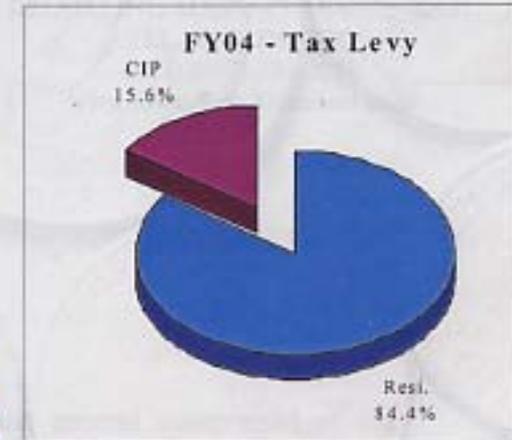
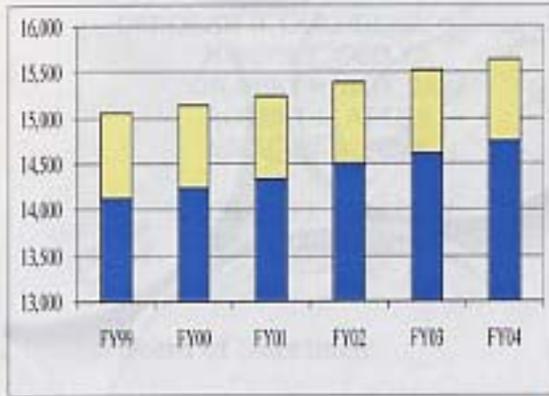
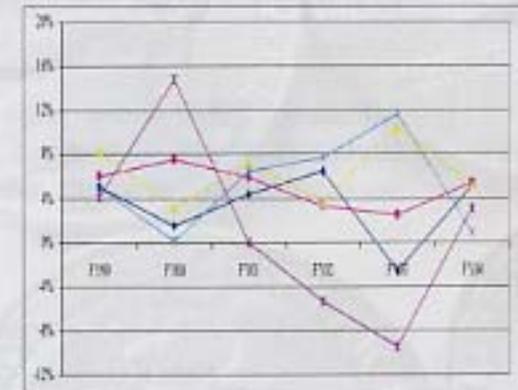
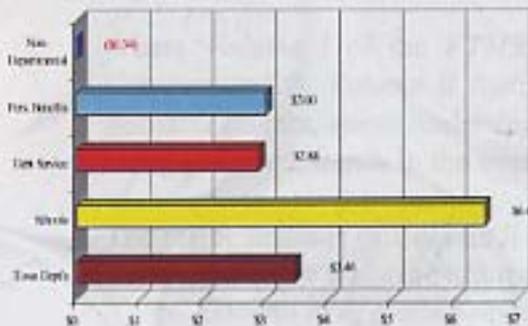


# 2003 FINANCIAL TREND MONITORING REPORT

## Volume II: Brookline Trends



FY06 OPERATING BUDGET SPENDING vs. FY00 OPERATING BUDGET SPENDING IN CONSTANT '90 DOLLARS - CHANGE IN MILLIONS OF DOLLARS





TOWN of BROOKLINE  
Massachusetts

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December, 2003

Board of Selectmen:

I am very pleased to present *Volume II* of the *2003 Financial Trend Monitoring Report (FTMR)*, the second component of the comprehensive financial analysis that is the FTMR. *Volume II*, which is modeled after the International City/County Management Association's (ICMA) "Evaluating Financial Condition: A Handbook for Local Government", uses trend analysis to compile and interpret financial trends in a manner similar to the method utilized by the municipal credit rating industry. Presented in this document are Brookline-specific multi-year trend analyses for revenues, expenditures, debt, operating position, unfunded liabilities, and variables related to the property tax.

This 2003 version contains a number of new key variables: enterprise funds, user fee coverage, and the myriad of components behind the property tax, including property values, levy shares, parcel counts, the shifting of tax burdens, and tax bills. These are all key aspects of Town finances and should be monitored accordingly.

Where *Volume I* of the *FTMR*, which was published in September, 2003, compared Brookline to other communities across the Commonwealth, *Volume II* focuses solely on Brookline's financial trends. *Volume II* enables residents, community groups, municipal decision makers, union leadership, and interested taxpayers to understand trends in how funds are being spent, trends in how revenues are being collected, trends in the overall financial condition of the Town, and trends in the impact on tax bills.

The major findings of *Volume II* are as follows:

- *Revenues* and *expenditures* outpaced the rate of inflation by 3%, on average, between FY98 and FY03.
- Growth in *operating revenues* continued to exceed *operating expenditures*, 15% versus 13% over the six-year period.
- *Actual revenue* collections, in nominal dollars, exceeded revenue budgets by more than 2%, on average.
- *Uncollected property taxes* remained at a very low level of 1% or less every year.

- Fully allocated expenditures for *education* continued to comprise more than half of all operating budget expenditures.
- *Public Safety* expenses continued to comprise approximately 20% of all operating budget expenditures.
- *Fixed costs*, such as debt service and fringe benefits, continued to be significant cost centers, growing as a proportion of total expenditures.
- The trend in the composition of the *property tax levy* continued to shift from non-residential properties to residential properties.
- While the number of total *parcels* increased, the number of non-residential parcels decreased.
- Measured as a percentage of the State’s four-person family median income, the *median tax bills* for each class of residential property either declined or increased slightly.
- *New Growth*, adding an additional 2%, on average, to the annual tax levy, significantly helped support the level of expenditures.

The variables noted for action (i.e., have a rating of “Unfavorable”) and/or requiring close scrutiny include:

- *User Charge Coverage* – the \$165 Refuse Fee is supporting less of the total sanitation operation.
- *Debt* – while debt service has moderated, the Town must assure that debt levels are affordable and that the formal financial policies are followed.
- *Enterprise Funds* – the Water and Sewer Enterprise Fund and the Golf Course Enterprise Fund need to improve their budgetary positions. Both funds need to build reserves so that in years when sales (water/sewer) or rounds played (golf) are less than expected, the fund can absorb the loss of revenue.
- *Property Tax Levy* – without expansion of the commercial tax base, the current trend of residential properties absorbing more of the tax will continue.

Finally, I must acknowledge the Town’s entire financial management team not only for the production of the Report, but also for the favorable trends that are detailed throughout the report. The team will continue to take the steps necessary to maintain the positive trends, improve upon the “Marginal” ratings, and work toward addressing the weaknesses pointed out in the report. I especially want to recognize Deputy Town Administrator Sean Cronin, without whom the *FTMR* simply would not exist. This third edition is the most comprehensive and informative yet. The Town is quite fortunate to have the benefit of his technical skills, analytical insights, and most importantly, his efforts every day to effectuate the kind of results reflected in this Report.

We look forward to reviewing this material in detail with the entire Brookline community.

Sincerely yours,

Richard J. Kelliher  
Town Administrator

**TABLE OF CONTENTS**

<b>Revenue</b>	Total Revenues.....	II-1
	Revenue Composition.....	II-2
	Total Revenues Adjusted for Inflation .....	II-3
	Revenue Per Capita.....	II-4
	Intergovernmental Revenues.....	II-6
	Property Tax.....	II-7
	Uncollected Property Tax.....	II-9
	Revenue Variances.....	II-10
	User Charge Coverage - - Refuse Fee.....	II-11
<b>Spending</b>	Total Spending.....	II-13
	Spending Per Capita versus Revenue Per Capita.....	II-14
	Spending Composition.....	II-15
	Total Expenditures Adjusted for Inflation .....	II-16
	Fully Allocated Town/School Budget.....	II-17
	Expenditure Per Capita.....	II-17
	Employees Per Capita.....	II-20
	Fixed Costs.....	II-21
	Fringe Benefits.....	II-23
	Capital Outlay.....	II-24
<b>Debt</b>	Long-Term Debt.....	II-26
	Debt Service.....	II-29
	Debt Maturity.....	II-31
<b>Unfunded Liability</b>	Unfunded Pension Liability.....	II-33
	Pension Assets.....	II-35
<b>Operating Position</b>	Operating Surplus/(Deficit).....	II-36
	Fund Balance - General Fund.....	II-37
	Liquidity - General Fund.....	II-38
	Strategic Reserves.....	II-39
	Enterprise Funds Golf Course.....	II-40

	Water and Sewer.....	II-42
<b>Property Tax Variables</b>		
	Excess Capacity.....	II-45
	Assessed Value.....	II-46
	Property Tax Levy Composition .....	II-47
	Tax Classification.....	II-49
	Parcels.....	II-51
	Median Valued Parcels and Tax Bills.....	II-53
	Residential Exemption.....	II-54
	Effects of Classification and the Residential Exemption.....	II-56
	Tax Exempt Properties.....	II-59
	New Growth.....	II-60
<b>Appendices</b>		
	Appendix A: State 4-Person Family Median Income History	
	Appendix B: Complete Table of the Effect of the Residential Exemption and Tax Classification	

Using data from FY98-FY03, *Volume II* of the 2003 Financial Trend Monitoring Report analyzes the financial condition of Brookline. Through the use of trend analysis, financial and economic trends - those primarily used by the credit rating industry - can be monitored, enabling the Town to detect, diagnose, and resolve issues potentially requiring attention. The six broad areas reviewed in this section, which are subsequently broken into many indicators, are as follows: Revenue, Spending, Debt, Unfunded Liabilities, Operating Position, and Property Tax Characteristics. The layout for each indicator is a summary of the variable and its significance; the FY98-FY03 data; a graph depicting the trend; and an explanation of the trend.

### REVENUE

Revenues determine the capacity of a local government to provide services, especially in Massachusetts where, with the passage of Proposition 2<sup>1/2</sup>, the starting point of municipal budgeting changed from expenditure estimates to revenue limitations. Important issues to consider in revenue analysis are growth, flexibility, dependability, diversity, and ease of administration. The table below summarizes the revenue history for Brookline from FY98-FY03, during which time total

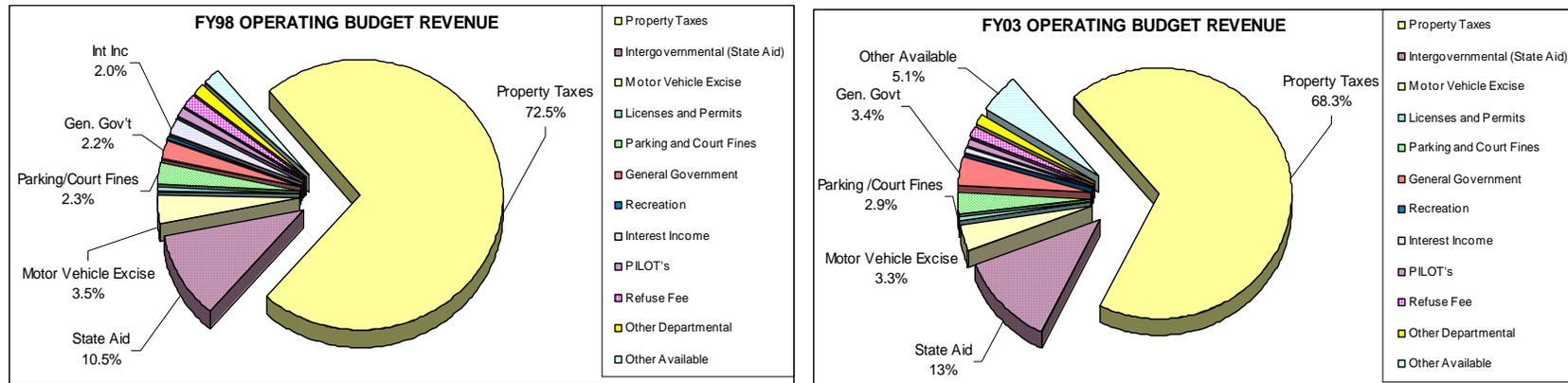
REVENUESOURCE	FY98			FY99			FY00		
	\$	% OF TOTAL	% CHANGE	\$	% OF TOTAL	% CHANGE	\$	% OF TOTAL	% CHANGE
Property Taxes	87,663,921	72.5%	4.3%	91,145,930	72.3%	4.0%	95,990,703	70.8%	5.3%
Intergovernmental (State Aid)	12,666,523	10.5%	8.3%	13,865,847	11.0%	9.5%	15,544,669	11.5%	12.1%
Motor Vehicle Excise	4,260,216	3.5%	15.6%	4,473,789	3.5%	5.0%	4,744,130	3.5%	6.0%
Licenses and Permits	744,472	0.6%	-3.2%	782,784	0.6%	5.1%	830,198	0.6%	6.1%
Parking and Court Fines	2,732,992	2.3%	1.1%	2,790,898	2.2%	2.1%	2,782,594	2.1%	-0.3%
General Government	2,693,798	2.2%	37.2%	2,420,533	1.9%	-10.1%	3,408,295	2.5%	40.8%
Recreation	409,602	0.3%	1.1%	392,212	0.3%	-4.2%	378,559	0.3%	-3.5%
Interest Income	2,413,127	2.0%	33.5%	2,629,806	2.1%	9.0%	3,666,476	2.7%	39.4%
PILOT's	1,298,547	1.1%	-3.4%	1,317,718	1.0%	1.5%	1,587,993	1.2%	20.5%
Refuse Fee	2,195,820	1.8%	-9.3%	2,134,559	1.7%	-2.8%	2,159,430	1.6%	1.2%
Other Departmental	1,620,741	1.3%	5.1%	1,936,112	1.5%	19.5%	2,163,688	1.6%	11.8%
Other Available	2,260,198	1.9%	-2.0%	2,231,293	1.8%	-1.3%	2,308,309	1.7%	3.5%
<b>TOTAL OPERATING REV.</b>	<b>120,959,957</b>	<b>100%</b>	<b>5.4%</b>	<b>126,121,483</b>	<b>100%</b>	<b>4.3%</b>	<b>135,565,043</b>	<b>100%</b>	<b>7.5%</b>
Water and Sewer	15,607,189	11.2%	10.3%	16,725,792	11.4%	7.2%	17,948,083	11.2%	7.3%
Free Cash	2,929,019	2.1%	31.9%	3,562,222	2.4%	21.6%	6,590,000	4.1%	85.0%
Other Available - Overlay Surp.									
Other Available - Ryder Cup									
<b>TOTAL GENERAL FUND REV.</b>	<b>139,496,165</b>		<b>6.4%</b>	<b>146,409,497</b>		<b>5.0%</b>	<b>160,103,126</b>		<b>9.4%</b>

REVENUESOURCE	FY01			FY02			FY03			% CHANGE FY98-FY03
	\$	% OF TOTAL	% CHANGE	\$	% OF TOTAL	% CHANGE	\$	% OF TOTAL	% CHANGE	
Property Taxes	99,542,462	69.7%	3.7%	103,690,844	69.2%	4.2%	108,240,242	68.3%	4.4%	23.5%
Intergovernmental (State Aid)	19,339,431	13.5%	24.4%	19,993,861	13.3%	3.4%	19,071,684	12.0%	-4.6%	50.6%
Motor Vehicle Excise	5,289,785	3.7%	11.5%	4,956,946	3.3%	-6.3%	5,238,211	3.3%	5.7%	23.0%
Licenses and Permits	759,588	0.5%	-8.5%	792,579	0.5%	4.3%	676,751	0.4%	-14.6%	-9.1%
Parking and Court Fines	3,168,534	2.2%	13.9%	3,216,562	2.1%	1.5%	4,646,604	2.9%	44.5%	70.0%
General Government	3,549,086	2.5%	4.1%	2,836,588	1.9%	-20.1%	5,361,051	3.4%	89.0%	99.0%
Recreation	375,287	0.3%	-0.9%	361,686	0.2%	-3.6%	314,837	0.2%	-13.0%	-23.1%
Interest Income	3,455,273	2.4%	-5.8%	1,627,205	1.1%	-52.9%	1,258,674	0.8%	-22.6%	-47.8%
PILOT's	1,618,424	1.1%	1.9%	1,715,102	1.1%	6.0%	1,468,785	0.9%	-14.4%	13.1%
Refuse Fee	2,138,875	1.5%	-1.0%	2,134,067	1.4%	-0.2%	2,188,462	1.4%	2.5%	-0.3%
Other Departmental	1,796,839	1.3%	-17.0%	1,749,305	1.2%	-2.6%	1,802,937	1.1%	3.1%	11.2%
Other Available	1,742,000	1.2%	-24.5%	6,779,884	4.5%	289.2%	8,124,680	5.1%	19.8%	259.5%
<b>TOTAL OPERATING REV.</b>	<b>142,775,584</b>	<b>100%</b>	<b>5.3%</b>	<b>149,854,629</b>	<b>100%</b>	<b>5.0%</b>	<b>158,392,919</b>	<b>100%</b>	<b>5.7%</b>	<b>30.9%</b>
Water and Sewer	16,957,514	10.0%	-5.5%	0	0.0%	-100.0%	0	0.0%	0.0%	-100.0%
Free Cash	4,810,908	2.8%	-27.0%	11,536,850	7.1%	139.8%	5,261,797	3.2%	-54.4%	79.6%
Other Available - Overlay Surp.	2,700,000	1.6%	NA	0	0.0%	-100.0%	210,000	0.1%	NA	NA
Other Available - Ryder Cup	2,100,000	1.2%	NA	0	0.0%	-100.0%	0	0.0%	0.0%	NA
<b>TOTAL GENERAL FUND REV.</b>	<b>169,344,006</b>		<b>5.8%</b>	<b>161,391,479</b>		<b>-4.7%</b>	<b>163,864,716</b>		<b>1.5%</b>	<b>17.5%</b>

SOURCE: Annual Financial Plans, Town Meeting Warrants. FY03 figures are preliminary, unaudited.

General Fund Revenue increased by more than 17% in nominal dollars and more than 3% in inflation-adjusted (or real) FY98 dollars. In terms of Operating Budget Revenue, there was an increase of close to 31% in nominal dollars and more than 15% in real FY98 dollars. (The cause of the large discrepancy between the growth in General Fund revenue and Operating Revenue is due primarily to the shift of Water and Sewer revenue to an Enterprise Fund beginning in FY02.) An interesting point to note is that even before adjusting for inflation, Interest Income, Recreation, Licenses and Permits, and Refuse Fees all decreased.

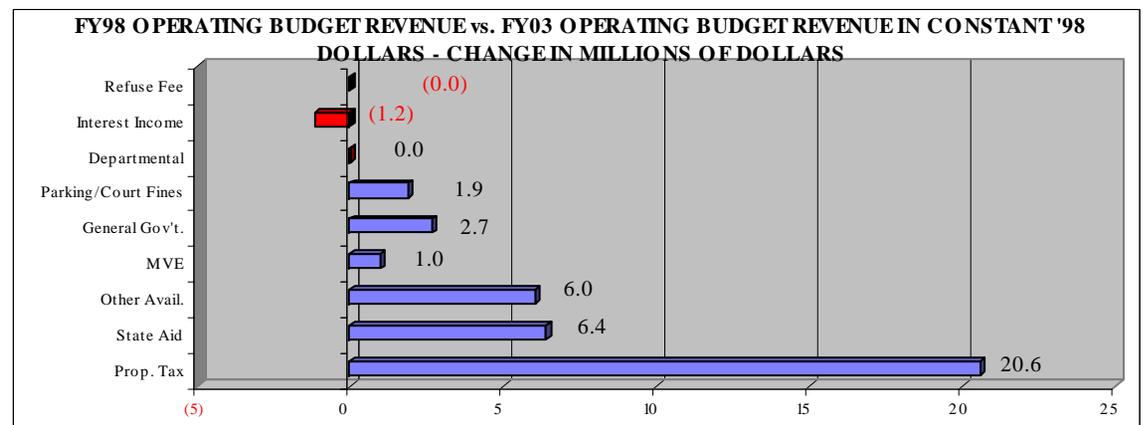
The following pie charts depict the change in Operating Budget Revenue composition from FY98 to FY03.



SOURCE: Annual Financial Plans, Town Meeting Warrants. FY03 figures are preliminary, unaudited.

While the composition has remained relatively constant, with Property Taxes comprising the vast majority of all revenue (approximately 70%), the percent Property Taxes comprise of Operating Budget Revenue has decreased by more than 4 percentage points, from 72.5% to 68.3%. At the same time, the portion made up by State Aid has increased by 1.5 percentage points, from 10.5% to 12%. The primary reasons for the positive shift in State Aid composition are increased Chapter 70 Education funding, new School Building Assistance Bureau (SBAB) reimbursements, and the phase-out of the cap on the amount of Lottery proceeds sent to municipalities. Other notable changes in composition of revenue include Other Available Funds, which increased by more than 3 percentage points, due to the change in the accounting of Water and Sewer Enterprise Fund Overhead Charges as a General Fund revenue<sup>1</sup>; General Government, which increased 1.2 percentage points; Parking/Court Fines, which increases 0.6 percentage points; and Interest Income, which decreased 1.2 percentage points due to the change in the interest rate environment in calendar years 2000-2003.

The graph to the right shows the individual revenue sources and how much above/below inflation they were. The complete data table is found on the next page. Total Operating Budget Revenue outgrew inflation by \$18.4M, or more than 15%, driven mainly by Property Tax (\$7.6M, 8.6%), State Aid (\$4.1M,



<sup>1</sup> Prior to FY02, when the formal Water and Sewer Enterprise Fund was established, all Water and Sewer revenue was counted as General Fund revenue. Once the Enterprise Fund was established, the General Fund, the fund in which the Overhead Charges (fringe benefits, debt service, etc.) associated with the enterprise fund are budgeted, had to be reimbursed. The mechanism to do this was a new revenue source equal to the Overhead Charges.

32.4%), Other Available Funds (\$4.9M, 216%), General Government (\$2M, 75.1%), and Parking/Court Fines (\$1.4M, 49.6%). On a percentage basis, excluding Other Available Funds<sup>2</sup>, General Government (primarily Building Permits), Parking/Court Fines, and State Aid had the greatest increases.

**GENERAL FUND REVENUE HISTORY - CONSTANT 1998 DOLLARS**

REVENUE SOURCE	FY98			FY99			FY00		
	\$	% OF TOTAL	% CHANGE	\$	% OF TOTAL	% CHANGE	\$	% OF TOTAL	% CHANGE
Property Taxes	87,663,921	72.5%	4.3%	89,303,003	72.3%	1.9%	90,949,850	70.8%	1.8%
Intergovernmental (State Aid)	12,666,523	10.5%	8.3%	13,585,486	11.0%	7.3%	14,728,356	11.5%	8.4%
Motor Vehicle Excise	4,260,216	3.5%	15.6%	4,383,331	3.5%	2.9%	4,494,997	3.5%	2.5%
Licenses and Permits	744,472	0.6%	-3.2%	766,957	0.6%	3.0%	786,601	0.6%	2.6%
Parking and Court Fines	2,732,992	2.3%	1.1%	2,734,468	2.2%	0.1%	2,636,469	2.1%	-3.6%
General Government	2,693,798	2.2%	37.2%	2,371,591	1.9%	-12.0%	3,229,312	2.5%	36.2%
Recreation	409,602	0.3%	1.1%	384,282	0.3%	-6.2%	358,679	0.3%	-6.7%
Interest Income	2,413,127	2.0%	33.5%	2,576,633	2.1%	6.8%	3,473,934	2.7%	34.8%
PILOT's	1,298,547	1.1%	-3.4%	1,291,075	1.0%	-0.6%	1,504,601	1.2%	16.5%
Refuse Fee	2,195,820	1.8%	-9.3%	2,091,399	1.7%	-4.8%	2,046,030	1.6%	-2.2%
Other Departmental	1,620,741	1.3%	5.1%	1,896,965	1.5%	17.0%	2,050,064	1.6%	8.1%
Other Available	2,260,198	1.9%	-2.0%	2,186,177	1.8%	-3.3%	2,187,091	1.7%	0.0%
<b>TOTAL OPERATING REV.</b>	<b>120,959,957</b>	<b>100%</b>	<b>5.4%</b>	<b>123,571,366</b>	<b>100%</b>	<b>2.2%</b>	<b>128,445,985</b>	<b>100%</b>	<b>3.9%</b>
Water and Sewer	15,607,189	11.2%	10.3%	16,387,605	11.4%	5.0%	17,005,558	11.2%	3.8%
Free Cash	2,929,019	2.1%	31.9%	3,490,196	2.4%	19.2%	6,243,933	4.1%	78.9%
Other Available - Overlay Surp.									
Other Available - Ryder Cup									
<b>TOTAL GENERAL FUND REV.</b>	<b>139,496,165</b>		<b>6.4%</b>	<b>143,449,167</b>		<b>2.8%</b>	<b>151,695,476</b>		<b>5.7%</b>

REVENUE SOURCE	FY01			FY02			FY03			% CHANGE FY98-FY03
	\$	% OF TOTAL	% CHANGE	\$	% OF TOTAL	% CHANGE	\$	% OF TOTAL	% CHANGE	
Property Taxes	91,108,481	69.7%	0.2%	93,641,997	69.2%	2.8%	95,215,483	68.3%	1.7%	8.6%
Intergovernmental (State Aid)	17,700,850	13.5%	20.2%	18,056,224	13.3%	2.0%	16,776,751	12.0%	-7.1%	32.4%
Motor Vehicle Excise	4,841,595	3.7%	7.7%	4,476,560	3.3%	-7.5%	4,607,887	3.3%	2.9%	8.2%
Licenses and Permits	695,230	0.5%	-11.6%	715,769	0.5%	3.0%	595,316	0.4%	-16.8%	-20.0%
Parking and Court Fines	2,900,073	2.2%	10.0%	2,904,840	2.1%	0.2%	4,087,469	2.9%	40.7%	49.6%
General Government	3,248,381	2.5%	0.6%	2,561,690	1.9%	-21.1%	4,715,945	3.4%	84.1%	75.1%
Recreation	343,490	0.3%	-4.2%	326,635	0.2%	-4.9%	276,952	0.2%	-15.2%	-32.4%
Interest Income	3,162,516	2.4%	-9.0%	1,469,510	1.1%	-53.5%	1,107,216	0.8%	-24.7%	-54.1%
PILOT's	1,481,299	1.1%	-1.5%	1,548,889	1.1%	4.6%	1,292,043	0.9%	-16.6%	-0.5%
Refuse Fee	1,957,653	1.5%	-4.3%	1,927,251	1.4%	-1.6%	1,925,120	1.4%	-0.1%	-12.3%
Other Departmental	1,644,598	1.3%	-19.8%	1,579,777	1.2%	-3.9%	1,585,986	1.1%	0.4%	-2.1%
Other Available	1,594,405	1.2%	-27.1%	6,122,835	4.5%	284.0%	7,147,022	5.1%	16.7%	216.2%
<b>TOTAL OPERATING REV.</b>	<b>130,678,570</b>	<b>100%</b>	<b>1.7%</b>	<b>135,331,976</b>	<b>100%</b>	<b>3.6%</b>	<b>139,333,190</b>	<b>100%</b>	<b>3.0%</b>	<b>15.2%</b>
Water and Sewer	15,520,747	10.0%	-8.7%	0	0.0%	-100.0%	0	0.0%	#DIV/0!	-100.0%
Free Cash	4,403,292	2.8%	-29.5%	10,418,795	7.1%	136.6%	4,628,635	3.2%	-55.6%	58.0%
Other Available - Overlay Surp.	2,471,236	1.6%	NA	0	0.0%	-100.0%	184,730	0.1%	#DIV/0!	NA
Other Available - Ryder Cup	1,922,072	1.2%	NA	0	0.0%	-100.0%	0	0.0%	#DIV/0!	NA
<b>TOTAL GENERAL FUND REV.</b>	<b>154,995,917</b>		<b>2.2%</b>	<b>145,750,771</b>		<b>-6.0%</b>	<b>144,146,555</b>		<b>-1.1%</b>	<b>3.3%</b>

SOURCE: Annual Financial Plans, Town Meeting Warrants. FY03 figures are preliminary, unaudited.

<sup>2</sup> Other Available Funds are excluded for the reason noted in the footnote on the previous page.

A total of five variables will be reviewed in the Revenue section.

1. *Revenue Per Capita* - Examining per capita revenue shows changes in revenues relative to changes in population size. As population increases/decreases, it may be expected that revenues and the need for services would increase/decrease proportionately, and therefore that the level of per capita revenues would remain the same.

**REVENUE PER CAPITA & INFLATION ADJUSTED REVENUE**

DESCRIPTION	FY98	FY99	FY00	FY01	FY02	FY03	% CHANGE FY98-FY03	AVG ANNUAL % CHANGE
Operating Revenue	\$120,959,957	\$126,121,483	\$135,565,043	\$142,775,584	\$149,854,629	\$158,392,919	30.9%	
Water & Sewer	\$15,607,189	\$16,725,792	\$17,948,083	\$16,957,514	\$0	\$0	-100.0%	
Free Cash	\$2,929,019	\$3,562,222	\$6,590,000	\$4,810,908	\$11,536,850	\$5,261,797	79.6%	
Other A available - Overlay Surp.	\$0	\$0	\$0	\$2,700,000	\$0	\$210,000	na	
Other A available - Ryder Cup	\$0	\$0	\$0	\$2,100,000	\$0	\$0	na	
<b>Gen. Fund Revenue</b>	<b>\$139,496,165</b>	<b>\$146,409,497</b>	<b>\$160,103,126</b>	<b>\$169,344,006</b>	<b>\$161,391,479</b>	<b>\$163,864,716</b>	<b>17.5%</b>	
% Change		5.0%	9.4%	5.8%	-4.7%	1.5%		3.4%
CPI for All Urban Areas	169.6	173.1	179	185.3	187.8	192.8		
CPI in decimal	1	0.979780	0.947486	0.915273	0.903088	0.879668		
Operating Revenue in Constant FY98 Dollars	\$120,959,957	\$123,571,366	\$128,445,985	\$130,678,570	\$135,331,976	\$139,333,190	15.2%	
Water & Sewer in Constant FY98 Dollars	\$15,607,189	\$16,387,605	\$17,005,558	\$15,520,747	\$0	\$0	-100.0%	
Free Cash in Constant FY98 Dollars	\$2,929,019	\$3,490,196	\$6,243,933	\$4,403,292	\$10,418,795	\$4,628,635	58.0%	
Other A available - Overlay Surp. in Constant FY98 Dollars	\$0	\$0	\$0	\$2,471,236	\$0	\$184,730	na	
Other A available - Ryder Cup in Constant FY98 Dollars	\$0	\$0	\$0	\$1,922,072	\$0	\$0	na	
<b>Gen. Fund Revenue in Constant FY98 Dollars</b>	<b>\$139,496,165</b>	<b>\$143,449,167</b>	<b>\$151,695,476</b>	<b>\$154,995,917</b>	<b>\$145,750,771</b>	<b>\$144,146,555</b>	<b>3.3%</b>	
% Change		2.8%	5.7%	2.2%	-6.0%	-1.1%		0.7%
Population	53,911	53,911	57,107	57,107	57,107	57,107	5.9%	
<b>Gen. Fund Revenue Per Capita</b>	<b>\$2,588</b>	<b>\$2,716</b>	<b>\$2,804</b>	<b>\$2,965</b>	<b>\$2,826</b>	<b>\$2,869</b>	<b>10.9%</b>	
% Change		5.0%	3.2%	5.8%	-4.7%	1.5%		2.2%
<b>Gen. Fund Revenue Per Capita (in FY98 \$)</b>	<b>\$2,588</b>	<b>\$2,661</b>	<b>\$2,656</b>	<b>\$2,714</b>	<b>\$2,552</b>	<b>\$2,524</b>	<b>-2.4%</b>	
% Change		2.8%	-0.2%	2.2%	-6.0%	-1.1%		-0.4%

SOURCE: Annual Financial Plans, Town Meeting Warrants. Population figures from U.S. Census estimates. FY03 figures are preliminary, unaudited.

The table above separates General Fund revenue into five categories of General Fund revenue: Operating Revenue, Water and Sewer, Free Cash, Overlay Surplus, and Ryder Cup funds. This is done for three reasons: 1.) the Town’s financial policies regarding the use of Free Cash require that it be used for the CIP and other one-time expenses, so showing this fluctuating revenue source separately makes most sense; 2.) prior to the establishment of a separate Water and Sewer Enterprise Fund in FY02, those revenues were counted as General Fund revenue; for comparative purposes, they need to be backed out of the previous years; and

3.) Overlay Surplus and Ryder Cup Funds are one-time revenue sources that were used for one-time capital expenses, similar to how Free Cash is used; therefore, these revenue sources are shown separately.

Since FY98, total General Fund revenues increased more than 17%, or \$24.4M. Operating Revenues increased nearly 31%, or \$37.4M, while Free Cash increased close to 80%, or \$2.3M. On a per capita basis, total General Fund revenue increases nearly 11%, from \$2,588 to \$2,869. In constant FY98 dollars, total General Fund revenues increased more than 3%, or \$4.7M, and Operating Revenue increased more than 15%, or \$18.4M. On a per capita basis, General Fund revenue adjusted for inflation decreased more than 2%, due to the change in accounting for Water and Sewer revenue.

While viewing the General Fund in its entirety is helpful and allows for a “big picture” look at the Town’s revenue structure, viewing Operating Budget revenue in isolation provides for a clearer and more meaningful analysis of the revenue that supports the day-to-day activities of the Town’s operations. The table below focuses on Operating Budget revenue.

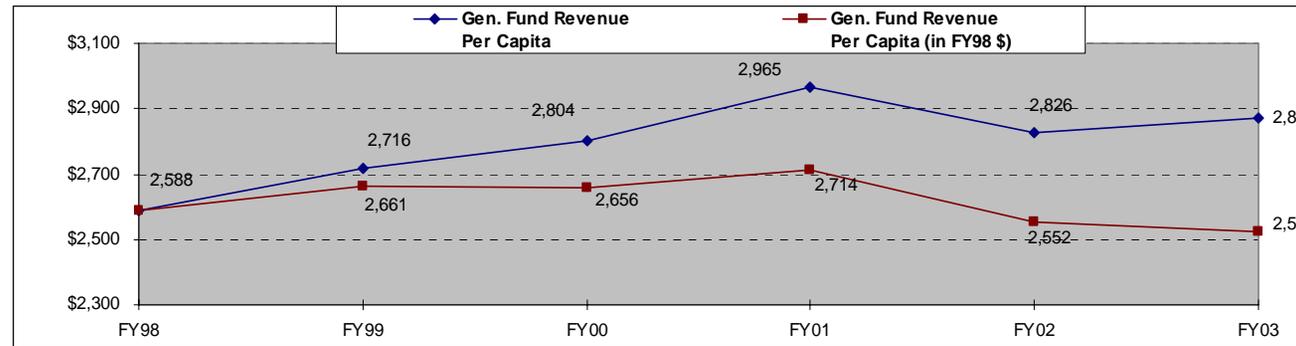
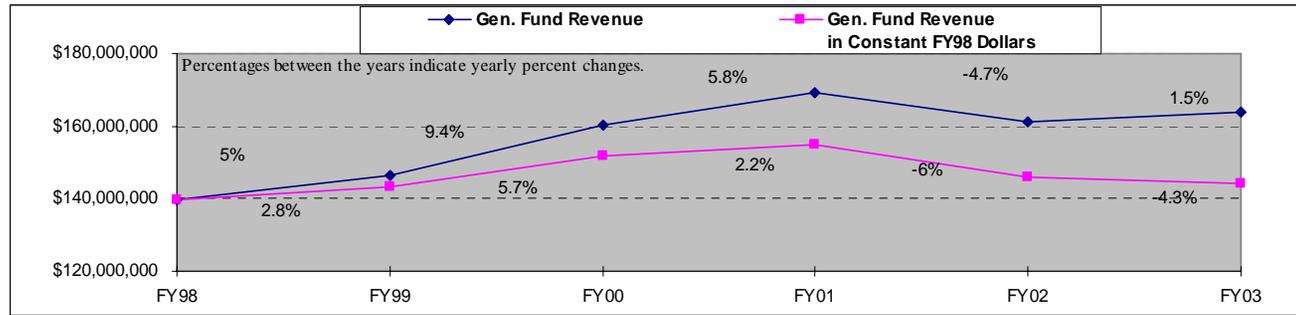
**OPERATING REVENUE PER CAPITA & INFLATION ADJUSTED REVENUE**

DESCRIPTION	FY98	FY99	FY00	FY01	FY02	FY03	% CHANGE FY98-FY03	AVG ANNUAL % CHANGE
<b>Operating Revenue</b>	<b>\$120,959,957</b>	<b>\$126,121,483</b>	<b>\$135,565,043</b>	<b>\$142,775,584</b>	<b>\$149,854,629</b>	<b>\$158,392,919</b>	<b>30.9%</b>	
% Change	5.4%	4.3%	7.5%	5.3%	5.0%	5.7%		5.5%
CPI for All Urban Areas	169.6	173.1	179	185.3	187.8	192.8		
CPI in decimal	1	0.979780	0.947486	0.915273	0.903088	0.879668		
<b>Operating Revenue in Constant FY98 Dollars</b>	<b>\$120,959,957</b>	<b>\$123,571,366</b>	<b>\$128,445,985</b>	<b>\$130,678,570</b>	<b>\$135,331,976</b>	<b>\$139,333,190</b>	<b>15.2%</b>	
% Change		2.2%	3.9%	1.7%	3.6%	3.0%		2.9%
Population	53,911	53,911	57,107	57,107	57,107	57,107	5.9%	
<b>Operating Revenue Per Capita</b>	<b>\$2,244</b>	<b>\$2,339</b>	<b>\$2,374</b>	<b>\$2,500</b>	<b>\$2,624</b>	<b>\$2,774</b>	<b>23.6%</b>	
% Change		4.3%	1.5%	5.3%	5.0%	5.7%		4.3%
<b>Operating Revenue Per Capita (in FY98 \$)</b>	<b>\$2,244</b>	<b>\$2,292</b>	<b>\$2,249</b>	<b>\$2,288</b>	<b>\$2,370</b>	<b>\$2,440</b>	<b>8.7%</b>	
% Change		2.2%	-1.9%	1.7%	3.6%	3.0%		1.7%

SOURCE: Annual Financial Plans, Town Meeting Warrants. Population figures from U.S. Census estimates. FY03 figures are preliminary, unaudited.

Operating Budget revenues have increased close to 31% (\$37.4M) since FY98, due primarily to Property Taxes (\$20.6M, 24%); State Aid (\$6.4M, 51%) resulting from increases in Chapter 70 Education Aid, new School Building Assistance Bureau (SBAB) reimbursements, and the phase-out of the cap on the amount of Lottery proceeds sent to municipalities; and Other Available Funds (\$5.9M, 260%), which results from the FY02 first-time accounting of Water and Sewer Enterprise Fund Overhead Charges as a General Fund revenue.<sup>3</sup> In constant FY98 dollars, Operating Budget revenue increased more than 15% (\$18.4M), again due to Property Taxes (\$7.6M, 9%), State Aid (\$4.1M, 32%), and Other Available Funds (\$4.9M, 216%). On a per capita basis, the increase since FY98 was close to 24% (from \$2,244 to \$2,774); in constant FY98 dollars, the increase was nearly 9% (from \$2,244 to \$2,440).

<sup>3</sup> See the explanation previously provided for under footnote #1.



**BROOKLINE TREND:**

X	Favorable
	Marginal
	Unfavorable

**WARNING TREND:**

Decreasing net operating revenues per capita (in constant dollars).

**FORMULA:**

$$\frac{\text{Operating Revenues}}{\text{Population}}$$

SOURCE: Annual Financial Plans, Town Meeting Warrants. Population figures from U.S. Census estimates. FY03 figures are preliminary, unaudited.

The Brookline Trend is listed as Favorable, as revenues are outpacing the rate of inflation. Yearly increases in per capita revenue have averaged approximately 4%, and approximately 2% when adjusted for inflation. While the majority of these annual increases are due to the growth in Property Taxes, as allowed for under Proposition 2 1/2, the strong economy of the late-1990's – early-2000's also played a significant role in the level of revenue increases<sup>4</sup>.

2. *Intergovernmental Revenues (State Aid)* - these are revenues from the state government. Massachusetts' municipalities are nearly equal participants with the State in providing public services, yet the State has access to a broad array of alternative revenue sources. It is important to monitor Intergovernmental revenue to ensure an allocation commensurate with town service requirements and demographic profiles. Simultaneously, municipalities in general should guard against over-reliance on Intergovernmental income because it tends to be based on revenue sources which are extremely sensitive to economic fluctuations, such as sales and income taxes, and is obviously subject to the priorities of state government.

As the table on the next page shows, since FY98, Intergovernmental revenues have increased by nearly 51% (\$6.4M) in nominal dollars (versus 31% for all Operating Budget revenue). The increase over this time frame is the result of increased Chapter 70 School Aid, new School Building Assistance Bureau (SBAB) reimbursements, and the phase-out of the cap on the amount of Lottery proceeds sent to municipalities. With State Aid comprising consistently less than 14% of total Operating Budget revenues, Brookline is by no means over-reliant on State Aid to fund its operating budget. However, any reductions in State Aid do have a detrimental effect on the Town's operations.

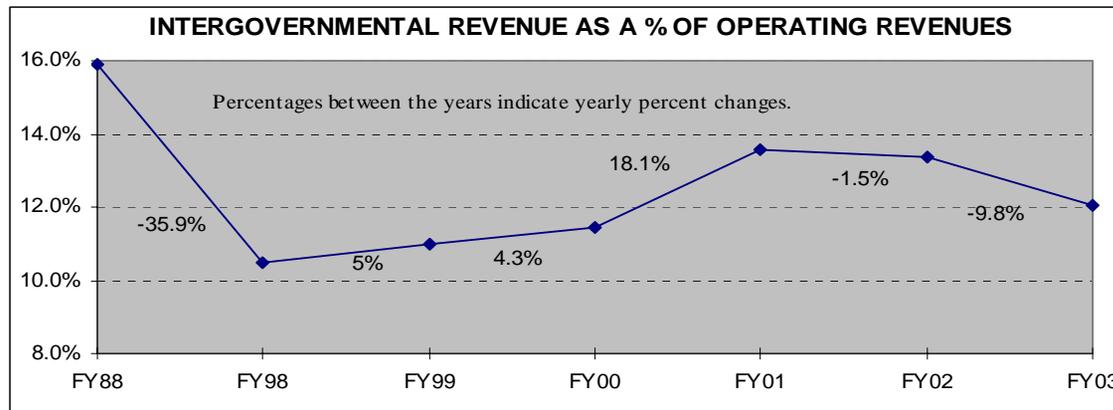
<sup>4</sup> Some economically sensitive revenue sources realized significant increases during this period, including building permits, the motor vehicle excise tax, the hotel/motel excise tax, and the additional aid the State was able to afford.

**INTERGOVERNMENTAL REVENUES**

DESCRIPTION	FY88	FY98	FY99	FY00	FY01	FY02	FY03	% CHANGE FY98-FY03
Intergovernmental Revenue (State Aid)	\$13,680,301	\$12,666,523	\$13,865,847	\$15,544,669	\$19,339,431	\$19,993,861	\$19,071,684	50.6%
Operating Revenue	\$85,980,452	\$120,959,957	\$126,121,483	\$135,565,043	\$142,775,584	\$149,854,629	\$158,392,919	30.9%
Intergov Rev as a % of Operating Rev	15.9%	10.5%	11.0%	11.5%	13.5%	13.3%	12.0%	15.0%
% Change	n/a		5.0%	4.3%	18.1%	-1.5%	-9.8%	

SOURCE: Annual Financial Plans, Town Meeting Warrants. FY03 figures are preliminary, unaudited.

Between FY98-FY01, Intergovernmental revenues increased annually as a percent of total Operating Budget revenues. This trend ceased in FY02 when the State began to cut back on Local Aid due to its budget crisis. Since FY98, the percent of Operating Budget revenue that Intergovernmental revenue comprises has increased from 10.5% to 12%. As the graph below shows, this is still quite a distance from the FY88 level of nearly 16%. The Brookline Trend is listed as Marginal, as the increases since FY98 signal that the Town needs to take caution when planning how to spend State Aid, as future cuts loom unless the state’s budget crisis is resolved.



**BROOKLINE TREND:**

□	Favorable
X	Marginal
□	Unfavorable

**WARNING TREND:**

Increasing amount of intergovernmental revenues as a percentage of operating revenues.

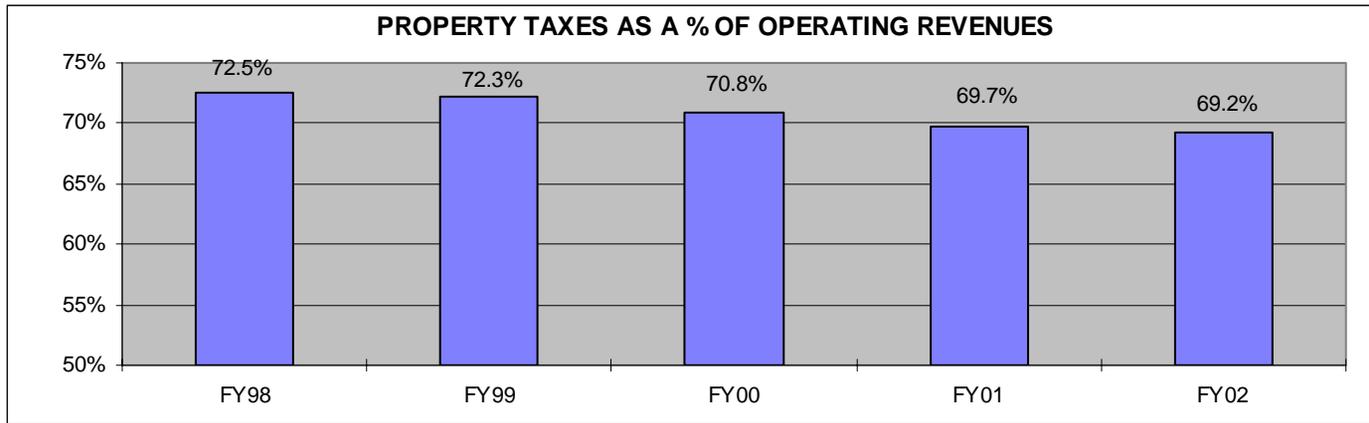
**FORMULA:**

$$\frac{\text{Intergovernmental Revenues}}{\text{Operating Revenues}}$$

SOURCE: Annual Financial Plans, Town Meeting Warrants. FY03 figures are preliminary, unaudited.

3. *Property Tax* – Since Property Taxes comprise more than two-thirds of all revenues for Brookline, as illustrated in the graph on the following page, it is vital to analyze them separately<sup>5</sup>, especially in light of the constraints placed on municipalities in Massachusetts by Proposition 2<sup>1/2</sup>. As a percent of operating revenue, since FY98 the Property Tax levy has decreased by more than three percentage points, due to the fact that State Aid and Other Available Funds have begun to comprise a larger share of the revenue pie.

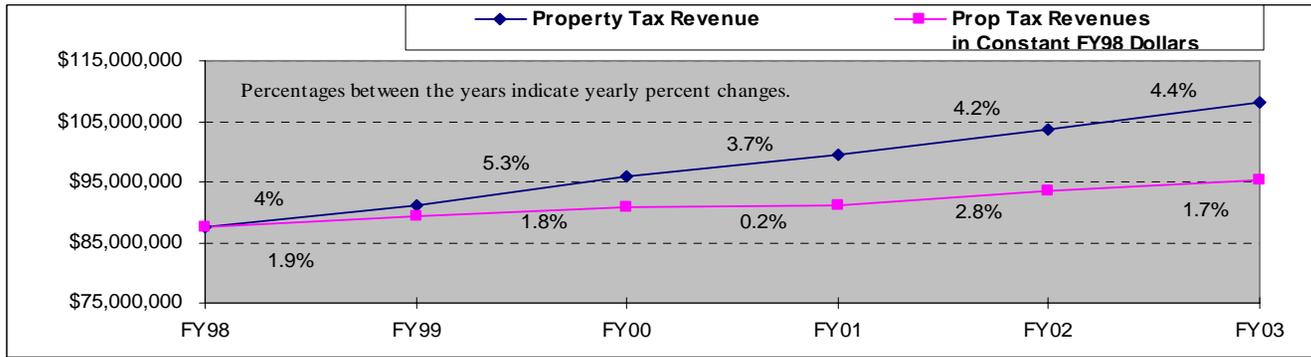
<sup>5</sup> Please see the last part of *Volume II*, titled “Property Tax Characteristics”, for an in-depth analysis of the variables related to the Property Tax levy, property values, and tax rate setting.



**PROPERTY TAX - NOMINAL DOLLARS AND REAL DOLLARS**

DESCRIPTION	FY98	FY99	FY00	FY01	FY02	FY03	% CHANGE FY98-FY03
Operating Revenue	\$120,959,957	\$126,121,483	\$135,565,043	\$142,775,584	\$149,854,629	\$158,392,919	30.9%
Property Tax Revenue	\$87,663,921	\$91,145,930	\$95,990,703	\$99,542,462	\$103,690,844	\$108,240,242	23.5%
% Change		4.0%	5.3%	3.7%	4.2%	4.4%	
Property Tax as a a % of Operating Revenue	72.5%	72.3%	70.8%	69.7%	69.2%	68.3%	-5.7%
% Change		-0.3%	-2.0%	-1.5%	-0.8%	-1.2%	
CPI for All Urban Areas	169.6	173.1	179	185.3	187.8	192.8	
CPI in decimal	1	0.979780	0.947486	0.915273	0.903088	0.879668	
Prop Tax Revenues in Constant FY98 Dollars	\$87,663,921	\$89,303,003	\$90,949,850	\$91,108,481	\$93,641,997	\$95,215,483	8.6%
% Change		1.9%	1.8%	0.2%	2.8%	1.7%	
Population	53,911	53,911	57,107	57,107	57,107	57,107	5.9%
Prop Tax Per Capita	\$1,626	\$1,691	\$1,681	\$1,743	\$1,816	\$1,895	16.6%
% Change		4.0%	-0.6%	3.7%	4.2%	4.4%	
Prop Tax Per Capita (in FY98 \$)	\$1,626	\$1,656	\$1,593	\$1,595	\$1,640	\$1,667	2.5%
% Change		1.9%	-3.9%	0.2%	2.8%	1.7%	

SOURCE: Annual Financial Plans, Town Meeting Warrants. Population figures from U.S. Census estimates. FY03 figures are preliminary, unaudited.



**BROOKLINE TREND:**

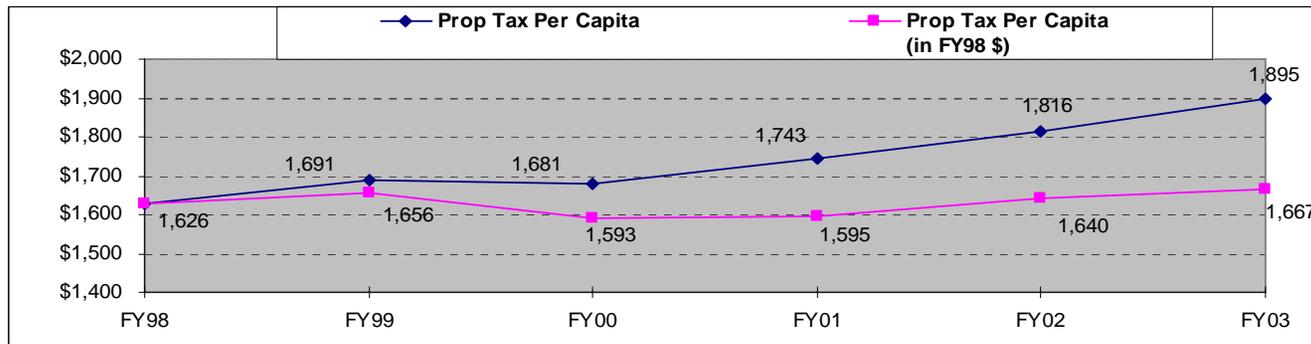
X	Favorable
—	Marginal
—	Unfavorable

**WARNING TREND:**

Decreasing property tax per capita (in constant dollars).

**FORMULA:**

$$\frac{\text{Property Tax Revenues}}{\text{Population}}$$



**SOURCE:** Annual Financial Plans, Town Meeting Warrants. Population figures from U.S. Census estimates. FY03 figures are preliminary, unaudited.

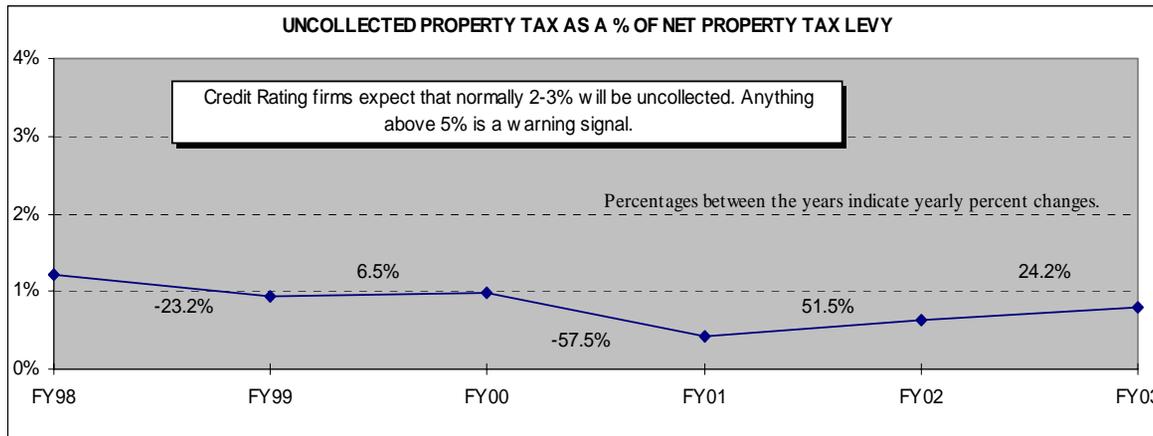
As shown in the graphs above, Property Tax revenue has grown every year, in both nominal and real dollars, since FY98. Cumulative growth has been more than 23% in nominal dollars and nearly 9% in constant FY98 dollars. On a per capita basis, there has also been growth in both nominal and real dollars since FY98, with a cumulative growth of almost 17% in nominal dollars and nearly 3% in constant FY98 dollars. (The decrease between FY99 and FY00 was due to the increase in population.) Therefore, the Brookline Trend is listed as Favorable.

4. *Uncollected Property Tax* - Each year, a percentage of property owners is unable to pay property taxes. If this percentage increases over time, it may indicate an overall decline in the local government's economic health. Additionally, as uncollected Property Taxes rise, liquidity is decreased and there is less cash on hand to pay bills or to invest.

**UNCOLLECTED PROPERTY TAX (AT THE CLOSE OF THE FY)**

DESCRIPTION	FY98	FY99	FY00	FY01	FY02	FY03	% CHANGE FY98-FY03
Total Property Tax Levy	\$87,877,686	\$92,203,063	\$96,399,645	\$100,217,510	\$104,560,825	\$109,532,058	24.6%
Abatement of Prop Tax	\$1,261,470	\$447,993	\$747,260	\$936,951	\$505,803	\$543,695	-56.9%
Other Reductions	\$159,198	\$186,364	\$93,280	\$112,699	\$25,888		-100.0%
Net Property Tax Levy	\$86,457,018	\$91,568,706	\$95,559,105	\$99,167,860	\$104,029,134	\$108,988,363	26.1%
Uncollected Property Taxes	\$1,045,244	\$850,469	\$945,585	\$417,371	\$663,401	\$863,452	-17.4%
Uncollected Property Taxes as a % of Net Prop. Tax Levy	1.2%	0.9%	1.0%	0.4%	0.6%	0.8%	-34.5%
% Change		-23.2%	6.5%	-57.5%	51.5%	24.2%	

SOURCE: Treasurer's Office, Comptroller's Office. FY03 figures are preliminary, unaudited.



SOURCE: Treasurer's Office, Comptroller's Office. FY03 figures are preliminary, unaudited.

**BROOKLINE TREND:**

X	Favorable
	Marginal
	Unfavorable

**WARNING TREND:**

Increasing amount of uncollected property tax as a percentage of net property tax levy.

**FORMULA:**

$$\frac{\text{Uncollected Property Taxes}}{\text{Net Property Tax Levy}}$$

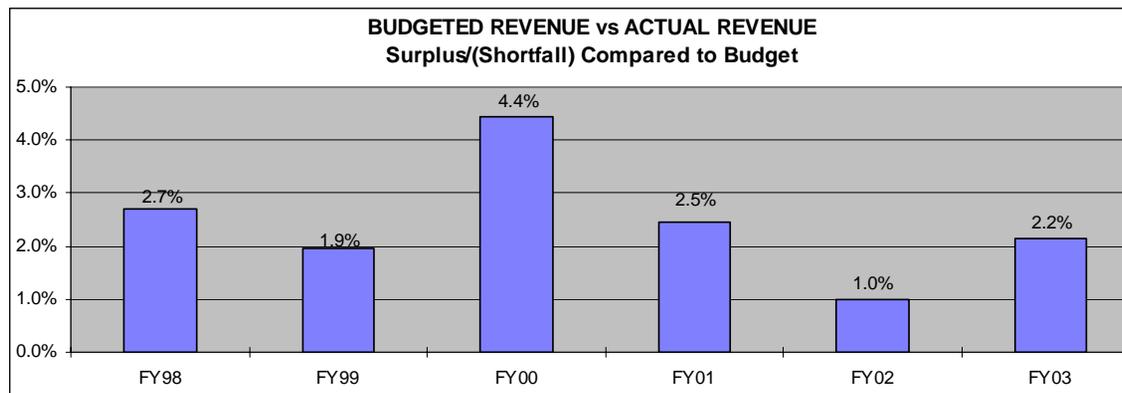
This continues to be a very positive indicator for the Town. Since FY98, there has been a 17% decrease in uncollected property taxes and a decrease of over 34% in uncollected property tax as a percent of the net property tax levy. (This indicator stood at 3.2% in FY92, further proof of the Town's improvement.)

5. *Revenue Variances* - This indicator examines the difference between revenue estimates and revenues actually received during the fiscal year. Overly optimistic estimates can lead to adverse financial results, such as realizing late in the fiscal year that revenues are less than expected, thereby requiring borrowing from reserves or enacting mid-year programmatic cuts to balance the operating budget.

**REVENUE VARIANCES**

DESCRIPTION	FY98	FY99	FY00	FY01	FY02	FY03	% CHANGE FY98-FY03
Actual General Fund Revenue	\$139,496,165	\$146,409,497	\$160,103,126	\$169,344,006	\$161,391,479	\$163,864,716	17.5%
Budgeted General Fund Revenue	\$135,826,388	\$143,616,317	\$153,283,810	\$165,271,645	\$159,792,430	\$160,405,023	18.1%
Revenue Surplus/(Shortfall)	\$3,669,777	\$2,793,180	\$6,819,316	\$4,072,361	\$1,599,048	\$3,459,693	-5.7%
% Change		-23.9%	144.1%	-40.3%	-60.7%	116.4%	
Revenue Surplus/(Shortfall) as a % of Budgeted Gen. Fund Rev	2.7%	1.9%	4.4%	2.5%	1.0%	2.2%	-20.2%

SOURCE: Annual Financial Plans, Town Meeting Warrants. Population figures from U.S. Census estimates. FY03 figures are preliminary, unaudited.



SOURCE: Annual Financial Plans, Town Meeting Warrants. Population figures from U.S. Census estimates. FY03 figures are preliminary, unaudited.

**BROOKLINE TREND:**

X	Favorable
	Marginal
	Unfavorable

**WARNING TREND:**

Increase in revenue shortfalls as a percentage of actual net operating revenues.

**FORMULA:**

$$\frac{\text{Revenue Shortfalls}}{\text{Net Operating Revenues}}$$

This indicator shows that actual revenue collections are consistently above estimates, a positive sign. With the obvious exception of FY00, when the surplus was 4.3% of actual revenue, the revenue surpluses have been below 2.6%, an indication that the Town has been prudently conservative in its revenue estimating. This data also shows that the Town was prudent in its decision not to base the budget for certain Local Receipts on the record levels realized in the great economic times of the late-1990's – early-2000's.

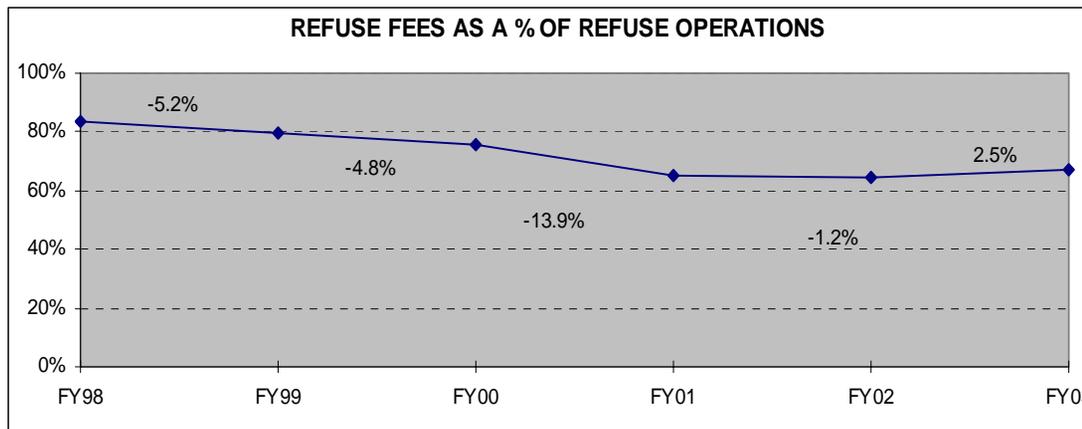
6. *User Charge Coverage - - Refuse Fee* - This indicator examines the extent to which user charges cover the entire cost of providing a service. In this analysis, the Town's Refuse Collection operation is analyzed. Currently, a fee of \$165 is charged to all residents who have the Town pick up, dispose of, and/or recycle their trash. Looking at this variable is important because as coverage declines, the burden on other revenues to support the service increases.

**USER CHARGE COVERAGE - REFUSE FEE**

DESCRIPTION	FY98	FY99	FY00	FY01	FY02	FY03	% CHANGE FY98-FY03
Revenues from Refuse Fee	2,195,820	2,134,559	2,159,430	2,138,875	2,134,067	2,188,462	-0.3%
Expenditures related to Refuse Operation <sup>1</sup>	2,623,199	2,689,985	2,853,456	3,283,404	3,315,911	3,261,740	24.3%
<b>Revenues as a percentage of total expenditures for Refuse Operation</b>	<b>83.7%</b>	<b>79.4%</b>	<b>75.7%</b>	<b>65.1%</b>	<b>64.4%</b>	<b>67.1%</b>	<b>-19.8%</b>
% Change		-5.2%	-4.6%	-13.9%	-1.2%	4.3%	

<sup>1</sup> Total budget plus benefits associated with the employees who work within the Sanitation Division.

SOURCE: Annual budget documents, Town benefit database. The FY03 figures are preliminary, unaudited.



SOURCE: Annual budget documents, Town benefit database. The FY03 figures are preliminary, unaudited.

**BROOKLINE TREND:**

	Favorable
	Marginal
X	Unfavorable

**WARNING TREND:**

Decreasing revenues from user charge as a percentage of total expenditures for related service.

**FORMULA:**

$$\frac{\text{Revenues from User Charges}}{\text{Expenditures for Related Services}}$$

**SPENDING**

Expenditures are a rough measure of a local government’s service output. Ideally, the more a government spends in constant dollars, the more services it is providing. Analyzing the expenditure profile helps to identify five fundamental types of problems: excessive growth of overall expenditures as compared to revenue growth or growth in community wealth; an undesirable increase in fixed costs; ineffective budgetary controls; a decline in productivity; and excessive growth in programs that create future expenditure liabilities.

**GENERAL FUND SPENDING HISTORY**

EXPENDITURE	FY98			FY99			FY00		
	\$	% OF TOTAL	% CHANGE	\$	% OF TOTAL	% CHANGE	\$	% OF TOTAL	% CHANGE
Administration & Finance	4,378,051	3.7%	23.9%	4,772,256	3.8%	9.0%	5,369,566	4.1%	12.5%
Public Safety	23,040,748	19.6%	5.4%	23,610,110	18.9%	2.5%	24,375,012	18.8%	3.2%
Public Works	9,721,194	8.3%	-1.5%	10,426,878	8.4%	7.3%	10,349,634	8.0%	-0.7%
Schools <sup>1</sup>	40,351,813	34.4%	4.1%	42,623,305	34.1%	5.6%	45,179,096	34.9%	6.0%
Cultural Services	2,365,670	2.0%	1.7%	2,446,948	2.0%	3.4%	2,590,909	2.0%	5.9%
Human Services	1,425,163	1.2%	2.6%	1,484,555	1.2%	4.2%	1,564,295	1.2%	5.4%
Leisure Services	1,032,381	0.9%	-3.3%	1,107,844	0.9%	7.3%	1,120,662	0.9%	1.2%
Personnel Benefits	17,207,452	14.7%	4.7%	18,429,334	14.8%	7.1%	18,802,790	14.5%	2.0%
Debt and Interest	8,725,394	7.4%	17.0%	10,277,767	8.2%	17.8%	9,826,766	7.6%	-4.4%
Unclassified	218,744	0.2%	41.8%	222,585	0.2%	1.8%	239,356	0.2%	7.5%
Unappropriated	8,889,813	7.6%	3.5%	9,453,779	7.6%	6.3%	9,985,753	7.7%	5.6%
<b>TOTAL OPERATING EXP.</b>	<b>117,356,423</b>	<b>100%</b>	<b>5.3%</b>	<b>124,855,361</b>	<b>100%</b>	<b>6.4%</b>	<b>129,403,839</b>	<b>100%</b>	<b>3.6%</b>
Water & Sewer	12,352,047	9.2%	16.6%	12,519,087	8.8%	1.4%	11,773,686	7.9%	-6.0%
Special Appropriations (CIP)	4,067,887	3.0%	-4.9%	4,487,887	3.1%	10.3%	6,952,887	4.6%	54.9%
Special Appropriations (Non-CIP)	740,000	0.6%		800,000	0.6%	8.1%	1,560,000	1.0%	95.0%
<b>TOTAL GENERAL FUND EXPEND.</b>	<b>134,516,357</b>		<b>6.5%</b>	<b>142,662,335</b>		<b>6.1%</b>	<b>149,690,412</b>		<b>4.9%</b>

EXPENDITURE	FY01			FY02			FY03			% CHANGE FY98-FY03
	\$	% OF TOTAL	% CHANGE	\$	% OF TOTAL	% CHANGE	\$	% OF TOTAL	% CHANGE	
Administration & Finance	5,605,738	4.0%	4.4%	5,803,522	4.0%	3.5%	6,635,956	4.4%	14.3%	51.6%
Public Safety	25,353,752	18.2%	4.0%	26,301,795	18.4%	3.7%	27,611,385	18.3%	5.0%	19.8%
Public Works	11,471,342	8.2%	10.8%	10,727,692	7.5%	-6.5%	11,406,533	7.6%	6.3%	17.3%
Schools <sup>1</sup>	48,174,790	34.5%	6.6%	51,243,151	35.8%	6.4%	53,207,625	35.2%	3.8%	31.9%
Cultural Services	2,657,648	1.9%	2.6%	2,714,330	1.9%	2.1%	2,847,260	1.9%	4.9%	20.4%
Human Services	1,671,007	1.2%	6.8%	1,863,222	1.3%	11.5%	1,885,818	1.2%	1.2%	32.3%
Leisure Services	1,156,638	0.8%	3.2%	1,228,887	0.9%	6.2%	1,244,910	0.8%	1.3%	20.6%
Personnel Benefits	20,273,360	14.5%	7.8%	20,905,951	14.6%	3.1%	22,970,985	15.2%	9.9%	33.5%
Debt and Interest	13,183,004	9.5%	34.2%	12,752,494	8.9%	-3.3%	13,193,367	8.7%	3.5%	51.2%
Unclassified	290,264	0.2%	21.3%	437,860	0.3%	50.8%	547,040	0.4%	24.9%	150.1%
Unappropriated	9,605,424	6.9%	-3.8%	9,323,481	6.5%	-2.9%	9,418,534	6.2%	1.0%	5.9%
<b>TOTAL OPERATING EXP.</b>	<b>139,442,967</b>	<b>100%</b>	<b>7.8%</b>	<b>143,302,385</b>	<b>100%</b>	<b>2.8%</b>	<b>150,969,413</b>	<b>100%</b>	<b>5.4%</b>	<b>28.6%</b>
Water & Sewer	13,311,578	8.1%	13.1%	0	0.0%	-100.0%	0	0.0%		-100.0%
Special Appropriations (CIP)	11,808,691	7.2%	69.8%	11,608,792	7.4%	-1.7%	6,767,794	4.3%	-41.7%	66.4%
Special Appropriations (Non-CIP)	95,400	0.1%	-93.9%	1,745,229	1.1%	1729.4%	1,032,564	0.7%	-40.8%	39.5%
<b>TOTAL GENERAL FUND EXPEND.</b>	<b>164,658,636</b>		<b>10.0%</b>	<b>156,656,406</b>		<b>-4.9%</b>	<b>158,769,771</b>		<b>1.3%</b>	<b>18.0%</b>

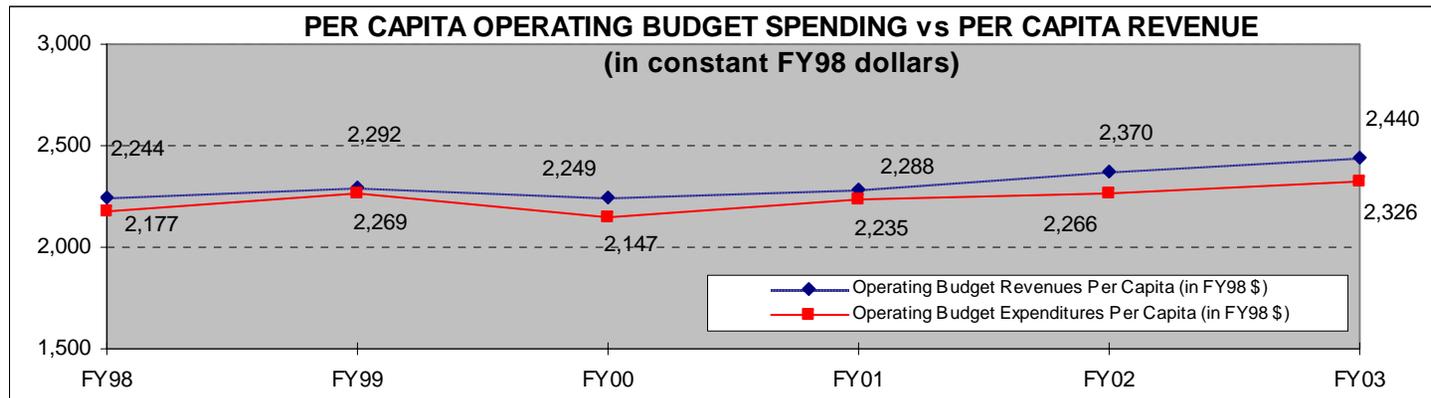
SOURCE: Annual Financial Plans, Town Meeting Warrants. FY03 figures are preliminary, unaudited.

<sup>1</sup> When all School-related costs are included, the percent of total spending that Schools comprise is more than 52%. Graphically, this is shown on page II-17.

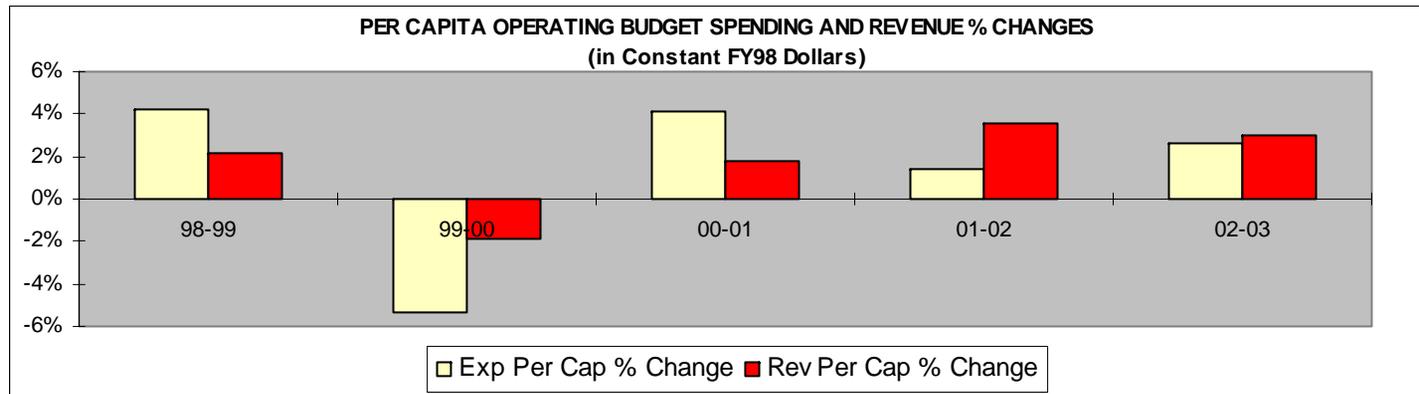
The table above summarizes the spending history for Brookline from FY98-FY03, during which time total General Fund spending increased by nearly 18% in nominal dollars (compared to a total General Fund revenue increase of close to 18%) and by nearly 4% in real dollars (compared to more than 3% for total General

Fund revenues). In terms of the Operating Budget, expenditures increased by close to 29% in nominal dollars (compared to an Operating Budget revenue increase of close to 31%) and more than 13% in real dollars (compared to more than 15% for Operating Budget revenues).

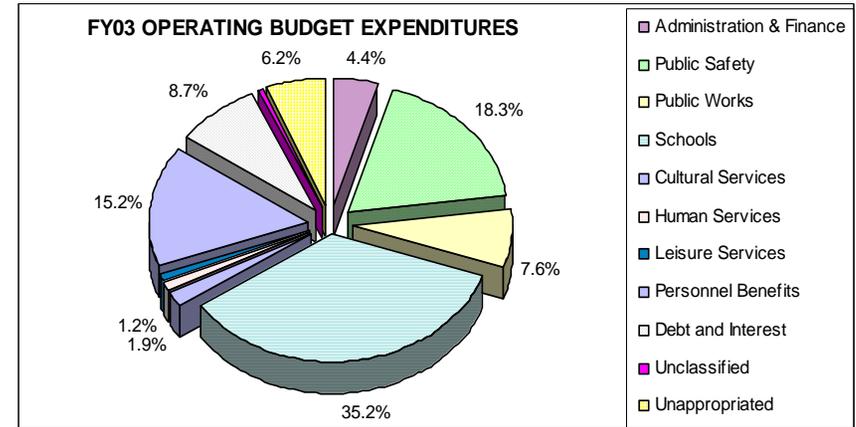
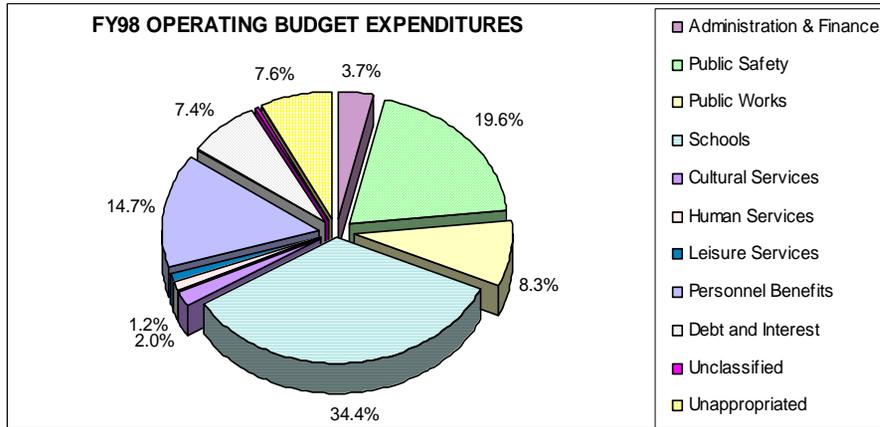
The following graph depicts per capita Operating Budget spending and Operating Budget revenue (in constant FY98 dollars) from FY98-FY03. For each year, revenue per capita has been greater than spending per capita, a positive trend.



Also of significance is the growth rate of the two variables. Having expenditures grow at a rate faster than revenues will result in the two becoming dangerously close, with the possibility of expenditure growth eventually surpassing revenue growth. There were two periods (between FY98-FY99 and between FY00-FY01) when expenditures grew at a rate greater than that of spending.



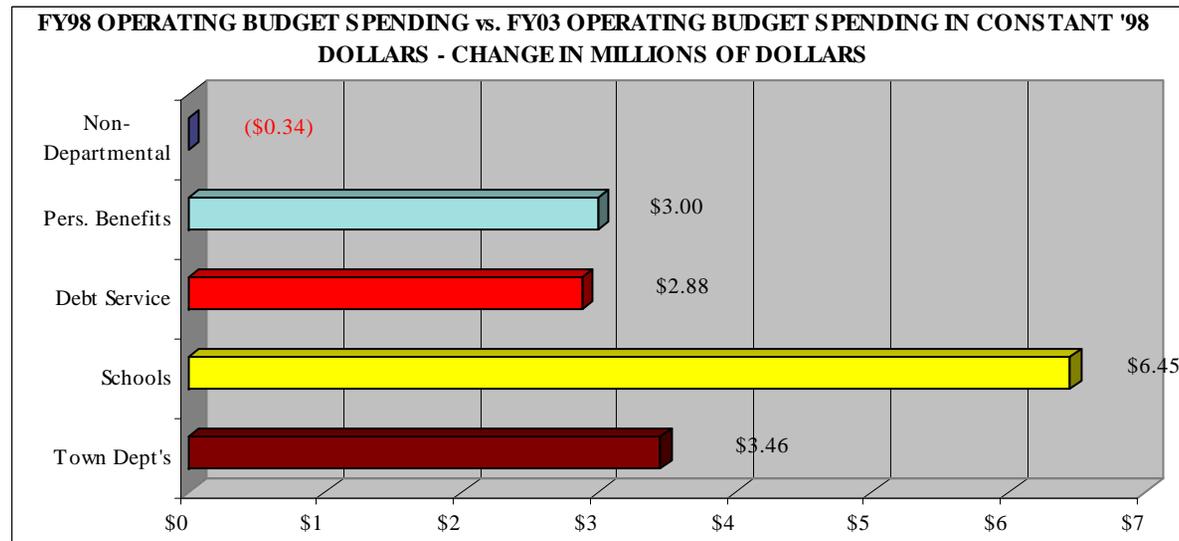
The pie charts on the following page depict the change in Operating Budget spending composition from FY98 to FY03.



SOURCE: Annual Financial Plans, Town Meeting Warrants. FY03 figures are preliminary, unaudited.

The composition of spending has changed slightly. The direct budget for the Brookline School Department Education continues to make up the largest piece of the expenditure pie, accounting for more than one-third of all expenditures. (Again, when all School-related costs are included, the percent of total spending Schools comprise is more than 52%. Graphically, this is shown on page II-17.) The categories with the largest upward changes in composition of spending were Debt and Interest (1.3 percentage points), an indication of the Town’s commitment to its Capital Improvements Program; Schools (0.8 percentage points); and Administration/Finance (0.7 percentage points). The areas that had the greatest downward changes in composition of spending were Unappropriated (1.4 percentage points), Public Safety (1.3 percentage points), and Public Works (0.7 percentage points).

The graph below shows the Operating Budget spending categories and how much above/below inflation they were. The complete data is found on the next page.



**GENERAL FUND SPENDING HISTORY - CONSTANT 1998 DOLLARS**

EXPENDITURE	FY98			FY99			FY00		
	\$	% OF TOTAL	% CHANGE	\$	% OF TOTAL	% CHANGE	\$	% OF TOTAL	% CHANGE
Administration & Finance	4,378,051	3.7%	23.9%	4,675,763	3.8%	6.8%	5,087,589	4.1%	8.8%
Public Safety	23,040,748	19.6%	5.4%	23,132,725	18.9%	0.4%	23,094,983	18.8%	-0.2%
Public Works	9,721,194	8.3%	-1.5%	10,216,051	8.4%	5.1%	9,806,134	8.0%	-4.0%
Schools <sup>1</sup>	40,351,813	34.4%	4.1%	41,761,482	34.1%	3.5%	42,806,562	34.9%	2.5%
Cultural Services	2,365,670	2.0%	1.7%	2,397,472	2.0%	1.3%	2,454,850	2.0%	2.4%
Human Services	1,425,163	1.2%	2.6%	1,454,538	1.2%	2.1%	1,482,148	1.2%	1.9%
Leisure Services	1,032,381	0.9%	-3.3%	1,085,444	0.9%	5.1%	1,061,812	0.9%	-2.2%
Personnel Benefits	17,207,452	14.7%	4.7%	18,056,702	14.8%	4.9%	17,815,381	14.5%	-1.3%
Debt and Interest	8,725,394	7.4%	17.0%	10,069,955	8.2%	15.4%	9,310,724	7.6%	-7.5%
Unclassified	218,744	0.2%	41.8%	218,084	0.2%	-0.3%	226,786	0.2%	4.0%
Unappropriated	8,889,813	7.6%	3.5%	9,262,628	7.6%	4.2%	9,461,362	7.7%	2.1%
<b>TOTAL OPERATING EXP.</b>	<b>117,356,423</b>	<b>100%</b>	<b>5.3%</b>	<b>122,330,845</b>	<b>100%</b>	<b>4.2%</b>	<b>122,608,330</b>	<b>100%</b>	<b>0.2%</b>
Water & Sewer	12,352,047	9.2%	16.6%	12,265,957	8.8%	-0.7%	11,155,403	7.9%	-9.1%
Special Appropriations (CIP)	4,067,887	3.0%	-4.9%	4,397,144	3.1%	8.1%	6,587,763	4.6%	49.8%
Special Appropriations (Non-CIP)	740,000	0.6%		783,824	0.6%	5.9%	1,478,078	1.0%	88.6%
<b>TOTAL GENERAL FUND EXPEND.</b>	<b>134,516,357</b>		<b>6.5%</b>	<b>139,777,771</b>		<b>3.9%</b>	<b>141,829,575</b>		<b>1.5%</b>

EXPENDITURE	FY01			FY02			FY03			% CHANGE
	\$	% OF TOTAL	% CHANGE	\$	% OF TOTAL	% CHANGE	\$	% OF TOTAL	% CHANGE	FY98-FY03
Administration & Finance	5,130,778	4.0%	0.8%	5,241,093	4.0%	2.2%	5,837,438	4.4%	11.4%	33.3%
Public Safety	23,205,593	18.2%	0.5%	23,752,846	18.4%	2.4%	24,288,853	18.3%	2.3%	5.4%
Public Works	10,499,404	8.2%	7.1%	9,688,054	7.5%	-7.7%	10,033,963	7.6%	3.6%	3.2%
Schools <sup>1</sup>	44,093,062	34.5%	3.0%	46,277,095	35.8%	5.0%	46,805,048	35.2%	1.1%	16.0%
Cultural Services	2,432,472	1.9%	-0.9%	2,451,280	1.9%	0.8%	2,504,644	1.9%	2.2%	5.9%
Human Services	1,529,427	1.2%	3.2%	1,682,654	1.3%	10.0%	1,658,894	1.2%	-1.4%	16.4%
Leisure Services	1,058,639	0.8%	-0.3%	1,109,794	0.9%	4.8%	1,095,108	0.8%	-1.3%	6.1%
Personnel Benefits	18,555,650	14.5%	4.2%	18,879,922	14.6%	1.7%	20,206,842	15.2%	7.0%	17.4%
Debt and Interest	12,066,041	9.5%	29.6%	11,516,629	8.9%	-4.6%	11,605,783	8.7%	0.8%	33.0%
Unclassified	265,671	0.2%	17.1%	395,426	0.3%	48.8%	481,214	0.4%	21.7%	120.0%
Unappropriated	8,791,581	6.9%	-7.1%	8,419,927	6.5%	-4.2%	8,285,183	6.2%	-1.6%	-6.8%
<b>TOTAL OPERATING EXP.</b>	<b>127,628,317</b>	<b>100%</b>	<b>4.1%</b>	<b>129,414,720</b>	<b>100%</b>	<b>1.4%</b>	<b>132,802,969</b>	<b>100%</b>	<b>2.6%</b>	<b>13.2%</b>
Water & Sewer	12,183,722	8.1%	9.2%	0	0.0%	-100.0%	0	0.0%		-100.0%
Special Appropriations (CIP)	10,808,170	7.2%	64.1%	10,483,765	7.4%	-3.0%	5,953,412	4.3%	-43.2%	46.4%
Special Appropriations (Non-CIP)	87,317	0.1%	-94.1%	1,576,096	1.1%	1705.0%	908,314	0.7%	-42.4%	22.7%
<b>TOTAL GENERAL FUND EXPEND.</b>	<b>150,707,527</b>		<b>6.3%</b>	<b>141,474,582</b>		<b>-6.1%</b>	<b>139,664,695</b>		<b>-1.3%</b>	<b>3.8%</b>

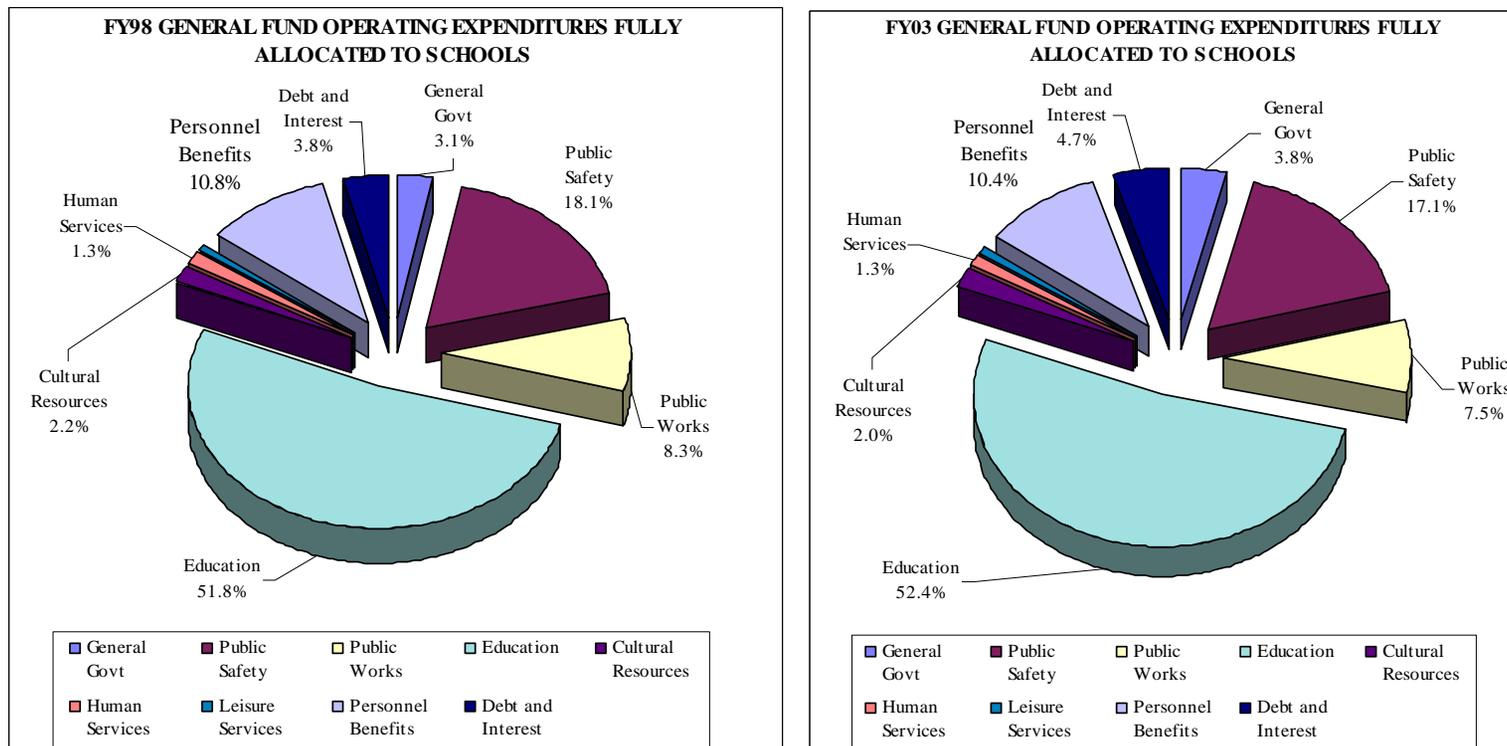
SOURCE: Annual Financial Plans, Town Meeting Warrants. FY03 figures are preliminary, unaudited.

<sup>1</sup> When all School-related costs are included, the percent of total spending that Schools comprise is more than 52%. Graphically, this is shown on page II-17.

Total General Fund expenditures outgrew by inflation by \$5.1M (close to 4%). This is misleading, however, due to the movement of more than \$12M in expenditures to the Water and Sewer Enterprise Fund beginning in FY02.

Total Operating Budget spending outgrew inflation by \$15.4M, or more than 13%, driven mainly by Schools (\$6.5M, 16%), Personnel Benefits (\$3M, more than 17%), Debt and Interest (\$2.9M, 33%), Administration and Finance (\$1.5M, more than 33%), and Public Safety (\$1.2M, more than 5%).

In an effort to determine the total amount of funds expended for School-related services, the following pie charts were developed.



All fringe benefit costs (Group Health, Pensions, Medicare, etc.) attributable to the Schools and all Debt and Interest costs related to School building projects were allocated to the School budget. In addition, all expenses incurred by Town departments on behalf of the Schools (including DPW, Legal, Recreation, Police, Fire, Building, Health, and Administrative departments) were added to School expenditures. The result is that in FY03, Schools comprised 52.4% of all General Fund expenditures, an increase from the 51.8% figure in FY98.

A total of five variables will be reviewed in the Spending section.

1. *Expenditures Per Capita* - Changes in per capita expenditures reflect changes in expenditures relative to changes in population. Increasing per capita expenditures can indicate that the cost of providing services is outstripping the community's ability to pay.

## TOTAL GENERAL FUND EXPENDITURES PER CAPITA &amp; INFLATION ADJUSTED EXPENDITURES

DESCRIPTION	FY98	FY99	FY00	FY01	FY02	FY03	% CHANGE	AVG ANNUAL
							FY98-FY03	% CHANGE
Operating Expenditures	\$117,356,423	\$124,855,361	\$129,403,839	\$139,442,967	\$143,302,385	\$150,969,413	28.6%	
Water & Sewer	\$12,352,047	\$12,519,087	\$11,773,686	\$13,311,578	\$0	\$0	-100.0%	
Special Appropriations (CIP)	\$4,067,887	\$4,487,887	\$6,952,887	\$11,808,691	\$11,608,792	\$6,767,794	66.4%	
Special Appropriations (Non-CIP)	\$740,000	\$800,000	\$1,560,000	\$95,400	\$1,745,229	\$1,032,564	39.5%	
<b>General Fund Expenditures</b>	<b>\$134,516,357</b>	<b>\$142,662,335</b>	<b>\$149,690,412</b>	<b>\$164,658,636</b>	<b>\$156,656,406</b>	<b>\$158,769,771</b>	<b>18.0%</b>	
% Change		6.1%	4.9%	10.0%	-4.9%	1.3%		3.5%
CPI for All Urban Areas	169.6	173.1	179.0	185.3	187.8	192.8		
CPI in decimal	1	0.979780	0.947486	0.915273	0.903088	0.879668		
Operating Expenditures in Constant FY98 Dollars	\$117,356,423	\$122,330,845	\$122,608,330	\$127,628,317	\$129,414,720	\$132,802,969	13.2%	
Water & Sewer in Constant FY98 Dollars	\$12,352,047	\$12,265,957	\$11,155,403	\$12,183,722	\$0	\$0	-100.0%	
Special Appropriations (CIP) in Constant FY98 Dollars	\$4,067,887	\$4,397,144	\$6,587,763	\$10,808,170	\$10,483,765	\$5,953,412	46.4%	
Special Appropriations (Non-CIP) in Constant FY98 Dollars	\$740,000	\$783,824	\$1,478,078	\$87,317	\$1,576,096	\$908,314	22.7%	
<b>General Fund Exp in Constant FY98 Dollars</b>	<b>\$134,516,357</b>	<b>\$139,777,771</b>	<b>\$141,829,575</b>	<b>\$150,707,527</b>	<b>\$141,474,582</b>	<b>\$139,664,695</b>	<b>3.8%</b>	
% Change		3.9%	1.5%	6.3%	-6.1%	-1.3%		0.8%
Population	53,911	53,911	57,107	57,107	57,107	57,107	5.9%	
<b>General Fund Expenditures Per Capita</b>	<b>\$2,495</b>	<b>\$2,646</b>	<b>\$2,621</b>	<b>\$2,883</b>	<b>\$2,743</b>	<b>\$2,780</b>	<b>11.4%</b>	
% Change		6.1%	-0.9%	10.0%	-4.9%	1.3%		2.3%
<b>General Fund Expenditures Per Capita (in FY98 \$)</b>	<b>\$2,495</b>	<b>\$2,593</b>	<b>\$2,484</b>	<b>\$2,639</b>	<b>\$2,477</b>	<b>\$2,446</b>	<b>-2.0%</b>	
% Change		3.9%	-4.2%	6.3%	-6.1%	-1.3%		-0.3%

SOURCE: Annual Financial Plans, Town Meeting Warrants. Population figures from U.S. Census estimates. FY03 figures are preliminary, unaudited.

The above table separates General Fund expenditures into four categories: Operating expenditures, Water and Sewer, Special Appropriations (CIP), and Special Appropriations (Non-CIP). This is done for two reasons: 1.) Special Appropriations fluctuate annually depending upon the amount Free Cash available for appropriation; and 2.) prior to the establishment of a separate Water and Sewer Enterprise Fund in FY02, those expenses were counted as General Fund expenses; for comparative purposes, they need to be backed out of the previous years.

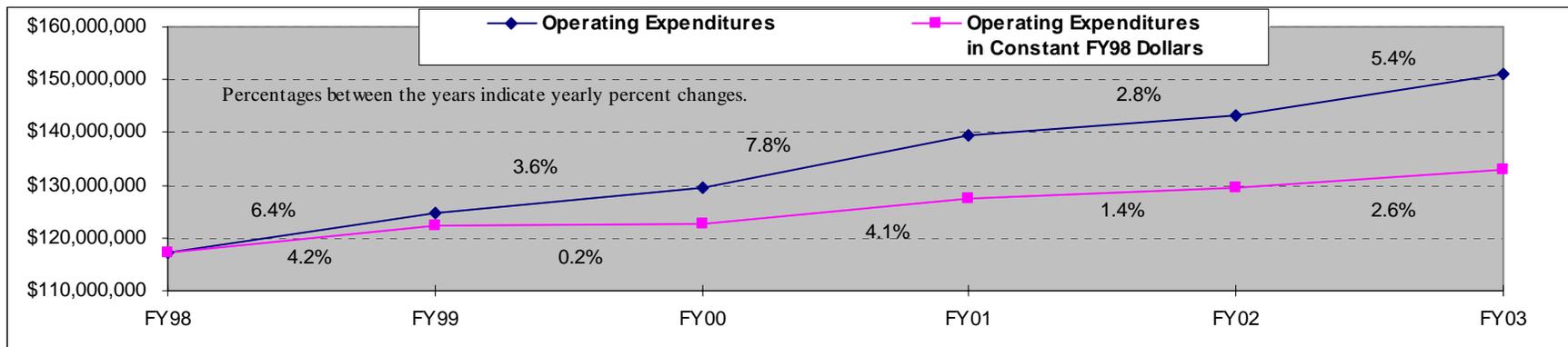
Since FY98, total General Fund expenditures increased 18%, or \$24.3M. Increases in Operating expenditures (\$33.6M, or close to 29%), Special Appropriations (CIP) (\$2.7M, more than 66%), and Special Appropriations (Non-CIP) (\$293K, more than 39%) are partially offset by the \$12.4M (100%) decrease in Water and Sewer expenses. (Note that this is not a true decrease: Water and Sewer expenses are now accounted for in a separate Enterprise Fund, as previously mentioned). In constant FY98 dollars, total General Fund expenditures increased close to 4%, or \$5.4M.

While viewing the General Fund in its entirety is helpful and allows for a “big picture” look at the Town’s expenditure structure, looking at Operating Budget expenditures in isolation provides for a clearer and more meaningful analysis of the spending that goes toward the day-to-day activities of the Town’s operations. The table below focuses on Operating Budget Expenditures.

**OPERATING BUDGET EXPENDITURES PER CAPITA & INFLATION ADJUSTED EXPENDITURES**

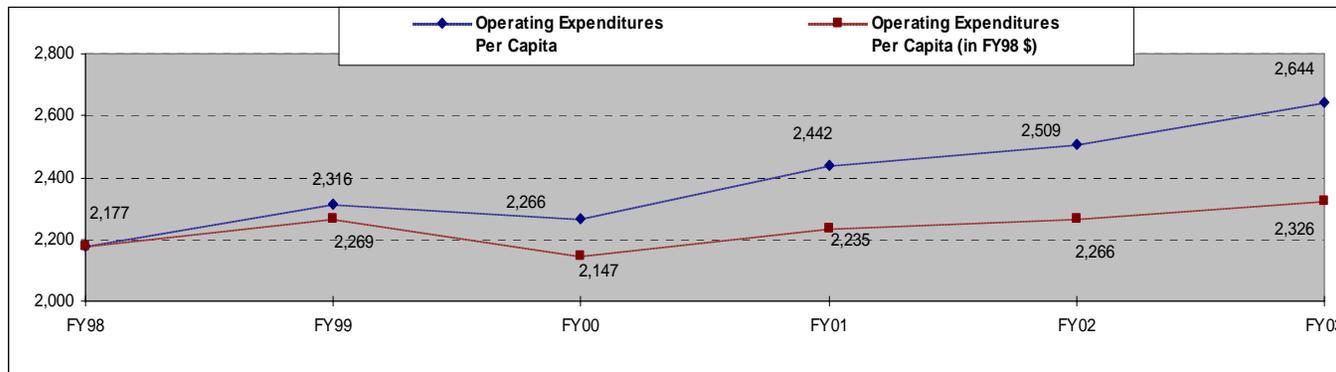
DESCRIPTION	FY98	FY99	FY00	FY01	FY02	FY03	% CHANGE FY98-FY03	AVG ANNUAL % CHANGE
Operating Expenditures	\$117,356,423	\$124,855,361	\$129,403,839	\$139,442,967	\$143,302,385	\$150,969,413	28.6%	
% Change		6.4%	3.6%	7.8%	2.8%	5.4%		5.2%
CPI for All Urban Areas	169.6	173.1	179	185.3	187.8	192.8		
CPI in decimal	1	0.979780	0.947486	0.915273	0.903088	0.879668		
Operating Expenditures in Constant FY98 Dollars	\$117,356,423	\$122,330,845	\$122,608,330	\$127,628,317	\$129,414,720	\$132,802,969	13.2%	
% Change		4.2%	0.2%	4.1%	1.4%	2.6%		2.5%
Population	53,911	53,911	57,107	57,107	57,107	57,107		5.9%
Operating Expenditures Per Capita	\$2,177	\$2,316	\$2,266	\$2,442	\$2,509	\$2,644	21.4%	
% Change		6.4%	-2.2%	7.8%	2.8%	5.4%		4.0%
Operating Expenditures Per Capita (in FY98 \$)	\$2,177	\$2,269	\$2,147	\$2,235	\$2,266	\$2,326	6.8%	
% Change		4.2%	-5.4%	4.1%	1.4%	2.6%		1.4%

SOURCE: Annual Financial Plans, Town Meeting Warrants. Population figures from U.S. Census estimates. FY03 figures are preliminary, unaudited.



Operating Budget expenditures have increased close to 29%, or \$33.6M (versus close to 31% for revenue) since FY98, due primarily to Schools, Personnel

Benefits, and Debt and Interest. In constant FY98 dollars, Operating Budget expenditures increased more than 13%, or \$15.4M (versus more than 15% for revenues). On a per capita basis, the increase since FY98 was more than 21% (from \$2,177 to \$2,644); in constant FY98 dollars, the increase was close to 7% (from \$2,177 to \$2,326).



**BROOKLINE TREND:**

	Favorable
X	Marginal
	Unfavorable

**WARNING TREND:**

Increasing operating expenditures per capita (in constant dollars).

**FORMULA:**

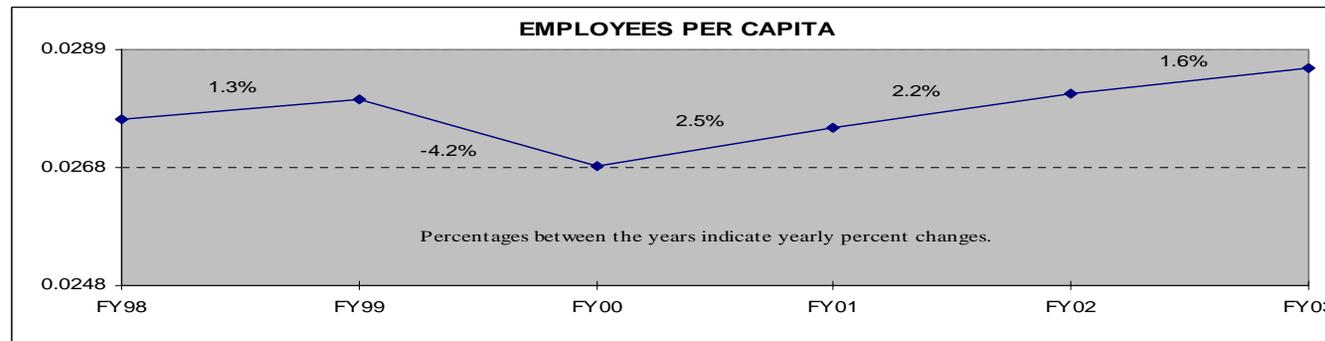
$$\frac{\text{Operating Expenditures}}{\text{Population}}$$

**SOURCE:** Annual Financial Plans, Town Meeting Warrants. Population figures from U.S. Census estimates. FY03 figures are preliminary, unaudited.

The warning trend is listed as “increasing operating expenditures per capita” because if they are increasing, the government may be expanding services to levels that are not sustainable unless new revenue is generated. Since FY98, Brookline’s Operating expenditures, both in total dollars and per capita dollars, have outpaced the rate of inflation at an increasing rate, as can be seen in the graph above and on the previous page. In other words, the spread between nominal dollars and inflation-adjusted dollars is increasing. Therefore, a ranking of Marginal is given, based on the goal of keeping operating budget spending at the rate of inflation. If the per capita spending trend begins to be closer to the rate of inflation, the ranking will be upgraded.

2. *Employees Per Capita* - Since personnel costs are the major portion of the operating budget, plotting changes in the number of employees per capita is a way to measure changes in expenditure. An increase in this indicator might indicate that the government is becoming more labor intensive or that productivity is declining.

As the table on the following page and the graph below shows, since FY98 there has been an increase in the number of employees on a per capita basis of more than 3%. In raw numbers, the number of employees has increased by more than 9%. A Marginal rating is given due to the increase that has occurred over this data set.



**BROOKLINE TREND:**

	Favorable
X	Marginal
	Unfavorable

**WARNING TREND:**

Increasing number of municipal employees per capita.

**FORMULA:**

$$\frac{\text{Number of Municipal Employees}}{\text{Population}}$$

**SOURCE:** Annual Financial Plans. Population figures from U.S. Census estimates.

**EMPLOYEES**

DESCRIPTION	FY98	FY99	FY00	FY01	FY02	FY03	% CHANGE FY98-FY03
Town Employees Supported by:							
General Fund	684	683	687	689	694	704	3.0%
Enterprise/Revolving Funds <sup>1</sup>	50	50	49	50	50	56	11.0%
CDBG	3	3	3	3	3	3	0.0%
Total Number of Town Employees	737	735	739	742	747	763	3.6%
% Change		-0.2%	0.5%	0.4%	0.7%	2.1%	
Number of School Employees	756	777	796	831	860	870	15.0%
% Change		2.7%	2.5%	4.5%	3.4%	1.1%	
<b>Total Number of Employees</b>	<b>1,493</b>	<b>1,512</b>	<b>1,535</b>	<b>1,573</b>	<b>1,607</b>	<b>1,633</b>	<b>9.4%</b>
% Change		1.3%	1.5%	2.5%	2.2%	1.6%	
Population	53,911	53,911	57,107	57,107	57,107	57,107	5.9%
<b>Employees Per Capita</b>	<b>0.0277</b>	<b>0.0280</b>	<b>0.0269</b>	<b>0.0275</b>	<b>0.0281</b>	<b>0.0286</b>	<b>3.2%</b>
% Change		1.3%	-4.2%	2.5%	2.2%	1.6%	

<sup>1</sup> Water/Sewer Enterprise Fund, Golf Course Enterprise Fund, and the Recreation Revolving Fund.

SOURCE: Annual Financial Plans, Town Meeting Warrants. Population figures from U.S. Census estimates.

3. *Fixed Costs* - The operating costs are comprised in part of mandatory and fixed expenditures that officials must fund - - in this analysis, pension costs and debt service. The higher the level of fixed costs, the less freedom officials have to adjust spending in response to economic change. Fixed costs become especially important during times of economic decline since these costs (in the short-term) are unaffected by a reduction in service levels.

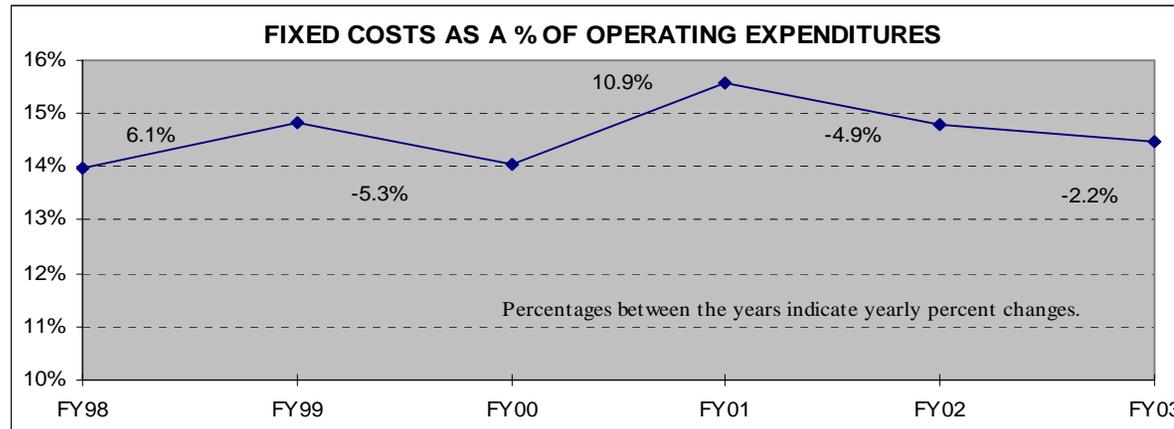
**FIXED COSTS**

DESCRIPTION	FY98	FY99	FY00	FY01	FY02	FY03	% CHANGE FY98-FY03
Fixed Costs <sup>1</sup>	16,394,331	18,511,020	18,160,927	21,699,632	21,215,503	21,860,428	33.3%
Operating Expenditures	117,356,423	124,855,361	129,403,839	139,442,967	143,302,385	150,969,413	28.6%
<b>Fixed Costs as a % of Operating Expenditures</b>	<b>14.0%</b>	<b>14.8%</b>	<b>14.0%</b>	<b>15.6%</b>	<b>14.8%</b>	<b>14.5%</b>	<b>3.7%</b>
% Change		6.1%	-5.3%	10.9%	-4.9%	-2.2%	

<sup>1</sup> Fixed Costs incorporate Debt Service and Pension costs.

SOURCE: Annual Financial Plans, Town Meeting Warrants. FY03 figures are preliminary, unaudited.

As a percent of operating expenditures, fixed costs increased close to 4% between FY98 and FY03. This is an area of concern for the Town, as these two elements will be increasing as a result of the Town’s commitment to its capital improvements program, the effect COLA’s can have on pension costs, and the negative effect the downturn in the stock market had on the pension fund. Since there has been two consecutive years of decreases in this variable, the Brookline Trend is listed as Marginal. If the downward trend continues, the rating will be upgraded.



**BROOKLINE TREND:**

	Favorable
X	Marginal
	Unfavorable

**WARNING TREND:**

Increased fixed costs as a percentage of operating expenditures.

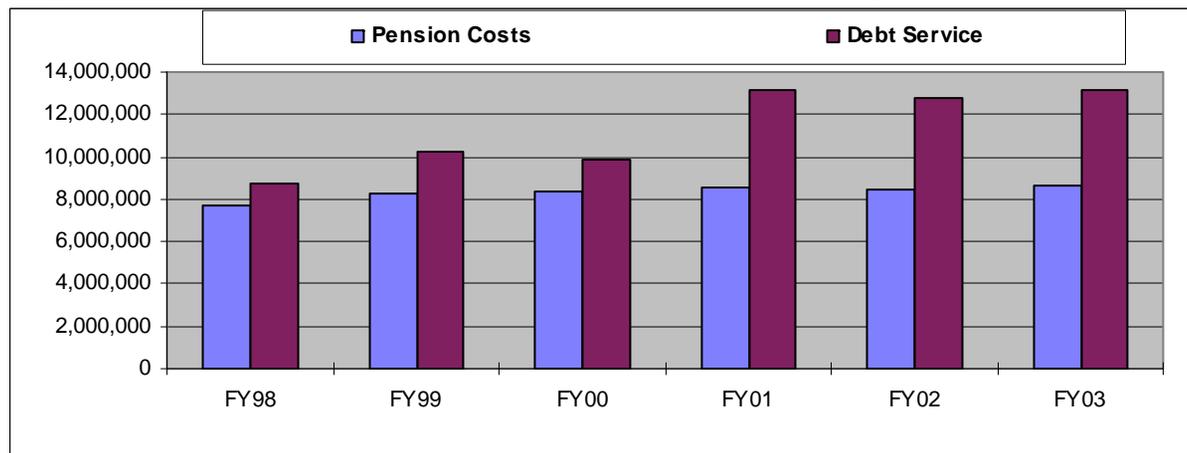
**FORMULA:**

$$\frac{\text{Fixed Costs}}{\text{Operating Expenditures}}$$

Fixed Costs incorporate Debt Service and Pension costs.

SOURCE: Annual Financial Plans, Town Meeting Warrants. FY03 figures are preliminary, unaudited.

The graph below shows how pension costs and debt service have increased since FY98, a total of 13% for pension costs and 51% for debt service.



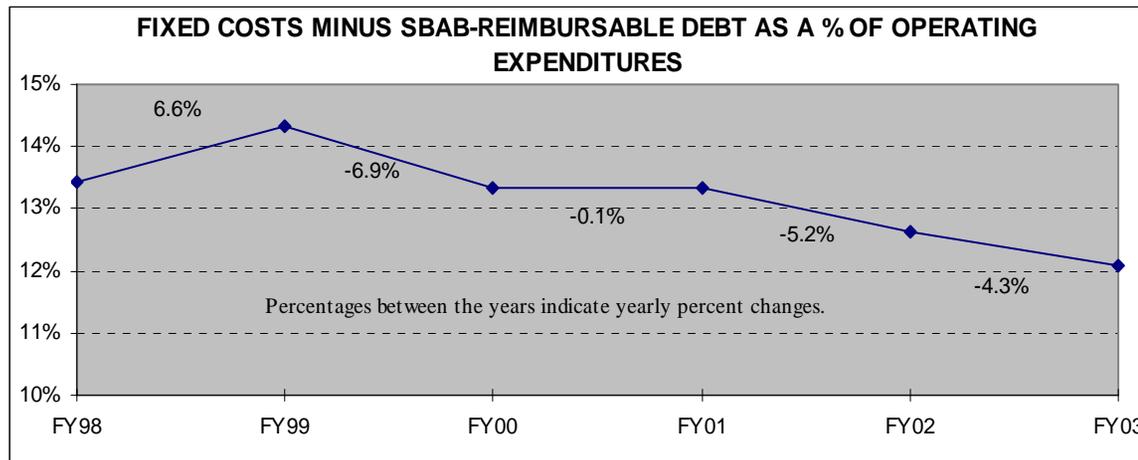
Since a portion of the Town’s debt service is reimbursed by the State through the School Building Assistance Bureau (SBAB), it makes sense to look at this variable with the SBAB reimbursements backed-out. The table on the next page details the results of doing this.

**FIXED COSTS - NET OF SBAB REIMBURSEMENTS**

DESCRIPTION	FY98	FY99	FY00	FY01	FY02	FY03	% CHANGE FY98-FY03
Fixed Costs <sup>1</sup>	16,394,331	18,511,020	18,160,927	21,699,632	21,215,503	21,860,428	33.3%
SBAB Reimb	616,287	616,287	902,448	3,116,964	3,116,964	3,606,860	485.3%
Fixed Costs minus SBAB	15,778,044	17,894,733	17,258,479	18,582,668	18,098,539	18,253,568	15.7%
Operating Expenditures	117,356,423	124,855,361	129,403,839	139,442,967	143,302,385	150,969,413	28.6%
<b>Fixed Costs minus SBAB as a % of Operating Expenditures</b>	<b>13.4%</b>	<b>14.3%</b>	<b>13.3%</b>	<b>13.3%</b>	<b>12.6%</b>	<b>12.1%</b>	<b>-10.1%</b>
% Change		6.6%	-6.9%	-0.1%	-5.2%	-4.3%	

<sup>1</sup> Fixed Costs incorporate Debt Service and Pension costs.

SOURCE: Annual Financial Plans, Town Meeting Warrants. FY03 figures are preliminary, unaudited.



**BROOKLINE TREND:**

X	Favorable
	Marginal
	Unfavorable

**WARNING TREND:**

Increased net fixed costs as a percentage of operating expenditures.

**FORMULA:**

$$\frac{\text{Net Fixed Costs}}{\text{Operating Expenditures}}$$

Fixed Costs incorporate Debt Service and Pension costs.

SOURCE: Annual Financial Plans, Town Meeting Warrants. FY03 figures are preliminary, unaudited.

For FY03, the difference between total fixed costs and net fixed costs, as measured as a percentage of operating expenditures, was 2.4 percentage points (from 14.5% to 12.1%). Viewed in this manner, there has been a 10% decrease since FY98. This is the direct result of the large SBAB reimbursement for the High School, first received in FY01, and the reimbursement for the Baker School, first received in FY03. Viewing this variable in this manner also results in an improvement in the rating from Marginal to Favorable due to the four consecutive years of decreases.

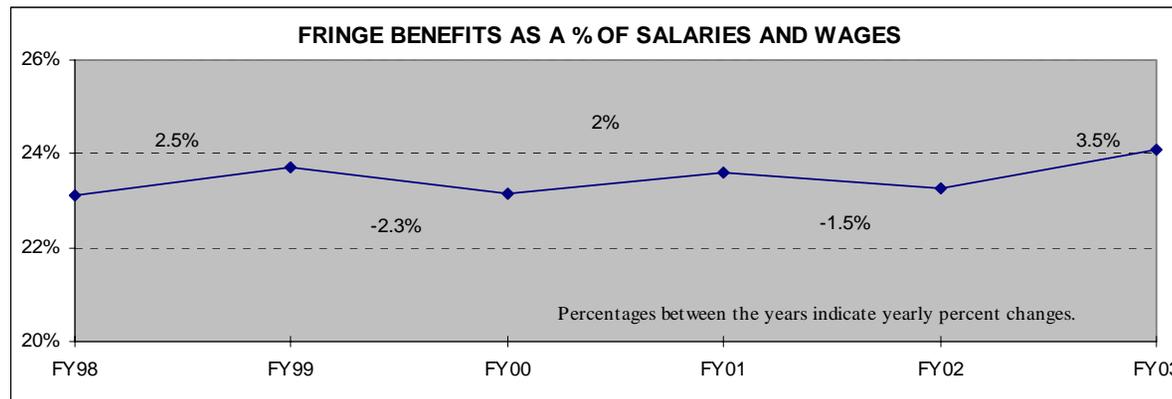
- Fringe Benefits* - Benefits represent a significant share of operating costs and need to be monitored. Some benefits require immediate cash outlays (health and life insurance) while others can be deferred for many years (pension benefits). Because the funding and recording of these benefits is a complex process, the costs can escalate unnoticed, straining the government's finances. In this analysis, fringe benefits consist of Pension costs, Health and Life insurance, Worker's Compensation, Unemployment, Medical Disability, Medicare, and the Employee Assistance Program (EAP).

**FRINGE BENEFITS**

DESCRIPTION	FY98	FY99	FY00	FY01	FY02	FY03	% CHANGE FY98-FY03
Expenditures for Fringe Benefits <sup>1</sup>	17,207,452	18,429,334	18,802,790	20,273,360	20,905,951	22,970,985	33.5%
Salaries and Wages <sup>2</sup>	74,407,897	77,748,890	81,212,387	85,846,507	89,847,542	95,372,527	28.2%
<b>Fixed Costs as a % of Salaries and Wages</b>	<b>23.1%</b>	<b>23.7%</b>	<b>23.2%</b>	<b>23.6%</b>	<b>23.3%</b>	<b>24.1%</b>	<b>4.1%</b>
% Change		2.5%	-2.3%	2.0%	-1.5%	3.5%	

<sup>1</sup> Fringe Benefits consist of Pension costs, Group Health and Life insurance, Worker's Comp, Unemployment, Medical Disability, Medicare, and EAP. The Fringe Benefit figures do not include the Pension costs for school teachers in the state-managed teacher's retirement system (MTRB).

<sup>2</sup> Salaries and wages are from all funds.



**BROOKLINE TREND:**

□	Favorable
X	Marginal
□	Unfavorable

**WARNING TREND:**

Increased fringe benefit expenditures as a percentage of salaries and wages.

**FORMULA:**

$$\frac{\text{Fringe Benefit Expenditures}}{\text{Salaries and Wages}}$$

SOURCE: Annual Financial Plans, Town Meeting Warrants, Town Financial System. FY03 figures are preliminary, unaudited.

Since FY98, fringe benefits as a percentage of salaries and wages have increased 4.1%, going from 23.1% to close to 24.1%. Since there has been an increase in two of the past three years, the ranking is Marginal. This variable will be monitored closely.

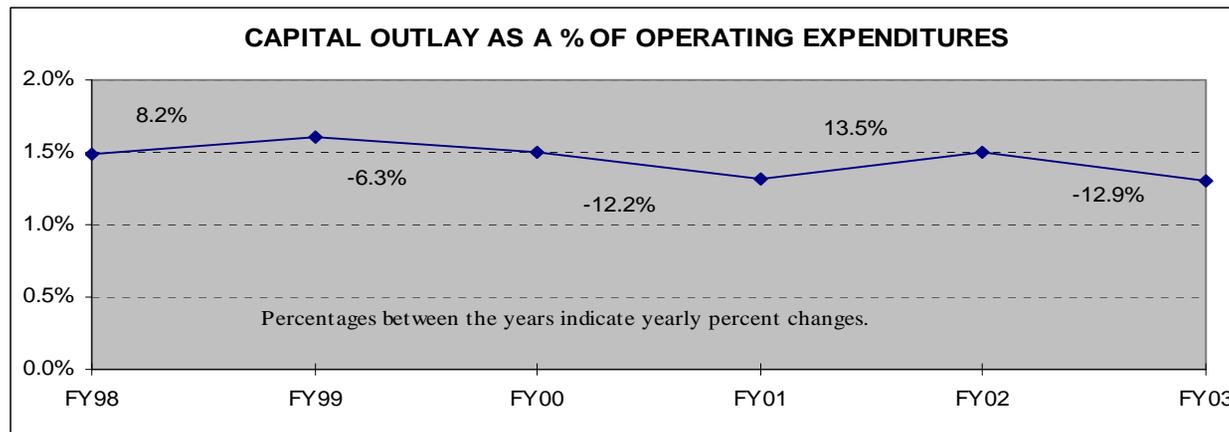
5. *Capital Outlay* - Expenditures for operating equipment drawn from the operating budget, such as trucks and computers, are referred to as capital outlay. These items include equipment that will last longer than one year and that have an initial cost above a significant amount. Capital outlay does not include CIP expenditures for construction of infrastructure such as streets, buildings, or bridges. A decline in capital outlay as a percentage of operating expenditures persisting over three or more years can indicate that capital outlay needs are being deferred, which can result in the use of inefficient or obsolete equipment.

**CAPITAL OUTLAY**

DESCRIPTION	FY98	FY99	FY00	FY01	FY02	FY03	% CHANGE FY98-FY03
Capital Outlay <sup>1</sup>	1,743,744	2,007,591	1,948,818	1,843,790	2,150,198	1,973,332	13.2%
% Change		15.1%	-2.9%	-5.4%	16.6%	-8.2%	
Operating Expenditures	117,356,423	124,855,361	129,403,839	139,442,967	143,302,385	150,969,413	28.6%
<b>Capital Outlay as a % of Operating Expenditures</b>	<b>1.5%</b>	<b>1.6%</b>	<b>1.5%</b>	<b>1.3%</b>	<b>1.5%</b>	<b>1.3%</b>	<b>-12.0%</b>
% Change		8.2%	-6.3%	-12.2%	13.5%	-12.9%	

<sup>1</sup> For FY98 - FY01, Capital Outlay for the Water & Sewer operation backed-out since it became an Enterprise Fund beginning in FY02.

SOURCE: Town Financial System. FY03 figures are preliminary, unaudited.



SOURCE: Town Financial System. FY03 figures are preliminary, unaudited.

**BROOKLINE TREND:**

	Favorable
X	Marginal
	Unfavorable

**WARNING TREND:**

A three year or more decline in capital outlay from operating funds as a percentage of operating expenditures.

**FORMULA:**

$$\frac{\text{Capital Outlay from Operating Fund}}{\text{Operating Expenditures}}$$

Since the 1994 Override for FY95, the Town has made a major commitment to its capital outlay program. The result has been a more reliable fleet of police cruisers and DPW vehicles, modernized fire apparatus, and state-of-the-art information technology hardware and software for both the Town and Schools. In FY94, only \$409K (or a mere .37% of operating expenditures) was spent on Capital Outlay compared to the \$2M spent (or 1.3% of operating expenditures) in FY03. The reason for the Marginal rating is the decline in three of the past four years.

**DEBT**

Debt is an effective way to finance capital improvements to even out short-term revenue flows, but its misuse can cause serious financial problems. An inability to repay debt can damage a government’s credit rating, in turn increasing the cost of future borrowing. A government must ensure that its outstanding debt does not exceed its ability to repay as measured by the wealth of the community or consume too large a portion of the government’s budget. Strong debt policies are mandatory if a government is to manage its debt structure prudently. An analysis of a government’s debt structure can reveal inadequacies in cash management procedures or expenditure controls, increased reliance on long-term debt, decreasing expenditure flexibility due to increased fixed costs in the form of debt service, use of short-term debt to finance current operations, sudden large increases or decreases in future debt service, or the amount of additional debt that the community can absorb. A total of three variables will be reviewed in the Debt section.

1. *Long-Term Debt* - The level of long-term debt measured against the community’s ability to repay is a key indicator to monitor. As stated earlier, if a government defaults on a loan payment, there are serious financial repercussions. There are two ways to view this indicator: as a percent of assessed valuation and on a per capita basis.

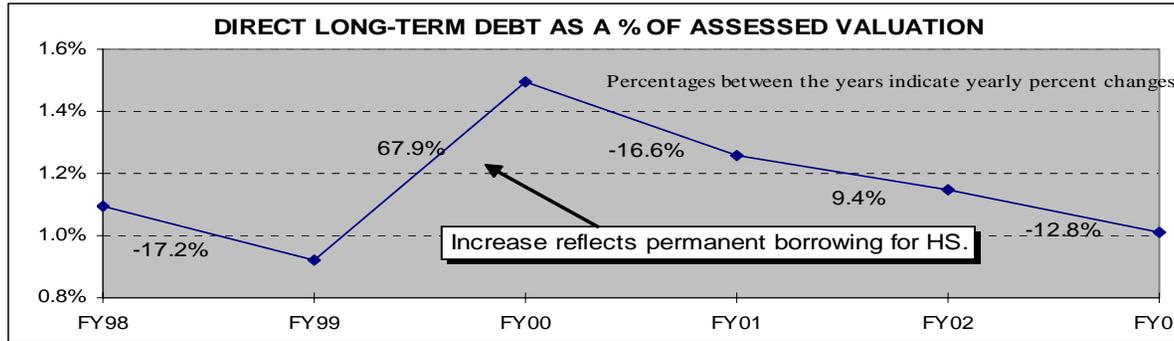
**LONG-TERM DEBT**

DESCRIPTION	FY98	FY99	FY00	FY01	FY02	FY03	% CHANGE FY98-FY03
Assessed Valuation	5,295,464,700	5,768,927,400	6,852,443,600	7,905,666,900	8,671,566,600	10,512,687,900	98.5%
Population	53,911	53,911	57,107	57,107	57,107	57,107	5.9%
Direct Bonded Long-Term Debt at end of FY <sup>1</sup>	56,005,040	50,544,371	100,817,963	97,059,555	96,438,039	101,340,518	80.9%
<b>Direct Long-Term Debt Per Capita</b>	<b>\$1,039</b>	<b>\$938</b>	<b>\$1,765</b>	<b>\$1,700</b>	<b>\$1,689</b>	<b>\$1,775</b>	<b>70.8%</b>
% Change		-9.8%	88.3%	-3.7%	-0.6%	5.1%	
<b>Direct Long-Term Debt as a % of Assessed Valuation</b>	<b>1.1%</b>	<b>0.9%</b>	<b>1.5%</b>	<b>1.2%</b>	<b>1.1%</b>	<b>1.0%</b>	<b>-8.9%</b>
% Change		-17.2%	67.9%	-16.6%	-9.4%	-13.3%	
Net Direct Bonded Long-Term Debt at end of FY <sup>2</sup>	37,185,000	35,883,000	85,895,000	83,435,000	75,071,003	77,930,157	109.6%
<b>Net Direct Long-Term Debt Per Capita</b>	<b>\$690</b>	<b>\$666</b>	<b>\$1,504</b>	<b>\$1,461</b>	<b>\$1,315</b>	<b>\$1,365</b>	<b>97.8%</b>
% Change		-3.5%	126.0%	-2.9%	-10.0%	3.8%	
<b>Net Direct Long-Term Debt as a % of Assessed Valuation</b>	<b>0.7%</b>	<b>0.6%</b>	<b>1.3%</b>	<b>1.1%</b>	<b>0.9%</b>	<b>0.7%</b>	<b>5.6%</b>
% Change		-11.4%	101.5%	-15.8%	-18.0%	-14.4%	

<sup>1</sup> **Direct Bonded Long-Term Debt** is all debt toward which the Town has pledged its full faith and credit.

<sup>2</sup> **Net Direct Bonded Long-Term Debt** is all debt toward which the Town has pledged its full faith and credit minus Self-Supporting Debt (Water & Sewer and Golf).

Within this indicator, there are two debt categories: direct debt and net direct debt. Direct debt is all of the debt toward which the Town has pledged its full faith and credit. This equates to 100% of all debt. Net direct debt is direct debt minus the debt supporting by enterprise fund revenues, namely the Water and Sewer Enterprise Fund and the Golf Course Enterprise Fund. Since the enterprise funds are self-supporting, thereby covering their debt service costs, it is helpful to view this indicator both ways.



**BROOKLINE TREND:**

	Favorable
X	Marginal
	Unfavorable

**WARNING TREND:**

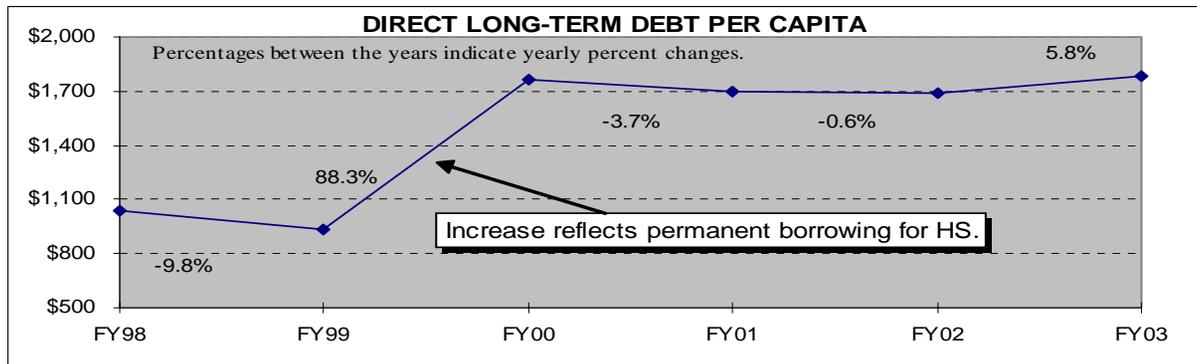
Increasing direct long term debt as a percentage of assessed valuation.

**FORMULA:**

$$\frac{\text{Direct Long-Term Debt}}{\text{Assessed Valuation}}$$

**Direct Bonded Long-Term Debt** is all debt toward which the Town has pledged its full faith and credit.

**SOURCE:** Annual Independent Auditors' Report .



**BROOKLINE TREND:**

	Favorable
X	Marginal
	Unfavorable

**WARNING TREND:**

Increasing direct long term debt per capita.

**FORMULA:**

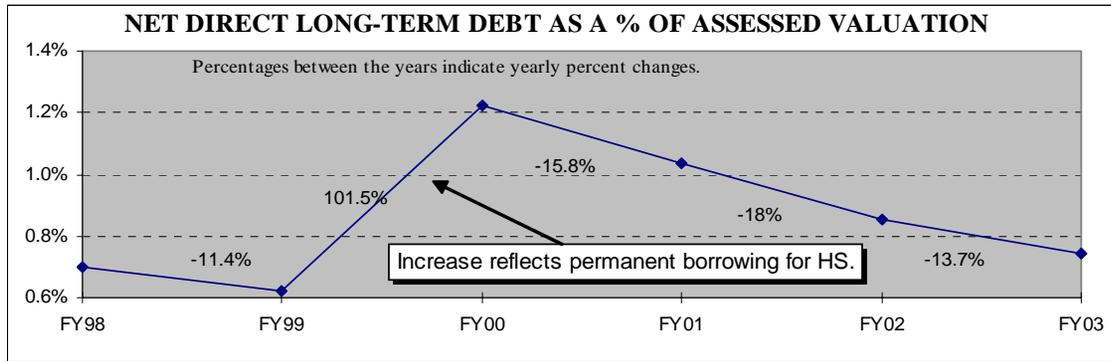
$$\frac{\text{Direct Long-Term Debt}}{\text{Population}}$$

**Direct Bonded Long-Term Debt** is all debt toward which the Town has pledged its full faith and credit.

**SOURCE:** Annual Independent Auditors' Report . Population figures from U.S. Census estimates. FY03 figures unaudited.

The graphs above show the trend in direct long-term debt measured against assessed valuation and in per capita terms. The Brookline trend for both of these indicators is rated as Marginal, even though there has been, in the case of measurement against assessed valuation, three consecutive years of decreases, and decreases in two of the last three years in the case of debt per capita. While the Town's debt burden has increased significantly and warrants close monitoring, it is the result of a carefully planned capital improvements program and is in accordance with the Selectmen's Capital Financing Policies. It should be noted that the High School debt of \$44M, which nearly doubled the Town's long-term debt commencing in FY00, was approved for a Proposition 2 1/2 debt exclusion and the State will reimburse the Town for 61% of the annual debt service costs.

The graphs on the following page analyze this indicator in net direct terms, which is total debt minus the self-supported debt (Water//Sewer and Golf Course).



**Net Direct Bonded Long-Term Debt** is all debt toward which the Town has pledged its full faith and credit minus Self-Supporting Debt (Water & Sewer and Golf Course).

**SOURCE:** Annual Independent Auditors' Report .

**BROOKLINE TREND:**

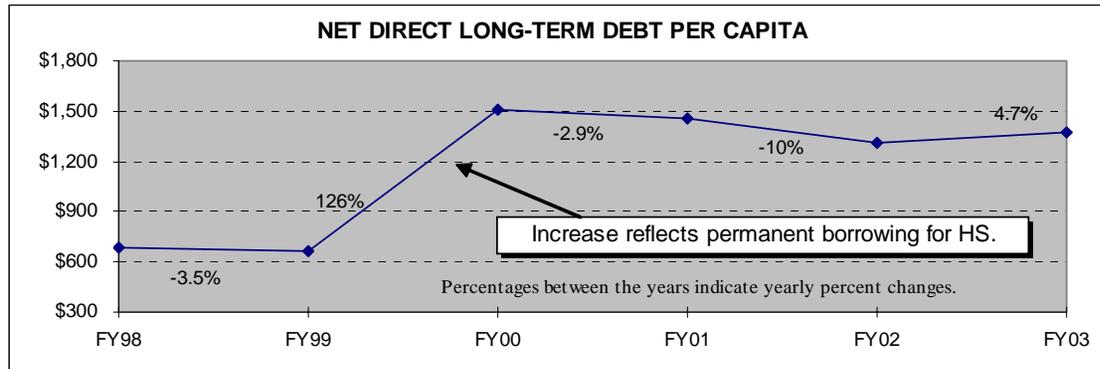
	Favorable
X	Marginal
	Unfavorable

**WARNING TREND:**

Increasing net direct long term debt as a percentage of assessed valuation.

**FORMULA:**

$$\frac{\text{Net Direct Long-Term Debt}}{\text{Assessed Valuation}}$$



**Net Direct Bonded Long-Term Debt** is all debt toward which the Town has pledged its full faith and credit minus Self-Supporting Debt (Water & Sewer and Golf Course).

**SOURCE:** Annual Independent Auditors' Report . Population figures from U.S. Census estimates. FY03 figures unaudited.

**BROOKLINE TREND:**

	Favorable
X	Marginal
	Unfavorable

**WARNING TREND:**

Increasing net direct long term debt per capita.

**FORMULA:**

$$\frac{\text{Net Direct Long-Term Debt}}{\text{Population}}$$

The difference between direct debt and net debt is evident: outstanding debt decreases \$23.4M (23%). Measured as a percentage of assessed value, the indicator drops from 1% to 0.7%; measured on a per capita basis, the indicator decreases \$410 (23%). The Brookline trend for both of these indicators is rated as Marginal, even though there has been, in the case of measurement against assessed valuation, decreases in four of the past five years, and decreases in two of the last three years in the case of debt per capita.

Long-term Debt is an indicator that has taken on increased significance over the past few years as the Town has embarked upon an ambitious capital improvements program. This indicator will continue to be monitored closely, as it is one of the variables used in the Town's CIP Policies.

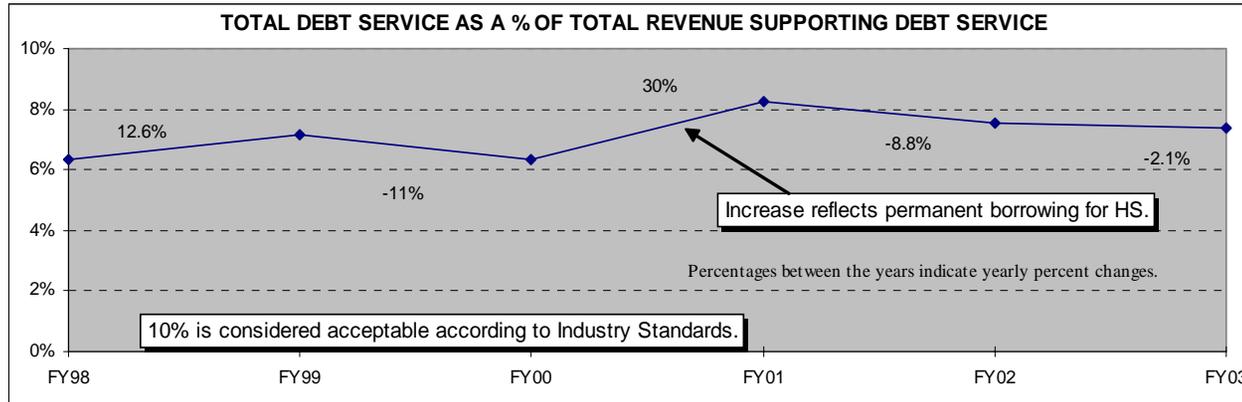
2. *Debt Service* - Debt service is defined as the amount of principal and interest that must be paid each year. Increasing debt service reduces expenditure flexibility by adding to the government's obligations. As a major part of fixed costs, its increase may indicate fiscal strain.

**DEBT SERVICE**

DESCRIPTION	FY98	FY99	FY00	FY01	FY02	FY03	% CHANGE FY98-FY03
General Fund Supported Debt Service	6,067,116	7,789,304	6,735,746	10,119,411	9,825,933	10,208,242	68.3%
Water & Sewer Enterprise Fund Supported Debt Svc.	2,590,702	2,422,855	3,027,482	3,002,215	2,817,131	2,790,156	7.7%
Golf Course Enterprise Fund Supported Debt Svc.	67,576	65,608	63,538	61,378	109,430	194,969	188.5%
<b>TOTAL Debt Service</b>	<b>8,725,394</b>	<b>10,277,767</b>	<b>9,826,766</b>	<b>13,183,004</b>	<b>12,752,494</b>	<b>13,193,367</b>	<b>51.2%</b>
General Fund Operating Revenue	120,959,957	126,121,483	135,565,043	142,775,584	149,854,629	158,392,919	30.9%
Water & Sewer Enterprise Fund Revenue	15,607,189	16,725,792	17,948,083	15,607,189	18,087,368	19,165,705	22.8%
Golf Course Enterprise Fund Revenue	999,987	1,077,136	1,019,808	1,069,983	1,205,363	1,105,231	10.5%
<b>TOTAL Revenue of Funds Supporting Debt Svc.</b>	<b>137,567,133</b>	<b>143,924,411</b>	<b>154,532,934</b>	<b>159,452,756</b>	<b>169,147,360</b>	<b>178,663,855</b>	<b>29.9%</b>
General Fund Debt Service as a % of General Fund Operating Revenue	5.0%	6.2%	5.0%	7.1%	6.6%	6.4%	28.5%
Water & Sewer Enterprise Fund Debt Service as a % of Revenue	16.6%	14.5%	16.9%	19.2%	15.6%	14.6%	-12.3%
Golf Course Enterprise Fund Debt Service as a % of Revenue	6.8%	6.1%	6.2%	5.7%	9.1%	17.6%	161.0%
<b>TOTAL Debt Service as a % of Total Rev. Supporting Debt Svc.</b>	<b>6.3%</b>	<b>7.1%</b>	<b>6.4%</b>	<b>8.3%</b>	<b>7.5%</b>	<b>7.4%</b>	<b>16.4%</b>
% Change		12.6%	-11.0%	30.0%	-8.8%	-2.1%	
Population	53,911	53,911	57,107	57,107	57,107	57,107	5.9%
General Fund Debt Service Per Capita	\$113	\$144	\$118	\$177	\$172	\$179	58.8%
Water & Sewer Enterprise Fund Debt Service Per Capita	\$48	\$45	\$53	\$53	\$49	\$49	1.7%
Golf Course Enterprise Fund Debt Service Per Capita	\$1	\$1	\$1	\$1	\$2	\$3	172.4%
<b>TOTAL Debt Service Per Capita</b>	<b>\$162</b>	<b>\$191</b>	<b>\$172</b>	<b>\$231</b>	<b>\$223</b>	<b>\$231</b>	<b>42.7%</b>
% Change		17.8%	-9.7%	34.2%	-3.3%	3.5%	

SOURCE: Annual Financial Plans, Town Meeting Warrants, Annual Independent Auditors' Report. FY03 figures unaudited.

The table above separates debt service into three categories: 1.) debt service supported by the General Fund, 2.) debt service supported by the Water and Sewer Enterprise Fund, and 3.) debt service supported by the Golf Course Enterprise Fund. Showing the data in this manner allows for the individual analysis of the three funds that support long-term debt. In terms of total debt service, it has increased more than 51%, in nominal dollars, while the total revenue of the funds supporting debt service has grown by close to 30%. In this sense, debt service is growing at a rate that is much faster than the rate of revenue growth. As a percent of total supporting revenues, total debt service has increased more than 16%, from 6.3% to 7.4%, during this time period. On a per capita basis, total debt service has increased close to 43%, going from \$162 to \$231. Just as the long term debt indicator will be closely monitored, so will debt service.



SOURCE: Annual Financial Plans, Town Meeting Warrants, Annual Independent Auditors' Report. FY03 figures unaudited.

**BROOKLINE TREND:**

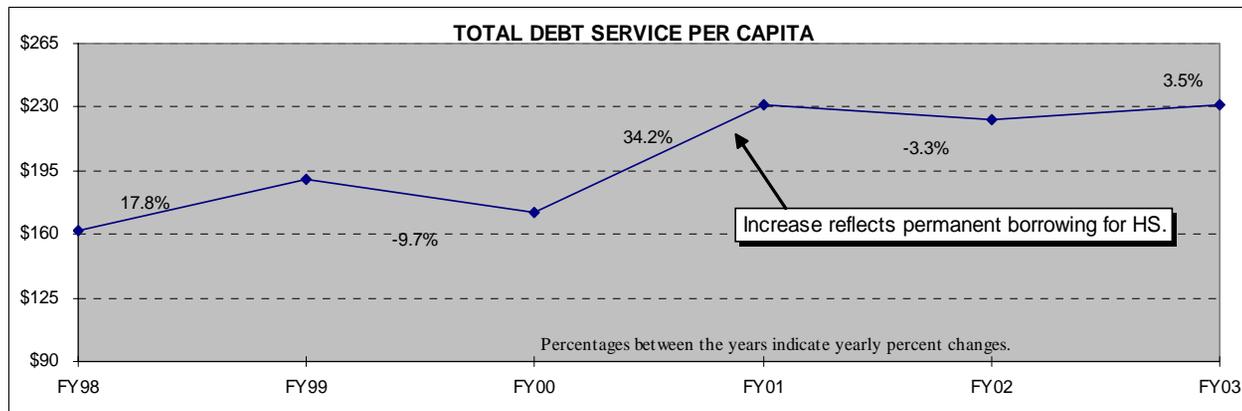
	Favorable
X	Marginal
	Unfavorable

**WARNING TREND:**

Increasing debt service as a percentage of operating revenues.

**FORMULA:**

$\frac{\text{Debt Service}}{\text{Operating Revenues}}$



SOURCE: Annual Financial Plans, Town Meeting Warrants, Annual Independent Auditors' Report. Population figures from U.S. Census estimates. FY03 figures unaudited.

**BROOKLINE TREND:**

	Favorable
X	Marginal
	Unfavorable

**WARNING TREND:**

Increasing debt service per capita

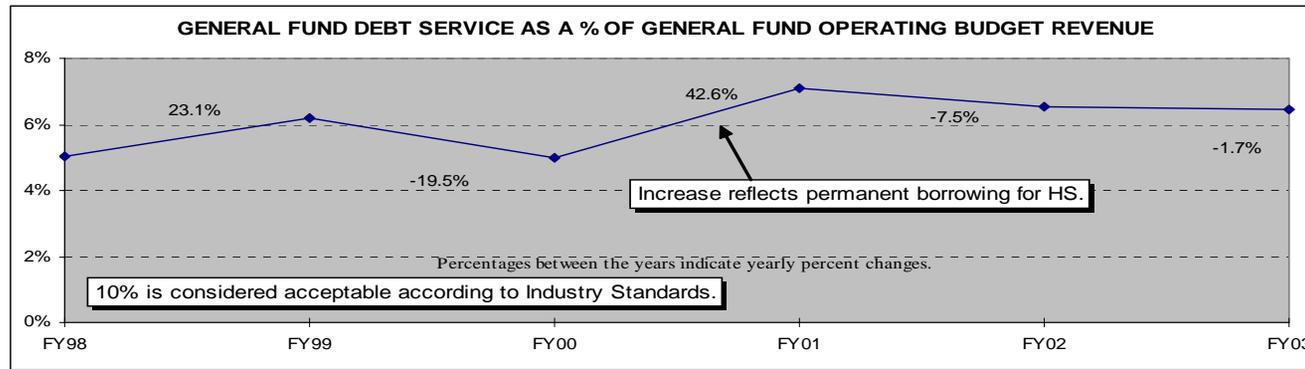
**FORMULA:**

$\frac{\text{Debt Service}}{\text{Population}}$

The trend for this indicator, whether measured as a percentage of total revenue or per capita, is rated as Marginal. This rating is due to the realization of decreases in three of the past four years for debt service measured as a percentage of revenue, and the decreases in two of the past four years for debt service per capita.

Looking solely at the General Fund, debt service has grown by more than 68% since FY98, as shown on the charts below. Measured as a percent of total General Fund revenue, debt service has increased more than 28%, going from 5% to 6.4%. On a per capita basis, it has increased close to 59%, reaching \$179 in FY03.

The Brookline trends for this variable are ranked as Marginal, as there have been decreases each of the past few years, with the exception of FY01, when permanent financing for the High School project began.



SOURCE: Annual Financial Plans, Town Meeting Warrants, Annual Independent Auditors' Report. FY03 figures unaudited.

**BROOKLINE TREND:**

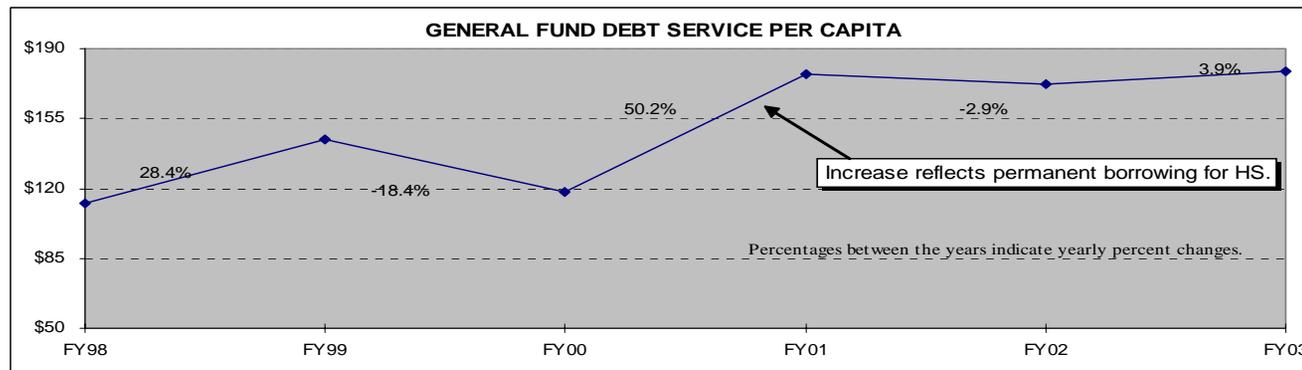
	Favorable
X	Marginal
	Unfavorable

**WARNING TREND:**

Increasing debt service as a percentage of operating revenues.

**FORMULA:**

$$\frac{\text{Debt Service}}{\text{Operating Revenues}}$$



SOURCE: Annual Financial Plans, Town Meeting Warrants, Annual Independent Auditors' Report. Population figures from U.S. Census estimates. FY03 figures unaudited.

**BROOKLINE TREND:**

	Favorable
X	Marginal
	Unfavorable

**WARNING TREND:**

Increasing debt service per capita

**FORMULA:**

$$\frac{\text{Debt Service}}{\text{Population}}$$

The trend for this indicator, whether measured as a percentage of total revenue or per capita, is rated as Marginal. This rating is due to the realization of decreases in four of the past five years for debt service measured as a percentage of revenue, and the decreases in two of the past three years for debt service per capita.

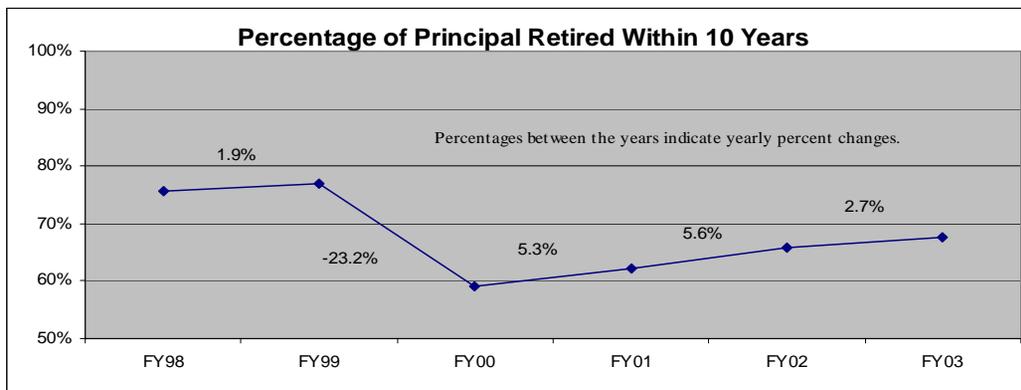
Looking at the Water and Sewer Enterprise Fund, debt service has increased close to 8% since FY98. Measured as a percent of total Enterprise Fund revenue, debt service has decreased more than 12%, going from 16.6% to 14.6%. On a per capita basis, it has increased close to 2%, reaching \$49 in FY03. Debt service associated with the Golf Course Enterprise Fund has almost tripled since FY98, going from \$68K to \$195K. Measured as a percent of total Enterprise Fund revenue, debt service has gone from close to 7% to more than 17%, and measured on a per capita basis, it has tripled from \$1 to \$3. While these increases are significant, it is part of a coordinated strategy to improve a major town asset, increase use of the course, and maintain financial stability within the Enterprise Fund.

3. *Debt Maturity* - Debt maturity is defined as the date on which a debt becomes due for payment. Prudent use of debt dictates that the bond's term matches the useful life of what is being financed. An average maturity schedule for capital projects is one in which 25% of the debt rolls off in five years and 50% is retired in 10 years. Brookline's existing financial policies call for a maturity schedule in which 60% is retired in 10 years.

**DEBT MATURITY**

DESCRIPTION	FY98	FY99	FY00	FY01	FY02	FY03	% CHANGE FY98-FY03
Outstanding Principal at the end of the FY	56,005,040	50,544,371	100,817,963	97,059,555	96,438,036	101,340,518	80.9%
Outstanding Principal at the end of the FY due to Mature Within 10 Years	42,315,040	38,924,370	59,643,062	60,454,654	63,443,036	68,460,518	61.8%
Percentage of Principal Retired Within 10 Years	75.6%	77.0%	59.2%	62.3%	65.8%	67.6%	-10.6%
% Change		1.9%	-23.2%	5.3%	5.6%	2.7%	

SOURCE: Town's Financial Advisor (First Southwest).



**BROOKLINE TREND:**

X	Favorable
	Marginal
	Unfavorable

**WARNING TREND:**

Decreasing percentage of outstanding principal to mature within 10 years.

**FORMULA:**

$$\frac{\text{Outstanding Principal to Mature Within 10 Yrs}}{\text{Outstanding Principal}}$$

SOURCE: Town's Financial Advisor (First Southwest).

While there has been a decrease in this variable from FY98 (75.6%) to FY03 (67.6%), the fact that there have been increases each of the past three years, coupled with the fact that the Town is meeting its policy of having at least 60% mature in 10 years, the rating is Favorable. Maintaining this variable is evidence of the Town's commitment to prudent financial policies.

**UNFUNDED LIABILITY**

An Unfunded liability is one that has been incurred during the current or a prior year, that does not have to be paid until a future year, and for which reserves have not been set aside. It is similar to long-term debt in that it represents a legal commitment to pay at some time in the future. If such obligations are permitted to grow over a long period of time, they can have a substantial effect on a government’s financial condition. Two variables are considered in the Unfunded Liability section.

1. *Unfunded Pension Liability* - Pension plans represent a significant expenditure obligation to the government. The Town operates under a “pay-as-you-go” plan. In 1989, the Town accepted the optional provision of the State Pension Reform law that commits the Town to funding its pension system in full over 30 years. Each year the Town must appropriate an amount according to the funding schedule that is prepared every two years by an actuary. This indicator will be viewed in three different ways: unfunded pension liability as a percent of assessed valuation, as a percent of annual covered payroll, and overall funding percentage.

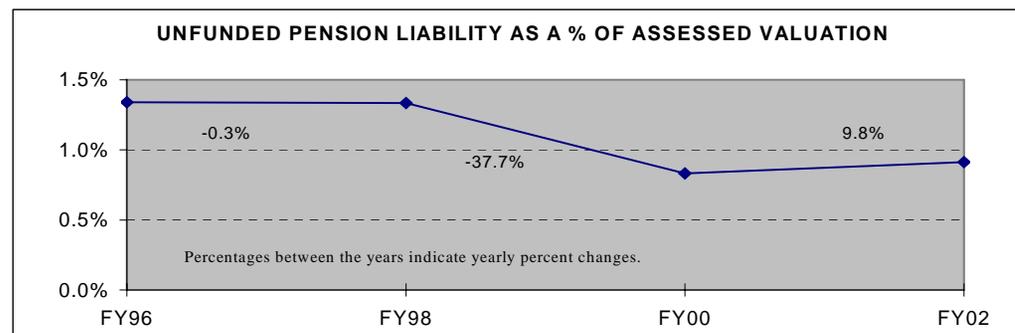
**UNFUNDED PENSION LIABILITY**

DESCRIPTION	FY96	FY98	FY00	FY02	% CHANGE FY96-FY02
Unfunded Pension Liability	62,972,000	70,701,350	56,980,501	79,192,996	25.8%
Assessed Valuation	4,700,818,200	5,295,464,700	6,852,443,600	8,671,566,600	84.5%
<b>Unfunded Pension Liability as a % of Assessed Val.</b>	<b>1.3%</b>	<b>1.3%</b>	<b>0.8%</b>	<b>0.9%</b>	<b>-31.8%</b>
% Change		-0.3%	-37.7%	9.8%	
Annual Covered Payroll	36,686,000	40,150,666	43,028,894	45,109,610	23.0%
<b>Unfunded Liability as a % of Annual Covered Payroll</b>	<b>172%</b>	<b>176%</b>	<b>132%</b>	<b>176%</b>	<b>2.3%</b>
% Change		2.6%	-24.8%	32.6%	
<b>Percentage Funded</b>	<b>59.7%</b>	<b>63.2%</b>	<b>73.9%</b>	<b>68.4%</b>	<b>14.6%</b>
% Change		5.9%	16.9%	-7.4%	

SOURCE: Annual Independent Auditors' Report. (GASB #25), Retirement System Actuarial Valuation Report.

NOTE: The FY's shown relate to the valuation date of the Pension Fund. For example, FY00 is for the valuation date of 1/1/00.

In nominal terms, the unfunded liability has increased by close to 26% since FY96. During the same period, unfunded pension liability as a percent of assessed valuation has decreased by close to 32%, a positive fact. However, the rating is Marginal, due to the near-10% increase that occurred between FY00-FY02.



SOURCE: Annual Independent Auditors' Report

**BROOKLINE TREND:**

□	Favorable
X	Marginal
□	Unfavorable

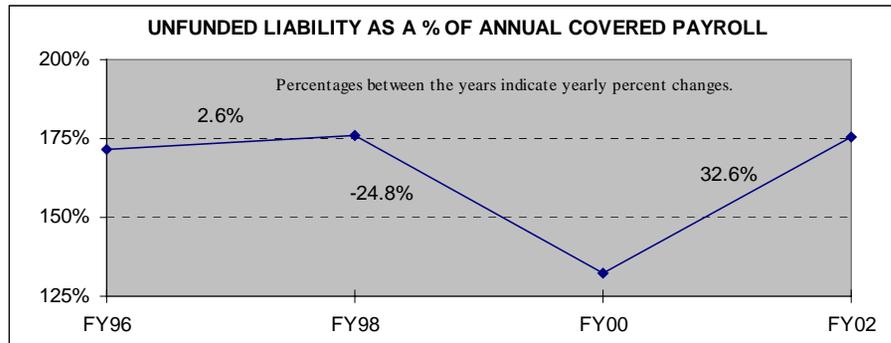
**WARNING TREND:**

Increased unfunded pension liability as a percentage of assessed valuation.

**FORMULA:**

$\frac{\text{Unfunded Pension Liability}}{\text{Assessed Valuation}}$

Expressing the unfunded pension obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the progress made in accumulating sufficient assets to pay benefits when due.



SOURCE: Annual Independent Auditors' Report

**BROOKLINE TREND:**

□	Favorable
X	Marginal
□	Unfavorable

**WARNING TREND:**

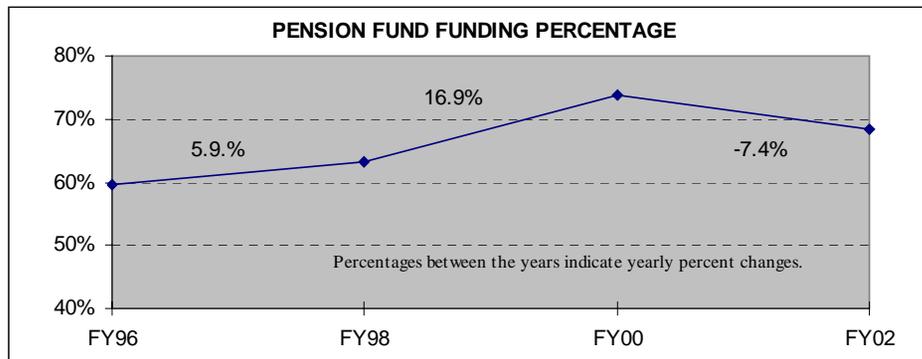
Increased unfunded pension liability as a percentage of annual covered payroll.

**FORMULA:**

$$\frac{\text{Unfunded Pension Liability}}{\text{Annual Covered Payroll}}$$

When measured as a percent of annual covered payroll, there has been an increase of more than 2% over the six-year period. As is the case for the liability expressed as a percent of assessed valuation, the rating remains Marginal due to the large increase (close to 33%) between FY00-FY02.

The next way to view the unfunded pension liability is by simply looking at its funding percentage, or percentage of assets to liabilities.



SOURCE: Annual Independent Auditors' Report

**BROOKLINE TREND:**

□	Favorable
X	Marginal
□	Unfavorable

**WARNING TREND:**

Decreased funding percentage.

**FORMULA:**

$$\frac{\text{Funded Amount}}{\text{Unfunded Amount}}$$

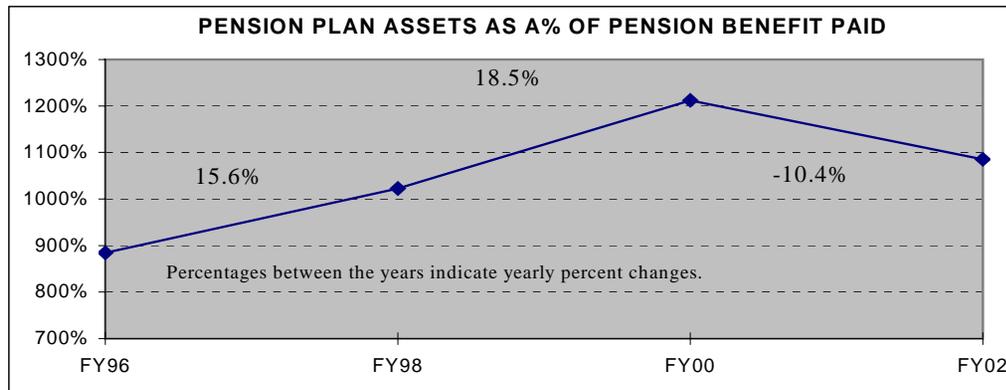
As was expected, the funding percentage increased every year between FY96-FY00, which was attributable to two factors: 1.) commitment to the funding schedule and 2.) the performance of the market. However, there was a drop in funding percentage of more than 7% between FY00-FY02, due primarily to the weak performance of the market in CY2000 – CY2001. While there has been a net increase of close to 15%, the rating remains Marginal because of the decrease between FY00-FY02.

2. *Pension Assets* - A pension plan’s assets are held primarily as cash or investments. A decline in the ratio of plan assets to benefits can indicate serious problems in the management of the pension plan.

**PENSION ASSETS**

DESCRIPTION	FY96	FY98	FY00	FY02	% CHANGE FY96-FY02
Pension Plan Assets	94,139,338	121,604,189	160,983,529	171,285,347	81.9%
Pension Benefits Paid	10,643,746	11,892,258	13,282,475	15,777,190	48.2%
<b>Pension Plan Assets as a % of Ben. Paid</b>	<b>884.5%</b>	<b>1022.5%</b>	<b>1212.0%</b>	<b>1085.7%</b>	<b>22.7%</b>
% Change		15.6%	18.5%	-10.4%	

SOURCE: Annual Independent Auditors' Report



**BROOKLINE TREND:**

□	Favorable
X	Marginal
□	Unfavorable

**WARNING TREND:**

Decreasing value of pension plan assets as a percentage of benefits paid.

**FORMULA:**

$$\frac{\text{Pension Plan Assets}}{\text{Annual Pension Benefits Paid}}$$

SOURCE: Annual Independent Auditors' Report

While this indicator has seen enormous improvement, increasing from 885% to 1086%, which was the result of the strong performance of the stock market, as well as active asset management by the retirement system, there was a decrease in FY02 of more than 10%. Therefore, the rating is Marginal.

**OPERATING POSITION**

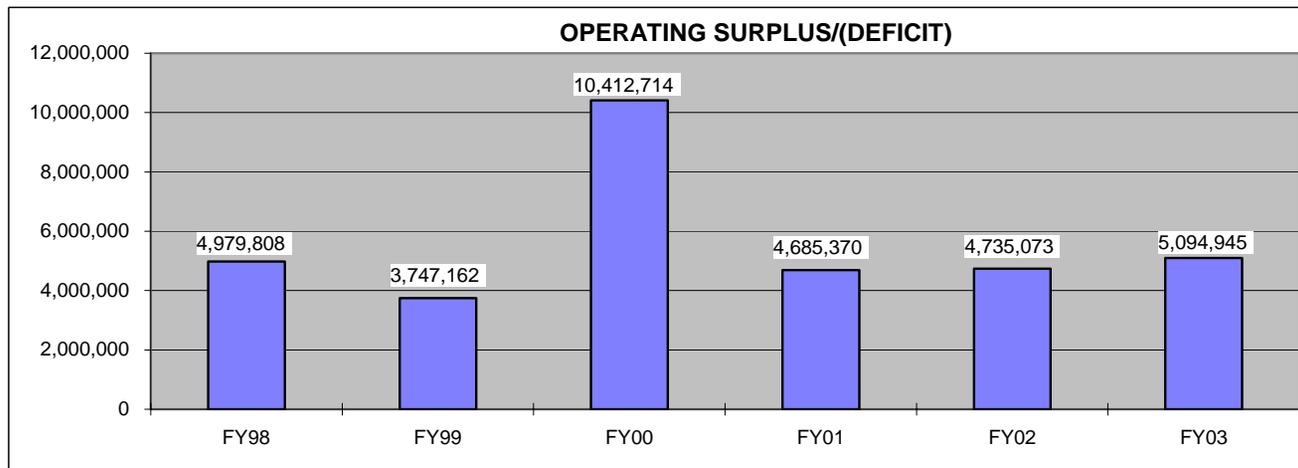
The term Operating Position refers to a government’s ability to balance its budget on a current basis, maintain reserves for emergencies, and have sufficient liquidity to pay its bills on time. An analysis of operating position helps to identify a pattern of operating deficits, a decline in reserves, a decline in liquidity, ineffective revenue forecasting techniques, and ineffective budgetary controls. A total of six variables will be reviewed in the Operating Position section.

1. *Operating Deficit* - An operating deficit occurs when current expenditures exceed current, non-one-time revenues. This may not mean that the budget will be out of balance, because reserves from prior years can be used to cover the difference. It does mean, however, that during the current fiscal year, the government is spending more than it is receiving. An operating deficit in any one year may not be cause for concern, but frequent and increasing deficits can indicate that current revenues are not supporting current expenditures and that serious problems may lie ahead.

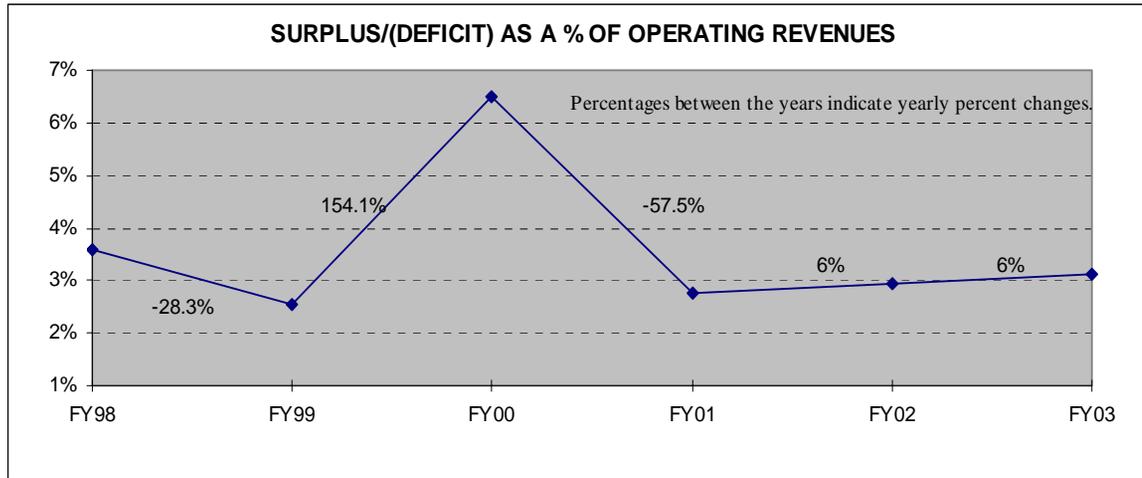
***OPERATING SURPLUS / (DEFICIT)***

<b>DESCRIPTION</b>	<b>FY98</b>	<b>FY99</b>	<b>FY00</b>	<b>FY01</b>	<b>FY02</b>	<b>FY03</b>	<b>% CHANGE FY98-FY03</b>
General Fund Spending	134,516,357	142,662,335	149,690,412	164,658,636	156,656,406	158,769,771	18.0%
General Fund Revenue	139,496,165	146,409,497	160,103,126	169,344,006	161,391,479	163,864,716	17.5%
General Fund Operating Surplus/(Deficit)	4,979,808	3,747,162	10,412,714	4,685,370	4,735,073	5,094,945	2.3%
<b>General Fund Operating Surp/(Def) as a % of Rev.</b>	<b>3.6%</b>	<b>2.6%</b>	<b>6.5%</b>	<b>2.8%</b>	<b>2.9%</b>	<b>3.1%</b>	<b>-12.9%</b>
% Change		-28.3%	154.1%	-57.5%	6.0%	6.0%	

SOURCE: Annual Financial Plans, Town Meeting Warrants. FY03 figures are preliminary, unaudited.



SOURCE: Annual Financial Plans, Town Meeting Warrants. FY03 figures are preliminary, unaudited.



**BROOKLINE TREND:**

X	Favorable
	Marginal
	Unfavorable

**WARNING TREND:**

Increasing general fund operating deficits as a percentage of operating revenues.

**FORMULA:**

$$\frac{\text{General Fund Operating Deficits}}{\text{Operating Revenues}}$$

SOURCE: Annual Financial Plans, Town Meeting Warrants. FY03 figures are preliminary, unaudited.

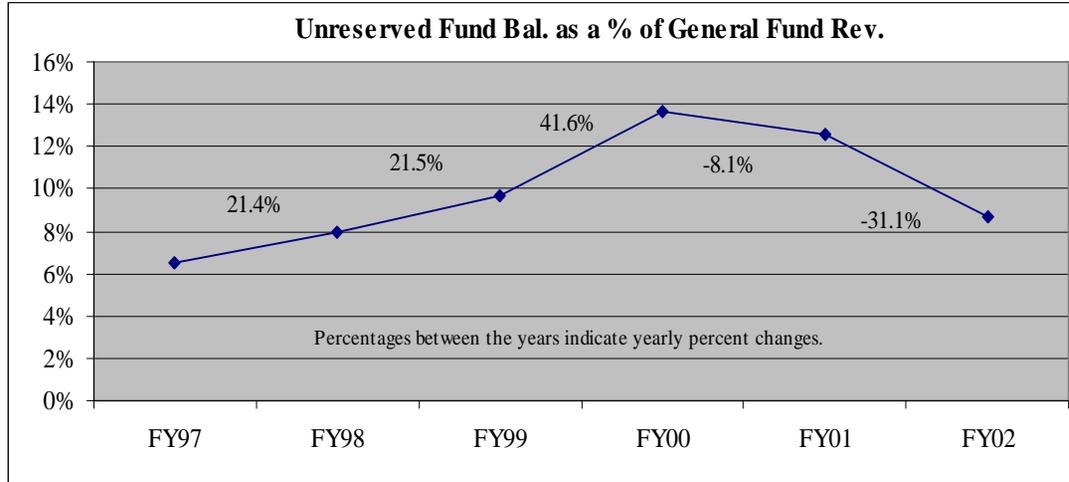
The Town has maintained its improved condition in this indicator, going from a surplus of a mere \$394K in FY92, or just 0.4% of operating revenues, to the current surplus of \$5.1M, or 3.1% of operating revenues. With the obvious exception of FY00, the surplus has been in the \$3.7M - \$5M range, or 2.6% - 3.6% of budgeted revenue. The improved condition is due to the strong economy, as revenue sources related to the economy (including Motor Vehicle Excise, Building Permits, and Interest Income) continually exceeded budgeted amounts; prudent budget estimates for both revenue and expenditures; and improved expenditure controls. A rating of Favorable is given to this variable.

2. *Fund Balance* - The size of a government’s fund balance can affect its ability to withstand financial emergencies. It can also affect its ability to accumulate funds for capital purchases without having to borrow. Non-specific or general reserves are carried on the books as an unreserved fund balance in the general operating fund.

**FUND BALANCE - GENERAL FUND**

DESCRIPTION	FY97	FY98	FY99	FY00	FY01	FY02	% CHANGE FY97-FY02
Unreserved Fund Balance	8,580,992	11,086,150	14,135,866	21,885,189	21,272,214	13,974,732	62.9%
General Fund Revenue	131,100,515	139,496,165	146,409,497	160,103,126	169,344,006	161,391,479	23.1%
Unreserved Fund Bal. as a % of General Fund Rev.	6.5%	7.9%	9.7%	13.7%	12.6%	8.7%	32.3%
% Change		21.4%	21.5%	41.6%	-8.1%	-31.1%	

SOURCE: Annual Independent Auditors' Report, Annual Financial Plans, Town Meeting Warrants.



**BROOKLINE TREND:**

X	Favorable
	Marginal
	Unfavorable

**WARNING TREND:**

Declining unreserved fund balances as a percentage of general fund revenues.

**FORMULA:**

$$\frac{\text{Unreserved Fund Balances}}{\text{Operating Revenues}}$$

**SOURCE:** Annual Independent Auditors' Report, Annual Financial Plans, Town Meeting Warrants.

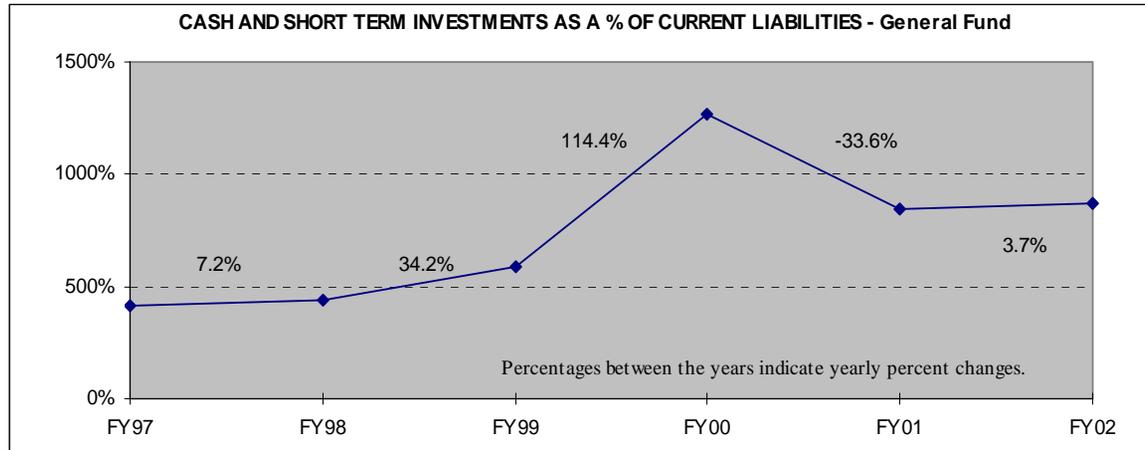
This is a positive indicator for the Town, as unreserved fund balances have increase from more than 6% of General Fund revenue to nearly 9%, thereby enabling the Town to buffer against emergencies and an economic downturn. While there have been decreases in FY01 and FY02, the rating remains Favorable due to the fact that the 8.7% figure is a good percentage based on industry benchmarks. However, if this variable continues to decrease, the rating may be adjusted downward.

- Liquidity* - This is a good indicator of a government's short-term financial condition. Cash position, which includes cash on hand and in the bank, as well as other assets that can be easily converted to cash, determines a government's ability to pay its short-term obligations. Low or declining liquidity can indicate that a government has over-extended itself in the long run.

**LIQUIDITY - GENERAL FUND**

DESCRIPTION	FY97	FY98	FY99	FY00	FY01	FY02	% CHANGE FY97-FY02
Cash and Short Term Investments	21,435,535	25,112,803	29,345,879	37,009,041	37,968,081	39,856,737	85.9%
Current Liabilities	5,209,137	5,691,251	4,955,288	2,914,907	4,503,468	4,560,619	-12.4%
<b>Cash and Short Term Invest. as a % of Liabilities</b>	<b>411.5%</b>	<b>441.3%</b>	<b>592.2%</b>	<b>1269.6%</b>	<b>843.1%</b>	<b>873.9%</b>	<b>112.4%</b>
% Change		7.2%	34.2%	114.4%	-33.6%	3.7%	

**SOURCE:** Annual Independent Auditors' Report



SOURCE: Annual Independent Auditors' Report

**BROOKLINE TREND:**

X	Favorable
	Marginal
	Unfavorable

**WARNING TREND:**

Decreasing amount of cash and short-term investments as a percentage of current liabilities.

**FORMULA:**

$$\frac{\text{Cash and Short-term Investments}}{\text{Current Liabilities}}$$

If the ratio of cash and short-term investments to current liabilities is less than one to one (or 100%), the government would be facing a liquidity problem. The Town has made great improvements in this indicator. As the above graph depicts, the improvement has been sustained, reaching 87.4% in FY02. This is a result of improved tax collections, adoption of prudent fiscal policies, and conservative revenue forecasts.

4. *Strategic Reserves* – Maintenance of adequate reserves is one of the most important factors in determining the financial health of a community. The bond ratings agencies list the establishment or enhancement of reserves as one of the top ways to improve or maintain a municipal credit rating. Certain strategic reserve funds provide a community with the ability to weather unforeseen adverse financial events and periodic economic downturns. Brookline’s Financial Policies include the maintenance of the following five strategic reserves: 1.) Operating Budget Reserve, 2.) Capital Stabilization Fund, 3.) Catastrophe and Liability Fund, 4.) Worker’s Compensation Trust Fund, and 5.) Retiree Group Health Insurance Trust Fund.

The Operating Budget Reserve is set at an amount equivalent to 1.25% of the prior year’s net revenue and is broken into two parts:

- a.) Appropriated Reserve – equivalent to 0.75% of the prior year’s net revenue, it is financed with General Fund revenues.
- b.) Non-Appropriated Reserve – equivalent to .5% of the prior year’s net revenue, it is financed with Free Cash (which is held in reserve/not appropriated).

Descriptions of the four remaining strategic reserves are as follows:

- a.) Capital Stabilization Fund – this fund was established to continue the community’s policy of funding capital improvements through the use of Free Cash when Free Cash available for the CIP is less than \$2M. With a funding target equivalent to 1% of the replacement value of Town buildings, it was funded via appropriations from Free Cash.
- b.) Catastrophe and Liability Fund – this fund was established to protect the community from any unforeseen financial loss due to a liability claim or damage to capital infrastructure. The funding target is equivalent to 1% of the prior year’s net revenue and has been financed by Free Cash, General Fund appropriations, and a one-time infusion from the closed-out health insurance trust fund.

- c.) Worker’s Compensation Trust Fund– this fund was established to protect the community from financial stress created from the long-term liability of the cost of medical expenses and compensation cause by an injury to an employee while on-duty. This is a trust fund that pays for all medical and compensation expenses, lump-sum settlements, and administrative costs. An annual appropriation is included within in the operating budget for deposit into this fund.
- d.) Retiree Group Health Insurance Trust Fund– this fund was established to protect the community from financial stress created from the long-term liability of funding post-retirement benefits, most notably health insurance. With an actuarial liability similar in size to the Pension Fund, this trust fund has been funded via the redirection of funds previously required for non-Contributory members of the pension system, appropriations from Free Cash, any annual year-end unmatched health insurance funds, and charges to non-General funds that pay for employees. The goal is to have the fund balance cover the actuarial liability, the same goal for the Pension Fund.

The table below lists the year-end fund balances for the four non-Operating Budget Reserves detailed above.

**FUND BALANCE - STRATEGIC RESERVES**

DESCRIPTION	FY98	FY99	FY00	FY01	FY02	FY03	% CHANGE FY98-FY03
Capital Stabilization Fund	740,798	1,621,642	3,401,765	3,724,408	4,073,922	4,132,437	457.8%
% Change		118.9%	109.8%	9.5%	9.4%	1.4%	
Liability/Catastrophe Fund	0	0	0	871,545	800,556	1,463,690	na
% Change		na	na	na	-8.1%	82.8%	
Retiree Group Health Trust Fund	0	0	645,052	1,290,098	1,992,526	2,632,481	na
% Change		na	na	100.0%	54.4%	32.1%	
Worker's Compensation Trust Fund	601,761	797,815	865,577	784,954	565,275	588,844	-2.1%
% Change		32.6%	8.5%	-9.3%	-28.0%	4.2%	

SOURCE: Annual Independent Auditors' Report, Annual Financial Plans, Town Meeting Warrants.

While there is no rating provided for this variable, the ratings agencies have viewed these balances very favorably and have helped the Town maintain its Aaa bond rating.

- 5. Golf Course Enterprise Fund – established by the Town under Massachusetts General Laws, Chapter 44, Section 53F ½ in 1990 (for FY91), this self-supporting fund is funded by all revenues generated by the Town-owned and operated Putterham Meadows Golf Course, and pays for the costs associated with the operation. Enterprise Funds are commonly used in local governments, primarily for utilities, airports, transit systems, and certain recreational programs, and are expected to function more like a private entity than a governmental entity in that the costs of providing the good and services directly related to the fund are expected to be recovered through user charges. Therefore, attention needs to be paid to the operating position of the fund.

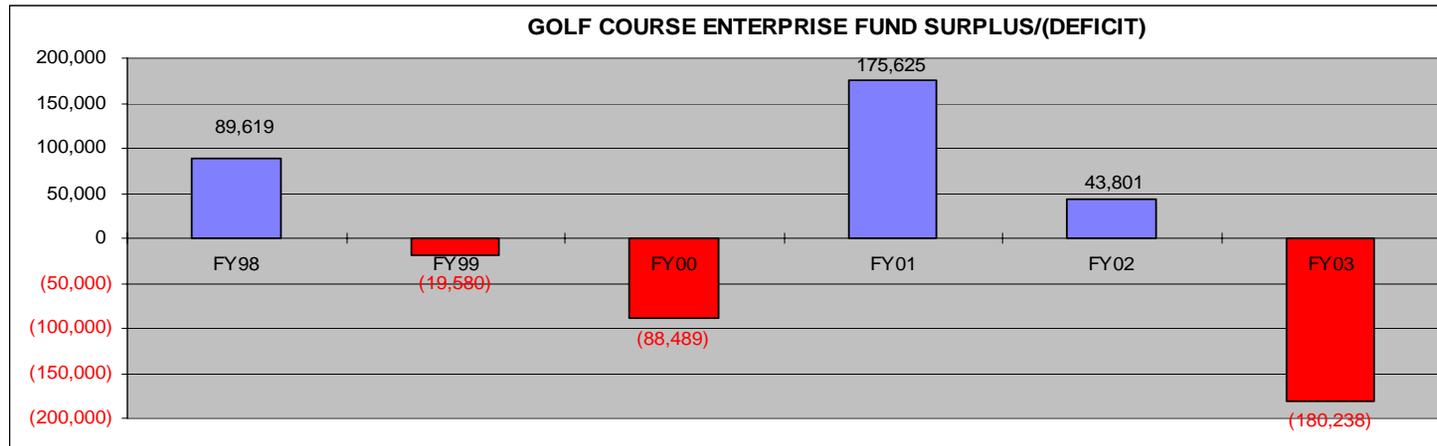
The table on the following page breaks Enterprise spending into five categories and compares total spending to revenue to ascertain the annual budgetary surplus or deficit while the graph depicts the results.

**GOLF COURSE ENTERPRISE FUND**

DESCRIPTION	FY98	FY99	FY00	FY01 <sup>1</sup>	FY02	FY03	% CHANGE FY98-FY03
Direct Spending	584,612	669,865	696,284	717,105	776,762	812,406	39.0%
Personnel Benefits Associated with Fund	52,915	52,915	57,750	0	60,864	63,730	20.4%
Debt Service Associated with Fund	67,576	65,608	63,538	0	109,430	194,969	188.5%
Other Non-Departmental Costs Associated with Fund	42,511	42,240	40,725	0	39,506	39,615	-6.8%
Town Fee Paid From Fund	162,754	266,088	250,000	0	175,000	175,000	7.5%
<b>Total Enterprise Fund Spending</b>	<b>910,368</b>	<b>1,096,716</b>	<b>1,108,297</b>	<b>717,105</b>	<b>1,161,562</b>	<b>1,285,720</b>	<b>41.2%</b>
Enterprise Fund Revenue	999,987	1,077,136	1,019,808	892,730	1,205,363	1,105,482	10.5%
<b>Enterprise Fund Budgetary Surplus/(Deficit)</b>	<b>89,619</b>	<b>(19,580)</b>	<b>(88,489)</b>	<b>175,625</b>	<b>43,801</b>	<b>(180,238)</b>	<b>-301.1%</b>
% Change		-121.8%	-351.9%	-298.5%	-75.1%	-511.5%	
<b>Enterprise Fund Budgetary Surplus/(Deficit) as a % of Rev.</b>	<b>9.0%</b>	<b>-1.8%</b>	<b>-8.7%</b>	<b>19.7%</b>	<b>3.6%</b>	<b>-16.3%</b>	<b>-281.9%</b>
% Change		-120.3%	-377.3%	326.7%	-81.5%	-548.7%	

<sup>1</sup> Included in the FY01 Revenue figure is a \$72,747 Reserve Fund Transfer.

SOURCE: Annual Financial Plans, Town Meeting Warrants. FY03 figures are preliminary, unaudited.



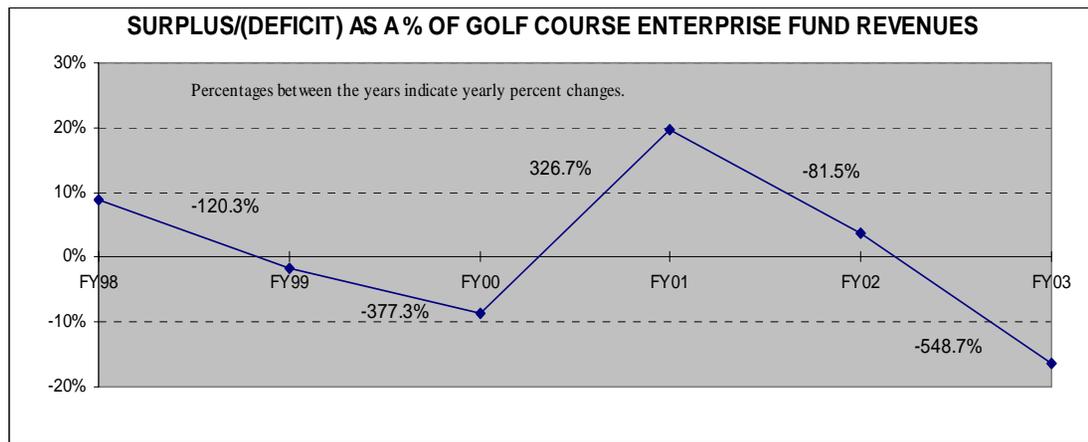
SOURCE: Annual Financial Plans, Town Meeting Warrants. FY03 figures are preliminary, unaudited.

The \$0 values in FY01 for the non-direct spending items are the result of the "winter freeze" problem that plagued the course in the Spring of 2001, causing the course to delay its opening. This delay resulted in a loss of revenue, which was offset by the Town forgiving the Personnel Benefits, Debt Service, and Other Non-

Departmental Costs components of the Overhead Charges. The Town Fee was also not paid, but an agreement was reached to repay it in the form of a loan over a 10-year period.

The two-year trend of deficits realized in FY99 and FY00 was reversed by the consecutive surpluses of FY01 and FY02. Unfortunately, a deficit was realized in FY03 due to two primary factors: 1.) the winter of 2002-2003 came early and lasted into the spring, resulting in an early close and a late re-opening, and 2.) there were a lot of rounds lost due to the wet spring. The result was a budgetary deficit of \$180K. The fund remained in the black, however, due to the fund balance that had been built up over the past two years. The deficits caused by the weather show why it is prudent to build up fund balance. Without the surpluses from FY01 and FY02, the Enterprise Fund would be negative. If this happens, Massachusetts General Laws requires the deficit to be absorbed by the General Fund, thereby reducing funds available for the operating budget.

A rating of Marginal is given, but if another deficit is realized in FY04, the rating will be downgraded to Unfavorable.



SOURCE: Annual Financial Plans, Town Meeting Warrants. FY03 figures are preliminary, unaudited.

**BROOKLINE TREND:**

	Favorable
X	Marginal
	Unfavorable

**WARNING TREND:**

Increasing enterprise fund budgetary deficits as a percentage of revenues.

**FORMULA:**

$$\frac{\text{Enterprise Fund Budgetary Surplus/(Deficit)}}{\text{Revenues}}$$

6. *Water and Sewer Enterprise Fund* – established by the Town under Massachusetts General Laws, Chapter 44, Section 53F ½ in 2001 (for FY02)<sup>1</sup>, this self-supporting fund is funded by all revenues generated by the charges assessed to all users of the Town’s water and sewer distribution system, and pays for the costs associated with the operation. Enterprise Funds are commonly used in local governments, primarily for utilities, airports, transit systems, and certain recreational programs, and are expected to function more like a private entity than a governmental entity in that the costs of providing the good and services directly related to the fund are expected to be recovered through user charges. Therefore, attention needs to be paid to the operating position of the fund. The table on the following page breaks Enterprise spending into four categories and compares total spending to revenue to ascertain the annual budgetary surplus or deficit while the graph below depicts the results.

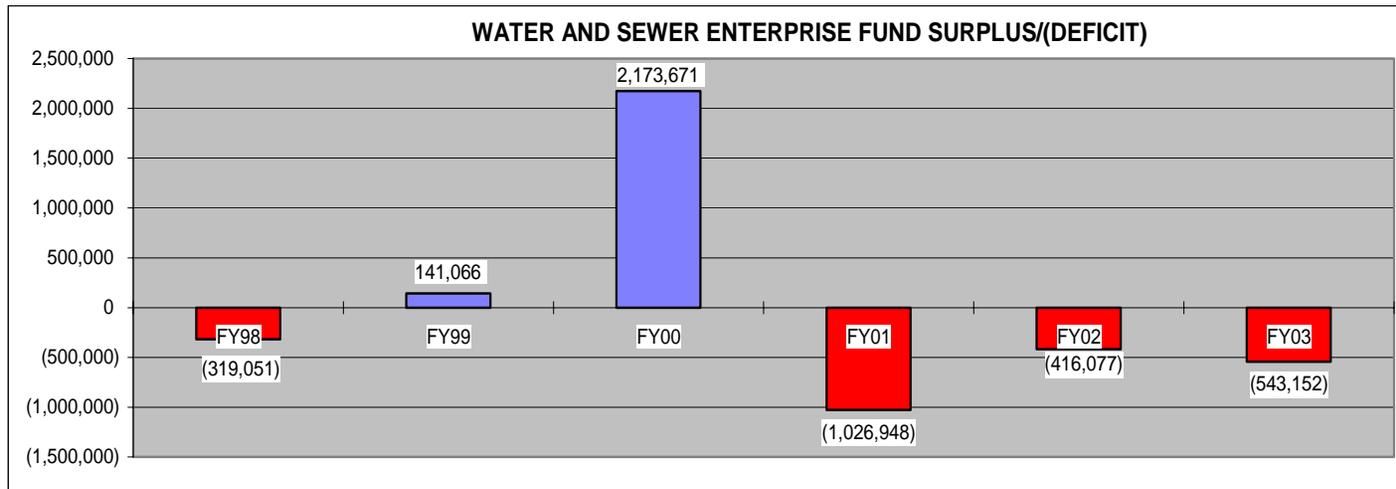
<sup>1</sup> While the official establishment of the Enterprise Fund did not begin until FY02, it makes sense to show the Water & Sewer operation historically as an Enterprise Fund since the goal was always to attain 100% cost recovery.

**WATER AND SEWER ENTERPRISE FUND**

DESCRIPTION	FY98	FY99	FY00	FY01	FY02	FY03	% CHANGE FY98-FY03
Direct Spending	12,352,047	12,519,087	11,773,686	13,311,578	13,713,683	14,715,681	19.1%
Personnel Benefits Associated with Fund	944,847	947,475	1,006,718	1,009,006	1,046,611	1,224,147	29.6%
Debt Service Associated with Fund	2,112,288	2,590,702	2,422,855	3,027,482	3,002,215	3,157,105	49.5%
Other Non-Departmental Costs Associated with Fund	517,058	527,462	571,153	636,396	740,936	744,216	43.9%
Total Enterprise Fund Spending	15,926,240	16,584,726	15,774,412	17,984,462	18,503,445	19,841,149	24.6%
Enterprise Fund Revenue	15,607,189	16,725,792	17,948,083	16,957,514	18,087,368	19,297,997	23.6%
<b>Enterprise Fund Budgetary Surplus/(Deficit)</b>	<b>(319,051)</b>	<b>141,066</b>	<b>2,173,671</b>	<b>(1,026,948)</b>	<b>(416,077)</b>	<b>(543,152)</b>	<b>70.2%</b>
% Change		-144.2%	1440.9%	-147.2%	59.5%	-30.5%	
<b>Enterprise Fund Budgetary Surplus/(Deficit) as a % of Rev.</b>	<b>-2.0%</b>	<b>0.8%</b>	<b>12.1%</b>	<b>-6.1%</b>	<b>-2.3%</b>	<b>-2.8%</b>	<b>37.7%</b>
% Change		141.3%	1335.9%	-150.0%	62.0%	-22.4%	

SOURCE: Annual Financial Plans, Town Meeting Warrants. FY03 figures are preliminary, unaudited.

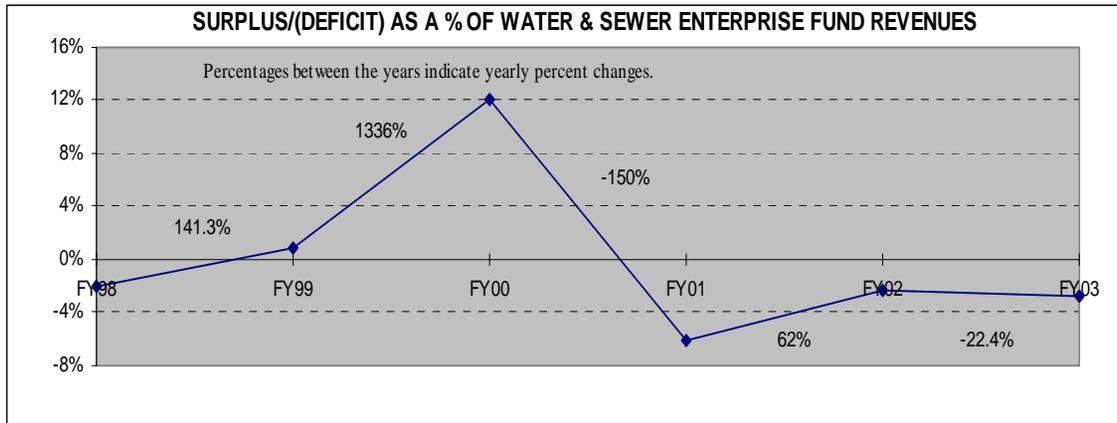
NOTE: While the official establishment of the Enterprise Fund did not begin until FY02, it makes sense to show the Water & Sewer operation historically as an Enterprise Fund since the goal was always to attain 100% cost recovery.



SOURCE: Annual Financial Plans, Town Meeting Warrants. FY03 figures are preliminary, unaudited.

The consecutive deficits realized in FY01-FY03 are cause for concern. Steps have been taken to eliminate the budgetary deficits, including decreasing consumption estimates to more accurately reflect actual experience. When a deficit is realized, the rates for the next fiscal year must take it into account, thereby increasing the rates more than they would without the deficit. A significant factor in the FY03 deficit was the elimination of the debt service assistance from the State. For Brookline, that elimination resulted in a \$435K mid-year increase in its MWRA Assessment.

A rating of Unfavorable is given to this variable and will remain unchanged until operating surpluses return.



**BROOKLINE TREND:**

	Favorable
	Marginal
X	Unfavorable

**WARNING TREND:**

Increasing enterprise fund operating deficits as a percentage of revenues.

**FORMULA:**

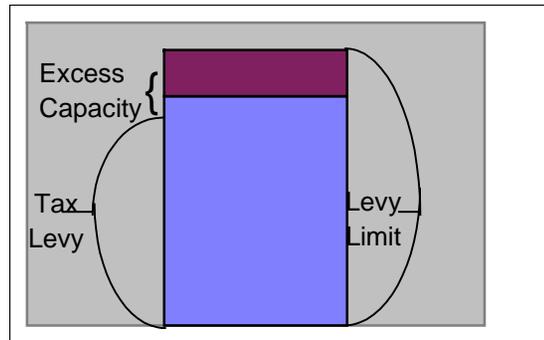
$$\frac{\text{Enterprise Fund Budgetary Surplus/(Deficit)}}{\text{Revenues}}$$

SOURCE: Annual Financial Plans, Town Meeting Warrants. FY03 figures are preliminary, unaudited.

**PROPERTY TAX CHARACTERISTICS**

Property taxes comprise more than two-thirds of all revenue for the Town, making it a key variable for analysis and trending. While Property taxes were previously discussed in the Revenue portion of *Volume II*, they were viewed only in the aggregate. This section of *Volume II* analyzes the numerous variables that are related to the Property tax, characteristics that play a vital role in tax policy for the Town. The variables being analyzed are the following: Excess Capacity, property value composition and tax levy composition, Classification, parcel counts and composition, tax bills, the Residential Exemption, New Growth, and tax exempt property values.

1. *Excess Capacity* – This is defined as the difference between a municipality’s maximum levy limit<sup>1</sup> and its tax levy. It results when a community chooses to levy a more modest Property Tax increase than the maximum allowable for a given year. Graphically, it looks like the following:

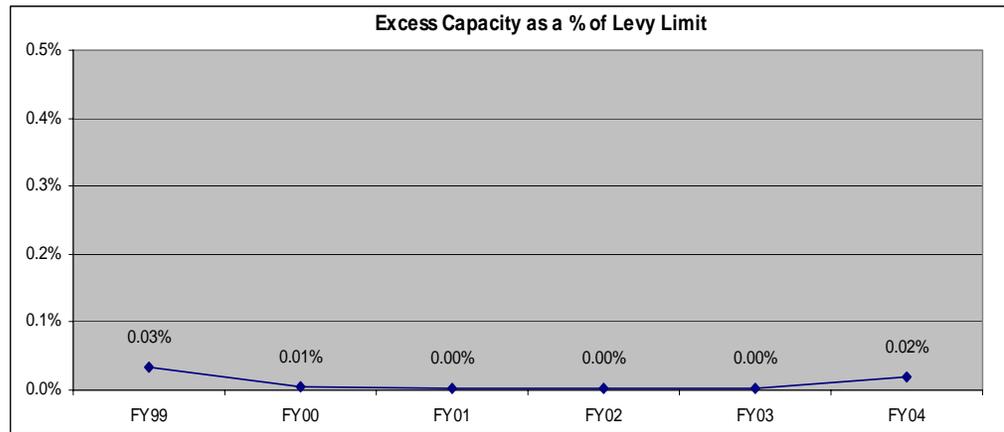


***"EXCESS CAPACITY" IN PROPERTY TAX***

DESCRIPTION	FY99	FY00	FY01	FY02	FY03	FY04	% CHANGE FY99-FY04
Property Tax Levy Limit	92,234,301	96,404,574	100,220,469	104,562,262	109,535,192	114,681,497	24.3%
Property Tax Levy	92,203,063	96,399,645	100,217,510	104,560,825	109,532,058	114,660,483	24.4%
<b>Excess Capacity (Levy Limit - Levy)</b>	<b>31,238</b>	<b>4,929</b>	<b>2,959</b>	<b>1,437</b>	<b>3,134</b>	<b>21,014</b>	<b>-32.7%</b>
<b>Excess Capacity as a % of Levy Limit</b>	<b>0.034%</b>	<b>0.005%</b>	<b>0.003%</b>	<b>0.001%</b>	<b>0.003%</b>	<b>0.018%</b>	<b>-45.9%</b>
% Change		-84.9%	-42.3%	-53.5%	108.2%	540.4%	

SOURCE: Annual Tax Recapitulation Sheets. Assessor's Office.

<sup>1</sup> The Maximum Levy Limit is the maximum amount of taxes that can be levied in any given year. It is based on the previous year’s limit plus certain allowable increases (such as the yearly 2 ½ % increase, new growth, and any overrides/debt exclusions).



**BROOKLINE TREND:**

X	Favorable
	Marginal
	Unfavorable

**WARNING TREND:**

Increasing excess capacity as a percentage of the levy limit.

**FORMULA:**

$$\frac{\text{Excess Capacity}}{\text{Levy Limit}}$$

SOURCE: Annual Tax Recapitulation Sheets. Assessor's Office.

The data clearly shows that the Town taxes to its legal limit, leaving well below 1% “on the table”. Based on the goal of optimizing revenue for the Town’s operations, the rating given is Favorable. However, if the electorate desired to decrease spending and taxes, then the warning trend and rating would be different.

2. *Assessed Value* – This is the valuation set upon real estate or other property by a government as a basis for levying taxes. In Massachusetts, the assessed value is based on “full and fair cash value”, or the amount a willing buyer would pay a willing seller on the open market. Monitoring this value is important because it is one of the primary factors determining the tax rate and tax levy.

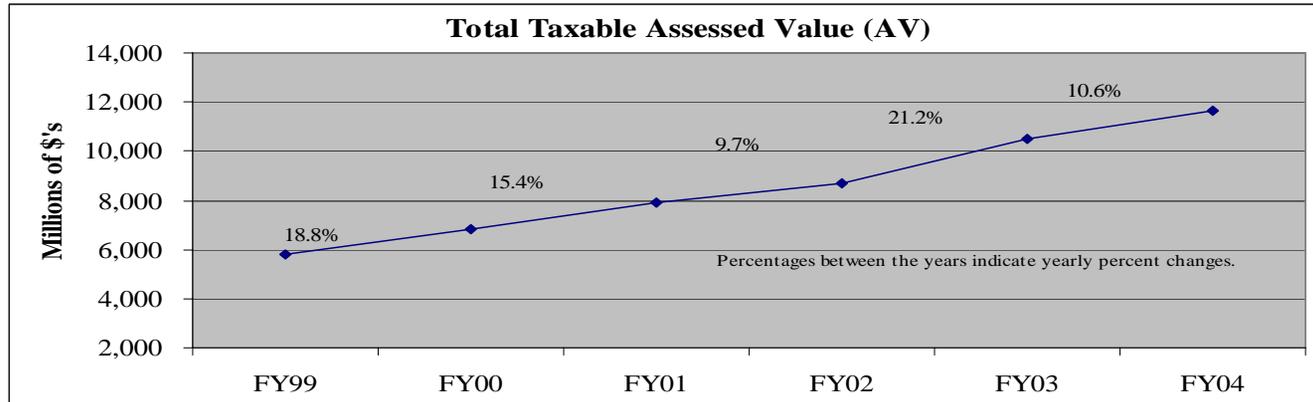
**ASSESSED VALUATION**

DESCRIPTION	FY99	FY00	FY01	FY02	FY03	FY04	% CHANGE FY99-FY04
Total Taxable Assessed Value (AV)	5,768,927,400	6,852,443,600	7,905,666,900	8,671,566,600	10,512,687,900	11,623,271,900	101.5%
% Change		18.8%	15.4%	9.7%	21.2%	10.6%	
AV - Residential	5,173,574,092	6,095,248,582	7,084,268,109	7,833,893,266	9,552,574,627	10,587,621,430	104.6%
<b>AV - Percent Residential</b>	<b>89.68%</b>	<b>88.95%</b>	<b>89.61%</b>	<b>90.34%</b>	<b>90.87%</b>	<b>91.09%</b>	<b>1.6%</b>
% Change		-0.8%	0.7%	0.8%	0.6%	0.2%	
AV - Commercial, Industrial, Personal Property (CIP)	595,353,308	757,195,018	821,398,791	837,673,334	960,113,273	1,035,650,470	74.0%
<b>AV - Percent CIP</b>	<b>10.32%</b>	<b>11.05%</b>	<b>10.39%</b>	<b>9.66%</b>	<b>9.13%</b>	<b>8.91%</b>	<b>-13.7%</b>
% Change		7.1%	-6.0%	-7.0%	-5.5%	-2.4%	

SOURCE: Annual Tax Recapitulation Sheets. Assessor's Office.

As the table shows, total taxable assessed value has increased by more than 101% since FY99. Graphically, this is shown on the first graph on the next page. Residential properties have increased nearly 105% while CIP<sup>2</sup> properties have increased 74%. The table also shows that in FY04, the composition of the value was approximately 91% residential (an increase of 1.6% from the 89.68% figure in FY99) and 9% CIP (a decrease of close to 14% from the 10.32% figure in FY99).

<sup>2</sup> CIP stands for “Commercial, Industrial, Personal Property”, which are basically the non-Residential property classes.



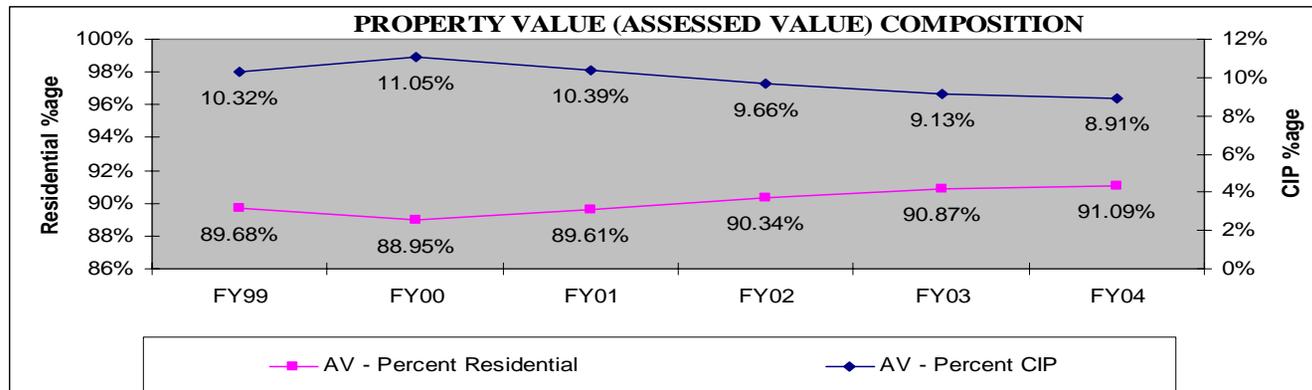
**BROOKLINE TREND:**

X	Favorable
	Marginal
	Unfavorable

**WARNING TREND:**

Decreasing assessed value.

**SOURCE:** Annual Tax Recapitulation Sheets. Assessor's Office.



**BROOKLINE TREND:**

	Favorable
	Marginal
X	Unfavorable

**WARNING TREND:**

Increasing residential percentage of total assessed value (AV).

**FORMULA:**

$$\frac{\text{Residential AV}}{\text{Total AV}}$$

**SOURCE:** Annual Tax Recapitulation Sheets. Assessor's Office.

While the large increase in total assessed value is a positive, the change in the composition of the value (residential versus commercial) is troublesome. The second graph above shows the contraction of the commercial tax base over time: in FY00, CIP properties comprised more than 11% of the value; in FY04, this figure dropped to below 9%. The result is the residential properties (the homeowners) are now bearing more of the tax burden (see the next variable titled “Property Tax Levy Composition”). The primary reason why this is troublesome is that commercial properties are generally viewed as being more beneficial, mainly for the two primary reasons listed below:

- a. Commercial properties have less of an impact on Town services (e.g., they do not send children to the schools);
- b. Commercial properties bear more of a tax burden in a community like Brookline that taxes those properties at a higher rate than the residential properties (see variable #4 “Classification” below).

This variable will be carefully monitored in order to ascertain whether any further erosion of the commercial tax base has occurred.

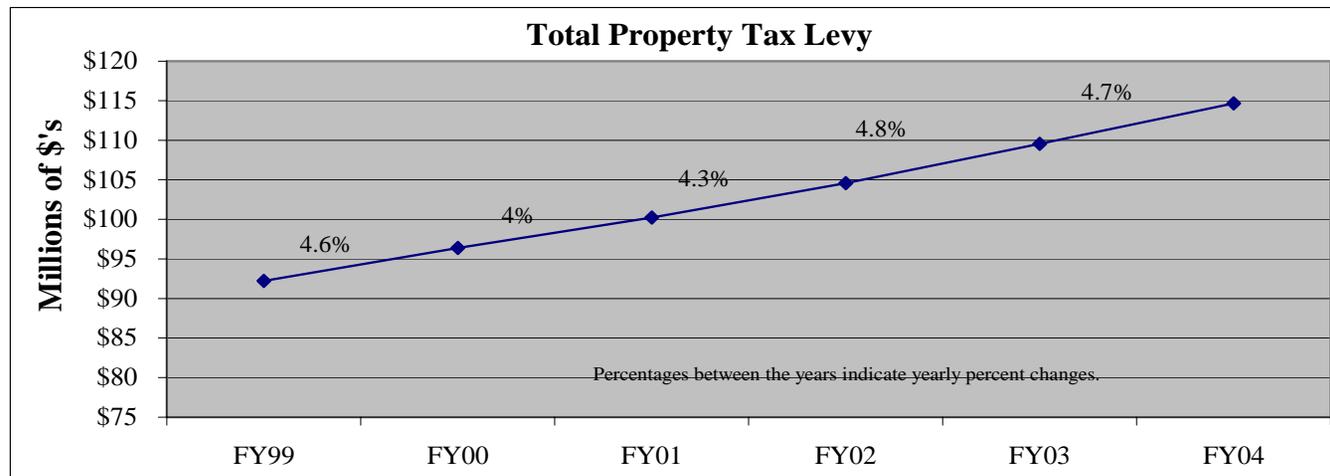
3. *Property Tax Levy Composition* – This variable focuses on the composition (residential versus commercial) of the Property tax. Similar to the Assessed Value variable above, this is an important item to monitor in terms of focusing on the shifts (if any) in who is bearing the burden of the Property tax levy.

**COMPOSITION OF THE PROPERTY TAX LEVY**

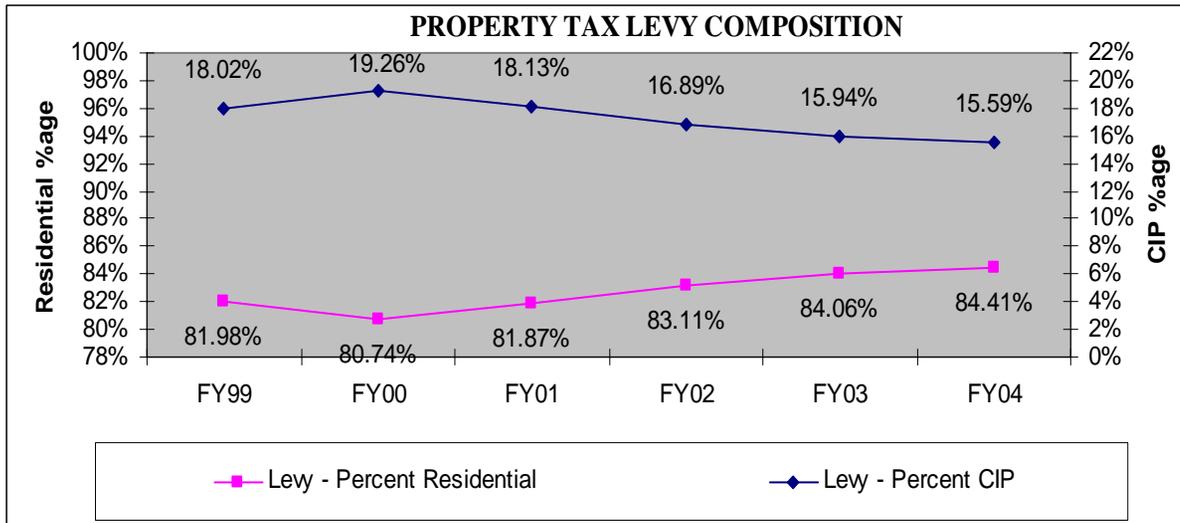
DESCRIPTION	FY99	FY00	FY01	FY02	FY03	FY04	% CHANGE FY99-FY04
Total Property Tax Levy	92,203,063	96,399,645	100,217,510	104,560,825	109,532,058	114,660,483	24.4%
% Change		4.6%	4.0%	4.3%	4.8%	4.7%	
Levy - Residential	75,588,071	77,833,073	82,048,075	86,900,502	92,072,648	96,785,156	28.0%
<b>Levy - Percent Residential</b>	<b>81.98%</b>	<b>80.74%</b>	<b>81.87%</b>	<b>83.11%</b>	<b>84.06%</b>	<b>84.41%</b>	<b>3.0%</b>
% Change		-1.5%	1.4%	1.5%	1.1%	0.4%	
Levy - Commercial, Industrial, Personal Property (CIP)	16,614,992	18,566,572	18,169,435	17,660,323	17,459,410	17,875,327	7.6%
<b>Levy - Percent CIP</b>	<b>18.02%</b>	<b>19.26%</b>	<b>18.13%</b>	<b>16.89%</b>	<b>15.94%</b>	<b>15.59%</b>	<b>-13.5%</b>
% Change		6.9%	-5.9%	-6.8%	-5.6%	-2.2%	

SOURCE: Annual Tax Recapitulation Sheets. Assessor's Office.

As the table shows, the total tax levy has increased by more than 24% since FY99. Graphically, this is shown on the graph below. Taxes borne by residential properties have increased 28% while taxes paid by CIP properties have increased less than 8%. The table also shows that in FY04, the composition of the levy was approximately 84% residential (an increase of 3% from the 81.98% figure in FY99) and 16% CIP (a decrease of more than 13% from the 18.02% figure in FY99).



SOURCE: Annual Tax Recapitulation Sheets. Assessor's Office.



**BROOKLINE TREND:**

	Favorable
	Marginal
X	Unfavorable

**WARNING TREND:**

Increasing residential percentage of total tax levy.

**FORMULA:**

$$\frac{\text{Tax Levy on Residential Properties}}{\text{Total Tax Levy}}$$

SOURCE: Annual Tax Recapitulation Sheets. Assessor's Office.

Similar to the data analyzed under the Assessed Value variable (#3), the change in the composition of the tax levy is troublesome. The graph above shows the increased burden placed on the residential properties over time: in FY00, residential properties were responsible for 80.7% of the total tax burden; in FY04, this figure increased to more than 84%. The result is the residential properties (the homeowners) are now bearing more of the tax burden.

This variable will be carefully monitored in order to ascertain whether the residential properties continue to increase their share of the total tax levy.

The difference between the composition of the assessed value and the tax levy shows the extent to which the Town shifts its tax burden from residential properties to CIP properties. Known as "Classification", variable #4 goes into detail on the part of property tax policy.

4. *Tax Classification* - In accordance with Chapter 58, Section 1A of State law, municipalities are allowed to set different tax rates for residential properties and commercial properties. This is known as Classification. They have the ability, if they meet certain requirements, to increase the commercial share of the tax levy by a maximum of 75%. In order to determine the actual Classification shift used by a community, the following formula is used:

$$(\text{CIP Share of the Tax Levy} / \text{CIP Share of the Assessed Value}) \times 100$$

For example, as the table on the following page shows, the shift for Brookline in FY04 was 174.97%, meaning that the unshifted CIP tax burden of 8.91% was increased by 74.97% to 16.59% while the residential class saw its tax burden decrease by 7.33% to 84.41%:

$$(15.59\% / 8.91\%) \times 100 = 174.97\% \text{ Shift}$$

**CLASSIFICATION -- PROPERTY TAX "SHIFT"**

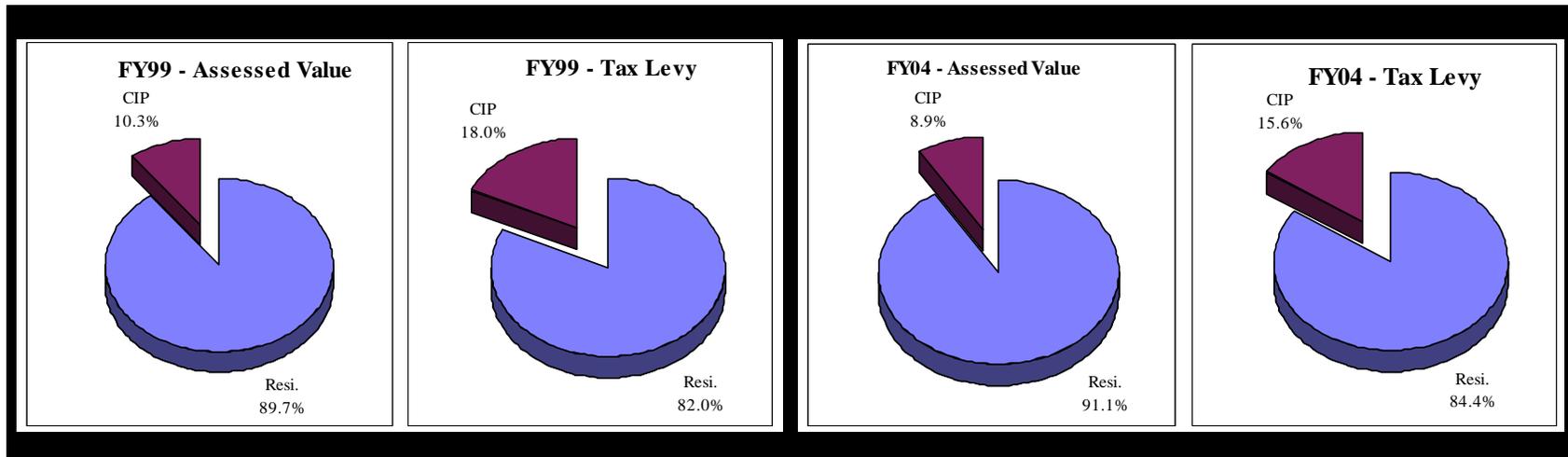
DESCRIPTION	FY99	FY00	FY01	FY02	FY03	FY04	% CHANGE FY99-FY04
Total Taxable Assessed Value (AV)	5,768,927,400	6,852,443,600	7,905,666,900	8,671,566,600	10,512,687,900	11,623,271,900	101.5%
AV - Residential	5,173,574,092	6,095,248,582	7,084,268,109	7,833,893,266	9,552,574,627	10,587,621,430	104.6%
<b>AV - Percent Residential</b>	<b>89.68%</b>	<b>88.95%</b>	<b>89.61%</b>	<b>90.34%</b>	<b>90.87%</b>	<b>91.09%</b>	<b>1.6%</b>
AV - Commercial, Industrial, Personal Property (CIP)	595,353,308	757,195,018	821,398,791	837,673,334	960,113,273	1,035,650,470	74.0%
<b>AV - Percent CIP</b>	<b>10.32%</b>	<b>11.05%</b>	<b>10.39%</b>	<b>9.66%</b>	<b>9.13%</b>	<b>8.91%</b>	<b>-13.7%</b>
Total Property Tax Levy	92,203,063	96,399,645	100,217,510	104,560,825	109,532,058	114,660,483	24.4%
Levy - Residential	75,588,071	77,833,073	82,048,075	86,900,502	92,072,648	96,785,156	28.0%
<b>Levy - Percent Residential</b>	<b>81.98%</b>	<b>80.74%</b>	<b>81.87%</b>	<b>83.11%</b>	<b>84.06%</b>	<b>84.41%</b>	<b>3.0%</b>
Levy - Commercial, Industrial, Personal Property (CIP)	16,614,992	18,566,572	18,169,435	17,660,323	17,459,410	17,875,327	7.6%
<b>Levy - CIP</b>	<b>18.02%</b>	<b>19.26%</b>	<b>18.13%</b>	<b>16.89%</b>	<b>15.94%</b>	<b>15.59%</b>	<b>-13.5%</b>
<b>Classification Shift (additional tax burden shifted onto the CIP property class.)</b>	<b>174.6124%</b>	<b>174.2986%</b>	<b>174.4947%</b>	<b>174.8447%</b>	<b>174.5338%</b>	<b>174.9667%</b>	<b>0.2%</b>
% Change		-0.2%	0.1%	0.2%	-0.2%	0.2%	

SOURCE: Annual Tax Recapitulation Sheets. Assessor's Office.

The table on the above shows four primary findings:

- a. Since FY99, the value of residential properties has increased nearly 105% while CIP properties have increased 74% in value, a 1.4 to 1 ratio;
- b. Since FY99, the percent of the total tax levy that residential properties comprise has increased 3%, nearly double the increase realized in the percent they comprise of assessed value;
- c. Since FY99, the percent of the total tax levy that CIP properties comprise has decreased 13.5%, a figure virtually identical to the 13.7% decrease in the percent they comprise of assessed value;
- d. The shift onto CIP properties has remained relatively constant at the maximum shift of 175%.

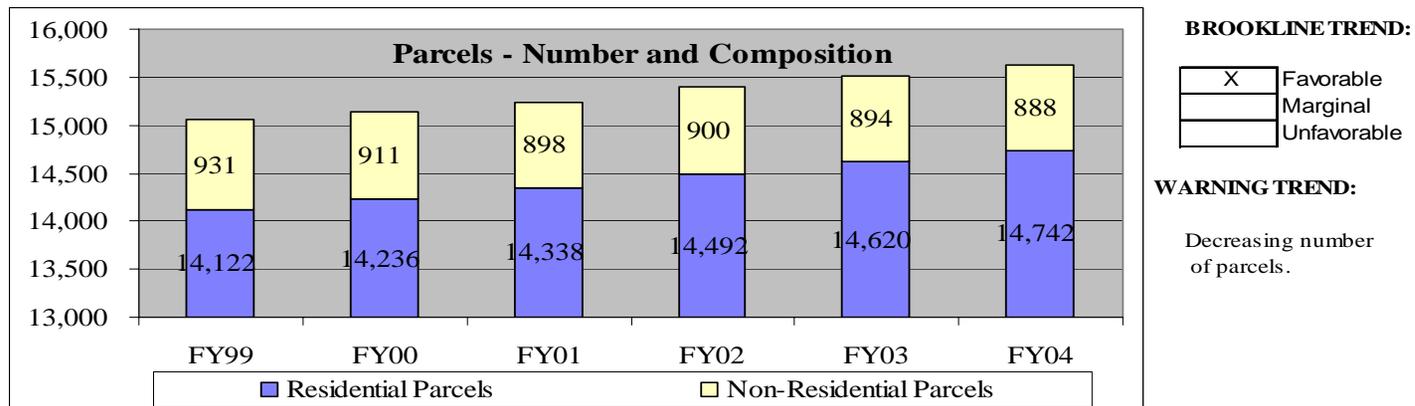
The pie charts on the following page provide a clear picture of the effect classification has on the tax levy, as well as the change in the effect it has had on the Town since FY99. (Please see variable #8 which shows the effect Classification (and the Residential Exemption) has on median tax bills.)



There is no warning trend or rating associated with variable, as it is a tax policy issue that is discussed and reviewed annually by the Board of Selectmen. If a rating were to be placed on the variable, it would have to be based on the Selectmen’s past practice of adopting the maximum shift, which they have done each of the past number of years. Based on that criterion, the rating would be Favorable.

5. *Parcels* – Related to the values of property is the number of parcels, both in total and in composition (again, residential versus CIP).

As the graph below shows, which is based on the table on the following page, the total number of parcels in Town has increased close to 4% since FY99, which is due solely to residential parcels. The data also shows that the number of non-residential parcels has decreased by 4.6% since FY99, going from 931 to 888. This is further evidence of the erosion of the commercial tax base, an issue that was discussed above. At the same time, the number of residential parcels has increased more than 4%, going from 14,122 to 14,742.



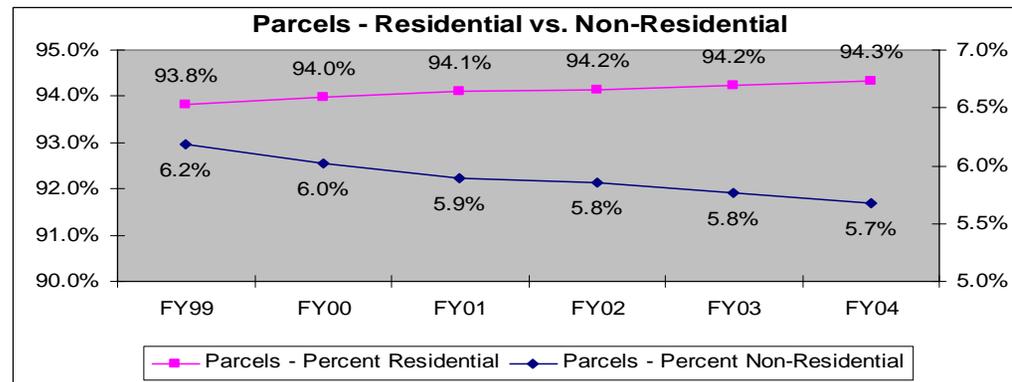
SOURCE: Annual Tax Recapitulation Sheets. Assessor’s Office.

Driving the increase in the number of residential parcels are condos: since FY99, the number of condos increased by close to 10%, going from 7,356 to 8,077. Condos now comprise close to 55% of all residential parcels. Offsetting that increase are decreases in Multi-Families (-8.4%) and Apartments (-6.2%).

**NUMBER AND COMPOSITION OF PROPERTY PARCELS**

DESCRIPTION	FY99	FY00	FY01	FY02	FY03	FY04	% CHANGE FY99-FY04
<b>Total Parcels</b>	<b>15,053</b>	<b>15,147</b>	<b>15,236</b>	<b>15,392</b>	<b>15,514</b>	<b>15,630</b>	<b>3.8%</b>
% Change		0.6%	0.6%	1.0%	0.8%	0.7%	
<b>Residential Parcels</b>	<b>14,122</b>	<b>14,236</b>	<b>14,338</b>	<b>14,492</b>	<b>14,620</b>	<b>14,742</b>	<b>4.4%</b>
% Change		0.8%	0.7%	1.1%	0.9%	0.8%	
<b>Parcels - Percent Residential</b>	<b>93.8%</b>	<b>94.0%</b>	<b>94.1%</b>	<b>94.2%</b>	<b>94.2%</b>	<b>94.3%</b>	<b>0.5%</b>
% Change		0.2%	0.1%	0.0%	0.1%	0.1%	
<b>Non-Residential Parcels</b>	<b>931</b>	<b>911</b>	<b>898</b>	<b>900</b>	<b>894</b>	<b>888</b>	<b>-4.6%</b>
% Change		-2.1%	-1.4%	0.2%	-0.7%	-0.7%	
<b>Parcels - Percent Non-Residential</b>	<b>6.2%</b>	<b>6.0%</b>	<b>5.9%</b>	<b>5.8%</b>	<b>5.8%</b>	<b>5.7%</b>	<b>-8.1%</b>
% Change		-2.8%	-2.0%	-0.8%	-1.4%	-1.4%	
<b>Residential Parcel Breakdown</b>							
Single Family	4,392	4,410	4,417	4,422	4,428	4,438	1.0%
Multi Family	1,825	1,802	1,763	1,730	1,701	1,671	-8.4%
Condos	7,356	7,478	7,620	7,804	7,938	8,077	9.8%
Apartments	386	380	377	366	366	362	-6.2%
Misc.	163	166	161	170	187	194	19.0%
<b>Non-Residential Parcel Breakdown</b>							
Commercial	503	493	487	485	479	472	-6.2%
Industrial	12	8	8	8	10	10	-16.7%
Vacant Land	303	301	291	286	289	285	-5.9%
Other Usage	113	109	112	121	116	121	7.1%

SOURCE: Annual Tax Recapitulation Sheets. Assessor's Office.



**BROOKLINE TREND:**

	Favorable
	Marginal
X	Unfavorable

**WARNING TREND:**

Increasing residential parcels as a percentage of total parcels.

**FORMULA:**

$$\frac{\text{Residential Parcels}}{\text{Total Parcels}}$$

SOURCE: Annual Tax Recapitulation Sheets. Assessor's Office.

While a rating of Favorable is given for the variable overall, another warning flag needs to be raised in regard to the reduction of the commercial tax base. As the chart above shows, the percentage that non-residential parcels comprise of the total number of parcels is diminishing, having dropped from 6.2% in FY99 to 5.7% in FY04, a reduction of more than 8%. Therefore, a rating of Unfavorable is given to the composition portion of this variable.

6. *Median Values and Tax Bills* – It is helpful to keep track of the median values and tax bills of the various categories of properties, as tax bills are carefully reviewed and analyzed by residents. Since a tax bill, in effect, represents a bill for services rendered, taxpayers pay close attention to the amount they are charged. If, in their eyes, it becomes too expensive, they may demand a reduction in their taxes, or a clear explanation of why services are costing them more. In an effort to measure the increase in taxes in terms other than absolute dollar growth, the average tax bill for each category of property is measured against the median four-person family income for the state (see Appendix A for these figures for FY99-FY04). Doing so shows whether increases in taxes are out-stripping increases in income (the ability to pay).

**MEDIAN PER PARCEL VALUES AND TAX BILLS**

DESCRIPTION	FY99	FY00	FY01	FY02	FY03	FY04	% CHANGE FY99-FY04
<b>Single Family Median Assessed Value</b>	<b>451,550</b>	<b>523,050</b>	<b>602,000</b>	<b>667,000</b>	<b>756,750</b>	<b>837,050</b>	<b>85.4%</b>
% Change	8.9%	15.8%	15.1%	10.8%	13.5%	10.6%	
<b>Single Family Median Tax Bill</b>	<b>6,432</b>	<b>6,522</b>	<b>6,809</b>	<b>7,247</b>	<b>7,057</b>	<b>7,412</b>	<b>15.2%</b>
% Change	5.1%	1.4%	4.4%	6.4%	-2.6%	5.0%	
<b>Single Family Median Tax Bill as a % of State 4-Person Family Median Income</b>	<b>10.31%</b>	<b>10.03%</b>	<b>9.89%</b>	<b>10.11%</b>	<b>9.04%</b>	<b>9.22%</b>	<b>-10.6%</b>
<b>Two Family Median Assessed Value</b>	<b>387,800</b>	<b>471,200</b>	<b>548,650</b>	<b>592,800</b>	<b>702,000</b>	<b>777,900</b>	<b>100.6%</b>
% Change	9.6%	21.5%	16.4%	8.0%	18.4%	10.8%	
<b>Two Family Median Tax Bill</b>	<b>5,354</b>	<b>5,753</b>	<b>6,091</b>	<b>6,290</b>	<b>6,443</b>	<b>6,783</b>	<b>26.7%</b>
% Change	5.9%	7.5%	5.9%	3.3%	2.4%	5.3%	
<b>Two Family Median Tax Bill as a % of State 4-Person Family Median Income</b>	<b>8.58%</b>	<b>8.85%</b>	<b>8.85%</b>	<b>8.77%</b>	<b>8.26%</b>	<b>8.43%</b>	<b>-1.7%</b>
<b>Three Family Median Assessed Value</b>	<b>418,700</b>	<b>491,100</b>	<b>577,400</b>	<b>624,800</b>	<b>786,500</b>	<b>870,250</b>	<b>107.8%</b>
% Change	11.6%	17.3%	17.6%	8.2%	25.9%	10.6%	
<b>Three Family Median Tax Bill</b>	<b>5,877</b>	<b>6,049</b>	<b>6,478</b>	<b>6,703</b>	<b>7,391</b>	<b>7,765</b>	<b>32.1%</b>
% Change	8.2%	2.9%	7.1%	3.5%	10.3%	5.1%	
<b>Three Family Median Tax Bill as a % of State 4-Person Family Median Income</b>	<b>9.42%</b>	<b>9.30%</b>	<b>9.41%</b>	<b>9.35%</b>	<b>9.47%</b>	<b>9.65%</b>	<b>2.5%</b>
<b>Condo Median Assessed Value</b>	<b>172,200</b>	<b>198,500</b>	<b>231,300</b>	<b>257,000</b>	<b>322,200</b>	<b>346,900</b>	<b>101.5%</b>
% Change	8.7%	15.3%	16.5%	11.1%	25.4%	7.7%	
<b>Condo Median Tax Bill</b>	<b>1,708</b>	<b>1,709</b>	<b>1,820</b>	<b>1,958</b>	<b>2,186</b>	<b>2,202</b>	<b>28.9%</b>
% Change	5.0%	0.1%	6.5%	7.6%	11.6%	0.7%	
<b>Condo Median Tax Bill as a % of State 4-Person Family Median Income</b>	<b>2.74%</b>	<b>2.63%</b>	<b>2.64%</b>	<b>2.73%</b>	<b>2.80%</b>	<b>2.74%</b>	<b>0.0%</b>
<b>Commercial Average<sup>1</sup> Assessed Value</b>	<b>949,753</b>	<b>1,240,980</b>	<b>1,375,285</b>	<b>1,364,897</b>	<b>1,432,181</b>	<b>1,554,213</b>	<b>63.6%</b>
% Change	7.5%	30.7%	10.8%	-0.8%	4.9%	8.5%	
<b>Commercial Average Tax Bill</b>	<b>26,498</b>	<b>30,429</b>	<b>30,421</b>	<b>28,758</b>	<b>26,037</b>	<b>26,826</b>	<b>1.2%</b>
% Change	4.1%	14.8%	0.0%	-5.5%	-9.5%	3.0%	
<b>Residential Tax Rate</b>	<b>16.91</b>	<b>14.83</b>	<b>13.46</b>	<b>12.90</b>	<b>11.21</b>	<b>10.63</b>	<b>-37.1%</b>
% Change	-3.6%	-12.3%	-9.2%	-4.2%	-13.1%	-5.2%	
<b>Commercial Tax Rate</b>	<b>27.90</b>	<b>24.52</b>	<b>22.12</b>	<b>21.07</b>	<b>18.18</b>	<b>17.26</b>	<b>-38.1%</b>
% Change	-3.1%	-12.1%	-9.8%	-4.7%	-13.7%	-5.1%	

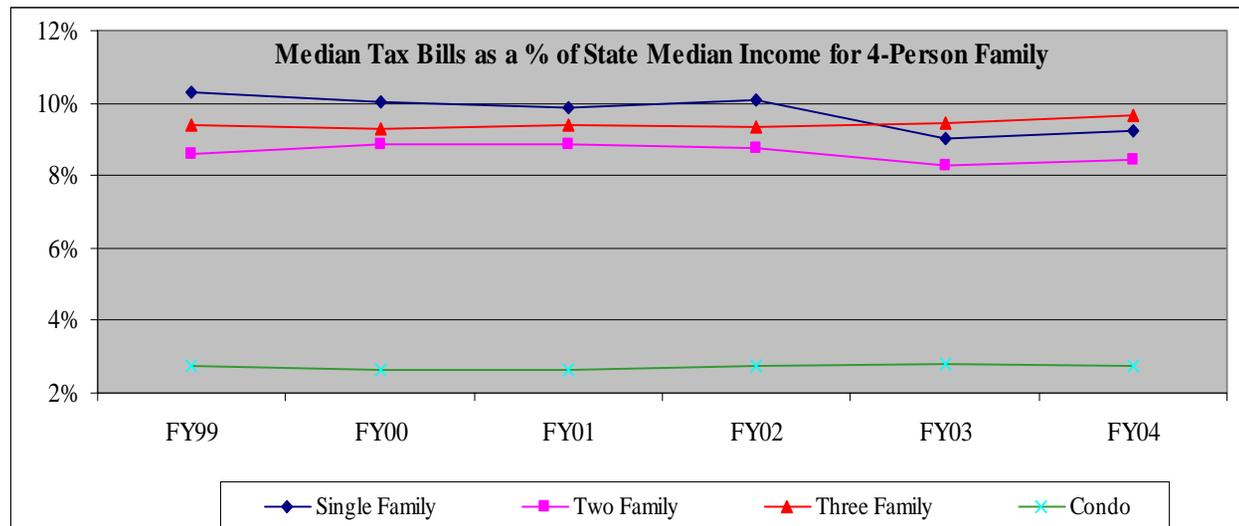
<sup>1</sup> The average value of the CIP property is used instead of the median value because the properties are too varied, and the average produces a more consistent statistic.

SOURCE: Annual Tax Recapitulation Sheets. Assessor's Office. 4-Person Family Median Income from U.S. Census Bureau.

The table on the previous page breaks out average assessed values and tax bills by property type (single-family, two-family, three-family, condo, and commercial). While a lot of data is presented and may be confusing, the findings from the table can be summarized as follows:

- The **value** of the median **Single-Family** home has increased more than **75%**, compared to an increase in **taxes** of more than **15%**. When measured against the state’s median income for a four-person family, the **tax bill** has decreased slightly more than **10%**.
- The **value** of the median **Two-Family** home has increased more than **100%**, compared to an increase in **taxes** of close to **32%**. When measured against the state’s median income for a four-person family, the **tax bill** has decreased close to **2%**.
- The **value** of the median **Three-Family** home has increased close to **108%**, compared to an increase in **taxes** of **27%**. When measured against the state’s median income for a four-person family, the **tax bill** has increased more than **2%**.
- The **value** of the median **Condo** has increased more than **101%**, compared to an increase in **taxes** of approximately **29%**. When measured against the state’s median income for a four-person family, the **tax bill** has not grown.
- The **value** of the average **Commercial** property has increased close to **64%**, compared to an increase in **taxes** of slightly more than **1%**.

It is also interesting to view the ratio of value increases since FY99 to tax increases since FY99 across each property type. Single-Family properties have a ratio of 5.6:1; Two-Family properties have a ratio of 3.8:1; Three-Family properties have a ratio of 3.4:1; Condos have a ratio of 3.5:1; and Commercial properties have a ratio of 51:1. This ratio shows that growth in property values have far outpaced growth in property taxes.



**BROOKLINE TREND:**

	Favorable
X	Marginal
	Unfavorable

**WARNING TREND:**

Increasing median tax bills as a percentage of 4-person median income.

**FORMULA:**

$$\frac{\text{Median Tax Bill}}{\text{Median State Income for 4-Person Family}}$$

SOURCE: Annual Tax Recapitulation Sheets. Assessor's Office. 4-Person Family Median Income from U.S. Census Bureau.

Again, this variable attempts to measure how the growth in median tax bills compares to the growth in the median income for a family of four; stated another way, how the increase in the cost of services compares to the growth in the ability to pay. If tax bills are increasing at a much large rate than the growth in income, then residents may find themselves unable to afford to live in the community. The above graph shows this measurement on a yearly basis for each of the four types of residential properties. The growth has ranged from a decrease of 10.6% for single-family homes, to an increase of 2.5% for three-family homes, and to a 0% increase for condos. Therefore, a rating of Marginal is given. This is a key variable that will be monitored.

7. *Residential Exemption* – In accordance with Chapter 59, Section 5C of State law, municipalities are allowed to apply an exemption of not more than 20% of the average assessed value of residential parcels to residential parcels that are the principal residence of the property taxpayer. Doing so does not reduce the

total tax levy; it simply shifts the tax burden within the residential classification. Therefore, in order to levy the same amount of taxes, the residential tax rate is higher than it would be without the exemption.

**RESIDENTIAL EXEMPTION**

DESCRIPTION	FY99	FY00	FY01	FY02	FY03	FY04	% CHANGE FY99-FY04
Residential Exemption (Value)	71,170	83,240	96,110	105,210	127,220	139,790	96.4%
% Change		17.0%	15.5%	9.5%	32.4%	32.9%	
Residential Exemption (Tax)	1,203.48	1,234.45	1,293.64	1,357.21	1,426.14	1,485.97	23.5%
% Change		2.6%	4.8%	4.9%	10.2%	9.5%	

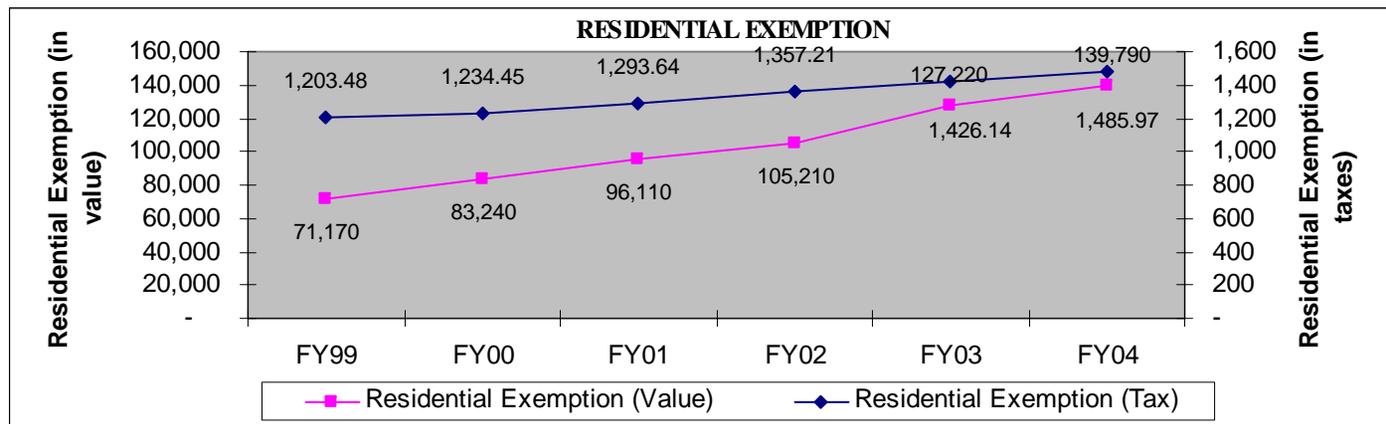
The formula below shows how the Residential Exemption is used for tax bill calculations:

$$(\text{Property Value} - \text{Residential Exemption}) * \text{Tax Rate} = \text{Tax Bill}$$

The example below uses the median valued Condo:

$$(\$346,900 - \$139,790) * 10.63 \text{ per thousand} = \$2,201.58$$

The Town has historically adopted the maximum Residential Exemption (20%). As shown above, each residential property that qualifies for the exemption subtracts \$139,790 from the value of their property (or \$1,485.97 in property taxes). The value of the exemption has increased more than 96% since FY99; when looked at in terms of actual taxes deducted, the increase has been more than 23%.



While variable #8 below goes into greater detail on the effect the Residential Exemption and Classification have on tax bills, it makes sense here to use a simple table that shows the impact of the Residential Exemption on various valued properties that qualify for it (i.e., owner-occupied). As the table on the following page shows, the Residential Exemption results in a lower tax bill for those homes well below the median Single-Family value of \$837,050; a higher tax bill for those

well above; and has virtually no effect on a \$997K home (the “breakeven point”). Again, the changes in tax bills are due to the fact that the tax rate is higher than it would be without the exemption.

PROPERTY VALUE	FY04 RESI. EXEM.	VALUE - RESI. EXEM.	FY04 TAX RATE	FY04 TAX BILL	FY04 TAX RATE	FY03 TAX BILL	(SAVINGS)
					W/O RESI. EXEM. <sup>1</sup>	W/O RESI. EXEM.	OR INCREASE
\$250,000	\$139,790	\$110,210	\$10.63	\$1,171.53	\$9.14	\$2,285.00	(\$1,113.47)
\$500,000	\$139,790	\$360,210	\$10.63	\$3,829.03	\$9.14	\$4,570.00	(\$740.97)
\$750,000	\$139,790	\$610,210	\$10.63	\$6,486.53	\$9.14	\$6,855.00	(\$368.47)
\$837,050	\$139,790	\$697,260	\$10.63	\$7,411.87	\$9.14	\$7,650.64	(\$238.76)
\$997,000	\$139,790	\$857,210	\$10.63	\$9,112.14	\$9.14	\$9,112.58	(\$0.44)
\$1,250,000	\$139,790	\$1,110,210	\$10.63	\$11,801.53	\$9.14	\$11,425.00	\$376.53
\$1,500,000	\$139,790	\$1,360,210	\$10.63	\$14,459.03	\$9.14	\$13,710.00	\$749.03

<sup>1</sup> The FY04 Tax Rate without the Residential Exemption assumes the adoption of the maximum CIP Shift. Variable #8 below shows the tax rate without both the Residential Exemption and Classification.

The overall impact of the Residential Exemption is to reduce the tax bills of lower-valued properties, thereby assisting the owner-occupants of those properties, who presumably are of lesser means than those in the higher-valued homes.

Similar to the Tax Classification variable above (#4), there is no warning trend or rating for this variable, as it is a tax policy issue that is discussed and reviewed annually by the Board of Selectmen. If a rating were to be placed on the variable, it would have to be based on the Selectmen’s past practice of adopting the maximum Residential Exemption, which they have done each of the past number of years. Based on that criterion, the rating would be Favorable.

8. *Effects of Classification and Residential Exemption* – Variables #4 (Tax Classification) and #7 (Residential Exemption) described two tax policy-related options that municipalities have available to them, each of which have some effect on the tax rate setting process. A key to understanding the effects of these tools is remembering that neither has an effect on a municipality’s budget, as neither affect the total amount of taxes that can be levied. The effect is on individual taxpayers and classes of properties.

Shown on the next page are the Single-Family and Commercial portions of the large data table that is included as Appendix B. These portions can be used to illustrate the full effect of and tax policy issues related to these two tax tools.

**EFFECT OF RESIDENTIAL EXEMPTION AND TAX CLASSIFICATION**

	DESCRIPTION	FY99	FY00	FY01	FY02	FY03	FY04	% CHANGE FY99-FY04
<b>SINGLE FAMILY</b>								
1.	Actual Median Tax Bill (Max. Class. & Max. Resi. Exem.)	6,432	6,522	6,809	7,247	7,057	7,412	15.2%
2.	Single Tax Rate (i.e., no Classification or Resi. Exem.)	15.98	14.07	12.68	12.06	10.42	9.86	-38.3%
3.	Median Tax Bill if Single Tax Rate (i.e., no Classification or Resi. Exem.)	7,216	7,359	7,633	8,044	7,885	8,253	14.4%
4.	Variance (Actual - If Single Tax Rate)	(784)	(837)	(824)	(797)	(828)	(841)	7.4%
5.	% Variance	-10.9%	-11.4%	-10.8%	-9.9%	-10.5%	-10.2%	-6.1%
6.	Tax Rate if No Classification; Max. Residential Exemption	18.50	16.34	14.74	14.02	12.12	11.47	-38.0%
7.	Median Tax Bill if No Classification; Max. Resi. Exem.	7,036	7,185	7,458	7,895	7,628	7,998	13.7%
8.	Variance (Actual - If No Class.; Max. Resi. Exem.)	(604)	(663)	(649)	(648)	(571)	(586)	-3.0%
9.	% Variance	-8.6%	-9.2%	-8.7%	-8.2%	-7.5%	-7.3%	-14.6%
10.	Tax Rate if Max. Classification; No Residential Exemption	14.61	12.77	11.58	11.09	9.64	9.14	-37.4%
11.	Median Tax Bill if Max. Classification; No Resi. Exem.	6,597	6,679	6,971	7,397	7,295	7,651	16.0%
12.	Variance (Actual - If Max. Class.; No Resi. Exem.)	(165)	(157)	(162)	(150)	(238)	(239)	44.8%
13.	% Variance	-2.5%	-2.4%	-2.3%	-2.0%	-3.3%	-3.1%	24.8%
<b>COMMERCIAL</b>								
1.	Actual Average <sup>1</sup> Tax Bill	26,498	30,429	30,421	28,758	26,037	26,826	1.2%
2.	Single Tax Rate (i.e., no Classification)	15.98	14.07	12.68	12.06	10.42	9.86	-38.3%
3.	Avg. Tax Bill if Single Tax Rate (i.e., no Classification)	15,177	17,461	17,439	16,461	14,923	15,325	1.0%
4.	Variance (Actual - If Single Tax Rate)	11,321	12,968	12,983	12,298	11,114	11,501	1.6%
5.	% Variance	74.6%	74.3%	74.4%	74.7%	74.5%	75.1%	0.6%

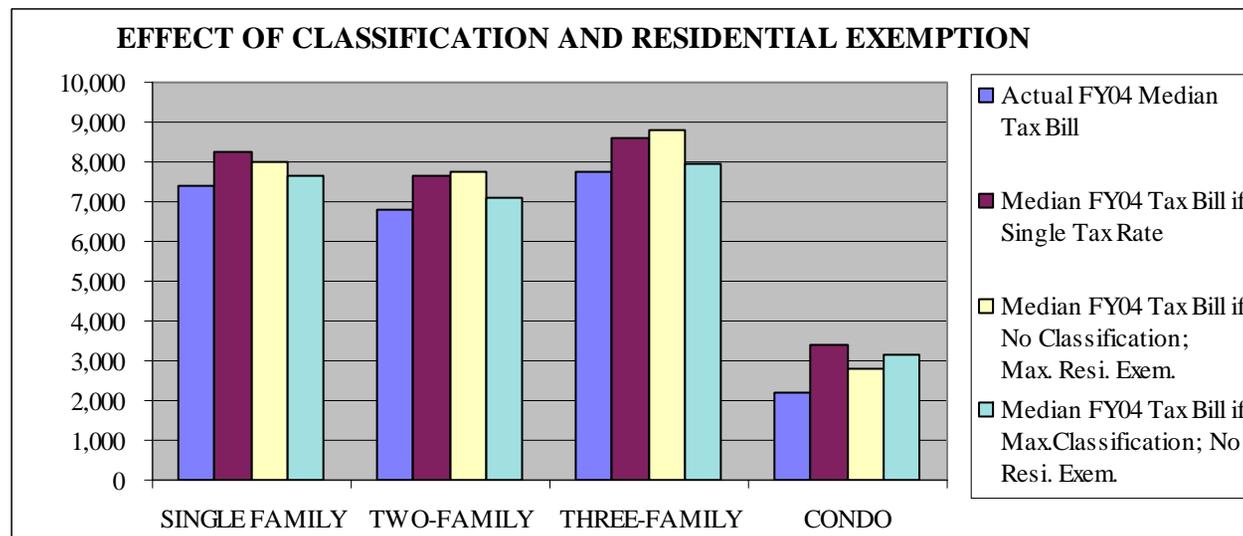
<sup>1</sup> The average value of the CIP property is used instead of the median value because the properties are too varied, and the average produces a more consistent statistic from year to year.  
SOURCE: Annual Tax Recapitulation Sheets. Assessor's Office.

Using the FY04 data contained in the Single-Family section in the table above, the following bullets summarize how the table works:

- The 1<sup>st</sup> row shows what the actual tax bill was for a median valued Single-Family house (\$7,412), when the maximum CIP Shift (Classification) and maximum Residential Exemption were approved;
- The 2<sup>nd</sup> row lists what the Single Tax Rate would have been if Classification and the Residential Exemption were not adopted (\$9.86 per thousand dollars of value);
- The 3<sup>rd</sup> row calculates what the tax bill would have been if a Single Tax Rate was used (\$8,253);
- The 4<sup>th</sup> and 5<sup>th</sup> rows show the difference between the actual tax bill and what it would have been under a single tax rate (the actual tax bill for the owner of a median valued Single-Family home was \$841 less, or 10.2%, than it would have been under a single tax rate);
- The 6<sup>th</sup> row lists what the tax rate would have been if the Residential Exemption was adopted, but Classification was not (\$11.47 per thousand dollars of value);
- The 7<sup>th</sup> row calculates what the tax bill would have been under this scenario (\$7,998);
- The 8<sup>th</sup> and 9<sup>th</sup> rows show the difference between the actual tax bill and what it would have been under this scenario (the actual tax bill for the owner of a median valued Single-Family home was \$586, or 7.3%, less than it would have been under a tax rate based on the adoption of the Residential Exemption, but no Classification);
- The 10<sup>th</sup> row lists what the tax rate would have been if Classification was adopted, but the Residential Exemption was not (\$9.14 per thousand dollars of value);
- The 11<sup>th</sup> row calculates what the tax bill would have been under this scenario (\$7,651);
- The 12<sup>th</sup> and 13<sup>th</sup> rows show the difference between the actual tax bill and what it would have been under this scenario (the actual tax bill for the owner of a median valued Single-Family home was \$239 less, or 3.1%, than it would have been under a tax rate based on the adoption of Classification, but no Residential Exemption).

From the section of the table on the previous page dealing with commercial property, one can see that an average commercial property paid an additional \$11,486 (or 74.9%) in taxes than it would have under a single tax rate (i.e., no Classification). Therefore, the effect of Classification is a \$239 (3.1%) tax break for the median valued Single-Family property at the expense of a \$11,486 (74.9%) increase in the average tax bill for a commercial property.

Graphically, the impact of these two tax policy issues on median tax bills for residential properties is shown below:

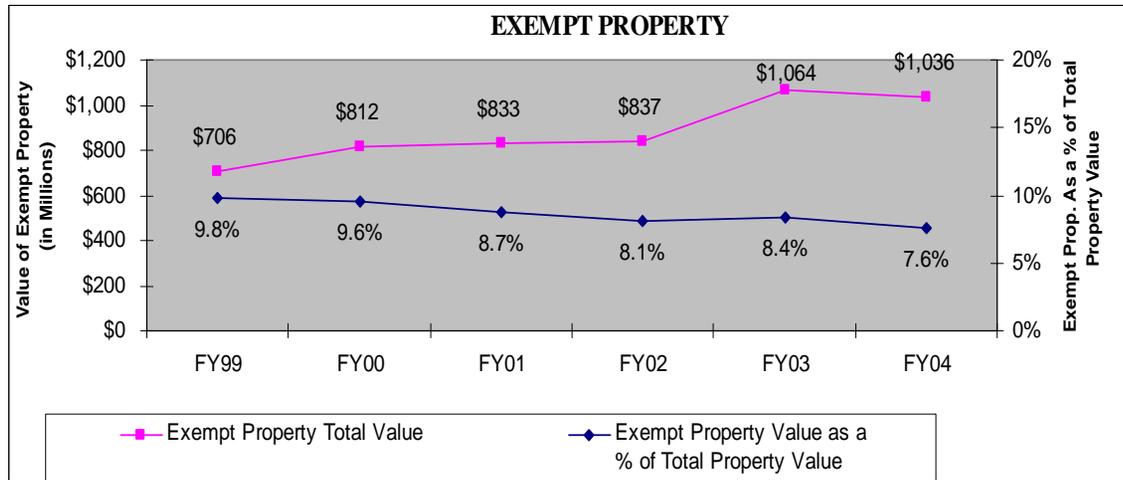


9. *Tax Exempt Properties* – Chapter 59, Section 5 of State law exempts certain properties from taxation. Primarily owned by educational, religious, and other non-profit organizations, the value of these properties must be removed from a community’s tax rate calculations. Analyzing changes in this variable is important because as more properties become tax exempt, the burden on other taxpayers increases.

**TAX EXEMPT VALUES**

DESCRIPTION	FY99	FY00	FY01	FY02	FY03	FY04	% CHANGE FY99-FY04
Total Assessed Value (AV)	6,475,004,500	7,664,932,000	8,738,253,800	9,508,406,600	11,576,640,300	12,658,907,800	95.5%
% Change		18.4%	14.0%	8.8%	21.8%	9.3%	
Exempt Property Total Value	706,077,100	812,488,400	832,586,900	836,840,000	1,063,952,400	1,035,635,900	46.7%
% Change		15.1%	2.5%	0.5%	27.1%	-2.7%	
Exempt Property Value as a % of Total Property Value	9.8%	9.6%	8.7%	8.1%	8.4%	7.6%	-23.1%
% Change		-2.5%	-9.2%	-7.0%	4.1%	-10.2%	

SOURCE: Annual Tax Recapitulation Sheets. Assessor's Office.



**BROOKLINE TREND:**

	Favorable
X	Marginal
	Unfavorable

**WARNING TREND:**

Increasing exempt property value as a percentage of total property value.

**FORMULA:**

$$\frac{\text{Value of Exempt Properties}}{\text{Total Property Value}}$$

SOURCE: Annual Tax Recapitulation Sheets. Assessor's Office.

The table and graph above shows the total value of exempt properties, which has increased by close to 47% since FY99 to \$1.04B. However, when measured as a percentage of the Town’s total taxable assessed value, they have decreased approximately 23%, dropping from 9.8% to 7.6%. While the decrease in exempt properties as a percentage of the total property value is a positive, it stands to reason that a significant factor in the decrease is the dramatic increase (more than 95%) in the value of taxable properties since FY99: with that value growing at rate of more than two times the increase of the tax exempt property value, the tax exempt value will fall as a percentage of the total property value.

The rating given to this variable is Marginal. The decrease in tax exempt value as a percentage of total value from 9.8% to 7.6%, on its face, would make a Favorable rating seem logical, but because of the reason detailed above, a Favorable rating cannot be given. In addition, the simple fact that the value of the tax exempt properties grew by close to 47% and now totals more than \$1B implies that this variable needs to be monitored.

10. *New Growth* – New Growth is defined as taxing capacity added by new construction, major renovations to existing properties, and other increases in the Property tax base. It is calculated by multiplying the value associated with new construction or substantial structure improvements by the tax rate. Outside of a Proposition 2 ½ Override or Debt Exclusion, this is the only means by which the Property tax base can grow.

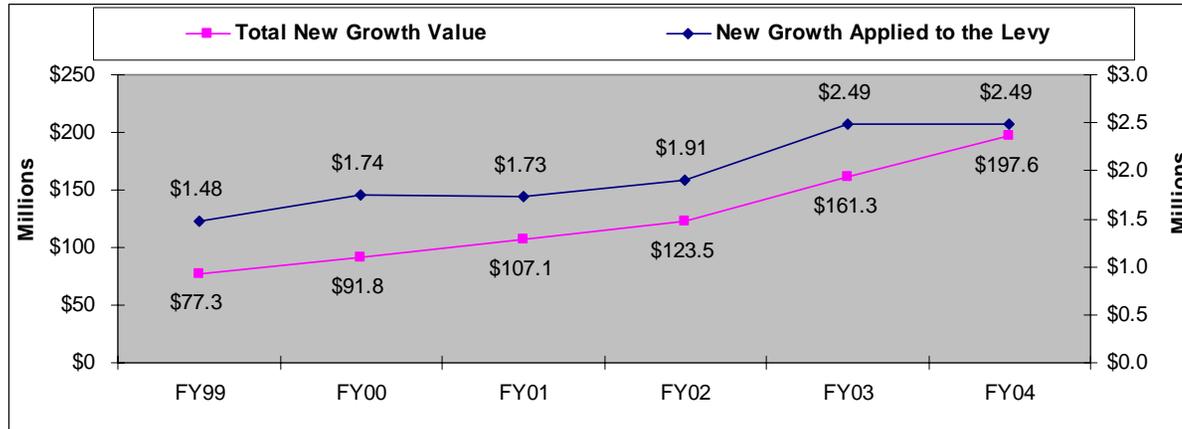
**"NEW GROWTH" ADDED TO THE PROPERTY TAX BASE AND LEVY**

DESCRIPTION	FY99	FY00	FY01	FY02	FY03	FY04	% CHANGE FY99-FY04
Total New Growth Value	77,296,400	91,818,100	107,103,811	123,481,800	161,311,360	197,634,610	155.7%
% Change		18.8%	16.6%	15.3%	30.6%	22.5%	
Amount from Residential Properties	66,712,400	74,608,900	92,726,711	94,975,600	110,997,800	158,095,300	137.0%
% Change		11.8%	24.3%	2.4%	16.9%	42.4%	
Amount from Commercial, Industrial, Personal (CIP) Properties	10,584,000	17,209,200	14,377,100	28,506,200	50,313,560	39,539,310	273.6%
% Change		62.6%	-16.5%	98.3%	76.5%	-21.4%	
<b>Percent Residential</b>	<b>86.3%</b>	<b>81.3%</b>	<b>86.6%</b>	<b>76.9%</b>	<b>68.8%</b>	<b>80.0%</b>	<b>-7.3%</b>
% Change		-5.9%	6.5%	-11.2%	-10.5%	16.3%	
<b>Percent CIP</b>	<b>13.7%</b>	<b>18.7%</b>	<b>13.4%</b>	<b>23.1%</b>	<b>31.2%</b>	<b>20.0%</b>	<b>46.1%</b>
% Change		36.9%	-28.4%	72.0%	35.1%	-35.9%	
New Growth Applied to the Levy	1,475,516	1,741,773	1,727,664	1,908,929	2,491,979	2,491,073	68.8%
% Change		18.0%	-0.8%	10.5%	30.5%	0.0%	
Amount from Residential Properties	1,170,803	1,261,636	1,375,137	1,278,372	1,431,872	1,772,248	51.4%
% Change		7.8%	9.0%	-7.0%	12.0%	23.8%	
Amount from Commercial, Industrial, Personal (CIP) Properties	304,713	480,137	352,527	630,557	1,060,107	718,825	135.9%
% Change		57.6%	-26.6%	78.9%	68.1%	-32.2%	
<b>Percent Residential</b>	<b>79.3%</b>	<b>72.4%</b>	<b>79.6%</b>	<b>67.0%</b>	<b>57.5%</b>	<b>71.1%</b>	<b>-10.3%</b>
% Change		-8.7%	9.9%	-15.9%	-14.2%	23.8%	
<b>Percent CIP</b>	<b>20.7%</b>	<b>27.6%</b>	<b>20.4%</b>	<b>33.0%</b>	<b>42.5%</b>	<b>28.9%</b>	<b>39.7%</b>
% Change		33.5%	-26.0%	61.9%	28.8%	-32.2%	
Prior Year's Levy	87,858,907	92,203,063	96,399,645	100,217,510	104,560,825	109,532,058	24.7%
New Growth Applied to the Levy as a % of Prior Yr.'s Levy	<b>1.68%</b>	<b>1.89%</b>	<b>1.79%</b>	<b>1.90%</b>	<b>2.38%</b>	<b>2.27%</b>	<b>35.4%</b>
% Change		12.5%	-5.1%	6.3%	25.1%	-4.6%	

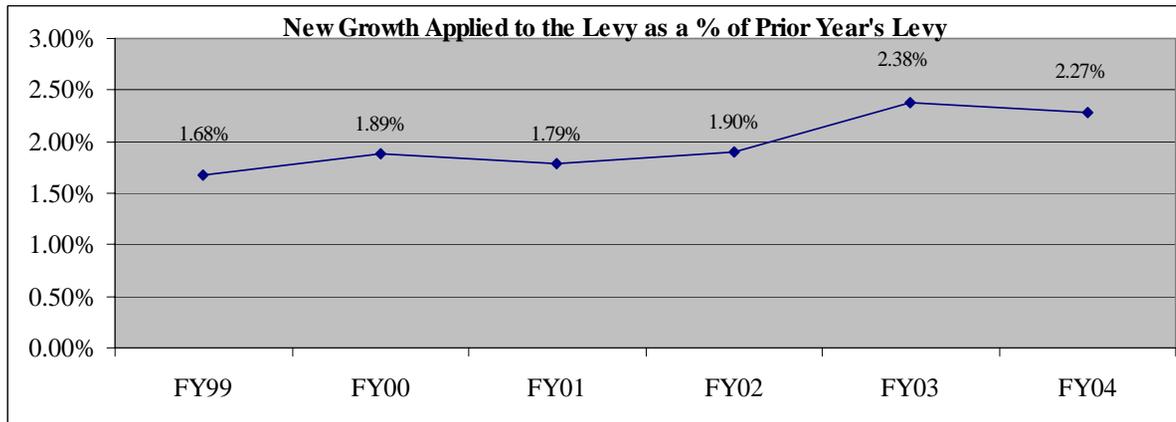
SOURCE: Annual Tax Recapitulation Sheets. Assessor's Office.

In addition to analyzing New Growth in the aggregate (both in total dollars and as a percentage of the prior year’s tax levy), the composition of the growth should also be reviewed. Doing so provides for another indication of what changes, if any, are occurring in which class of property (residential versus commercial) is paying for property taxes.

As depicted in the first graph below, the total assessed value of new growth has increased by close to 156% FY99, increasing from \$77.3M to \$197.6M. This is a very positive trend for the Town, as the taxes associated with the growth (which reached \$2.5M in FY04, an increase of nearly 69%, as shown in the second graph below) support the on-going operations of the Town, including its aggressive Capital Improvements Program. To put that into perspective, the \$2.5M in New Growth was more than 92% of the amount generated by the normal 2 ½% increase allowed by law (\$2.7M) in FY04. These favorable levels of New Growth generated during the late-1990’s – early-2000’s have played a large role in the Town’s positive financial position entering the economic downturn. Measured as a percentage of the prior year’s levy, New Growth reached 2.27%, an increase of nearly 35%. Based on these figures, the variable is given a rating of Favorable.



SOURCE: Annual Tax Recapitulation Sheets. Assessor's Office.



**BROOKLINE TREND:**

X	Favorable
	Marginal
	Unfavorable

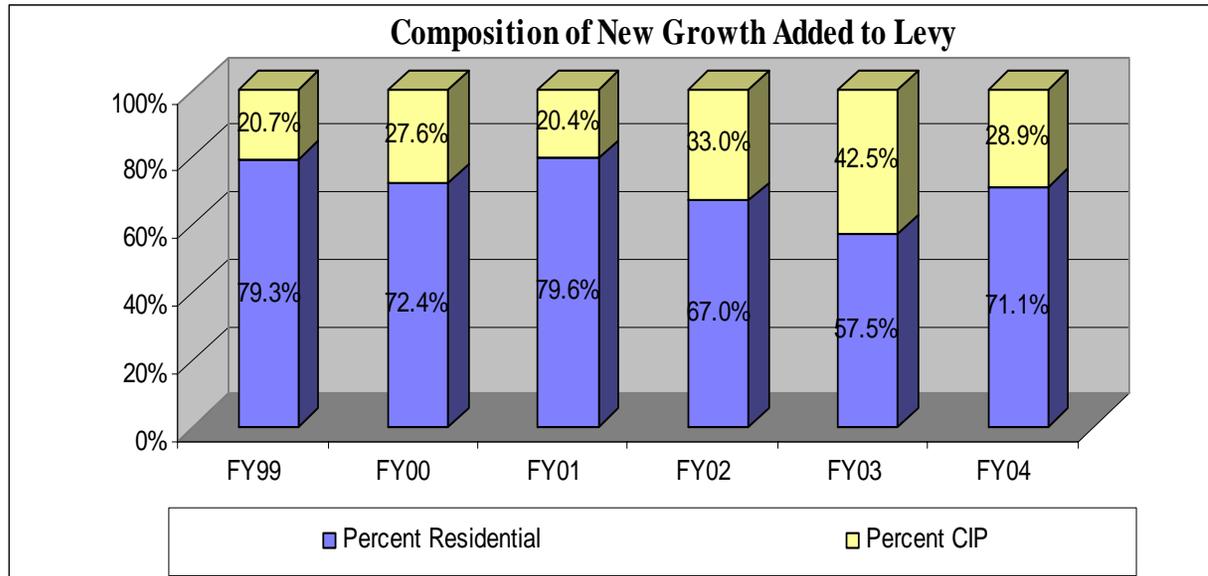
**WARNING TREND:**

Decreasing new growth applied to the levy as a percent of the prior year's levy.

**FORMULA:**

$$\frac{\text{New Growth Applied to Levy}}{\text{Prior Year's Levy}}$$

When the composition of New Growth is analyzed, it becomes quite evident that the residential class is responsible for the vast majority (80% of the value in FY04). Even in terms of taxes generated from New Growth, residential properties are responsible for more than 71%. The graph on the next page shows the annual composition of New Growth added to the tax levy.



**BROOKLINE TREND:**

	Favorable
X	Marginal
	Unfavorable

**WARNING TREND:**

Increasing residential percentage of new growth.

**FORMULA:**

$$\frac{\text{Residential New Growth Applied to Levy}}{\text{Total New Growth Applied to Levy}}$$

SOURCE: Annual Tax Recapitulation Sheets. Assessor's Office.

With the exceptions of FY02 and FY03, commercial properties continually account for less than 30% of the total New Growth added to the tax levy. The increase to 33% in FY02 and the increase to 42.5% in FY03 are a positive and are the cause of the 40% increase in this variable since FY99 (when commercial properties accounted for 20.7%). A rating of Marginal is given based on the fact that, as previously explained, commercial development places less of a burden on municipal services, so the net tax impact is greater than it is for residential development. However, the average of the past three years (34.8%) is a good sign and reflects the Town's efforts toward commercial development.

**APPENDICES**

**Appendix A** State 4-Person Family Median Income History

**Appendix B** Complete Table of the Effect of the Residential Exemption and Tax Classification