

REPORT OF THE TOWN MANAGER

The fiscal year 2018 general fund budget totals \$209,783,239, an increase of \$10,353,119 or 5.2 percent over the fiscal year 2017 adopted budget. The Board of Selectmen has unanimously approved this FY2018 Recommended Budget and Financing Plan. The recommended budget is balanced and will not require a Proposition 2½ override vote.

Overview of the FY2018 Recommended Budget and Financing Plan

The Board of Selectmen held four financial summits with the School Committee, Appropriation Committee and Capital Expenditures Committee commencing on October 6, 2016 to begin working on the fiscal year 2018 budget. Following the fourth financial summit, the Board of Selectmen approved the FY2018 recommended operating and capital budgets on February 13, 2017.

Given the recovered State and local economy, the Board of Selectmen established a goal of presenting a budget for FY2018 that is sustainable and will prepare the Town for the long list of substantial capital projects in the coming five years. With this as a priority, the Town Manager and Superintendent of Schools worked to present initial budget recommendations that were within projected FY2018 revenues. On January 9, 2017 the Town Manager presented a Preliminary Budget and Financing Plan that was balanced, but included a number of open issues related to the proposed operating and capital budgets. These issues were discussed and largely resolved at Financial Summit 4 and a subsequent Selectmen's meeting.

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

- \$7,690,398 be appropriated into the Capital Stabilization Fund for tax relief related to debt service for within levy and excluded debt service;
- \$324,500 to be appropriated from the Capital Stabilization Fund to mitigate the increase in debt service for those capital projects financed within the property tax levy limit;
- \$2,400,000 be appropriated from the Capital Stabilization Fund to provide property tax relief related to the Middle Schools and elementary schools modular classrooms debt exclusion vote in May 2016.
- \$618,148 in unallocated revenues as a cushion for: 1) revenues that may be less than estimates (e.g., State Aid); or 2) expenditures greater than estimates (e.g., health insurance); and
- \$1,829,721 in revenues to be appropriated into the Other Post-Employment Benefits (retiree health insurance) Trust Fund to continue to fund this long-term liability.

These recommendations are largely possible due to a concerted effort to limit budget increases in FY2018, and the Town's free cash position at the end of FY2016.

FISCAL YEAR 2018 RECOMMENDED BUDGET AND FINANCING PLAN

Table 1 provides a summary of the FY2018 General Fund budget, by cost center.

Table 1	FY2017 Appropriated Budget	FY2018 Recommended Budget	Change \$	Chg. %
Education	\$ 98,670,748	\$ 103,325,534	\$ 4,654,786	4.7%
Shared Expenses <i>(Public Facilities, employee/retiree benefits, pension, debt, liability insurance, Reserve Fund)</i>	\$ 51,710,920	\$ 53,970,128	\$ 2,259,208	4.4%
Municipal Departments	\$ 34,602,493	\$ 35,375,059	\$ 772,566	2.2%
Subtotal Operating Budget	\$ 184,984,161	\$ 192,670,721	\$ 7,686,560	4.2%
Cash Capital	\$ 5,619,429	\$ 6,182,099	\$ 562,670	10.0%
Other <i>(Appro. to reserves, misc.)</i>	\$ 8,826,530	\$ 10,930,419	\$ 2,103,889	23.8%
Total General Fund	\$ 199,430,120	\$ 209,783,239	\$ 10,353,119	5.2%
Projected Revenue	\$ 199,902,352	\$ 209,783,239	\$ 9,880,887	4.9%
Surplus/(Deficit)	\$ 472,232	\$ (0)	\$ (472,232)	

Selectmen's Budget Principles

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

1. Continue to set aside funds into the Capital Stabilization Fund as part of the comprehensive long-term strategy for funding critical school and municipal projects.
2. Core services currently provided through the operating and capital budgets should be maintained, recognizing that changes in service demands may require that additional resources be provided in certain areas.
3. Resources should continue to be provided for road, intersection, traffic calming and sidewalk improvements and to address deferred maintenance in these assets.
4. Additional resources should be provided for pedestrian and bicycle safety, consistent with Town Meeting's vote of Article 45 at the 2015 Annual Town Meeting *(new budget guideline for FY2018)*.
5. Recurring revenues, not reserves or one-time revenues, should support operating expenses.
6. Debt will not be used to fund current operating expenditures.
7. Adequate reserves and contingency funds will be budgeted, consistent with the recommendations of the Ad Hoc Financial Policy Committee (2006) as generally endorsed by the Board of Selectmen.
8. Sufficient funds for building maintenance will be budgeted to properly maintain facilities and equipment as well as foster energy conservation.
9. One-time revenue use should be limited to funding one-time expenses (e.g., capital projects) or used to fund reserve accounts.
10. Continue to provide funding for the post-employment benefits liability (OPEB).
11. New targeted revenue sources should be considered to fund specific projects *(new budget guideline for FY2018)*.

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The FY2018 Budget in Brief: Financing Plan, Expenditures, Reserves

While the Town's FY2018 operating budget has many complexities, the following matters deserve specific attention:

I. Financing Plan:

a. Revenue Allocation Model: It has been the Selectmen's practice to equitably share Town revenues between the municipal departments and the School Department. This allocation is based on a model developed by the Town Manager and Superintendent of Schools and accepted by the Board of Selectmen, School Committee and financial committees. After shared expenses and funding for capital projects are considered, 73.7 percent of all projected FY2018 general fund revenues are allocated to the School Department and 26.3 percent are allocated to municipal departments.

b. Revenue Projection: In FY2018, General Fund revenues are projected to increase by \$9.9 million or 4.9 percent over FY2017 budgeted revenues. By way of comparison, budgeted revenue growth in recent years has been:

- FY17: 2.8 percent
- FY16: 6.9 percent
- FY15: 3.6 percent
- FY14: 6.0 percent
- FY13: 4.7 percent
- FY12: 4.0 percent
- FY11: 3.9 percent
- FY10: 4.0 percent

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

Table 2	FY2017 Tax Recap	FY2018 Projected	Change \$	Chg. %	% of Total Revenue
Property Tax Revenue	\$ 161,865,816	\$ 168,509,344	\$ 6,643,528	4.1%	80.3%
State Aid	\$ 13,317,118	\$ 13,552,552	\$ 235,434	1.8%	6.5%
Local Receipts (Recap)	\$ 11,567,308	\$ 12,164,750	\$ 597,442		
Local Receipts not shown on Recap	\$ 472,232	\$ -	\$ (472,232)		
Total Local Receipts	\$ 12,039,540	\$ 12,164,750	\$ 125,210	1.0%	5.8%
Available Funds	\$ 11,995,171	\$ 15,541,028	\$ 3,545,857	29.6%	7.4%
Other Available Funds: Use of Capital Stabilization Fund	\$ 710,000	\$ 324,500	\$ (385,500)	-54.3%	0.2%
Revenue Offsets	\$ (1,654,429)	\$ (1,983,047)	\$ (328,618)	19.9%	-0.9%
Enterprise Receipts	\$ 1,629,135	\$ 1,674,112	\$ 44,977	2.8%	0.8%
Gross General Fund Revenues	\$ 199,902,352	\$209,783,239	\$ 9,880,887	4.9%	
Less - Revenue Set-Aside for Designated Expenses	\$ 15,189,559	\$ 14,746,620	\$ (442,939)	-2.9%	
Net General Fund Revenues	\$ 184,712,793	\$195,036,619	\$ 10,323,826	5.6%	

c. Revenue Sources:

Property Tax Revenue and Assessed Valuations - The property tax remains the Town's primary revenue source, comprising 80.3 percent of total projected

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revenues in FY2018 (**Table 2**). Although residential property makes up 88.4 percent of the total assessed value in Lexington, residential property owners currently pay only 79.7 percent of total property taxes as a result of the tax classification model adopted by the Board of Selectmen (**Table 4**).

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

Table 3	Total Assessed Valuation	%Chg. From Prior Year	Property Tax Levy (net of excluded debt service)	% Chg. From Prior Year	Operating Override Year
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
FY2012	\$ 8,026,687,320	0.7%	\$ 128,615,714	5.2%	no
FY2011	\$ 7,973,719,190	1.0%	\$ 122,202,173	5.4%	no
FY2010	\$ 7,891,590,610	-1.8%	\$ 115,979,750	4.7%	no
FY2009	\$ 8,033,608,130	1.3%	\$ 110,778,389	5.6%	no
FY2008	\$ 7,929,164,350	-1.6%	\$ 104,879,746	9.3%	yes
FY2007	\$ 8,059,234,580	4.9%	\$ 95,954,870	6.9%	yes

Table 4	% Assessed Valuation		% of Property Tax Levy	
	Residential	All Commercial	Residential	All Commercial
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%
FY2012	86.9%	13.1%	77.7%	22.3%
FY2011	87.2%	12.8%	78.3%	21.7%
FY2010	87.4%	12.6%	78.6%	21.4%

State Aid - State Aid, which is estimated at 6.5 percent of total revenues, is also an important source of revenue. However, as recently as FY2008 State Aid was 7 percent of total revenues. State Aid is currently projected to increase by 2 percent for FY2018. While the Legislature will not likely vote the FY2018 State budget until after the close of Town Meeting, the Governor's proposed budget provides for a significant increase in the Town's State Aid, largely the result of the increasing number of students in Lexington's schools. **If this increase comes to pass, these funds could be directed at a Special Town Meeting in the Fall to the Capital Stabilization Fund or other reserve accounts.**

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Table 5 below provides a recent history of the Town's State Aid including the FY2018 projection.

Table 5	FY2014	FY2015	FY2016	FY2017 Estimated	FY2018 Projected
Chapter 70-Education Unrestricted	\$ 8,657,571	\$ 9,584,428	\$ 9,968,536	\$ 11,631,074	\$ 11,863,695
Charter School Reimbursement	\$ 12,628	\$ 1,786	\$ 893	\$ 7,728	\$ 1,790
General Government Unrestricted	\$ 1,326,917	\$ 1,363,715	\$ 1,412,809	\$ 1,473,560	\$ 1,503,031
Veteran's Benefits & Exemptions	\$ 147,543	\$ 169,557	\$ 139,502	\$ 158,221	\$ 137,500
Offsets (School Lunch & Library)	\$ 69,921	\$ 73,976	\$ 46,897	\$ 46,535	\$ 46,535
Total	\$10,214,580	\$ 11,193,462	\$11,568,637	\$ 13,317,118	\$ 13,552,552
\$ Change from Prior Year	\$ 804,446	\$ 978,882	\$ 375,175	\$ 1,748,481	\$ 235,434
% Change from Prior Year	8.5%	9.6%	3.4%	15.1%	1.8%

II. Expenditures:

Budget highlights include:

- a. Lexington Public Schools: The FY2018 School Department proposed General Fund budget (net of grants and other receipts) is increasing by 4.5 percent. The Minuteman Regional High School budget (included in the Education line shown in Table 1) is increasing by 21.3 percent, largely driven by increasing enrollment, debt service associated with the proposed new school project, and the reduction of member communities.
- b. Municipal Departments: The municipal budget is increasing by 2.2 percent, largely the result of:
 - contractual salary adjustments;
 - additional engineering support for DPW to assist in managing various construction projects;
 - additional staffing related to new requirements under the State's Public Records law;
 - implementation of new public safety software; and
 - bicycle safety improvements.
- c. Health Insurance for Employees and Retirees: At the time this FY2018 Recommended Budget and Financing Plan was being completed, the State's Group Insurance Commission (GIC), which the Town joined as of July 1, 2012, had not established its premiums for the various health insurance plans it will offer in FY2018. The Town has estimated an 8 percent increase in premiums for FY2018. The GIC is scheduled to set its FY2018 premium rates on March 1. Any budget revisions, if necessary, could be presented to Town Meeting as part of the motion for Article 4.

The FY2018 health insurance budget to be presented to Town Meeting reflects 12.3 new school department positions, three new Facilities Department positions, and two new municipal positions. This budget also provides for the potential of an additional 40 active employees and 50 new retirees not currently enrolled in the Town's health plans choosing to enroll. Further, the budget makes a provision for those employees who may convert from individual to the more expensive family plans.

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

Table 6 Fiscal Year ¹	Employees/Retirees Enrolled in Town's Health Insurance Program					In Opt-Out Program ³
	Municipal Employees	School Employees	Total Employees	Retirees	Total	Total
2007	260	819	1079	948	2027	NA
2008	256	834	1090	976	2066	NA
2009	267	859	1126	991	2117	NA
2010	264	847	1111	1000	2111	NA
2011	272	835	1107	1016	2123	NA
2012	264	827	1091	1034	2125	NA
2013 ²	253	822	1075	1112	2187	NA
2014	269	839	1108	1151	2259	NA
2015	268	835	1103	1189	2292	NA
2016	261	836	1097	1222	2319	40
2017	261	827	1088	1243	2331	69

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

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

Note 3: Beginning in FY2016, the Town began a health insurance opt-out program whereby employees who were enrolled in the Town's health insurance program and who elect to withdraw receive a payment of \$2500 if withdrawing from an individual plan and \$5,000 if withdrawing from a family plan. This program has saved the Town approximately \$361,000 in FY17.

- d. Utilities/Fuel: Utility costs for FY2018, accounted for in the general and enterprise funds, are expected to increase by \$9,373 or 0.3 percent. With the conversion of heating systems at the Bridge, Bowman and Estabrook schools to natural gas, nearly all Town facilities now use this heating source. Three factors have contributed to the successful management of utility costs: installation of solar panels on six municipal and school buildings and the Hartwell Compost site (\$190,000 in savings), generating 2.7MW of power; energy efficiency initiatives; and long-term energy contracts for electricity and natural gas at favorable rates.

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

Table 7	FY2015	FY2016	FY2017	FY2018	FY18-17	FY18-17
	Actual	Actual	Estimated	Budgeted	\$ Change	% Change
Electricity	\$ 2,324,416	\$ 2,324,416	\$ 2,272,291	\$ 2,308,525	\$ 36,234	1.6%
Heating Oil	\$ 1,630	\$ 792	\$ 3,600	\$ 2,800	\$ (800)	-22.2%
Natural Gas	\$ 953,564	\$ 684,406	\$ 839,889	\$ 773,801	\$ (66,088)	-7.9%
Diesel/Gasoline	\$ 445,784	\$ 245,413	\$ 295,207	\$ 335,234	\$ 40,027	13.6%
Total	\$ 3,725,394	\$ 3,255,026	\$ 3,410,987	\$ 3,420,360	\$ 9,373	0.3%

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

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the Selectmen 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.

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

	General Stabilization Fund	Special Education Stabilization Fund	Other Post Employment Benefits Trust Fund	Capital Stabilization Fund
Table 8				
Current Balance ⁽¹⁾	\$ 9,358,536	\$ 1,083,163	\$ 9,308,872	\$ 23,066,687
Proposed Appropriation From (2017 ATM)	\$ -	\$ -	\$ -	\$ (2,724,500)
Proposed Appropriation Into (2017 ATM)	\$ -	\$ -	\$ 1,829,721	\$ 7,690,398
Projected Balance, July 1, 2017	\$ 9,358,536	\$ 1,083,163	\$ 11,138,593	\$ 28,032,585
<i>⁽¹⁾ Reflects 12/31/2016 Balance</i>				

The Town's goal has been to build its operating budget reserves (i.e., General Stabilization Fund and Special Education Stabilization Fund) to a level of seven percent of General Fund revenues (\$13-\$14 million), an amount considered sufficient to make up three years of revenue shortfalls that typically occur during an economic slowdown. This goal has largely been achieved. On another positive note, the budget includes a recommendation to continue to set aside funds for post-employment benefits (i.e., retiree health care) for the tenth consecutive year.

Table 9 below provides a history of appropriations into and out of the Capital Stabilization Fund and recommendations for FY2018:

	FY2013	FY2014	FY2015	FY2016	FY2017 Appropriated	FY2018 Budget
Table 9						
Prior Year Balance		\$ 1,601,836	\$ 3,990,704	\$ 8,048,466	\$ 16,725,947	\$ 23,066,687
Appropriation into Capital Stabilization Fund	\$ 1,600,000	\$ 3,983,240	\$ 5,910,726	\$ 9,447,832	\$ 6,991,205	\$ 7,690,398
Subtotal-Available for Appropriation	\$ 1,600,000	\$ 5,585,076	\$9,901,430	\$ 17,496,298	\$ 23,717,152	\$ 30,757,085
Appropriation From Capital Stabilization Fund						
Excluded Debt Service Tax Relief	\$ -	\$ (1,600,000)	\$ (950,000)	\$ (215,000)	\$ -	\$ (2,400,000)
Within Levy Debt Service Mitigation	\$ -	\$ -	\$ (919,000)	\$ (620,567)	\$ (710,000)	\$ (324,500)
Subtotal - Appropriation	\$ -	\$ (1,600,000)	\$ (1,869,000)	\$ (835,567)	\$ (710,000)	\$ (2,724,500)
Interest Income (a/o 12/31/16)	\$ 1,836	\$ 5,628	\$ 16,036	\$ 65,216	\$ 59,535	\$ -
Projected Balance of Fund	\$ 1,601,836	\$ 3,990,704	\$ 8,048,466	\$16,725,947	\$23,066,687	\$28,032,585

The FY2018 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 2-4 in the March 20, 2017 Special Town Meeting Warrant and Articles 11-17 in the Annual Town Meeting Warrant represent the capital portion of this year's recommended budget. For fiscal year 2018, a total capital budget of \$111.2 million is proposed.

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

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Table 10 provides a summary of funding sources financing the Town's recommended capital plan for FY2018.

Table 10	Free Cash/Tax Levy	Other Financing Sources ¹	Debt ³	Total	Other ⁴
General Fund	\$ 6,087,640	\$ -	\$ 8,511,626	\$ 14,599,266	
Proposed Excluded Debt	\$ -	\$ -	\$ 90,400,000	\$ 90,400,000	
Chapter 90/Other	\$ -	\$ 94,459	\$ -	\$ 94,459	\$ 1,046,016
Water Enterprise	\$ -	\$ 1,095,000	\$ -	\$ 1,095,000	
Sewer Enterprise	\$ -	\$ 1,290,000	\$ 530,000	\$ 1,820,000	
Recreation Enterprise	\$ -	\$ 55,000	\$ -	\$ 55,000	
Compost Revolving Fund			\$ 725,000		
Community Preservation Act ²	\$ -	\$ 3,186,142	\$ -	\$ 3,186,142	
Total (all Funds)	\$ 6,087,640	\$ 5,720,601	\$ 100,166,626	\$ 111,249,867	\$ 1,046,016

¹ Other Funding Sources includes \$35,000 from the Sale of Cemetery Lots Special Revenue Fund for the Westview Cemetery Building Assessment and \$59,459 from prior years' unused bond proceeds for Public Facilities Bid Documents.

² Includes both Town and non-Town CPA funded projects.

³ General Fund debt of \$8,446,626 (from Table I - FY2018 Recommended Projects -General Fund Debt) is net of \$1,811,250 for those projects that are potential candidates for debt exclusions as this amount is also included in the \$88,075,000 of Proposed Excluded Debt Projects (Table V - FY2018 Recommended Projects - Funding Through Proposition 2 1/2 Debt Exclusion).

⁴ Other includes \$75,000 from the School's Food Service Revolving Fund for food service equipment and \$971,016 in Chapter 90 Aid for street improvements. These items do not require a Town Meeting appropriation.

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

Table 11 provides a summary of the Town's cash capital plan for the period FY2012-2018.

Table 11	Cash Capital
FY2018 Proposed	\$ 6,182,099
FY2017 Appropriated	\$ 5,619,429
FY2016 Appropriated	\$ 4,642,987
FY2015 Appropriated	\$ 5,958,117
FY2014 Appropriated	\$ 6,919,202
FY2013 Appropriated	\$ 3,902,794
FY2012 Appropriated	\$ 2,627,174

II. Other Planned Capital Projects:

The Town is planning for a number of significant future capital projects over the next three to five years, including a new Hastings School, a stand-alone Lexington Children's Place building (pre-kindergarten) at the Pelham Road property, a new or expanded fire station, a new or expanded police station, the Center Streetscape improvement project, an expansion of the Community Center at the Pelham Road

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Property, and an expanded Visitors Center. It is recommended, and shown in Table 9, that the Town appropriate into the Capital Stabilization Fund an additional \$7,690,398 to be used to mitigate the related debt service for these projects, thereby providing tax relief to Lexington's taxpayers.

III. Debt/Debt Service:

The Town of Lexington has maintained a Aaa credit rating for many years. Moody's Investors Service recently reaffirmed this credit rating in February 2017 when the Town issued \$45 million in long-term debt that sold at a 3.06 percent interest rate over a 30-year term. Standard and Poor's also rated this debt AAA. In its credit rating opinion, Moody's cited the Town's strong financial position including healthy reserve levels, sizeable and affluent tax base, and manageable debt and pension burdens. The Aaa/AAA rating is the highest credit rating a municipality can receive and allows the Town to borrow funds at the most favorable interest rates. Approximately 30 of the 351 Massachusetts cities and towns maintain the Aaa/AAA rating.

Table 12 provides an historical summary of the Town's debt service. More detailed debt service schedules can be found in Section XI of this Recommended Budget and Financing Plan. The credit rating agencies find that debt service up to 10 percent of revenues reflects strong financial condition. The Board of Selectmen will propose appropriating \$324,500 from the Capital Stabilization Fund to mitigate within levy debt service and \$2,400,000 from the Capital Stabilization Fund to provide property tax relief for excluded debt service.

Table 12	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018
Annual Debt Service	Actual	Actual	Actual	Actual	Appropriated	Proposed
General Fund ¹	\$ 5,669,343	\$ 5,534,823	\$ 6,524,620	\$ 6,740,537	\$ 7,199,028	\$ 7,152,605
Prop 2 1/2 Debt Exclusion ²	\$ 6,642,450	\$ 8,381,309	\$ 8,344,302	\$ 8,682,489	\$ 8,330,185	\$ 11,630,051
Water	\$ 1,299,090	\$ 1,260,655	\$ 1,379,622	\$ 1,415,508	\$ 1,408,576	\$ 1,466,428
Compost Revolving Fund	\$ 43,406	\$ 88,071	\$ 40,199	\$ 63,894	\$ 102,381	\$ 162,681
Sewer	\$ 956,855	\$ 1,131,673	\$ 1,220,843	\$ 984,679	\$ 981,220	\$ 1,063,349
Recreation	\$ 131,500	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000
Total Debt Service	\$ 14,742,644	\$ 16,496,531	\$ 17,609,586	\$ 17,987,106	\$ 18,121,390	\$ 21,575,113
Gross Revenues	\$ 186,825,482	\$ 200,482,883	\$ 209,377,849	\$ 222,654,122	\$ 229,182,321	\$ 240,718,826
Debt Serv. % of Revenue	7.89%	8.23%	8.41%	8.08%	7.91%	8.96%

Note 1: FY2018 General Fund debt service is gross debt service and does not reflect the proposed use of \$324,500 from the Capital Stabilization Fund to mitigate the debt service impact on the recommended budget.

Note 2: FY2016 debt exclusion amount is gross debt service and does not reflect the use of \$215,000 of the Capital Stabilization Fund to mitigate the debt service impact on taxpayers. FY2018 debt exclusion amount is gross debt service and does not reflect

History of Proposition 2 ½ Overrides and Debt Exclusions in Lexington

The FY2018 budget, as presented, is balanced without the need for a Proposition 2 ½ Override. Below is a history of Overrides and Debt Exclusions election results in Lexington:

NR: not requested

<u>Fiscal Year</u>	<u>Override</u>	<u>Debt Exclusion</u>
2018	NR	Anticipated for Hastings, LCP & Fire Station
2017 - approved	NR	\$71,663,200 (Middle Schools and Elementary Modulars)
2015	NR	NR
2014	NR	NR
2013	NR	NR
2012 - approved	NR	\$51,800,000 (Bridge, Bowman, Estabrook)

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2011	NR	NR
2010	NR	NR
2009	NR	NR
2008 - approved	\$3,981,589	\$25,180,000 (Public Services Building)
2007 - approved	\$1,858,435	NR
2007 – not approved	\$3,166,166	NR
2006	NR	NR
2005 - approved	\$4,224,340	NR
2004 - not approved	\$4,957,000	NR
2003 - approved	NR	\$42,550,000 (schools, roads, Lincoln Park)
2002	NR	NR
2001 - approved	\$3,440,829	NR
2000 - approved	NR	\$52,235,000 (school building projects)
1999 - not approved	NR	\$68,200,000 (school building projects)
1998	NR	NR
1997	NR	NR
1996 - approved	\$1,500,000	NR
1995	NR	NR
1994	NR	NR
1993 - approved	\$2,718,092	NR
1992	NR	NR
1991 - approved	\$1,097,829	NR
1990	NR	NR
1989 - approved	NR	\$11,000,000 (Pine Meadows Golf Course)

Elderly/Low Income Property Tax Relief

The Board of Selectmen continues to examine various options to provide property tax relief to low income and elderly residents. The FY2018 recommended budget provides funding for the following tax relief programs:

1. Senior Service Program – Qualified property owners, age 60 and older, can work for the Town and receive up to \$1,045 per individual or \$1,330 per two-person household toward their property tax bills.

2. Property Tax Deferral - The Town has received special legislation to increase the income limits for residents over 65 years of age who wish to defer their property taxes. Currently, seniors who earn less than \$70,000 qualify for this program. 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 eight years has been:

FY2017	0.66 percent
FY2016	0.25 percent
FY2015	0.12 percent
FY2014:	0.15 percent
FY2013:	0.18 percent
FY2012:	0.26 percent
FY2011:	0.34 percent
FY2010:	0.68 percent

3. Increase in the Property Tax Exemption Limits – At the 2006 Annual Town Meeting, the Town voted to double the amount of the property tax exemption for certain

FISCAL YEAR 2018 RECOMMENDED BUDGET AND FINANCING PLAN

qualifying residents, to \$1,000.

4. The Town offers an exemption from the Community Preservation Act surcharge to qualified low-income residents.
5. The Town provides a 30 percent discount on water and sewer rates to qualified low-income residents.

Collective Bargaining

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

- FY2019: Lexington Municipal Management Association
- FY2018: Public Works, Municipal Custodians and Public Safety Dispatchers.
- FY2017: Lexington Municipal Employees Association
- FY2016: Library Association; Fire Union, School Crossing Guards.
- FY2015: Police Officers.
- FY2012: Police Superior Officers

The budget for fiscal year 2018 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 2018, a residential tax rate of \$15.13/\$1,000 of valuation is estimated compared to the residential tax rate of \$14.49/\$1,000 of valuation for Fiscal Year 2017.

The following table provides a summary of components of the property tax bill for a home assessed at \$831,000, which is the current median residential property value in Lexington.

MEDIAN RES. TAX BILL	FY2014	FY2015	FY2016	FY2017	FY2018 <i>(est.)</i>
Property tax w/2.5% increase	\$9,529	\$10,246	\$10,890	\$11,452	11,738
Proposition 2½ debt exclusion	459	513	586	\$589	655
Community Preservation Act surcharge	253	278	300	\$318	327
Total tax bill	\$10,242	\$11,037	\$11,776	\$12,393	\$12,720

Assumes no change in the residential/commercial tax shift in FY17 to FY18.

Assumes no change in total valuation by class of property (residential, commercial/industrial, personal property) in FY18.

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:

Town Manager Carl Valente: 781 698-4540

Assistant Town Manager for Finance Carolyn Kosnoff: 781 698-4622

Budget Officer Jennifer Hewitt: 781 698-4626