

Town Finances

INTRODUCTION

The Comprehensive Plan contains a fairly ambitious set of recommendations designed to address critical challenges and needs, and to preserve the high quality of life long enjoyed by Lincoln residents. Some of the goals and objectives can be achieved at little or no financial cost, but others will require meaningful investments. It is essential that both policy makers who will be requesting resources and the voters and taxpayers who will determine whether the monies are authorized understand fully the financial implications. It will be incumbent upon those officials who ultimately bring forward spending requests to Town Meeting and/or the ballot to explain why a particular investment is worth making and to demonstrate that its costs can be absorbed without creating an unreasonable burden for Lincoln's taxpayers. This chapter provides an overview of Lincoln's current financial position and an assessment of key financial strengths and vulnerabilities in an attempt to create a context for prudent financial decisions and priorities established in Chapter 13, Implementation.

Lincoln's financial forecast and plan must reflect today's economic realities, which are being shaped by the world-wide economic collapse that began to materialize publicly in the fall of 2008. Although not immune from the effects of the general economy, Lincoln is better positioned than many towns to absorb short-term impacts because:

- ❖ Lincoln depends less on state aid and other outside sources of revenue than most towns. In Lincoln, state aid accounts for 6.8 percent of total revenues (\$2 million), but the typical community depends upon the state for 25 percent of its total revenue. In response to declining state revenue, Governor Patrick recently announced mid-year state aid cuts. This first round of reductions resulted in only a modest reduction for Lincoln. However, for FY 2010 the probability of substantial reductions (on the order of 10-25 percent) is high. Reductions at the lower end of this range would be consistent with assumptions used to develop Lincoln's FY 2010 operating budget. However, cuts at the higher end of the range could not be absorbed without reducing municipal and school services.
- ❖ Over the past several years, Lincoln has made a concerted effort to increase its financial reserves in order to provide some measure of flexibility in the event of a budgetary or financial emergency. The town's available fund balance as of June 30, 2008 was \$3,565,601, or 13 percent of operating expenditures – well within the range preferred by the bond rating agencies.
- ❖ Lincoln has been aggressive about repaying debt and cautious about incurring new debt. As a result, the town's debt burden is low. Lincoln has strong capacity to take on additional debt to fund needed investments in buildings, facilities and infrastructure.
- ❖ In 2004, Lincoln's bond rating was upgraded to AAA (the highest possible rating) which will allow the town to borrow funds at the lowest possible interest rate.
- ❖ The New England Deaconess project – The Groves – is under construction. When completed, this project will increase Lincoln's tax base by \$100 million, yielding an additional \$1 million in property taxes annu-

ally with very little requirement for municipal services. The construction schedule for The Groves has been affected by the decline in residential real estate values (as potential residents find it more difficult to sell their current homes) and a difficult banking environment. Construction delays will result in a slower than anticipated increase in property taxes. Nevertheless, the leadership at Deaconess remains confident that this project will ultimately achieve full buildout.

FINANCING OF GENERAL OPERATIONS

Override Strategy and History

In general, Lincoln's revenues must grow by approximately four to five percent per year in order to maintain service levels. In a typical year, revenues have grown by three to four percent exclusive of any Proposition 2 ½ overrides. To fill the gap, town officials have asked voters to support modest overrides of between \$200,000 and \$300,000. The Finance Committee has advocated for frequent but relatively small overrides versus infrequent but large overrides. There are two principal advantages to the town's approach. First, annual growth in property taxes is steadier and more predictable. Second, in the event that voters reject a proposed override, the reductions in services required to balance the budget are far less severe.

In order for property taxes to increase beyond the limit proscribed by Proposition 2 ½, voters must give their approval both at Town Meeting and at the ballot box. Table 12.1 illustrates the town's voting record on Proposition 2 ½ override proposals for general operations. Override requests have been presented to voters in seven of the last ten years; all seven were approved. The average approval rate was 62 percent, and the average override request was approximately \$326,000. The average override increased taxes by approximately two percent. No override was proposed in either of the last two fiscal years (i.e., FY 2009 and 2010), owing largely to the infusion of tax revenue provided by The Groves.

Budget Drivers

Two principal expenses drive the cost of town services in Lincoln and in other communities: employee salaries and wages, and health insurance and pensions. Salaries and wages comprise approximately 70 percent of all town spending. The three ways in which salaries and wages increase are by cost-of-living adjustments, step increases, and increasing the number of employees. Those responsible for setting or negotiating wages do so after surveying comparable communities and assessing cost impacts. Lincoln has been judicious about adding staff. On the town side, the total number of employees has held relatively constant for nearly twenty years. As new positions were added to address evolving needs and priorities, efforts were made to consolidate or eliminate positions in other areas.

The inflation rate in health costs and pensions has been three to four times the overall rate of inflation for nearly ten years. The challenge is national in scope and common throughout the public and private sectors. In Lincoln pension and insurance costs represented 10 percent of total town expenditures in 1999; by 2009 their share of the budget has nearly doubled to 19 percent. If left unchecked, the growing cost of insurance and pensions will continue to absorb an increasing share of town revenue, depriving critical programs and services of the resources they require. Lincoln has implemented a number of cost control measures. Foremost among them: Lincoln has one of the lowest contribution rates to employee health insurance (60 percent versus average of 75 percent). Over the course of several cycles of collective bargaining, the town has also reorganized its health insurance programs, eliminating the full indemnity option and consolidating the number of HMO plans. More recently, the town switched to a partially self-funded arrangement under which it assumes greater risk for claims in

Table 12.1
Proposition 2 ½ Override History: General Operations

	Date of Election	Fiscal Year	Override Type	Amount Requested	Approved	Rejected
1	3/29/1982	1983	General Override	\$100,779	\$100,779	
2	3/30/1982	1983	General Override	\$250,000		\$250,000
3	3/28/1983	1984	General Override	\$105,637	\$105,637	
4	3/26/1984	1985	General Override	\$114,869		\$114,869
5	3/30/1987	1988	General Override	\$137,629	\$137,629	
6	3/28/1988	1989	General Override	\$431,986	\$431,986	
7	4/1/1989	1990	General Override	\$375,000	\$375,000	
8	3/26/1990	1991	General Override	\$400,000	\$400,000	
9	3/25/1991	1992	General Override	\$585,000	\$585,000	
10	3/30/1992	1993	General Override	\$520,000		\$520,000
11	5/18/1992	1993	General Override	\$260,000		\$260,000
12	3/29/1993	1994	General Override	\$310,000		\$310,000
13	3/25/1996	1997	General Override	\$200,000		\$200,000
14	3/ /01	2002	General Override	\$300,000	\$300,000	
15	11/ /01	2002	General Override	\$283,000	\$283,000	
16	3/23/2002	2003	General Override	\$300,000	\$300,000	
17	3/31/2003	2004	General Override	\$350,000	\$350,000	
18	3/29/2004	2005	General Override	\$212,000	\$212,000	
19	3/ /2005	2006	General Override	\$490,000	\$490,000	
20	3/26/2007	2008	General Override	\$350,000	\$350,000	
				\$6,075,900	\$4,421,031	\$1,654,869

Source: Town Administrator Timothy Higgins, Finance Director Colleen Wilkins; May 2009.

exchange for the potential to retain any savings that would otherwise accrue to the insurance companies. Thus far the switch to partial self-funding has been cost neutral.

Lincoln is also making progress toward its long-term goal of setting aside funds to offset long-term insurance liabilities. In March 2009, Town Meeting accepted the Board of Selectmen/Town Administrator's recommendation to adopt a provision of state law that requires eligible employees to enroll in Medicare. The present value of the savings is projected at \$18 million. The School Department and Town Government are also contributing to the Health Insurance Trust Fund, which will help lower the long-term liability and, someday, provide a source of funds outside the year-to-year budget.

TOWN FACILITIES & INFRASTRUCTURE: DEBT MANAGEMENT

Lincoln's public buildings, facilities, and infrastructure help to define the character of the community and contribute greatly to its quality of life. The estimated replacement value of Lincoln's capital asset base is \$46.2 million. The financial policy boards are committed to maintaining these public assets and when appropriate, renovating, expanding, replacing, consolidating, or eliminating specific buildings and facilities.

Any sensible long-term capital plan must start with a careful assessment of existing assets. All of Lincoln's buildings and major capital assets have been reviewed in recent years, with plans developed for their maintenance and repair – including cost estimates. The State of the Town Meeting convened by the Board of Selectmen in 2007 was designed to help residents understand the scope of prospective capital projects and to begin to discuss cost

implications and potential financing strategies. All departments were asked to identify major capital projects they might conceivably pursue within the next five years. This exercise resulted in a list of projects that included building renovations, expansions, new construction, roadway improvements, land acquisitions and improved recreational facilities. The total projected cost of all projects ranges from \$36.5 million to \$66.5 million.

Table 12.2 lists capital projects that might be proposed within the next five years, and projects their relative costs and tax impact.

**Table 12.2
Potential Capital Projects**

Project	Current Estimate	Projected Debt Service	Tax Impact
Roadway Improvements	\$5,500,000	\$770,000	2.40%
Town Offices Renovation & Expansion	\$8,000,000	\$712,000	3.40%
Other Town Building Improvements	\$4,000,000	\$356,000	1.70%
Lincoln School Improvements	\$15,000,000 - \$40,000,000	\$1,335,000-3,560,000	6.5% -17%
Open Space Acquisitions	\$2,000,000	\$178,000	0.1%
Recreation**	\$2,000,000 - \$7,000,000	\$178,000 - \$623,000	0.1% - 3%
Total	\$36.5M - \$66.5M	\$3,529,000-\$6,199,000	14.2%-27.6%

Source: Town Administrator Timothy Higgins, Finance Director Colleen Wilkins; May 2009.

*Maximum 10-year term

**Including possible proposal for a community center

Lincoln will need to develop a plan to prioritize these projects and sequence the investments to avoid peaks and valleys in debt service and local property taxes paid to support the debt. The town’s budget and tax policies have aimed to limit year-to-year increases in property taxes to no more than 5 percent. With the retirement of debt for the new Public Safety Building and Lincoln School improvements, Lincoln has the opportunity to take on additional debt for one or more of the above projects without increasing taxes substantially beyond the 5 percent target. Table 12.3 shows that at present, Lincoln has minimal General Fund outstanding debt.

**Table 12.3
Outstanding Debt**

Project	Authorized	Issued	Retired	Outstanding
Codman Pool Renovations	\$200,000	\$200,000	\$120,000	\$80,000
Bemis Hall Renovations	\$415,000	\$415,000	\$175,000	\$240,000
Fire Engine	\$415,000	\$415,000	\$175,000	\$240,000
Fire Engine #2	\$450,000	\$450,000	\$45,000	\$405,000
Fire Pumper/Tanker	\$200,000	\$200,000	\$20,000	\$180,000
Roadway Project*	\$5,500,000	\$ -	\$ -	\$ -
General Fund Sub-Total	\$7,180,000	\$1,680,000	\$535,000	\$1,145,000

Source: Town Administrator Timothy Higgins, Finance Director Colleen Wilkins; May 2009.

As a relative measure, Lincoln’s outstanding debt as a percentage of operating expenditures is quite low (4.2 percent). Low debt helps to keep taxes down in the short term, but deferred investments can increase costs in the long term. The need for investment and reinvestment in municipal buildings and facilities is constant.

In 2004, Lincoln’s bond rating was upgraded to AAA. Lincoln joined a select group of sixteen Massachusetts towns that have achieved the highest rating and enjoy the benefit of the lowest possible cost of borrowing. The

bond rating agency's official statement provides insight about the financial conditions in Lincoln that justify the upgraded rating:

- ❖ Very high wealth and income factors
- ❖ Location in the Boston Metropolitan Statistical Area (MSA)
- ❖ Strong growth of its overwhelmingly residential tax base
- ❖ Favorable financial position, with a history of ample reserves
- ❖ Low debt burden
- ❖ Strong internal controls

Since Proposition 2½ went into effect in 1981, Lincoln's practice has been to ask voters to exclude the principal and interest on debt for major projects from the limits set by Proposition 2 ½. The mechanism for doing so is known as a debt exclusion. Under this approach, the town may borrow funds only after voters have given their approval both at Town Meeting (2/3 vote) and the election ballot (majority vote). There have been twenty-seven debt exclusions proposed in Lincoln since the inception of Proposition 2 ½; twenty four were approved by the voters (an 89 percent approval rate). Table 12.4 summarizes the voting history.

The goals and objectives of the Comprehensive Plan reflect a vision for Lincoln's future as contemplated and desired by those who have participated in the planning process: citizens, elected and appointed boards, and professional staff. However, the Plan is intended to evolve over time and reflect changing needs and circumstances. At present, the town is in a relatively strong financial position, with reasonable capacity to produce the resources needed to maintain services and to make needed investments in buildings and facilities. Financial decision-makers should understand the factors and practices that have contributed to Lincoln's current financial condition while also acknowledging any inherent vulnerability that could erode the town's position over time.

SUMMARY

Lincoln's Financial Strengths:

- ◆ Strong financial planning capabilities and internal controls;
- ◆ Strong voter support for financial plans and budgets;
- ◆ Have set aside prudent level of financial reserves;
- ◆ Low debt burden;
- ◆ Bond rating upgraded to AAA in 2004 - highest rating lowers cost of borrowing;
- ◆ Less dependant on state aid and other outside sources of funding than most towns, which is beneficial in a down economy;
- ◆ Household income is high;

**Table 12.4
Lincoln’s History of Capital and Debt Exclusion Votes**

#	Year	Exclusion Type	Purpose	Amount	Status
1	3/29/1983	Debt Exclusion	Land Acquisition: (Giurleo, Ricci) for Transfer Stat	^(1)	Rejected
2	11/29/1983	Debt Exclusion	Codman Farmhouse Renovations	\$100,000	Approved
3	11/29/1983	Debt Exclusion	Land Acquisition: Sandy Pond Trust	\$1,500,000	Approved
4	3/26/1984	Debt Exclusion	Land Acquisition: (Ricci) for Transfer Station	\$750,000	Approved
5	3/31/1986	Debt Exclusion	Acquire Single Family Housing	^(2)	Rejected
6	6/17/1986	Debt Exclusion	Acquire McHugh Property	\$2,000,000	Approved
7	11/4/1986	Debt Exclusion	Library Renovation	\$2,500,000	Approved
8	3/30/1987	Debt Exclusion	Cap Landfill	\$700,000	Approved
9	3/30/1987	Debt Exclusion	School Repairs	\$560,000	Approved
10	3/30/1987	Debt Exclusion	Construct Pool Bathhouse	\$160,000	Approved
11	3/30/1987	Debt Exclusion	High School Repairs/Renovations	\$595,000	Approved
12	3/30/1987	Debt Exclusion	High School Athletic Fields	\$155,000	Approved
13	3/28/1988	Debt Exclusion	Construct Permanent Transfer Station	\$410,000	Approved
14	4/1/1989	Debt Exclusion	Land Acquisition: Flint (Edward & Henry)	\$1,640,000	Approved
15	4/1/1989	Debt Exclusion	Acquire Development Rights: Flint (Warren Sr.)	\$750,000	Approved
16	3/30/1992	Debt Exclusion	High School Reconstruction	\$2,134,000	Approved
17	3/30/1992	Debt Exclusion	Lincoln School Renovations -Study	\$75,000	Approved
18	3/29/1993	Debt Exclusion	Lincoln School Renovations	\$11,850,000	Approved
19	3/28/1994	Debt Exclusion	High School Reconstruction: Rogers Theatre	\$1,950,000	Approved
20	3/27/1995	Capital Exclusion	Fire Engine	\$160,000	Rejected
21	3/27/1995	Debt Exclusion	Reconstruct Public Safety Complex	\$2,500,000	Approved
22	3/29/1999	Debt Exclusion	High School Reconstruction; Study	\$1,500,000	Approved
23	11/7/2000	Debt Exclusion	High School Reconstruction; Construction	\$68,500,000	Approved
24	3/23/2002	Debt Exclusion	Pool, Bemis and Town Offices	\$715,000	Approved
25	3/29/2004	Debt Exclusion	Fire Truck purchase: Quint	\$415,000	Approved
26	3/26/2007	Debt Exclusion	Fire Truck purchase: Engine 2	\$450,000	Approved
27	3/29/2008	Debt Exclusion	Fire Truck purchase: Pumper/Tanker	\$200,000	Approved
28	3/29/2008	Debt Exclusion	Road Reconstruction Project	\$5,500,000	Approved
29	3/28/2009	Capital Exclusion	School Field House Roof	\$190,000	Approved
			Cumulative Debt Excluded	\$107,959,000	

Source: Source: Town Administrator Timothy Higgins, Finance Director Colleen Wilkins; May 2009.

^(1) Passed @ ballot but failed @ Town Meeting

^(2) Passed @ ballot but failed @ Town Meeting

- ◆ Property values are high relative to other communities and have not decreased to the degree observed in most other communities;
- ◆ The New England Deaconess project is expected to increase Lincoln’s tax base by approximately \$80 to \$100 million and will generate \$800,000 to \$1 million annually in additional property taxes while creating very little additional demand for town services; and
- ◆ Strong sense of community and history of charitable giving to town programs and services (e.g., private gifts of money and land, active Friends Groups that raise money, variety of special purpose trust funds, Codman Trust, etc.).

Financial Vulnerabilities

- ◆ Persistent problems in the general economy will eventually reduce town revenues (e.g., property tax growth revenue, building permits, motor vehicle excise, state aid, etc.);
- ◆ Pension and Insurance costs continue to absorb larger portion of discretionary revenue;
- ◆ Heavily reliant on the residential property tax. Lincoln has one of the smallest commercial tax bases among area communities;
- ◆ Scale: Lincoln's size creates diseconomies of scale;
- ◆ Hanscom AFB closure could, under worst-case reuse scenarios, result in Lincoln assuming responsibility for provision of all municipal services (e.g., education, public works, public safety, etc.) and the attendant financial burden, which has been estimated at a net deficit of \$6 million annually; and
- ◆ Wealth factors and other demographic considerations tend to make the town ineligible, or at least less-competitive, for most state and federal grant programs.

