

## **REPORT OF THE TOWN MANAGER**

The fiscal year 2017 general fund budget totals \$198,562,732, an increase of \$5,573,239, or 2.9 percent over the fiscal year 2016 adopted budget. The Board of Selectmen has unanimously approved this FY2017 Recommended Budget and Financing Plan. The recommended budget is balanced and will not require a Proposition 2 ½ override vote.

### **Overview of the FY2017 Recommended Budget and Financing Plan**

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The Board of Selectmen held the first of five financial summits with the School Committee, Appropriation Committee and Capital Expenditures Committee on October 8, 2015 to begin working on the fiscal year 2017 budget. Following the fifth financial summit, the Board of Selectmen approved the FY2017 recommended operating and capital budgets on February 22, 2016.

Given the recovering State and local economy, the Board of Selectmen established a goal of presenting a budget for FY2017 that is sustainable and will prepare the Town for the long list of substantial capital projects in the coming five years. With this as a priority, the Town Manager and Superintendent of Schools worked to present initial budget recommendations that were within projected FY2017 revenues. On January 11, 2016 the Town Manager presented a Preliminary Budget and Financing Plan that was balanced, but included a number of open issues related to the proposed operating and capital budgets. These issues were discussed and largely resolved at Financial Summits 4 and 5.

This budget, being recommended to Town Meeting for adoption, provides for:

- \$5,112,434 in revenues to be appropriated to the Capital Stabilization Fund for future capital projects, including direct financing or mitigation of debt service;
- \$710,000 to be appropriated from the Capital Stabilization Fund to mitigate the increase in debt service for those capital projects financed within the property tax levy limit;
- \$983,261 in unallocated revenues as a cushion for: 1) revenues that may be less than estimates (e.g., State Aid); or 2) expenditures greater than estimates (e.g., health insurance); and
- \$1,512,318 in revenues to be appropriated to the Other Post-Employment Benefits (retiree health insurance) Trust Fund.

These recommendations are largely possible due to the moderation in employee/retiree health insurance costs as a result of the Town having joined the State's Group Insurance Commission program, a concerted effort to limit budget increases in FY2017, and the Town's strong financial position at the end of FY2015.

## FISCAL YEAR 2017 RECOMMENDED BUDGET AND FINANCING PLAN

**Table 1** provides a summary of the FY2017 General Fund budget, by cost center.

Table 1	FY2016 Appropriated Budget	FY2017 Recommended Budget	Change \$	Chg. %
<b>Education</b>	\$ 93,233,052	\$ 98,689,827	\$ 5,456,775	5.9%
<b>Shared Expenses</b> <i>(Public Facilities, employee/retiree benefits, pension, debt, liability insurance, Reserve Fund)</i>	\$ 50,614,515	\$ 51,690,375	\$ 1,075,860	2.1%
<b>Municipal Departments</b>	\$ 33,594,270	\$ 34,536,720	\$ 942,450	2.8%
<b>Subtotal Operating Budget</b>	\$ 177,441,838	\$ 184,916,922	\$ 7,475,085	4.2%
<b>Cash Capital</b>	\$ 4,642,987	\$ 5,554,789	\$ 911,802	19.6%
<b>Other</b> <i>(Appro. to reserves, misc.)</i>	\$ 10,904,668	\$ 8,091,020	\$ (2,813,647)	-25.8%
<b>Total General Fund</b>	<b>\$ 192,989,492</b>	<b>\$ 198,562,732</b>	<b>\$ 5,573,239</b>	<b>2.9%</b>
<b>Projected Revenue</b>	\$ 193,186,829	\$ 198,562,731	\$ 5,375,902	2.8%
<b>Surplus/(Deficit)</b>	\$ 197,337	\$ 0	\$ (197,338)	

### Selectmen's Budget Principles

In developing the annual operating budget, the Board of Selectmen continued to adhere to the following principles in order to preserve the Town's long-term financial condition:

1. Continue to set aside funds into the Capital Stabilization Fund as part of the comprehensive long-term strategy for funding critical school and municipal projects.
2. Core services currently provided through the operating and capital budgets should be maintained, recognizing that changes in service demands may require that additional resources be provided in certain areas.
3. Resources should continue to be provided for road, intersection, traffic calming and sidewalk improvements and to address deferred maintenance in these assets.
4. Recurring revenues, not reserves or one-time revenues, should support operating expenses and debt service.
5. Debt will not be used to fund current operating expenditures.
6. Adequate reserves and contingency funds will be budgeted, consistent with the recommendations of the Ad Hoc Financial Policy Committee (2006) as adopted by the Board of Selectmen.
7. The use of reserves to fund operating expenses should be limited to cover temporary revenue shortfalls, consistent with the recommendations of the Selectmen's Ad Hoc Fiscal Task Force (2009).
8. Sufficient funds for building maintenance will be budgeted to properly maintain facilities and equipment as well as foster energy conservation.
9. One-time revenue use should be limited to funding one-time expenses (e.g., capital projects) or used to fund reserve accounts.
10. Continue to provide funding for the post-employment benefits liability (OPEB).

**FISCAL YEAR 2017 RECOMMENDED BUDGET AND FINANCING PLAN**

**The FY2017 Budget in Brief: Financing Plan, Expenditures, Reserves**

While the Town’s FY2017 operating budget has many complexities, the following matters deserve specific attention:

**I. Financing Plan:**

**a. Revenue Allocation Model:** It has been the Selectmen’s practice to equitably share Town revenues between the municipal departments and the School Department. Based on a model developed by the Town Manager and Superintendent of Schools and accepted by the Board of Selectmen, School Committee and financial committees, projected revenues are allocated, on a preliminary basis, such that after shared expenses are funded, 73.3 percent of all projected FY2017 general fund revenues were allocated to the School Department and 26.7 percent were allocated to municipal departments.

**b. Revenue Projection:** In FY2017, General Fund revenues are projected to increase by \$5.4 million or 2.8 percent over FY2016 budgeted revenues. By way of comparison, budgeted revenue growth in recent years has been:

- FY15: 3.6 percent
- FY14: 6.9 percent
- FY13: 4.7 percent
- FY12: 4.0 percent
- FY11: 3.9 percent
- FY10: 4.0 percent

**Table 2** provides a summary of the major General Fund revenue sources.

<b>Table 2</b>	<b>FY2016 Tax Recap</b>	<b>FY2017 Projected</b>	<b>Change \$</b>	<b>Chg. %</b>	<b>% of Total Revenue</b>
<b>Property Tax Revenue</b>	\$ 154,750,150	\$ 161,138,273	\$ 6,388,124	4.1%	81.2%
<b>State Aid</b>	\$ 11,568,637	\$ 11,804,630	\$ 235,993	2.0%	5.9%
<b>Local Receipts (Recap)</b>	\$ 11,682,878	\$ 12,130,550	\$ 447,672		
<b>Local Receipts not shown on Recap</b>	\$ 197,336	\$ -	\$ (197,336)		
<b>Total Local Receipts</b>	\$ 11,880,214	\$ 12,130,550	\$ 250,336	2.1%	6.1%
<b>Available Funds</b>	\$ 15,654,839	\$ 13,093,204	\$ (2,561,635)	-16.4%	6.6%
<b>Other Available Funds: Use of Capital Stabilization Fund</b>	\$ 620,567	\$ 710,000	\$ 89,433	14.4%	0.4%
<b>Revenue Offsets</b>	\$ (2,905,154)	\$ (1,943,061)	\$ 962,092	-33.1%	-1.0%
<b>Enterprise Receipts</b>	\$ 1,617,576	\$ 1,629,135	\$ 11,559	0.7%	0.8%
<b>Gross General Fund Revenues</b>	<b>\$ 193,186,829</b>	<b>\$198,562,731</b>	<b>\$ 5,375,902</b>	<b>2.8%</b>	
<b>Less - Revenue Set-Aside for Designated Expenses</b>	\$ 16,348,222	\$ 13,645,809	\$ (2,702,413)	-16.5%	
<b>Net General Fund Revenues</b>	<b>\$ 176,838,607</b>	<b>\$184,916,922</b>	<b>\$ 8,078,315</b>	<b>4.6%</b>	

**c. Revenue Sources:**

Property Tax Revenue and Assessed Valuations - The property tax remains the Town’s primary revenue source, comprising 81.2 percent of total projected revenues in FY2017 (**Table 2**). Although residential property values make up 88.2 percent of the total assessed value in Lexington, residential property owners currently pay only 79.3 percent of total property taxes as a result of the tax

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classification model adopted by the Board of Selectmen (**Table 4**).

**Tables 3 and 4** provide a history of the Town's assessed valuation and property tax levy.

<b>Table 3</b>	<b>Total Assessed Valuation</b>	<b>%Chg. From Prior Year</b>	<b>Property Tax Levy (net of excluded debt service)</b>	<b>% Chg. From Prior Year</b>	<b>Override Year</b>
<b>FY2016</b>	\$ 10,048,547,685	7.4%	\$ 154,750,151	4.4%	no
<b>FY2015</b>	\$ 9,359,615,090	9.4%	\$ 148,212,539	4.5%	no
<b>FY2014</b>	\$ 8,555,595,350	3.0%	\$ 141,842,483	4.8%	no
<b>FY2013</b>	\$ 8,307,956,760	3.5%	\$ 135,386,782	5.3%	no
<b>FY2012</b>	\$ 8,026,687,320	0.7%	\$ 128,615,714	5.2%	no
<b>FY2011</b>	\$ 7,973,719,190	1.0%	\$ 122,202,173	5.4%	no
<b>FY2010</b>	\$ 7,891,590,610	-1.8%	\$ 115,979,750	4.7%	no
<b>FY2009</b>	\$ 8,033,608,130	1.3%	\$ 110,778,389	5.6%	no
<b>FY2008</b>	\$ 7,929,164,350	-1.6%	\$ 104,879,746	9.3%	yes
<b>FY2007</b>	\$ 8,059,234,580	4.9%	\$ 95,954,870	6.9%	yes

<b>Table 4</b>	<b>% Assessed Valuation</b>		<b>% of Property Tax Levy</b>	
	<b>Residential</b>	<b>All Commercial</b>	<b>Residential</b>	<b>All Commercial</b>
<b>FY2016</b>	<b>88.2%</b>	<b>11.8%</b>	<b>79.3%</b>	<b>20.7%</b>
<b>FY2015</b>	87.6%	12.4%	78.3%	21.7%
<b>FY2014</b>	86.6%	13.4%	77.3%	22.7%
<b>FY2013</b>	86.6%	13.4%	77.3%	22.7%
<b>FY2012</b>	86.9%	13.1%	77.7%	22.3%
<b>FY2011</b>	87.2%	12.8%	78.3%	21.7%
<b>FY2010</b>	87.4%	12.6%	78.6%	21.4%

State Aid - State Aid, which is estimated at 5.9 percent of total revenues, is also an important source of revenue. As recently as FY2008, however, State Aid was 7 percent of total revenues. State Aid is currently projected to increase by 2 percent for FY2017, largely the result of the increasing number of students in Lexington's schools. The Legislature, however, will not likely vote the FY2017 State budget until after the close of Town Meeting. This revenue projection assumes that if FY2017 State or federal aid is below estimated amounts, the difference will be made up by the use of revenues set aside as unallocated in this proposed budget (\$983,261).

**Table 5** below provides a recent history of the Town's State Aid including the FY2017 projection.

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Table 5	FY2013	FY2014	FY2015	FY2016 Estimated	FY2017 Projected
<b>Chapter 70-Education Unrestricted</b>	\$ 7,876,799	\$ 8,657,571	\$ 9,584,428	\$ 9,968,536	\$ 10,167,907
<b>Charter School Reimbursement</b>	\$ 18,769	\$ 12,628	\$ 1,786	\$ 893	\$ 900
<b>General Government Unrestricted</b>	\$ 1,296,276	\$ 1,326,917	\$ 1,363,715	\$ 1,412,809	\$ 1,441,065
<b>Veteran's Benefits &amp; Exemptions</b>	\$ 156,539	\$ 147,543	\$ 169,557	\$ 139,502	\$ 147,861
<b>Offsets (School Lunch &amp; Library)</b>	\$ 61,751	\$ 69,921	\$ 73,976	\$ 46,897	\$ 46,897
<b>Total</b>	<b>\$ 9,410,134</b>	<b>\$10,214,580</b>	<b>\$11,193,462</b>	<b>\$11,568,637</b>	<b>\$ 11,804,630</b>
<b>\$ Change from Prior Year</b>	\$ 1,008,517	\$ 804,446	\$978,882	\$ 375,175	\$ 235,993
<b>% Change from Prior Year</b>	<b>12.0%</b>	<b>8.5%</b>	<b>9.6%</b>	<b>3.4%</b>	<b>2.0%</b>

### II. Expenditures:

Budget highlights include:

- a. Lexington Public Schools: The FY2017 School Department proposed General Fund budget (net of grants and other receipts) is increasing by 5.7 percent. The Minuteman Regional High School budget (included in the Education line shown in Table 1) is increasing by 19.1 percent, largely driven by increasing enrollment and debt service associated with a proposed new school project.
- b. Municipal Departments: The municipal budget is increasing by 2.8 percent, largely the result of:
  - contractual salary adjustments;
  - costs for preparing the Hartwell Avenue Compost site for a solar installation;
  - additional contractual engineering support for DPW to assist in managing various construction projects; and
  - engineering and master planning services to assist in evaluating various land purchases the Board of Selectmen is considering.
- c. Health Insurance for Employees and Retirees: At the time this FY2017 Recommended Budget and Financing Plan was being completed, the State's Group Insurance Commission (GIC), which the Town joined as of July 1, 2012, had not established its premiums for the various health insurance plans it will offer in FY2017. The Town has estimated a 5 percent increase in premiums for FY2017. The GIC is scheduled to set its FY2017 premium rates on March 2. Any budget revisions, if necessary, will be presented to Town Meeting as part of the motion for Article 4 and funded from the \$983,261 of unallocated revenues proposed in this recommended budget.

The FY2017 health insurance budget to be presented to Town Meeting reflects 30 new school department positions and 1 new municipal position. This budget also provides for the potential of an additional 36 active employees and 50 new retirees not currently enrolled in the Town's health plans choosing to enroll. Further, the budget makes a provision for those employees who may convert from individual to the more expensive family plans.

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**Table 6** provides a recent history of the Town health insurance enrollments.

Table 6 Fiscal Year <sup>1</sup>	Employees/Retirees Enrolled in Town's Health Insurance Program					In Opt-Out Program <sup>3</sup>
	Municipal Employees	School Employees	Total Employees	Retirees	Total	Total
2007	260	819	1079	948	2027	NA
2008	256	834	1090	976	2066	NA
2009	267	859	1126	991	2117	NA
2010	264	847	1111	1000	2111	NA
2011	272	835	1107	1016	2123	NA
2012	264	827	1091	1034	2125	NA
2013 <sup>2</sup>	253	822	1075	1112	2187	NA
2014	269	839	1108	1151	2259	NA
2015	268	835	1103	1189	2292	NA
2016	<b>261</b>	<b>836</b>	<b>1097</b>	<b>1222</b>	<b>2319</b>	<b>40</b>

*Note 1: Data as of November of each fiscal year.*

*Note 2: Increase in retiree enrollment in 2013 represents transfer of certain retirees from active to Medicare supplement plans.*

*Note 3: Beginning in FY2016, the Town begin a health insurance opt-out program whereby employees who were enrolled in the Town's health insurance program and who elect to withdraw receive a payment of \$2500 if withdrawing from an individual plan and \$5,000 if withdrawing from a family plan. This program has saved the Town approximately \$206,000 in FY16.*

- d. Utilities/Fuel: Utility costs for FY2017, accounted for in the general and enterprise funds, are expected to decrease by \$219,807 or 6.2 percent. With the conversion of heating systems at the Bridge, Bowman and Estabrook schools to natural gas, nearly all Town facilities now use this heating source. Three factors have contributed to the successful management of utility costs: installation of solar panels on six municipal and school buildings, generating 1.2MW of power and resulting in energy offsets of \$120,000; energy efficiency initiatives; and long-term energy contracts for electricity and natural gas at favorable rates.

**Table 7** provides a recent history of the Town's energy budget.

Table 7	FY2014 Actual	FY2015 Actual	FY2016 Budget	FY2017 Proposed	FY16-17 Change \$	FY16-17 Change %
Electricity	\$2,201,011	\$2,290,482	\$2,284,746	\$2,226,593	(\$58,153)	-2.5%
Heating Oil	\$6,625	\$1,630	\$5,600	\$3,600	(\$2,000)	-35.7%
Natural Gas	\$1,041,768	\$941,564	\$888,783	\$821,889	(\$66,894)	-7.5%
Diesel/Gasoline	\$379,420	\$449,534	\$386,592	\$293,832	(\$92,760)	-24.0%
<b>Total</b>	<b>\$3,628,824</b>	<b>\$3,683,210</b>	<b>\$3,565,721</b>	<b>\$3,345,914</b>	<b>(\$219,807)</b>	<b>-6.2%</b>

- III. **Reserves**: Following the downturn in the economy in the 2001-2003 period, the Board of Selectmen became increasingly concerned about the Town's lack of financial reserves to bridge revenue shortfalls that result when a recession occurs. Reserves provide an important tool in managing Town finances during a recessionary period. In response to these concerns, in 2005 the Board appointed the Ad Hoc Financial Policy Committee to examine and propose comprehensive financial policies to address operational needs, catastrophic and emergency

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reserves, maintenance of assets and unfunded liabilities. The resulting policy recommendations adopted by the Selectmen called for rebuilding financial reserves and addressing the Town's unfunded liabilities over a multi-year period. Implementing these policy recommendations, together with prudent budgeting, allowed the Town to weather the 2008-2012 financial downturn without materially impacting Town services or school programs.

**Table 8** below provides a summary of the Town's primary reserve funds.

Table 8	General Stabilization Fund	Special Education Stabilization Fund	Other Post Employment Benefits Trust Fund	Capital Stabilization Fund
<b>Current Balance</b> <sup>(1)</sup>	\$ 9,149,940	\$ 1,075,177	\$ 6,978,443	\$ 16,681,236
<b>Proposed Appropriation From</b>	\$ -	\$ -	\$ -	\$ (710,000)
<b>Proposed Appropriation To</b>	\$ -	\$ -	\$ 1,512,318	\$ 5,112,434
<b>Projected Balance, July 1, 2016</b>	<b>\$ 9,149,940</b>	<b>\$ 1,075,177</b>	<b>\$ 8,490,761</b>	<b>\$ 21,083,670</b>
<i><sup>(1)</sup> Reflects 12/31/2015 Balance</i>				

The Town's goal has been to build its operating budget reserves (i.e., General Stabilization Fund and Special Education Stabilization Fund) to a level of seven percent of General Fund revenues (\$12.5 to \$13 million), an amount considered sufficient to make up three years of revenue shortfalls that typically occur during an economic slowdown. This goal has largely been achieved. On another positive note, the budget includes a recommendation to continue to set aside funds for post-employment benefits (i.e., retiree health care) for the ninth consecutive year.

**Table 9** below provides an overview of the recommended appropriations to and uses of the Capital Stabilization Fund:

Table 9	FY2013	FY2014	FY2015	FY2016 Appropriated	FY 2017 Budget
<b>Prior Year Balance</b>		\$ 1,601,836	\$ 3,990,704	\$ 8,048,467	\$ 16,681,236
<b>Appropriation To Capital Stabilization Fund</b>	\$ 1,600,000	\$ 3,983,240	\$ 5,910,726	\$ 9,447,832	\$ 5,112,434
<b>Subtotal-Available for Appropriation</b>	\$ 1,600,000	\$ 5,585,076	\$ 9,901,430	\$ 17,496,299	\$ 21,793,670
<b>Appropriation From Capital Stabilization Fund</b>					
<b>Bridge/Bowman/Estabrook Debt Service Tax Relief</b>	\$ -	\$ (1,600,000)	\$ (950,000)	\$ (215,000)	\$ -
<b>Other School and Municipal Capital Projects</b>	\$ -	\$ -	\$ (919,000)	\$ (620,567)	\$ (710,000)
<b>Subtotal - Appropriation</b>	\$ -	\$ (1,600,000)	\$ (1,869,000)	\$ (835,567)	\$ (710,000)
<b>Interest Income</b> <i>(a/o 12/31/15)</i>	\$ 1,836	\$ 5,628	\$ 16,037	\$ 20,504	
<b>Projected Balance of Fund</b>	<b>\$ 1,601,836</b>	<b>\$ 3,990,704</b>	<b>\$ 8,048,467</b>	<b>\$ 16,681,236</b>	<b>\$ 21,083,670</b>

## The FY2017 Capital Budget: Financing Infrastructure and Equipment

### I. Proposed Capital Spending:

The recommended Capital Budget will provide for the continued replacement and improvements to Town buildings, infrastructure and equipment. Article 2 in the March 21, 2016 Special Town Meeting Warrant and Articles 8-13 and 15 in the Annual Town Meeting Warrant represent the capital portion of this year's recommended budget. For fiscal year 2017, a total capital budget of \$92.1 million is proposed, with nearly \$66 million of this amount for the renovation and expansion of the two middle schools.

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Lexington's clear challenge for the next five years will be to meet the demands increasing enrollments are placing on the Town's school facilities and thus, the operating and capital budgets.

**Table 10** provides a summary of funding sources financing the Town's recommended capital plan for FY2017.

<b>Table 10</b>	<b>Free Cash/Tax Levy</b>	<b>Other Financing Sources <sup>1</sup></b>	<b>Debt <sup>2</sup></b>	<b>Total</b>
General Fund	\$ 5,294,164	\$ -	\$ 6,970,507	\$ 12,264,671
Proposed Excluded Debt	\$ -	\$ -	\$ 67,356,000	\$ 67,356,000
Chapter 90/Other Funding	\$ -	\$ 8,853,790	\$ -	\$ 8,853,790
Water Enterprise	\$ -	\$ 220,500	\$ -	\$ 220,500
Sewer Enterprise	\$ -	\$ 177,500	\$ 1,768,000	\$ 1,945,500
Recreation Enterprise	\$ -	\$ 65,000	\$ -	\$ 65,000
Community Preservation Act <sup>3</sup>	\$ -	\$ 1,398,644	\$ -	\$ 1,398,644
<b>Total (all Funds)</b>	<b>\$ 5,294,164</b>	<b>\$ 10,715,434</b>	<b>\$ 76,094,507</b>	<b>\$ 92,104,105</b>

<sup>1</sup> Chapter 90/Other Funding includes \$973,165 in Chapter 90 Aid for street improvements, \$850,000 of private funding for the Cary Library Internal Reconfiguration project, \$230,625 from the Parking Meter Fund for parking meter replacements, \$30,000 from the Traffic Mitigation Stabilization Fund for Transportation Mitigation, and \$6,550,000 in state funding for the Massachusetts Avenue-3 Intersections Improvement project.

<sup>2</sup> Includes both Town and non-Town CPA funded projects.

This capital budget is consistent with the recommendations of the Selectmen's Ad hoc Fiscal Task Force. The Task Force suggested that, given favorable interest rates, the Town continue to make progress with the backlog of capital projects, increasing both debt and cash capital financing.

**Table 11** provides a history of the Town's cash capital plan for the period FY2012-2017.

<b>Table 11</b>	<b>Cash Capital</b>
<b>FY2017 Proposed</b>	<b>\$ 5,554,789</b>
FY2016 Appropriated	\$ 4,642,987
FY2015 Appropriated	\$ 5,958,117
FY2014 Appropriated	\$ 6,919,202
FY2013 Appropriated	\$ 3,902,794
FY2012 Appropriated	\$ 2,627,174

### II. Other Planned Capital Projects:

The Town is planning for a number of significant future capital projects over the next three to five years, potentially including school facility projects to address increasing enrollments, a new fire station, police station, future phases of the Center

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Streetscape improvement project, Hartwell Avenue infrastructure improvements, and an expanded Visitor's Center. It is recommended, and shown in Table 9, that the Town appropriate to the Capital Stabilization Fund an additional \$5,112,434 to be used to mitigate the related debt service for these projects, thereby providing tax relief to Lexington's taxpayers.

### III. Debt/Debt Service:

The Town of Lexington has maintained a Aaa credit rating for many years. Moody's Investors Service recently reaffirmed this credit rating in February 2016 when the Town issued \$10.4 million in long-term debt that sold at a 1.052 percent interest rate over a 5 to 10-year term. In its credit rating opinion, Moody's cited the Town's strong financial position including healthy reserve levels, sizeable and affluent tax base, and manageable debt and pension burdens. The Aaa rating is the highest credit rating a municipality can receive and allows the Town to borrow funds at the most favorable interest rates. Approximately 30 of the 351 Massachusetts cities and towns maintain the Aaa rating.

**Table 12** provides an historical summary of the Town's debt service. More detailed debt service schedules can be found in Section XI of this Recommended Budget and Financing Plan. The credit rating agencies find that debt service up to 10 percent of revenues reflects strong financial condition. The Board of Selectmen will propose appropriating \$710,000 from the Capital Stabilization Fund to mitigate within levy debt service.

Table 12	FY 2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
Annual Debt Service	Actual	Actual	Actual	Estimated	Budgeted	Appropriated	Projected
General Fund <sup>1</sup>	\$ 4,669,173	\$ 4,849,052	\$ 5,669,343	\$ 5,534,823	\$ 6,730,641	\$ 6,732,527	\$ 7,199,028
Prop 2 1/2 Debt Exclusion <sup>2</sup>	\$ 5,753,550	\$ 5,721,834	\$ 6,642,450	\$ 8,381,309	\$ 8,344,302	\$ 8,682,489	\$ 9,164,780
Water	\$ 1,193,333	\$ 1,258,968	\$ 1,299,090	\$ 1,260,655	\$ 1,379,622	\$ 1,415,508	\$ 1,408,576
Compost Revolving Fund	\$ 45,493	\$ 44,655	\$ 43,406	\$ 88,071	\$ 40,199	\$ 63,894	\$ 104,561
Sewer	\$ 651,446	\$ 879,713	\$ 956,855	\$ 1,131,673	\$ 1,220,843	\$ 984,679	\$ 981,220
Recreation	\$ 137,200	\$ 137,200	\$ 131,500	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000
<b>Total Debt Service</b>	<b>\$ 12,450,195</b>	<b>\$ 12,891,422</b>	<b>\$ 14,742,644</b>	<b>\$ 16,496,531</b>	<b>\$ 17,815,607</b>	<b>\$ 17,979,096</b>	<b>\$ 18,958,166</b>
Gross Revenues	\$ 169,743,424	\$ 171,412,228	\$ 186,825,482	\$ 200,482,883	\$ 209,377,849	\$ 222,654,122	\$ 229,182,321
Debt Serv. % of Revenue	7.33%	7.52%	7.89%	8.23%	8.51%	8.07%	8.27%

Note 1: FY2017 General Fund debt service is gross debt service and does not reflect the proposed use of \$710,000 from the Capital Stabilization Fund to mitigate the debt service impact on the recommended budget.  
Note 2: FY2016 debt exclusion amount is gross debt service and does not reflect the use of \$215,000 of the Capital Stabilization Fund to mitigate the debt service impact on taxpayers.

## History of Proposition 2 ½ Overrides and Debt Exclusions in Lexington

The FY2017 budget, as presented, is balanced without the need for a Proposition 2 ½ Override. Below is a history of Overrides and Debt Exclusions election results in Lexington:

NR: not requested

Fiscal Year	Override	Debt Exclusion
2017	NR	NR
2015	NR	NR
2014	NR	NR
2013	NR	NR
2012 - approved	NR	\$51,800,000 (Est., Bridge, Bowman, Estabrook)
2011	NR	NR
2010	NR	NR
2009	NR	NR
2008 - approved	\$4,636,987	\$27,500,000 (Public Services Building)
2007 - approved	\$1,858,435	NR
2007 – <b>not approved</b>	\$3,166,166	NR
2006	NR	NR

## FISCAL YEAR 2017 RECOMMENDED BUDGET AND FINANCING PLAN

2005 - approved	\$4,224,340	NR
2004 - <i>not approved</i>	\$4,957,000	NR
2003 - approved	NR	\$42,550,000 (schools, roads, Lincoln Park)
2002	NR	NR
2001 - approved	\$3,440,829	NR
2000 - approved	NR	\$52,235,000 (school building projects)
1999 - <i>not approved</i>	NR	\$68,200,000 (school building projects)
1998	NR	NR
1997	NR	NR
1996 - approved	\$1,500,000	NR
1995	NR	NR
1994	NR	NR
1993 - approved	\$2,718,092	NR
1992	NR	NR
1991 - approved	\$1,097,829	NR
1990	NR	NR
1989 - approved	NR	\$11,000,000 (Pine Meadows Golf Course)

### Elderly/Low Income Property Tax Relief

The Board of Selectmen continues to examine various options to provide property tax relief to low income and elderly residents. The FY2017 recommended budget provides funding for the following tax relief programs:

1. Senior Service Program – Qualified property owners, age 60 and older, can work for the Town and receive up to \$1,045 per individual or \$1,330 per two-person household toward their property tax bills.
2. Property Tax Deferral - The Town has received special legislation to increase the income limits for residents over 65 years of age who wish to defer their property taxes. Currently, seniors who earn less than \$65,000 qualify for this program. As a result of 2006 State legislation, Town Meeting voted to decrease the interest rate charged for elderly residents who choose to defer payment of their property taxes. The interest rate is determined each March and is tied to the U.S. Treasury 1-Year Constant Maturity rate. The interest rate for deferred taxes for the past seven years has been:
 

FY2016	0.25 percent
FY2015	0.12 percent
FY2014:	0.15 percent
FY2013:	0.18 percent
FY2012:	0.26 percent
FY2011:	0.34 percent
FY2010:	0.68 percent
3. Increase in the Property Tax Exemption Limits – At the 2006 Annual Town Meeting, the Town voted to double the amount of the property tax exemption for certain qualifying residents, to \$1,000.
4. The Town offers an exemption from the Community Preservation Act surcharge to qualified low-income residents.
5. The Town provides a 30 percent discount on water and sewer rates to qualified low-income residents.

# FISCAL YEAR 2017 RECOMMENDED BUDGET AND FINANCING PLAN

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## Collective Bargaining

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The Town has settled collective bargaining agreements with the following unions and associations for FY2017: Library Union, Lexington Municipal Employees Association and Public Works Union. For FY2016, the Town is still negotiating with the Police Union, Dispatchers Union and Custodians Union, For the FY2013 – 2016 period, the Town is still negotiating with the Police Superior Officers.

The budget for fiscal year 2017 includes amounts that may be required for those collective bargaining contracts yet to be settled.

## Tax Rate Estimate

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Section 12 of the Selectmen-Town Manager Act requires the Town Manager to provide an unofficial estimate of the tax rate that might result if the financial plans presented in this report are adopted and the assumptions with respect to State aid prove reasonably accurate. Without assuming any change in the tax shift factor or assessed valuations for Fiscal Year 2017, a residential tax rate of \$15.02/\$1,000 of valuation is estimated compared to the residential tax rate of \$14.60/\$1,000 of valuation for Fiscal Year 2016.

The following table provides a summary of components of the property tax bill for a home assessed at \$786,000, which is the current median residential property value in Lexington.

<b>MEDIAN RES. TAX BILL</b>	<b>FY2013</b>	<b>FY2014</b>	<b>FY2015</b>	<b>FY2016</b>	<b>FY2017</b> <i>(est.)</i>
Property tax w/2.5% increase	\$9,055	\$9,529	\$10,246	\$10,890	\$11,162
Proposition 2½ debt exclusion	415	459	513	586	\$645
Community Preservation Act surcharge	238	253	278	300	\$309
<b>Total tax bill</b>	<b>\$9,708</b>	<b>\$10,242</b>	<b>\$11,037</b>	<b>\$11,776</b>	<b>\$12,116</b>

*Assumes no change in the residential/commercial tax shift in FY17 from FY16.*

*Assumes no change in total valuation by class of property (residential, commercial/industrial, personal property) in FY17 from FY16.*

## Additional Information

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The remainder of this document provides additional information on various aspects of the Town's budget. In addition, the School Committee, Appropriation Committee and Capital Expenditures Committee will be providing separate documents, reports and recommendations. Further questions may also be directed to:

Town Manager Carl Valente: 781 698-4540

Assistant Town Manager for Finance Rob Addelson: 781 698-4622

Budget Officer Patty Moore: 781 698-4626