

REPORT OF THE TOWN MANAGER

The fiscal year 2023 general fund budget totals \$260,367,794, an increase of \$9,722,320 or 3.9% over the fiscal year 2022 adopted budget. The Select Board has approved this FY2023 Recommended Budget and Financing Plan. The recommended budget is balanced and will not require a Proposition 2½ override vote.

Overview - FY2023 Recommended Budget and Financing Plan

The Select Board held a fiscal guideline summit in September 2021, and three subsequent summit meetings with the School Committee, Appropriation Committee and Capital Expenditures Committee to work through assumptions, priorities and guidelines in developing the fiscal year 2023 budget.

The Select Board established a goal of presenting a budget for FY2023 that is sustainable and will position the Town to finance the significant capital projects recently approved as well as those substantial capital projects planned in the coming five years. On January 10, 2022, the Town Manager presented a Preliminary Budget and Financing Plan that was balanced, addressed key Select Board priorities and long-term financial goals, while also protecting against the short-term challenges and uncertainties created by the COVID-19 global pandemic.

This final recommended budget incorporates those same principals and has only been modified to incorporate recently available financial data. The Select Board approved the FY2023 recommended operating and capital budgets on February 7, 2022.

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

- \$57,138 to be dedicated from the Tax Levy for appropriation into the Capital Stabilization Fund per the new policy to begin to set-aside new growth from specific commercial and industrial properties to help pay for the anticipated high school;
- \$3,085,296 to be appropriated into the Capital Stabilization Fund for future tax relief related to debt service for within levy and excluded debt service;
- \$800,000 to be appropriated from the Capital Stabilization Fund to provide property tax relief related to exempt debt service for the new Hastings School, the Lexington Children's Place and Fire Station;
- \$1,935,486 in revenues to be appropriated into the Other Post-Employment Benefits (retiree health insurance) Trust Fund to continue to fund this long-term liability; and
- \$700,000 from Free Cash to support the operating budget.

In the long-term, management has committed to phasing-out the use of Free Cash for the operating budget. The FY2023 budget reflects the phase-out of \$1.5M compared to FY2022, reinstating the planned timeline after a pause in FY2021. Management anticipates that the use of Free Cash for operations will be eliminated for the FY2024 budget.

The recommendations above are largely possible due to a concerted effort to limit budget increases in FY2023, commitment to stated fiscal guidelines, and the Town's strong undesignated fund balance (i.e., free cash of \$16,384,329) position at the end of FY2021.

FISCAL YEAR 2023 RECOMMENDED BUDGET AND FINANCING PLAN

Table 1 provides a summary of the FY2023 General Fund budget, by cost center.

Table 1	FY2022 Appropriated	FY2023 Recommended Budget	\$ Change	% Change
Education (LPS and Minuteman HS)	\$ 126,507,019	\$ 131,478,345	\$ 4,971,327	3.9%
Shared Expenses*	\$ 64,540,037	\$ 64,190,302	\$ (349,735)	(0.5)%
Municipal Departments	\$ 42,920,017	\$ 44,802,554	\$ 1,882,538	4.4%
Subtotal - Operating Budget	\$ 233,967,072	\$ 240,471,202	\$ 6,504,129	2.8%
Cash Capital	\$ 10,136,491	\$ 13,491,037	\$ 3,354,546	33.1%
Other	\$ 6,541,910	\$ 6,405,555	\$ (136,355)	(2.1)%
Total - General Fund	\$ 250,645,473	\$ 260,367,794	\$ 9,722,320	3.9%
Projected Revenue	\$ 250,645,473	\$ 260,367,794	\$ 9,722,321	3.9%
Surplus/(Deficit)	\$ —	\$ —	\$ —	

**Shared Expenses reflect the Department of Public Facilities, employee/retiree benefits, pension, debt, liability insurance and Reserve Fund.*

Select Board's Budget Priorities and Principles

This FY2023 budget is responsive to many of the priorities identified by the Select Board during its annual goal-setting meetings, including:

- **Construction of a new Police Station:** Fall 2021 Special Town Meeting approved funding for the final design of a new Police Station at 1575 Massachusetts Avenue. This budget recommends construction funding for the new Police Station be approved at the 2022 Annual Town Meeting, which will be followed by a referendum in June 2022 to exclude debt service on this facility from the limits of Proposition 2½. The FY2023 budget also includes funds to support operations at the temporary Police facility at 173 Bedford Street while the new Police Station is being built.
- **Support for Public Health and Safety:** This budget includes funding to permanently transition our existing part-time Public Health Nurse into a full-time position. ARPA funding will continue to support temporary health department staff and contact tracers throughout the pandemic. This budget also includes program improvement recommendations to fund a training manikin for paramedics to practice their life-saving skills in non-critical situations, and additional training for police officers to support the new requirements under the state's police certification program.
- **Community Mental Health Programs:** The pandemic has created a new wave of mental health challenges, and our Municipal and School Departments continue to support a joint mental health initiative. This includes a contract with the William James Interface Mental Health Referral Services, which is shared between the Municipal and School Department budgets. In addition, the Town expects to utilize ARPA funds to provide mental health support by adding additional mental health clinical services in the Human Services Department.
- **Pedestrian, Bicycle and Vehicle Safety on Town Roads:** Overall, \$3,669,767 is recommended for the construction of new Sidewalks; existing Sidewalk Improvements; and Street Improvements. This budget also funds an additional crossing guard at the Hastings Elementary School, and recommends funding to develop a townwide pedestrian and bicycle plan.

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- **Sustainability:** Departments have begun implementing the Select Board's electric vehicle policy, and have factored increased costs into planned vehicle purchases at Recreation, Facilities, and Police.
- **Select Board Planning and Goal Setting:** This budget includes funding for a facilitated goal-setting process that will assist the Select Board and the Town Manager in prioritizing Town initiatives and effectively allocating staff time and resources.
- **Fiscal Stability:** Contributions to both the Capital Stabilization Fund (CSF) and Other Post-Employment Benefit (OPEB) Funds were put on hold in FY2021 due to uncertainty over the pandemic, but resumed in FY2022 and continue in FY2023. In addition, this budget implements the new fiscal guideline to dedicate a portion of the tax levy to the CSF to align with long-term capital spending.

In addition to providing for the specific priorities noted above, the FY2023 budget aligns with the following principles agreed to by the Select Board, School Committee and finance committees in order to preserve the Town's long-term financial condition:

1. Continue to set aside funds to transfer into the Capital Stabilization Fund as part of the comprehensive long-term strategy for funding future school and municipal projects.
2. Core services currently provided through the operating and capital budgets should be maintained, recognizing that changes in service demands may require that additional resources be provided in certain areas.
3. Recurring revenues, not reserves or one-time revenues, should support operating expenses.
4. Debt will not be used to fund current operating expenditures.
5. Adequate reserves and contingency funds will be budgeted, as appropriate, consistent with the original recommendations of the Ad hoc Financial Policy Committee (2006) and reaffirmed in 2019.
6. Sufficient funds for building maintenance will be budgeted to properly maintain facilities and equipment as well as foster energy conservation.
7. Use of one-time revenues should be limited to funding one-time expenses (e.g., capital projects) or used to fund reserve accounts.
8. Continue to provide funding for the Other Post-Employment Benefits (OPEB) liability.
9. New targeted revenue sources should be considered to fund specific projects.

The FY2023 Budget in Brief: Financing Plan, Expenditures, Reserves

While the Town’s FY2023 operating budget has many complexities, the following matters deserve specific attention:

I. Financing Plan:

a. Revenue Allocation Model: It has been the Select Board’s practice to recommend the equitable sharing of revenues between the municipal departments and the School Department. This allocation is based on a model developed by the Town Manager and Superintendent of Schools and accepted by the Select Board, School Committee and financial committees. After first funding the Shared Expenses budget and capital projects, 74% of all remaining FY2023 projected general fund revenues are allocated to the School Department and 26% are allocated to municipal departments. For FY2023, the Revenue Allocation model allocated a total of \$7.27 million in new revenue, or 4.4% more than FY2022, of which \$5.38 million was allocated to the School Department and \$1.89 million to municipal departments.

b. Revenue Projection: In FY2023, General Fund revenues are projected to increase by \$9.7 million or 3.9% over FY2022 budgeted revenues. By way of comparison, revenue growth in recent years has been:

- FY2022: 7.0% (estimated)
- FY2021: 2.5% (actual)
- FY2020: 3.4% (actual)
- FY2019: 3.6% (actual)
- FY2018: 6.6% (actual)
- FY2017: 3.3% (actual)
- FY2016: 6.8% (actual)
- FY2015: 2.6% (actual)
- FY2014: 9.4% (actual)
- FY2013: 4.7% (actual)

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

Table 2	FY2022 Tax Recap	FY2023 Projected	\$ Change	% Change	% of Total Revenue
Property Tax Revenue	\$ 204,228,741	\$ 212,113,191	\$ 7,884,450	3.9%	81.5%
State Aid	\$ 16,492,260	\$ 16,784,662	\$ 292,402	1.8%	6.4%
Total Local Receipts	\$ 12,627,933	\$ 13,488,108	\$ 860,175	6.8%	5.2%
Available Funds	\$ 17,825,379	\$ 18,507,776	\$ 682,397	3.8%	7.1%
Revenue Offsets	\$ (1,961,196)	\$ (2,331,557)	\$ (370,361)	18.9%	(0.9)%
Enterprise Receipts	\$ 1,432,356	\$ 1,805,613	\$ 373,257	26.1%	0.7%
Gross General Fund Revenues	\$250,645,473	\$260,367,794	\$ 9,722,321	3.9%	100.0%
Less - Revenue Set-Aside for Designated Expenses	\$ 16,678,401	\$ 19,896,592	\$ 3,218,191	19.3%	7.6%
Net General Fund Revenues	\$233,967,072	\$240,471,202	\$ 6,504,130	2.8%	92.4%

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c. Revenue Sources:

Property Tax Revenue and Assessed Valuations – The property tax remains the Town’s primary revenue source, comprising 81.5% of total projected revenues in FY2023 (**Table 2**). Although residential property makes up 87.0% of the total assessed value in Lexington, residential property owners currently pay only 77.3% of total property taxes as a result of the tax classification model adopted by the Select Board (**Table 4**).

Tables 3 and 4 provide a history of the Town’s assessed valuation and property tax levy, including New Growth.

Table 3	Total Assessed Valuation	% Chg. from Prior Year	Property Tax Levy (before excluded debt service)	% Chg. from Prior Year	Operating Override Year*
FY2022	\$ 14,044,934,971	8.4%	\$ 204,228,741	5.1%	no
FY2021	\$ 12,952,768,837	2.8%	\$ 194,329,879	5.1%	no
FY2020	\$ 12,598,348,097	5.7%	\$ 184,821,513	4.5%	no
FY2019	\$ 11,922,400,015	6.2%	\$ 176,804,577	4.4%	no
FY2018	\$ 11,227,300,560	6.0%	\$ 169,332,125	4.6%	no
FY2017	\$ 10,589,456,610	5.4%	\$ 161,865,817	4.6%	no
FY2016	\$ 10,048,547,685	7.4%	\$ 154,750,151	4.4%	no
FY2015	\$ 9,359,615,090	9.4%	\$ 148,212,539	4.5%	no
FY2014	\$ 8,555,595,350	3.0%	\$ 141,842,483	4.8%	no
FY2013	\$ 8,307,956,760	3.5%	\$ 135,386,782	5.3%	no

*The last year that an operating override was approved was for FY2008.

Table 4	% Assessed Valuation		% of Property Tax Levy	
	Residential	All Commercial	Residential	All Commercial
FY2022	87.0%	13.0%	77.3%	22.7%
FY2021	88.3%	11.7%	79.5%	20.5%
FY2020	88.6%	11.4%	80.0%	20.0%
FY2019	88.7%	11.3%	80.2%	19.8%
FY2018	88.6%	11.4%	80.1%	19.9%
FY2017	88.4%	11.6%	79.7%	20.3%
FY2016	88.2%	11.8%	79.3%	20.7%
FY2015	87.6%	12.4%	78.3%	21.7%
FY2014	86.6%	13.4%	77.3%	22.7%
FY2013	86.6%	13.4%	77.3%	22.7%

State Aid – State Aid, which is estimated at 6.4% of total revenues, is also an important source of revenue for the Town. State Aid is currently projected to increase by 1.8% for FY2023, and reflects the Governor's budget recommendation. Since the Legislature will not likely vote the FY2023 State budget until after the close of Town Meeting, management determined that this conservative approach, based on the Governor's recommended budget, is most appropriate.

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Table 5 below provides a recent history of the Town’s State Aid including the FY2023 projection.

Table 5	FY2019	FY2020	FY2021	FY2022	FY2023
Chapter 70-Education Unrestricted	\$ 14,217,984	\$ 14,456,349	\$ 14,438,034	\$ 14,647,494	\$ 14,852,994
Charter School Reimbursement	\$ 6,532	\$ 2,446	\$ 80,755	\$ 4,690	\$ 54,959
General Government Unrestricted	\$ 1,584,615	\$ 1,627,400	\$ 1,627,400	\$ 1,684,359	\$ 1,729,837
Veteran's Benefits & Exemptions	\$ 154,023	\$ 117,802	\$ 124,689	\$ 95,590	\$ 92,035
Offsets (School Lunch & Library)	\$ 50,296	\$ 51,915	\$ 63,823	\$ 60,127	\$ 54,837
Total	\$ 16,013,450	\$ 16,255,912	\$ 16,334,701	\$ 16,492,260	\$ 16,784,662
\$ Change from Prior Year	\$ 276,398	\$ 242,462	\$ 78,789	\$ 157,559	\$ 292,402
% Change from Prior Year	1.8%	1.5%	0.5%	1.0%	1.8%

I. Expenditures:

Budget highlights include:

- a. Lexington Public Schools: The FY2023 School Department proposed General Fund budget (net of grants and other receipts) is increasing by 4.0%. The Minuteman Regional High School budget is increasing by 3.0%, a relatively modest increase compared to the other member towns, mainly because Lexington enrollment decreased slightly from FY2021 to FY2022.

- b. Municipal Departments: The municipal budget is increasing by 4.4%, largely the result of:
 - anticipated contractual salary adjustments;
 - contractual increases for curbside trash and recycling pick-up and disposal;
 - anticipated increases for gasoline and diesel under a regional consortium contract;
 - converting the part-time public health nurse to full-time;
 - converting the part-time public works management analyst to full-time;
 - additional operating support for the Visitors Center;
 - purchasing two hybrid police vehicles rather than the typical gasoline-powered models;
 - recognizing inflationary increases for various supplies, from cleaning agents to ammunition;
 - purchasing a training manikin for the fire department paramedics;
 - supporting additional training for police officers in response to new state certification requirements;
 - recognizing additional operational costs from not building a holding cell in the police swing space;
 - hiring a crossing guard to provide a third crossing area on Marrett Road for the Hastings School;
 - supporting the goal-setting activities of the select board; and
 - purchasing electronic poll pads for all precincts to reduce paper waste and increase efficiency.

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- c. Health Insurance for Employees and Retirees: The budget for employee and retiree health insurance, which the Town purchases through the State’s Group Insurance Commission (GIC), is increasing by 4.5%.

The FY2023 health insurance budget to be presented to Town Meeting reflects no new school or municipal department positions, and 1 new Public Facilities benefited position. This budget also provides for the potential of an additional 36 active employees and 44 new retirees not currently enrolled in the Town’s health plans choosing to enroll. Further, the budget makes a provision for those employees who may convert from individual to the more expensive family plans.

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

Table 6	Employees/Retirees Enrolled in Health Insurance Program					Total In Opt-Out Program³
Fiscal Year¹	Municipal Employees	School Employees	Total Employees	Retirees	Total	
2022	282	912	1,194	1,338	2,532	86
2021	269	913	1,182	1,302	2,484	78
2020	275	911	1,186	1,307	2,493	84
2019	260	892	1,152	1,289	2,441	72
2018	257	838	1,095	1,269	2,364	65
2017	261	827	1,088	1,243	2,331	69
2016	261	836	1,097	1,222	2,319	40
2015	268	835	1,103	1,189	2,292	N/A
2014	269	839	1,108	1,151	2,259	N/A
2013 ²	253	822	1,075	1,112	2,187	N/A
2012	264	827	1,091	1,034	2,125	N/A
2011	272	835	1,107	1,016	2,123	N/A
2010	264	847	1,111	1,000	2,111	N/A
2009	267	859	1,126	991	2,117	N/A
2008	256	834	1,090	976	2,066	N/A
2007	260	819	1,079	948	2,027	N/A

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

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

Note 3: Beginning in FY2016, the Town began a health insurance opt-out program. Employees who were enrolled in the Town's health insurance program and who elect to withdraw, receive a payment of \$2,500 if withdrawing from an individual plan, and \$5,000 if withdrawing from a family plan. This program will save the Town approximately \$597,500 in FY2022.

- d. Utilities/Fuel: Utility costs for FY2023, accounted for in the general and enterprise funds, are expected to increase by \$122,643 or 3.0%. Electricity is essentially level-funded; costs are expected to decrease once the new solar arrays are operational, but the timing and extent of the savings, with multiple overlapping variables, is difficult to project with any degree of accuracy. Finally, Heating Oil and Diesel/Gasoline reflect anticipated cost increases under a regional consortium bid that will not be determined until Spring 2022.

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

Table 7	FY2020 Actual	FY2021 Actual	FY2022 Estimated	FY2023 Budgeted	FY22-23 \$ Change	FY22-23 % Change
Electricity	\$ 2,469,671	\$ 2,400,359	\$ 2,863,401	\$ 2,868,901	\$ 5,500	0.2 %
Heating Oil	\$ 2,453	\$ 2,514	\$ 3,000	\$ 3,500	\$ 500	16.7 %
173 Bedford Tent	\$ 89,000	\$ —	\$ —	\$ —	\$ —	— %
Natural Gas	\$ 756,663	\$ 842,268	\$ 798,500	\$ 798,500	\$ —	— %
Diesel/Gasoline	\$ 279,277	\$ 300,371	\$ 409,288	\$ 525,931	\$ 116,643	28.5 %
Total	\$ 3,597,064	\$ 3,545,512	\$ 4,074,189	\$ 4,196,832	\$ 122,643	3.0 %

Table 8 provides a summary of the revenues the Town is anticipated to receive from its rooftop solar units and Hartwell Avenue Compost site - ground mount units. In calendar year 2021, several new solar projects were installed at Lexington Children's Place, Bowman, Bridge, Harrington, Hastings, Clarke and Diamond schools. Full-year revenue estimates are not yet available for these installations, but they will be included in future year budgets.

Table 8

Town Facility	FY2018 Actual**	FY2019 Actual	FY2020 Actual	FY2021 Actual	FY2022 Estimate	FY2023 Projection
Rooftop Solar Credits to Town	\$ 303,696	\$ 333,329	\$ 326,421	\$ 308,738	\$ 291,500	\$ 291,500
Rooftop PILOT*	\$ 30,000	\$ 30,000	\$ 30,000	\$ 30,000	\$ 30,000	\$ 30,000
Rooftop Solar Payments to Vendor	\$ (157,038)	\$ (159,033)	\$ (173,254)	\$ (164,249)	\$ (165,000)	\$ (165,000)
Net Revenue subtotal	\$ 176,658	\$ 204,296	\$ 183,167	\$ 174,489	\$ 156,500	\$ 156,500
Hartwell Solar Revenue	\$ 647,232	\$ 720,493	\$ 691,986	\$ 674,298	\$ 670,000	\$ 670,000
Hartwell PILOT*	\$ 55,400	\$ 55,400	\$ 55,400	\$ 55,400	\$ 55,400	\$ 55,400
Hartwell Annual Lease	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000
Hartwell Solar Payments	\$ (355,257)	\$ (351,839)	\$ (385,512)	\$ (367,694)	\$ (390,000)	\$ (390,000)
Net Revenue subtotal	\$ 348,375	\$ 425,054	\$ 362,875	\$ 363,004	\$ 336,400	\$ 336,400
Total Net Revenue	\$ 525,033	\$ 629,350	\$ 546,042	\$ 537,493	\$ 492,900	\$ 492,900

*Payments in Lieu of Taxes (PILOT) are considered Personal Property taxes paid to the Town.

**FY2018 costs/revenue for Hartwell are not representative of a full year of operations.

II. Reserves: Reserve funds provide an important tool in managing Town finances during a recessionary period. In 2005, the Board appointed the Ad Hoc Financial Policy Committee to examine and propose comprehensive financial policies to address operational needs, catastrophic and emergency reserves, maintenance of assets and unfunded liabilities. The resulting policy recommendations adopted by the Select Board called for building financial reserves and addressing the Town's unfunded liabilities over a multi-year period. Implementing these policy recommendations, together with prudent budgeting, allowed the Town to weather the 2008-2012 financial downturn without materially impacting Town services or school programs. In 2019, the Town reviewed and reaffirmed its reserve policies as part of an overall fiscal guideline review.

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Table 9 below provides a summary of the Town’s primary reserve funds.

Table 9	General Stabilization Fund	Special Education Stabilization Fund	Other Post Employment Benefits Trust Fund	Capital Stabilization Fund
Current Balance*	\$ 10,105,151	\$ 654,674	\$ 27,906,814	\$ 21,672,549
Proposed Appropriation From (2022 ATM)	\$ —	\$ —	\$ —	\$ (800,000)
Proposed Appropriation Into (2022 ATM)	\$ —	\$ —	\$ 1,935,486	\$ 3,142,434
Projected Balance, July 1, 2022	\$ 10,105,151	\$ 654,674	\$ 29,842,300	\$ 24,014,984

*Reflects 12/31/2021 Balance

The Town’s goal has been to build its operating budget reserves (i.e., General Stabilization Fund) to a level of seven percent of General Fund revenues, an amount considered sufficient to offset three years of revenue shortfalls that typically occur during an economic slowdown. As part of the fiscal guideline review in 2019, the Town also considered the recommendation of the Government Finance Officers Association which is to set aside the equivalent of two months (16.67%) of General Fund operating revenues. Management is satisfied that the current balance in the General Stabilization fund will meet the Town's needs, and will continue to be monitor and evaluate this fund when developing future budgets. The FY2023 budget includes a recommendation to continue to set aside funds for the Other Post-Employment Benefits fund (i.e., retiree health care) for the 15th consecutive year.

The FY2023 budget includes the implementation of a *newly adopted* fiscal guideline to dedicate new tax levy growth from specific properties to increase reserves for future capital projects. At Fall 2021 Special Town Meeting, \$57,138 was transferred to the Capital Stabilization Fund (CSF) from the tax levy under this new guideline. That amount continues into FY2023 and is anticipated to grow significantly once new levy growth for the targeted properties is calculated for FY2023. Fall 2022 Special Town Meeting will be asked to transfer that further amount to the CSF.

Table 10 below provides a history of appropriations into and out of the Capital Stabilization Fund and recommendations for FY2023, including dedicated tax levy growth per the new fiscal guideline:

Table 10	FY2019	FY2020	FY2021	FY2022 Appropriated	FY2023 Budget
Appropriated One-Time Sources for CSF	\$ 3,560,335	\$ 2,269,456	\$ —	\$ 3,730,836	\$ 3,085,296
Dedicated Tax Levy Growth for CSF	\$ —	\$ —	\$ —	\$ 57,138	\$ 57,138
Prior Year Balance	\$28,597,934	\$27,727,713	\$25,229,254	\$ 20,674,058	\$21,672,549
Investment Income	\$ 642,944	\$ 432,085	\$ 44,804	\$ 10,518	TBD
Subtotal - Available for Appropriation	\$32,801,213	\$30,429,254	\$25,274,058	\$ 24,472,549	\$24,814,984
Appropriation From Stabilization Fund					
Excluded Debt Service Tax Relief	\$ 4,500,000	\$ 5,200,000	\$ 4,600,000	\$ 2,800,000	\$ 800,000
Within Levy Debt Service	\$ 573,500	\$ —	\$ —	\$ —	\$ —
Subtotal	\$ 5,073,500	\$ 5,200,000	\$ 4,600,000	\$ 2,800,000	\$ 800,000
Projected Balance of Fund	\$27,727,713	\$25,229,254	\$20,674,058	\$ 21,672,549	\$24,014,984

Over the last several years the Town has drawn funds from the Capital Stabilization Fund to mitigate debt service that has been excluded from Proposition 2½, therefore providing relief to taxpayers. The Town continues to appropriate into the Capital Stabilization Fund in anticipation of future capital projects including the Police Station reconstruction and a potential renovation or reconstruction of Lexington High School.

The FY2023 Capital Budget: Financing Infrastructure and Equipment

I. Proposed Capital Spending:

The recommended Capital Budget will provide for the continued replacement of and improvements to Town buildings, infrastructure and equipment. Articles 10-16 in the 2022 Annual Town Meeting Warrant represent the capital portion of this year's recommended budget. For FY2023, a total capital budget of \$69.2 million is proposed.

Table 11 provides a summary of funding sources financing the Town's recommended capital plan for FY2023.

Table 11	Free Cash/ Tax Levy	Other Funding Sources	Debt	Total	Other**
General Fund	\$ 12,942,290	\$ —	\$ 5,940,000	\$ 18,882,290	\$ —
Excluded Debt Projects	\$ —	\$ —	\$ 32,800,000	\$ 32,800,000	\$ —
Other Funding & Chapter 90	\$ —	\$ 548,747	\$ —	\$ 548,747	\$ 982,231
Water Enterprise	\$ —	\$ 2,420,000	\$ —	\$ 2,420,000	\$ —
Sewer Enterprise	\$ —	\$ 1,665,000	\$ 1,500,000	\$ 3,165,000	\$ —
Recreation Enterprise	\$ —	\$ 95,000	\$ —	\$ 95,000	\$ —
Community Preservation Act*	\$ —	\$ 11,322,556	\$ —	\$ 11,322,556	\$ —
Total (all Funds)	\$12,942,290	\$ 16,051,303	\$40,240,000	\$69,233,593	\$ 982,231

*Includes both Town and non-Town CPA funded projects.

**Other represents Chapter 90 Aid for street improvements. This item does not require a Town Meeting appropriation.

The \$32.8 million in Excluded Debt Projects represents construction funding for the Police Station. This project is on the Special Town Meeting 2022-1 warrant, and a debt exclusion vote is anticipated in June 2022.

Table 12 provides a summary of the Town's cash capital plan for the period FY2016-2023.

Table 12	Cash Capital	Change from Prior Year	Percent of Operating Budget
FY2023 Proposed	\$13,491,037	33.1%	5.2%
FY2022 Appropriated	\$10,136,491	29.8%	4.0%
FY2021 Appropriated	\$7,812,019	(4.0)%	3.3%
FY2020 Appropriated*	\$8,137,274	5.1%	3.5%
FY2019 Appropriated	\$7,743,938	20.6%	3.5%
FY2018 Appropriated	\$6,421,619	14.3%	3.0%
FY2017 Appropriated	\$5,619,429	21.0%	2.8%
FY2016 Appropriated	\$4,642,987	(22.1)%	2.4%

*The FY2020 total includes \$875,858 approved at the Fall 2019 Special Town Meeting for LED street light replacements.

In FY2022 the Town made final payments on the Land purchases at 20 Pelham Road (\$8.0M) and 173 Bedford Street (\$4.4M), which were paid-down over a 5-year period. This reduced the FY2023 debt service budget by approximately \$2.4M which is now being diverted to cash capital.

FISCAL YEAR 2023 RECOMMENDED BUDGET AND FINANCING PLAN

II. Other Planned Capital Projects/Property Tax Relief:

The Town recently completed a number of significant capital projects, including the new Hastings School, the Lexington Children’s Place building (pre-kindergarten) at the Pelham Road property, a new fire headquarters and a new Visitor’s Center, and construction is underway on the Center Streetscape improvement project. In the near future the Town expects projects to construct a new police station and to renovate or reconstruct Lexington High School. It is recommended, and shown in Table 10, that the Town appropriate into the Capital Stabilization Fund an additional \$3,085,296 from one-time sources and \$57,138 dedicated from the tax levy, to be used to mitigate the related debt service for current and future projects, thereby providing tax relief to Lexington’s taxpayers.

III. Debt/Debt Service:

The Town of Lexington has maintained an Aaa credit rating for many years. Moody’s Investors Service reaffirmed the Town’s credit rating in January 2022, and rated the Town’s municipal bond offering Aaa. The Town sold \$16.656 million of long-term debt in January 2022 at a net interest cost of 1.56 percent over a 15-year term. In its credit rating opinion, Moody’s cited the Town’s strong fiscal management including conservative budgeting, sizeable and wealthy tax base, healthy reserves and liquidity, and voter support for debt exclusions as positive credit factors. The Aaa/AAA rating is the highest credit rating a municipality can receive and allows the Town to borrow funds at the most favorable interest rates.

Table 13 provides an historical summary of the Town’s debt service. More detailed debt service schedules can be found in Section XI of this Recommended Budget and Financing Plan. The credit rating agencies find that debt service up to 10 percent of revenues reflects strong financial condition. For FY2023, the Town expects all debt service to be 8.73 percent of gross operating revenues.

The FY2023 budget proposes appropriating \$800,000 from the Capital Stabilization Fund to provide property tax relief for excluded debt service.

Table 13 Annual Debt Service	FY2017 Actual	FY2018 Actual	FY2019 Actual	FY2020 Actual	FY2021 Actual	FY2022 Budgeted	FY2023 Proposed
General Fund^{1, 2}	\$ 7,037,701	\$ 9,388,135	\$ 10,837,525	\$ 9,556,878	\$ 10,237,538	\$ 10,397,112	\$ 7,541,580
Prop 2½ Excluded Debt³	\$ 8,330,185	\$ 10,692,690	\$ 13,860,000	\$ 16,328,254	\$ 17,284,830	\$ 16,747,991	\$ 15,980,302
Water	\$ 1,374,696	\$ 1,470,783	\$ 1,436,995	\$ 1,192,000	\$ 965,096	\$ 1,179,794	\$ 1,224,746
Compost Revolving Fund	\$ 91,228	\$ 151,671	\$ 216,859	\$ 217,303	\$ 205,557	\$ 163,001	\$ 227,475
Sewer	\$ 937,922	\$ 1,034,904	\$ 1,134,396	\$ 1,200,863	\$ 1,243,337	\$ 1,464,513	\$ 1,595,417
Recreation	\$ 100,000	\$ 100,000	\$ —	\$ —	\$ —	\$ —	\$ —
Total Debt Service	\$ 17,871,732	\$ 22,838,183	\$ 27,485,775	\$ 28,495,298	\$ 29,936,358	\$ 29,952,411	\$ 26,569,520
Gross Revenues	\$233,826,431	\$253,167,533	\$261,842,913	\$271,547,222	\$279,005,971	\$293,811,136	\$304,279,088
Debt Svc. as % of Revenue	7.64%	9.31%	10.50%	10.49%	10.73%	10.19%	8.73%

Note 1: General Fund debt service is gross debt service and does not reflect the use of the Capital Stabilization Fund to mitigate the debt service impact on the overall budget.

Note 2: General Fund debt service for FY2018, FY2019, FY2020, FY2021 and FY2022 includes an additional \$2,351,430, \$3,050,000, \$2,234,614, \$2,403,450, and \$2,320,274, respectively, to retire notes for 173 Bedford Street and 20 Pelham Road land purchases. FY2022 is the final payment for these land purchases and a primary driver for the decrease in debt service in FY2023.

Note 3: Proposition 2½ Excluded Debt is gross excluded debt service and does not reflect the use of the Capital Stabilization Fund to mitigate the debt service impact on taxpayers.

History of Proposition 2½ Overrides and Debt Exclusions in Lexington

The FY2023 budget, as presented, is balanced without the need for a Proposition 2½ Operating Override. Below is a history of Operating Override and Debt Exclusion election results in Lexington:

History of Proposition 2½ Override Votes

Date of Vote	FY	Proposition 2½ Overrides	Operating Override	Debt Exclusion	Result
June 2022	2023	Police Department Reconstruction		\$32,800,000	TBD
Dec 2017	2018	Fire Department Reconstruction		\$22,140,000	Approved
		Hastings School Reconstruction		\$65,279,418	Approved
		Lexington Children's Place New Building		\$15,079,342	Approved
May 2016	2017	Diamond & Clarke School Renovations		\$71,663,200	Approved
Jan 2012	2012	Estabrook School Reconstruction		\$29,100,000	Approved
		Bridge & Bowman School Renovations		\$22,700,000	Approved
Jun 2007	2008	Schools	\$3,981,589		Approved
		Public Works Facility		\$25,180,000	Approved
Jun 2006	2007	Schools #1	\$2,614,509		Not Appr.
		Schools #2	\$551,607		Not Appr.
		Maintenance - Schools & Municipal	\$1,059,100		Approved
		Municipal	\$799,335		Approved
Jun 2004	2005	Override	\$4,224,340		Approved
Jun 2003	-	Override	\$4,957,000		Not Appr.
Jun 2002	2003	Schools, Roads, Lincoln Park		\$42,550,000	Approved
May/June 2000	2001	Town/School Services and Roads	\$3,440,829		Approved
Dec 1998	2000	School Building Project		\$52,235,000	Approved
Dec 1997	-	School Building Project		\$68,200,000	Not Appr.
Jun 1995	1996	Schools	\$1,172,152		Approved
		Open Space	\$29,000		Approved
		Police	\$102,000		Approved
		Fire	\$196,848		Approved
Jun 1992	1993	Trash/Collection	\$2,718,092		Approved
Jun 1990	1991	Town/School Services	\$1,097,829		Approved
Aug 1988	1989	Pine Meadows Golf Course		\$11,000,000	Approved

Elderly/ Low-Income Property Tax Relief

The Select Board continues to examine various options to provide property tax relief to low-income and elderly residents. The FY2023 recommended budget provides funding for the following tax relief programs:

1. Senior Service Program – Qualified property owners age 60 and older earning less than \$90,000 can work for the Town and receive up to \$1,755 per household toward their property tax bills.
2. Property Tax Deferral – The Town received special legislation to increase the income limits for residents over 65 years of age who wish to defer their property taxes. Seniors who earn less than \$90,000 qualify for this program, increased from \$75,000 at the 2020 Annual Town Meeting.

As a result of 2006 State legislation, Town Meeting voted to decrease the 8 percent interest rate charged for elderly residents who choose to defer payment of their property taxes. The interest rate is determined each March for the coming fiscal year and is tied to the U.S. Treasury 1-Year Constant Maturity rate. The interest rate for deferred taxes for the past ten years has been:

FY2022: 0.08 percent	FY2017: 0.66 percent
FY2021: 1.41 percent	FY2016: 0.25 percent
FY2020: 2.55 percent	FY2015: 0.12 percent
FY2019: 1.96 percent	FY2014: 0.15 percent
FY2018: 0.82 percent	FY2013: 0.18 percent

Those who qualify for the Property Tax Deferral may also request to defer their water and sewer bills at the same interest rate.

3. Property Tax Exemption Limits – At the 2006 Annual Town Meeting, the Town voted to double the amount of the property tax exemption for certain qualifying elderly residents, to \$1,000.
4. Personal Property Tax Exemption Increase – At the 2018 Annual Town Meeting, The Town voted to accept accept MGL Chapter 59, section 5C½, which provides an additional exemption of 100% of all applicable personal exemptions.
5. CPA Surcharge Exemption – The Town offers an exemption from the Community Preservation Act surcharge to qualified low-income residents.
6. Low-Income Water/Sewer Rates Discount – The Town provides a 30 percent discount on water and sewer rates to qualified low-income residents.

Collective Bargaining

The Town has settled collective bargaining agreements with the following unions and associations through:

- FY2024: Public Works Union
- FY2023: Library Union
- FY2022: Fire Union
- FY2022: Lexington Municipal Management Association
- FY2022: Lexington Municipal Employees Association
- FY2022: Police Superior Officers Union
- FY2022: School Crossing Guards Union
- FY2021: Dispatchers Union
- FY2021: Municipal Facilities Staff Union
- FY2021: Police Officers Association

The budget for FY2023 includes amounts, in the Salary Adjustment Account, that may be required for those collective bargaining contracts yet to be settled.

Tax Rate Estimate

Section 12 of the Selectmen-Town Manager Act requires the Town Manager to provide an unofficial estimate of the tax rate that might result if the financial plans presented in this report are adopted and the assumptions with respect to State aid prove reasonably accurate. Without assuming any change in the tax shift factor or assessed valuations for Fiscal Year 2023, a residential tax rate of \$14.20/\$1,000 of valuation is estimated compared to the residential tax rate of \$13.80/\$1,000 of valuation for Fiscal Year 2022.

The following table provides a summary of components of the property tax bill for a home assessed at \$1,078,000, which is the current median residential property value in Lexington.

MEDIAN RESIDENTIAL TAX BILL	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023 (est.)
Property tax w/2.5% increase	\$ 12,092	\$ 12,592	\$ 13,186	\$ 13,630	\$ 13,925	\$ 14,273
Proposition 2½ debt exclusion	\$ 592	\$ 667	\$ 794	\$ 890	\$ 951	\$ 1,035
Community Preservation Act surcharge	\$ 338	\$ 355	\$ 377	\$ 392	\$ 405	\$ 417
Total tax bill	\$13,022	\$13,614	\$14,357	\$14,912	\$15,281	\$15,725
Home at Median Value	\$887,000	\$939,000	\$995,000	\$1,009,000	\$1,078,000	\$1,078,000

Assumes no change in the residential/commercial tax shift in FY2022 to FY2023.

Assumes no change in total valuation by class of property (residential, commercial/industrial, personal property) in FY2023.

Additional Information

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

Further questions may also be directed to:

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