

**Town of Littleton
Finance Committee Report**

Fiscal Year 2010



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To the residents of Littleton:

The Finance Committee is pleased to prepare this informational report containing our recommendations for the FY10 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 mid-April 2009. 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 a three-year term. 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 2010 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. This past year has seen this situation become more acute. The State Legislature overestimated the revenues for FY09 and then the downturn in the national economy made the state's fiscal problems worse, resulting in reductions to the local aid payments expected by the Town. Although we have weathered these cuts through prudent planning, the Finance Committee has serious concerns about state funding in the next few years. The economy is now in a recession and state revenues will be declining over the next several years. This 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 have helped the Town to be better prepared for these 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 to be provided to the citizens of the Town. The ability to fund all departments to the desired levels is always difficult, and this year, impossible. The best we can recommend is to essentially level-fund the budget for all departments, including the schools.

Littleton, like many of its neighbors, is facing many challenges that 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, in order to manage the long-term balance of revenues and expenses without a Proposition 2 ½ override demands that growth in expenses 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 FY10;
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- Maintain level- funding for all town departments and the School Department;
 - Provide, as a minimum, a 1% salary increase for all personnel;
 - Support 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 funding for road repairs;
 - Provide funding for capital equipment.

Total revenues projected for FY10 have increased by a modest \$754,102. Net State aid, based on the initial Cherry Sheet from the Governor’s budget, will decrease slightly on the Town-side and be level-funded for the School department for FY10. New growth estimates are higher than previous years due to the improvements made by IBM to its facility near Littleton Common. This increased new growth has helped offset the overall decline expected in State aid. Other non-tax receipts are showing no significant increases. Further changes to our recommended budget may come when the Legislature finalizes its budget and it is approved by the Governor. Also money from the many “stimulus” bills, passed by the Congress and allocated to the state, has the potential to provide increased funding, for the schools in particular. Such changes would, of course, require modifications to the budget presented in this report.

The change to quarterly tax billing continues to help 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 Finance Committee, in recommending a budget for FY10, has managed to fund nearly all the priority projects shown above. We were unable to fund a Facilities Manager at the present time due to these other priorities and lower overall growth in revenues. 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 FY10 vs. FY09

This chart details the revenue growth contained in the FY10 budget.

The net revenue growth % for FY10 is 2.35%. This % was 6.61% last year.

<u>Item</u>	<u>Amount</u>
Total Revenue FY09	\$ 32,146,653
Add: additional revenue sources	
Allowed 2 ½ % Levy Increase	531,434
New Growth	450,000
Increase in Local Receipts	103,304
Increase in Debt/Capital Exclusion	123,085
Less: Decrease in Other Available Funds	(56,213)
Decrease in Free cash	(206,506)
Decrease in State Aid (Cherry Sheet)	(162,002)
Net Revenue Growth	<u>\$ 783,102</u>
Non-recurring revenue adjustments	
Add: Change in transfers of prior year funds	(29,000)
Net Change in Total Revenues	<u>\$ 754,102</u>
Total Revenue FY10	<u>\$ 32,900,755</u>
% Revenue Growth	2.35%

Changes in Expenditures FY10 vs. FY09

This chart details the growth in expenses contained in the FY10 budget.

A balanced budget exists at this time.

<u>Item</u>	<u>Amount</u>
Total Expenditures FY09	\$ 32,150,667
Changes in expense items	
Increase in Town Operating budget	17,698
Increase in debt service & exclusions	143,468
Decrease in Cherry Sheet charges	(179,369)
Increase in School Budget	17,921
Increase in other expenditures	90,302
Increase in warrant articles	29,795
Increase in health ins & pension costs	700,200
Decrease in Nashoba Tech assessment	(69,927)
Net Change in Total Expenditures	<u>\$ 750,088</u>
Total Expenditures FY10	<u>\$32,900,755</u>
% Expenditure Growth	2.33%

The above chart shows the realities of what the FinCom has been faced with in proposing the FY10 budget. The revenue increase comes from expected increases in the levy and new growth, which is slightly off-set by declines in State Aid.

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 FY10, no non-recurring revenue transfers were made. The Finance Committee has taken a strong stance against the use of non-recurring revenue streams. This opposition 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 contributors to the expenditure levels of the Town: debt service, the school budget and employee benefit costs.

Debt Service

The Town enters FY10 with total outstanding principal debt \$34,820,540 with associated future interest costs \$11,325,453 for total debt service of \$46,145,933. These figures do not include projects that have yet to be permanently bonded or debt incurred by the Water Department.

Reimbursements from the State for the High School, Middle School and Shaker Lane construction projects offset \$15,065,668 of the above total debt service. Payments on debt issued for the Light Department, for which the Town will be reimbursed, total an additional \$1,650,229. Cell tower revenues, covering an additional \$1,126,041, support some recent debt incurred for the purchase of land. This leaves a net of \$28,303,995 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 proposed renovation of the Russell Street School 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 FY10. The debt service within the operating budget of the Town (total debt service *less* reimbursements *less* debt exclusion items) represents 5.67% of the adjusted revenues of the Town. This percentage stood at 5.98 % in FY09 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 replacement of the water main associated with the repaving of Goldsmith Street. The debt service associated with this project is minimal for the Town as the Water Department will begin to make the payments from water revenues in FY12. The Finance Committee does not foresee the need to issue

further debt in order to continue with the 10-year road reconstruction project. 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 FY10, a total of \$553,886 is set aside within the operating budget for both the debt service and funding for 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 Finance Committee 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.*

This year, the Finance Committee has not recommended the use of capital exclusions to fund items that normally would have been borrowed in previous years. This decision has been taken in recognition of the current economic climate, but will continue to be option in future 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 enables the Town to decrease the amount of debt service and free up dollars within the operating budget to maintain the level of services required.

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 Finance Committee 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 FY10 budget process, the FinCom recommends a Town appropriated school budget of \$14,537,921. This represents an increase of \$17,921 or .12% over the FY09 appropriation. The School Department's recommended budget of \$14,971,239 uses \$443,318 of revolving funds available for use by

the School Committee. It is the expectation of the Finance Committee that any federal stimulus dollars received by the school department will be used to reduce the amount withdrawn from revolving funds. The Finance Committee is also supporting \$70,000 in capital appropriations to fund HVAC units at Shaker Lane, school-wide technology items and high school custodial equipment. 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 FY08 with a balance of \$1,000,945 in their revolving fund accounts. An additional \$2,681,235 in revenues is anticipated to be added throughout the current school year with anticipated spending of \$2,869,485. This would bring the balance of the revolving funds down to \$810,988 at the end of FY09.

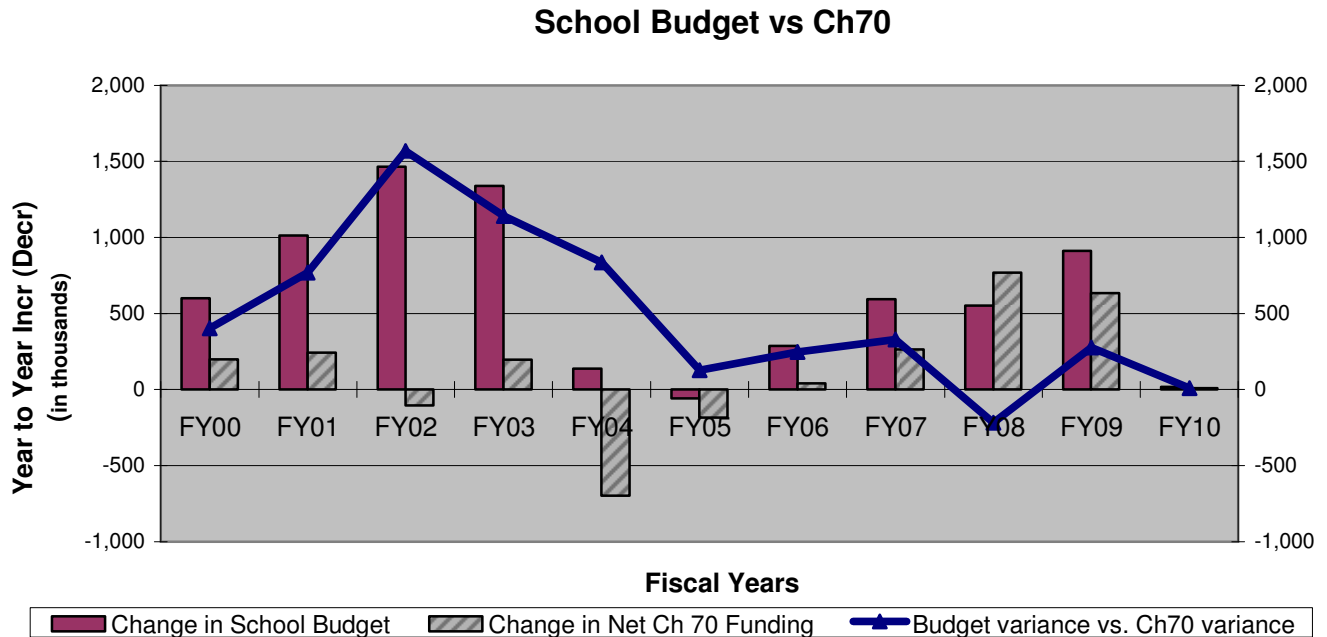
The use of \$443,318 of these funds in FY10 will decrease the reserves within the revolving funds to their lowest levels in years. The Finance Committee has worked closely with the School Committee over the past three years in increasing the reserves and decreasing the school's dependence on these funds within the operating budget. While the Finance Committee has agreed with the use of these funds in preparing the FY10 budget, we would not want spending at these levels to continue in future budgets. 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 continues discussions regarding 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 had seen in Chapter 70 funding over the past several years was much greater than the increases other Towns had seen over this time. The rate of increase that Littleton had enjoyed was not expected to continue. Last year, we projected that the Town would need to fund a \$500,000 budget deficit in a projected level-services school budget at the point in time when Chapter 70 funding returned to normal levels. This year's level funding by the state legislature has the same impact. In fact, the school committee is using \$443,318 to cover a potential deficit this year. If the school budget continues to grow and outpace projected future Town revenues, there will be a severe shortfall in the school operating budget. This is due to the fact that approximately 70% of the school budget is linked to employee wages historically compounding at 5% - 6%. Additional staffing increases this number and will also increase a potential budget shortfall.

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 10 of the past 11 years. The projected funding shortfall occurred when Chapter 70 was level funded by the legislature, as opposed to 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 FY09 is projected to be \$17,389,485. Taking into account the increased spending from the revolving funds mentioned previously, total spending on the school system would be \$17,850,724 in FY10. 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, 2008 (FY08) this figure was \$3,057,709. Debt service payments will account for an additional \$3,240,530. In total, estimated school related spending in FY10 will be approximately \$24.1 million.

Russell Street School Renovation Project – The Finance Committee fully supports this project and recommends that the Town vote to approve the Proposition 2 ½ override to fund this renovation. We understand that we are in difficult economic times however the school renovations are overdue and we need to act now to ensure the Town will receive 47.84% reimbursement of qualified expenses for this project from the state. *This project, and its impact to the tax rate will be discussed later in this report.*

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 general, we have been able to provide, at minimum, near level-services funding to all departments while continuing to work to meet the challenge of rising employee costs for both salaries and benefits

Stabilization – The Stabilization fund is estimated to end FY09 at approximately \$1,450,000. For the third 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 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. For example, this would include any one time increase in the State's Cherry Sheet Chapter 70 Funds for the Schools.

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.

The Finance Committee, as we did for the Middle School and new Police Station, is recommending a debt exclusion for the refurbishment of the Russell Street School. State reimbursement of this project will be 47.84% or approximately \$6.5 million towards the total project cost of \$13.9 million.

Capital Outlays – The Finance Committee recommends that the Town engage in and execute capital planning that fully meets the Town's needs. Beyond major capital projects (the new Middle School and Police Station, etc.) current capital equipment needs remain ever present. For the past number of years the Town has addressed these capital needs through a combination of funding both inside the tax levy and through one time capital exclusions. This approach has helped the Town keep pace while having the benefit of not increasing Town borrowing. This year the Selectmen have decided on moderate capital spending. As the list of unfilled capital requirements grows and is put off into the future, the dollar

amounts and service needs rapidly become unmanageable. We've seen this recently with the maintenance of Town roads.

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 severe economic pressures on our operating budget, the Finance Committee is recommending a 0% increase for all contracts to be negotiated in the coming year.** Continuing to offer contracts that compound total wages at 5% - 6% per year is not sound fiscal policy or feasible in these economic times. Moreover, without new tax revenue, the Town's revenues do not keep pace with increases in expenses. Each year revenue growth without new taxes is limited by Proposition 2 ½ to 2 1/2 % of the prior year's budget plus the amount of new growth. However, beyond contractual pay increases there are step increases, lane changes, and benefits built into the Town's labor contracts that alone can account for 3% to 4% increases year to year.

Interest rates – The Town has benefited over the past two years from declining interest rates. As a result, the Town has been able to re-finance existing debt and bond the new Middle School and Police Station at very favorable 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. However because of IBM and other commercial projects, revenues are starting to trend in a more positive direction.

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:

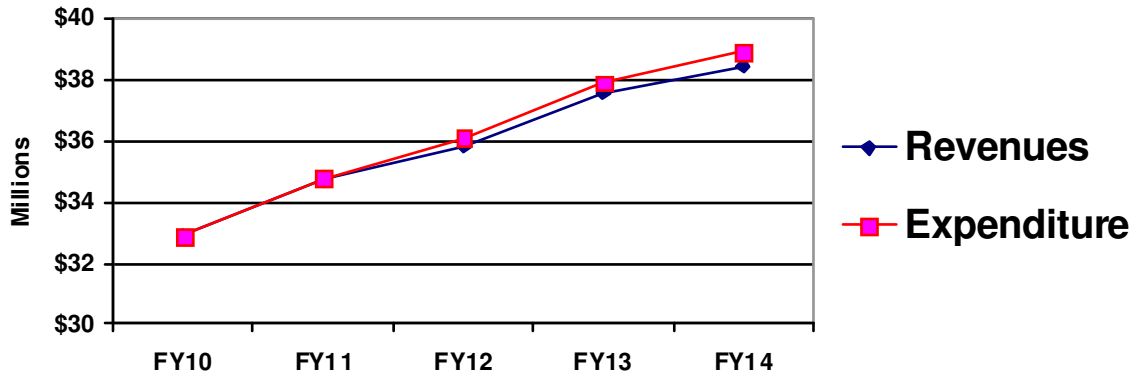
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- Apply to the Economic Assistance Coordinating Council to amend the 495 Regional Technology Center Economic Target Area (ETA) to include the Town of Littleton
 - Designate 550 King Street (property known as the former DEC/HP facility) as an Economic 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 having entered 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 of the former Hewlett Packard site in the Town Common. This has led to the re-development of 550 King Street now being occupied by IBM.

In 2008 the Committee worked with Curtis Wright to designate 151 Taylor Street as an EOA, thus creating a TIF for Curtis Wright to move their facilities from the existing location on Porter Street to the larger location (151 Taylor Street), growing their business and adding jobs. This TIF, supported by the finance committee will be voted on as Article 22 at this year's Annual Town Meeting.

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.



FY10 Operating Budget

We began the planning for the FY10 budget with our annual budget message to Town departments asking them to prepare a level-funded budget only. Departments were told not to expect increases in personnel or new programs that were not supported by a new and sustainable revenue stream. In developing our forecast for FY10, it was anticipated that any additional revenues available to the Town would be used primarily to fund capital items that were pushed off in last years capital expenditures, a 1% increase in salaries (dictated by union contracts) and funding for the road repair plan.

Working closely with the Board of Selectmen, the Finance Department and the School Committee, a set of priorities was established to direct the allocation of available funds. The budget process had hardly begun when the state announced a deficit of more than a billion dollars. To deal with this shortfall, the Governor reduced the current years planned local aid payments to municipalities. Fortunately, Littleton was able to weather these cuts without damage to programs and services; however, all this set the stage for further reductions in FY10. When the Governor released his budget proposal for this year, it indeed cut the Town’s local aid payments and raised some of the charges. School aid was level-funded. This resulted in the loss of an anticipated \$1 million increase in Chapter 70 funding.

Despite these cuts in state aid, and with a modest increase in local receipts we have been able to put together a budget which maintains all current services, does not result in personnel layoffs, and allows us to allocate some money to capital purchases while still providing funding for our road repair plan. Should the state have to further cut local aid as the year goes on, we will have to revisit our priorities.

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.

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 \$281,995 - *Article (8)*. This includes needed equipment for the Police, Fire and Highway departments.

Debt Exclusions

There is one debt exclusion article appearing on the Special Town Meeting warrant regarding the Russell Street School building. At last years Town Meeting \$500,000 was approved in order to conduct a feasibility study and determine the overall condition of the building. The feasibility study has determined that the overall structure of the building, built in the 1960's remains sound. The systems within the building, however, are reaching or have exceeded their normal useful life.

With the feasibility study concluded, the Town is being asked to approve \$13,400,000 to fund the full repair project. Work in the building will include a complete inside renovation and replacement of all electrical, plumbing and HVAC systems as well as making the facility handicap accessible. Other improvements will also be made to bring the building up to current building code compliance.

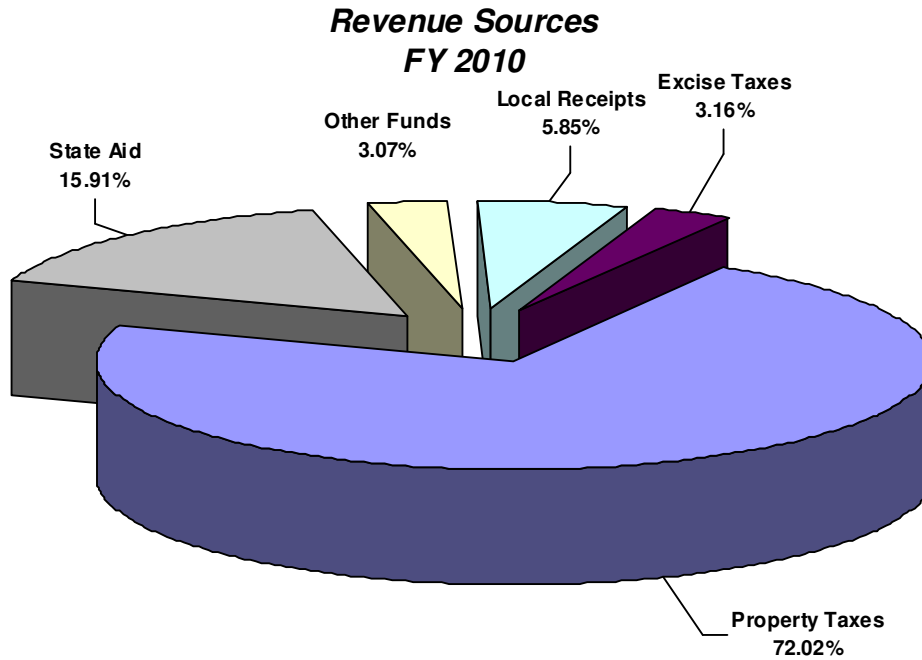
The project has already been approved by the Massachusetts School Building Authority (MSBA) and can expect 47.84% of the approved costs to be reimbursed by the state. We realize that this is a large expense for the Town to bear, especially in these unusual economic times, but moving forward at this time does make the most financial sense. A "do nothing" option is estimated to cost the Town approximately \$21.3 million over the next 20 years due to failures in the current mechanical systems over time, ongoing project costs and inflation. Building "new" is estimated, based on current costs provided by the MSBA, to be in the \$26 million range. These scenarios would likely not include funding from the State, so the Town would potentially be asked to bear the total costs.

The Finance Committee recommends the above debt exclusion.

FY10 Budget Details

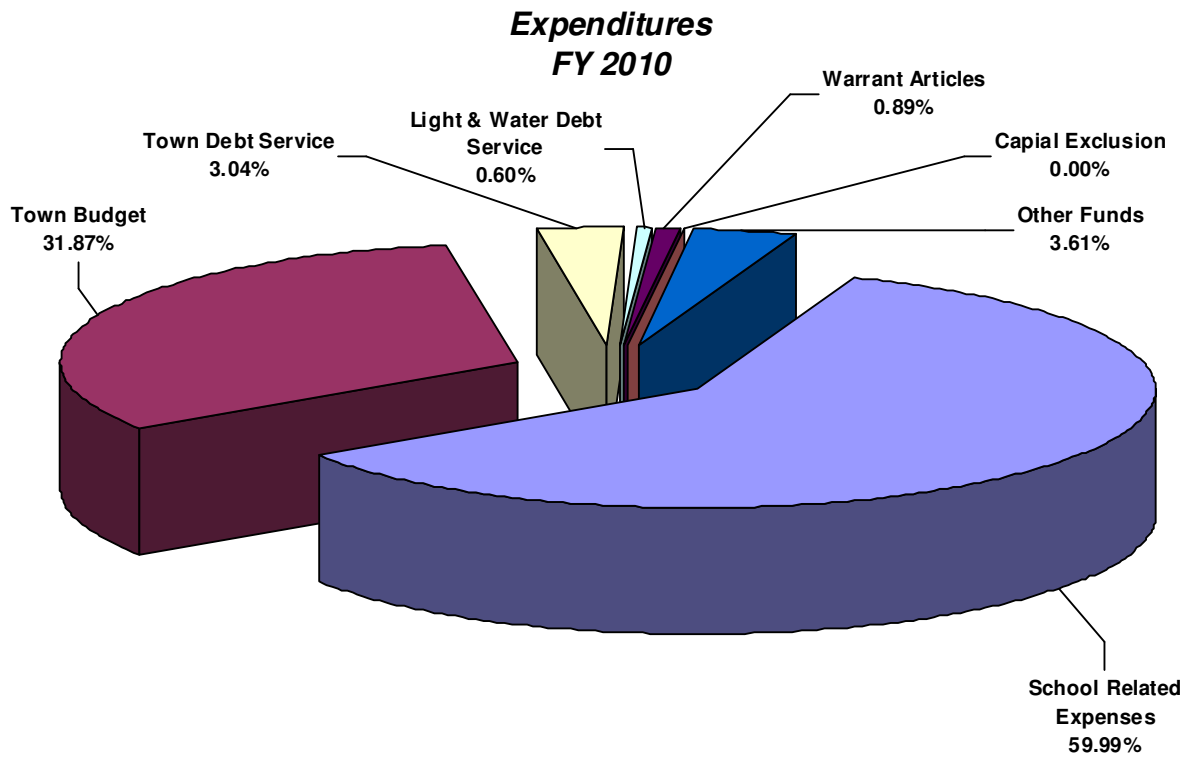
Revenue Sources - Where the Town raises the funds it needs to operate

<u>Revenue Source</u>	<u>FY10 Amount</u>	<u>Comments</u>
Property Taxes	\$23,693,971	
State Aid	\$5,235,172	Includes \$1.1 million reimbursement from State for High School & Shaker Lane debt
Transfers from Other Funds	\$1,008,537	Includes reimbursements from the Light & Water departments
Local Receipts	\$1,923,075	Other Town revenues & fees
Excise Taxes	\$1,040,000	Estimated receipt
Total Town Revenue	\$32,900,755	



Expenditures - Where the Town spends the money it raises

<i>Expenditure</i>	<i>FY10 Amount</i>	<i>Comments</i>
School Budget	\$14,537,921	Increase of \$17,921 or 0.12%
Debt Service - Schools	\$3,405,530	Shaker Lane, HS & MS projects
School Capital Exclusions	0	
Charter/School Choice	\$771,271	Students attending charter schools
Nashoba Tech Assessment	\$495,948	Students attending Nashoba Tech HS
School Related Expenditures in Town Budget	\$527,911	
Total School Related Exp.	\$19,738,581	60.00% of Total Town Expenditures
Town Budget	\$10,485,381	Town Departments Only including \$464,800 for road repairs
Town Debt Service	\$1,000,409	
Light Dept Debt Service	\$196,014	Expense is reimbursed by L&W
Warrant Articles	\$291,995	
Capital Exclusions -Town	\$0	
Other Funds	\$1,188,374	Includes \$325,000 snow & ice deficit
Total Town Expenditures	\$32,900,755	



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

FY09 total real and personal property value *	\$1,458,818,997
Add: FY10 estimated new development	<u>23,738,053</u>
Total property value	\$1482,557,050
	<u>x 2 ½ %</u>
Levy Ceiling	\$37,063,926

* Does not include current year revaluation

Levy Limit Calculation

FY 09 Levy Limit	\$21,257,375
x 2 ½ %	531,434
Add: New Growth	<u>450,000</u>
FY 10 Levy Limit	\$22,238,809
Add: Debt Exclusion	1,455,161
Capital Exclusion	<u>0</u>
Total Levy Limit with Debt Exclusion	\$23,693,970

In the above calculations the Town is allowed to assess taxes to the levy limit of \$23,693,970 since it remains below the \$37,063,926 levy ceiling.

The Town currently has debt exclusions for the following projects:

<u>Project</u>	<u>Original Balance</u>	<u>FY10 Payments</u>
WasteWaterTS		\$145,776
Middle School project	\$7,554,000	\$898,932
Frost/Whitcomb Land	\$700,000	\$47,244
Morrison Land (net)	\$1,768,000	\$157,575
Police Station	\$6,285,308	\$75,908
Less: SBA Settlement		\$(17,274)
Less: Self Help Grant		<u>\$(18,000)</u>
Total Current Debt Exclusion		\$1,290,161
Proposed New Debt Exclusions:		
Russell St Renovation	\$8,073,156	165,000
Total Debt Exclusions		\$1,455,161

Property Taxes¹

Current property tax rates in Littleton for FY09 average \$15.48 per \$1,000 of assessed property value. The Town uses a split tax rate that assigns a different rate depending on property classification.

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.

Residential property is taxed at \$13.85 / \$1,000 while commercial and personal property is taxed at a higher rate of \$22.76 / \$1,000.

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 FY10 to be approximately \$15.98 with an estimated residential rate of \$14.25. The chart on the following page factors in the property values reflected in the first column and includes the impacts of all debt exclusion items recommended by the FinCom and reflective of an approximate 3.23% tax increase in the average tax rate and a 2.89% increase in the residential tax rate.

Estimated Residential Tax Bills FY10

Residential Property Valuation	Annual Tax Bill FY09	Estimated Annual Tax Bill FY10	Increase FY10 Tax Bill
\$415,000	\$ 5,747	\$ 5,914	\$ 167
\$500,000	\$ 6,925	\$ 7,125	\$ 200
\$650,000	\$ 9,002	\$ 9,263	\$ 261
\$800,000	\$ 11,080	\$ 11,400	\$ 320

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. There are no capital exclusions for discussion for FY10, even though this in essence provides a “break” to the tax payers for FY10, which is a “good thing”, it is the Finance Committee’s opinion that this is not fiscally prudent for the Town. The majority of the \$282k capital that is planned for the Town in the FY10 budget is related to necessary routine maintenance and existing leases. Since most of the capital spending is tied to existing commitments, the funding for new capital equipment is not sufficient, therefore the list of capital needs for the Town continues to grow and get pushed off into future years.

Debt Exclusion Impacts

The Town bonded the Middle School towards the end of FY08 and FY10 will be the first year that that full impact of the payment for the Middle School bond will be realized. In FY10 the total debt service for the Middle School will be \$898,932. This represents \$0.60 of the \$15.98 estimated tax rate for FY10 and will account for \$224.10 (or \$0.54 of the \$14.25 residential rate) of the annual tax bill on a \$415,000 property.

In addition to the Middle School debt exclusion, the Town voted and approved the construction of a new police station at the 2008 annual Town meeting and will be faced with another debt exclusion vote at the 2009 annual Town meeting for the rehabilitation of the Russell Street School. In FY10 there will be short-term borrowing expenses realized for the construction of the new police station, however the \$6.5M that the Town needs to borrow for the project will be bonded some time during the FY10 fiscal year. The full impact of the debt service for the Police Station will be realized in FY11. The projected cost for the debt service starting in FY11 would be slightly less than \$700k annually. Total impact for FY10 is estimated at approximately \$75,000.

If approved, the Russell Street School total project cost is \$13,900,000 for the repair and renovation of the school including the funds approved at last year's Town Meeting. The Massachusetts School Building Authority (MSBA) is projected to cover 47.84% of this cost, assuming the project is approved and completed as planned the cost to the Town would be approximately \$7.4 million. The fully realized debt service for the borrowing of these funds would not occur most likely until FY12. Based upon current market conditions it is difficult to predict the interest rate that this borrowing will be bonded at, however, if the Middle School is used as a proxy, once bonded, the debt service for the Russell Street School should be roughly \$700k annually.

Conclusion

The overall financial stability of the Town has been improving over the past several 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 fourth year of these policies, the Town is much stronger financially and the current fiscal crisis on Beacon Hill has not forced the Town to propose operational overrides or drastic service cuts that many other communities are facing today.

The Town cannot spend every tax dollar collected and increase budgets at will. Spending must be controlled and revenue 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 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 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 had 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. The undesignated fund balance must 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 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. It is 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. Taking on debt 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
-

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- 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. 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

<u>Member</u>	<u>Appointed By</u>	<u>Term Expires</u>	<u>Years on FinCom</u>
Fred Faulkner – Vice-Chair	Light & Water Dept	2010	24
Allen McRae –Chair	Board of Assessors	2011	7
Ken Adam	Board of Selectmen	2009	22
Eliot Putnam	School Committee	2011	1
Richard Montminy	Moderator	2010	10
David Stevens	School Committee	2009	3
Tyler Gray	Board of Selectmen	2009	1
