

Municipal Benchmarking, LLC

CITIZEN'S REPORT: LEXINGTON

Welcome to the *Citizen's Report™* for Lexington. Section I of this report provides a custom analysis of Lexington's tax bill, revenue and expenditures. It is designed to give you an overview of Lexington's financial position.

Throughout this report, we compare Lexington to its *Benchmark Peer Group™*, the 20 communities in Massachusetts that are the most similar to it. We derive Lexington's Benchmark Peer Group by comparing Lexington and the 350 other communities in Massachusetts across 15 variables to find those 20 cities and towns that have similar resources and face similar constituent demands. Section II of this report contains a description of our methodology, including how we create Lexington's Benchmark Peer Group.

We hope that you will use the analyses in this report to think about the services provided by Lexington. This report will probably not answer all your questions. Rather, it will help you ask more focused questions about why things are the way they are and what, if anything, could be changed or improved.

While we think that this report will be eye-opening and helpful, it is just the tip of the iceberg. Section III introduces our organization and Section IV discusses the other products that we have available to help you. If you have any questions, please contact us at info@municipalbenchmarking.com.

I. ANALYSIS OF LEXINGTON

In this section, we provide you with an overview of Lexington's financial position and an analysis of certain factors that drive those finances. We look at Lexington's *Tax Bill, Revenues* and *Expenditures*.

In each case, we compare Lexington to the median of its Benchmark Peer Group. We believe that you can learn a lot by looking at similarly situated communities. The median of Lexington's Benchmark Peer Group provides a gauge for what is "normal" for a community like Lexington and highlights those areas where Lexington may be over- or under-investing resources. In each area, consider what might be driving any differences and what that tells you about the constraints that Lexington faces or the

choices that it has made.

Tax Bill

The first thing that many citizens think about when asked about their municipal government is their tax bill. This makes sense as real estate taxes represent the single largest financial contribution provided by the average citizen. In 2006, the municipalities of Massachusetts had an average single family tax bill of \$3,692 per housing parcel.

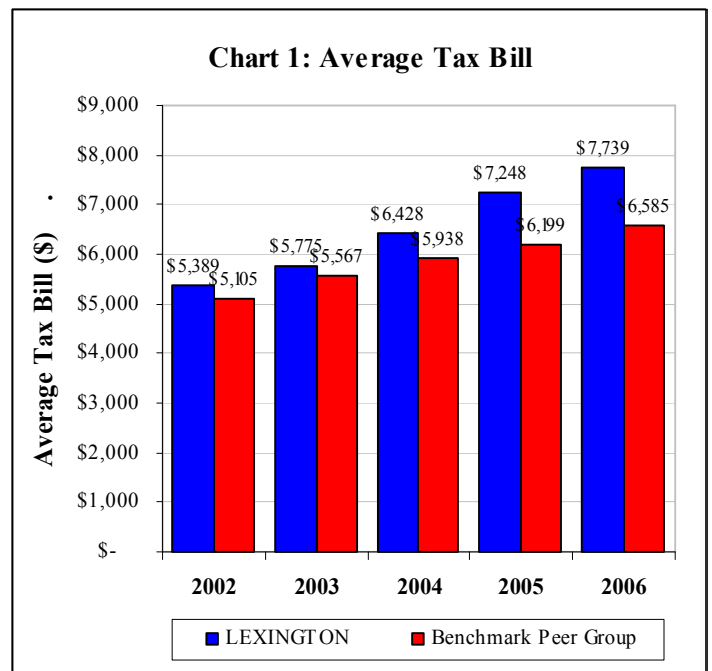


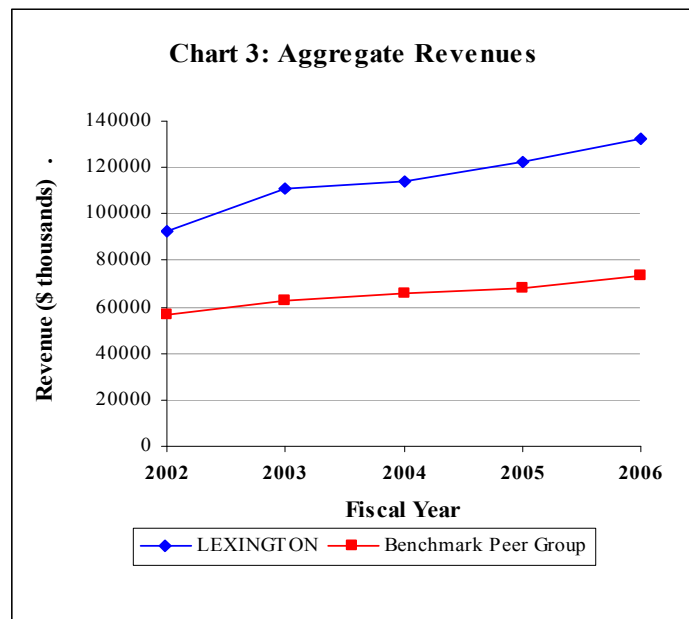
Chart 1 looks at Lexington's Average Tax Bill from 2002 through 2006. When you look at Chart 1 consider two things: how much has the tax bill changed over time and how much does it differ from the Benchmark Peer Group.

Please note that Boston, Brookline, Cambridge, Chelsea, Marlborough, Nantucket, Somerset, Somerville, Tisbury, Waltham, and Watertown have residential tax exemptions for owner occupied houses. As the Division of Local Services notes, this exemption shifts a portion of the tax burden from owners of low and moderate priced homes to renters and the owners of high valued homes.¹ With the exception of Watertown, which provided us with sufficient information to calculate these average bills, this Citizen's Report does not reflect information for those communities with residential exemptions.

Chart 2 breaks down Lexington's aggregate and annual average annual change from 2002 to 2006 and compares it to its Benchmark Peer Group. In Massachusetts, the average single family tax bill increased by an average of 26.9% from 2002 to 2006, or at a rate of 6.1% per year. Chart 2 also shows how much more or less Lexington's tax bill was than its Benchmark Peer Group in 2002 and 2006 and how much those differences have changed over time.

Chart 2: Change in LEXINGTON's Tax Bill				
	Average Tax Bill		% Change '02-'06	
	2002	2006	Total	Annual
LEXINGTON	\$5,389	\$7,739	43.6%	9.5%
Benchmark Peer Group	\$5,105	\$6,585	29.0%	6.6%
Difference	\$ 284	\$ 1,154	307.0%	42.0%

Your tax bill is calculated by multiplying the assessed value of your residential property by a residential tax rate determined by the community less any exemptions. The local Board of Assessors determines the "full and fair market value" of your property as of January 1 each year.² and works with the Massachusetts Department of Revenue to make sure that Lexington's budget complies with the requirements of Proposition 2½, which limits the amount that a town may increase its property taxes by each year.³ We use the average tax bill for single family homes in this report.



Municipal Revenue

Real estate taxes are not Lexington's only source of revenue. Rather, they are part of a larger matrix of resources. The following section looks at Lexington's overall revenue and breaks it down by source.

Chart 3 looks at the Lexington's aggregate revenue from 2002 to 2006. In looking at the aggregate revenues, please keep in mind that one generally expects a community with a larger population to take in more than one with a smaller population. Lexington's revenues, and spending, will likely differ, in part, from its Benchmark Peer Group because it is not necessarily the same size as its peers.

To adjust for differences in size, we examine revenues on a per capita basis. Revenues per capita measure how much Lexington collects for each citizen and is a better basis of comparison with other communities.

Chart 4 breaks down Lexington's revenues per capita from 2002 through 2006 compared to its Benchmark Peer Group median. When you look at Chart 4, consider two things: how much have the revenues per capita changed over time and how much do they differ from the Benchmark Peer Group.

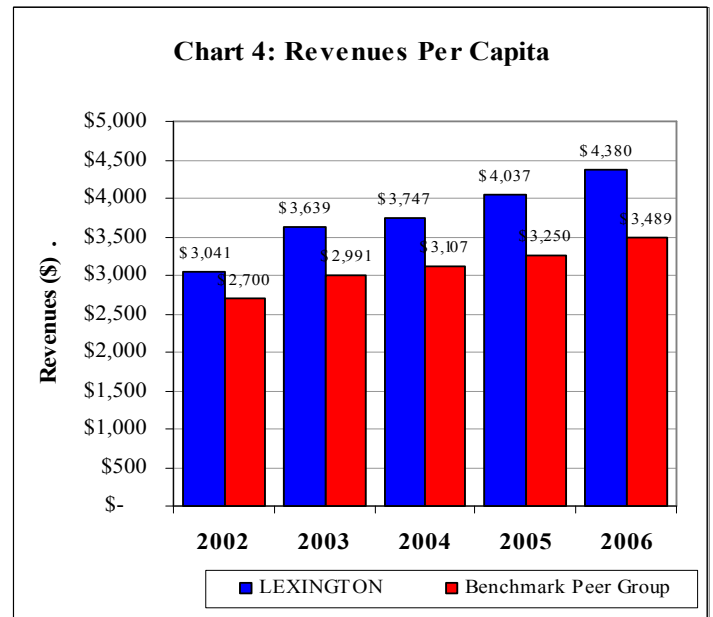
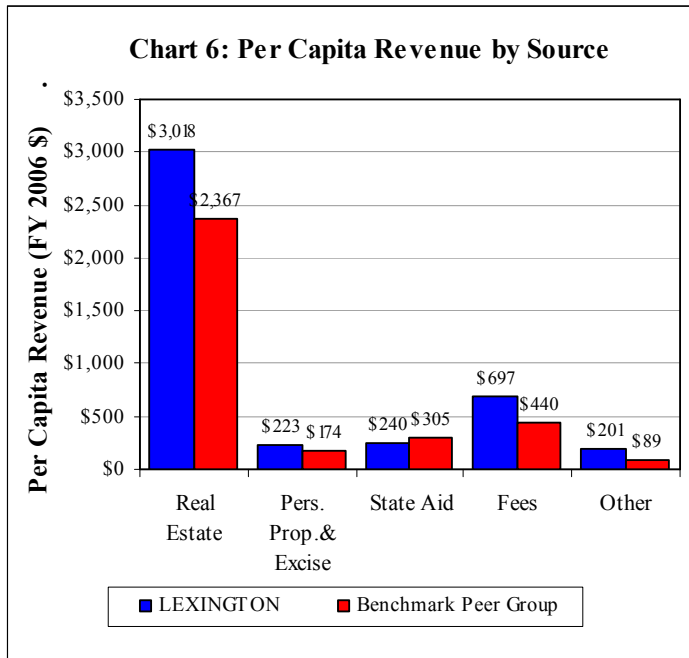


Chart 5 breaks down Lexington's aggregate and annual average annual change from 2002 to 2006 and compares it to its Benchmark Peer Group. Chart 5 also shows how much more or less Lexington has collected in revenues per capita than its Benchmark Peer Group and how much those differences have changed over time.

Chart 5: Change in LEXINGTON's Revenue Per Capita				
	Revenues		% Change '02-'06	
	2002	2006	Total	Annual
LEXINGTON	\$3,041	\$4,380	44.0%	9.5%
Benchmark Peer Group	\$2,700	\$3,489	29.2%	6.6%
Difference	\$ 341	\$ 890	161.2%	27.1%

The differences in revenues per capita between Lexington and its Benchmark Peer Group in Chart 5 are the product of Lexington's revenues from each of the component sources. Municipalities generally get revenues from a variety of sources. Chart 6 breaks down Lexington's per capita revenues for taxes, state aid, fees and other.



These categories are based on those used by the Massachusetts Department of Revenue in reports filed annually by every municipality. We have made certain changes in order to make the data more "apples to apples." The following section provides an overview of each category.

Taxes

Under Massachusetts law, communities classify property as residential, commercial, open space, industrial and personal property, and may tax each at a different rate.⁴ For our analysis, we have used the categories reported on the Massachusetts Department of Revenue, Schedule A and aggregated the taxes into (a) real estate taxes, which include residential, commercial, industrial and open space, and (b) personal property and excise taxes.

We discussed real estate taxes in detail at the beginning of this report when we discussed Lexington's average tax bill. Chart 1 looks at the real estate taxes from your perspective as a taxpayer. Chart 6, by contrast, looks at real estate taxes from the point of view of a municipal manager. Consider the contribution that real estate taxes make to Lexington's budget. In 2006, municipalities collected, on average, 58.8% of their revenue from real estate taxes.

Personal property taxes cover movable items not connected to real estates, which includes items such as business machinery. Excise taxes are charged on automobiles. In 2006, municipalities in Massachusetts collected, on average, 6.8% of their revenues from personal property and excise taxes.

State Aid

Each year, Massachusetts provides each community and school district with funds through various state aid programs. These funds can be provided to local governments or school districts as distributions, reimbursements or off-sets.⁵ Distribution programs use formulas that often include equity factors, such as wealth, income or effort. Reimbursement programs reimburse a local government in full or in part for certain program expenditures or foregone revenue. Both distributions and reimbursements are considered funds of the municipality (or regional school district) and, as such, must be appropriated to any area of expenditures. Offsets, on the other hand, are automatically earmarked to cover certain school programs and require no appropriation. Due to the equity factors described above, poorer communities generally receive more in state aid than do wealthy communities.

In 2006, municipalities received, on average, 18.1% of their revenues from the state. However, state aid ranged widely. Some communities received less than 1.0% of their budgets, while Lawrence, 69.8% of its budget.

Fees and Charges

Cities and towns can charge their citizens for some services, such as water and sewer, parks, golf courses or garbage. On average, municipalities collected 9.9% of their 2006 revenues from such charges.

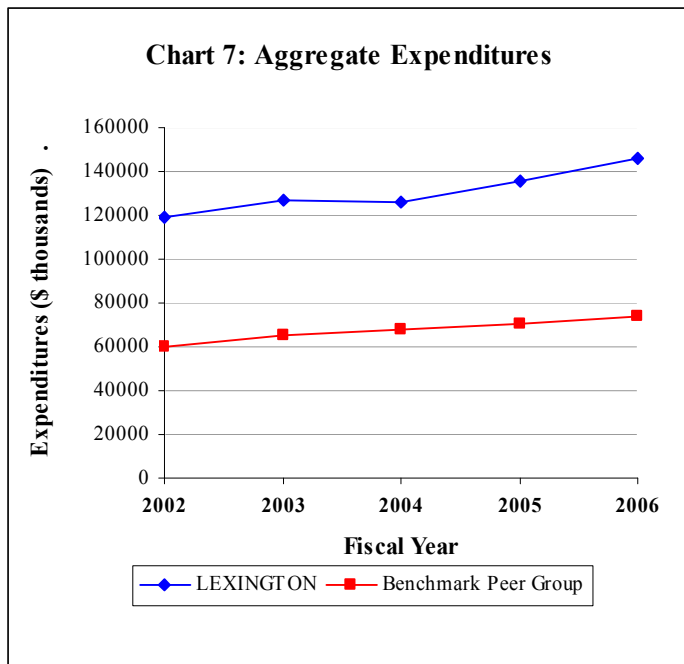
Other

Other revenues include fines, earnings on investments, transfers from various enterprise funds and trust and "other".

Municipal Expenditures

This section analyzes how Lexington allocates its resources among the various services that it provides to its constituents. As you read this section, consider whether you agree with the priorities implicit in Lexington's resource allocation and what, if any, changes you would want to make.

Chart 7 shows Lexington's aggregate expenditures from 2002 to 2006.



Just as with revenue, more populated municipalities tend to spend more and less populated ones tend to spend less. In order to equalize for differences in population, we look at expenditures on a per capita basis. Expenditures per capita measure how much Lexington is spending for each citizen that it serves and is a better basis of comparison among similar communities.

With this in mind, Chart 8 breaks down Lexington's expenditures per capita from 2002 through 2006. When you look at Chart 8, consider two things: how much have the expenditures per capita changed over time and how much did it differ from its Benchmark Peer Group.

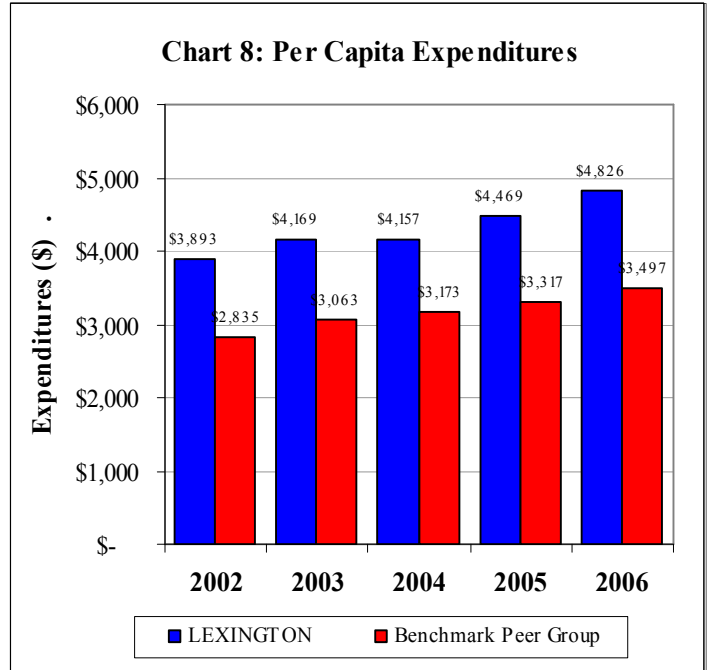
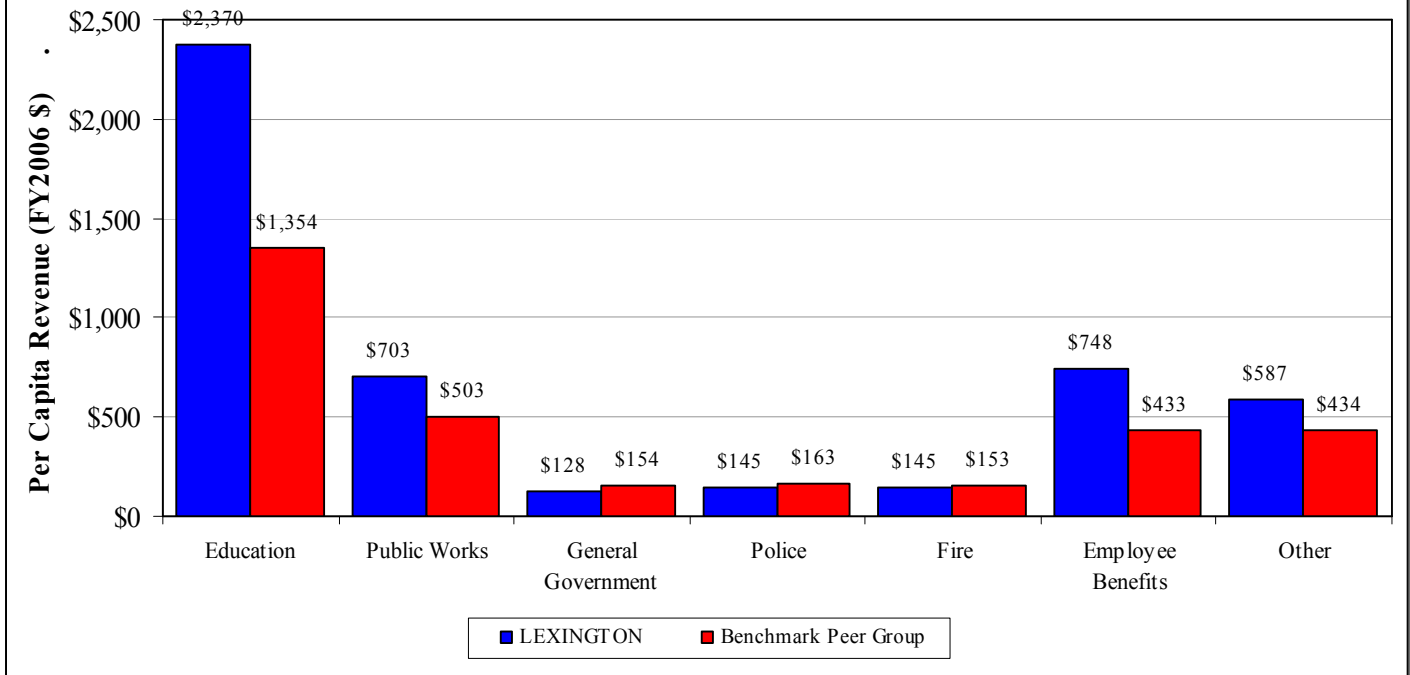


Chart 9 breaks down Lexington's aggregate and annual average annual change from 2002 to 2006 and compares it to its Benchmark Peer Group. Chart 9 also shows how much more or less Lexington has spent per capita than its Benchmark Peer Group and how much those differences have changed over time.

	Expenditures		% Change '02-'06	
	2002	2006	Total	Annual
LEXINGTON	\$3,893	\$4,826	24.0%	5.5%
Benchmark Peer Group	\$2,835	\$3,497	23.4%	5.4%
Difference	\$ 1,058	\$ 1,329	25.5%	5.8%

The differences in Chart 8 are the result of spending choices that Lexington has made in the various component areas. In order to capture those nuances, Chart 10 on the next page shows Lexington's expenditures per capita in 2006 for education, public works, general government, police, fire, employee benefits and other.

Chart 10: Per Capita Expenditures by Use



These categories are based on those used by the Massachusetts Department of Revenue. We have made certain changes in order to make the data more “apples to apples.”

Note those areas where Lexington is spending substantially more or less than its peers. In addition, please note the rankings set forth on Chart 11. This chart ranks Lexington’s per capita spending for each category ranks within its Benchmark Peer Group. Because it looks at Lexington and its 20 peer communities, a rank of 11 means that Lexington is “middle of the pack” and 21 that it is the lowest in its group. Pay particular to those areas where Lexington is spending more or less than its peers and is ranked near either the bottom

Chart 11: LEXINGTON's Rank	
Area	Rank
Education	1 of 21
Public Works	2 of 21
General Government	15 of 21
Police	19 of 21
Fire	15 of 21
Employee Benefits	6 of 21
Other	7 of 21

or top of its group; these are areas where there may be opportunities to change or improve Lexington’s services.

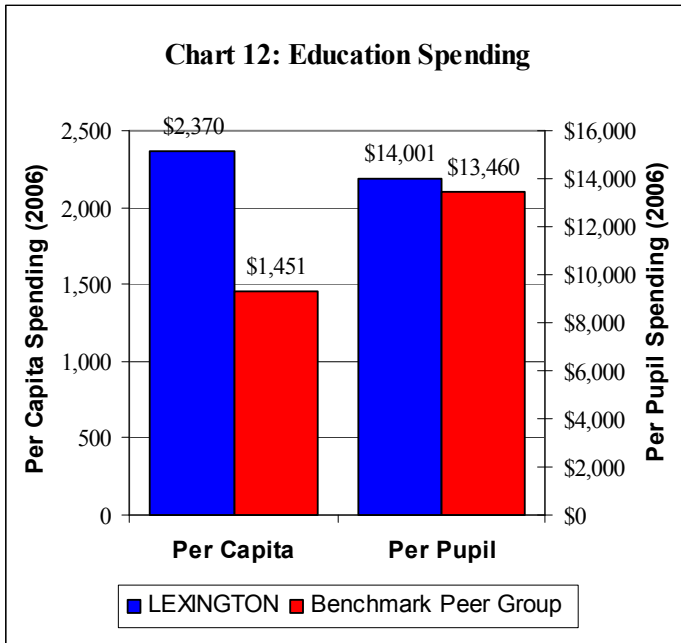
Because it explores the details of Lexington’s spending, we believe that Chart 10 provides some of the most useful insights in this Citizen’s Report. The following section provides an overview of each category.

Education

Education is the single largest area of spending for most communities, representing 46.4% of the average 2006 municipal budget.

Education funding is more complex than funding for the other departments. Individual schools are organized into school districts, which may be either a single member districts or a regional district, which can covers multiple municipalities. A community may be part a single member districts, regional districts or a combination of both.

In all cases, the school budget is the responsibility of two groups: the school committee and the municipal government.⁶ Chart 12, on the following page, tries to capture this dynamic by setting out both per capita and per pupil education spending. Per capita reflects the cost to the municipality, whereas per pupil shows school district spending.



These amounts do not always move in step. It is possible for a municipality to spend more on education on a per capita basis, but less on a per pupil basis. This is because school districts also receive funds from the state and, potentially, federal grants.⁷ Furthermore, different communities have a different proportion of the total population in the schools. In a community with a high percentage of population in the schools, each dollar per capita must be spread across more students.

If you would like more detailed information about education spending, please contact us. Our *Education Yardstick™* is a much more comprehensive report that looks at education including a detailed analysis of spending, staffing, student population, salaries and MCAS scores.

Public Works

Public works expenditures include water and sewer, streets and highway, waste and other utilities. Public works as a whole represents 12.4% of the average 2006 municipal budget in Massachusetts. These services can be performed by one or more departments. In addition, not all communities provide all of these services. For example, some communities do not have a sewer system and the citizens use their own septic system. Often, a community will charge a fee for these services based on use by the citizens. Some towns segregate these services into what is called an enterprise fund. An enterprise fund separates

the finances for that service into a separate entity within the larger municipality. In order to deal with all of these ways to account for the different services, we used the Massachusetts Department of Revenue's spending data and added enterprise fund expenditures back into the base budget. By reporting municipal and enterprise fund spending together, we can have a valid "apples to apples" comparison.

General Government

General government covers a community's management, including accounting, legal, clerk, mayor or management and legislative. In essence, it is the cost to run your municipal government. On average, communities in Massachusetts spent 5.9% of their 2006 budget on general government.

Police

Police, along with fire and education, is one of the more visible functions of local government. Police spending represented 5.4% of the average 2006 municipal budget in Massachusetts. The primary cost for police is wages and salaries. In all but the smallest towns, salaries are negotiated between the community and a union representing the officers. The salaries are typically structured by rank and seniority.

If Lexington is about to renegotiate its police collective bargaining agreement and you need more detailed information about police salaries or benefits, including a granular break down of base salary, Quinn Bill, uniform allowance, hazard pay, holidays, vacation and shift schedule, please contact us. Our *Negotiation Benchmark™* is a comprehensive report based on our review and analysis of police union contracts.

Fire

Fire spending represented 3.7% of the average 2006 municipal budget in Massachusetts. Like the police department, the primary cost for the fire department is wage and salaries for fire fighters, which are determined by union contracts.

However, unlike the police department, there is a wide variety in how a department is staffed. Some communities have full-time, professional departments; some have call or volunteer departments; and some have a combination of the two. In addition, different departments provide differ-

ent levels of services. For example, some have ambulance or EMT services and some do not.

Not surprisingly, more advanced services cost more to provide. As such, the fire department budget reflects a trade off between services provided versus costs. Keep in mind the level of services that you deem want when you look at Lexington's spending.

Please contact us if Lexington is about to renegotiate its fire collective bargaining agreement and you need more detailed information about fire salaries or benefits, including a granular break down of base salary, uniform allowance, hazard pay, holidays, vacation and shift schedule. Our **Negotiation Benchmark™** is a comprehensive report based on our review and analysis of union contracts.

Employee Benefits

Employee Benefits includes employee benefits, health insurance, retirement, and P&C insurance. Insurance and benefits represents 11.9% of the average 2005 municipal budget. Communities have a range in options on how to cover employee health insurance

Other

Other includes inspection services, library, parks and recreation, and health and human services, debt service and "other".

What Causes Differences with the Benchmark Peer Group?

There are three reasons why Lexington could differ from its Benchmark Peer Group. First, Lexington could account for a given item in a different way than the norm. For example, some towns use their town maintenance workers to maintain their school buildings, whereas most have a separate school staff. As such, for those communities, the public building maintenance line item includes the cost of maintaining the schools, making education spending look low and general government look high.

Second, Lexington could have a structural difference from its Benchmark Peer Group. For example, if Lexington were to have a sewer system where its peers did not, its Sewer costs would appear to be off the charts in comparison.

Most often, though, the difference reflects a *choice*, conscious or not, that Lexington made on how to allocate its

resources. To be clear, spending more or less is not necessarily a good or a bad thing. Rather, it is a difference.

We think that you, as a concerned and informed citizen, are in the best position to judge whether in Lexington such a choice is appropriate. Pay particular attention to those areas where, by choice, Lexington differs materially from its Benchmark Peer Group. These areas are the most likely to offer the best opportunities for possible change or improvement.

This Citizen's Report is designed to make you a more informed consumer of municipal services. We hope that you will use this information to evaluation if you are getting the right level of services and an appropriate "bang for your tax buck". Where there are areas that you think warrant further analysis, we hope that you contact your local government.

What Does This All Mean?

As we said in the first paragraph, this report is not designed to answer all your questions. Rather, it is designed to help you ask more informed questions and be an informed consumer of municipal services. We hope that you

II. OUR METHODOLOGY

Every community in Massachusetts is unique. However, it is possible to find other communities that are structurally similar to Lexington. We believe that you can find insights by looking at how similar communities facing similar issues have decided to act. Throughout this report, we have compared Lexington to the median of its Benchmark Peer Group. The following section outlines how we derive Lexington's Benchmark Peer Group and how we use that group.

Benchmark Peer Group Generation Process

We derive Lexington's Benchmark Peer Group by using a computer algorithm to analyze 15 attributes for Lexington and the other 350 communities in Massachusetts.

These attributes fall into three categories:

- Socio-economic factors;
- Demographic factors; and
- Geographic factors.

We chose these 15 attributes after significant research and testing because they shape from where the target community gets resources and on what it must spend those resources to meet constituent demands. For example, a town with a large elder population will need to provide a different mix of services than a town that has predominately young families with children.

On Chart 17 below, we break down Lexington's value, percentile and our characterization of the relative level for each of the 15 attributes we use in our analysis:

to meet with you and any interested officials and introduce you to the twenty communities that comprise Lexington's Benchmark Peer Group.

How We Use Lexington's Benchmark Peer Group

Lexington's Benchmark Peer Group is the foundation of all of our analysis. Throughout this report we compare Lexington's results for a given area against the median of its Benchmark Peer Group's results for that same area. The median is a statistical measure that looks at the mid-

Chart 17: LEXINGTON's Attributes

	Value	Percentile	Relative Level
Socio-Economic Factors			
Income Per Capita	\$ 46,119	96%	Very High
Median Family Income	\$ 111,899	97%	Very High
Avg. Single Family Tax Bill	\$ 7,739	97%	Very High
Residential Assessment Per Capita	\$ 225,444	87%	High
Comm. Tax Receipts as % of Total	20.0%	71%	Moderate to High
Unemployment Rate	0.0%	7%	Very Low
Demographic Factors			
Population	30,266	85%	High
School Enrollment	6,202	93%	Very High
Birth Rate Per Capita	0.007	15%	Low
Population Density	1,855	83%	High
% Population over 65	19.0%	93%	Very High
% English as 2nd Language	1.8%	83%	High
% Families Below the Poverty Line	3.4%	26%	Low to Moderate
Geographic Factors			
Land Area (Sq. Mi.)	16.4	35%	Low to Moderate
Public Roads (Mi.)	154.0	87%	High

Source: U.S. Census Bureau, Massachusetts Department of Revenue, Massachusetts Department of Education.

In order to find "similar" communities, we analyze each of the listed variables by comparing Lexington's percentile with the percentile for each other community in Massachusetts. We then look for those communities that have the smallest difference across all of the variables.

Lexington's Benchmark Peer Group

If you would like to learn the communities in your Benchmark Peer Group, please contact us. We would be happy

to meet with you and any interested officials and introduce you to the twenty communities that comprise Lexington's Benchmark Peer Group. We use the median for two important reasons.

First, by using a median, we reduce or eliminate the affect that an outlier, or significantly unusual, result would have. An alternative approach would be to use the mean (the arithmetic average). However, with the mean, one unusually high or low data point could have a disproportionate impact, skewing the result. For example, assume that Lexington and the members of its Benchmark Peer Group all spend the same amount on road maintenance,

except for one outlier that spends five times as much. Using the median, we ignore that outlier and Lexington will be shown to spend exactly the same as its Benchmark Peer Group. However, if using the mean, the Benchmark Peer Group result would be pushed towards the outlier, making it look like Lexington was spending less than its peers even though it is spending less than only one of its peers.

Second, the median is a reflection of the middle of the group. As such, the median result should be “in reach” for all communities.

III. MUNICIPAL BENCHMARKING

About Us

Municipal Benchmarking, LLC is a company that specializes in collecting and analyzing municipal and education data. We have reports that provide data on municipal government, police, fire and education that provide municipal officials, counsel, unions and concerned citizens with detailed data and analysis. For more information, please contact us at the following address:

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Where does MB's Data Come From?

We gather data from a variety of different sources, including U.S. Census Bureau, Massachusetts Department of Revenue, Schedule A, Massachusetts Department of Education, School and Pupil Reports, and from various school districts and municipalities pursuant to requests under the Massachusetts Public Records Request law.

IV. ADDITIONAL ANALYSIS

If you are interested in more information about Lexington, please contact us. Our flagship report, the *Municipal Yardstick™*, provides over 340 pages of comprehensive analysis of Lexington's revenues, debt, land allocation, proposition 2 ½ history and expenditures, as well as a detailed evaluation of general government, police, fire, public works and education.

We also offer the *Negotiation Benchmark™* line of reports. In these reports, we provide a granular breakdown of contract provisions for police, fire or education. These reports are designed to give you an informational advantage during collective bargaining negotiations.

Please check out www.municipalbenchmarking.com for a detail description of each report. Feel free to contact us with any questions.

ENDNOTES

1 See Introduction to Average Single Family Tax Bill spreadsheet prepared by the Massachusetts Department of Revenue, Division of Local Services. www.dls.state.ma.us/mdmstuf/PropertyTax/bill06.xls.

2 [A Guide to Financial Management for Town Officials](#), Massachusetts Department of Revenue, Division of Local Services, p.27. See also M.G.L., Chap. 59, §2.

3 M.G.L., Chap. 59, §21C.

4 [Cherry Sheet Manual](#), Municipal Data Management and Technical Assistance Bureau, p. 9.

5 [Id.](#) at 12.

6 See [Pupil and Financial Report](#), which are prepared each year by the school district and submitted to the Massachusetts Department of Education, p.8.