

Fiscal Year 2007 Recommended Budget and Financing Plan

REPORT OF THE TOWN MANAGER

The fiscal year 2007 operating budget totals \$119,251,237 an increase of \$12,665,531 or 11.9 percent over the fiscal year 2006 adopted budget. The recommended budget exceeds projected revenues by \$6,512,831, likely resulting in a Proposition 2 ½ override vote, depending on the actions of Town Meeting. The Board of Selectmen has voted 4-1 to bring forward to Town Meeting the budget reflected in this document.

Overview of the Recommended Budget and Financing Plan

In light of the state of the economy, anticipated funding of State Aid and the Town's increasing fixed costs, the Board of Selectmen held a financial goal setting session in August 2005 to begin working on the fiscal year 2007 budget. In November 2005, the Town Manager presented the FY2007 revenue projections. Then, on January 18, 2006, the Town Manager presented an initial budget recommendation that included the Superintendent of School's budget proposal. At that time, the budget shortfall was \$7,373,036.

The Town Manager's and Superintendent of School's budget recommendations were followed by an intensive review by the Board of Selectmen and School Committee of all aspects of the Town's anticipated revenues and projected expenditures. After this review, a consensus was reached on the following points:

1. Through the identification of operating budget efficiencies and fee increases, the budget shortfall was reduced from \$7.4 to \$6.5 million.
2. The budget shortfall is not caused by one-time increases in the Town budget, but by structural (i.e., permanent) changes, including the rising cost of health care, increased building maintenance and utility costs and negligible increases in financial assistance from the State. As a result of these structural budgetary changes, revenue increases and program reductions used to balance this budget are also intended to be permanent in nature.
3. Residents have conveyed that they are generally satisfied with the level of Town services they are receiving and would like the option of considering whether service reductions, a tax increase, or some combination of the two, should be implemented to eliminate this budget shortfall.

The Town is faced, therefore, with the potential of a Proposition 2½ override of \$6,512,831 in order to maintain service levels and restore some services previously lost.

Selectmen's Budget Principles

In developing the annual operating budget, the Board of Selectmen has focused on the following principles in order to preserve the Town's financial condition:

1. Current revenues should be sufficient to support current expenditures.
2. Debt will not be used to fund current operating expenditures.
3. Adequate reserves and contingency funds will be budgeted.
4. Sufficient funds for building maintenance will be budgeted to properly maintain facilities and equipment as well as foster energy conservation.
5. The operating and capital budget will strive to maintain the core services currently provided and recognize that changes in service demands may require that additional resources be provided in certain areas.
6. Payments in-lieu-of-taxes from the water and sewer enterprise funds to the general fund will be gradually reduced.
7. The Town should continue the process of restoring critical core service positions that were eliminated in fiscal year 2004, after the failed Proposition 2 ½ override.

Fiscal Year 2007 Recommended Budget and Financing Plan

Changes in Budget Presentation

The following changes in the budget presentation have been made to improve internal financial controls, address the recommendations of the Selectmen's Financial Policy Committee and to consolidate minor budget categories:

1. **Certain Prior Year Line-Items Restated** - The FY2007 municipal budget is organized somewhat differently than in FY2006, with certain smaller accounts consolidated with other accounts. In order to compare FY2007 to prior fiscal years, FY2005 and FY2006 appropriations are restated and organized on the same basis as the FY2007 presentation.
2. **Health Insurance** - In prior years, health insurance and the Medicare tax have been separately budgeted in the municipal and school department budgets. For FY2007, these expenses are consolidated under the category of "Shared Expenses."
3. **Continuing Balance Accounts** - Certain municipal accounts have been categorized as "continuing balance accounts". Any unexpended balance in a continuing balance account, if approved by Town Meeting, carries forward from year to year as a reserve against future claims. The Workers' Compensation (account 2150), Uninsured Losses (account 2170) and the Salary Transfer (account 8230) line-items are recommended to be established as continuing balance accounts.
4. **Fund Presentation:** We are recommending that the Water, Wastewater (Sewer) and Recreation enterprise funds (Article 18) and the Revolving funds (Article 23) be voted as a separate Warrant Articles rather than consolidated within the operating budget. This will improve internal controls and facilitate reporting to the Auditors and the State.

Budget in Brief

The fiscal year 2007 operating budget totals \$ 119,251,237, a \$12,665,331 increase over the fiscal year 2006 budget approved by Town Meeting. The major components of this budget are as follows:

	FY06 Budget	FY07 Recommended Budget	\$ Increase	% Increase
Lexington Schools	60,028,586	66,703,858	6,675,272	11.1%
Minuteman Regional School	830,667	1,082,250	251,583	30.3%
Shared Expenses	22,769,010	26,395,042	3,626,032	15.9%
Municipal Departments	22,957,645	25,070,086	2,112,441	9.2%
Subtotal	106,585,908	119,251,236	12,665,328	11.9%
Capital and Stabilization Fund	1,756,647	3,940,000	2,183,353	124.3%
Total	108,342,555	123,191,236	14,848,681	13.7%
Projected Revenue	108,342,555	116,678,405		
Shortfall (Potential Override Amount)	0	6,512,831		

Key Financial Issues Facing the Town

While the Town's budget has many complexities, certain matters deserve specific attention:

- I. **Revenue Growth:** The property tax remains the Town's primary revenue source, comprising 83 percent of total revenues. Residential property value makes up 89 percent of the total assessed value in Lexington. Residential property owners, however, pay only 80 percent of total property taxes due to the tax classification model adopted by the Board of Selectmen. State Aid, which is 7.9 percent of total revenues, is also an importance source of revenue. Lexington's State Aid, however, has decreased by \$969,893 between fiscal year 2002 and 2006. This is a significant factor of the budget shortfall for fiscal year 2007.

Fiscal Year 2007 Recommended Budget and Financing Plan

II. Expenditures: The Town's so-called fixed costs, shown under Shared Expenses, are another major component impacting the fiscal year 2007 budget. Specifically:

a. **Health Insurance for Employees and Retirees:** The Town currently contributes 80-87 percent towards the health insurance premium for employees and retirees. The health insurance budget for employees and retirees is expected to increase by \$3,129,000 or 21 percent in fiscal year 2007. In the four-year period from fiscal year 2003-2007, the health insurance budget has increased by \$4,503,791 or 39 percent.

b. **Utilities/Fuel:** Fuel, gasoline and other utility increases continue to plague the Town as they do residential and commercial consumers alike. The Town participates in a regional purchasing consortium for gasoline, natural gas and heating oil that provides very competitive prices due to the bulk purchasing power of the group. Utility costs are expected to increase \$265,000 for the municipal departments and \$632,000 for the school department.

III. Reserves: The Board of Selectmen has been increasingly concerned with the Town's growing unfunded liabilities (e.g., post employment health benefits, compensated absences) and lack of financial reserves. In response to these concerns, the Board appointed a Financial Policy Committee to examine and prepare comprehensive financial policies that address operational needs, catastrophic and emergency reserves, maintenance of assets and unfunded liabilities. The draft summary of this policy will be on the Town's website <http://ci.lexington.ma.us/> in late March 2006. This policy calls for addressing the Town's unfunded liabilities and rebuilding financial reserves over a multi-year period. The fiscal year 2007 budget presented here provides for \$650,000 to be added to the Town's stabilization reserve fund.

The At-Risk List

As previously stated in this budget report, the recommended FY2007 budget exceeds revenues by \$6,512,831. In the absence of a Proposition 2 ½ override or other revenue increase, Town and School services will have to be reduced to balance the budget. The Town Manager and Superintendent of Schools, therefore, prepared a list of possible budget reductions necessary to balance this budget. This list is shown below. Additional detail on each item is included as Appendix A of this report.

#	Dept.	Item	Amount	Cumu. Amt.
Starting Balance				\$ 6,512,831
1	Education	Lexington Public Schools	\$ 5,123,396	\$ 6,512,831
2	Capital	Capital Projects (Building Envelope)	\$ 150,000	\$ 1,389,435
3	Community Dev.	Reduce hours, Sealer of Weights & Measures	\$ 4,000	\$ 1,239,435
4	Community Dev.	Eliminate Conservation Assistant position	\$ 48,860	\$ 1,235,435
5	DPW	Eliminate CRT Recycling Collection/Program	\$ 25,000	\$ 1,186,575
6	DPW	Eliminate Building Maintenance Superintendent position	\$ 33,300	\$ 1,161,575
7	DPW	Do Not restore Highway Superintendent position	\$ 66,100	\$ 1,128,275
8	DPW	Reduce Lexpress/ 10 hours per week	\$ 50,000	\$ 1,062,175
9	DPW	Reduce building maintenance services/repairs	\$ 25,000	\$ 1,012,175
10	DPW	Eliminate yard waste pick-up program	\$ 72,000	\$ 987,175
11	DPW	Purchase four fewer inspectional services vehicles	\$ 78,000	\$ 915,175
12	DPW	Do not purchase diagnostic equipment for vehicle maintenance	\$ 6,000	\$ 837,175
13	DPW	Eliminate Tree planting program	\$ 5,000	\$ 831,175
14	Eco. Devo.	Do Not restore Economic Development Officer position	\$ 67,100	\$ 826,175
15	Fire	Reduce staff coverage/equipment to come out of service	\$ 100,000	\$ 759,075
16	Fire	Reduce purchase of supplies, materials & equipment	\$ 44,812	\$ 659,075
17	Library	Eliminate Sunday Hours-Cary Library; Close E. Lexington Branch lib	\$ 120,000	\$ 614,263
18	Police	Reduce Patrol Coverage	\$ 13,000	\$ 494,263
19	Police	Eliminate Animal Control Officer	\$ 20,703	\$ 481,263

Continued on next page.

Fiscal Year 2007 Recommended Budget and Financing Plan

The At-Risk List (con't)

#	Dept.	Item	Amount	Cumu. Amt.
Starting Balance				\$ 6,512,831
20	Police	Eliminate Three Police Cadets	\$ 34,518	\$ 460,560
21	Police	Reduce purchase of supplies, materials & equipment	\$ 21,000	\$ 426,042
22	Police	Do Not restore administrative clerk	\$ 37,503	\$ 405,042
23	Police	Do Not restore School Resource Officer-Middle School	\$ 54,014	\$ 367,539
24	Police	Purchase one less police patrol cruiser	\$ 26,000	\$ 313,525
25	Soc. Serv.	Eliminate Town support for senior nutrition program	\$ 5,125	\$ 287,525
26	Soc. Serv.	Reduce purchase of supplies & materials	\$ 4,000	\$ 282,400
27	TM/Fin.	Eliminate Management Intern position	\$ 40,600	\$ 278,400
28	TM/Fin.	Do Not restore Human Resource Director position	\$ 76,100	\$ 237,800
29	TM/Fin.	Eliminate Information Technology Director position	\$ 80,700	\$ 161,700
30	TM/Fin.	Reduce Purchasing Officer hours	\$ 14,000	\$ 81,000
31	TM/Fin.	Reduce Audit support services	\$ 20,000	\$ 67,000
32	TM/Fin.	Reduce purchase of materials/support for Town committees	\$ 12,000	\$ 47,000
33	TM/Fin.	Reduce employee training programs	\$ 14,000	\$ 35,000
34	Town Clerk	Do not fund part-time archivist/records management program	\$ 20,000	\$ 21,000
35	Town Clerk	Print fewer Annual List of Residents book	\$ 1,000	\$ 1,000

The Fiscal Year 2007 Capital Budget

The recommended Capital Budget will provide for maintenance, replacements and improvements to our buildings, infrastructure and equipment. Time has proven that deferred capital improvements ultimately result in higher repair and replacement costs in the future. Warrant Articles 27-37 represent the capital portion of this year's budget. For fiscal year 2007, we are requesting a total capital budget of \$8,543,000. The complete capital budget is found in Section 6 of this document.

Debt/Debt Service

The Town of Lexington has maintained a Aaa credit rating for a number of years. Moody's Investors Service reaffirmed this credit rating this past year. This strong credit rating is due largely to the very positive demographic characteristics of the Town. A "triple A" rating is the highest credit rating a municipality can receive and allows the Town to borrow funds at the most favorable interest rates. Only 16 of Massachusetts' cities and towns maintain the Aaa rating. Below is an historical summary of the Town's debt service.

Annual Debt Service	FY2004	FY2005	FY2006	FY2007 proj.
General Fund	\$4,035,120	\$4,502,085	\$3,490,750	\$3,720,061
Proposition 2 1/2 Excluded	4,280,558	5,325,085	4,943,313	5,554,651
Water Enterprise Fund	241,421	309,984	228,546	255,921
Sewer Enterprise Fund	1,237,516	649,646	275,951	282,293
Total	9,794,615	10,786,800	8,938,560	9,812,926

Fiscal Year 2007 Recommended Budget and Financing Plan

History of Approved Proposition 2 ½ Increases in Lexington

Below is a history of Approved Proposition 2½ overrides and debt exclusions in Lexington:

Fiscal Year	Override	Debt Exclusion (total projects approved)	
2007 <i>potential</i>	\$6,512,831	\$0	
2006	\$0	\$0	
2005	\$4,224,3400	\$0	
2004	\$0	\$0	
2003	\$0	\$42,550,000	(schools, roads, Lincoln Park)
2002	\$0	\$0	
2001	\$3,440,829	\$0	
2000	\$0	\$52,235,000	(school building projects)
1999	\$0	\$0	
1998	\$0	\$0	
1997	\$0	\$0	
1996	\$1,500,000	\$0	
1995	\$0	\$0	
1994	\$0	\$0	
1993	\$2,718,092	\$0	
1992	\$0	\$0	
1991	\$1,097,829	\$0	
1990	\$0	\$0	
1989	\$0	\$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 our low income and elderly residents. The current status of programs and proposed changes is shown below:

1. Senior Service Program (Article 22) – Currently, qualified elderly and disabled property owners can work for the Town and receive up to \$750 toward their property tax bills. The proposal is to increase this amount to \$1,000.
2. Property Tax Deferral Interest Rate Reduction (Article 20) – Currently, the interest rate for elderly residents who defer their property taxes is 8 percent. As a result of Legislation recently approved and signed by the Governor, Town Meeting will be asked to reduce this interest rate to less than 5 percent.
3. Increase in the Property Tax Exemption Limits (Article 19) – In FY2006 this exemption was \$750 for qualifying residents. The proposal is to increase this exemption to \$1000.
4. The Town provides a 30 percent discount on water and sewer rates to qualified low-income residents.

Collective Bargaining

At the time this report was written, collective bargaining agreements had not been reached with the municipal unions for police officers and dispatchers and the school department unions for custodians and instructional aides. All other bargaining units have settled. The budget for fiscal year 2007 includes amounts that, in the best estimate of the Town Manager and Superintendent of Schools, may be required for the remaining collective bargaining contract renewals.

Fiscal Year 2007 Recommended Budget and Financing Plan

Tax Rate Estimate

It has been customary 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 increase in assessed valuations for Fiscal Year 2007, a residential tax rate of \$12.14 is estimated compared to the tax rate of \$11.11/\$1,000 for Fiscal Year 2006.

The following table provides a summary of components of the property tax bill for a home assessed at \$616,000, which is the 2006 single-family residential median property value in Lexington.

MEDIAN RESIDENTIAL TAX BILL	FY2007
Base property tax	\$6,844
Allowable 2.5% increase	171
Proposition 2½ override (potential)	468
Community Preservation Act surcharge	<u>188</u>
Total tax bill	\$7,671

Notes: 1. Assumes no change in the residential/commercial tax shift. 2. Assumes no change in property values between properties. 3. Figures are exclusive of exempt debt, which is dependent on State reimbursements for school projects.

Additional Information

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