

To: Residents of the Town of Lenox

From: Lenox Finance Committee

RE: Annual Meeting, June 2021

Dear Residents,

The Finance Committee works with each Town department in the development of its budget and prepares an annual report on the Town's finances to the annual meeting. Our goal is to provide oversight on behalf of taxpayers, ensuring that our local government is supporting our quality of life without straining our cost of living. A significant portion of our Town's revenues come from residential property taxes, and we believe our role is to help maintain property taxes for our neighbors at consistent and reasonable levels.

A full recovery to pre-pandemic levels of revenue, combined with careful management of both operating and capital expenditures will be important in the maintenance of our current and expected tax levy. This year's report highlights three areas that we believe merit the Town's close attention: (1) the fiscal fallout from Covid-19, (2) growth in the school budget, and (3) upcoming capital projects.

1. Covid-19

The pandemic had a significant impact on the past fiscal year (FY2021, which ran from July 2020 to June 2021), which will likely continue into the coming year. Restaurants and lodging taxes fell by 33% (\$720,701) for the three quarters of 2021 with available data. While conditions appear to be improving, continued capacity limits at Tanglewood and hiring difficulties may constrain our tax revenues this year as well. The Town took significant steps to reduce and defer expenses in FY2021, but many departments will need to resume full funding for FY2022 to avoid a reduction in services and quality. Federal and state support may partially offset any shortfall, but the Town will need to avoid becoming reliant on such funding which may not continue indefinitely.

2. School Budget

The Lenox Public Schools are one of our Town's most important services and they represent our largest single expense at roughly 56% of the Town's operating budget. For FY2022, LPS initially proposed a nearly 5% increase (\$659,423) in its budget, significantly above its own prior increases and those that other departments were requesting, in an especially challenging year. LPS has modified the budget so that the increase is only 3%, however we believe this indicates a potential future source of upward pressure on the Town's budget and thus on property taxes. In the warrant you will see that the Finance Committee approved the school budget. The vote was split, with four members voting in favor, and three members opposed based on the structure of the school budget. LPS costs are dominated by staff compensation, which accounts for roughly 85% of total school budget cost (which does not include benefits) and is largely dictated by the Town's collective bargaining agreement with the Lenox Education Association. That agreement will be renegotiated this fall and the Town must ensure that the resulting commitments place spending on a sustainable trajectory and provide flexibility.

3. Capital Projects

The Town will need to make significant capital expenditures over the next five years, with total cost currently estimated at \$89 million. The largest of these investments will be for a federally-required new wastewater treatment plant and a new public safety center; both the Town Hall and the Library also require significant repairs. It is likely that the Town will issue bonds to fund much of these capital expenditures. Work is being done to identify external financing sources, including both federal and state assistance, and to refine project cost estimates. How much Lenox will need to fund by issuing debt remains uncertain. The Town will need to carefully manage the total cost of these projects and the amount of debt issued to avoid a significant future burden on residential property taxes, which could be driven by necessary debt service. The FY22 warrant includes two articles for funding of design work, which will enable more accurate cost estimates for the construction phases of the wastewater treatment plant and public safety center.

We wish to extend our sincere thanks to the many Town employees who work every day to provide us all with outstanding public services at a reasonable cost. We are particularly thankful to Elliott Morss, Joan Bruno, and Mark McKenna, who retired this year after serving on the Finance Committee for many years. We encourage all residents to pay close attention to our Town's budget and to weigh any proposed cost increases against the proposed improvements in service. This Committee's members are always available to answer any questions you may have.

Respectfully Submitted,

LENOX FINANCE COMMITTEE