Town of Littleton
Finance Committee Report

Fiscal Year 2009

Contents

To the residents of Littleton:

The Finance Committee is pleased to, once again, prepare this informational report containing our recommendations for the FY09 budget as well as recommended fiscal guidelines for the Town. It is our hope that this sharing of information prior to Town Meeting will enable voters to better understand the many issues facing the Town today and their impact on the budget recommendations made herein. The data presented here is based on information available as of March 31, 2008. Any significant changes to these figures will be presented at Town Meeting.

The Role of the Finance Committee

The Littleton Finance Committee consists of seven members, each appointed to three-year terms. Two members are appointed by the Selectmen, two by the School Committee, one by the Board of Assessors, one by the Moderator and one by the Light and Water Commissioners. This appointment procedure allows for a diverse group with overlapping terms and expertise.

The primary function of the Finance Committee (FinCom) is to review departmental budgets and submit a balanced budget (Article 4 of the Annual Town Warrant) to Town Meeting. In addition to this statutory budget responsibility, the FinCom has a set of specified financial management responsibilities including:

- Managing a small reserve fund account to meet unforeseen expenditures within the current budget year;
- Conducting public hearings on budgets and other financial matters that may come before the Town;
- Establishing fiscal guidelines for Town Officials for use in preparing their budget requests and capital planning needs;
- Participating in sub-committees requiring financial input or guidance, and;
- Providing financial feedback or input to town boards or employees.

Committee members are assigned as liaisons to each department, board or committee to facilitate communication and understanding of the issues during the budget process as well as throughout the year. The FinCom's role, however, is limited to making recommendations to Town Meeting or the appropriate governing body. The decision-making responsibility rests with the elected officials and those who vote at Town Meeting and general elections.

Fiscal Year 2009 Budget Pressures

We are all well aware of the financial difficulties presented to us during the past several years. The weakened State's economy placed the burden on local town governments to deal with the increasing costs associated with delivering the services to the communities that are both necessary and expected. Although that pressure has eased somewhat, the recovery process continues. The Finance Committee has serious concerns about state funding in the next few years. The economy appears to be heading for a recession. If that occurs, some state revenues that are projected will not materialize. If state revenues decline over the next few years, the effect will have a major impact upon Littleton town services.

The Finance Committee continues to follow the financial guidelines that are presented at the end of this report. These guidelines will help enable the Town to be better prepared for adverse changes in the economy, without significant negative impacts. It will take some time to fully implement these guidelines and will require some tough decisions regarding spending as we attempt to balance current needs against the long-term benefits to the Town. It is the Finance Committee's job to evaluate these options and provide Town Meeting with the best possible recommendation for the long-term financial health of the Town.

The Finance Committee's primary goal during each budget cycle is to maintain the financial stability of the town. In addition to this goal we attempt to fund the desired levels of services provided to the citizens of the town. The pressure to fund all departments to the desired levels remains increasingly difficult.

Littleton, like many of our neighbors, is facing many challenges that will require town officials and citizens to make difficult decisions. Growth in our population, quality of life, level of services and affordability to live in the town can often be in conflict with each other. With each new residence come additional roads to maintain, children to educate, and neighborhoods to safeguard. Studies have shown that although this property is added to the tax roll, the cost of services provided exceed the tax collected. If taxes are increased to cover the needs, Littleton may become unaffordable to some citizens, changing the character of the town. If these needs are not covered, Littleton may become undesirable to some citizens.

The primary budget conflict stems from several factors. Proposition 2 ½ allows a town to increase the levy capacity 2.5% from year to year plus any added new growth. This, along with State Aid and local receipts, forms the basis of available revenue to be allocated. Simply put, to manage the long-term balance of revenues and expenses without a Proposition 2 ½ override, expense growth cannot be allowed to outpace revenue growth.

While determining this year's recommended budget, the Finance Committee kept these priorities in mind. We would:

- Not recommend or support an operational override for FY09;
- Provide funding to the school department and public safety budgets as necessary and available;
- Provide funding to upgrade the Russell Street School;

- Provide funding for a Facilities Manager to oversee the $45 million worth of new construction that the Town has funded over the past 10 years along with all other Town buildings;
- Provide additional funding for road repairs;
- Provide funding for a new police station.

Total revenues have increased by approximately $1.7 million. Net State aid, based on the initial Cherry Sheet from the Governor's budget, will increase by $649,428 in FY09. Town non-tax receipts are showing no significant increases. Much of the funding increases contained in this year's budget are predicated upon the Governor's initial Cherry Sheet. Changes to these figures are not expected, however, if significant reductions to the amount of State aid provided to the Town materialize through the legislature, revisions to the budgets presented in this report may be necessary. Through possible savings in healthcare costs, additional funds were made available for the school budget.

The change to quarterly tax billing has enabled the Town to better manage cash flow and not experience periods of cash short-falls which, in past years, forced the Town to borrow and incur unexpected interest costs. The higher level of cash available to the Town has also generated significant increases in investment income which in turn provides increased funding for Town services or capital projects.

The Finance Committee is recommending a budget for FY09 which;

- significantly increases the school budget,;
- provides salary increase for all personnel;
- funds 2 additional police officers;
- provides additional funding for road repairs.

We were unable to fund a Facilities Manager at the present time due to other priorities. The Finance Committee will continue to look at this position in the future. The committee realizes the importance of this position given the significant increases in new and rehabilitated Town properties.

Changes in Revenues FY09 vs. FY08

This chart details the revenue growth contained in the FY09 budget.

The net revenue growth % is 5.91% before adjusting for non-recurring revenues from FY09. This % was 7.50% last year.

Item	*Amount*
Total Revenue FY08	*$ 30,164,119*
Add: additional revenue sources	
Allowed 2 ½ % Levy Increase	504,502
New Growth	206,000
Increase in Local Receipts	43,578
Increase in Debt/Capital Exclusion	450,448
Increase in State Aid (Cherry Sheet)	784,797
Less: Decrease in Other Available Funds	(73,602)
Decrease in Free cash	(131,307)
Net Revenue Growth	$ 1,784,416
Non-recurring revenue adjustments	
Add: Change in transfers of prior year funds	29,000
Net Change in Total Revenues	$ 1,813,416
Total Revenue FY09	*$ 31,977,535*
% Revenue Growth	*6.01%*

Changes in Expenditures FY09 vs. FY08

This chart details the growth in expenses contained in the FY09 budget.

A budget with a $411 surplus exists at this time.

Item	*Amount*
Total Expenditures FY08	*$ 30,153,122*
Add: additional expenses	
Increase in Town Operating budget	483,376
Decrease in debt service & exclusions	303,662
Increase in Cherry Sheet charges	135,369
Increase in Out-of district SPED costs	762,796
Increase in School Budget	146,715
Increase in other expenditures	340,125
Less: expense reductions	
Decrease in warrant articles	(183,550)
Decrease in health ins & pension costs	(132,402)
Decrease in Nashoba Tech assessment	(32,089)
Net Change in Total Expenditures	$ 1,824,002
Total Expenditures FY09	*$31,977,124*
% Expenditure Growth	*6.05%*

The above chart shows the realities of what the FinCom has been faced with in proposing the FY09 budget. Total revenues increase by $1,813,416 year over year. The majority of this increase comes from normal expected revenue increases from the levy and new growth as well as additional receipts from the Cherry Sheet, something that had been declining prior to FY07. These increases are substantial enough to compensate for a $909,511 increase in the overall school department budget including out-of-district special education costs.

The use of non-recurring revenues over the past years, coupled with prior decreases in State aid, has added to the budget pressures experienced by the Town. During FY04, for example, a total of $636,557 in one-time revenues was used to cover operating budget shortfalls. In FY05, transfers of $278,840 were authorized and $38,034.43 was authorized in FY06. Although these transfers were done to balance their respective budgets, their impacts continue to be felt year after year as we attempt to cover those additional expenses without the availability of those revenues. In both FY07 and FY08, no non-recurring revenue transfers were made. In the current year a small transfer of $29,000 is being made to cover a one-time offsetting expenditure. The Finance Committee has taken a strong stance against the use of non-recurring revenue streams. This has been a major contributing factor in the financial health of the Town.

Moving forward, three items have been and will continue to be major impacts on the expenditure levels of the town: debt service, the school budget and employee benefit costs.

Debt Service

The Town enters FY09 with total outstanding principal debt of $37,392,443 with associated future interest costs of $12,921,036 for total debt service of $50,313,479. These figures do not include projects that have yet to be permanently bonded.

Reimbursements from the State for both the High School and Shaker Lane construction projects offset $16,288,857 of the above total debt service. Payments on debt issued for the Light department, for which the Town will be reimbursed, total an additional $1,853,219. Cell tower revenues, covering an additional $1,257,370, support some recent debt incurred for the purchase of land. This leaves a net of $30,914,033 in total Town supported debt service. The FinCom has advocated limiting future debt within the operating budget of the Town. We have recommended, and feel that it is absolutely necessary, that any future construction projects, such as the renovation of the Russell Street School, a Police/Fire Station or Community Center, be done as debt exclusions, where the year-to-year debt service payments are raised outside of the normal Proposition 2 ½ levy calculation.

Adding debt to the Town, similar to households using credit cards, places the burden of payment onto future years and constrains operating budgets. The Town continues to feel that impact in FY09. The debt service within the operating budget of the Town (total debt service *less* reimbursements *less* debt exclusion items) represents 5.98% of the adjusted revenues of the Town. This percentage stood at 6.56% in FY08 and is reflective of the FinCom's resistance to borrow within Prop 2½. The FinCom has been working to reduce this portion of the debt service payment below the stated guideline of 5%. Even as we achieve this level we feel that future debt issuance within Prop 2 ½ must be kept to a minimum.

In the current year's budget we have included provisions for debt issuance within Proposition 2 ½ for the road repair project. While the current year debt service associated with this project is minimal, the future payments have the potential to substantially increase and drain operating funds. Projections currently show that the operating budget impact can be minimized through the use of State Chapter 90 highway funds and regular road repair dollars already allocated within the operating budget. In FY09, a total of $500,000 is set aside within the operating budget for both the debt service and funding to begin the road project. The Finance Committee is committed to following the current road repair plan as a baseline. Any available funding during the project lifecycle should be used to decrease the need for future borrowings.

While decreased debt payments provide additional funds for spending in other areas, the FinCom feels that it is necessary to set aside a portion of these savings to fund future debt impacts such as the High School debt service or capital purchases. *The Finance Committee's guidelines will be discussed later in this report.*

The FinCom has recommended the continued use of capital exclusions to fund items that normally would have been borrowed in previous years. A capital exclusion is similar to a debt exclusion in that the payment is raised outside of the normal Proposition 2 ½ levy calculation. However, a capital exclusion raises the total amount of the funds needed all at once, essentially paying cash for our purchase instead of using our credit card. A capital exclusion does impact the tax rate of the Town since it raises funds outside of Proposition 2 ½ for a single year. *(Specific impacts to the tax rate will be discussed later in this report.)* This funding mechanism must be used not only in FY09 but also in future years in order to decrease the amount of debt service and free up dollars within the operating budget to maintain the level of services provided by the Town today.

This year, the warrant and ballot will contain articles regarding potential capital exclusion items totaling $221,000. The Town supported capital exclusion items in last year's budget totaling $94,700, and approved $621,000 in FY07. This year's items include $96,000 to repair the roof of the Town Office building, technology and maintenance items for the school department totaling $60,000, and protective gear for the fire department totaling $60,000. The Town continues to save interest costs over the next 5 years on these items by not borrowing. If this strategy is carried forward from year to year to pay for selected capital purchases, the compounded savings to the Town becomes significant. As of this report date, the FinCom supports all capital exclusion items.

During this budget cycle all Town departments were asked to update their projected capital needs for the next ten years. The information has been compiled in a fashion that enables the planning process for these major capital purchases to become much more efficient. The FinCom has also identified capital purchases and projects that are likely candidates for capital exclusions over the next few years. It is our hope that the Town and Town Meeting approve the use of capital exclusions as a strategy to help strengthen and ensure the financial well being of Littleton.

School Budget

The Littleton Public Schools are the major recipient of Town Meeting appropriation. There is no question as to the value of a quality school system within the town and the need for the community to provide its children with a quality education and proper foundation for their future.

The responsibility of the School Committee is to provide that quality education and to advocate for an ever-improving system based on the educational needs of the children, the desires of the community, and statutory requirements. It is the responsibility of the FinCom to recommend to Town Meeting an appropriation that it believes is sufficient to meet those educational needs represented by the School Department budget, as well as to provide for the safety, protection and other services to the community within the limited resources available to the Town.

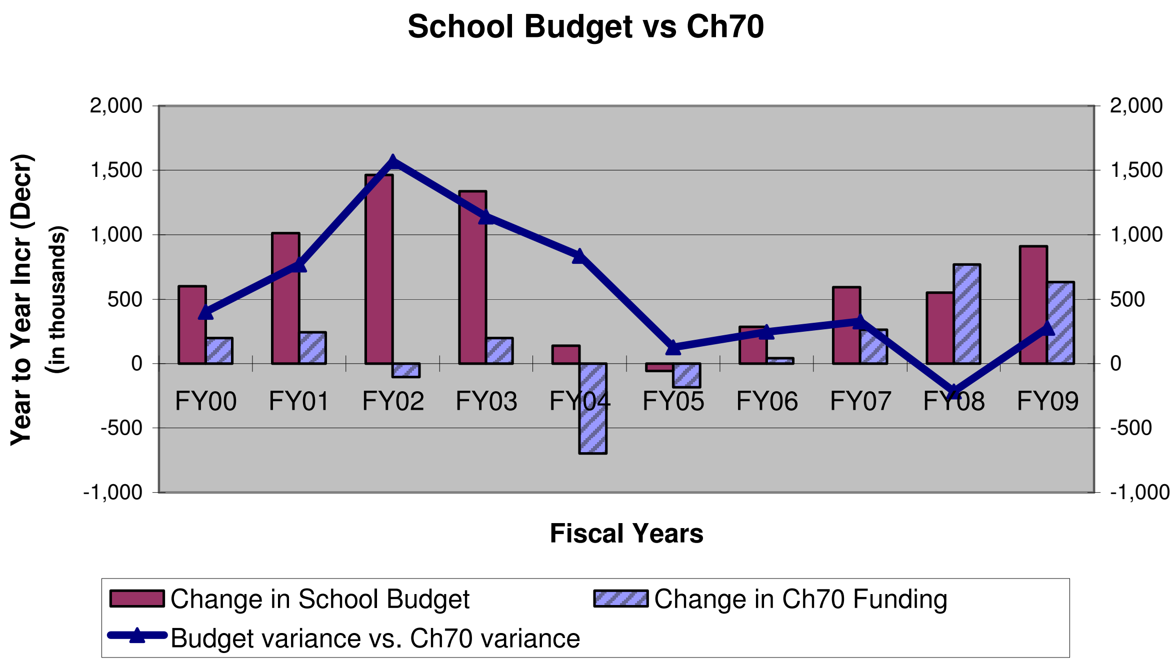
In the FY09 budget process, the FinCom recommends a school budget of $14,520,000. This represents an increase of $909,511 or 6.68% over the FY08 appropriation. The Finance Committee is also supporting $60,000 in capital exclusions to fund HVAC units at Shaker Lane and school-wide technology items. The FinCom made its recommendation by taking into account salary increases, special education spending, maintenance and utility costs and balancing those needs against the funds available to the Town.

In addition to the Town's appropriation the school system also funds its operations using available grants, donations and revolving funds. The use of these funds is incorporated into the current level of programs and staffing found in the schools with the unspent balance providing a cushion for the School Committee to access for unexpected costs such as special education without asking the town to provide additional funding. The school department ended FY07 with a balance of $1,005,206 in their revolving fund accounts. An additional $2,510,983 in revenues is anticipated to be added throughout the current school year with anticipated spending of $2,871,692. This would bring the balance of the revolving funds down to $644,497 at the end of FY08. Spending in excess of revenues cannot continue to occur since the fund balance could be exhausted within 2 years. Since the spending levels are incorporated into the current levels of programs provided by the school system once these funds are exhausted, the school system will either be forced to cut programs or ask the Town to fund the shortfall in addition to its normal budget increase. The Finance Committee has discussed the use of revolving funds with the School Committee.

Chapter 70 is the funding that the town receives from the state to supplement the school's operating budget. Starting in 2006, the state made changes to the distribution of Chapter 70 funding across the towns of Massachusetts. Prior to 2006, it was clear that Littleton was not receiving its fair share of Chapter 70 funding. The correction in the distribution is designed to bring Littleton up to par in Chapter 70 funding over time, when compared to similar towns.

The increase that Littleton has seen in Chapter 70 funding over the past 3 years is much greater than the increases other towns have seen over this time. This rate of increase that Littleton has enjoyed is not expected to continue. It is projected Littleton will be considered "up to par" by the State compared to similar towns sometime after FY10. If the school budget continues to grow and outpace projected future Town revenues, there will be the risk of a severe shortfall in the school operating budget when the current level of Chapter 70 funding increases cease. This is due to the fact that approximately 70% of the school budget is linked to employee wages compounding at 5% - 6%. Additional staffing increases this number and will also increase a potential budget shortfall. Current projections show that the Town will need to fund a $500,000 budget deficit in a projected level-services school budget at the point in time when Chapter 70 funding returns to normal levels.

The chart below outlines the correlation between the year to year change in the school budget and Chapter 70 funding. The Town has increased the school operating budget at levels greater than the increases in Chapter 70 funding in 9 of the past 10 years. The projected funding shortfall will occur when Chapter 70 increases return to the normal levels experienced in the earlier years shown below instead of the increases shown from FY07 to FY09.



With the spending of the revolving funds in addition to the town's appropriation total spending for the school system in FY08 is projected to be $16,482,181. Assuming the spending from the revolving funds is at the same level in FY09, total spending on the school system would be $17,391,692. This amount does not include town provided employee benefit costs as well as costs for other town services provided to the school system. In the last completed fiscal year ending June 30, 2007 (FY07) this figure was $2,712,384. Debt service payments will account for an additional $3,201,158. In total, estimated school related spending in FY09 will be approximately $24.8 million.

Looking to the future, these issues cause increasing concern for the Finance Committee. Without significant new recurring revenue growth, the total spending of the Town on the school system will continue to increase as a percentage of overall spending, and adversely affect other vital Town services.

The Outlook for the Future

The FinCom continues to try to achieve a balance between revenues and expenses in order to provide the citizens of the Town the services they require and expect. The lack of any significant new revenue sources becoming available in the near term and the continuing fiscal problems on Beacon Hill have made achieving this balance very difficult. This year we have attempted to budget our available funds in such a way as to maintain Town services at current levels in addition to providing a significant increase to the school budget. In general, we have been able to provide, at a minimum, level-services funding to all departments while continuing to address rising employee costs for both salaries and benefits due to contractual obligations.

While we are all aware that the financial picture can change in either direction in the coming years, the following sections outline the strategies the FinCom intends to pursue:

Stabilization - The Stabilization fund is estimated to end FY08 at approximately $1,420,000. For the second consecutive year, no stabilization funds will be necessary to cover the High School debt service due to the use of available free cash and the savings currently incorporated within the revenue stream of the Town. The fund will be able to offset a portion of the future debt service payments until the debt is paid in FY23 based on the implementation and continued use of a savings plan. Beginning in the FY06 budget, the FinCom has incorporated a savings component to the revenue stream of the Town. *See the Financial Guidelines later in this report*. This savings component is based on the premise that any new revenue stream should not be fully added to the operating budgets of the Town. Free cash and/or stabilization must be allowed to grow in order to begin to cover our debt and capital costs both now and in the future. A minimum of 10% of recurring revenue growth and 100% of the year-to-year reduction in debt service within the levy must be set aside each year. In addition we cannot allow non-recurring revenues to be added to the operating budget of the Town. If these savings cannot be sustained over time, the FinCom will recommend debt exclusion for the remaining debt service on the High School.

Debt Management – Additional borrowings must be held to a minimum. While we are continuing our practice of paying for big-ticket capital purchases by the use of capital exclusions rather than borrowing, the amount of exclusion dollars has been decreasing over the past few years. The Town has been able to fund more capital purchases inside the levy during this period without the need to borrow. Debt service within the levy, adjusting for the impacts of the High School debt service as it enters the operating budget, decreases substantially over the next few years. This reduction in debt levels cannot be allowed to be added dollar for dollar to the operating budgets. The FinCom recommends that 100% of these dollars be set-aside in free cash or stabilization in order to lessen the impact of the High School debt. Where appropriate, as we did with the Middle School, we will recommend debt exclusions for any major building project. One major project that is currently being recommended by the Finance Committee and the Board of Selectmen is the repair of the Town roads *(see Road Project section).* This project will require the use of borrowings in the short term to initially fund the repairs.

Operating Budgets – Spending by all departments must be controlled. This is extremely important especially when faced with consecutive years of decreasing or slight increases to the Town's revenues. Additional personnel will be added only in situations where a direct benefit in cost efficiencies can be realized or where the safety of the community would be compromised. Further, as personnel costs consume more than 70% of the operating budget, the Board of Selectmen and the School Committee are urged to take a very conservative fiscal approach to wage negotiations with our unions. Considering the economic pressures on our operating budget, continuing to offer contracts that compound total wages at 5% - 6% per year is not sound fiscal policy.

The growth in the additional taxes generated by a Proposition 2½ override is limited to 2½ % each year thereafter. Salary and benefit increases alone can account for 7% to 10% expense increases year over year. This is one example of the fact that overrides tend to lead to overrides unless spending controls are put in place to mitigate potential revenue shortfalls. *The Finance Committee's proposed budget for FY09 does not include a Proposition 2 ½ override.*

Interest Rates - The town has benefited over the past two years from declining interest rates. The town has been able to re-finance existing debt and bond the new middle school at very favorable rates given the decline in interest rates. This has resulted in lower debt payments for the town.

The town has also experienced favorable cash flow when it moved from a semi-annual tax payment to a quarterly tax payment. On top of the beneficial cash flow that the town experienced from the change in billing, the town has also seen sizable growth in investable cash, as much of the positive cash flow from the quarterly bill payments has earned additional interest income for the town. With the decline in interest rates, the town can no longer rely on the same amount of interest income that has been generated in the past. Clearly there is an offset as future borrowings will be made in this same down interest rate environment, but the ability to generate and rely upon additional revenue through interest income is an example of a revenue source that is diminishing, at least in the short-term for the town.

Revenues – As with most communities the Town needs to find new sources of revenue where possible. Increasing fees for services has brought in some additional revenue, but not at the recurring and increasing levels that are needed to sustain increasing expenses. Unfortunately, such fees can be burdensome on certain segments of a community and may be viewed as an additional tax, which is not shared by all.

New growth had averaged $450,000 over the five year period ending FY07. With the exception of FY07, new growth has continued to decrease year over year since FY03, with much of the decline being driven from the lack of additional commercial property. New growth estimates for FY09 are once again down slightly from FY08 levels and have fallen approximately $228,000 from FY07 levels. Decreases in the new growth figures have a dramatic impact on the revenue streams in future years. The reduction in new growth represents revenue dollars that are lost to the Town even if new growth rebounds in the following years. The Town must begin to attract new commercial development.

In recognition of significant vacancy rates of commercial properties within the Town, 2006 Fall Special Town Meeting voted and approved the following actions to be taken by the Board of Selectmen:

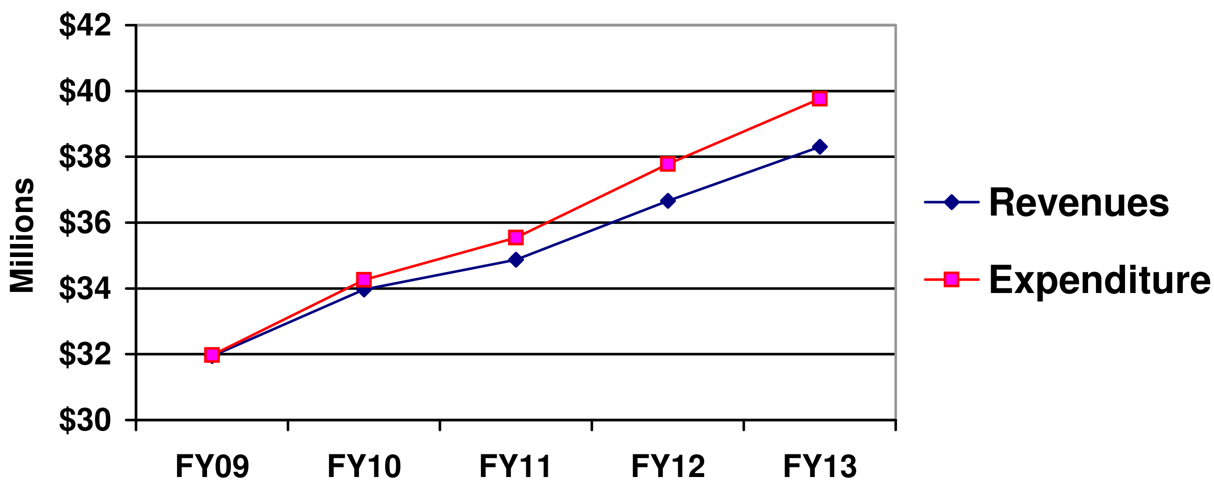
- Apply to the Economic Assistance Coordinating Council to amend the 495 Regional Technology Center Economic Target Area (ETA) to include the town of Littleton
- Designate 550 King Street (property known as the former DEC/HP facility) as an Economic Opportunity Area (EOA)
- Create a Tax Incentive Financing (TIF) subcommittee which is empowered to negotiate and recommend to the Board of Selectmen a TIF, which will provide a percentage of tax relief on any property value improvement to the tenant of 550 King Street, as well as any additional commercial locations within the Town that become designated EOA's.

By entering into the ETA, the town is attempting to reach economic development goals that consist of utilizing and redeveloping the existing commercial space within the Town and attracting technology companies which can create jobs and add to the tax base without drawing on or dramatically impacting town resources. The TIF sub-committee developed the strategy for the Town and successfully negotiated the TIF with the owners at 550 King Street.

While these actions could result in significant future new growth increases, the Finance Committee continues to take a more conservative approach in forecasting the finances of the Town. We cannot take some of these future projects or revenue streams into account too early and bank future projects or expenses on them. If a current project, capital purchase, or contractual obligation cannot stand on its own using known revenues streams or normal projected increases to these revenue streams, we cannot and will not recommend the expenditure to the Town.

The following chart shows the estimated revenues and expenditures for the Town over the next five years. These assumptions, as are all the numbers included in this document, are based on levels of revenues and expenses which the FinCom feels are most likely to occur given the Town's most recent financial history, the current economy and levels of services and projects currently in progress or likely to occur within the next few years. Even with controlled expenditures that track in step with a slightly increasing recurring revenue base and minimal additional debt the expected revenues generated by the Town over this time period will not keep up with estimated expenditures. Additional revenue sources must be found; preferably those that when added to the tax base do not create a demand for additional services.

Revenues vs. Expenditures FY09 – FY13



The chart below shows the estimated budget overage or shortage for the Town through FY13. School and Town budget increases have been estimated at very conservative levels. Spending constraints must still be realized with expenses gradually allowed to increase but only in relation to expected revenue growth. Spending increases in the earlier years cannot be supported within the estimated revenue stream and, as shown, tend to widen over time.

	FY10	FY11	FY12	FY13
Budget Overage (Shortage)	($291,757)	($668,769)	($1,113,131)	($1,455,765)

FY09 Operating Budget

In the FinCom's annual budget message, Town departments were asked to prepare a level-funded budget as well as a level-service budget. Departments were also informed to expect few, if any, personnel increases or funding for new programs. In developing our forecast for FY09, it was anticipated that any additional revenues available to the town would be primarily used to fund capital items that have been neglected during previous budget cycles. While we were able to accomplish some of this goal we were also able to set aside a significant increase in funding for road repairs *(see Road Repair Project below).*

Working in conjunction with the Board of Selectmen, a set of priorities was established to direct the allocation of available funds. At the same time, the Town Administration worked on a solution to the increasing health insurance premiums paid by the Town. In FY09 the Town will be changing from its traditional self-insured health plan to a member of a larger group insurance plan. This change will decrease the premiums paid by both the Town and employees without changing the level of benefits received by the employees.

Through such efforts and a modest increase in State aid, a few tactical budget increases were possible. As mentioned above, additional monies are being allocated to address the increasingly poor condition of our roads. The Police Department has been funded for the addition of 2 new officers, decreasing the amount of overtime necessary to be paid. In addition, the School system was granted an increase of approximately $900,000.

Warrant Articles

The Finance Committee supports all finance related Warrant Articles. Each of the Warrant Articles represents an expense that the Finance Committee believes cannot be deferred. Capital purchases for various department equipment requests total $242,200 *(Article 9).* This includes needed equipment for the Police, Fire and Highway departments.

Budget Summary

This year, with slightly increased State aid, but decreasing figures in new growth and local revenues, the Town will be able to increase funding in selected departments where direct benefits have been identified. The recommended budget also allows for additional funding for the school department in a year where our original estimates showed a much smaller increase in their budget.

Our general position on operational overrides has not changed. In order to avoid funding consecutive years of overrides Town spending must be controlled. In the short-term, if new programs are needed, it will be necessary to eliminate existing programs of lower priority and re-direct the resources. The FinCom will only recommend future operational overrides when all other financing mechanisms have been exhausted and the long-term impact of this permanent increase can be sustained and integrated within an overall financial plan. We do not, and will not recommend building operating budgets that hinge on the passage of an operational override every year.

Road Repair Project

Establishing a plan to begin to address the growing need to repair the road infrastructure throughout Littleton was one of the higher priorities during the 2009 planning process. The challenge was how to put together a plan that did not impact the operating budget, require significant borrowing or require the town to request additional funding from the citizens in a debt exclusion.

The plan to fund the road improvement, developed by the Town Accountant and endorsed by both the Finance Committee and the Board of Selectmen is a multi-year plan that combines increasing the spending from the Roadway Repair Account and short-term borrowing. The Roadway Repair Account will be increased to $480,000 in FY09; this is a $205,000 increase over the FY08 budget. An additional $20,000 will be used to pay the interest on the initial borrowing during the current fiscal year. The amount set aside into the Road Repair Account is scheduled to increase a minimum of 1% annually in each successive year of the plan. Five year bonds will be issued in FY11 for $1 million, FY15 for $1 million and FY20 for $800,000. These borrowings will provide the necessary funding to complete the current list of roadway projects with debt service scheduled to be paid from the combination of State Chapter 90 funds and the annual appropriations into the roadway account. This project, therefore, should not have a major impact on the town operating budgets in the future.

Debt Exclusions

At the present time there are 2 new debt exclusion articles appearing on the Special Town Meeting warrant. Design funds are being asked for $300,000 to begin the new Police Facility project. It is expected that once the design is completed, the fall Special Town Meeting will be asked to support the construction of the facility.

The School Committee has approached the MSBA (Massachusetts School Building Authority) regarding the renovation of the Russell Street School building. Work in the building will include electrical, plumbing and HVAC upgrades. If approved by the MSBA, the Town can expect 50% of the renovation costs to be reimbursed by the State. Initial funding will allow the Town to begin the design process along the scope outlined by the State. If the timeline proceeds smoothly, fall Special Town Meeting or next year's Annual Town Meeting will be asked to approve the full project costs.

Capital Exclusions

Capital exclusions raise funds outside of Proposition 2 ½, similar to a debt exclusion. Capital exclusions, however, raise the entire cost of the project in a single year in order to avoid the ongoing debt service costs associated with borrowing. This year $221,000 in capital exclusions for the following items are slated to appear on the May ballot and at Town Meeting:

- Article 8 – Each proposed equipment purchase will be shown and voted upon individually as follows:

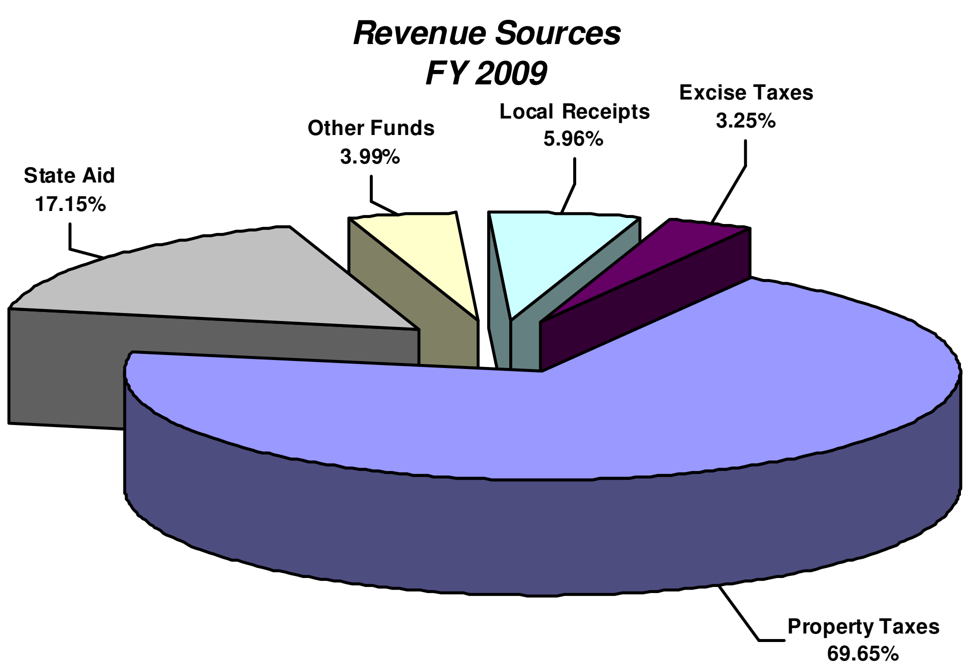
    - $96,000 for the repair of the roof on the Town Offices;
    - $65,000 to for the purchase of protective gear for the Fire Department;
    - $30,000 to replace HVAC units at the Shaker Lane School;
    - $30,000 for technology upgrades for the School department.

The Finance Committee recommends the above capital exclusions.

FY09 Budget Details

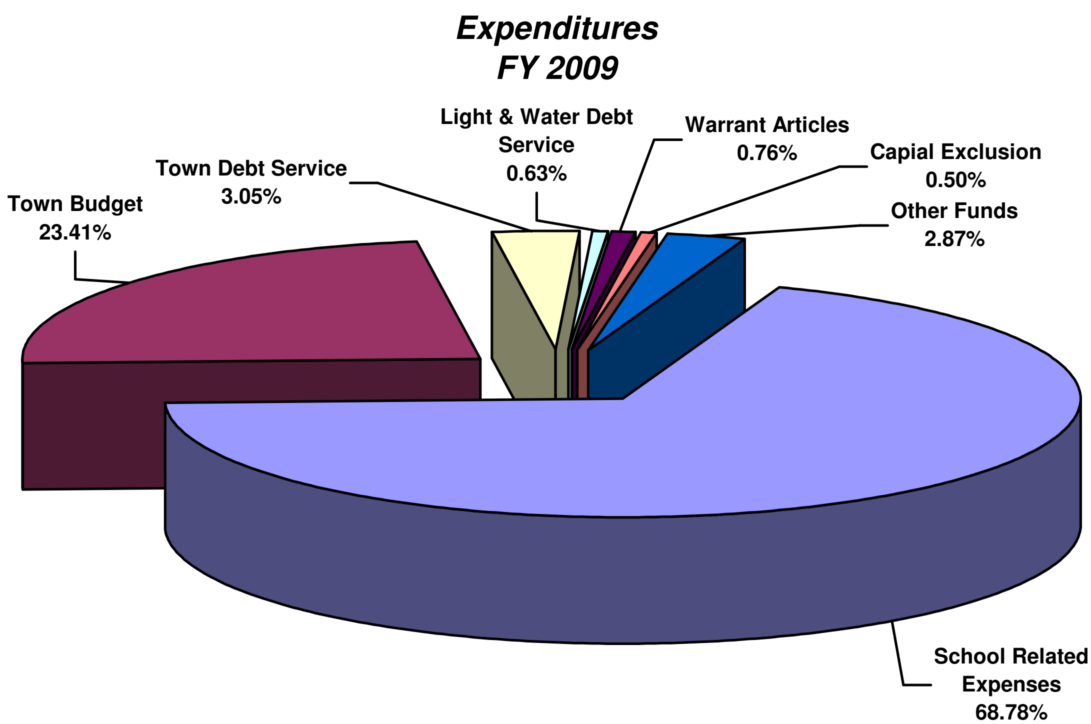
Revenue Sources - Where the Town raises the funds it needs to operate

Revenue Source	*FY09 Amount*	*Comments*
Property Taxes	$22,271,934	Includes $221,000 in capital exclusions
State Aid	$5,484,353	Includes $1,129,623 reimbursement from State for High School & Shaker Lane debt
Transfers from Other Funds	$1,274,476	Includes reimbursements from the Light & Water departments
Local Receipts	$1,906,772	Other Town revenues & fees
Excise Taxes	$1,040,000	Estimated receipt
Total Town Revenue	***$31,977,535***	



Expenditures - Where the Town spends the money it raises

Expenditure	*FY09 Amount*	*Comments*
School Budget	$14,520,000	Increase of $909,511 or 6.68%
Debt Service - Schools	$3,201,518	Shaker Lane, HS & MS projects
Capital Exclusions -Schools	$60,000	See *Capital Exclusion* section for details
Charter/School Choice	$933,535	Students attending charter schools
Nashoba Tech Assessment	$565,875	Students attending Nashoba Tech HS
School Related Expenditures in Town Budget	$2,712,384	Benefits & Other School Expenses provided outside the school budget (FY07)
Total School Related Exp.	$21,993,312	68.78% of Total Town Expenditures
Town Budget	$7,487,310	Town Departments Only including $480,000 for road repairs
Town Debt Service	$973,977	
Light Dept Debt Service	$202,991	Expense is reimbursed by L&W
Warrant Articles	$242,200	
Capital Exclusions -Town	$161,000	See *Capital Exclusion* section for details
Other Funds	$916,334	Includes $400,000 snow & ice deficit
Total Town Expenditures	***$31,977,124***	



Proposition 2 ½

Proposition 2 ½ (Prop 2 ½) is the basis of municipal finance in Massachusetts. It was established as a way to stabilize property taxes imposed by cities and towns by limiting the amount of tax increases to 2 ½ percent of the prior year's levy limit. To better understand Prop 2 ½ we will define some terms that will be referred to and then illustrate how Prop 2 ½ affects the Town of Littleton with some examples for the current fiscal year.

Levy – The revenue that the Town can raise through real and personal property taxes.

Levy Ceiling – The total levy allowed to be raised cannot exceed 2.5% of the full and fair cash value of all taxable real and personal property in the Town.

Levy Limit – The maximum amount the Town can levy in any given year. The levy limit cannot exceed the levy ceiling. Prop 2½ does allow a Town to levy above the limit on a temporary basis as well as a permanent increase to the levy limit. These options will be explained later.

New Growth – Annual allowed increase to the Town's levy limit based on the value of new development or other growth in the tax base that is not the result of property revaluation. For FY09 an estimated $14,905,286 in new development will be added to the total property valuation. This amount is multiplied by the prior year's tax rate to determine the amount to be added to the current years levy limit.

Override – An override allows the Town to assess taxes in excess of the normal 2½ % increase allowed by Prop 2½. An override cannot raise the levy limit above the levy ceiling. The levy limit for the year is calculated including the override amount and becomes part of the levy limit base. This base would be increased the following year by 2½ %.

Debt Exclusion – debt exclusion allows the Town to raise funds above its levy limit or ceiling for certain purposes. The Town, in this example, would be allowed to raise funds for a specific debt service costs. The amount added to the levy limit due to debt exclusion is not added to the levy base and would not be included in the levy calculation for the following year. Debt exclusion would only last for the life of the specific debt.

Capital Exclusion – A capital exclusion allows the Town to raise funds above its levy limit or ceiling for capital projects. The Town, in this example, would be allowed to raise funds for a specific single year capital project. The amount added to the levy limit due to capital exclusion is not added to the levy base and would not be included in the levy calculation for the following year. Capital exclusion is limited to a one year increase in the levy limit.

Special Exclusion – An exclusion that allows the Town to raise taxes above its levy limit in order to fund a program to assist homeowners to repair or replace faulty septic systems. A special exclusion does not require voter approval.

Levy Ceiling Calculation

FY08 total real and personal property value *	$1,514,995,328
Add: FY09 estimated new development	14,905,286
Total property value	$1,529,896,974
	x 2 ½ %
Levy Ceiling	$38,247,515

* Does not include current year property revaluation

Levy Limit Calculation

FY 08 Levy Limit	$20,180,082
x 2 ½ %	504,502
Add: New Growth	206,000
FY 09 Levy Limit	$20,890,584
Add: Debt Exclusion	1,160,349
Capital Exclusion	221,000
Total Levy Limit with Debt Exclusion	$22,271,933

In the above calculations the Town is allowed to assess taxes to the levy limit of $22,271,933 since it remains below the $38,247,424 levy ceiling.

The Town currently has debt exclusions for the following projects:

Project	Original Balance	FY 08 Payments
WWTS		$148,926
Middle School project	$7,554,000	$787,736
Frost/Whitcomb Land	$700,000	$48,699
Morrison Land (net)	$1,768,000	$160,988
Less: Self Help Grant		$(18,000)
Total Current Debt Exclusion		$1,128,349
Proposed New Debt Exclusions:		
Russell St Renovation		20,000
Police Facility		12,000
Total Debt Exclusions		$1,160,349

Property Taxes[1]

Current property tax rates in Littleton for FY08 average $13.93 per $1,000 of assessed property value. The Town uses a split tax rate that assigns a different rate depending on property classification. Residential property is taxed at $12.52 / $1,000 while commercial and personal property is taxed at a higher rate of $20.57 / $1,000.

[1] Tax data is estimated based on current information and past practices. It is provided as a reference in this report to enable the taxpayer to make informed decisions.

While the ultimate decision of setting the tax rate rests with the Board of Selectmen, the FinCom estimates the impact to property tax bills when compiling the budget by using the same set of options used by the Selectmen when setting the current year's tax rate. Any changes to these options will affect the estimated residential rate. The overall tax rate is not affected.

Our estimates include new growth and current property valuations. Revaluations, which are done every three years by the Town Assessors Office, or interim valuation adjustment assumptions, are not included in the estimates described. The revaluation process does not affect the total amount of taxes that the Town can raise, since that is capped by the levy limit. It will affect the tax rate paid by the property owner. As property valuations rise, the tax rate should fall. As property values fall, the tax rate should rise. For this reason, while we will show an estimate for a tax rate, it is important to look at the tax bill amount for the property value shown.

Using the budget submitted by the FinCom we estimate the average tax rate for the Town for FY09 to be approximately $14.56 with an estimated residential rate of $13.19. The chart on the following page factors in the property values reflected in the first column and includes the impacts of all capital and debt exclusion items recommended by the FinCom and reflective of an approximate 4.52% tax increase.

Estimated Residential Tax Bills FY09

Residential Property Valuation	Annual Tax Bill FY08	Estimated Annual Tax Bill FY09	Increase FY09 Tax Bill
$415,000	$ 5,237	$ 5,474	$ 237
$500,000	$ 6,310	$ 6,595	$ 285
$650,000	$ 8,203	$ 8,573	$ 370
$800,000	$ 10,096	$ 10,552	$ 456

Capital Exclusion Impacts

As previously mentioned capital exclusions raise funds outside of Proposition 2½ similar to debt exclusions, which have been utilized by the Town previously. Capital exclusions, however, raise the entire project costs in a single year in order to avoid the on going debt service costs associated with borrowings. The Town had approved capital exclusions of $94,700 in FY08, $621,000 in FY07, $507,000 in FY05 and $800,000 in FY04. The Town did not approve the use of capital exclusion in FY06.

The chart below shows the tax impacts of the exclusion items. It is important to remember that these costs are included in the tax chart above and the overall tax rate mentioned earlier. These items will only affect the tax rate in FY09.

Capital Exclusion Tax Impacts

Project	Cost	Average Tax Rate Impact
Fire-Protective Gear	$ 65,000	$ 0.04 / $1,000
Town Hall Roof Repairs	$ 96,000	$ 0.06 / $1,000
School –technology	$ 30,000	$ 0.02 / $1,000
School – Shaker Lane HVAC units	$ 30,000	$ 0.02 / $1,000
Totals	$221,000	$ 0.14 / $1,000

Using the values shown above the impacts for the capital exclusions are as follows using the estimated average tax rate:

Property Valuation	Fire Department	School Department - Total	Town Offices	Total Impact Average Tax rate	Est. Residential Impact
$415,000	$ 16.60	$ 16.60	$ 24.90	$ 58.10	$ 52.64
$500,000	$ 20.00	$ 20.00	$ 30.00	$ 70.00	$ 63.42
$650,000	$ 26.00	$ 26.00	$ 39.00	$ 91.00	$ 82.45
$800,000	$ 32.00	$ 32.00	$ 48.00	$ 112.00	$ 101.48

Debt Exclusion Impacts

The Town bonded the Middle School construction project during this last fiscal year. The financing of the project through the construction phase was accomplished through a new funding program established by the State Treasurer's office, which took over the financing of school buildings from the Department of Education. The Town received reimbursements from the State during the construction of the school. Those funds were used to pay current construction bills, decreasing the amount of short-term borrowing necessary to complete the project and well below our original estimates. The Town was one of the first communities to participate in the new program. The Town Treasurer and his staff as well as the Building Committee should be congratulated for a job well done in managing this project and saving the Town thousands of dollars in interest costs.

The Town has also received approval for a low interest rate loan from the State for approximately $2.1 million that will decrease the amount of the bond needed to finance the remainder of the project to approximately $7.5 million. Total debt service in FY09 will be $787,736. The full impacts of the debt service will not be seen until FY10 when the first principal and interest payments on the low interest bond for the project will be paid. The estimated residential tax impact for FY09 is estimated at $0.47/$1,000 or $195.05 on a $415,000 property. Once the final audit for the project is completed, the State will release its final reimbursement for the project to the Town for $500,000. This amount, when received, will offset the debt service impact to the taxpayer. If this amount is received in FY09 the estimated residential tax burden could decrease by $0.30/$1,000 or $124.50 on a $415,000 property.

In total, the $1,160,349 in debt exclusions detailed previously, adds $0.76 / $1,000 of value based on the average tax rate or $315.40 for a $415,000 property. The residential impact is estimated at $285.77 at the same $415,000 value.

Conclusion

The overall financial stability of the Town has improved greatly over the past 2 fiscal years. During the downturn in the State's economy in FY02 through FY06 the Town struggled as did most Towns throughout the Commonwealth. State aid declined and Town services were cut. The Finance Committee had forecast the potential impacts to the Town, however spending was allowed to continue and non-recurring revenues were used to cover budget increases. The Finance Committee established stronger financial policies and practices after the override of FY06 to protect the Town from future potential overrides. In this, the third year of these policies, the Town is much stronger financially and not experiencing the overrides or service cuts that many other communities are facing today.

This however, does not mean that the Town can once again spend every tax dollar collected and increase budgets at will. Spending must still be controlled and revenue increases such as State aid cannot be assumed to increase each and every year. Reserves must be allowed to increase. Portions of new revenues should be held outside the operating budget and used for capital purchases or other one-time only expenses. If we unconditionally increase budgets that compound at 6% per year using tax dollars that compound at only 2 ½% per year, then the Town will once again face the cuts in services that we did 4 and 5 years ago.

How do we achieve this? We must ask the Selectmen and School Committee to negotiate union contracts that puts the financial well being of the Town first and foremost. A negotiated 3% salary increase becomes a 5% - 6% increase after all steps, longevity and lane changes are taken into account. We simply cannot afford to compound a $15 million town-wide payroll at 5% - 6% per year.

Moving forward, each department must be able to stand-alone and justify the services it provides to the Town with the Town ultimately deciding the levels of services it requires. To that end, we urge all citizens to become involved in the budget process and voice their opinions to not only the FinCom, but also the Board of Selectmen and other Town Boards and Committees as appropriate.

Supporting Information

Financial Guidelines

The Finance Committee and the Board of Selectmen recognize the need to establish financial guidelines to provide the Town the ability to withstand periods of decreased revenues while minimizing the need for operational overrides. The established guidelines must address the ongoing use and minimum balances of the stabilization fund, the Undesignated Fund Balance (UFB) or "Free Cash", debt management and provisions for future additions to these funds.

The Finance Committee and the Board of Selectmen should review these financial guidelines annually. Funds needed to provide the necessary balances must be appropriated prior to any appropriations for operations. If recommended balance levels cannot be attained in any given year, a plan to meet the balance guidelines must be established and affirmed by both committees. The Finance Committee will provide annual projections and suggested levels for additions to the stabilization fund, debt service and capital needs and use of current year certified free cash.

The FY08 Financial Guidelines approved by the Finance Committee and Board of Selectmen are as follows:

Financial Guidelines

Well conceived and practiced financial planning can assist Town officials in achieving the best possible use of funds while providing both short and long term stability. Financial policies can improve a Town's credit rating and reduce the cost of interest paid on the Town's long-term debt issues. In addition, established policies can provide a base line for reference and consistency independent of political climates and personal agendas.

The FinCom recommended guidelines for the management of Free Cash, the Stabilization Fund and Debt Management should serve as a platform for discussion with the Selectmen for the annual budget message. The principles contained in these guidelines must be incorporated in the recommendations by the FinCom in each year's budget and used as the basis for any projections of the Town's future financial condition.

The following sections outline the longer-term financial goals of the Town. In some cases, the attainment of certain levels of funds or percentages may not be attainable in the short-term. Specific short-term goals are outlined in the *Planning* section of this document.

Free Cash

The accumulation and use of "Free Cash" now referred to in Massachusetts Accounting Statutes as the Undesignated Fund Balance (UFB) of the General Fund, is an important component of the Town's overall financial management policies. The available amount is calculated and certified each year by the Commonwealth Department of Revenue using data submitted by the Town.

In prior years, the entire amount of UFB has been used to fund the operating budgets. It is the FinCom's recommendation that this practice be modified to maintain a minimum balance of 2.5% of the General Fund in order to provide a reserve for unexpected financial crisis during the year. Further, the undesignated fund balance should not be relied upon as a mechanism for funding the Town's operating needs. As the Stabilization Fund is a reserve for capital needs, the UFB can be viewed upon as the reserve for operational needs.

Therefore the following policy is recommended:

1. Maintain a minimum free cash balance of 2.5% of the Total Operating Budget.

2. Appropriate at the Annual Special Town Meeting the Certified Undesignated Fund Balance above the 2.5% minimum threshold for non-operating budget items, or replenish the account at the same level of withdrawals during the past fiscal year.

Stabilization

The Stabilization Fund is a special reserve account allowed by Massachusetts General Laws to allow savings for future needs. The funds appropriated to a Stabilization account can be earmarked for specific capital needs. A two-thirds vote at town meeting is required to appropriate funds from this account. The Fund balance may not exceed ten percent of the equalized valuation of the Town and all interest shall be added to and become part of the fund. The Treasurer may invest the proceeds in keeping with the regulations as set in M.G.L. Ch. 40 s 5B.

Therefore the following policy is recommended:

1. A minimum balance of 5% of the current operating budget must be maintained in the Stabilization Fund.

Debt Management

With the recent growth in our Town and the need for school expansions and other capital projects debt management is essential to the overall financial planning of any municipality, but especially critical in times of expansion such as we are in. Borrowing funds and repaying over a number of years allows the Town to finance projects we could not afford to pay from our operating budget. The objective of debt management is to borrow at the least cost over the term of the repayment debt. It requires careful planning and strategies to minimize the negative effect to the taxpayer and should be used only when the cost allocation is deemed equitable and the interest costs do not outweigh the advantages. It is critical to develop a policy or guidelines, determining the issuance, timing and tax impact of current and future debt.

Recommended Guidelines for Tax-Supported Debt *

1. Total annual budget allocation for capital needs should be in the range of 7%-8% of the total operating budget.
2. Approximately one third of the capital needs should be met from current resources and two-thirds may be borrowed.

3. Repayment of principal and interest together with issuance cost and short term financing costs should be capped at approximately 5% of the total budget to maintain and improve credit rating.
4. At no time should tax supported debt exceed 10% of the total budget.
5. Repayment schedules should be in accordance with published requirements and be set as aggressive as possible.

These guidelines achieve the following:

a) Capital needs are not displaced by the fiscal demands of current operations.
b) Borrowing is controlled.
c) The cost of interest is minimized.
d) The capability to borrow is quickly restored.

*Revenue-supported debt (water, sewer, and light) is subject to different guidelines that consider the length of the project and current interest rates.

Planning

Increases to the budget on the expenditure side cannot be allowed to increase greater than the recurring revenues available. That is a very easy statement to make, but is essential in proper municipal fiscal management. Moving dollars from older warrant articles, inflating revenues or using other non-recurring revenue items to fund an operating budget cannot be allowed to occur. In addition, the FinCom recommends the utilization of a savings plan that will allow the Town to set aside dollars in an effort to minimize the impacts of future economic downturns in the economy on Town operations. We cannot move forward and continue to spend every available dollar within the operating budget.

Every effort will be made to prevent the Town from adding additional non-revenue supported debt within the levy from occurring. Non-revenue supported debt are those borrowings which the Town has not identified a reimbursement from a specific revenue source that has the ability to repay 100% of the annual debt service for the life of the borrowing. Examples of current revenue supported debt are borrowings associated with the Light & Water departments, land purchases with dedicated reimbursements made from cell tower revenues and any debt exclusion item such as the Middle School borrowing.

Capital purchases will be accomplished either as a capital exclusion item or as a raise and appropriate article when funds within the levy are available. Major capital projects such as new construction or major renovations to existing facilities will be accomplished through debt exclusions.

At a minimum, the FinCom recommends setting aside 10% of the new recurring revenue stream as well as 100% of the year-to-year decrease in debt service from inside the levy into stabilization. These funds will initially be used to offset the impacts of the debt service payments from the High School entering the operating budget. The continued addition of funds as outlined above, as well as the addition of the expected Free Cash for the current fiscal year, will provide the Town with sufficient funds to eliminate potential impacts of the High School debt to the operating budget. These revenue dollars earmarked for addition to the Stabilization fund are not currently, nor have they previously been used to fund the operations of the Town. Prudent financial management will not allow these static dollars to be added to a compounding operating budget. Within the next five years the additions to the Stabilization fund will be in excess of the dollars needed for the High School debt service. At that point in time, the fund will be allowed to grow to the 5% goal mentioned above with excess dollars used to fund capital purchases, decreasing both the need to borrow and the amount of capital or debt exclusions proposed each year.

Enterprise Funds

Light Department

The Light Department is a self-funding entity owned by the Town of Littleton. Their salaries, expenses, and debt payments are paid out of receipts from the sale of electricity to the rate-payers of Littleton and Boxboro. Their budget has no impact on the tax rate. The Town of Littleton receives interest on the Light Departments funds and receives an annual payment in-lieu of taxes. Debt service payments made by the Town on behalf of the Light Department are fully reimbursed by the department.

Water Department

The Water Department is a self-funding entity. Their salaries, expenses and debt payments are paid out of receipts. The Water Departments budget, although voted by town meeting, has no impact on the tax rate. Debt service payments made by the Town on behalf of the Water Department are fully reimbursed by the department.

EMS Fund

The EMS Enterprise Fund was recently established by Town Meeting. Ambulance receipts are used to cover the salary, benefits and expenses of any ambulance related expense incurred by the Town. Excess funds remain in the enterprise fund and can be used to cover capital purchases such as equipment and vehicles used in ambulance and emergency management related activities.

Finance Committee Members

Member	Appointed By	Term Expires	Years on FinCom
Fred Faulkner – Chair	Light & Water Dept	2010	23
Allen McRae – Vice Chair	Board of Assessors	2008	6
Ken Adam	Board of Selectmen	2008	21
Susan MacDowell	School Committee	2008	3
Richard Montminy	Moderator	2010	9
David Stevens	School Committee	2009	2
Steven Venuti	Board of Selectmen	2009	13