TOWN OF BROOKLINE ADVISORY COMMITTEE
Administration & Finance Subcommittee
Public Hearing
March 24, 2023 8:30 a.m.

Attendance: Melissa Goff, Kelly Hardebeck, Neil Gordon, Joslin Murphy, Harry Bohrs, Fire Chief Ford, Wendy Macmueller, John Van Scoyoc
Recommendation: Favorable Action by a vote of 4-0-0.

Executive Summary:	Debt service for FY24 is approximately $36M in the General Fund(in addition to $2.3M in the Enterprise Funds), $20.5M Debt Exclusion related; the final number will be calculated before Town Meeting taking into account final project costs. This represents service on outstanding debt of ~ $554M in the General Fund and another $10.6M Enterprise Fund related. Debt service is paid on financial obligations that the Town has incurred through borrowing. Funding may come from the general tax levy, or specifically from debt-exclusion funds outside of the general Prop' 2 ½ provisioned levy (think over-rides). It is debt we are obligated to pay. While it appears as a line item in the budget that comes before Town Meeting for a vote, it is effectively a non-negotiable obligation. This represents payments for many large projects and judgements. Not that long ago, the Town refinanced existing debt at a remarkably favorable rate of 1.728%. We will not enjoy those rates now.
Voting Yes will...	Approve the budgeted request as proposed by the Town Administrator and will allow the Town to meet its legal obligations.
Voting No will...	Rejecting the budget/priorities as proposed would risk having the Town default on loans, incurring legal costs and risking the good name and credit rating of Brookline, among other things.
Financial impact [if any]	$36M is a significant sum, and this figure is expected to rise in the coming years to accommodate addition large projects such as the Pierce School. Funds allocated to debt service are funds unavailable for other operating expenses.
Legal implications [if any]	The legal implications are all those associated with defaulting on a debt, but at a significant level.

Overview
Brookline is carrying quite a bit of debt, much of that as a result of school building projects. The Town is also carrying the cost of the Alston settlement through bonding, in FY24 ~ $1.4M. The Town had refinanced some projects at 1.728%, these included the Heath and Runkle schools, as well as part of the golf course (BHS and Driscoll were previously financed at low rates). Rates are expected to be higher for borrowing now, with the Town's most recent borrowing coming in at 2.85%. Bond maturations are guided by the usable life of a project. At a certain point there is required increased maintenance or replacement. Bond maturity is for no more than 25 years. Brookline continues to maintain its Aaa bond rating.

Discussion
While Brookline carries a lot of outstanding debt, and per capita debt, it still falls within responsible limits (the legal limit is 5% of the towns Equalized Valuation [EQV]) – for FY24 it is 1.9%. Per capita debt as a % of per capita income is not to exceed 6% - for FY24 it is 2.6%. However, that 2.6% is reflective of non-debt exclusion debt. Total outstanding per capita debt as a % of per capita income (inclusive of debt outside of the tax levy) is 10.5%.
While ratings agencies consider this, they also consider a municipality's willingness to support debt exclusion. Brookline's citizens have consistently supported debt exclusions and overrides, yet one must always wonder if there is a limit to the community's appetite for supporting such things in the future, or to what extent.

A theme that was underscored during the subcommittee hearing was the change in the historically low and long-lasting interest-rate environment. At such low rates, even with low inflation, there was economic incentive to borrow rather than spend cash as over time the value of the debt is decreased. The landscape has changed. Interest rates are climbing and it's not clear where inflation may land. In the past it has been occasionally argued that a drop in our bond rating would have a de minimis effect on our borrowing costs (given a low interest-rate environment). At higher rates, that argument becomes more precarious. A drop in a bond rating is much like falling in a hole – it's easy to do, and often quite difficult to claw your way back out. This is why we strive to maintain suitable reserves.

Brookline responsibly pays its debts, carries a relatively high debt burden, and there are large projects looming (e.g., Pierce School, Babcock fire station).

Recommendation
By a vote of 4 in favor and 0 opposed, the Administration & Finance Subcommittee of the Brookline Advisory Committee recommends Favorable ACTION on the budget item as presented

Hearing Recording
https://brooklinema.zoomgov.com/rec/share/TkY1Xxbd9pmCv3_wpqegy_vEXd8E2HPkHCM1z_n4sLKS5SdEP9qgHa-kmC03RD9V.hjjJ3pUnO_gbJE6i

DEBT SERVICE (PROJECTED)

DESCRIPTION	FY24	FY25	FY26	FY27	FY28	FY29	FY30
Total General Fund Supported Debt Service	**35,779,014**	**37,611,874**	**44,994,984**	**51,349,050**	**53,925,081**	**53,808,884**	**52,685,177**
a.) Exempt (Debt Exclusion) [1]	20,554,161	23,253,266	29,872,965	36,494,515	37,146,981	37,881,988	37,872,638
b.) Non-Exempt	15,224,853	14,358,608	15,122,019	14,854,535	16,778,100	15,926,896	14,812,540
Water & Sewer Enterprise Fund Supported Debt Svc.	2,187,290	2,532,265	2,730,950	2,968,175	3,203,350	3,461,275	3,664,200
Golf Course Enterprise Fund Supported Debt Svc.	119,720	145,952	157,779	164,029	164,391	159,568	119,574
Enterprise Fund Debt Service	**2,307,010**	**2,678,217**	**2,888,729**	**3,132,204**	**3,367,741**	**3,620,843**	**3,783,774**
TOTAL Debt Service	**38,086,024**	**40,290,091**	**47,883,713**	**54,481,254**	**57,292,822**	**57,429,726**	**56,468,951**

1 The Fire Station renovation project was financed via a Debt Exclusion.
2 The Pierce School project is projected as a Debt Exclusion.

DEBT SERVICE

	VARIABLE	FY23	FY24	FY25	FY26	FY27	FY28	FY29
	Legal Limit for Outstanding Debt = 5% of Equalized Valuation (EQV)							
	EQV for 1/1/22 = $29.896 billion. Assume 2.5% annual growth. (In billions)	$29.896	$30.643	$31.409	$32.194	$32.999	$33.824	$34.670
	Outstanding Debt as a % of EQV	1.9%	1.8%	2.3%	2.1%	2.0%	1.9%	1.8%
	General Fund Outstanding Debt as a % of EQV	1.9%	1.8%	2.2%	2.1%	2.0%	1.9%	1.7%
	Total Outstanding Debt (in millions)	$565.4	$554.3	$708.2	$688.2	$666.1	$642.1	$617.5
	General Fund Outstanding Debt (in millions)	$554.4	$543.7	$695.6	$674.4	$651.3	$626.5	$601.3
	General Fund Non-Exempt Debt (in millions)	$148.7	$138.0	$127.0	$116.6	$106.7	$97.5	$88.8
	Total Debt Service (in millions)	$37.7	$38.1	$40.3	$47.9	$54.5	$57.3	$57.4
	General Fund Debt Service (in millions)	$35.9	$35.8	$37.6	$45.0	$51.3	$53.9	$53.8
	Total Debt Service Per Capita	$596	$603	$638	$758	$862	$907	$909
	General Fund Debt Service Per Capita	$568	$566	$595	$712	$813	$853	$852
	Total Debt Service as a % of Revenue	11.3%	10.3%	11.0%	12.5%	13.6%	13.9%	13.5%
	General Fund Debt Service as a % of General Fund Revenue	10.7%	9.7%	10.3%	11.7%	12.8%	13.1%	12.7%
A.	Total Outstanding Debt Per Capita as a % of Per Capita Income	10.7%	10.5%	13.5%	13.1%	12.7%	12.2%	11.7%
	General Fund Outstanding Debt Per Capita as a % of Per Capita Income	10.5%	10.3%	13.2%	12.8%	12.4%	11.9%	11.4%
	General Fund Outstanding Debt Per Capita as a % of Per Capita Income (non-debt exclusion)	2.8%	2.6%	2.4%	2.2%	2.0%	1.9%	1.7%
B.	Total Outstanding Debt Per Capita	$8,947	$8,772	$11,207	$10,891	$10,541	$10,161	$9,772
	General Fund Outstanding Debt Per Capita	$8,773	$8,604	$11,007	$10,673	$10,307	$9,915	$9,516
	General Fund Outstanding Debt Per Capita (non-debt exclusion)	$2,353	$2,183	$2,010	$1,846	$1,688	$1,542	$1,405
C.	Total Outstanding Debt as a % of Assessed Value (AV)	1.9%	1.9%	2.4%	2.3%	2.3%	2.2%	2.1%
	General Fund Outstanding Debt as a % of Assessed Value (AV)	1.9%	1.8%	2.4%	2.3%	2.2%	2.1%	2.0%
	General Fund Outstanding Debt as a % of Assessed Value (AV) (non-debt exclusion)	0.5%	0.5%	0.4%	0.4%	0.4%	0.3%	0.3%
D.	Total Net Direct Debt Maturing Within 10 Years (non-debt exclusion)	66%	68%	69%	71%	73%	75%	78%
E.	CIP Financing as a % of Prior Year's Net Revenue	6.00%	6.00%	6.00%	6.01%	6.00%	6.00%	6.00%
	Debt-Financed CIP as a % of Prior Year's Net Revenue	5.05%	4.99%	4.55%	4.65%	4.42%	4.85%	4.47%
	Revenue-Financed CIP as a % of Prior Year's Net Revenue	0.95%	1.01%	1.45%	1.36%	1.58%	1.15%	1.53%

Town Policies

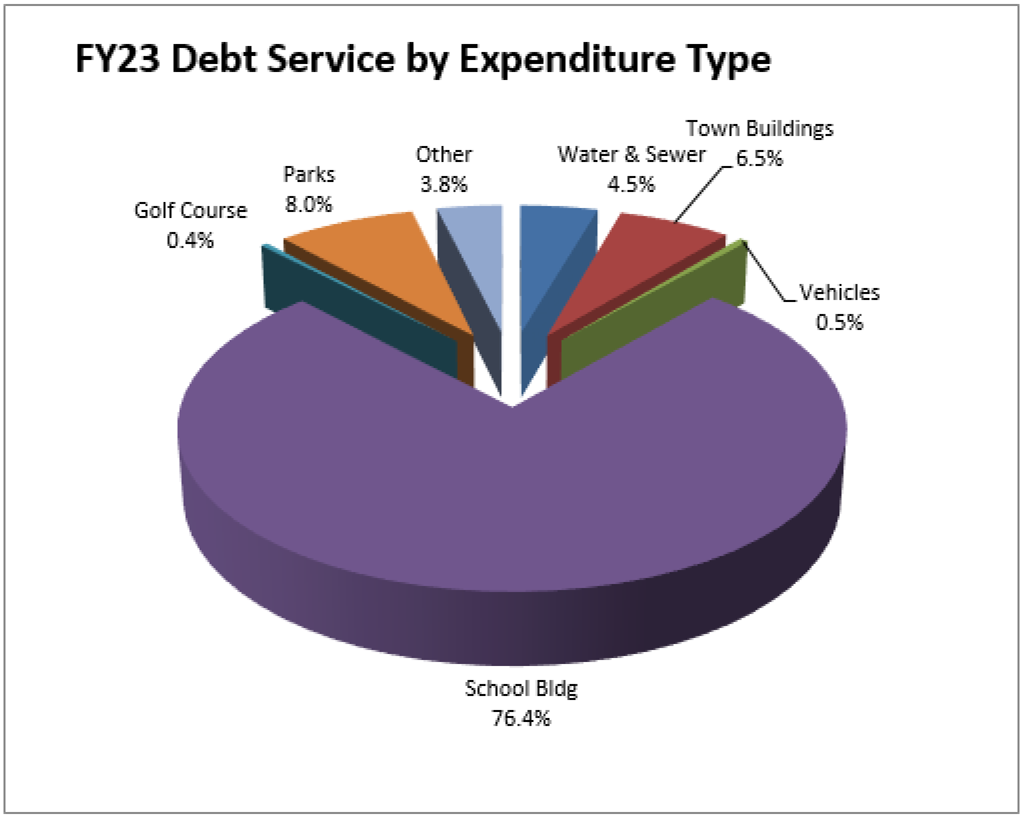
A. Total Outstanding Debt Per Capita = shall not exceed 6% of Per Capita Income.
B. Total Outstanding Debt Per Capita = shall not exceed $3,047 (for FY22).
C. Total Outstanding Debt = shall not exceed 2.5% of Assessed Value (AV).
D. Bond Maturities = 60% of Net Direct General Fund principal shall mature within 10 years.
E. CIP Financing = 6% of Prior Year's Net Revenue, with a goal of 4.5% from Debt-Financed and 1.5% from Revenue-Financed.

PER CAPITA DEBT

OUTSTANDING DEBT (PROJECTED)							
DESCRIPTION	**FY23**	**FY24**	**FY25**	**FY26**	**FY27**	**FY28**	**FY29**
Total General Fund Outstanding Debt	554,392,436	543,680,702	695,554,945	674,411,849	651,337,636	626,533,354	601,349,591
a.) Exempt (Debt Exclusion) [1]	405,713,316	405,713,316	568,521,604	557,767,699	544,657,578	529,077,475	512,558,176
b.) Non-Exempt	148,679,120	137,967,387	127,033,342	116,644,150	106,680,058	97,455,879	88,791,416
Water & Sewer Enterprise Fund Outstanding Debt	9,435,320	9,164,505	11,278,965	12,533,425	13,641,175	14,553,925	15,266,675
Golf Course Enterprise Fund Outstanding Debt	1,568,947	1,479,325	1,372,350	1,256,775	1,132,788	1,014,084	890,281
Enterprise Fund Outstanding Debt	**11,004,267**	**10,643,830**	**12,651,315**	**13,790,200**	**14,773,963**	**15,568,009**	**16,156,956**
TOTAL Outstanding Debt	**565,396,703**	**554,324,532**	**708,206,260**	**688,202,050**	**666,111,598**	**642,101,363**	**617,506,548**

[1] The Florida Ruffin Ridley, High School, and Driscoll School projects were financed via a Debt Exclusion.

OUTSTANDING DEBT


FY23 Debt Service by Expenditure Type
Town Buildings
6.5%
Water & Sewer
4.5%
Other
3.8%
Parks
8.0%
Golf Course
0.4%
Vehicles
0.5%
School Bldg
76.4%

FY23 DEBT SERVICE BY SOURCE