6 | fiscal environment

Goal	Policies for Decision Makers
Continue to evaluate costs and benefits of development projects.	• Consider the value of services provided that can reduce operational costs for the Town in addition to potential revenues from new projects.
Reduce reliance on residential tax revenues by encouraging the redevelopment of and enhancing the build-out potential of non-residential properties.	• Promote the redevelopment of underutilized commercial and industrial areas by ensuring that local regulations do not impede reuse of older, obsolete properties. • Consider allowing increased density in non-residential areas after conducting a study of the costs and benefits to the community and the potential impacts on nearby neighborhoods.
Recover a reasonable share of the tax revenue lost to development projects undertaken by tax-exempt entities.	• Continue to negotiate development agreements with tax-exempt entities to provide compensation for foregone tax revenues, considering their social and economic benefits and the services they provide to the community, where applicable.
Continue to provide tax relief for seniors.	• Market the availability of property tax exemptions, deferrals, credits and tax breaks for seniors. • Consider petitioning the legislature to establish additional forms of tax relief or other types of housing cost relief for Winchester seniors. • Consider purchasing affordable housing restrictions on homes owned and occupied by seniors.
Explore new funding sources.	• Consider adopting the Community Preservation Act (CPA) to provide additional funds for affordable housing, historic preservation, and open space conservation.

Findings

- Winchester is a maturely developed suburb with few opportunities to expand its tax base.
- The Town provides and is committed to preserving high-quality municipal services and schools.
- Winchester's prestige, high home values and renowned public schools attract affluent families, mainly families with school-age children.
- Winchester is one of the few Route 128 suburbs that have experienced population growth since 2000. The vast majority of Winchester's population and school enrollment growth has been generated by turnover of existing housing, not new residential construction.

- Winchester's emerging structural deficit – the widening gap between operating revenue and operating costs – is consistent with fiscal conditions in most Eastern Massachusetts communities.

Challenges

- Balancing the public's demand for community services with attainable revenue growth.
- Maintaining the excellence of Winchester's public schools while providing adequate financial support for municipal services.
- Reducing regulatory and political barriers to development.
- Unlocking the redevelopment potential of underutilized properties.
- Recognizing that a healthy fiscal environment requires not only revenue growth, but also strategies to contain growth in Town and school service costs.

Residential uses generate over 95% of Winchester's property tax revenues.

Expenditures for municipal services are increasing at a rate that is much higher than the rate of population growth.

Redeveloping large underutilized properties can generate increased tax revenues.

A. Current Conditions

"Fiscal environment" refers to the variety, adequacy and cost of options available to cities and towns to finance local government services. Many factors indirectly shape a municipality's fiscal environment, including those far beyond local control, but four conditions have a direct impact on each community's financial well-being:

- The size and composition of its tax base;
- Its land use pattern and location;
- The wealth and expectations of its residents; and
- Financial management policies.

In Massachusetts, communities also influence their fiscal condition by the decisions residents make under Proposition 2 ½, a 26-year-old law that regulates tax levy growth unless voters voluntarily choose to override or reduce the statutory cap. Since the tax levy constitutes just over half of all operating revenue in most communities, regulating the tax levy effectively regulates the operating budget. For affluent, maturely developed suburbs like Winchester, however, Proposition 2 ½ has additional implications. The law allows communities to increase their tax levy in any given year by 2.5% over the previous year, plus the value of "new growth," or property improvements not included in the previous year's tax base. This aspect of Proposition 2 ½ enables rapidly growing towns to gain a significant amount of new revenue each year, but it is less advantageous to cities and older suburbs. While high-growth communities also experience accelerated demands for community services, many local government costs increase independently of population growth, as can be seen in Winchester.

REVENUE PROFILE

Local governments obtain revenue from four types of sources: the property tax levy, other "own-source" revenue generated by government operations (known as local receipts), local aid from the state, and other funds available to a community, such as uncommitted reserves from previous fiscal years. Communities that derive a majority of their revenue from local aid tend to have comparatively low tax bills and low household wealth because for the most part, local aid formulas are designed to address high levels of need. In contrast, a small percentage of local aid typically indicates a population that can afford to pay for community services, but these generalizations have to be applied cautiously. Towns with very small percentages of local aid may also be members of regional school districts, in which case aid that would normally be part of a town's revenue base is actually part of the regional school's revenue. Still, it is invariably true that communities with the state's highest residential tax bills are also its wealthiest towns – communities much like Winchester.

Winchester's revenue profile is fairly typical of affluent Boston-area suburbs. Property taxes provide about 70% of the town's total revenue and 78-80% of its general fund revenue.[1] The difference between "total" and "general fund" revenue is very important

[1] Massachusetts Department of Revenue (DOR), Division of Local Services (DLS), "Municipal Budgeted Revenue," 1981-2007, and "General Fund Revenue" (Actual), 2000-2006, Municipal Data Bank at www.dls.state.ma.us/mdm/.

because not all types of revenue can be used to pay for services such as schools or public safety. Similarly, services financed with non-general fund revenue help to preserve the tax levy as a funding source for other programs and services that benefit the public at large. For example, Winchester collects restricted-purpose revenue for water or sewer service, i.e., user fees limited to water and sewer operations and capital improvements. When revenue from user fees or betterment charges is restricted this way, it is typically accounted for and reported on an "enterprise" basis.

Enterprise funds offer some advantages. Since the goal of operating on an enterprise basis is a self-supporting service, rates have to be set with an eye toward full recovery of operating and capital costs. Segregating user-generated revenue and expenditures from the general fund also means that the cost of running a public utility falls outside the Proposition 2 ½ levy limit. In addition, enterprise funds can provide indirect support for general fund services, e.g., by using enterprise revenue to pay for a utility's proportional share of administration and finance or employee benefits costs. Further, surplus revenue in an enterprise fund rolls over from year to year and can be reserved to finance future capital improvements for the utility or program that generated the revenue. In the past, Winchester has had other types of restricted revenue sources, such as a recreation revolving fund and grants that support public safety and school services. As of FY08, Winchester will be establishing an enterprise fund for solid waste revenue and expenditures, too, following recommendations from a budget study committee four years ago.[2]

While towns often focus their financial planning efforts on maximizing general fund revenue, total revenue from all sources provides a more complete picture of a local government's financial obligations and the resources it brings to community service delivery. For Winchester, the vast majority of total revenue comes from residential property taxes and user fees that households pay for a variety of services.

Table 1: Total Revenue and Revenue Per Capita (FY 2007)

CITY OR TOWN	POPULATION (2006 ESTIMATE)	TOTAL BUDGETED REVENUE	TAX LEVY % TOTAL REVENUE	LOCAL AID % TOTAL REVENUE	TOTAL REVENUE PER CAPITA
WINCHESTER	**21,092**	**$78,774,995**	**69.3%**	**8.5%**	**$3,735**
Arlington	41,075	$116,958,838	65.6%	15.3%	$2,847
Belmont	23,308	$89,858,790	64.0%	8.6%	$3,855
Lexington	30,231	$143,176,511	70.6%	5.8%	$4,736
Medford	55,681	$141,749,733	51.0%	21.7%	$2,546
Stoneham	21,471	$61,168,681	56.0%	16.4%	$2,849
Wellesley	26,987	$116,624,704	68.0%	5.9%	$4,322
Woburn	37,010	$123,130,920	58.8%	11.0%	$3,327

Sources: U.S. Department of Commerce, Bureau of the Census; Massachusetts Department of Revenue, and Community Opportunities Group, Inc.

[2] Melvin Kleckner, Town Manager, "FY 2008 Financial Plan," 1-3, 1-5. See also, Town of Winchester, Report of the Selectmen's Budget Task Force (2003), 9. Note: the Town is also converting the recreation revolving fund to an enterprise fund in FY08.

A second condition that makes Winchester similar to other affluent suburbs is that local aid from the state plays a limited role in the town's overall revenue picture. Until the recession of the late 1980s (1989-1991), local aid generated about 13% of Winchester's total revenue each year. Local aid payments declined throughout the state from 1990-1992, and for many communities, including Winchester, the dollar amount of local aid (in current dollars) did not recover to pre-1990 levels until as late as 1998. As for percentage of total revenue, however, local aid has never reclaimed the 12% to 13% share that Winchester experienced during the 1980s. Other than a significant increase in FY 2002, local aid has hovered at about 8% of total revenue per year since 1998. In constant dollars, Winchester receives less local aid today than in 1989.[3]

Table 2: Winchester's Local Aid History

					IN CONSTANT 2006 DOLLARS	
FY	EDUCATION (CHAPTER 70) AID	GROSS AID*	NET LOCAL AID	EDUCATION % NET AID	EDUCATION	TOTAL NET
1989	$1,715,218	$3,918,486	$3,364,488	51.0%	$2,788,972	$5,470,712
1990	$984,198	$3,133,525	$2,567,563	38.3%	$1,516,484	$3,956,183
1991	$944,830	$3,015,086	$2,430,524	38.9%	$1,397,678	$3,595,450
1992	$944,830	$2,279,571	$1,663,294	56.8%	$1,357,514	$2,389,790
1993	$944,830	$2,617,630	$1,991,357	47.4%	$1,317,755	$2,777,346
1994	$1,371,330	$2,737,608	$2,102,479	65.2%	$1,865,755	$2,860,516
1995	$1,441,885	$2,906,523	$2,260,288	63.8%	$1,907,255	$2,989,799
1996	$1,658,335	$3,197,131	$2,553,237	65.0%	$2,128,800	$3,277,583
1997	$1,878,610	$3,518,871	$2,868,703	65.5%	$2,357,102	$3,599,376
1998	$2,102,110	$3,831,037	$3,188,038	65.9%	$2,598,405	$3,940,714
1999	$2,403,310	$4,226,040	$3,559,595	67.5%	$2,906,058	$4,304,226
2000	$2,862,010	$4,801,762	$4,141,844	69.1%	$3,347,380	$4,844,262
2001	$3,413,610	$5,429,373	$4,852,171	70.4%	$3,883,515	$5,520,104
2002	$3,692,026	$6,854,187	$6,302,367	58.6%	$4,134,408	$7,057,522
2003	$3,692,026	$6,770,926	$6,254,902	59.0%	$4,043,840	$6,850,933
2004	$2,953,621	$5,688,058	$5,173,664	57.1%	$3,152,210	$5,521,520
2005	$2,953,621	$5,716,719	$5,250,795	56.3%	$3,048,112	$5,418,777
2006	$3,131,321	$4,995,213	$4,570,925	68.5%	$3,131,321	$4,570,925
2007	$3,582,999	$5,659,040	$5,212,943	68.7%	$3,509,304	$5,105,723

Sources: DOR, Community Opportunities Group, Inc.

** Gross Aid is the total "cherry sheet" commitment from the state, while Net Aid is the adjusted total net of state charges.*

[3] DOR, "Cherry Sheets Receipts and Assessments by Fiscal Year," 1981-2007, and "Net State Aid," 1981-2007.

A noteworthy feature of Winchester's revenue profile is that the town has very few locally generated sources of general fund revenue other than the tax levy. This is largely because most of Winchester's local receipts are restricted-purpose revenues, notably enterprise funds and revolving funds. Excise taxes and solid waste disposal fees have provided more than half of all local receipts available for general fund services, and the remaining funds come from sources such as building permits, income from the Town's investments, or payment-in-lieu-of tax (PILOT) agreements with tax-exempt property owners. Winchester has one PILOT agreement that was recently renegotiated as part of a zoning change for Winchester Hospital's planned expansion on Washington Street.[4]

Further, Winchester has an unusually strong reserves position, i.e., uncommitted excess revenue from previous fiscal years and other revenue set aside for future needs. In FY07, the sum of certified free cash and the available balance in the stabilization fund(s) represented more than 14% of the Town's total budget, well above the 10%± that most towns strive for and bond rating agencies typically recommend. Winchester's percentage of available reserves is the eighth-highest among cities and towns in Eastern Massachusetts. Although last year's 14.1% is significantly more than in the past, Winchester officials have been working steadily, over time, to maintain and improve the Town's cash reserves.[5] A few years ago, Winchester voters approved a home rule petition and agreed to override Proposition 2 ½ specifically to fund capital reserves and special stabilization accounts in anticipation of debt service payments for a major capital improvements program.[6] The results of that decision can be seen in Winchester's overall growth in reserves, yet the Town also has used some of its reserve balances to close gaps in the operating budget since 2003.

Table 3: Available Reserves and Reserves Per Capita (FY 2007)

CITY OR TOWN	POPULATION (2006 ESTIMATE)	TOTAL BUDGETED REVENUE	FREE CASH	STABILIZATION	RESERVES % TOTAL BUDGET	RESERVES PER CAPITA
WINCHESTER	**21,092**	**$78,774,995**	**$3,457,218**	**$7,671,178**	**14.1%**	**$528**
Arlington	41,075	$116,958,838	$2,509,471	$2,366,138	4.2%	$119
Belmont	23,308	$89,858,790	$5,039,482	$0	5.6%	$216
Lexington	30,231	$143,176,511	$3,802,347	$1,615,948	3.8%	$179
Medford	55,681	$141,749,733	$731,811	$5,129	0.5%	$13
Stoneham	21,471	$61,168,681	$94,839	$1,161,752	2.1%	$59
Wellesley	26,987	$116,624,704	$4,028,225	$1,469,887	4.7%	$204
Woburn	37,010	$123,130,920	$5,091,550	$10,380,287	12.6%	$418

Sources: DOR, Bureau of the Census, and Community Opportunities Group, Inc.

[4] According to Town sources, the original agreement called for a first-year payment of $40,000, with an annual increase over several years to $100,000. The new agreement is designed to be more beneficial to the Town, with a minimum payment per sq. ft. for the hospital's tax-exempt space in addition to the eventual tax revenue expected from space leased to commercial tenants.

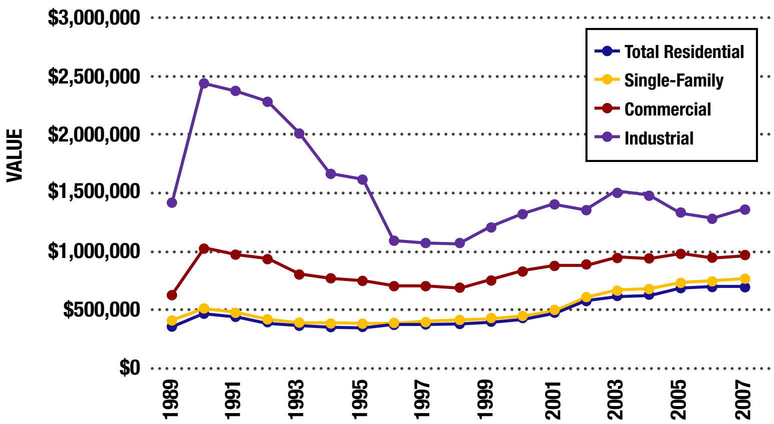
[5] DOR, "Free Cash and Stabilization Reserves," 1986-2007.

[6] Chapter 69 of the Acts of 2002.

WINCHESTER'S TAX BASE

Winchester's tax base is inextricably linked to its residential land use pattern and high home values. Today, residential land uses generate more than 95% of Winchester's $55M tax levy, which is a relatively large percentage for the state as a whole.

Change in Average Property Value by Class of Use
1989–2007 (2006 Constant Dollars)



The predominantly residential make-up of Winchester's tax base is hardly new; 20 years ago, commercial and industrial development accounted for just over 6% of the total tax levy. For the most part, the gradual shift in proportion of non-residential tax revenue has more to do with profound changes in the value of housing in Winchester than with lost commercial space. However, Winchester has experienced a noticeable drop in industrially used land and a volatile history of industrial property values since the late 1980s (see chart), and this also has contributed to the Town's increasing dependence on residential taxpayers. Less than 3% of all taxable parcels in Winchester support commercial and industrial activity.

Winchester has a uniform or single tax rate, which means the Town taxes residential, commercial, industrial and personal property at the same rate per $1,000 of assessed value. Although the tax rate for residents appears to be somewhat higher than for non-residential taxpayers, the difference simply represents debt service for capital improvements to certain public utilities. Winchester has adopted the provisions of M.G.L. c.59, s. 21C(n), which allows communities to assign water and sewer debt service to the residential tax rate and simultaneously exempt the debt service from Proposition 2 ½.

Several communities around Winchester – Lexington, Woburn, Stoneham and Medford – assign a higher tax rate to commercial and industrial properties than residential properties, and this contributes to their comparatively large percentage of non-residential

Table 4: Residential Tax Burden (FY 2007)

CITY OR TOWN	TOTAL PROPERTY TAX LEVY	RESIDENTIAL TAX LEVY	PER CAPITA INCOME (2006)	RESIDENTIAL TAX LEVY PER CAPITA % PER CAPITA INCOME
WINCHESTER	**$54,617,338**	**$52,067,746**	**$58,819**	**4.2%**
Arlington	$76,778,351	$72,656,089	$42,879	4.1%
Belmont	$57,481,936	$54,470,950	$51,810	4.5%
Lexington	$101,074,790	$80,914,047	$53,102	5.0%
Medford	$72,282,673	$58,133,388	$29,382	3.6%
Stoneham	$34,256,386	$28,355,831	$32,706	4.0%
Wellesley	$79,314,896	$70,487,247	$52,505	5.0%
Woburn	$72,346,769	$38,175,072	$31,172	3.3%

Sources: DOR, Claritas, Inc. (for estimated per capita income, 2006), and Community Opportunities Group, Inc.

tax revenue. Still, Wellesley receives a noticeably larger share of commercial and industrial tax revenue than Winchester despite its uniform tax rate, but Wellesley also devotes more land to these types of uses and overall, the value of its non-residential property is much higher. Moreover, residential taxpayers in Wellesley and Lexington have a higher tax burden, yet Lexington's commercial and industrial tax rate is nearly twice its residential tax rate.

In 2007, Winchester homeowners paid the state's 14th-highest average single-family tax bill, and aggregate single-family home values comprised more than 84% of aggregate residential property values – the latter including single-family homes, condominiums and multifamily dwellings. Winchester's average tax bill is high, yet as a percentage of household income, it is roughly in the middle for the immediate area.

Table 5: Average Tax Bill and Property Tax Affordability (FY 2007)

CITY OR TOWN	HOUSEHOLD INCOME (2006 ESTIMATE)	AVERAGE SINGLE-FAMILY HOME VALUE	TAX RATE	AVERAGE TAX BILL	AVERAGE TAX BILL % HOUSEHOLD INCOME
WINCHESTER	**$112,184**	**$755,415**	**$10.33**	**$7,803**	**7.0%**
Arlington	$75,241	$486,431	$10.95	$5,326	7.1%
Belmont	$94,404	$803,440	$10.31	$8,283	8.8%
Lexington	$110,650	$728,903	$11.34	$8,266	7.5%
Medford	$61,063	$407,534	$8.89	$3,623	5.9%
Stoneham	$65,740	$431,042	$9.74	$4,198	6.4%
Wellesley	$123,212	$1,010,371	$8.87	$8,962	7.3%
Woburn	$63,847	$370,009	$9.07	$3,356	5.3%

Sources: DOR, Claritas, Inc., and Community Opportunities Group, Inc.

MUNICIPAL SERVICES AND EXPENDITURES

Winchester provides all of the traditional community services that one would expect to find in an established suburb. Its historic municipal buildings convey a sense of civic pride, and the Town has invested in strengthening its professional capacity throughout local government. Winchester has a well-organized approach to budgeting and capital planning, and documented financial policies that guide the annual budget process. The town's present charter has been in effect since the mid-1970s, and this contributes to the pattern of financial stability that can be seen in Winchester's recent past. Competent financial management, very high household wealth, and high property values form the basis for Winchester's triple-A bond rating, which gives the Town a considerable degree of financial flexibility. In countless respects, Winchester is in an enviable position to control its fiscal future.

Despite the numerous advantages that Winchester brings to the realm of municipal finance, the Town has found it increasingly difficult to pay for the services used by residents and businesses alike. Aside from the challenges of securing adequate revenue, Winchester contends with a problem that is affecting local governments throughout the Commonwealth: significant increases in employee health insurance, pension and energy costs – also known as "budget busters" – even in communities with population declines and no growth in number of payroll employees. In fact, Winchester's non-school payroll declined by about 38 employees (in full-time equivalents) between FY 1990 and 2005.[7] In FY08, the combined increases in health insurance and pensions alone would have absorbed more than 80% of the total projected growth in Winchester's tax levy had voters rejected a Proposition 2 ½ override in March 2007. Absent an override, the Town anticipated a reduction in services; with the override, Winchester preserved its existing capacity. Placed in perspective, Winchester's population increased by ~.5% from 2002-2006, yet its total expenditures for Town and school services rose by 14.4% and expenditures per capita by 12%.

Table 6: Municipal and School Expenditures, General Fund (FY 2001-2006)

SERVICE CATEGORY	2002	2003	2004	2005	2006
General Government	$5,801,674	$6,294,433	$6,906,531	$6,847,796	$7,471,447
Public Safety	$6,000,343	$6,119,867	$6,349,859	$6,892,433	$7,083,527
Public Works	$5,331,517	$4,258,482	$3,460,752	$3,918,584	$3,396,332
Health & Human Services	$361,953	$349,814	$353,303	$362,620	$387,295
Culture & Recreation	$1,349,314	$1,312,095	$1,304,808	$1,315,128	$1,357,905
Debt Service	$4,411,308	$3,604,857	$4,007,127	$3,980,796	$9,352,255
Fixed Costs	$7,462,603	$7,702,639	$8,536,467	$9,270,485	$9,600,185
Other	$3,352,654	$1,734,967	$1,912,282	$1,850,491	$2,053,856
SUBTOTAL	**$34,071,366**	**$31,377,154**	**$32,831,129**	**$34,438,333**	**$40,702,802**
Education	$24,209,277	$23,845,968	$25,122,212	$25,429,528	$25,958,675
TOTAL GENERAL FUND	**$58,280,643**	**$55,223,122**	**$57,953,341**	**$59,867,861**	**$66,661,477**

Source: DOR, Municipal Data Bank.
(Note: Table 6 does not include enterprise expenditures or capital outlays financed with general fund revenue.)

In 2005, Winchester commissioned a benchmarks study to compare its finances, staffing and debt to a selection of similar communities, or "peer group." In some areas, Winchester's total spending and spending per capita or per student exceeded the median for the 20-town peer group and in other areas it fell below the median, but on balance, the study suggests that Winchester's local government expenditures are not out of line with other Massachusetts communities.[8] After reviewing and analyzing nine years of budget data in 2000, the Financial Advisory Committee to the Selectmen (FACTS Committee) reached similar conclusions and noted that for the most part, Winchester has no control over the costs that have accelerated most dramatically: health insurance and energy.[9] However, both the benchmarks study and the FACTS report point to a noticeable difference in Winchester's percentage of residential tax revenue. Much like an economy that depends too heavily on employment within a single industry, Winchester is highly dependent on homeowners for its primary source of revenue, and this applies

[7] Melvin Kleckner, Town Manager, FY 2006 Financial Plan, 1-7.

[8] Municipal Benchmarking, LLC, Municipal Yardstick: Revenue, Expenditure, Staffing, Salary and Debt Comparison: Winchester, September 2006.

[9] FACTS Committee, FACTS 2000: Winchester Enters the New Millennium, 31 October 2000, Exec-4.

both to property taxes and non-tax sources.

WINCHESTER PUBLIC SCHOOLS

Winchester residents clearly value their school system. The Winchester Public Schools have enjoyed a prestigious reputation for many years, and educational quality ranks among the top factors that draw new residents to the town. Since 2000, Winchester has experienced significant enrollment growth just as countless school districts across the state have experienced declining rates of enrollment growth or an absolute decrease in K-12 students. On average, Winchester's enrollments have increased by about 2.5% per year, for a total increase of 602 students between FY 2000 and FY 2007.[10] Other indicators of Winchester's attractiveness to families include its high birth rate per capita, high median family income, and large percentage of married-couple families. These factors are not particularly unique to Winchester, yet viewed in their entirety, they underscore that Winchester's social fabric is that of an affluent, family-centered community with a large base of family household constituents. Moreover, while education spending per student is high in several of Winchester's neighboring towns, most of these communities are not as

Table 7: Education Spending and Family Household Characteristics

CITY OR TOWN	PER STUDENT: FY07 ACTUAL NET SCHOOL SPENDING	PER STUDENT: FY07 LOCAL CONTRIBUTION (ACTUAL NSS NET OF CH. 70)	MEDIAN FAMILY INCOME	MARRIED COUPLES AS % ALL FAMILIES	AVERAGE CHILDREN PER FAMILY	AVERAGE ANNUAL BIRTH RATE (2000-2005)
WINCHESTER	**$10,044**	**$9,221**	**$110,226**	**86.4%**	**0.90**	**0.013**
Arlington	$10,137	$8,883	$78,741	80.1%	0.69	0.013
Belmont	$9,637	$8,691	$95,057	82.8%	0.83	0.011
Lexington	$12,458	$11,500	$111,899	87.0%	0.92	0.008
Medford	$11,458	$9,325	$62,409	74.5%	0.68	0.011
Stoneham	$8,855	$7,774	$71,334	81.9%	0.75	0.011
Wellesley	$11,010	$10,031	$134,769	88.3%	1.00	0.012
Woburn	$11,249	$10,133	$66,364	76.9%	0.75	0.013

Sources: Massachusetts Department of Education, Bureau of the Census, Department of Public Health, Community Opportunities Group, Inc.

dependent as Winchester on residential taxes to support the cost of public schools.

In 1992, Winchester residents formed a community foundation to raise funds for innovative programming and professional development in the Winchester Public Schools. The Winchester Foundation for Educational Excellence (WFEE) was one of many community-based fundraising projects initiated in other towns during the same era – just as the revenue reductions that affected state and local governments during the recession began to reverse. Every year since 1992, the WFEE has awarded grants to teachers to develop, refine, launch or expand programs that would have been difficult to introduce without an alternative (non-budgetary) source of funding. From the outset, the WFEE's mission was to assure that privately raised funds would "not to be used to substitute for, replace, or relieve existing responsibility for taxpayer funding of the public schools." This, too, was consistent with the intentions of other community foundations estab-

[10] Massachusetts Department of Education, Chapter 70 Profile: Winchester.

lished throughout the state during the early 1990s.

Although the WFEE hoped to refrain from becoming a revenue source for the school department's operating budget, conditions have changed since FY 2003, when mid-year local aid reductions confirmed that actual state revenues had fallen far short of original estimates. An additional round of local aid reductions the following year (FY 2004) left many communities unable to fund municipal or school services at customary levels, including Winchester. In 2005, the WFEE established a new charitable fund, The Promise Fund, to "meet core school needs" – that is, to preserve classroom teachers. Despite the Town's own efforts to maintain its commitment to the schools, fee increases for sports and other school activities, and contributions from The Promise Fund, the school department has found it increasingly difficult to live within its means. For two successive fiscal years, the schools have incurred year-end budget deficits due to unanticipated or under-funded costs, including but not limited to extraordinary special education costs. In FY 2007, the deficit was approximately $285,000.[11]

GROWTH, LEVY CAPACITY, AND PROPOSITION 2 ½

Winchester and other communities within Boston's inner core contend with unique challenges under Proposition 2 ½. As substantially built out suburbs, they have very little land to support new development and as a result, the "new growth" provisions of Proposition 2 ½ yield few benefits. For the most part, new growth in these communities emanates from redevelopment projects, which range from single-family teardowns and replacement homes to condominium developments in obsolete industrial buildings. When the regional real estate market gained strength in the late 1990s, the statewide average for new growth revenue gradually rose from 2.05% (of the prior year's levy limit) in 1998 to 2.85% in 2002, and receded to 2.39% in 2006-2007. Throughout, Winchester's new growth revenue consistently fell below the state average, or approximately 1.6%, and most of the new tax revenue stemmed from residential improvements.[12] Lexington is the only town in the immediate area that has maintained a consistent flow of new growth revenue at a rate somewhat close to the state average, much of it from teardowns, yet Lexington also has lured new investment in multifam-

Table 7: Revenue from New Growth (FY 2007)

CITY OR TOWN	NEW RESIDENTIAL GROWTH		TOTAL NEW GROWTH		RESIDENTIAL PERCENT	TOTAL ADDED TO LEVY LIMIT AS % PRIOR YEAR LIMIT
	ASSESSED VALUE	ADDED TO LEVY LIMIT	ASSESSED VALUE	ADDED TO LEVY LIMIT		
WINCHESTER	**$50,740,256**	**$526,176**	**$56,544,307**	**$582,418**	**89.7%**	**1.2%**
Arlington	$66,867,500	$758,277	$78,240,510	$887,247	85.5%	1.3%
Belmont	$59,536,032	$619,770	$65,335,282	$680,140	91.1%	1.3%
Lexington	$98,473,000	$1,094,035	$141,460,530	$2,037,181	69.6%	2.3%
Medford	$55,023,688	$501,266	$102,180,882	$1,411,872	53.8%	2.0%
Stoneham	$28,440,857	$275,023	$34,407,367	$374,544	82.7%	1.2%
Wellesley	$146,044,000	$1,215,086	$150,620,000	$1,253,158	97.0%	1.8%
Woburn	$69,043,702	$600,680	$101,805,929	$1,305,067	67.8%	1.9%

Source: DOR, Municipal Data Bank

[11] Melvin A. Kleckner, Town Manager, "Town Manager's Statement on Budget Shortfall," Winchester Star 8 August 2007, online at <www.townonline.com/winchester/>; Winchester Foundation for Educational Excellence, <www.wfee.org/index.html>.

[12] DOR, "New Growth Applied to the Levy Limit," 1992-2007.

ily housing and commercial and industrial space as well.

It is not surprising that after Proposition 2 ½ went into effect, Massachusetts communities began to look for ways to generate a revenue cushion against difficult times. The prevalence of enterprise funds, special revenue funds and revolving accounts today is a good example of local government efforts to abide by Proposition 2 ½ while maintaining the services that residents expect from their city or town halls. In addition, underestimating non-tax revenue sources in order to maximize the tax levy has been a common practice in most towns, and the evidence appears in historic trends in local receipts, free cash, and a Proposition 2 ½ concept known as excess levy capacity. Winchester is among many that have levied at or very near the maximum allowed by law: an increase of 2.5% over the previous year's tax levy coupled with the value of new growth. Since the recession of the late 1980s, Winchester's excess capacity – or unused levy authority – has averaged a mere 0.04%, or amounts ranging from less than $1,000 to about $35,000 in a given fiscal year.[13] A similar pattern can be seen in the revenue history of Winchester's neighbors, excluding the City of Woburn. While Weston, Concord and several moderate- to high-growth suburbs along I-495 have somewhat greater excess levy capacity, statewide trends clearly show that except for the Commonwealth's vacation and resort towns, most communities are raising the maximum amount possible from the tax levy, in part for the purpose of building reserves.

Table 8: Excess (Unused) Levy Capacity (FY 2007)

CITY OR TOWN	MAXIMUM LEVY LIMIT (INCLUDING OVERRIDES)	ACTUAL TAX LEVY	EXCESS LEVY CAPACITY	EXCESS AS A % OF MAXIMUM LEVY	TAX LEVY AS % OF ASSESSED VALUE
WINCHESTER	$54,657,196	$54,617,338	$39,858	0.07%	1.03%
Arlington	$76,814,991	$76,778,351	$36,640	0.05%	1.10%
Belmont	$57,529,797	$57,481,936	$47,861	0.08%	1.03%
Lexington	$101,139,458	$101,074,790	$64,668	0.06%	1.25%
Medford	$72,322,126	$72,282,673	$39,453	0.05%	0.99%
Stoneham	$34,281,199	$34,256,386	$24,813	0.07%	1.05%
Wellesley	$79,316,412	$79,314,896	$1,516	0.00%	0.89%
Woburn	$74,789,806	$72,346,769	$2,443,037	3.27%	1.25%

Source: DOR, Municipal Data Bank

Winchester has approved two Proposition 2 ½ overrides to increase taxes above the maximum 2.5% levy increased allowed by law, including $1.9M in FY 2004 and $1.3M in 2007. These overrides are in addition to the $2.65M debt exclusions that voters approved in FY 2003 in order to finance several capital improvement projects. There is an important difference between levy limit overrides and debt exclusions. The former establishes a permanent change in the base levy used to determine allowable levy increases in subsequent years, but the latter authorizes an increase in the tax levy only to the extent required to pay for excluded debt service.

LOCAL RECEIPTS

As the economy improved and household formation rates began to rise, consumer spending recovered and local revenue from motor vehicle excise taxes increased throughout the state. However, the nation's recent economic downtown and rising joblessness has curtailed consumer spending to the point that overestimated receipts finally caught up with many communities across the Commonwealth. In FY 2007, the Department of Revenue

[13] DOR, "Excess Levy Capacity," 1986-2007.

responded by reducing the excise tax revenue estimates submitted by numerous communities seeking certification of their proposed tax rates. The influence of these trends can be seen in Winchester's own revenue projections during the past two fiscal years, for the town manager's estimate of growth in motor vehicle excise tax revenue is less optimistic in FY 2008 than in FY 2006.

Excise taxes may seem inconsequential because they supply a small share of Winchester's general fund revenue, but they generate most of the town's flexible or unrestricted local receipts, particularly with the reallocation of solid waste revenue to an enterprise fund. Given Winchester's declining levels of local aid since 2003, constraints on other sources of non-tax revenue present an additional barrier to preserving the present level of municipal services. Still, the size of the potential revenue gap facing Winchester and other towns like it will not be solved by modest rates of growth in excise taxes or fees charged for miscellaneous services. This year, for example, Winchester has increased fees for a variety of permitting, licensing and inspectional services provided by its public safety and public works departments and officials at Town Hall.[14] The new fee schedule stems from a town-wide analysis of charges for fee-based services, and Winchester is not alone in its efforts to enhance revenue from these types of sources.

While communities should always charge fees that capture (offset) the full cost of providing a service, the net revenue impact to the general fund will be a modest gain in relation to the total deficit that Winchester is trying to reduce. Moreover, user fee increases do not lead to reduced property tax bills; instead, they mean that residents pay much more to live in Winchester than the town's average single-family tax bill would suggest. Water and sewer rates were increased by 7% in 2006, and according to the most recent water and sewer survey published by the MWRA's Advisory Board, the average combined water and sewer bill in Winchester is approximately $505 – an amount that falls below water and sewer bills in other MWRA communities only because Winchester has opted to transfer water and sewer debt service to the tax rate.[15]

B. Local Initiatives

Winchester has taken some noteworthy steps to strengthen its fiscal condition by creating development opportunities that may help to generate additional tax revenue. For example, Town Meeting adopted zoning regulations to encourage uses that typically place few demands on local services, such as attached housing units on the "Pansy Patch" site on Cambridge Street. In addition, Winchester has acquired land and recruited developers to provide a mix of fiscally advantageous uses on a portion of the property while retaining the rest as open space. Winchester's first municipally-sponsored development venture began several years ago when the town purchased the Winning Farm and sold it to an assisted living facility developer. The project is expected to generate about $350,000 in

[14] Winchester Board of Selectmen, "MGL Chapter 40, 22F Fees," Effective October 2007.

[15] MWRA Advisory Board, 2006 Water and Sewer Retail Rate Survey, A-2.

tax revenue once it is fully occupied.[16] More recently, Winchester purchased the 20-acre Hamilton Farm on High Street and expects to convey most of the property for a development of empty-nester or "age-targeted" housing. Local officials and voters determined that gaining site control of the Hamilton Farm would be more beneficial in the long run than allowing the property to be used for a proposed mixed-income rental development.

The mechanism that enabled Winchester to acquire the Winning Farm and Hamilton Farm was M.G.L. c.61A, or simply Chapter 61A, a state law that qualifies owners of more than five acres of farm land for significantly reduced taxes as long as the land remains used for agricultural purposes. Property owners participating in the Chapter 61A program are required to give the city or town a right of first refusal to purchase their land before converting it to another use. In most cases, use conversions occur when agricultural or forest land is sold to a developer. As a result, exercising the right of first refusal under Chapter 61A means that communities have to match the developer's offer and this often makes open space acquisitions very expensive. To acquire the Hamilton Farm, Winchester town meeting and voters at a special election had to approve a $13.5M bond issuance and exclude the debt from Proposition 2 ½. To show that the cost of debt service would be less onerous than the cost to provide town and school services to residents of the proposed rental development, the Winchester Finance Committee prepared an elaborate fiscal impact analysis. A similar study was conducted later to analyze acquisition bids from eleven prospective developers.

C. Potential for Expanded Revenues

The legislature is currently debating proposals from the governor's office to create new revenue opportunities for cities and towns. Under the proposed Municipal Partnership Act, cities and towns would be able to collect a local meals tax and a hotel room tax, and an existing tax loophole that benefits telecommunications facilities would be closed. According to data published by the Massachusetts Municipal Association (MMA), Winchester could realize approximately $234,000 in annual revenue growth under these features of the governor's plan. In addition, the legislation would institute more flexibility for municipal borrowing, streamline the abatement process that local assessors must follow under current state laws, and reduce costs associated with advertising services and supplies contracts. While the legislature has approved some components of the Municipal Partnership Act, including a provision that allows municipalities to join the Group Insurance Commission (GIC) in order to control growth in employee health insurance costs, the revenue enhancement proposals remain under review by the Joint Committee on Revenue.[17]

[16] Report of the Selectmen's Budget Task Force, 3.

[17] Massachusetts Municipal Association, *Municipal Partnership Act Resources*, <www.mma.org/>.

D. Recommendations

GOAL: CONTINUE TO EVALUATE COSTS AND BENEFITS OF DEVELOPMENT PROJECTS.

Establish a fair, consistent process for developers to provide cost and benefit studies as part of the special permit process for major projects.

Actions

Assemble a technical assistance package with the financial data and demographic assumptions that Winchester wants developers to use, and provide a uniform cost and revenue forecasting model.

Winchester has commissioned or conducted fiscal impact studies for a number of developments proposed for Town-owned and privately owned land. Fiscal impact studies can help local officials and the public understand the potential consequences of a proposed development, but they also can be very deceptive. Practitioners use a variety of models and different assumptions, and some models are inherently biased. Furthermore, developers usually attempt to place their proposals in the most favorable light while opponents seek to place projects in the least favorable light. By providing no guidelines or data for the preparation of a fiscal impact study, Winchester officials are in a difficult position to evaluate both submissions from developers and critiques filed by other interested parties.

The Winchester Finance Committee has done a commendable job of preparing independent studies, but it has many other duties, particularly during Town Meeting season. The Town should consider adopting and requiring applicants to use a spreadsheet model developed by the Finance Committee or another publicly available model such as that developed by the Federal Reserve Board. This would help to reduce methodology disputes, ease the job of the Planning Board or Zoning Board of Appeals during development review, and expedite permitting decisions because reviewing a developer's fiscal impact study would not require outside consultants or extra volunteer hours from other Town boards.

Regardless of the model, however, Winchester will need to assure that applicants have access to accurate financial and demographic data. In many communities that require fiscal impact submissions as part of the development review process, applicants attempting to comply find it very difficult to obtain data from municipal departments. However, local officials or consultants hired to review fiscal impact submissions do not have to contend with the same barriers simply because they represent the city or town. Unequal access to the right data is partially responsible for disputes over the credibility of fiscal impact studies, and it is a problem that communities can easily solve. A related problem is that many people do not understand the differences between the general fund and other municipal revenue funds. This, too, could be addressed if the Town took responsibility for organizing and providing its own revenue and expenditure data.

The Town Manager, Town Comptroller, Director of Assessments, Finance Committee and School Department have nearly all of the data required for a responsible analysis of development costs and benefits, but the information needs to be assembled and organized for use by others. In addition, a single official should serve as point of contact with developers who need to prepare a fiscal impact study for a special permit application.

GOAL: REDUCE RELIANCE ON RESIDENTIAL TAX REVENUES BY ENCOURAGING THE REDEVELOPMENT OF AND ENHANCING THE BUILD-OUT POTENTIAL OF NON-RESIDENTIAL PROPERTIES.

Create opportunities to reuse obsolete commercial or industrial properties and former institutional uses.

Actions

Consider establishing an overlay district to encourage redevelopment of vacant industrial properties, and allow a menu of marketable uses provided they adhere to architectural and site design guidelines and minimum performance standards.

As described in the Economic Development and Town Center element of this plan, Winchester has a number of vacant or substantially underutilized properties in the industrial area along Cross Street. In addition, an existing federal laboratory in the same area may be closed as part of a facilities consolidation plan. Zoning that makes it economically attractive to reinvest in these properties for commercial or residential uses would improve Winchester's fiscal environment by increasing the amount of property tax revenue generated by parcels in the Cross Street area.

Private investments in obsolete industrial properties can generate increased property tax revenues.

Increase Winchester's capacity to engage as a partner in complex redevelopment projects.

Actions

Establish an Economic Development and Industrial Corporation (EDIC) or a similar quasi-public development organization that can acquire and redevelop vacant or difficult-to-develop sites.

Winchester's success at acquiring open space and making portions available for development highlights the advantages of a site control strategy to manage new growth. However, redeveloping existing properties is more complicated than developing new homes or businesses on vacant land. Sometimes industrial redevelopment requires low-cost public financing sources which in turn may trigger a prolonged environmental permitting process. One way for the Town to provide both capacity and access to a variety of public financing mechanisms would be to establish an EDIC that can carry out industrial reuse projects, perhaps within designated "target areas" such as Cross Street or North Main Street. Through the vehicle of an EDIC created by home rule legislation, communities can issue temporary bonds to acquire the real estate and roll over the interest-only notes for several years while the property is in permitting and under construction.

Review and streamline the permitting requirements for non-residential properties with significant redevelopment potential.

Actions

Designate obsolete, vacant, or underutilized properties as candidates for expedited permitting under M.G.L. c.43D.

Winchester should consider designating larger properties as Priority Development Sites (PDS) under the state's expedited permitting statute, Chapter 43D. For a PDS that receives both local and state approval, developers are entitled to a decision on most local permits within 180 days of submitting a Chapter 43D application. The local permits subsumed by Chapter 43D include zoning, subdivision control, wetlands protection, Title V, and certain public safety or public works departments. In addition, Chapter 43D directs state government to act on most state-level permits within 180 days. The law does not guarantee that development proposals will be approved; rather, it guarantees a decision within 180 days.

GOAL: RECOVER A REASONABLE SHARE OF THE TAX REVENUE LOST TO DEVELOPMENT PROJECTS UNDERTAKEN BY TAX-EXEMPT ENTITIES.

Continue to negotiate development agreements with tax-exempt entities to provide compensation for foregone tax revenues, considering their social and economic benefits and the services they provide to the community, where applicable.

A PILOT agreement with Winchester Hospital will help the Town meet the cost of providing services to the hospital expansion site on North Washington Street.

Actions

Establish a PILOT team to identify opportunities for new PILOT agreements and to negotiate renewals of existing PILOT agreements.

Winchester had a positive experience renegotiating a payment-in-lieu-of-taxes (PILOT) agreement with Winchester Hospital. When the hospital needed a zoning change in order to expand its operation, the Town initiated a review of the existing PILOT agreement and worked with hospital officials to increase the PILOT over time. Although Winchester does not have a large number of tax-exempt institutions, the

Town may be able to obtain new sources of PILOT revenue by working with other non-profit organizations. The Town should consider establishing a PILOT team that includes the Town Manager or Assistant Town Manager, the Director of Assessments, and members of the Board of Selectmen and Planning Board. The team's purpose would be to review all of Winchester's privately owned tax-exempt properties, estimate the Town's cost to provide municipal services to tax-exempt uses, and conduct outreach with the owners to solicit new PILOT agreements. A useful guidance document for this type of effort can be obtained from the City of Newton. In addition, the Massachusetts Government Finance Officers Association has published a technical assistance guide, *Negotiating PILOT Payments*.

GOAL: CONTINUE TO PROVIDE TAX RELIEF FOR SENIORS.

Market the availability of property tax exemptions, deferrals, credits, and tax breaks for seniors.

Action

Prepare a technical assistance package on property tax options for seniors, and make it available on the Town's website, in the assessor's office and senior center, the library and other settings frequently used by seniors.

Many communities in Massachusetts provide senior tax relief information and application instructions on their websites, through cable TV public service announcements, and in brochures distributed at senior centers and other public facilities. For example, the Town of Lexington has published an easy-to-read guidebook, *Property Tax Relief for Seniors*, which can be downloaded from the Town's website on the assessor's home page. The Arlington Council on Aging also has produced an extensive booklet on senior services, including information about tax exemptions and other types of tax relief. Although Winchester provides the same forms of tax relief (most are required by state law), it is not easy to find the information locally. The Town should prepare an information packet that seniors can obtain independently at a variety of outlets. If necessary, Winchester could seek a DHCD Peer-to-Peer grant to obtain some "how-to" assistance from another community that has created a successful tax relief outreach program.

Explore alternative ways to reduce property taxes for senior citizen households.

Action

Consider petitioning the legislature to establish additional forms of tax relief or other types of housing cost relief for Winchester seniors.

Winchester could consider following in the footsteps of communities such as Provincetown, Truro and other Cape Cod towns that have obtained special legislation to reduce or waive property taxes for landlords who rent apartments or houses to low- and moderate-income people, including seniors, at below-market rents (Chapter 408 of the Acts of 2002). Although the impetus for Provincetown's legislation was the loss of year-round rental units, the concept of landlord tax relief to leverage housing affordability has other uses, including senior housing affordability in very high-end towns.

Consider purchasing affordable housing restrictions on homes owned and occupied by seniors.

Some communities in Massachusetts have begun to explore the feasibility of purchasing restrictions on existing homes so that when the units are sold in the future, they will be available at prices affordable to low- or moderate-income people. Buying down the future sale price of a home effectively reduces its market value and therefore its appraisal value, which in turn has the potential to reduce a homeowner's property taxes. Although buy-down programs raise a number of legal and policy issues, they do create options for seniors who do not meet the low-income and asset limits that govern some of the state's traditional tax deferrals and exemptions.

GOAL: EXPLORE NEW FUNDING SOURCES.

Consider adopting the Community Preservation Act.

Action

Continue to study and explore the potential uses of CPA revenue in Winchester, focusing in particular on historic preservation and housing – activities that could help to leverage new private investment and generate additional property tax revenue.

CPA could be a very important source of revenue for Winchester to implement some of the major recommendations of this Master Plan, notably housing development and reuse of historically important nonresidential buildings. Winchester also could use CPA funds to improve existing parks and outdoor recreational areas and possibly reduce dependence on the tax levy for these types of public works-related projects.

Explore opportunities to control "budget-buster" costs.

Action

Evaluate the merits of joining the state's Group Insurance Commission (GIC), as authorized by the Municipal Partnership Act, to reduce the cost of employee health insurance.

In July 2007, the legislature enacted two sections of a proposal from the governor's office to help communities address high health insurance costs and generate additional operating revenue. Under recently approved portions of the Municipal Partnership Act, cities and towns can opt into the state's employee health insurance system and potentially reduce annual outlays for employee benefits. In Winchester, about 1,000 employees, retirees and surviving spouses participate in the town's insurance program. Since FY 2006, Winchester's appropriation for employee health and life insurance has increased from $6.4M to $7.7M. Although there are no guarantees that the state plan will save money, Winchester should explore the advantages and disadvantages of the GIC's program. The Town would not be able to participate unless the Town Manager and 70% of the union employees and retirees serving on a public employee committee agreed to join the state plan.

Develop a sustainability action plan to improve municipal resource efficiency.

A number of communities in Massachusetts, including Brookline, Medford, Arlington, Somerville, and Cambridge, have created sustainability or climate change action plans that identify how a town or city can reduce greenhouse emissions and water pollution. The plans also demonstrate that adoption of energy-efficiency measures can reduce "budget-busting" municipal energy costs. Since municipalities own and operate their own buildings and other physical assets, action plans include considerations of full lifecycle costs (initial capital outlay and long-term operational costs). Winchester should develop a sustainability plan that includes recommendations for energy-efficient retrofitting of Town-owned buildings; improved efficiency standards for new Town buildings, including schools; energy-efficiency requirements in procurement policies; and tree planting and stormwater management programs.