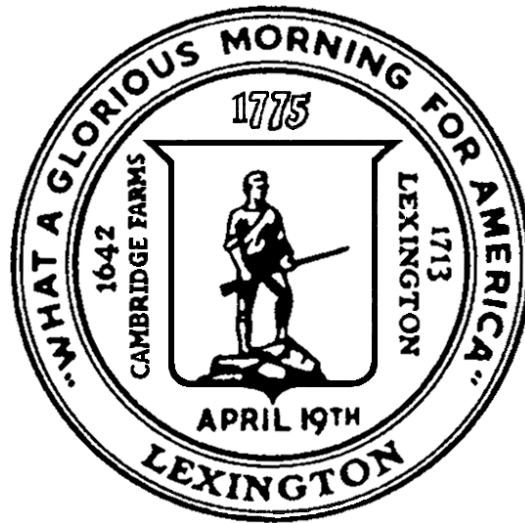


APPROPRIATION COMMITTEE

TOWN OF LEXINGTON



REPORT TO THE 2009 ANNUAL TOWN MEETING

Released March 25, 2009

Appropriation Committee Members

Alan M. Levine *Chair* • John Bartenstein *Vice Chair* • Susan McLeish *Secretary*
Robert N. Addelson (*ex-officio; non-voting*) • Richard Eurich • Mollie Garberg
Pam Hoffman • Michael J. Kennealy • Eric Michelson • Glenn Parker

Summary of Warrant Article Recommendations

Abbreviations: GF = General Fund; EF = Enterprise Fund; RF = Revolving Fund

CPA = Community Preservation Act Fund; BAN = Bond Anticipation Note

UPB=Unexpended Past Balance

An entry of "Indefinitely Postpone" in the right-hand column merely signifies our expectation.

Ar- ticle	Title	Funds Requested	Funding Source	Committee Recommendation
4	Appropriate FY2010 Operating Budget	\$66,958,293 (Line 1100 – Lexington Public Schools) \$1,711,554 (Line 1200 Regional School)	Multiple	Approve (9-0)
		\$41,775,141 (Line 2000 Shared Expenses)	Multiple	Approve (9-0)
5	Appropriate FY2010 Enterprise Funds Budgets	\$6,711,570 Water EF + \$7,729,170 Wastewater EF + \$1,725,605 Recreation EF	EF	Approve (9-0)
6	Appropriate for Senior Service Program	\$45,000	GF	Approve (9-0)
7	Appropriate for Street Trees (Citizens' Petition)	\$24,000	GF	IP
8	Appropriate for Tourism Promotion	\$15,000	GF	Approve (9-0)
9	Appropriate for Planning Board Consulting Services	\$100,000	GF	Report 2
10	Continue and Approve Departmental Revolving Funds	\$2,326,000	RF	Approve (9-0)
11	Appropriate the FY2010 Community Preservation Committee Operating Budget and for CPA Projects	\$2,707,328 + TBA	\$2,637,028 + TBA (CPA) + \$70,300 (GF Debt)	Approve b, d, e, f, g, i, j, k, (8-0-1) Disapprove c (6-3) Approve n (8-1)
12	Land Purchase – Off Vine Street		CPA	Pending
13	Land Purchase – Off Lowell Street		CPA	Pending

APPROPRIATION COMMITTEE REPORT TO 2009 ATM—MARCH 2009

Ar- ticle	Title	Funds Requested	Funding Source	Committee Recommendation
14	Appropriate for Recreation Capital Projects	\$839,000	TBD	Pending
15	Appropriate for Municipal Capital Projects and Equipment	\$2,611,048 + amount TBA	Multiple	Approve a, b, c, d, g, h, i, j (9-0)
16	Appropriate for Water Distribution Improvements	\$900,000	EF	Approve (9-0)
17	Appropriate for Sewer Improvements	\$1,300,000	EF	Approve (9-0)
18	Appropriate for School Capital Projects and Equipment	\$725,000	GF	Approve(9-0)
19	Appropriate for Public Facilities Capital Projects	\$1,424,094	\$856,500 (GF Debt) + \$410,000 (GF Free Cash) + \$157,594 (Tax Levy)	Approve a, b, c, d, f, g, h, i, l, m, n (9-0)
20	Street Acceptance – Pitcairn Place (Citizens’ Petition)	\$125,000	Betterments	Approve (8-0-1)
22	Appropriate for Design /Engineering for Senior/ Community Center			IP
23	Appropriate for Post Employment Benefits	\$440,690	FC	Approve (9-0)
24	Rescind Prior Borrowing Authorizations	n/a		IP
25	Establish and Appropriate to Specified Stabilization Funds	\$26,507 Transportation Demand Management \$20,000 Traffic Mitigation \$100,000 Center Improvement \$350,000 SPED	Developer Agreements Developer Agreements Developer Agreements Free Cash	Approve (9-0)

APPROPRIATION COMMITTEE REPORT TO 2009 ATM—MARCH 2009

Ar- ticle	Title	Funds Requested	Funding Source	Committee Recommendation
26	Establish and Appropriate to Debt Service Stabilization Fund	\$1,739,894	Massachusetts School Bldg. Authority Reimbursement Funds	Approve (9-0)
27	Establish Stabilization Fund for Minuteman Regional Vocational Technical School District	none		Approve (9-0)
28	Appropriate to Stabilization Fund	TBD	TBD	Pending
29	Appropriate for Prior Years' Unpaid Bills			IP
30	Amend FY2009 Operating Budget	TBD	TBD	Pending
31	Appropriate for Authorized Capital Improvements			IP
34	Establish Qualifications for Tax Deferrals	none		Approve (9-0)
35	Establish Demand Charge for Delinquent Taxes	none		Approve (9-0)
38	Petition General Court for Municipal Utility Act	none		Approve (9-0)
39	Petition General Court for Mid-Year Tax Relief for Property Tax Loss from Fire	none		Approve (8-0-1)
43	Health Benefits (Citizens' Petition)	none		Disapprove (8-0-1)

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Preface

This is the primary written report of the Appropriation Committee to the 2009 Annual Town Meeting. In this Preface, we give general information about our reports and other sources of information. It is followed by an Introduction where we present the financial context from the last year, try to give an overview of the revenue picture for fiscal year 2010 (FY2010) and the future, and present discussions that may be pertinent to the Town's general financial situation or that may pertain to more than one financial article. This Introduction is followed by article-by-article discussion and recommendations. We omit those articles that, in our opinion, have no substantial financial relevance. Several of the article-by-article discussions and recommendations were released on March 21 in an advance report. That material is included in this report as well. A presentation of projections for revenues and expenses beyond FY2010 may be found in an appendix. Our reports on any zoning articles, together with Article 9 which is closely related to the zoning articles, will be presented in a second report that we intend to release in mid-April.

Last year the budget calendar was revised so that Town Meeting could conclude its action on the operating budget as early as possible. The intent was to standardize this practice primarily so that, in years when positions in the Lexington Public Schools are at risk in an override referendum, the School Department could determine its final staffing allocations and proceed to make job offers for the coming year in a timely fashion. However, this ambitious schedule created difficulties for the Town Manager and staff and for this Committee. This year, the Town Manager's recommended budget was agreed upon on February 25 and was released in full on March 2. The financial articles are currently scheduled to be taken up at Town Meeting on March 30. With our goal of publishing this report on March 25, this did not give us a lot of time. In order to mitigate this scheduling situation, we are deferring our recommendations on the zoning articles as noted above.

Since this report is primarily intended to document our recommendations, we do not always repeat information that is readily available to Town Meeting members. In particular, the Town Manager gives an excellent overview of the estimated revenues and proposed expenditures for FY2010 in the "FY2010 Recommended Budget & Financing Plan," dated March 2, 2009 (the "Brown Book") which has been distributed to all Town Meeting members and is available online at <http://www.lexingtonma.gov/budget/budget.cfm>. The recommended Lexington Public Schools budget has also been distributed to all Town Meeting members and is available online at <http://lps.lexingtonma.org/businessandfinance.html>. Overviews from the Town Manager and Superintendent, as well as many details on the nuts-and-bolts aspects of the budget, may be found in these materials. In addition, the Brown Book summarizes relevant budget laws and bylaws (see Brown Book Appendix B) and includes a glossary of financial terms (see Brown Book Appendix D). The *TMMMA Warrant Information Report* (March 2009) is also an important reference for this Town Meeting, and the forthcoming report of the Capital Expenditures Committee (CEC) is essential.

Continuing a useful practice, this year we participated with the Board of Selectmen, School Committee, and CEC in five budget collaboration/summit meetings wherein staff presented background information and discussions covered proposals in regard to both revenues and expenditures.

It has again been a pleasure to work with Town Manager Carl Valente, Assistant Town Manager for Finance Rob Addelson, Budget Officer Micah Niemy, Superintendent of Schools Dr. Paul Ash, Assistant Superintendent for Finance and Operations Mary Ellen Dunn, the Board of Selectmen, the School Committee, the CEC, and the Community Preservation Committee (CPC). We also thank the many other municipal and school staff, Town officials, and citizens who have contributed to our work in a wide variety of ways.

Introduction

In this Introduction, we give an overview of financial developments since the 2008 Annual Town Meeting, the proposed FY2010 budget, the current status of the Town's financial reserves, and the financial outlook for FY2011 and beyond. The "Report of the Town Manager" in the FY2010 Brown Book (see link in the Preface) is useful to read before this introduction.

Developments since adoption of the FY2009 budget

Prior to the Special Town Meeting in November 2008, the Massachusetts Department of Revenue certified the Town's free cash balance as of July 1, 2008, to be \$5,481,717. The DOR also certified the balances, also known as "retained earnings", in the Water Enterprise Fund (\$2,537,249), the Sewer Enterprise Fund (\$2,763,179), and the Recreation Enterprise Fund (\$1,258,039). The Assessors and the State determined the final figure for new growth for FY 2009, viz., \$3,276,649, which is substantially larger than the amount of \$1,681,000 that was assumed for the recommended budget for FY 2009. At a total of \$9,963,453, state aid for FY2009 originally came in modestly higher than the \$9,670,275 estimate used in the adopted budget. However, the State is reducing the aid level by about \$186,000 due to the impact of the economic downturn on its revenues. The drop in revenues likely will affect state aid for years.

At the Special Town Meeting in November 2008, several financial articles were approved. They included minor increases in various line items in the FY2009 operating budget totaling \$457,760 that were funded by the increase in state aid and new growth over the estimates used during budget formulation, minor adjustments to the Water and Sewer Enterprise Fund budgets, two projects to be funded by Community Preservation Act funds, and the transfer of monies received mainly from developers into specific stabilization funds. Please see the Appropriation Committee Report to the Special Town Meeting for further details (this report and others are available at <http://www.lexingtonmma.org> or at <http://www.lexingtonma.gov/budget.cfm>).

As of press time, the most recent review of current fiscal year expenditures and staffing in the School Dept. and a projection to the end of the fiscal year on June 30 suggests that the Lexington Public Schools will finish the year with a deficit of about \$275,000. This is the net result of several factors, the most prominent of which is a projected overrun in spending in various SPED categories in the neighborhood of \$650,000. On the municipal side, the actual expenditures for snow removal in the DPW budget stand at about \$1,500,000 as of early March 2009, far above the budgeted amount of \$946,325 (of which \$646,325 is in the DPW budget and \$300,000 was set aside via a revenue offset). On the other hand, there was an error in formulating the health insurance budget line that resulted in that line being about \$1,000,000 too high. Together with the effect of including a contingency in the projection of health insurance expenses, it is now expected that there will be a surplus of about \$1,500,000 in that line item (see the Brown Book, page IV-6 and the errata circulated on March 9, 2009).

The Town Manager and staff are likely to request the approval of adjustments to the FY2009 budget that address the school and snow/ice removal deficits in full or in part under Article 30. This will appropriately be done late in Town Meeting. The Reserve Fund can be used, upon approval of this Committee, to address deficits that arise after the end of this Town Meeting. There is also a mechanism for making limited inter-line-item transfers at the end of the year. Finally, the Town Manager has recommended setting aside \$200,000 of the Free Cash balance in case it is needed to help cover FY2009 deficits.

Of the \$532,500 put into the FY2009 Reserve Fund, \$15,000 has already been transferred out to cover legal expenses related to a potential land acquisition. It is presently anticipated that an additional amount will be needed to cover expenses for legal services for other purposes such as assistance in collective bargaining.

Due to the precipitous drop in the stock market over the past year, the Lexington Retirement Fund's investments have declined in value from roughly \$120M a year or so ago to roughly \$80M early in 2009. This increases the Town's unfunded liabilities for future pension payments (the liabilities were fully funded

in FY2007; see the Brown Book, page C-9), and could extend or increase the amounts of future appropriations needed to reach 100% funding of the liabilities. However, the need for such appropriations will depend on the future performance of the stock market and investment returns as well as on other factors that are difficult to forecast. When full funding of the pension liabilities has been achieved once again, we expect that annual appropriations of similar amounts will then be made to address the Town's liabilities for future retiree health care costs (see the discussion under Article 23)

Completion of the new DPW facility will be a noteworthy event in FY2009. We understand that the construction is on schedule and within budget, and that the DPW plans to move its staff and equipment there in May and June. The new facility will be a big improvement over the old one and also over the DPW's current temporary quarters at the White House and other locations. The Public Facilities Dept. staff located at the old Harrington School will also move to the new facility.

FY2010

Every annual Town budget depends upon an estimate of revenues. The lion's share of the FY2010 revenues – those from the property tax and available funds – are fairly predictable (with the exception of new growth), given that there is no intent to seek approval of a Proposition 2½ override. However, the amounts from state aid and local receipts are less certain. New growth, i.e., the increase in the allowable tax levy for newly constructed buildings and new commercial equipment, is estimated at \$1,900,000. Of that amount, \$300,000 is earmarked to be applied to any snow removal deficit remaining from FY2009 and is carried in the budget as a revenue offset.

The FY2010 recommended budget assumes that State aid could be reduced by up to 9% from the \$9,963,453 approved by the State for FY2009 as of last fall. A full 9% decrease would be \$896,710, leaving us with \$9,066,000 in state aid. As of mid-March, the Governor's budget bill (H-1) implies a smaller decrease of about \$630,000. The Town Manager's recommendation for use of free cash includes setting aside \$900,000 to cover any decrease in State aid and can therefore cover a somewhat larger cut than in the Governor's current proposal. This is prudent because of the fluid economic and state tax collection situation.

There are several potential new sources of revenue that could yield additional revenue for the Town in FY2010 and beyond. The first is revenue that may result from the elimination of the exemption of telephone poles and equipment from local property taxes. Following a recent ruling of the Appellate Tax Board that such equipment is not entitled to exemption, the Town has begun collecting taxes on such equipment of about \$600,000 annually. However, these tax receipts have not been included as revenue in the FY2010 budget because the Massachusetts Department of Revenue has required them to be held in escrow pending the resolution of an appeal the companies have taken to the Massachusetts Supreme Judicial Court. In the meantime, a bill to eliminate the exemption has also been filed in the state legislature (if passed, this legislation might have prospective effect only). As part of his FY2010 budget, the Governor has proposed increases in the meals and hotel/motel taxes. Each of these tax increases has two parts, one a state-wide implementation and one a local option. We cannot count upon any of these revenue sources at the current time. Finally, the federal economic stimulus funding is beginning to make its way out of Washington. The Lexington Public Schools are likely to receive some of the funds. However, the details of how much and the possible uses are not at all definite as of mid-March.

In his report in the Brown Book, the Town Manager gives a good description of the development of the recommended budget. Among other parts of the process, he tells about the allocation of "new" revenue to the schools and municipal budgets in a 71.5/28.5 ratio. Our comment about this last year is worth repeating. Even though this revenue allocation has now been the practice for several years, it should continue to be regarded as a starting point for discussions and not as an inviolable end point. If circumstances demand that the new revenue be allocated in a different way, e.g., because of differing priorities of unfunded programs, then the revenue allocation should be adjusted accordingly.

The Minuteman Regional High School assessment is 13% larger than last year’s assessment, mainly because the number of Lexington students at the school is increasing while the overall school enrollment is going down. This year’s assessment is examined in greater detail under Article 4 below.

In regard to health insurance for Town and School employees, the Town’s consultant and Blue Cross have recommended an appropriation sufficient to cover a 9.8% increase in health care prices. That, together with the projection that 55 additional employees will sign up for Town health insurance plans, yields an estimated increase of 10.6% in the budgeted FY2010 amount over the amount presently projected to be expended in FY2009. This large increase translates into a much smaller increase from the amount appropriated for FY2009 because the FY2009 appropriation was higher than necessary. See the discussion under the health insurance section of Article 4 for further information.

The Town Manager is recommending the use of \$2,768,577 of Free Cash, plus up to another \$900,000 of Free Cash that may cover a drop in State aid, for FY2010 operating expenses. The amount that is appropriated must be voted upon by Town Meeting prior to the final adoption of a budget by the State. If Town Meeting allocates less than \$900,000 to cover the anticipated reduction in State aid, the remainder will remain available in Free Cash. In addition, the recommended budget includes the use of \$822,450 to support the recommended capital expenditures, the transfer of \$350,000 from Free Cash to the SPED Stabilization Fund, and the transfer of \$440,690 from Free Cash to the Post-Employment Insurance Liability Fund (for details see the discussion under Article 23 below). Given the Town’s current financial situation, we do not expect any additions to the general-purpose Stabilization Fund. These changes to Free Cash are summarized in Table 1.

Certified Free Cash, July 1, 2008	\$5,481,717
Set aside for FY2009 (Article 30)	(\$200,000)
Set aside to cover State aid reduction (see text)	(\$900,000)
Less use for operating budget (Article 4)	(\$2,768,577)
Less use for capital (various articles)	(\$822,450)
Less transfer to Post-Employment Fund (Article 23)	(\$440,690)
Less transfer to SPED Stabilization Fund (Article 25)	(\$350,000)
Less transfer to Stabilization Fund (Article 28)	(\$0)
Remaining balance at end of Town Meeting (see text)	\$0

The recommended FY2010 budget includes approximately \$11.8M for capital expenditures which is about \$2M less than was appropriated for FY2009 (see the FY2010 Brown Book page XI-2 and the FY2009 Brown Book page XI-3). The funding sources include the tax levy, CPA funds, Free Cash, and state funding (Chap. 90).

Last year the Public Facilities Department requested funds to conduct studies of facilities needs (Articles 18 and 19 of the 2008 Annual Town Meeting). This year additional studies are proposed, some of which are targeted at facilities, i.e., Town buildings, and others at storm water management and traffic mitigation. Some of the facilities studies may be funded through Community Preservation Act funds. While in the short term, it may seem that these studies take time and money and are only delaying needed work, in the long run completion of these studies in a highly competent manner is important both for the accuracy of projections of future needs for capital investments as well as for the quality of execution of each project. Such studies should be extended in future years as they are needed for other aspects of the Town’s facilities and equipment. We reiterate our past statements of support for the use of Community Preservation Act (CPA) funds to maintain Town buildings and facilities to the extent that the proposed projects qualify and make sense.

FY2011 and beyond

Continuation of the street reconstruction and resurfacing program at the FY2009 level will not meet the Town's long-term needs (and possibly even the short-term needs) for street and sidewalk maintenance and new sidewalk construction. Rather, the Town will need to approve a debt exclusion or override in order to keep up. Last year the DPW floated a preliminary figure of \$15M to cover eight years of street maintenance work. Unfortunately, any plan to put approval of a debt exclusion to the voters has been put off because of the recession.

That there will be substantial demands for capital investments in future fiscal years is amply demonstrated by the list of requests for FY2010 that were deferred and the lists of possible projects for FYs 2011-2014 that may be found on page XI-19 of the Brown Book. In the mean time the Town Manager is identifying capital projects that can be delayed so as to reduce the growth of debt service over the next few years. Clearly it will be important to carefully review the upcoming capital requests and to assign sensible priorities to each.

Projections of expenses and revenues in the fiscal years following FY2010 are presented in the Appendix. They indicate that maintenance of the current level of services could cost some millions more than the revenues that will be available. We have not quantified the uncertainties in the growth of each of the major components of expenses and revenues. Indeed, the experiences of the past few years which all took place in less economically turbulent times showed that it is difficult to predict the size of a budget gap more than a year in advance with a precision of better than \$1M or even \$2M. In the current financial environment the uncertainty in the FY2011 projection is even greater.

In our report to the 2008 Annual Town Meeting we wrote “... future budgets can only be balanced through (1) passing operating overrides; (2) finding significant new sources of revenue, and/or (3) finding ways to deliver services at lower cost.” Today the prospects for passing overrides look rather dim for at least a couple of years. Thus the Town will have no choice but to manage expenditures and to find new sources of revenue. The issues surrounding employee health insurance immediately come to mind when the topic of management of expenditures is raised. There are certainly prospects for slowing the growth of health insurance costs, but these largely depend on the outcome of negotiations between the Town and employee collective bargaining units. The possibility of collecting property tax on telephone equipment and the possibility of increases in the meals and hotel/motel taxes were noted above. Federal economic stimulus funding could be received and spent over FYs 2010 and 2011; however, such funds are unlikely to be converted to long-term revenue sources. Other than these possibilities, an expanded commercial tax base may well be the primary route to revenue growth over the next five to ten years; this should be kept in mind during discussion of the zoning articles. We hope that the projections in the Appendix and this discussion will promote a multi-year view as each of the financial articles is acted upon at this Town Meeting.

Warrant Article Analysis and Recommendations

Article 4: Appropriate FY2010 Operating Budget	Funds Requested	Funding Source	Committee Recommendation
		Various	Approve (9-0)

<i>Description</i>	<i>Amount Requested</i>	<i>Funding Source</i>	<i>Committee Recommends</i>
Lexington Public Schools	\$66,958,293	GF	Approve (9-0)

Overview

The School Committee has approved a school budget of \$66,958,293 (a 3.95% increase above the FY2009 school budget) for FY2010. The Superintendent, at the request of the School Committee, had originally prepared a level-service budget for FY2010 offering essentially the same school programs as in FY2009. However, since the level-service budget was higher than the available funds, program and staff cuts were required. The financial crisis was well underway when the budget process began so an override in the spring of 2010 was out of the question. Furthermore, neither the School Committee nor the finance committees supported the use of the Town's Stabilization Fund as a source of funding for the school budget at this time.

The School Administration was able to cut costs in a number of different areas. Declining elementary enrollment allowed for the reduction of 2 classroom teachers and 0.4 FTE of music, gym and art specialists. The other major reductions include: reorganizing the Preschool Program at Harrington and the ILP Program at Fiske (see separate section below on Special Education); cutting the equivalent of 10 FTE positions for Instructional Assistants (IA's); decreasing the personnel budget by hiring teachers at an average salary of M-5 vs. M-6, along with other personnel line item refinements; and, eliminating a dedicated private-school bus. Benefit expenses have been significantly reduced by restructuring certain IA positions to under 20-hours/week making them ineligible for benefits, and by combining 14 part-time positions into 7 full-time positions.

Enrollment. Projected enrollment changes between FY2009 and FY2010 are as follows:

Grades	FY2009 Actual (as of 10/08)	FY2010 Projected	Change	% Change
K – 5	2,699	2,623	-76	-2.82
6 – 8	1,501	1,510	+9	+0.60
9 - 12	1,991	1,980	-11	-0.55
Total	6,191	6,113	-78	-1.26

All of the units at Avalon at Lexington Hills have been completed and are now occupied. Since the number of children living at Avalon enrolled in the Lexington Public Schools has significantly exceeded the threshold stipulated in the agreement between Avalon and the Town of Lexington, the Assistant Superintendent for Finance and Business is examining the revenue implications for the Town.

Grades	Original Projected Student Count on Completion of Avalon at Lexington Hills	Avalon FY2008 Actual Students (as of 11/01/07) Partially occupied	Avalon FY2009 Actual Students (as of 3/19/09) Fully occupied
K – 5	23	14	59
6 – 8	9	5	28
9 - 12	9	6	31
Total	41	25	118

The school administration has not been able to restore program or staff cuts from previous years or lower fees for the various programs and services paid for by parents. After the spring 2006 override was not approved by voters, fees were instituted starting in September 2006 to cover the cost of the long-standing elementary instrumental music program, and were either raised and/or restructured to fund athletics, transportation to school, and school lunches. Most of the fees in FY2010 will remain the same as for FY2009, except for increases to preschool tuition, full day kindergarten tuition (see separate section on FDK below), and possibly the school lunch program. Details can be found in the Lexington School Committee Recommended Budget, Fiscal Year 2010 (the “Blue Book”), pp. 24-25.

Expenses. For the first time in three years, the FY2010 approved budget includes a 10.25% increase in this category which comprises supplies, materials, special education out-of-district tuition and transportation, consultants, etc. For the key drivers of this increase, please refer to the Blue Book, pp. 19-20. Even with this proposed increase, expenses will comprise only 16% of the budget, with salaries and wages comprising the remaining 84%.

	FY07 Actual	% of Budget	FY08 Actual	% of Budget	FY09 ADJ STM	% of Budget	FY10 Request	% of Budget
Salaries & Wages	\$46,266,396	82%	\$49,786,875	83%	\$54,407,961	84%	\$55,926,576	84%
Expenses	\$10,490,306	18%	\$10,406,905	17%	\$10,006,178	16%	\$11,031,717	16%
Total Budget	\$56,756,702	100%	\$60,193,780	100%	\$64,414,139	100%	\$66,958,293	100%

Special Education Expenses

Because special education expenses are such a significant and challenging part of the school budget, we have elected to discuss these expenses in a separate section. This section deals in particular with three elements of the special education budget: out-of-district tuition, transportation, and new programs.

Out-of-district tuition. When the Town is unable to meet the needs of a special education student within the Lexington Public School system, state law requires that the student be sent to a program outside the system, and that the Town pay for these services. Tuition for students requiring out-of-district services is projected to increase in FY2010 by \$752,511 over the FY2009 budget, a net increase of 16.8% after reimbursement received under the circuit breaker program (discussed below). The number of students budgeted in FY2010 is less than was budgeted in FY2009. The increase in spending is the result in part of an average projected increase in tuition expenses of 8.9%. In addition, the FY2010 budget does not benefit from a one-time reimbursement of \$300,000 in accumulated reserves that was received from LABBB in FY2009. The LABBB offset was a fund balance allocated to member districts of the collaborative to offset expenses in the current fiscal year. FY2009 was the first year that it was available and it may or may not be available in future years. The FY2010 budget also assumes lower circuit breaker payments.

Out of district budget	FY2009 budget	FY2009 est. Feb-6-09	FY2010 budget	% Change FY09budget-FY10 budget
Total # students	100	104	93	-7.0%
Total cost	\$6,289,083	\$6,365,335	\$6,957,080	+10.6%
Circuit breaker	\$1,804,515	\$1,914,856	\$1,720,001	-4.7%
Net cost to town	\$4,484,568	\$4,450,479	\$5,237,079	+16.8%

Under the circuit breaker program, the state reimburses Lexington each year for some of its out-of-district special education expenses one year after they have been incurred – in other words, the assumed circuit breaker revenue in the FY2010 budget represents reimbursement of expenses incurred in FY2009, for which the Town will submit a claim in July 2009. The state will reimburse Lexington for 72-75% of the tuition costs incurred over a base amount of approximately \$37,328 for each out-of-district placement. The FY2010 budget assumes a reimbursement level of 72%. Transportation costs are not currently eligible for reimbursement.

Transportation. Transportation expense for special education students is projected to increase 3.2% in FY2010, from the FY2009 budgeted amount of \$1,252,602 to \$1,292,153. The budgeted increase is the result of inflation in the cost of transportation, plus assumptions about the nature of the transportation required for each student. Some students have changed from residential to day placements, for example, resulting in lower tuition costs but more frequent transportation requirements (daily vs. weekly). The FY2010 budget assumes a decrease in the number of placements (both in-district and out-of-district) that will require transportation from 177 in the FY 2009 budget to an assumed 140. Lexington is now part of a pilot program and is currently bidding out its service needs along with multiple other communities.

New programs. The FY2010 Blue Book includes a detailed description of a recommended new service delivery model for the Fiske Intensive Learning Program (ILP) that is intended to enhance the effectiveness of this program, as well as to save money by avoiding out-of-district tuitions and reducing payments to contracted agencies (Blue Book pp. 89-92). The new model is projected to result in incremental expenses of \$68,065 and to avoid expenses of \$237,012, for a net cost avoidance of \$168,947. An improved Early Childhood ILP program should save \$3,585 in FY2010, resulting in total projected savings of \$172,532. These new models would continue the administration’s track record of creating or improving in-house programs that result in net savings of out-of-district and other expenses.

Full Day Kindergarten

The Lexington Public School system currently operates twenty full-day kindergarten classrooms. The program currently serves 388 students, 31 of whom receive financial assistance. The table below outlines the actual revenue and expenses for FY2009, which form the basis for cost estimates for FY2010.

FY2009 Full-Day Kindergarten Revenue and Expenses

Revenue	
Dept. of Education Grant	\$298,000
Fees Collected	\$353,801
METCO Grant	\$60,742
FY09 Operating Budget (Financial Assistance)	\$19,000
Total	\$731,543

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Expenses	
Teaching staff (16 x \$18,000 for a 0.3 FTE increase)	\$328,950
Teaching staff (1 x \$6,450 for a 0.1 FTE increase)	\$6,450
2 additional teachers hired due to in-migration	\$129,000
Additional specialists	\$36,565
Instructional Assistants	\$202,472
Financial Assistance*	\$27,675
Total	\$731,112
Difference	\$431

* *The financial assistance provided in FY2009 included 19 families at \$1,025 (\$19,475), 8 families at \$768.75 (\$6,150), and 4 families at \$512.50 (\$2,050), for a total of \$27,675. In addition, 12 SPED students were not charged tuition as their IEPs required FDK.*

Twenty full-day kindergarten classrooms are again planned for the FY2010 school year. Enrollment for kindergarten for the FY2010 school year as of March 18, 2009 was at 359 students, mirroring the same level as was experienced at this time last year. However, it is important to note that commitment forms from parents indicating a preference for either full-day or half-day kindergarten are not due until May 1, 2009. Last year, a relatively large in-migration of students occurred between mid-March and August 1, resulting in an eventual kindergarten population of 388 students for the FY2009 school year. The influx was attributed to the opening of Avalon at Lexington Hills, and possibly also to a decision by some parents who had originally registered their children for private full-day kindergarten programs to switch to the Lexington program. Based on population and estimated birth rates, the School Department projects approximately 368 kindergarten students for the FY2010 school year. Other changes for the FY2010 school year include a proposed fee increase from \$1,025 FY0209 to \$1,075 for FY2010.

The Full Day Kindergarten program is currently expecting level funding from the Department of Education grant, and the School Department again plans to use approximately \$60,742 of METCO funding for this program. Any reduction in state funding will be discussed and addressed by the School Committee should that situation arise.

<i>Description</i>	<i>Amount Requested</i>	<i>Funding Source</i>	<i>Committee Recommends</i>
Minuteman Regional High School	\$1,711,554	GF	Approve (9—0)

The MRHS School Committee has accepted a budget for FY2010 of \$17,496,001, a \$494,379 or 2.9% budget increase over the current year. This budget assumes level per-pupil funding with level out-of-district enrollment. Salaries, which make up 60% of the budget, decreased \$149,589 (-1.4%). Non-salary expenses increased \$501,958 (7.6%). Within that amount, a three-year computer lease program and realigned accounting for technology produced a \$105,167 (89%) increase in technology support. Employee benefits (health, dental, etc) increased \$180,482 (8.4%). The school continues its commitment to infrastructure renewal with an annual capital budget of \$380,000, an increase of \$130,000 from last year.

As of October 1, 2008, 632 full-time students were enrolled. Roughly 63% of these students are from in-district towns and 37% are from out-of-district towns. There are no “Choice” students attending. The in-district enrollment is 12 students (-2.9%) lower and the out-of-district enrollment is 6 students (2.7%) higher than one year earlier. Special education students comprise 40% of the FTE enrollment.

Although the State caps the non-resident student tuition rate, that rate is now set using the actual in-district average cost as a factor. The non-resident tuition rate for FY2009 was set at \$16,250 per student, and is expected to rise to \$16,500 for FY2010. It is also anticipated that the SPED tuition assessment will rise to \$4,500.

The Minuteman administration is attempting to address the school’s high per-student cost by “right sizing” the school’s programs and offerings, reducing resources in programs with declining enrollments, and expanding and adding programs that are relevant to current and future regional job markets. Cost savings have been generated by cost-shifting expenses that are supported by tuitions, fees, and grants. The school is also developing a capital program that will address both the need to modernize the envelope and physical plant of a 35 year-old facility, as well as to develop and create space that will support future program needs. Article 27 seeks to establish a stabilization fund as a future repository for this purpose.

Member towns are assessed for the upcoming year based on their student enrollment in the current year. These assessments are used to fund the portion of this budget that is not funded by the combination of: (1) all other projected revenues and (2) member towns’ State Required Minimum (SRM) per-student payments. This year’s assessments are based on an MRHS budget funded with a projected \$2,268,584 of Chapter 70 money and \$830,636 in transportation aid. These estimates are based on the Governor’s budget H-1, which indicates a minor increase in Chapter 70 aid and a decrease of \$220,796 in transportation aid compared with FY2009. Of course, all of these figures, with the exception of the bottom line MRHS total, are preliminary until final approval of the State’s FY2010 budget.

The preliminary assessment for Lexington for FY2010 is \$202,565 (+13.4%) higher than the FY2009 actual assessment. The main portion of this assessment is based on Lexington’s FY2009 Base Enrollment (as of October 1, 2008) of 64.5 full-time regular students in grades 9-12, 4.7 FTE’s (8%) more than last year. However, while Lexington’s enrollment has increased, the overall MRHS in-district enrollment has continued to decline, raising our Town’s share of in-district enrollment by 11%. This has increased our total full-time student operating-share assessment by \$126,944 (+31.5%) to \$530,374, a per-pupil increase of 21.9%. In addition, Lexington’s total SRM payment increased \$68,031 (+7.7%), due to both our increased enrollment and a 3% increase in our per-student SRM payment.

The 13.4% increase is lower than the increases in FYs 2007 (15%), 2008 (18%) and 2009 (26%), and is due both to an increase in the number of Lexington students attending MRHS and to decreases in the overall in-district student populations, rather than to extraordinary growth in the district’s expenditures.

A breakdown of the full assessment is:

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

	FTE BASIS ENROLLMENT*		AVE PER PUPIL CHG		ASSESSMENT	
	FY09	FY10	FY09	FY10	FY09	FY10
Grades 9-12:						
Regular Day Students	59.8	64.5	\$6,746	\$8,222	\$403,430	\$530,374
Special Education Assessment	29	26	\$4,250	\$4,500	\$123,250	\$117,000
State Minimums for Lexington	67	70	\$13,171	\$13,579	\$882,483	\$950,514
Totals, grades 9-12(inc. SPED)	59.8	64.5	\$23,565	\$24,773	\$1,409,163	\$1,597,888
Special Program:						
"Reduced Charge" Pupils	13	11	\$5,077	\$4,909	\$66,000	\$54,000
TOTAL OPERATING	72.8	75.5	\$18,680	\$21,879	\$1,475,163	\$1,651,888
Capital Assessment (based on enrolled 9-12)			\$593	\$950	\$35,435	\$61,275
TOTAL ASSESSMENT			\$19,273	\$22,691	\$1,510,598	\$1,713,163
Percentage increase over prior year			4.47%	18.62%	25.84%	13.41%

* *Prior year's enrollment as of October 1.*

The Committee unanimously (9-0) supports this request.

<i>Description</i>	<i>Amount Requested</i>	<i>Funding Source</i>	<i>Committee Recommends</i>
Shared Expenses	\$41,775,141	GF, EF, RF	Approve (9—0)

The Shared Expenses section of the FY2010 budget (see Section IV in the Brown Book) encompasses four basic categories: (1) Line 2100, Employee Benefits; (2) Line 2200, Debt Service; (3) Line 2300, Reserve Fund; and (4) Line 2400, Public Facilities.

Employee Benefits (Line 2100)

This portion of Shared Expenses includes the costs for current and future pensions for retired employees; health (self-insured) and dental (insured through a group policy) insurance for current and retired employees; premiums for property and liability insurance policies; and potential unemployment and workers compensation liabilities. It does not include any sums for the funding of health benefits for future retirees; this is addressed in Article 23.

Health benefits for both municipal and school employees (line 2130) are included in this section of the budget, an approach that began with the FY2007 budget. The estimated expense for all health benefits (including health [“medical”] and dental) to be paid by the Town totals \$21,861,814, by far the largest portion of this section. Of that amount, \$20,999,884 is allocated to health insurance, and \$861,930 to dental insurance. Respectively, these figures represent 2.57% and 11.65% increases over the adjusted FY09 budget.

The total amount budgeted for line 2130 is \$22,874,458. In addition to the amounts given above for employee/retiree health insurance and dental insurance, this line item includes \$991,889 for Medicare taxes, which the Town pays for all Town and School Department employees hired after 1986. The remaining \$20,755 in the line item is for life insurance.

The 2.57% increase in health insurance is not truly reflective of the increase in costs which is expected. Rather, as described on pages iii (Section II(a)) and IV-6 of the Brown Book, this apparently low percentage increase results primarily from a double-counting of the number of retirees in the Town’s health insurance plan for FY2009. It appears that this inadvertent over-counting will result in health expenditures in FY2009 being approximately \$1,490,000 less than the sum appropriated by the 2008 Annual Town Meeting (see footnote 1 on page IV-6 of the Brown Book). If Town Meeting does not re-appropriate this money for some other purpose, it will close to Free Cash at the end of FY2009. This issue is described in more detail in the Introduction to this Report.

The budget for health insurance costs in the coming fiscal year reflects an increase of close to 10%. This continues a now 10-year unbroken string of steadily mounting health care costs which have confronted the Town since 2000. Higher health costs, higher premiums, the increasing enrollment of employees and their families in the various health care plans offered by the Town, and, most recently, the steadily worsening economy on national, state and local levels, all contribute to the inexorable increase in health costs.

Consistent with the FY2008 and FY2009 budgets, the budget for FY2010 identifies the portions of the projected health benefit costs that are attributable to municipal, school and retired employees (see page IV-6 of the Brown Book). The projected percentage increase of health costs for municipal employees is 15.9%, and for school employees is 8.7%. The percentage increase in health costs attributable to retired employees (which includes spouses) is 10.7%, and the number of new enrolled retirees is expected to

increase by at least 15. Most retirees have individual, as opposed to family, plans. Individual plans for retirees are less expensive than individual plans for active employees. The total dollar amounts of the FY2010 estimates for municipal (\$3,907,950) and school employees (\$10,544,514) differ because a significantly greater number of individuals are employed on the school side. While the chart on page IV-6 of the Brown Book shows a decrease in the total of projected enrolled employees and retirees, the enrollment figures in the chart do not reflect the anticipated 55 new participants expected to enroll in the plans during FY2010.

The FY10 budget includes an allocation for line 2140, Unemployment Benefits, to cover statutorily-required unemployment compensation payments to laid-off employees. Last year the amount budgeted was \$100,000, consistent with most prior years. The requested amount this year is \$267,300, representing an increase of more than 165%. This reflects actual expenditures in FY08 and FY09 and the projected elimination of a sizeable number of part-time, benefit-eligible School Department positions (see pages IV-4 and IV-6 in the Brown Book).

The Workers Compensation recommended appropriation, Line 2150, is also increased over FY09 by \$45,000, to reflect actual experience and to assure an adequate reserve balance in this account, a continuing balance account.

The second largest figure in this section of Shared Expenses is line 2110, Contributory Retirement, \$3,643,396. This represents a 5.7% increase over the amount appropriated in FY09. The sum is paid by the Town to the Lexington Retirement System, which is overseen by the Lexington Retirement Board, to fund the Town's liabilities for current and future pension payments to retirees.

The Commonwealth of Massachusetts requires that municipalities fully fund all such liabilities by 2028. For the past several years, actuarial evaluations have projected, based on current balances and planned annual payments, that the Retirement System would be fully funded by 2015. "Full funding" is somewhat of a mercurial concept, since it must necessarily encapsulate a number of constantly changing factors. As of the last actuarial audit, primarily due to judicious investment and management decisions by the Lexington Retirement Board and a seemingly never-ending robust economy, the System was fully funded as of January 1, 2008. At that time, the value of the System was approximately \$120 Million. However, because of the economic downturn during the past year, the value of the Fund as of January 1, 2009 had fallen by one-third, to approximately \$80 Million. Because of this decrease in value, the appropriation request this year is larger than for FY09. At the moment, because of current economic conditions and in the absence of an updated actuarial valuation, it cannot be accurately determined when full funding will be achieved again.

Funding of the Retirement System indirectly affects the funding of health benefits for future retirees. It had been thought that, once the Lexington Retirement System was fully funded, at least a portion of the approximately three million plus dollars which have been appropriated annually for the Retirement System could be redirected to funding this future liability. The final decision whether or not to do that must be deferred until the Retirement System is fully funded. See the discussion of Article 23 in this Report.

Debt Service (Line 2200)

Debt service includes interest and principal payments for within-levy long term debt (bonds) and for temporary borrowing. The budgeted debt payment recommended for FY10 is \$4,471,432, which is \$453,892, or 11.3%, higher than in FY09. The total amount is broken down as follows: temporary-borrowing interest payments of \$188,393; long-term debt interest payments of \$660,650; and long-term debt principal payments of \$3,662,390. The long-term debt principal payment is 16.5% higher than in FY09, which in turn was 9.74% higher than in FY08, offsetting percentage decreases in long-term debt interest and temporary-borrowing payments.

Debt service also includes interest and principal payments for exempt long term debt and temporary borrowing. In FY10, this amount is \$5,879,524, an increase of \$246,881, or approximately 4.4%, over

FY09. Coupled with the figures for within-levy long term debt and temporary borrowing, the FY10 total for all debt service is \$10,350,956, an increase of \$770,773, or 7.26%, over FY09. A substantial part of this increase reflects the estimated debt service to finance the final phases of the DPW facility project.

Reserve Fund (Line 2300)

The amount recommended to be put into the Reserve Fund (Line 2310), from which the Appropriation Committee approves transfers for extraordinary and unforeseen expenses, is \$550,000. This is the same amount as initially requested in FY09. However, \$17,500 was redirected to other items, reducing the FY09 appropriation to \$532,500. Over the past several years, the amount appropriated to the Reserve Fund has increased. An appropriation of \$150,000 for FY05 was approved by the 2004 Annual Town Meeting, and was subsequently increased to \$300,000 by means of a supplemental appropriation at the 2005 Annual Town Meeting. The 2005 Annual Town Meeting also appropriated \$350,000 for FY06. The 2006 Annual Town Meeting increased the FY07 appropriation to \$400,000, and \$450,000 was appropriated in FY08. In FY09, the amount appropriated was \$532,500.

This year's recommended increase to \$550,000, in conjunction with other measures, effectuates the Town's intent to build contingency funds into the budget that are sufficient to deal with nearly all unexpected and substantial cost overruns and to thereby minimize reliance upon the Stabilization Fund (that was established to offset revenue losses that typically occur during a recessionary period among other reasons) and Free Cash as short-term reserves. Among the expense areas most likely to exceed budgeted amounts are snow removal, overtime expenses for police and fire personnel, legal services, and special education (SPED) costs. The Town can now also use the Special Education Stabilization fund to address SPED expense overruns. Additionally, increasing the Reserve Fund relieves individual municipal and school departments from the need to include reserves in their respective individual budgets.

Public Facilities

Shared Expenses includes a relatively new entry, Public Facilities. At a Special Town Meeting on November 29, 2006, Town Meeting voted to accept Chapter 71, §37M of the Massachusetts General Laws, allowing the Town's School Department to consolidate administrative functions with the Town's municipal operations. At the 2007 Annual Town Meeting, that acceptance was revoked and ratified.

Consolidation of the facilities management and maintenance functions in FY2008 created a single unified Department of Public Facilities (DPF) to administer major capital projects, building maintenance, and custodial services with the goal of achieving savings through operating efficiencies and economies of scale. The DPF is under the direction and control of a Public Facilities Board composed of the Town Manager and the Superintendent of Schools.

A Director of Public Facilities was hired in August 2007 to supervise the services for the buildings. The transition to the consolidated structure is now complete and all positions have been filled (see the Brown Book, p. IV-16). The DPF's administrative and some common maintenance activities will soon be based at the new DPW complex.

Since the DPF was not in existence when the FY2008 budget was created, the FY2008 financial information presented on page IV-18 of the Brown Book was pulled together from data in the School Department and the municipal financial records. This "pro forma" financial information allows comparison of FY2008 actual expenditures to the FY 2009 adjusted and FY2010 recommended budgets.

Overall, the DPF expenses are projected to decrease by 0.52% from FY2009. This reflects an overall increase of 1.37% in personal service costs and a 1.79% decrease in expenses.

The DPF head count is projected to decrease by two full-time positions and one part-time position. This decrease results from the loss of three school custodians through attrition and their replacement with contract cleaning services as allowed by union contract negotiations, as well as the elimination of the Clerk of the Works position, which was a contract position for the construction of the DPW building. These

reductions are offset by the addition of an Administrative Assistant-Account Clerk in August 2008 to fill a position previously supplied by the school Finance Department and an increase in the position of Administrative Assistant-Clerical/Rental Admin from half to full time (50% of this latter position will be funded through the Public Facilities Revolving Fund).

The most notable components of the net increase in payroll are a 4% wage increase for the school custodians, a more realistic estimate of overtime to be incurred for the municipal facilities employees (based on FY2009 experience), and the cost of the DPW project manager, whose payroll had been charged to the capital budget during the construction of the DPW facility, offset by the reduction of three school custodians.

The biggest changes in contractual services are the aforementioned contracting of custodial services for three school custodian positions (\$66,000), the added cost of contracted cleaning services for the DPW building (\$12,000), and a preventive maintenance program for HVAC equipment in the municipal buildings which is expected to yield a net savings of approximately \$23,000 from decreases in repair costs.

The utilities costs are estimated by using the past year's usage at the contract rates in place for FY2010. The Town has negotiated more favorable multi-year pricing on electric and natural gas for contracts effective in FY2010, as well as a lower rate on the annual fuel contract. The projected savings resulting from these new contracts is \$295,000. Additionally, the conversion of the heating system at Clarke Middle School in FY2009 from electricity to gas is expected to yield a savings of \$100,000 in electric costs against \$45,000 in added natural gas costs, for a net savings of \$55,000. Utility costs will increase for the new DPW building in FY2010 and are expected to be approximately \$100,000.

Finally, we note that the DPF is working toward the goal of reducing the overall energy consumption at Town-owned buildings but an estimate of savings that will accrue from progress in this area has not been fully factored into the budget. We would expect to see additional savings realized in FY2010 as a result of energy savings measures put in place in FY2008 and FY2009.

Article 5: Appropriate FY2010 Enterprise Funds Budgets	Funds Requested	Funding Source	Committee Recommendation
	\$6,711,570 Water EF + \$7,729,170 Wastewater EF + \$1,725,605 Recreation EF	EF	Approve (9-0)

FUNDS REQUESTED:

Enterprise Fund	FY2008 Actual	FY2009 Appropriated	FY2010 Requested
1. Water			
Personal Services	\$574,104	\$606,952	\$640,290
Expenses	\$499,291	\$463,845	\$363,180
Debt Service	\$358,301	\$850,350	\$1,108,100
MWRA Assessment	\$4,117,775	\$4,565,881	\$4,600,000
Total Requested in Article 5	\$5,549,471	\$6,487,028	\$6,711,570
Indirect Expenses	\$859,728	\$820,952	\$782,176
Total Water Enterprise Budget	\$6,409,199	\$7,307,980	\$7,493,746

2. Wastewater			
Personal Services	\$224,349	\$251,864	\$270,073
Expenses	\$330,076	\$385,565	\$325,600
Debt Service	\$473,256	\$569,971	\$633,497
MWRA Assessment	\$5,630,863	\$5,855,209	\$6,500,000
Total Requested in Article 5	\$6,658,544	\$7,062,609	\$7,729,170
Indirect Expenses	\$753,950	\$714,536	\$691,763
Total Wastewater Enterprise Budget	\$7,412,494	\$7,777,145	\$8,420,933
1. Recreation			
Personal Services	\$550,252	\$611,794	\$636,190
Expenses	\$880,280	\$958,089	\$956,815
Debt Service	\$168	\$106,200	\$132,600
Total Requested in Article 5	\$1,430,700	\$1,676,083	\$1,725,605
Indirect Expenses	\$155,848	\$106,200	\$188,583
Total Recreation Enterprise Fund	\$1,586,548	\$1,782,283	\$1,914,188

Overview

The Town of Lexington has maintained Water, Wastewater (Sewer), and Recreation Enterprise Funds since shortly after legislation authorizing the creation of such funds, G.L. c. 44, §53F1/2, was enacted by the State Legislature in 1986. The Water and Wastewater Enterprise Funds do not rely on tax-levy revenues, but cover their complete operating and capital needs with user charges and fees. The Recreation Enterprise Fund covers its complete operating costs with user charges and fees and contributes to the debt service on certain recreation capital projects. Most recreation capital costs, however, are covered by the General Fund, including within-levy borrowing, Community Preservation Act (CPA) funding, and debt exclusion funding.

An enterprise fund “establishes a separate accounting and financial reporting mechanism for municipal services for which a fee is charged in exchange for goods or services. Revenues and expenses of the service are segregated into a fund with financial statements separate from all other governmental activities” and are accounted for on an accrual basis. *DOR Enterprise Funds Manual (April 2008)*. An enterprise fund provides management and taxpayers with information to: measure performance, analyze the impact of financial decisions, and determine the cost of providing a service. It may be operated on a stand-alone basis or it may be subsidized by the General Fund.

Establishing the Enterprise Fund Budgets

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

Depending on the accuracy of the usage projections, the actual revenue realized by the enterprise during the year may exceed or fall short of the appropriated amount. Any operating surplus must be retained in reserve in the enterprise fund, and the funds accumulated in that reserve (referred to as “retained earnings”) may be applied only to meet the capital needs of the enterprise or to reduce user charges. If an enterprise fund sustains an operating loss (after applying any accumulated reserves in the fund), such loss 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. This presentation makes it easier to understand the operating

budgets of the enterprise funds than before, when the enterprise fund appropriations were commingled with appropriations in the municipal budget. However, it should be noted that the indirect costs that are charged to the enterprise funds (see discussion below) are still appropriated as part of the municipal operating budget, this year in Article 4. For the complete operating costs of the enterprise funds, including indirect costs, see the Brown Book, pp. V-25 (Water), V-29 (Wastewater) and VII-9 (Recreation). To help present a more meaningful picture of the complete enterprise fund operating budgets, the tables included above have been expanded from those presented in the Warrant to show the indirect as well as the direct costs of the funds. Although debt service costs for previously approved capital expenditures are shown in the enterprise fund operating budgets, appropriations for the future capital needs of the enterprises continue to be addressed in separate capital warrant articles. (See Article 14 - Recreation Capital Projects, Article 16 - Water Distribution Improvements, and Article 17 - Sewer Improvements.)

Water/Wastewater Fund Expense Issues

The largest component of the Water and Wastewater Enterprise Fund budgets is the charge imposed by the Massachusetts Water Resources Authority (MWRA) for water and wastewater disposal. These assessments are based on the Town’s proportionate share of the MWRA budget, based on its usage in the prior calendar year, and are an expense component over which the Town has no control. The requested appropriations have been adjusted from the substantially higher figures contained in the warrant to reflect the MWRA’s preliminary estimates of the anticipated assessments for Lexington for FY2010 for water and sewer issued in February 2009, rounded up as shown in the table below:

MWRA Assessments

Fund	FY09 Actual	FY10 Prelim. Assmt.	% Change	FY10 Rec. Budget	% Change
Water	\$4,565,881	\$4,483,223	-1.8%	\$4,600,000	.75%
Sewer	\$5,855,209	\$6,337,141	8.2%	\$6,500,000	11.01%
Combined	\$10,421,090	\$10,820,364	3.8%	\$11,100,000	6.5%

Generally, the final MWRA assessments, which are rendered in the late spring or early summer, are lower than the preliminary assessments, and the final budget used to set rates is adjusted to reflect the final, actual costs. (At last fall’s Special Town Meeting, the original appropriations for MWRA water and wastewater assessments were lowered by approximately \$58,000 and \$86,000 respectively to reflect the reduced final assessments.) Consequently, MWRA cost increases are not likely to create significant pressure for rate increases when rates are set for FY2010 next fall, as they have in the past. However, the inclusion of some additional conservatism in the projection of MWRA costs this year is not imprudent in view of the continuing fiscal difficulties being experienced by the state.

The Water and Wastewater Fund budgets include direct costs, which are primarily for: (1) the wages and salaries of the employees in the DPW’s Water and Sewer Divisions, (2) the expenses of the water and sewer maintenance activities and equipment, and (3) debt service on prior borrowings for water and sewer enterprise capital improvements.

Note that debt service costs have steadily increased over the past several years since most of the recent capital improvements have been financed with debt, rather than with a combination of debt and cash as had been the previous practice. While the increased reliance on debt financing will help to better spread the costs of projects over their useful life, the effect of the transition has been a temporary lowering of capital costs which will eventually return to the original higher levels through increases in debt service. In addition, the Water and Sewer Enterprise Funds are now bearing approximately 25% of the debt service costs for the construction of the new DPW facility (17% and 7% respectively, based on their expected usage of the new building). It may be possible to mitigate some of the rate pressure the increased capital

costs will generate in the future with a judicious application of retained earnings to capital improvement projects (see discussion below of reserves).

The budgets also include indirect costs, which are for services provided to the Enterprise Funds by other departments, such as the Engineering Department, for insurance costs (health and liability), retirement funding, utilities, and support services such as Comptroller, Management-Information Systems (MIS), and the Revenue Department. In the fall of 2006, following up on a recommendation made in the final report of the Water and Sewer Rate Study Committee in 2005, the Town staff conducted an analysis of the basis for the indirect charges, and concluded that the level of indirect expenses that was being charged to the Water and Wastewater Enterprise Funds was significantly higher than could be justified. To address this issue without causing undue disruption to the Town Budget, the Town Manager recommended a gradual phase-down of the indirect expenses charged to the Water and Wastewater Funds to the levels supported by his analysis over a period of five years. Consistent with this multi-year phase-down plan, the recommended budget for FY2010 contemplates modest reductions in the levels of indirect expenses charged to the Water and Wastewater Funds, as set forth on pages V-22 and V-26 of the Brown Book.

For a number of years, the budgets for the Water and Sewer Enterprise Funds included charges, which were recovered in the water and sewer rates, for payments in lieu of taxes (PILOTs): \$500,000 for the Water Enterprise Fund and \$250,000 for the Sewer Enterprise Fund. These were amounts that Town Meeting had authorized to be paid from the Enterprise Funds to the General Fund for unspecified Town services, in addition to the identified indirect costs, as though the Enterprise Funds were separate entities subject to taxation. Because of uncertainties about the appropriateness and validity of these charges, the Board of Selectmen began phasing out the PILOTs in FY2007 at the rate of 25% per year. As this is the last year of the phase-out, the proposed FY2010 Water and Sewer Enterprise Fund budgets contain no expenditures for PILOTs.

Note that the completion of the PILOT phase-out program will have a two-fold effect on future budgeting for FY2011 and beyond: on the one hand, it will free up an additional \$187,500 in recurring revenue for the General Fund that has heretofore been allocated to the phase-out; on the other hand, it will end the corresponding expense reductions that the Water and Sewer Enterprise Funds have enjoyed during the four-year phase-out period, which have helped to mitigate water and sewer rate increases.

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

As previously noted, the state statute governing enterprise funds, G.L. c. 44, § 53F1/2, requires that accumulated surpluses resulting from the operations of an enterprise fund, referred to as retained earnings, remain with the fund as a reserve, and that they be used only for capital expenditures of the enterprise, subject to appropriation, or to reduce user charges. Deficits must be funded with existing reserves or, in the absence of such reserves, made up in the following year's rates.

During the early 2000s, difficulties in forecasting usage and other accounting issues resulted in rates being set at less than adequate levels in several rate years. This, in turn, reduced the retained earnings in the Water and Sewer Enterprise Funds to levels of concern. Since 2005, however, the Town's ability to measure and forecast water and sewer usage, and thereby to anticipate revenues and reserve levels, has improved significantly. Indeed, data provided to the Board of Selectmen in connection with last fall's rate-setting shows that the use of a rolling average of the previous three years of consumption data would have predicted with considerable accuracy the actual usage and financial results experienced in FY2008. To date, however, the Town has continued to employ a more conservative set of consumption estimates which have consistently underestimated usage and revenue. The consequence has been steadily increasing reserve balances, as show in the table below.

Enterprise Fund Reserves

	6/30/06	6/30/07	6/30/08	Change FY07-FY08	Projected Change FY08-FY09
Water	\$2,090,334	\$2,496,655	\$2,537,249	\$40,594	\$(463,050)
Sewer	\$ 447,441	\$2,137,540	\$2,763,179	\$625,639	\$40,000
Total	\$2,537,775	\$4,634,195	\$5,300,428	\$666,233	\$(423,050)

At the rate-setting for FY2009 in the fall of 2008, faced with increased MWRA charges and increases in debt service costs attributable to the new DPW facility, as well as concern that irrigation usage would be down because of the relatively rainy summer of 2008, the Board of Selectmen adopted: (1) a 9.5% increase in water rates, projecting a draw of \$463,050 on water fund reserves to mitigate the rate increase; and (2) a 0% increase in sewer rates, projecting that no change in the rates would generate a small surplus of about \$40,000. Accordingly, Town Meeting voted at the Special Town Meeting last fall to appropriate \$463,050 from the Water Enterprise’s retained earnings to meet the projected deficit. It remains to be seen, however, whether the deficit will actually materialize.

In view of the steadily increasing levels of reserves, which now represent about 35% of the annual budget for each fund, net of indirect costs, this Committee has urged that a policy be adopted that defines the appropriate level of retained earnings to be maintained for emergency purposes for both funds, and that sets forth guidelines for the use of such funds either to mitigate future rate increases or to finance capital projects. One potential use of the retained earnings would be to help mitigate the effect of increased capital costs, including debt service costs to be incurred for construction of the new DPW facility, on the need for future rate increases.

Although a definitive policy has not yet been adopted, the Town Manager has recently recommended to the Board of Selectmen that an interim target of 15% of the annual budget is a reasonable amount to be maintained in reserve to cover unanticipated costs and/or revenue shortfalls, and also that \$500,000 of water retained earnings and \$600,000 of sewer retained earnings be applied toward the mitigation of rates in the FY2010 enterprise fund budgets in recognition of the difficult economic climate and its impact on ratepayers. While this use of retained earnings, if approved by Town Meeting, will still leave reserve balances well above the 15% target at the end of FY2010, the Town Manager has recommended a gradual approach to the utilization of excess reserves so that dependence on this source of funding in setting rates can be phased out gradually, and also to hedge against a possible shortfall in FY2009 revenues that could result from historically low usage to-date in a particularly rainy year.

Recreation Fund Issues

This budget represents an increase of \$49,522 (2.95%) from last year. Wages and salaries have increased 3.99% to a total \$636,190 for five full-time staff and 175+/- seasonal staff. The addition of the Valley Tennis Courts bonding has increased debt service 24.86% to \$132,000. A slight drop in expenses however includes two program improvements: implementation of an on-line recreation system and a new piece of landscaping equipment for Pine Meadows.

53% of the revenue for the Recreation Enterprise Fund operating budget, \$1,020,552, will come from user fees for fields and registration fees for programs. All programs offered by the Recreation Department are designed to be revenue-neutral, with charges to users matching the program’s operating costs. The other main source of revenue, \$805,390, is from golf course fees, and is budgeted at a 7.39% increase based on growing usage. The golf course management contract began January 1, 2009 with a base fee of \$355,000 as well as an additional payment for course management of 5% of collected course fees for this golf season. The base fee in the new contract has increased by \$5,000, and it increases to \$360,000 in year two and to \$368,000 in year three. There are also options to extend the contract for two additional years at \$374,000 per year.

In FY2010, indirect, shared, and capital charges against the Recreation Enterprise Fund will total \$288,583. Under Article 4 (Operating Budget), \$100,000 will be used for indirect costs to cover DPW services provided to the Aquatics facilities and field maintenance, as well as a minimal amount of work at the golf course and tennis courts, and \$88,583 will be used for employee benefits. Under Article 5 (Enterprise Funds Budgets), \$100,000 of the Enterprise Fund revenue will be used to continue funding the Lincoln Field debt service and \$32,600 for other debt service. The fund’s retained earning balance as of July 1, 2008 was \$1,258,039.

The Committee unanimously (9-0) supports these requests.

Article 6: Appropriate for Senior Service Program	Funds Requested	Funding Source	Committee Recommendation
	\$45,000	GF	Approve (9-0)

This Article proposes an appropriation of \$45,000 for the Senior Service Program. The requested amount, level-funded from last year’s appropriation, is believed to be sufficient to permit all eligible applicants to take advantage of the program under the current guidelines adopted by the Board of Selectmen.

Background

For general background on property tax relief programs available in Lexington, of which the Senior Service Program is an important part, please see the discussion contained under Article 34.

Senior Service Program

In the spring of 2006, Town Meeting voted to rescind its acceptance of the statewide senior property tax work-off program under Chapter 59, §5K of the General Laws, and to substitute in its place a new, locally controlled Senior Service Program. The purpose of replacing the pre-existing program was to free the Town of the restrictions imposed by the State statute on age, wage rate, and credit amount, and in particular to give the Town the flexibility to:

- Allow participation by persons under age 60, such as the disabled and handicapped, who might be able to benefit from the program,
- Pay a wage higher than the minimum wage, and
- Allow more than \$750 to be credited against a participant’s property tax bill.

The most recent set of guidelines adopted by the Board of Selectmen, which became effective in FY2008, are more advantageous to participants than the state program in the following respects:

- Income eligibility is \$46,300 for single taxpayers or \$52,950 for a couple (versus \$36,750 if single, \$42,000 if married under the State program)
- Hourly rate is \$8.50 (versus minimum wage under the State program, which was \$6.75 in 2006 and increased to \$7.50 on January 1, 2007 and \$8.00 on January 1, 2008)
- Maximum credit of \$935 (110 hours) for one participant or up to \$1,190 (140) for two participants per household (versus \$750 per participant under the State program).

Although the Board of Selectmen has the authority to expand eligibility to persons under age 60 who are disabled or handicapped, it has not yet done so.

Funding of the Senior Service Program

The Senior Service Program is funded by direct appropriation from the tax levy rather than through the Town’s overlay account. The original funding amount of \$25,000 was established at a level only slightly higher than the amount that had been expended from the overlay account during the three preceding fiscal years under the state program (ranging from \$20,034 in FY2004 to \$23,706 in FY2006).

Because applications to the program originally exceeded expectations – a total of 43 eligible applicants applied in FY2007, compared with prior participation of 31 in FY2004, and 37 in each of FY2005 and FY2006 – Town Meeting voted at the fall 2006 Special Town Meeting to increase the FY2007 appropriation by \$11,000 to \$36,000 in order to make it possible for all eligible applicants to participate. At the 2007 Annual Town Meeting held the following spring, Town Meeting voted to increase the appropriation for FY2008 to \$40,000, and at the 2008 Annual Town Meeting the appropriation was increased again for FY2009 to \$45,000.

This level of funding has proved to be more than sufficient to allow the Town to admit all eligible applicants who wish to participate in the program. It also allowed the Town in FY2008, to enhance benefits modestly by increasing the allowable credit from \$850 (100 hours) to \$935 (110 hours), and by allowing two people per household to participate, up to a maximum credit of \$1,190 (140 hours), instead of just one. Notwithstanding the enhancement of benefits, participation in the program has decreased since it was initiated. The number of participants fell from 38 in FY2006 to just 34 in each of FY2007 and FY2008, and to date in FY2009 only 26 seniors have participated. As a consequence, the full funding appropriated has not been spent and the continuing balance account for this program has grown to fairly significant levels, as illustrated in the following table.

	Budget	Number of Participants	Expenditures	Carry Forward	Ending Balance
FY2007	\$36,000	34	\$25,043	\$--	\$10,956
FY2008	\$40,000	34	\$28,045	\$10,956	\$22,911
FY2009	\$45,000	26 (ytd)	\$16,519 (ytd)	\$22,911	\$51,391

The Town is taking steps to reverse the drop-off in participation, which has resulted in part from the disruption created by a number of personnel transitions in the Social Services Department. A level-funded appropriation of \$45,000 for FY2010, together with the carryover funds available, would again be more than sufficient to accommodate everyone who has participated to date in FY2009, to allow growth, and also to further increase benefits under the program. However, if participation does not increase significantly, and the balance in this account continues to grow, the level of funding for this program may need to be revisited in future years.

In its report on the original article creating this program in 2006, this Committee observed that: “The ... cost of the proposed program is amply justified, indeed a bargain. Not only does it provide participating residents a productive way to become involved in the community, while at the same time alleviating some of the burden of their local property taxes, it also provides the Town with valuable and necessary services.... Making a direct appropriation for this program, rather than funding it through the overlay account, [increases] transparency and [gives] Town Meeting more control over the budget.” These observations continue to apply.

The Committee unanimously (9-0) supports this request.

Article 7: Appropriate for Street Trees (Citizens' Petition)	Funds Requested	Funding Source	Committee Recommendation
	\$24,000	GF	IP

At the 2001 Town Meeting, \$50,000 from Free Cash was appropriated to fund the beginning of a multi-year program for the planting, care, management and maintenance of Town trees, it being understood that future expenditures would come from state grants and/or be funded as a line item in the DPW operating budget. MASS Releaf Grants from the Massachusetts Department of Environmental Management were obtained in FY2004, FY2005 and FY2006. State grants were not available for FY2007, FY2008 or FY2009.

The proposed operating budget for FY2006 submitted to Town Meeting included \$5,000 for the ongoing tree planting program. As a result of the FY2007 override, each successive budget, for FY2007, FY2008, and the proposed FY2009 budget, has included \$5,000 for tree planting (see Brown Book, p. V-12). In FY2007, at the request of the Tree Committee, the DPW requested an additional \$25,000 to fund the program. Similarly, the DPW requested an additional \$24,000 in FY2008. However, because of budgetary considerations, the requests were not approved and the appropriated budgets in those years did not include those amounts.

The FY2009 budget included \$5,000 for the program. The DPW, at the request of the Tree Committee, sought an additional \$24,000. That request was categorized by staff as a program improvement, and as such had to compete with higher-priority items within a limited budget. It consequently failed to displace those items and was not included in the budget by the Town Manager and Selectmen. At the 2008 Annual Town Meeting, however, Town Meeting voted to fund the expenditure.

A program improvement request of \$24,000 was included with the submission of the department of Public Works Public Grounds budget for 2010, and \$14,000 was approved for inclusion in the budget. A small amount of additional funds exists in the Tree Revolving Fund, which is addressed in Article 10. The sources of monies for that Fund are private contributions and mitigation contributions under the Town Tree By-Law.

In view of the funding contained in this year's DPW budget under Article 4, and the funds that are now available and will continue to be received during the year in the Tree Revolving Fund (from which authorization to spend up to \$20,000 is proposed in Article 10), we understand that this article will be indefinitely postponed.

Article 8: Appropriate for Tourism Promotion	Funds Requested	Funding Source	Committee Recommendation
	\$15,000	GF	Approve (9-0)

This article, submitted at the request of the Tourism Committee, originally requested \$50,000 from the General Fund for tourism initiatives in the Town of Lexington. The amount now requested, \$15,000, is included in FY2010 municipal operating budget recommended by the Town Manager and approved by the Board of Selectmen, see Brown Book, p. IX-12. It will be separately appropriated in this article, rather than in Article 4, so that any unused funds may be carried forward as a continuing balance.

The Committee unanimously (9-0) supports this request.

Article 9: Appropriate for Planning Board Consulting Services	<i>Funds Requested</i>	<i>Funding Source</i>	<i>Committee Recommendation</i>
	\$100,000	GF (Free Cash)	Pending

This item is a follow-up to zoning Articles 44, 45, and 46. If the aforementioned articles are approved by Town Meeting, the Planning Board will require professional assistance to fully implement the changes to the town’s zoning regulations. More details are available in the Brown Book at p. IX-8.

The Committee will address this article in a subsequent report to be issued before the zoning articles are presented to Town Meeting.

Article 10: Continue and Approve Departmental Revolving Funds	Funds Requested	Funding Source	Committee Recommendation
	See table below	RF	Approve (9-0)

Program or Purpose	Authorized Representative or Board to Spend	Departmental Receipts	FY2010 Authorization
DPW Burial Containers	Public Works Director	Sale of Grave Boxes and Burial Vaults	\$35,000
DPW Compost Operations	Public Works Director	Sale of compost and loam, yard waste permits	\$315,000
LexMedia Operations	Board of Selectmen and Town Manager	License fees from cable TV providers	\$400,000
Trees	Board of Selectmen	Gifts and fees	\$20,000
Minuteman Household Hazardous Waste Program	Public Works Director	Fees paid by consortium towns	\$175,000
Health Programs	Health Director	Medicare reimbursements	\$10,000
Council on Aging Programs	Social Services Director	Program fees and gifts	\$100,000
Tourism/Liberty Ride	Town Manager and Tourism Committee	Liberty Ride receipts, including ticket sales, advertising revenue and charter sales	\$166,000
School Bus Transportation	School Committee	School bus fees	\$830,000
Public Facilities Revolving Fund	Director of Public Facilities	Building rental fees	\$275,000

Overview

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

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

- the purpose(s) for which monies deposited in the fund may be used;
- the source(s) of funds to be deposited;
- the board, department or officer authorized to expend monies from the fund; and
- a limit on the total amount that may be expended from the fund in the ensuing fiscal year.

Expenditures may not be made, nor liabilities incurred, in excess of the balance of the fund.

If a revolving fund is reauthorized, any balance in the fund may be carried over to the next fiscal year. If a revolving fund is not reauthorized, or if the purposes for which the money in the fund may be spent are changed, the balance in the fund reverts to the General Fund at the end of the fiscal year unless Town Meeting votes to transfer the funds to another duly established revolving fund.

Requested Reauthorizations

Ten existing municipal revolving funds are proposed to be reauthorized this year: the DPW Burial Containers Fund and the DPW Compost Operations Fund (which were formerly combined in a single fund); the LexMedia Operations (formerly CATV Operations) Fund; the Trees (formerly Tree Planting) Fund; the Minuteman Household Hazardous Waste Program Fund; the Health Programs Fund; the Council on Aging Programs Fund; the Tourism/Liberty Ride Fund; the School Bus Transportation Fund; and the Public Facilities Revolving Fund. 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.

Because of the successful operations of the Public Facilities Revolving Fund, which was created to manage income and expenditures for the rental of school buildings and other public facilities, the proposed authorization for that fund has been increased from the \$150,000 listed in the Warrant to \$275,000. It should be noted also that interim increases in the spending limit for revolving funds may be authorized by joint action of the Board of Selectmen and the Appropriation Committee when necessary. It is anticipated that such authorization will be requested for an interim increase in the FY2009 authorization for the Public Facilities Revolving Fund as well.

The final fund balances that will carry over from FY2008 to FY2009 won’t be known until the end of the fiscal year. As of December 31, 2008, the fund balances were as follows:

DPW Burial Containers	\$67,026
DPW Compost Operations	\$282,427
LexMedia Operations	\$416,022
Trees	\$5,621
Minuteman Household Hazardous Waste Program	\$55,214

Health Programs	\$8,601
Council on Aging Program	\$21,134
Tourism/Liberty Ride	\$24,508
School Bus Transportation	\$74,317
Public Facilities	\$145,868

The Committee unanimously (9-0) supports the reauthorization of each of the existing revolving funds.

Article 11: Appropriate the FY2010 Community Preservation Committee Operating Budget and for CPA Projects	Funds Requested	Funding Source	Committee Recommendation
	\$2,707,328 + TBD	\$2,637,028 + TBD (CPA) + \$70,300 (GF Debt)	See below

Background

The Community Preservation Act (CPA) is a state statute that allows municipalities to raise a surcharge on property taxes for local use for purposes related to historic preservation, open space (including recreation), and affordable housing. The State provides matching funds (the amount depending on monies available and demand from adopting communities) from fees imposed on real estate transactions, including mortgage refinancing. While the CPA provides broad guidance on the appropriate use of funds, it allows for a considerable measure of local control through (1) the establishment of a local Community Preservation Committee (CPC) to review and make recommendations on potential CPA project candidates to Town Meeting, and (2) the authority of Town Meeting to vote CPC-recommended projects up or down. Town Meeting may not *increase* a CPC-recommended appropriation, but it may amend to *decrease* a recommended appropriation.

Communities adopting CPA have each implemented the statute in a way that reflects local opportunities, priorities and needs. One of Lexington’s opportunities lies in the inventory of municipal and school buildings that qualify as historic buildings and therefore are eligible for CPA funding. This is a win for the taxpayers, who benefit from leverage offered by State matching funds, and a win for the Town, which benefits from the availability of an alternative funding source to address a backlog of capital projects that compete each year for limited resources within the tax levy and might not otherwise get done. The CPA allows this opportunity to be accommodated, if the CPC and Town Meeting so choose, along with other opportunities for historic preservation, acquisition and preservation of open space and land for recreational use, and providing affordable housing.

The State Match

The state match awarded for FY2007, the first year following Lexington’s adoption of the CPA, was 100%, as it had been since the CPA was enacted in 2001. (Note that state matching funds are disbursed to communities in the fall of the fiscal year after the surcharge revenues are raised. For example, Lexington will receive in the fall of FY 2010 state funds to match its FY 2009 surcharge revenues.) However, as real estate transaction revenue has declined with the dwindling economy, and as more communities have adopted the CPA, the matching level has since gone down. In October 2008, the first round match awarded

to all CPA communities for FY2008 was 67.62%. Because Lexington adopted CPA with a full 3% surcharge, it received additional funding in a second round distribution, bringing its total match for FY2008 to 69.39%. The DOR exercised its discretion not to make a third round distribution for FY2008, and it is anticipated that in October of 2009 the first round match will fall to 29%.

Funds Available for Appropriation

There is slightly less than \$12,000,000 of CPA funds available for appropriation at this Town Meeting: \$7.64 million in carry-forward reserves, \$377,026 in higher than budgeted State matching funds, and \$3.96 million in FY2010 anticipated revenues. These revenues include FY2010 surcharge collections of \$3,068,189, \$75,000 of investment interest, and a State match of about \$825,000 (estimated at 29% of the collected FY2009 surcharges).

This Year's Requests

As of press time Town Meeting is being asked to appropriate in Article 11 \$2,667,028 of the available CPA funds. Additionally, Articles 12 and 13 seek appropriation of CPA funds for the purchase of two parcels of land, properties off of Vine Street and Lowell Street. (See the discussions of Articles 12 and 13 in this report). The projects which the CPC Committee has recommended for funding in FY2010 under Article 11 are listed in the following table:

<i>Project Description</i>	<i>Amount Requested</i>	<i>Funding Source</i>	<i>Committee Recommendation</i>
(a) Drainage Improvements to Preserve Various Athletic Fields [Brown Book, Page XI-6] <i>see also Article 14(a)</i>	\$70,000	CPA	Pending
(b) Storm Water Mitigation to Preserve the Old Reservoir [Brown Book, Page XI-16] <i>see also Article 14(b)</i>	\$569,000	CPA	Approve (8-0-1)
(c) Pond and Drainage Improvements to Preserve Pine Meadows Golf Course [Brown Book, Page XI-16] <i>see also Article 14(c)</i>	\$200,000	CPA	Disapprove (3-6)
(d) Archives and Records Management Needs/ Records Conservation and Preservation [Brown Book, Page XI-14]	\$150,000	CPA	Approve (8-0-1)
(e) Cary Vault Supplemental Appropriation [Brown Book, Page XI-13]	\$45,000	CPA	Approve (8-0-1)

(f) Town Office Building Preservation and Renovation [Brown Book, Page XI-13] <i>see also Article 19(o)</i>	\$30,000	CPA	Approve (8-0-1)
(g) Police Station Space Preservation and Needs Study [Brown Book, Page XI-12] <i>see also Article 19(j)</i>	\$45,000	CPA	Approve (8-0-1)
(h) Stone Building Renovation [Brown Book, Page XI-12] <i>see also Article 19(k)</i>	\$180,000	CPA	Pending
(i) Fire Headquarters Preservation and Renovation Design [Brown Book, Page XI-13] <i>see also Article 19(e)</i>	\$100,000	\$29,700 CPA + \$70,300 GF Debt	Approve (8-0-1)
(j) Greeley Village Roof Replacement [Brown Book, Page XI-17]	\$320,828	CPA	Approve (8-0-1)
(k) Munroe Tavern Historic Structures Report and Capital Needs [Brown Book, Page XI-17]	\$50,000	CPA	Approve (8-0-1)
(l) Purchase of Three Affordable Housing Units [Brown Book, Page XI-17]	\$797,500	CPA	Pending
(m) Land Acquisition <i>See Articles 12, 13</i>	TBD	CPA	Pending
(n) Administrative Budget	\$150,000	CPA	Approve (8-1)

The amount originally requested under Article 11(a) “Drainage Improvements to Preserve Various Athletic Fields” was \$200,000 (\$100,000 of CPA funds plus \$100,000 of General Fund Debt). The request has now been reduced to \$70,000 (all CPA funds, no General Fund Debt). The initial estimate for the work on the fields was incorrect, and the work is now expected to be much more expensive. The money requested in this article would fund a more thorough study of possible solutions for the drainage problems.

Funding for item 11(i) is divided into two components because only part of the project qualifies for CPA funding. This item requests an appropriation from both the CPA account and General Fund Debt, the latter to cover the work that the CPA cannot fund. Approval of 11(i) will authorize the Town to issue debt for the \$70,300 allocated to the General Fund component.

Several items under Article 11 are replicated in other Articles, as noted in the table above, so that they may be considered for possible funding with alternative sources if CPA funding is not approved. Each such item that is approved under Article 11 will be indefinitely postponed when considering the respective item in the alternate article.

Of the thirteen items recommended by the CPC and summarized in the table above, the Appropriation Committee supports nine. One project (c) is not supported by the Committee (see below). Although the Committee has approved the request for administrative expenses contained in item (n), it has some comments regarding that request. Three projects (a, h, l) were not fully developed and ready for consideration at press time, and the Committee's recommendations on them are pending. Potential land acquisitions will be dealt with under Articles 12 and 13.

Item 11(c). Pond and Drainage Improvements to Preserve Pine Meadows Golf Course. Item 11(c), originally proposed by the Recreation Committee, seeks funding of \$200,000 for the first phase of a contemplated three-part project designed to improve the drainage and playability of the Pine Meadows Golf Course. The proposed work will include restoration of the upper control pond dam, repair of the access path between the upper pond and Kiln Brook, creation of an overflow system, and the reconstruction of the existing culvert near the spillway. A more detailed description of Phase One of the project is contained in the Brown Book at page XI-16.

A majority of the Committee appreciates that the three-part project is necessary to preserve and improve the golf course, and thus continue, and perhaps increase, the revenue derived from its use. However, the golf course is a revenue-generating enterprise, producing substantial income. In FY2008, golf user charges totaled \$757,178, and the FY2009 revenue projection was comparable. Golf user charges for FY2010 are expected to exceed \$800,000 (see page VII-9 of the Brown Book). The majority believes that this proposed capital improvement to the golf course, as well as the improvements contemplated in Phases Two and Three, should be fully funded or financed, as is the case with any income-generating enterprise (including the Town's water and sewer operations), by the revenue the enterprise receives, and that doing so helps to assure that the fees for such an enterprise, while remaining competitive, are set at a level sufficient to cover its full capital, as well as its operating, costs. Accordingly, the majority does not support this request.

A minority of the Committee, while agreeing with the general position of the majority, nonetheless supports this year's Recreation Committee's request for \$200,000 from CPA funds to pay for the first part of the planned three-phase project on the ground that the proposed project may be of some benefit to non-golf users of the Pine Meadows land, and that use of CPA funds for the golf course project may help to free up Recreation Enterprise funds for use on other recreational facilities that are not revenue-generating. However, when it comes time to undertake Phase Two, projected for FY12, and Phase Three, scheduled for FY15, the minority strongly recommends that Recreation Enterprise monies be the primary, if not the total, source for funding that work.

Item 11(n). CPC Administrative Budget. This year's request of \$150,000 for administrative expenses is three times as large as the \$50,000 requested and appropriated in FY2009. Fifty thousand dollars was also the amount requested and appropriated in FY2008.

The Appropriation Committee understands that administrative fees over the past year have been larger than anticipated at the time of the FY2009 request. For example, the appraisal, survey and estimated legal costs associated with the proposed acquisition of the Goodwin parcel exceeded \$41,000. Costs incurred and projected in connection with the proposed purchase of the property off of Vine Street total more than \$55,000. Appraisal and conceptual planning costs for the possible property purchase off of Lowell Street are currently estimated at approximately \$14,000, and legal, environmental assessment and survey costs for that property are still unknown.

This request for FY2010 takes into account the probability that similar amounts will be incurred and expended in the coming fiscal year. The statute permits the appropriation of up to 5% of the anticipated CPA revenue for the year to be appropriated for administrative expenses to pay for staff salaries, mailings, public notices, overhead, legal fees, membership dues, and other miscellaneous expenses related to CPC projects. Any funds that are not expended close back out to the general CPA account at the end of the fiscal year.

The CPC’s request for FY2010 is substantially less than the statutory limit and, in the estimation of a majority of the Appropriation Committee, represents a reasonable provision for the administrative costs likely to be incurred. However, in view of the significant increase in this year’s request over previous years, and because many of the potential expenses that have been identified are open-ended and still highly uncertain, this Committee urges that the CPC provide at the end of the fiscal year a detailed accounting of the administrative funds that are actually expended in FY2010 so that Town Meeting will have a more reliable basis for evaluating the appropriate level of administrative expenses in the future.

The Committee, by a vote of 8-0, with one abstention, supports items (b), (d) through (g), and (i) through (k) of this request.

The Committee, by a vote of 8-1, supports item (n) of this request, subject to the comments noted above.

The Committee, by a vote of 6-3, does not support item (c) of this request.

Article 12: Land Purchase—Off Vine Street	Funds Requested	Funding Source	Committee Recommendation
		CPA	Pending

Because negotiations for the acquisition of this property located on Vine Street are not yet complete, and a public hearing has not yet been held by the CPC, the Committee’s recommendation on this article remains pending.

Article 13: Land Purchase—Off Lowell Street	Funds Requested	Funding Source	Committee Recommendation
		CPA	Pending

Because negotiations for the acquisition of this property located off Lowell Street are not yet complete, and a public hearing has not yet been held by the CPC, the Committee’s recommendation on this article remains pending.

Article 14: Appropriate for Recreation Capital Projects	Funds Requested	Funding Source	Committee Recommendation
	\$839,000	EF	Pending

<i>Project Description</i>	<i>Amount Requested</i>	<i>Funding Source</i>	<i>Committee Recommendation</i>
Park Improvement – Athletic Fields [Brown Book XI-6]	\$70,000	EF	Pending
Storm Water Mitigation – Marrett Rd/Old Reservoir [Brown Book XI-16]	\$569,000	EF	Pending
Pine Meadows Improvements [Brown Book XI-16]	\$200,000	EF	Pending

This Article is an alternative proposal to fund three of the capital projects that are part of the CPC list of projects in Article 11 (items a, b and c). If any of the respective items in Article 11 are not approved by Town Meeting, they may be revisited under this article for funding under the General Fund.

Article 15: Appropriate for Municipal Capital Projects and Equipment	Funds Requested	Funding Source	Committee Recommendation
	\$2,586,048	<i>See below</i>	<i>See below</i>

<i>Project Description</i>	<i>Amount Requested</i>	<i>Funding Source</i>	<i>Committee Recommendation</i>
(a) Replacement of Fire Engine 3 [Brown Book p. XI-4]	\$500,000	GF (Debt)	Approve (9-0)
(b) Head End Equipment [Brown Book p. XI-4]	\$154,500	\$83,500 GF (Debt) + \$43,450 GF (Free Cash) + \$27,550 Sale of	Approve (9-0)

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		Real Estate	
(c) Comprehensive Storm Management Watershed Study [Brown Book, Page XI-5]	\$110,000	GF (Debt)	Approve (9-0)
(d) DPW Equipment (including Water and Wastewater Equipment) [Brown Book pp. XI-5, -8 and -9]	\$903,423	\$1,450 UPB + See below	Approve (9-0)
Two 6-wheel dump trucks with plow/underscraper & stainless steel sander body (\$153,700 each)	\$307,400	GF (Debt)	
F450 Truck with Utility Body, Crane & Compressor	\$88,323	GF (Debt)	
Rear Load Trash Compactor	\$100,200	GF (Debt)	
One plow/underscraper attachment for Water Department dump truck	\$25,000	GF (Debt)	
One 6-wheel dump truck for Water Department (see Article 16)	\$119,000	Water EF	
Sewer Vacuum Truck for the Sewer Department (see Article 17)	\$263,500	Wastewater EF	
(e) CBD Sidewalks	<i>None</i>		
(f) Sidewalk Improvements and Easements	<i>None</i>		
(g) Storm Drainage Improvements [Brown Book p. XI-5]	\$160,000	GF (Debt)	Approve (9-0)
(h) GIS Implementation Plan [Brown Book p. XI-14]	\$120,000	\$84,000 GF (Free Cash) + \$21,600 Water EF RE + \$14,400 Wastewater EF RE	Approve (9-0)
(i) Hydrant Replacement Project [Brown Book p. XI-15]	\$50,000	\$25,000 GF (Free Cash) + \$25,000 Water EF RE	Approve (9-0)
(j) Street Improvements and Easements	\$538,125	\$538,125 GF (Tax	Approve (9-0)

[Brown Book p. XI-15]		Levy - FY2001 Override Set- Aside) + \$700,000 Chapter 90 State Aid	
(k) Traffic Mitigation [Brown Book p. XI-15]	\$50,000	GF (Free Cash)	Pending

These eleven requests are described in the Brown Book (page references indicated above). The last two pieces of equipment under item (d) (One 6-wheel dump truck for Water Department, Sewer Vacuum Truck for the Sewer Department) are proposed to be funded from the Water and Wastewater Enterprise Funds respectively, and are listed as such in the Brown Book. For further discussion of these two items refer to Articles 16 and 17 of this report.

Regarding item (k), this is the third year the Traffic Mitigation Group (TMG) has requested \$50,000 for Traffic Mitigation work. The first year they designed and re-striped Hartwell Avenue for bicyclist/vehicular safety. Last year's money was used to study the following intersections: Massachusetts Avenue at Marrett Road, Mass Ave at Maple Street and Mass Ave at Pleasant. The TMG hopes to have a conceptual study completed by April, which will be part of a request for design funds. The construction portion of this project has been submitted to the state TIP program for funding.

Article 16: Appropriate for Water Distribution Improvements	Funds Requested	Funding Source	Committee Recommendation
	\$900,000	EF	Approve (9-0)

This Article addresses proposed capital expenditures to be made during FY2010 as part of a continuing program to upgrade and keep current 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 the discussion under Article 5, which addresses the Enterprise Fund operating budgets.

As part of a multi-year project to upgrade aging water infrastructure, a total of \$900,000 is requested this year to replace approximately 5,000 linear feet of inadequate water main and deteriorated service connections, and to eliminate dead ends in water mains. The details of the project, including the locations where work is expected to be done in FY2009, can be found in the Brown Book (p. XI-8). Part of the funding may come from an MWRA loan.

The costs of this year's proposed pipe replacement project will be funded entirely by borrowing. The costs of the debt service for this borrowing will be borne by the operating budgets for the Water Enterprise Fund in FY2008 and future years until the debt is retired (see the debt service schedule contained on the same page in the Brown Book), and will be included each year as an element of the water rates.

Capital appropriations for similar purposes, have been made in most years since the Water Enterprise Fund was established (except for FY2006 when engineering studies were not completed in time), as illustrated in the table below. The goal is to keep the system current so the Town can assure dependable high water quality, pressure, and volume for domestic needs, commercial needs, and fire protection as well as minimization of water main breaks.

Fiscal Year	Purpose	Cash	Borrowing	Total
2003	Water Dist. Improvements	\$340,000	\$560,000	\$900,000
2004	Water Dist. Improvements	\$400,000	\$500,000	\$900,000
2005	Water Dist. Improvements	\$400,000	\$450,000	\$850,000
2006	None	\$0	\$0	\$0
2007	Water Dist. Improvements	\$0	\$900,000	\$1,150,000
	Water Meters	\$0	\$250,000	
2008	Water Dist. Improvements	\$0	\$1,800,000	\$1,800,000
2009	Water Dist. Improvements	\$0	\$1,800,000	\$1,800,000
2010 (rec)	Water Dist. Improvements	\$0	\$900,000	\$1,019,000
	Equipment	\$0	\$119,000	

Prior to FY2007, as shown in the table above, capital expenditures for water distribution and related improvements were funded by a combination of Enterprise Fund cash capital and borrowing. Since then, there has been a transition to funding these ongoing improvements exclusively with debt. As the Committee has previously noted, this transition to exclusive debt financing has helped to mitigate the need for rate increases in the short term; however, it will also increase the future debt service costs of the Water Enterprise Fund—as illustrated in the Brown Book, p. XI-10, Table II and summarized below—which in turn is likely to create greater rate pressure in the future.

Water Enterprise Fund Debt Service Costs

Fiscal Year	2008	2009	2010	2011	2012
Amount	\$490,833	\$850,350	\$1,107,537	\$1,354,444	\$1,582,554

As can be seen, past borrowings, including the water fund’s 17% contribution to the financing of the new DPW facility, and this year’s borrowing alone will more than triple the annual debt service costs between FY2008 and FY2011 to a level that represents a significant portion of the overall Water Enterprise Fund operating budget (currently about \$7 million). Future borrowings for water distribution improvements will continue to increase the annual debt service costs of the Water Enterprise Fund until a new equilibrium between issuance and retirement of debt is reached, and will add to the fund’s debt burden. As noted in the discussion under Article 5, it may be appropriate in the future to make judicious use some of the fund’s accumulated retained earnings to help defray the impact of these growing capital costs on the rates.

It should be noted that an additional \$25,000 originally requested in this article for a water meter study will be addressed instead under Article 5 (Appropriate FY2010 Enterprise Funds Budgets). The amount in question is the Water Enterprise Fund’s share of a request for “cash capital” funds of \$50,000 to conduct a study of an automatic meter reading system, which could provide on-demand meter readings without the need for house visits, and which is currently, targeted for phased installation in FY2011-2013, as described in the Brown Book (p. XI-15.)

It should also be noted that one additional capital expenditure to be funded by the Water Enterprise Fund, the planned purchase of a 6 wheel heavy duty dump truck for \$119,000 for use by the DPW’s Water Division, as described in the Brown Book (p. XI-8), is not included in this article but is addressed under Article 15 (Appropriate for Municipal Capital Projects and Equipment). The funds for this purchase will be borrowed, and will add to the water fund’s growing debt burden described above.

The Committee unanimously (9-0) supports this request.

Article 17: Appropriate for Sewer Improvements	Funds Requested	Funding Source	Committee Recommendation
	\$1,300,000	EF	Approve (9-0)

This Article addresses proposed capital expenditures to be made during FY2009 as part of a continuing program to upgrade and keep current the assets of the Wastewater Enterprise Fund. For general background on the Enterprise Funds, and the relationship between the budget process and the water rate setting process, please see the discussion under Article 5, which addresses the Enterprise Fund operating budgets.

A total of \$1,300,000 is requested this year: \$1,200,000 as part of a multi-year plan to rehabilitate sanitary sewer infrastructure at a projected pace of 4,900 linear feet per year (previously 7,000 linear feet per year) for the foreseeable future, and \$100,000 for year three of a five year program to upgrade Lexington’s ten sewer pumping stations. The details of the projects, including the locations where the work is expected to be done, can be found in the Brown Book (p. XI-9).

The costs of the sanitary sewer rehabilitation will be funded entirely by borrowing. The costs of the debt service for this borrowing will be borne by the operating budgets for the Wastewater Enterprise Fund in FY2010 and in future years until the debt is retired (see Brown Book, p. XI-9, Table III), and will be included each year as an element of the sewer rates.

Capital appropriations for similar purposes have been made in most years (except for FY2006 when engineering studies were not completed in time) since the Wastewater Enterprise Fund (formerly the Sewer Enterprise Fund) was established, as illustrated in the table below.

Fiscal Year	Purpose	Cash	Borrowing	Total
2003	Storm Sewer Improvements	\$100,000	\$0	\$100,000
2004	San./Storm Sewer Improvements	\$225,000	\$0	\$225,000
2005	San./Storm Sewer Improvements	\$750,000	\$0	\$750,000
2006	None	\$0	\$0	\$0
2007	Sewer Improvements	\$0	\$300,000	\$550,000
	Water Meters	\$0	\$250,000	
2008	Sewer Improvements	\$0	\$1,300,000	\$1,300,000
2009	Sewer Improvements	\$0	\$1,300,000	\$1,300,000
2010 (rec)	Sewer Improvements	\$0	\$1,300,000	\$1,563,000
	Equipment	\$0	\$263,000	

Prior to FY2007, as shown in the table above, capital expenditures for sewer distribution improvements were funded primarily by enterprise-fund cash capital. Since then, there has been a transition to funding these ongoing improvements exclusively with debt. As the Committee has previously noted, this transition to exclusive debt financing has helped to mitigate the need for rate increases in the short term; however, it will also increase the future debt-service costs of the Wastewater Enterprise Fund— as illustrated in the Brown Book, p. XI-9, Table III and summarized below—which in turn is likely create greater rate pressure in the future.

Wastewater Enterprise Fund Debt Service Costs

Fiscal Year	2008	2009	2010	2011	2012
Amount	\$473,256	\$569,971	\$633,497	\$1,073,679	\$1,024,132

As can be seen, past borrowings, including the sewer fund’s 7% contribution to the financing of the new DPW facility, and this year’s borrowing alone will more than double the annual debt service costs between FY2008 and FY2012 to a level that represents a more significant portion of the overall Wastewater Enterprise Fund operating budget (currently about \$8.5 million). Future borrowings for sewer improvements will continue to increase the annual debt service costs until a new equilibrium between newly incurred and retired debt is reached. As noted in the discussion under Article 5, it may be appropriate in the future to make judicious use some of the fund’s accumulated retained earnings to help defray the impact of these growing capital costs on the rates.

It should be noted that an additional \$25,000 originally requested in this article for a water meter study will be addressed instead under Article 5 (Appropriate FY2010 Enterprise Funds Budgets). The amount in question is the Water Enterprise Fund’s share of a request for “cash capital” funds of \$50,000 to conduct a study of an automatic meter reading system, which could provide on-demand meter readings without the need for house visits, and which is currently, targeted for phased installation in FY2011-2013, as described in the Brown Book (p. XI-15.)

It should also be noted that one additional capital expenditure to be funded by the Sewer Enterprise Fund, the planned purchase of a replacement sewer vacuum truck for \$263,000 for use by the DPW’s Sewer Division, as described in the Brown Book (p. XI-9), is not included in this article but is addressed under Article 15 (Appropriate for Municipal Capital Projects and Equipment). The funds for this purchase will be borrowed, and will add to the sewer fund’s growing debt burden described above.

The Committee unanimously (9-0) supports this request.

Article 18: Appropriate for School Capital Projects and Equipment	Funds Requested	Funding Source	Committee Recommendation
	\$725,000	GF	Approve (9-0)

<i>Project Description</i>	<i>Amount Requested</i>	<i>Funding Source</i>	<i>Committee Recommendation</i>
(a) School Technology Program	\$600,000	GF (Debt)	Approve (9-0)
(b) Replacement of Kitchen Equipment	\$75,000	GF (Free Cash)	Approve (9-0)
(c) Classroom Furniture Replacement	\$50,000	GF (Free Cash)	Approve (9-0)

The requests listed for this article are those approved by the School Committee on February 24, 2009. Each of these projects is described in detail on the following pages in the Brown Book: School Technology Program, p. XI-7; Classroom Furniture Replacement, p. XI-10; Replacement of Kitchen Equipment, p. XI-11.

In brief, the technology request is part of a five-year plan designed to fund equipment described in detail in the school department’s long range technology plan. The plan includes upgrading network equipment, information delivery systems for administration and instruction programs, desktop and mobile computing, printers/peripherals and LCD projectors. The request for the replacement of kitchen equipment is the second annual request and will upgrade equipment at Clarke, Diamond, Hastings and Lexington High

School. The request for classroom equipment is the third year of a multi-year request to replace worn furnishings throughout the school system.

The Committee unanimously (9-0) supports this request.

Article 19: Appropriate for Public Facilities Capital Projects	Funds Requested	Funding Source	Committee Recommendation
	\$1,424,094	\$856,500 (GF Debt) + \$410,000 (GF Free Cash) + \$157,594 (Tax Levy)	<i>See below</i>

<i>Project Description</i>	<i>Amount Requested</i>	<i>Funding Source</i>	<i>Committee Recommendation</i>
(a) Hastings Oil Tank Removal and Boiler Replacement	<i>None</i>		
(b) LHS Gillespie Auditorium Renovation [Brown Book, Page XI-6]	\$305,000	GF (Debt)	Approve (9-0)
(c) LHS Heating System Upgrade [Brown Book, Page XI-6]	\$350,000	GF (Debt)	Approve (9-0)
(d) School Building Roofing Program System-Wide [Brown Book, Page XI-6]	\$201,500	GF (Debt)	Approve (9-0)
(e) Fire Headquarters Preservation and Renovation Design. [Brown Book, Page XI-7]	<i>\$100,000 if not under Article 11(i)</i>	\$70,300 GF Debt + \$29,700 CPA	Pending
(f) Relocate Old Harrington Playground Structures [Brown Book, Page XI-11]	\$40,000	GF (Free Cash)	Approve (9-0)
(g) Bowman Play Area Improvement [Brown Book, Page XI-11]	\$80,000	GF (Free Cash)	Approve (9-0)
(h) LHS Elevator Piston Replacement [Brown Book, Page XI-11]	\$40,000	GF (Free Cash)	Approve (9-0)
(i) School Building Envelope Program [Brown Book, Page XI-11]	\$125,000	GF (Free Cash)	Approve (9-0)

(j) Police Station Space Preservation and Needs Study (CPA Funds) [Brown Book, Page XI-12]	\$45,000 if not under Article 11(g)	TBD	
(k) Stone Building Preservation and Renovation (CPA Funds) [Brown Book, Page XI-12]	\$180,000 if not under Art. 11(h)	TBD	
(l) East Lexington Fire Station Kitchen Upgrade [Brown Book, Page XI-13]	\$75,000	GF (Free Cash)	Approve (9-0)
(m) School Accessibility Improvements [Brown Book, Page XI-13]	\$50,000	GF (Free Cash)	Approve (9-0)
(n) Municipal Building Envelope [Brown Book, Page XI-13]	\$157,594	GF (Tax Levy)	Approve (9-0)
(o) Town Office Building Preservation and Renovation (CPA Funds) [Brown Book, Page XI-13]	\$30,000 if not under Art. 11(f)	TBD	

These fifteen requests are described in the Brown Book (page references indicated above).

The base amount requested under this article is \$1,424,094, which assumes that items (i), (j), (k) and (o) are all approved by Town Meeting under Article 11.

Item (i) is unusual in that it is only partially funded by the CPA. If Article 11(i) passes it will authorize both the CPA portion (\$29,700) and the General Fund Debt portion (\$70,300), so these funds are not included in the base amount for this Article.

In the event that any of these four CPA-related items are not approved under Article 11, they may be reconsidered here. The cost of each item is noted above, and they would each be paid for using General Fund Debt. The total for all the CPA-related items is \$355,000.

The Committee's votes and recommendations are reflected in the table above.

Article 20: Street Acceptance – Pitcairn Place (Citizens' Petition)	Funds Requested	Funding Source	Committee Recommendation
	\$125,000	Betterments	Approve (8-0-1)

This article, brought by residents of Pitcairn Place, requests that the unaccepted portion of that street (approximately 500 feet) be accepted as a Town way. Acceptance is the formal process which converts a private street (owned by the abutters) into a public street. After the street is accepted, the Town takes responsibility for all future upkeep of the street. The funds requested are \$125,000 to bring the street up to Town standards and such costs will be allocated amongst the affected residents through the assessment of a betterment.

The committee (8-0-1) supports this request. Please note that one member recused himself from the deliberation and vote as he is one of the abutters impacted by this Article.

Article 22: Appropriate for Design & Engineering for Senior/ Community Center at White House Site (Barnes Property)	Funds Requested	Funding Source	Committee Recommendation
			IP

It is our understanding that the Board of Selectmen and Council on Aging are not planning to request an appropriation under this article. This Committee therefore makes no recommendation.

Article 23: Appropriate for Post Employment Benefits	Funds Requested	Funding Source	Committee Recommendation
	\$440,690	Free Cash (Medicare Part D Reimbs.)	Approve (9-0)

Retired Lexington employees receive two types of post-employment benefits: a pension and health insurance. School teachers' pensions are paid by the State pension fund. All other Town employees receive their pensions from the Lexington Retirement System. Health benefits for all retirees, including teachers, are funded through the Town's health plans. Annual appropriations to the pension fund and to the health care trust fund, under the Shared Expenses portion of the operating budget (see the discussion of Article 4 and its constituent elements, including Shared Expenses, in this Report) cover the costs of these benefits for current retirees.

There is a future liability, in the case of both types of benefits, for current employees and for past employees who have not yet reached retirement age. The annual appropriation for pensions, made to the Lexington Retirement Trust Fund (line 2110 of the operating budget), includes an amount for the funding of the future pension liability. It does not, however, include any amount for the future health benefit liability.

As of FY08, the Government Accounting Standards Board (GASB) Statement 45 (GASB-45) required municipalities to determine and report the unfunded liability for retiree health benefits in the annual audit. Based on a 30-year funding schedule, the Town's unfunded liability approximates \$100 Million.

There is as yet no mandate that this future liability be funded. However, in preparation to do so, Town Meeting voted to request the Massachusetts General Court to pass special legislation to establish a trust fund for that purpose. The Trust Fund was established by Chapter 317 of the Massachusetts Acts and Resolves of 2002.

Starting in FY09, the Town began to fund this liability with an appropriation of \$400,000 to the Trust Fund. This article requests that \$440,690 be appropriated in FY10. With interest which has accrued to date, this will bring the total amount set aside for this future liability to approximately \$950,000 (see page iv of the Report of the Town Manager in the Brown Book). The funding for this appropriation is from Free Cash. The source of these funds is the Federal Government, which partially reimburses the Town for the prescription drug benefits it provides retirees in place of Medicare Part D prescription coverage. Under

current law, this Federal Government annual reimbursement will continue so long as the Town offers this prescription drug benefit to retirees.

The Committee unanimously (9-0) supports this request.

Article 24: Rescind Prior Borrowing Authorizations	Funds Requested	Funding Source	Committee Recommendation
	none	n/a	IP

No requests to rescind prior borrowing authorizations have been presented. We expect that this article will be indefinitely postponed.

Article 25: Establish and Appropriate to Specified Stabilization Funds	Funds Requested	Funding Source	Committee Recommendation
	\$26,507 Transportation Demand Management	Developer Agreements	Approve (9-0)
	\$20,000 Traffic Mitigation	Developer Agreements	
	\$100,000 Center Improvement	Developer Agreements	
	\$350,000 SPED	Free Cash	

This article requests Town Meeting action to appropriate funds from developer payments and other sources, to the extent available, into some or all of six specified stabilization funds.

The Specified Stabilization Funds

The state statute authorizing towns to create and maintain a stabilization fund, G.L. c. 40, § 5B, was amended in 2003 to permit the creation of multiple, separate stabilization funds for specified purposes. The creation of such funds, the specification of their purpose, any alteration of their purpose, and any appropriation into or out of the funds, must be approved by a two-thirds vote of Town Meeting at an annual or special town meeting. To supplement its general stabilization fund, which is addressed in Article 30, Lexington has created several specified stabilization funds, which are described below.

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

- Transportation Demand Management/Public Transportation (TDM/PT) Stabilization Fund. Contains payments negotiated with developers to support the operations of Lexpress.

- Traffic Mitigation (TM) Stabilization Fund. 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 Stabilization Fund. Supports daily school bus operations, and was originally funded with \$200,000 contained in the Avalon Bay School Bus Transportation special revenue account.
- Section 135 Zoning By-Law Stabilization Fund. 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, a Special Education Stabilization Fund was created to provide a vehicle for setting aside reserves to help cover unexpected out-of-district special education expenses that exceed budget. A related goal was to create greater transparency around the out-of-district special education budget component by segregating this expense item and bringing budget overruns to Town Meeting for its approval. The Special Education Stabilization Fund was funded in FY2009 with an initial appropriation of \$350,000. The ultimate goal is to build a \$1,000,000 reserve to help buffer the regular education budget from extraordinary and unforeseen increases in out-of-district special education expenses.

At the 2009 Annual Town Meeting, a new specialized stabilization fund, the Center Improvement District Stabilization Fund, is proposed to be created, and will be funded initially by an anticipated \$100,000 payment to be received from the developer of Lexington Place. The funds may be used for projects such as tree planting, sidewalk improvement or improvements to the abutting connector between the parking lot and the sidewalk. Decisions as to uses of the funds have not yet been made.

Proposed Additions to Funds

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

- TDM/PT Fund: Current balance is \$221,875. Amount available for contribution is \$26,507. The Town is expecting an additional \$38,542 payment from Avalon at Lexington Hills, and if it comes in prior to Article 25 being taken up, this sum will be added as well. An appropriation of \$72,000 will be requested under Article 4 to support the operations of Lexpress in FY2010.
- TM Fund: Current balance is \$252,518. Amount available for contribution is \$20,000.
- School Bus Transportation Fund: Current balance is \$74,351. Amount available for contribution is none. An appropriation of \$70,000 will be requested under Article 4 to support school bus transportation.
- Section 135 Zoning Fund: Current balance is \$0. Amount available for contribution is none.
- Special Education Fund: Current balance is \$350,000, plus interest. As of the most recent budget summit, held on February 11, 2009, the consensus plan was to contribute an additional \$350,000 in available funds (*i.e.*, free cash) set aside for this purpose, bringing the total balance in the fund to \$700,000. However, this contribution may be scaled back or eliminated if the funds are needed to address recently identified overruns in the FY2009 School Department budget resulting from unexpectedly high out-of-district tuition costs.
- Center Improvement District Fund: The fund has yet to be created. Amount available for contribution is \$100,000 anticipated to be received from the developer of Lexington Place (the former Battle Green Inn).

The Committee unanimously (9-0) supports these requests.

Article 26: Establish and Appropriate to Debt Service Stabilization Fund	Funds Requested	Funding Source	Committee Recommendation
	\$1,739,894	Massachusetts School Building Authority Reimbursement Funds	Approve (9-0)

This article will establish a new specified stabilization fund under G.L. c. 40, § 5B called the Debt Service Stabilization Fund. The fund is intended to provide a vehicle to allow the Town to invest bond proceeds beyond the one-year arbitrage limit that would otherwise apply, and will provide more flexibility in dealing with existing tax laws.

This article requests an initial appropriation of approximately \$2 million into this new specified stabilization fund. These funds are the remainder of a set-aside from FY2007 when the monies were initially received. In August 2006, the Town received reimbursement of approximately \$14 million from the Massachusetts School Building Authority for construction projects completed at Clarke, Diamond and the High School. These funds were in excess of the amount necessary to repay a note that was due and were set aside as reimbursement for the exempt costs of the High School project per a directive from the Massachusetts Department of Revenue. The balance is to be drawn down over the life of the bond related to the High School construction project, payable through 2023.

This article also requests that \$130,000 be appropriated from the proposed stabilization fund to offset the debt service in fiscal year 2010 for this same High School construction project.

We understand that bond counsel is in the process of reviewing this situation, and there is a possibility that a different manner of handling the residual funds from the school construction cost reimbursement will be proposed. Assuming that no alternative mechanism is proposed, the Committee unanimously (9-0) supports this request.

Article 27: Establish Stabilization Fund for Minuteman Regional Vocational Technical School District	Funds Requested	Funding Source	Committee Recommendation
	none		Approve (9-0)

This article requests that the town agree to allow the Minuteman Regional Vocational Technical School District to establish, though not to fund at present, a stabilization fund as a mechanism to fund capital improvements to the school. Both a majority vote of the Minuteman school committee and a majority vote of the member towns' Town Meeting are required to establish this fund.

This fund is being established under MGL Ch.71 Sec.16G1/2, which allows fund balances to be used for any purpose for which regional school districts can borrow money, or for emergency purposes. The funding and spending of the stabilization fund would be controlled by a 2/3 vote of the Minuteman School Committee. The stabilization fund would be funded directly from the Minuteman budget, and because the Minuteman budget comes largely from member town assessments, it is the member towns that will ultimately be responsible for any contributions to the fund.

Minuteman is currently engaged in a capital study of its 35 year-old school building’s physical plant and building envelope, as well as a needs study looking at the future of regional vocational education. Findings of the study will be presented to the Minuteman School Committee in the later part of 2009, and the hope is that a capital plan will be developed. At that time, the extent of renovations and repairs costs will be better known. The stabilization fund will be used for both emergency repairs and to smooth the cost of funding the capital program.

Currently, Minuteman funds its capital program through a capital assessment to its member towns. Lexington’s capital assessments, which began in FY06, were:

FY06	FY07	FY08	FY09	FY10
\$6,409	\$26,423	\$28,993	\$35,435	\$61,275

The earliest that a request to fund the stabilization fund may occur would be in FY2011.

The Committee unanimously (9-0) supports this request.

Article 28: Appropriate for Stabilization Fund	Funds Requested	Funding Source	Committee Recommendation
	TBD	TBD	Pending

No contributions to the Town’s general stabilization fund are anticipated at this time as all remaining available funds have been earmarked to defray potential additional reductions in state aid.

Article 29: Appropriate for Prior Years’ Unpaid Bills	Funds Requested	Funding Source	Committee Recommendation
			IP

As no unpaid prior bills for prior years have been identified, we anticipate that this article will be indefinitely postponed.

Article 30: Amend FY2008 Operating Budget	Funds Requested	Funding Source	Committee Recommendation
	TBD	TBD	Pending

We plan to report on this Article at a later date when the Town Manager and staff have a recommendation.

Article 31: Appropriate for Authorized Capital Improvements	Funds Requested	Funding Source	Committee Recommendation
			IP

The project described in the Warrant to replace the Estabrook oil boiler with a natural gas boiler has been withdrawn at the request of the Director of the Department of Public Facilities because the falling price of oil has made the project no longer cost-effective. It will be substituted with a project to relocate/add sprinkler heads at the Clarke School (Brown Book, p. XI-II). This new project will be included in the Warrant for the May 6 Special Town Meeting.

Article 34: Establish Qualifications for Tax Deferrals	Funds Requested	Funding Source	Committee Recommendation
	none	N/A	Approve (9-0)

This article seeks to raise the income threshold for participation by seniors in the Town’s 41A tax deferral program from \$40,000 to \$50,000. The change is authorized by recently enacted home rule legislation for which the Town petitioned in 2007.

Background

In early 2004, the Board of Selectmen created an ad hoc Tax Deferral and Exemption Study Committee to explore ways in which the property tax relief available to senior citizens and other needy residents could be enhanced and made more accessible. Since then, Town Meeting has taken a succession of steps to expand such relief, for the most part maximizing the options that the Town is allowed to adopt under existing State law. The principal programs now available to Lexington homeowners are:

- a *tax exemption* program, under which homeowners age 65 or over with limited income and limited assets other than the value of their home may deduct \$1,000 from their annual property tax, G.L. c. 59, § 5, cl. 41C (“the 41C Program”);
- a Community Preservation Act *surcharge exemption* program, under which low-to-moderate income homeowners age 60 or over, and low-income homeowners under age 60, may obtain a 100% exemption from the CPA surcharge on their property tax;
- a locally-controlled *Senior Service* program, adopted by Town Meeting in 2006 to replace the pre-existing state program, under which low-income seniors may perform volunteer work for the Town in exchange for a reduction in their property tax, currently up to \$935;
- an exclusively State-run program called the “*Circuit Breaker*” program under which low- and moderate-income homeowners age 65 and over, whose homes have an assessed valuation not greater than a specified ceiling (\$793,000 for tax year 2008), may obtain a tax credit on their state tax returns (up to \$930 for tax year 2008) for the amount that their property tax, plus half their annual water and sewer bill, exceeds 10% of their annual income, G.L. c. 62, § 6(k); and
- a *tax deferral* program, under which homeowners age 65 or over with a household income of not more than \$40,000 may defer any or all of their property tax due, after applying any available exemptions, up to half the value of their house, at an interest rate equal to the Town’s cost of funds (1.66% for FY 2009 deferrals), until the house is sold or transferred, G.L. c. 59, § 5, cl. 41A (“the 41A Program”);

The 41A Deferral Program

The 41A deferral program, although it has not been widely used, is an important tool in the tax-relief toolbox because it offers immediate and substantial property tax relief to cash-strapped seniors. Those who qualify may defer any part or all of their property tax, until the property is ultimately disposed of, at an interest rate that is now quite reasonable. The interest rate, formerly pegged at 8%, is now based on a floating Treasury rate equivalent to Lexington's cost of funds, but not to exceed 8%, which remains in effect for the life of each year's deferral. The interest rate for FY2008 deferrals was 4.77%, for FY2009 deferrals was 1.66%, and for FY2010 deferrals will be just 0.68%.

At the same time, the 41A deferral program is an attractive form of tax relief from the Town's point of view because it is essentially revenue-neutral. While the unlikely event of a significant increase in the number of participants in any particular year could potentially create a short-term cash flow problem, the Town is in effect making well-secured loans. The Town should eventually be repaid all the funds that are deferred with interest, and over time an equilibrium should be reached under which as many deferral agreements are repaid as are entered into.

The Home Rule Amendment

In 2007, Town Meeting approved a citizen's article calling for a petition to the State legislature to enact a home rule amendment to 41A that would allow the Town to expand eligibility beyond that permitted under the existing state law. The legislature enacted the requested special act last summer and it was signed into law on July 22, 2008. The new law permits the Town, by vote of Town Meeting and with the approval of the selectmen, to raise the income limit for deferrals beyond \$40,000; to lower the age limit (65 years of age); and to condition eligibility for deferral by those under 65 on objective criteria of hardship or disability.

Proposed Increase in Income Threshold

In the fall of 2008, the Tax Deferral and Exemption Study Committee (TDESC) recommended to the Board of Selectmen that the Town exercise its authority under the Home Rule Amendment to increase the income threshold for the 41A deferral program from \$40,000 to \$50,000.¹ Based on data obtained from the Massachusetts Department of Revenue, the TDESC estimated that this change in the income threshold would qualify approximately 180 additional households beyond the approximately 1,175 now eligible under current limits, or about a 15% increase. The TDESC did not recommend that action be taken at this time to lower the age limit.

Although the number of households eligible to defer property taxes is already substantial and would increase with this change, it is unlikely that the proposal will result in a large number of additional deferrals or have any material impact on the Town's finances because utilization of the program has traditionally been very low. The 41A deferral program has not been popular because senior citizens who have paid off their mortgages have traditionally been reluctant to place a new lien on their home and accumulate debt, or to reduce the value of an asset that can be passed on to their heirs. When the interest rate for 41A deferrals was changed several years ago from 8% to a lower, floating rate based on Lexington's cost of funds, participation increased somewhat, but not substantially. Participation rates in Lexington for the last several years are shown below.

¹ Coincidentally, the state legislature also amended Clause 41A last July on a statewide basis to permit towns to adopt, in lieu of the \$40,000 income threshold, the income limit established annually under the "Circuit Breaker" program for single seniors who are not heads of households. The Tax Year 2007 income limit is \$48,000 and the Tax Year 2008 income limit is \$49,000. The proposed increase, therefore, is just a bit higher than would be allowed if the Town adopted the new statewide option.

Fiscal Year	Interest Rate	Number of Deferrals	Amount Deferred
2002	8%	24	\$99,582
2003	8%	21	\$80,459
2004	8%	23	\$80,459
2005	8%	16	\$75,000
2006	8%	16	\$74,000
2007	8%	15	\$73,578
2008	4.77%	20	\$101,832

This Committee believes that the change proposed by this article is reasonable. Prior to last year, the State legislature had not changed the \$40,000 household income threshold for the 41A deferral program since it was adopted by the Town of Lexington in the early 1990's. The proposed \$10,000 adjustment is modest in view of intervening inflation, and it is not likely to create any significant cash flow risk for the Town. Depending on the response to this modest expansion of eligibility, the Town will be in a better position to evaluate whether further increases in the income threshold, or changes in the age limit, will be appropriate in the future.

The Committee unanimously (9-0) supports this request.

Article 35: Establish Demand Charge for Delinquent Taxes	Funds Requested	Funding Source	Committee Recommendation
	none	N/A	Approve (9-0)

The Town currently assesses a demand fee of \$5 when a payment on a real estate tax, personal property tax or motor vehicle excise tax bill is delinquent. In 2008, the State amended Chapter 60, § 15 of the Massachusetts General Laws to increase the allowable fee assessment to an amount not to exceed \$30. The level of the assessment must be set by Town Meeting. The Board of Selectmen and Town staff propose to increase the fee to \$15.

The Committee unanimously (9-0) supports this request.

Article 38: Petition General Court for Municipal Utility Act	Funds Requested	Funding Source	Committee Recommendation
	none	N/A	Approve (9-0)

The 2005 Annual Town Meeting approved, in Article 14, the submission of a home rule petition to the state legislature that would enable the Town to establish a municipal utility company. Because that home rule petition was not acted on during the legislature's following two-year session, the 2008 Annual Town Meeting, in Article 44, voted to reaffirm the petition as a prerequisite to its continued consideration. The current article calls for Town Meeting once again to reaffirm its desire for a home rule petition, as well as to support related bills working their way through both houses that would enable any municipality state-wide to establish a municipal utility company.

The Appropriation Committee supported Article 14 at the 2005 Annual Town Meeting and Article 44 at the 2008 Annual Town Meeting. The Committee continues its support of legislation that would give the Town the option to create a municipal utility, and therefore unanimously (9-0) supports this request.

Article 39: Petition General Court for Mid-Year Tax Relief for Property Tax Loss from Fire	Funds Requested	Funding Source	Committee Recommendation
	none	N/A	Approve (8-0-1)

Under current Massachusetts law, Lexington is not able to provide mid-fiscal year tax relief to a taxpayer whose real estate property is substantially damaged or destroyed by fire or natural disaster. Such a mechanism is provided in Chapter 59, section 2D, subsection (e) of the Massachusetts General Laws. The same statute, in subsection (a), also empowers a municipality to tax new construction, in mid-fiscal year, on its value at the time a temporary or permanent occupancy permit is granted, whenever the new construction increases the assessed value of the real estate by more than 50%. The landowner is then required to pay a pro rata increase in his real estate taxes for that fiscal year.

Section 2D became law in 1998 but it only applied to municipalities whose voters affirmatively voted to accept it. The question of whether or not to accept it was never submitted to Lexington voters. In 2003, Section 2D was amended to provide that “[t]he local appropriating authority [in Lexington’s case, the Board of Selectmen] . . . may reject this section by written notification to the Department of Revenue (DOR).” The Board of Selectmen subsequently notified the DOR that Lexington rejected Section 2D.

The Town, through its Board of Assessors, assesses property in terms of its value as of January 1 of each calendar year. The assessed value then becomes the basis for the tax bill on the property for the following fiscal year. For example, the FY2009 tax bill for a property is based upon the assessed value as of January 1, 2008.

This article, if approved by Town Meeting, authorizes the Board of Selectmen to petition the Massachusetts General Court to pass special legislation authorizing the Town to abate, or to refund payments already received for, real estate taxes whenever in any fiscal year the assessed value of real estate is decreased by more than 50% as a result of fire or natural disaster. The amount of the abatement or refund will be determined by the reassessed value of the property, presumably calculated as of the day immediately after the fire, natural disaster or other qualifying event, and the portion of the fiscal year remaining after the event. In effect, the special legislation contemplated by this article will result in the provisions of only Section 2D(e) being made applicable to Lexington, a selective adoption of the statutory provision previously rejected. The Town’s prior rejection of all other provisions of the statute, subsections (a) through (d), will not be affected.

At the time of this Report, the actual motion and text of the proposed legislation to be presented to Town Meeting under this article has not been furnished to the Committee. However, it is contemplated that the motion and the special legislation to be sought will apply to fires and natural disasters occurring in FY2009 and all subsequent years. It will not apply to any events occurring before July 1, 2008.

Under existing law, applications for abatement of real estate taxes must be filed with the Assessors’ Office no more than 30 days after the first “actual” tax bill is rendered for the fiscal year (generally the third quarter installment mailed on January 1). It is contemplated that the special legislation requested will include language ensuring that its protection is afforded to all taxpayers whose property sustains substantial damage or destruction by fire or other natural disaster, resulting in a more than 50% decrease in the

assessed value of the property, even when the event occurs after the ordinary deadline for filing abatement applications.

The Committee understands that in past years other municipalities have filed similar petitions seeking special legislation of this type. In each of those instances, the General Court has passed the requested legislation.

The impetus for this article is the October 31, 2008 fire at the Hancock School condominiums. However, as mentioned above, the special legislation sought will benefit any property owner whose property is destroyed, or sustains severe damage resulting in a greater than 50% decrease in its assessed value, at any time in FY2009 or thereafter or, in other words, at any time on or after July 1, 2008. Additionally, the “relief” to the taxpayer is only a temporary event, since on January 1 following the event the assessed value of the property, and the resulting real estate tax for the next fiscal year, will reflect the property’s damaged or destroyed condition.

The Committee fully appreciates the sentiment and intention underlying this article, and supports it. The Committee believes that the Town should also reconsider its rejection of the remainder of Section 2D, since those provisions would enable the Town, immediately upon the Town’s issuance of a temporary or permanent occupancy permit, to assess and collect earlier than it normally would, a proportionately increased real estate tax on any new construction which increases the assessed value of the property by more than 50%. We understand, however, that the associated administrative burdens may be prohibitive.

The committee (8-0-1) supports this request. Please note that one member recused herself from the deliberation and vote as she is one of the unit-owners at the former Hancock School building and would be impacted by this Article.

Article 43: Health Benefits (Citizens’ Petition)	Funds Requested	Funding Source	Committee Recommendation
	none	N/A	Disapprove (8-0-1)

This article proposes the establishment of a Health Benefits Cost Study Committee to study potential cost savings to the Town if the Town joins the state’s Group Insurance Commission (GIC) or reduces the incentive for Town employees to use Lexington’s benefits rather than those offered by a spouse; the committee would then present its findings at the 2010 Annual Town Meeting.

The Appropriation Committee believes that creation of the proposed study committee would be counterproductive for several reasons.

First, actual cost savings in benefits can only be achieved in coalition bargaining, a process with well-defined legal parameters. If data on cost savings is developed by a study committee, presented at Town Meeting, and then later introduced into the coalition bargaining process, the Town could be accused of not bargaining in good faith. The statutory requirement regarding collective bargaining is for the parties to bargain in good faith with the intent on reaching an agreement. "Hard bargaining" (taking a strong position on an issue) does not violate the laws, but surface bargaining or a "take-it-or-leave-it" approach would constitute "bad-faith bargaining" in violation of the law. If Town Meeting took a strong position on some aspect of employee health insurance, the Employee Health Coalition may argue that the Town is not bargaining in good faith, but merely negotiating what it has been directed to do by Town Meeting.

Second, the Town Manager is already seeking and receiving input into this process from a task force that he has organized, which includes representatives from the Appropriation Committee, Board of Selectmen and School Committee.

Finally, a report at the 2010 Annual Town Meeting will be far too late for the current bargaining process. As this Committee urged in its resolution passed at last year's Town Meeting, "all parties [should] explore as soon as possible real solutions to this problem that will result in the Town's health benefits expense growing at a long-term sustainable rate."

The Committee by a vote of 8-0-1 does not support this article.

APPENDIX A: 3-Year Budget Projection

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

For most of those exercises, we showed the results of calculations based on a single set assumption that we tried to define in the narrative or elsewhere. Last year we also provided an accessory table to provide information on the effects of changes to a small number of selected line items. We emphasize that the process of making revenue and expense projections differs in an essential manner from trying to build budgets that must be balanced. In the latter process, one errs on the side of caution to help avoid ending up in a deficit at the end of a fiscal year, or even worse, having to lay off employees in the middle of a fiscal year. In the projection process, one simply makes best guesses about future revenue and expense changes regardless of whether they lead to surpluses or deficits. In no case are these assumptions meant to represent targets or goals. They also do not account for the adoption of new programs or the ending of old programs.

While the process of defining our baseline set of assumptions always involves judgment, this year we find that the current global financial crisis and major recession has made it much more difficult. Indeed, we don’t know how deep the recession will be, how long it will last, how fast the recovery will be, what its effects on state and town revenues will be, what interest rates will be and how they will change, how the prices of goods and services will change, how the depressed job market will affect wages and salaries, etc. It should therefore be no surprise that in this environment we have had trouble not only agreeing with each other on a baseline set of assumptions, but even in coming to individual opinions on what might be reasonable guesses.

While the rational response to such a situation might be to give up, instead we present here the results of an exercise that gives some idea of the uncertainties. Thus, two scenarios are presented that show how two sets of reasonable people arrive at different projections and how small differences in assumptions can change the bottom line. Scenario 1 is a just a bit more optimistic than Scenario 2. The key assumptions for each of the two scenarios are given in Table A-1 in terms of either dollar values for the line items or percentage increases from the previous fiscal year. Dollar values that correspond to these percentages may be found in Tables A-2 and A-3 where the projection results are given (except for health insurance for which we give both percentage increases and dollar amounts in Table A-1).

We have only done rather limited investigations to establish the plausibility of the assumptions in Table A-1, but the fact that two independent groups (both were within the A. C.) came up with similar values tends to justify them as best guesses. Clearly, these assumptions are uncertain and do not cover the full range of uncertainty in each area. Since they are formulated to reflect a range of probable cases, these two scenarios should not be seen as a best case/worst case dichotomy.

In regard to the revenue assumptions listed in Table A-1, the amounts assumed for new growth in Scenario 1 start with the amount assumed for the FY2010 recommended budget, i.e., \$1,900K, while the amounts assumed for new growth in Scenario 2 start with a five-year average of \$1,997K. For both scenarios, we then add in the amounts, net of the tax increment financing (TIF) agreement, anticipated from the development of buildings at Lexington Technology Park for Shire Pharmaceuticals. Both scenarios assume that there will be additional reductions in State aid and local receipts beyond those assumed in the recommended FY2010 budget, although by different amounts. The two scenarios assume identical

reductions in available funds. Here, the available funds line includes free cash as well as amounts in the Parking Fund, the Cemetery Fund, etc.

Table A-1: Numeric Assumptions for Scenarios 1 and 2

Category	Scenario	FY2010	FY2011	FY2012	FY2013
New growth	1	\$1,900K	\$2,714K	\$2,020K	\$2,096K
	2	\$1,900K	\$2,614K	\$1,920K	\$1,996K
State aid	1	\$9,059K	\$8,923K	\$8,789K	\$8,833K
	2	\$9,059K	\$8,606K	\$8,176K	\$8,176K
Local receipts	1	\$9,770K	\$9,623K	\$9,623K	\$9,816K
	2	\$9,770K	\$9,526K	\$9,288K	\$9,334K
Available Funds	1	\$6,054K	\$4,650K	\$4,150K	\$4,150K
	2	\$6,054K	\$4,650K	\$4,150K	\$4,150K
School Compensation	1	\$55,927K	3.25%	3.25%	3.25%
	2	\$55,927K	3.25%	3.25%	3.25%
Out of district SPED Costs	1	\$6,529K	15%	15%	15%
	2	\$6,529K	15%	15%	15%
Municipal Compensation	1	\$18,877K	3%	3%	3%
	2	\$18,877K	3%	3%	3%
Health insurance	1	\$20,987K	8%, \$22,662K	8%, \$24,479K	8%, \$26,437K
	2	\$20,987K	10%, \$23,085K	10%, \$25,394K	10%, \$27,934K

Note to Table A-1:

- a) A percentage reflects the change from the preceding fiscal year.
- b) The column “FY2010” is here for reference. It gives the base values to which the percentage increases in FY2011 are applied.

For neither scenario have we assumed that there will be any revenue increases from local taxation of telephone equipment or from any form of increase in the meals or hotel/motel taxes.

In regard to expenses, both scenarios assume identical increases in school compensation, out of district SPED costs, and municipal compensation. The compensation increases are intended to include the net effects of step increases, step decreases due to retirements, and cost of living adjustments (COLAs). The numbers chosen represent increases wherein the COLAs are positive, and fall into a range of 1% to 2%. The two scenarios make somewhat different assumptions about the future escalation of health care costs.

Changes to the expense assumptions would, of course, lead to changes in the bottom lines of the different fiscal years. The following list gives approximate differences in expenses (up or down) that the described changes would make if they were to take effect in FY2011. The effect of the changes would be slightly larger for the first year if it is later than FY2011 and would accumulate over later years.

- 1% change in school compensation - \$560K
- 5% change in out-of-district SPED expenses - \$326K
- 1% change in municipal compensation - \$189K
- 2% change in health insurance costs - \$420K

Tables A-2 and A-3 show actual, appropriated, budgeted, and projected amounts for revenues and expenses for FY2008 through FY2013 for Scenarios 1 and 2, respectively. While we have provided actual, appropriated, and budgeted amounts for all sectors we have not projected revenues and expenses for budget lines that have direct offsets, i.e., exempt debt, enterprise fund direct expenses, and grants and revolving funds, as they do not affect the bottom line of the General Fund.

The bottom lines for FY2011 in the two scenarios are deficits of about \$2,900,000 and \$3,800,000. We guess that the actual range of uncertainty of these numbers considering the universe of possible factors is very roughly three to four times as large as the difference between the figures for the two scenarios, or roughly \$3M. Thus, the results suggest that while the fiscal picture in Lexington at the time of the formulation of the FY2011 budget could be anywhere between a level-services break-even situation and a very substantial deficit condition, the best guess is that we will face a moderate to good-size deficit.

The results in Tables A-2 and A-3 show projected deficits that grow larger with time. The growth is faster in Scenario 2 than in Scenario 1 by about \$1M per year. Because the Town is required to have a balanced budget, and in reality deficits are not allowed, the projected deficit for each future year can be interpreted as the cumulative level of budget cuts or new sources of revenue that will be required.

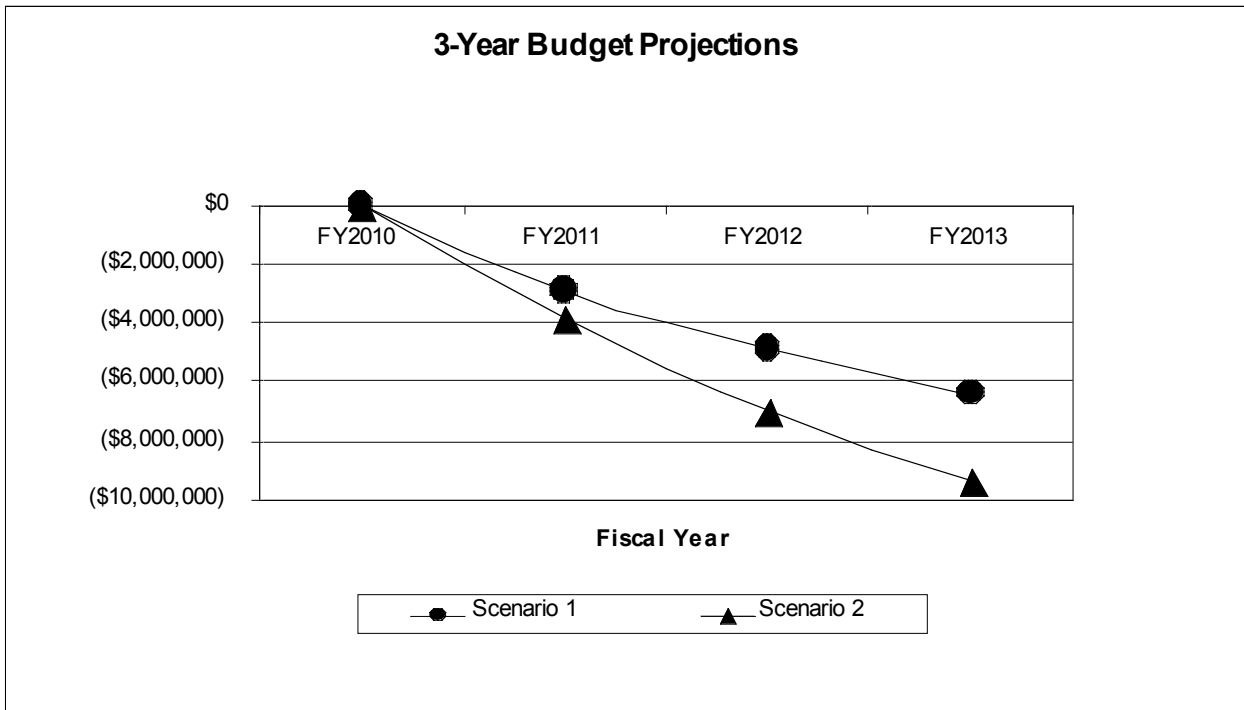


TABLE A-2 Scenario 1

Revenue Summary	FY 2008 Actual	FY 2009 Appropriated	FY2010 proposed	FY2011 Modeled	FY2012 Modeled	FY2013 Modeled
1 Tax Levy						
2 Property Tax Levy	\$ 96,012,202	\$ 104,879,746	\$ 110,106,445	\$ 114,759,106	\$ 120,341,931	\$ 125,370,109
3 Allowable 2 1/2% inc.	\$ 2,400,305	\$ 2,621,994	\$ 2,752,661	\$ 2,868,978	\$ 3,008,548	\$ 3,134,253
4 New Tax Levy Growth	\$ 2,485,650	\$ 3,276,649	\$ 1,900,000	\$ 2,713,847	\$ 2,019,630	\$ 2,095,834
5 Voter Approved Override	\$ 3,981,589	\$ -				
6 <i>Tax levy limit</i>	\$ 104,879,746	\$ 110,778,389	\$ 114,759,106	\$ 120,341,931	\$ 125,370,109	\$ 130,600,196
7 State Aid	\$ 9,064,275	\$ 9,963,453	\$ 9,058,898	\$ 8,923,015	\$ 8,789,169	\$ 8,833,115
8 Local Receipts	\$ 12,189,265	\$ 9,395,065	\$ 9,770,000	\$ 9,623,450	\$ 9,623,450	\$ 9,815,919
9 Available Funds	\$ 4,216,097	\$ 5,620,168	\$ 6,053,619	\$ 4,650,000	\$ 4,150,000	\$ 4,150,000
10 Revenue Offsets	\$ (1,897,006)	\$ (2,540,476)	\$ (1,836,461)	\$ (2,036,900)	\$ (1,884,457)	\$ (1,907,691)
11 Enterprise Funds (Indirect)	\$ 1,752,885	\$ 1,710,887	\$ 1,662,522	\$ 1,620,250	\$ 1,578,929	\$ 1,541,022
12 Total General Fund	\$ 130,205,262	\$ 134,927,486	\$ 139,467,684	\$ 143,121,745	\$ 147,627,200	\$ 153,032,561
16 Other Revenues						
17 Revolving Funds	\$ 923,529	\$ 2,107,778	\$ 2,168,530	\$ -	\$ -	\$ -
18 Grants	\$ 134,112	\$ 173,390	\$ 161,168	\$ -	\$ -	\$ -
19 Enterprise Funds (Direct)	\$ 13,663,715	\$ 15,311,025	\$ 16,227,345	\$ -	\$ -	\$ -
20 Exempt Debt	\$ 5,372,873	\$ 5,632,643	\$ 5,879,523	\$ -	\$ -	\$ -
21 <i>sub-total Other Revenues</i>	\$ 20,094,229	\$ 23,224,836	\$ 24,436,566	\$ -	\$ -	\$ -
22 Total Revenues	\$ 150,299,491	\$ 158,152,322	\$ 163,904,250	\$ 143,121,745	\$ 147,627,200	\$ 153,032,561
23 Expense Summary	FY2008 Actual	FY2009 Appropriated	FY2010 Proposed	FY2011 Modeled	FY2012 Modeled	FY2013 Modeled
24 Education						
25 Lex. Pub Schools Compen.	\$ 49,786,875	\$ 54,407,961	\$ 55,926,576	\$ 57,744,190	\$ 59,620,876	\$ 61,558,554
26 Lex. Pub Schools Expenses	\$ 4,892,865	\$ 4,506,308	\$ 4,502,485	\$ 4,615,047	\$ 4,730,423	\$ 4,848,684
27 Out-of-District SPED	\$ 5,514,040	\$ 5,499,870	\$ 6,529,232	\$ 7,508,617	\$ 8,634,909	\$ 9,930,146
28 <i>sub-total Lex. Pub. Schools</i>	\$ 60,193,780	\$ 64,414,139	\$ 66,958,293	\$ 69,867,854	\$ 72,986,209	\$ 76,337,384
29 Minuteman Reg. School ³	\$ 1,194,216	\$ 1,510,598	\$ 1,713,163	\$ 1,930,097	\$ 2,155,261	\$ 2,380,425
30 <i>sub-total Education</i>	\$ 61,387,996	\$ 65,924,737	\$ 68,671,456	\$ 71,797,951	\$ 75,141,470	\$ 78,717,809
31 Municipal						
32 Municipal Compen.	\$ 16,955,919	\$ 18,086,154	\$ 18,876,550	\$ 19,442,847	\$ 20,026,132	\$ 20,626,916
33 Municipal Expenses	\$ 8,695,673	\$ 7,602,257	\$ 7,649,737	\$ 8,245,136	\$ 8,490,946	\$ 8,736,756
34 <i>sub-total Municipal</i>	\$ 25,651,592	\$ 25,688,411	\$ 26,526,287	\$ 27,687,983	\$ 28,517,078	\$ 29,363,672

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35 Shared Expenses												
36 Benefits & Insurance	\$	23,425,240	\$	26,782,252	\$	27,890,276	\$	29,856,805	\$	31,812,379	\$	33,919,795
37 Debt (within-levy)	\$	3,572,204	\$	4,017,541	\$	4,471,432	\$	4,350,000	\$	4,350,000	\$	4,350,000
38 Reserve Fund	\$	-	\$	532,500	\$	550,000	\$	550,000	\$	550,000	\$	550,000
39 Facilities	\$	8,994,689	\$	8,869,428	\$	8,932,703	\$	9,426,917	\$	9,785,009	\$	10,157,570
40 <i>sub-total Shared Expenses</i>	\$	35,992,133	\$	40,201,721	\$	41,844,411	\$	44,183,722	\$	46,497,387	\$	48,977,365
41 Revolving Funds	\$	923,529	\$	2,107,778	\$	2,168,530	\$	-	\$	-	\$	-
42 Grants	\$	134,112	\$	173,390	\$	161,168	\$	-	\$	-	\$	-
43 Capital & Reserves												
44 Cash Capital (inc of roads)	\$	1,355,000	\$	1,520,750	\$	1,545,719	\$	1,553,150	\$	1,570,729	\$	1,588,747
45 Stabilization Fund	\$	1,000,000	\$	1,000,000	\$	-	\$	-	\$	-	\$	-
46 Other (SrWorkOff,OPEB)	\$	390,000	\$	519,000	\$	835,690	\$	795,000	\$	795,000	\$	795,000
47 <i>sub-total Capital & Reserves</i>	\$	2,745,000	\$	3,039,750	\$	2,381,409	\$	2,348,150	\$	2,365,729	\$	2,383,747
48 Enterprise Funds												
49 Water	\$	5,549,471	\$	6,487,028	\$	6,686,570	\$	-	\$	-	\$	-
50 Wastewater (Sewer)	\$	6,658,544	\$	7,062,609	\$	7,704,170	\$	-	\$	-	\$	-
51 Recreation	\$	1,430,700	\$	1,676,083	\$	1,725,605	\$	-	\$	-	\$	-
52 Enterprise Capital	\$	25,000	\$	85,305	\$	111,000	\$	-	\$	-	\$	-
53 <i>sub-total Enterprise Funds</i>	\$	13,663,715	\$	15,311,025	\$	16,227,345	\$	-	\$	-	\$	-
54 Exempt Debt												
55 Municipal	\$	3,927,422	\$	3,081,223	\$	2,974,264	\$	-	\$	-	\$	-
56 School	\$	1,445,451	\$	2,551,420	\$	2,905,259	\$	-	\$	-	\$	-
57 <i>sub-total Exempt Debt</i>	\$	5,372,873	\$	5,632,643	\$	5,879,523	\$	-	\$	-	\$	-
58												
59 Total Expenses	\$	145,870,950	\$	158,079,455	\$	163,860,129	\$	146,017,806	\$	152,521,664	\$	159,442,592
60 Balance (Deficit)	\$	4,428,541	\$	72,867	\$	44,121	\$	(2,896,061)	\$	(4,894,464)	\$	(6,410,031)

FY 2008
Actual

FY 2009
Appropriated

FY2010
proposed

FY2011
Modeled

FY2012
Modeled

FY2013
Modeled

TABLE A-3 Scenario 2

Revenue Summary	FY 2008 Actual	FY 2009 Appropriated	FY2010 Proposed	FY2011 Modeled	FY2012 Modeled	FY2013 Modeled
1 Tax Levy						
2 Property Tax Levy	\$ 96,012,202	\$ 104,879,746	\$ 110,106,445	\$ 114,759,106	\$ 120,242,086	\$ 125,167,923
3 Allowable 2 1/2% inc.	\$ 2,400,305	\$ 2,621,994	\$ 2,752,661	\$ 2,868,978	\$ 3,006,052	\$ 3,129,198
4 New Tax Levy Growth	\$ 2,485,650	\$ 3,276,649	\$ 1,900,000	\$ 2,614,002	\$ 1,919,785	\$ 1,995,990
5 Voter Approved Override	\$ 3,981,589	\$ -				
6 <i>Tax levy limit</i>	<u>\$ 104,879,746</u>	<u>\$ 110,778,389</u>	<u>\$ 114,759,106</u>	<u>\$ 120,242,086</u>	<u>\$ 125,167,923</u>	<u>\$ 130,293,111</u>
7 State Aid	\$ 9,064,275	\$ 9,963,453	\$ 9,058,898	\$ 8,605,953	\$ 8,175,655	\$ 8,175,655
8 Local Receipts	\$ 12,189,265	\$ 9,395,065	\$ 9,770,000	\$ 9,525,750	\$ 9,287,606	\$ 9,334,044
9 Available Funds	\$ 4,216,097	\$ 5,620,168	\$ 6,053,619	\$ 4,650,000	\$ 4,150,000	\$ 4,150,000
10 Revenue Offsets	\$ (1,897,006)	\$ (2,540,476)	\$ (1,836,461)	\$ (2,036,900)	\$ (1,884,457)	\$ (1,907,691)
11 Enterprise Funds (Indirect)	\$ 1,752,885	\$ 1,710,887	\$ 1,662,522	\$ 1,620,250	\$ 1,578,929	\$ 1,541,022
12 Total General Fund	\$ 130,205,262	\$ 134,927,486	\$ 139,467,684	\$ 142,607,139	\$ 146,484,407	\$ 151,594,992
16 Other Revenues						
17 Revolving Funds	\$ 923,529	\$ 2,107,778	\$ 2,168,530	\$ -	\$ -	\$ -
18 Grants	\$ 134,112	\$ 173,390	\$ 161,168	\$ -	\$ -	\$ -
19 Enterprise Funds (Direct)	\$ 13,663,715	\$ 15,311,025	\$ 16,227,345	\$ -	\$ -	\$ -
20 Exempt Debt	\$ 5,372,873	\$ 5,632,643	\$ 5,879,523	\$ -	\$ -	\$ -
21 <i>sub-total Other Revenues</i>	<u>\$ 20,094,229</u>	<u>\$ 23,224,836</u>	<u>\$ 24,436,566</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
22 Total Revenues	\$ 150,299,491	\$ 158,152,322	\$ 163,904,250	\$ 142,607,139	\$ 146,484,407	\$ 151,594,992
23 Expense Summary	FY2008 Actual	FY2009 Appropriated	FY2010 Proposed	FY2011 Modeled	FY2012 Modeled	FY2013 Modeled
24 Education						
25 Lex. Pub Schools Compen.	\$ 49,786,875	\$ 54,407,961	\$ 55,926,576	\$ 57,744,190	\$ 59,620,876	\$ 61,558,554
26 Lex. Pub Schools Expenses	\$ 4,892,865	\$ 4,506,308	\$ 4,502,485	\$ 4,615,047	\$ 4,730,423	\$ 4,848,684
27 Out-of-District SPED	\$ 5,514,040	\$ 5,499,870	\$ 6,529,232	\$ 7,508,617	\$ 8,634,909	\$ 9,930,146
28 <i>sub-total Lex. Pub. Schools</i>	<u>\$ 60,193,780</u>	<u>\$ 64,414,139</u>	<u>\$ 66,958,293</u>	<u>\$ 69,867,854</u>	<u>\$ 72,986,209</u>	<u>\$ 76,337,384</u>
29 Minuteman Reg. School ³	\$ 1,194,216	\$ 1,510,598	\$ 1,713,163	\$ 1,930,097	\$ 2,155,261	\$ 2,380,425
30 <i>sub-total Education</i>	<u>\$ 61,387,996</u>	<u>\$ 65,924,737</u>	<u>\$ 68,671,456</u>	<u>\$ 71,797,951</u>	<u>\$ 75,141,470</u>	<u>\$ 78,717,809</u>
31 Municipal						
32 Municipal Compen.	\$ 16,955,919	\$ 18,086,154	\$ 18,876,550	\$ 19,442,847	\$ 20,026,132	\$ 20,626,916
33 Municipal Expenses	\$ 8,695,673	\$ 7,602,257	\$ 7,649,737	\$ 8,245,136	\$ 8,490,946	\$ 8,736,756
34 <i>sub-total Municipal</i>	<u>\$ 25,651,592</u>	<u>\$ 25,688,411</u>	<u>\$ 26,526,287</u>	<u>\$ 27,687,983</u>	<u>\$ 28,517,078</u>	<u>\$ 29,363,672</u>

APPROPRIATION COMMITTEE REPORT TO 2009 ATM--MARCH 2009

35	Shared Expenses								
36	Benefits & Insurance	\$ 23,425,240	\$ 26,782,252	\$ 27,890,276	\$ 30,276,544	\$ 32,727,409	\$ 35,415,912		
37	Debt (within-levy)	\$ 3,572,204	\$ 4,017,541	\$ 4,471,432	\$ 4,350,000	\$ 4,350,000	\$ 4,350,000		
38	Reserve Fund	\$ -	\$ 532,500	\$ 550,000	\$ 550,000	\$ 550,000	\$ 550,000		
39	Facilities	\$ 8,994,689	\$ 8,869,428	\$ 8,932,703	\$ 9,426,917	\$ 9,785,009	\$ 10,157,570		
40	<i>sub-total Shared Expenses</i>	\$ 35,992,133	\$ 40,201,721	\$ 41,844,411	\$ 44,603,461	\$ 47,412,418	\$ 50,473,482		
41	Revolving Funds	\$ 923,529	\$ 2,107,778	\$ 2,168,530	\$ -	\$ -	\$ -		
42	Grants	\$ 134,112	\$ 173,390	\$ 161,168	\$ -	\$ -	\$ -		
43	Capital & Reserves								
44	Cash Capital (inc of roads)	\$ 1,355,000	\$ 1,520,750	\$ 1,545,719	\$ 1,553,150	\$ 1,570,729	\$ 1,588,747		
45	Stabilization Fund	\$ 1,000,000	\$ 1,000,000	\$ -	\$ -	\$ -	\$ -		
46	Other (SrWorkOff,OPEB)	\$ 390,000	\$ 519,000	\$ 835,690	\$ 795,000	\$ 795,000	\$ 795,000		
47	<i>sub-total Capital & Reserves</i>	\$ 2,745,000	\$ 3,039,750	\$ 2,381,409	\$ 2,348,150	\$ 2,365,729	\$ 2,383,747		
48	Enterprise Funds								
49	Water	\$ 5,549,471	\$ 6,487,028	\$ 6,686,570	\$ -	\$ -	\$ -		
50	Wastewater (Sewer)	\$ 6,658,544	\$ 7,062,609	\$ 7,704,170	\$ -	\$ -	\$ -		
51	Recreation	\$ 1,430,700	\$ 1,676,083	\$ 1,725,605	\$ -	\$ -	\$ -		
52	Enterprise Capital	\$ 25,000	\$ 85,305	\$ 111,000	\$ -	\$ -	\$ -		
53	<i>sub-total Enterprise Funds</i>	\$ 13,663,715	\$ 15,311,025	\$ 16,227,345	\$ -	\$ -	\$ -		
54	Exempt Debt								
55	Municipal	\$ 3,927,422	\$ 3,081,223	\$ 2,974,264	\$ -	\$ -	\$ -		
56	School	\$ 1,445,451	\$ 2,551,420	\$ 2,905,259	\$ -	\$ -	\$ -		
57	<i>sub-total Exempt Debt</i>	\$ 5,372,873	\$ 5,632,643	\$ 5,879,523	\$ -	\$ -	\$ -		
58									
59	Total Expenses	\$ 145,870,950	\$ 158,079,455	\$ 163,860,129	\$ 146,437,545	\$ 153,436,694	\$ 160,938,709		
60	Balance (Deficit)	\$ 4,428,541	\$ 72,867	\$ 44,121	\$ (3,830,405)	\$ (6,952,287)	\$ (9,343,717)		

FY 2008 Actual	FY 2009 Appropriated	FY2010 proposed	FY2011 Modeled	FY2012 Modeled	FY2013 Modeled
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