TOWN OF BROOKLINE

FISCAL POLICY REVIEW COMMITTEE

FINAL REPORT

May 2011

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FISCAL POLICY REVIEW COMMITTEE

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INTRODUCTION

The adoption of and compliance with prudent fiscal policies should be a basic undertaking for any government. Unfortunately, this does not happen in many governments. Fortunately for the residents of Brookline, the Town takes a proactive approach, with core policies regarding reserves, use of Free Cash, and capital financing serving as the bedrock of the Town's financial planning. While not all of the credit for the Town's ability to withstand the Great Recession better than most municipalities in the Commonwealth can be given to the Town's fiscal policies, they have played a significant role in stabilizing budgets over the past few years, each of which have been historically challenging.

One of the recommendations of the 2003–2004 Fiscal Policy Review Committee (FPRC) was to reconvene the Committee or convene a successor committee in three to five years to revisit the policies at that time. That recommendation was made since it is clear that for policies to maintain their viability over the long term, they must evolve with the circumstances they are intended to address. While it took slightly longer than the recommended three to five year time frame, the Board of Selectmen reconvened the FPRC in 2011. The Committee wants to thank the Board of Selectmen for the opportunity to again become so deeply involved in the fiscal policies of our Town. Each member of the Committee emerged from this experience impressed with the Town's commitment to financial management and the professionalism with which it is carried out.

Committee members have backgrounds that range from management to accounting and finance, with professional experience from the public, private, and non-profit sectors. We volunteered our time because we are all committed to making Brookline an even better place for our families, our local businesses, and all our fellow taxpayers. We believe that our efforts will assist Town decision-makers, both elected and appointed, in meeting the very difficult challenges that are ahead. The Town has had sound fiscal policies in place for more than 15 years and we are hopeful that the recommendations contained within this Report not only update and reinforce them, but also adapt them more specifically to the conditions the Town has recently experienced.

<u>Executive Summary</u>

The Fiscal Policy Review Committee was re-convened on January 13, 2011 at the recommendation of the Town Administrator. When preparing the Fiscal Year FY2012 Financial Plan, the Town Administrator determined that certain budget conditions required actions that were inconsistent with the current fiscal policies of the Town. Most notably, the Town's certified Free Cash balance experienced a one-time increase as a result of the conversion from private insurance premiums to the state's Group Insurance Commission (GIC). At the same time, the Town was experiencing a gradual erosion of its year-end Unreserved Fund Balance (UFB)[1], leading to formal concerns expressed by Moody's Investors Service, the independent rating agency that grades the Town's credit

[1] When calculating this metric, Moody's includes the Town's Stabilization Fund.

when issuing tax-free municipal bonds. The current policies of the Town dictate the allocation of all Free Cash balances, regardless of the impact on the Town's year-end UFB. As a result, the Town Administrator recommended that $1.7 million of Free Cash remain unexpended in FY2012, thus ensuring that the Town's year-end UFB would remain above the 10% of General Fund revenue benchmark identified by Moody's as representative of prudent financial management.

The Town should not take lightly the issue of declining fund balance levels and Moody's concerns about Brookline's downward trend. Ratings agencies have recently used declining fund balance levels as part of their justification in downgrading municipalities. For example, Moody's downgraded Andover. The credit report stated "[T]he downgrade to Aa1 primarily reflects the town's diminished financial position to levels below comparably rated credits and characterized by several years of reduced General Fund balances and lack of excess levy capacity." In other parts of the country, both New Rochelle, NY and Stamford, CT were downgraded for reasons including declining fund balance levels. Avoiding a downgrade is important because it reduces borrowing costs, which is critical for a community like Brookline that has a large inventory of physical assets to maintain and/or improve.

The Town Administrator sought the Committee's approval of this proposal for FY2012 and requested that we perform a comprehensive review of all the Town's fiscal policies and practices. The Committee quickly concluded that all of the Town's fiscal policies were interrelated and that a review of one would necessitate review of all. In addition, the Committee acknowledged that some issues had changed since its last review including, but not limited to, the increasing importance of addressing unfunded liabilities such as Other Post Employment Benefits, or OPEB's (mostly health insurance costs for retired employees). Finally, there were other issues raised during the Advisory Committee's review of the FY2012 budget that related to the Town's fiscal policies, including the formula for allocating Free Cash to support the Affordable Housing Trust Fund.

After several meetings and much deliberation, the Committee has taken the following actions, which result in formal recommendations for Board of Selectmen adoption:

1.) We support the Town Administrator's budget recommendation for FY2012 to withhold the allocation of $1.7 million from Free Cash in order to bolster the Town's year-end fund balance.

2.) We recommend that UFB be formally considered a priority in the Town's fiscal policies. Specifically, we propose that the allocation of Free Cash be done in a manner that ensures the Town's year-end UFB not fall below an amount equivalent to 10% of General Fund revenues.

3.) We recommend a simplification of the Capital Improvement Plan (CIP) financing policy by consolidating separate revenue sources into an overall allocation of 6.0%

of prior year net revenue. In addition, we recommend that the Free Cash policy formally target total capital spending to represent 7.5% of prior year net revenue.

4.) We acknowledge the arbitrary nature of the current allocation formula of Free Cash to the Affordable Housing Trust Fund and recommend that future allocations be made on a need-based formula, with need defined as the fund balance being less than $5 million. For FY2012, we support the Town Administrator's allocation of $355,264 to the Fund.

5.) We recommend that long-term funding of the Town's unfunded financial liabilities, including Employee Pensions and OPEB's, be adopted as a formal fiscal policy of the Town.

The Committee believes that the current fiscal policies have served the Town well and have contributed substantially to its ability to avert large scale reduction in programs and services during the recent economic recession. We feel that the above recommendations provide modest, yet important changes to the policies to make them more responsive and relevant to changing circumstances. Most importantly, the maintenance of adequate UFB levels are critical to provide the Town with financial flexibility and to retain the premier bond rating of Aaa.

Charge to the Committee

On January 13, 2011, the Board of Selectmen appointed members to the Committee and provided them with the following charge:

> *"To review, affirm and revise as necessary the existing financial policies of the Town. The Committee shall also review the need for a new policy regarding Unreserved Fund Balance in order to preserve the Town's Aaa Bond rating."*

As was the case in 2003-2004, the Committee was not given a mandate to review the general quality of Town services or to assess the nature of the Town's tax burden or its relative standing to other cities and towns for overall revenues and expenditures. Previous committees such as the Override Study Committee (2007-2008) and the Efficiency Initiative Committee (2008-2009) carried out these tasks.

In addition to the previously mentioned recommendation in 2004 to have the Town's fiscal policies reviewed in three – five years, the impetus for the reconvening of the FPRC was the combination of Moody's emphasis on the Town's declining UFB level and the impact a one-time accounting change resulting from the Town no longer pre-paying its first month's health insurance premiums had on Free Cash. The Town Administrator's Financial Plan recommended that $1.7 million of Free Cash be left unappropriated so that UFB would not decline any further. That is why the charge to the Committee emphasized UFB.

Approach

The Committee met six times between February 9, 2011 and May 9, 2011, with meetings posted and minutes kept and posted in accordance with the Open Meeting Law. Member attendance was always excellent. At the outset of the Committee's work, general understanding of the Town's financial condition was ascertained from several sources. The Committee was provided with the Annual Financial Plan, the most recent bond prospectus, a history of the development of fiscal policies since 1994, multi-year spreadsheets for various funds showing revenue and expenditure experience, a history of certifications and use of Free Cash, and historical data associated with the Capital Improvement Program (CIP) and the Town's debt characteristics. The Committee never lacked accurate or comprehensive data, as both the charts and tables in the Report and appendices attest. Members were continually impressed with the Administration's ability to generate the information needed to carry out our work.

The format of the Committee's meetings included review of data, discussion, and debate. On two occasions, the Committee invited guests to present information on relevant topics. One such meeting centered on a discussion with external experts on municipal finance. Peter Frazier, Senior VP of First Southwest Company, a top financial advisory and underwriting firm; Richard Sullivan, a partner at Powers & Sullivan, the Town's independent auditor; and Craig Peacock, also a partner at Powers & Sullivan, provided the Committee with a perspective on best practices and trends in municipal finance. The other occasion involved the Chairman of the Housing Advisory Board (HAB) detailing the history of the Affordable Housing Trust Fund and explaining the critical role it plays in both maintaining existing affordable units and creating new ones.

While Moody's was not able to appear before the Committee, staff was able to have a conference call with them. In addition, various Moody's white papers were provided to the Committee, including pieces on fund balances[2] and their rating methodology.[3] These documents were very helpful to the Committee and provided some basic understanding about how Moody's views various characteristics of a community.

The Committee conducted a thorough examination of existing Town policies and practices regarding reserve funds, use of Free Cash, and capital budgeting. Four reserve funds and five various "special revenue funds" were examined:

Reserve Funds:
- Operating Budget Reserve
- Stabilization Fund
- Liability/Catastrophe Fund
- Overlay Reserve

Special Revenue Funds:
- Other Post-Employment Benefits (OPEB's) Trust Fund

[2] "Your General Fund Balance – One Size Does Not Fit All"
[3] "Rating Methodology – General Obligation Bonds Issued by U.S. Local Governments"

Unemployment Trust Fund
Worker's Compensation Trust Fund
Public Safety Injured on Duty (IOD) Medical Expenses Trust Fund
Affordable Housing Trust Fund

The history of establishing each of these funds and their current balances were analyzed. Multi-year funding and expenditure histories were also reviewed. In addition, the linkage of these funds to overall fund balance position was discussed in great detail.

A particular area of focus was the Free Cash policy and the impact it has on capital planning, reserve funding, and, ultimately, on overall fund balance position. As you will read later in this Report, the issue of prioritizing the use of Free Cash was a critical driver of the recommendations of the Committee.

In terms of our examination of CIP Policies, we reviewed them individually. Brookline was evaluated against other municipalities in terms of specific indicators such as debt burden, use of Debt Exclusion Overrides, and levels of pay-as-you-go CIP funding.

The Committee also discussed the issue of unfunded liabilities. Since the 2004 FPRC recommended a suspension in the funding of OPEB's, the Committee thought it was important to review this issue. The OPEB Task Force's report was reviewed with the Committee, as was the Town's current funding plan.

Because of the continuously evolving fiscal environment within which the Town must function, we again recommend that the Board of Selectmen reconvene this Committee or convene a successor committee in three to five years to revisit the policies at that time. Meanwhile, based on past experience, the Committee has every confidence that the Board of Selectmen, Advisory Committee, and Town Administration will continue to follow the policies in their budgetary recommendations to Town Meeting. The principles underlying the policies are critical to the fiscal well being of any large, complex enterprise.

FINDINGS AND RECOMMENDATIONS

Over the past two decades, the Town has taken a proactive approach to financial management. In 1993, the Financial Planning Advisory Committee's (FPAC) was established and tasked with determining how best to cope with the continuing fiscal crisis the Town found itself in. In March of 1994, the Board of Selectmen adopted the "Financial Improvement Program," which was largely shaped by FPAC's recommendations. It was at this point that the foundations of the Town's current fiscal policy infrastructure were born. Formal policies regarding reserve funds and the use of Free Cash were approved, followed by policies concerning the Capital Improvement Program (CIP).

With these core policies serving as the bedrock of the Town's financial planning, Moody's awarded the Town with a Aaa bond rating in 1995, a significant achievement for a town that realized negative Free Cash just a couple years earlier. The Aaa rating is highly coveted because it reduces borrowing costs, which is critical for a community like Brookline that has a large inventory of physical assets including school buildings, streets, recreational facilities, and parks/playgrounds. Maintaining and improving these assets is of vital importance, and having lowered debt service payments because of the Aaa rating means the Town can better afford the capital projects.

Over the past six years, Moody's has referenced the decline in the Town's Unreserved Fund Balance (UFB) [4] as an area of concern. The most recent credit report (February, 2011) stated:

> *"At year-end, available reserve levels (Unreserved General Fund balance and Stabilization Fund) declined by $3.1 million to $21.9 million or 10.5% of revenues. While still healthy, this represents the town's lowest available reserve balance as a percent of revenues since at least 2003."*

A unique situation presented itself during the formulation of the FY2012 Financial Plan: as a result of the Town's conversion to the Group Insurance Commission (GIC) for health insurance, the Town experienced a one-time accounting event[5] that resulted in a $2 million increase in Free Cash (for a total of $7.1 million). In addition to being a one-time event, the pressure by Moody's Rating Service to maintain sufficient "unrestricted" reserves compelled the Town Administrator to recommend leaving a portion of Free Cash unappropriated. He recommended against allocating this additional Free Cash to either the CIP or to employee benefit-related trust funds, as current financial policies dictate.

This recommendation, along with the Fiscal Policy Review Committee (FPRC's) suggestion in 2004 to have the Town's fiscal policies reviewed in three to five years, prompted the Town Administrator to request that the Board of Selectmen reconvene the Committee. The Selectmen wanted the impact of these two concurrent events analyzed. Specifically, the charge given to the Committee was "to review, affirm and revise as

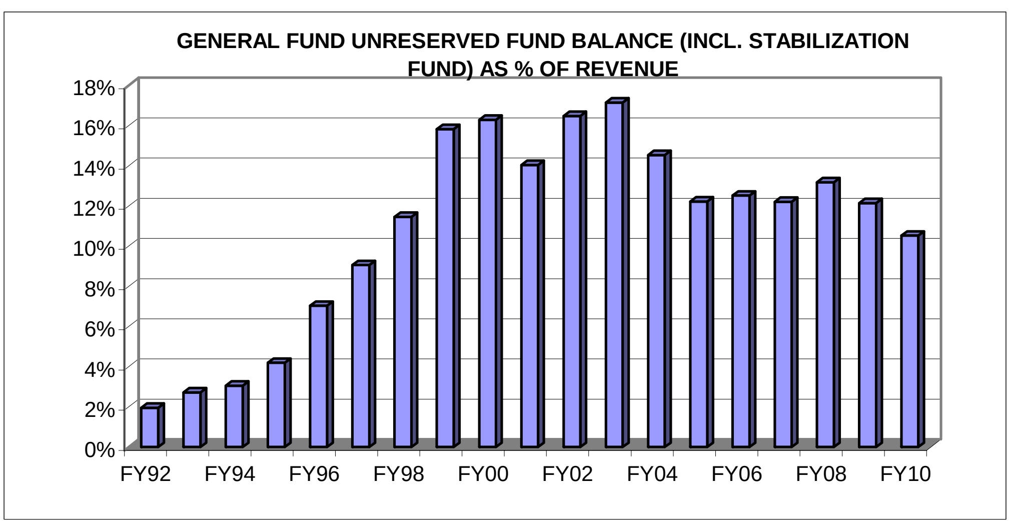
[4] When calculating this metric, Moody's includes the Town's Stabilization Fund.
[5] The Town no longer had to pre-pay its first month's health insurance premium, which resulted in an increase in Free Cash.

necessary the existing financial policies of the Town. The Committee shall also review the need for a new policy regarding Unreserved Fund Balance in order to preserve the Town's Aaa Bond rating."

UFB is defined as that portion of a fund balance available for spending or appropriation in the future. According to GFOA's Best Practice, "it is essential that governments maintain adequate levels of fund balance to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures) and to ensure stable tax rates. Fund balance levels are a crucial consideration, too, in long-term financial planning." Credit rating agencies (e.g., Moody's, Standard and Poor's, Fitch) monitor levels of fund balance in a government's General Fund to evaluate a government's continued creditworthiness. In terms of UFB, Moody's looks for Aaa-rated communities in the Northeast to have levels equivalent to at least 10% of revenue.

The Town should not take lightly the issue of declining fund balance levels and Moody's concerns about Brookline's downward trend. Ratings agencies have recently used declining fund balance levels as part of their justification in downgrading municipalities. For example, Moody's downgraded Andover. The credit report stated "[T]he downgrade to Aa1 primarily reflects the town's diminished financial position to levels below comparably rated credits and characterized by several years of reduced General Fund balances and lack of excess levy capacity." In other parts of the country, both New Rochelle, NY and Stamford, CT were downgraded for reasons including declining fund balance levels. Avoiding a downgrade is important because it reduces borrowing costs, which is critical for a community like Brookline that has a large inventory of physical assets to maintain and/or improve.

Between FY1992 and FY2000, the Town made great strides in improving its UFB level, surpassing the 10% threshold in FY1998 after being at a dangerously low level of less than 2%. After reaching a peak of 17% in FY2003, the level began to decline, hitting 10.5% in FY2010. This downward trend is depicted in the following graph:



The primary cause of the decline has been the tighter budget environment, which produces a smaller operating surplus which, in turn, results in lower levels of Free Cash, all of which is then allocated under the current Free Cash policy.

It is important to understand the relationship between Free Cash and the Town's UFB position. Free Cash is a Massachusetts-specific term used by the Department of Revenue (DOR) that refers to the amount of funds in a community that are unrestricted and available for appropriation. DOR calculates it according to the following formula:

Unreserved Fund Balance
- Property Tax Receivables
- Pre-paid Expenses
- Other Receivables / Overdrawn accounts
<u>+ Deferred Revenue</u>
= Free Cash

The closer the ratio is between UFB and Free Cash, the greater the amount of UFB there is available to spend. With the move to the GIC, the amount of Pre-paid Expenses dropped significantly, meaning an equivalent increase in Free Cash. As shown in the table below, this resulted in more than 50% of UFB being certified as Free Cash, well above the eight-year average of 37.6%:

	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10
Unreserved Fund Balance (UFB)	16,333,526	19,136,869	12,970,991	14,788,319	13,740,291	14,583,500	15,018,734	11,902,900	13,325,032
Certified Free Cash	6,317,276	6,966,241	4,606,533	5,387,436	3,814,792	5,954,963	7,053,293	4,590,080	7,105,288
Free Cash as a % of UFB	**38.7%**	**36.4%**	**35.5%**	**36.4%**	**27.8%**	**40.8%**	**47.0%**	**38.6%**	**53.3%**
							8-Yr Avg=	**37.6%**	

Since, as previously stated, the current Free Cash policy calls for all Free Cash to be allocated, it is quite evident that, with all things being equal, the Town's UFB level could very well decline at the end of FY2011, perhaps to a level below 10%. This is why the Committee voted unanimously at our April 11th meeting to support the Town Administrator's recommendation to leave $1.7 million of Free Cash unallocated as part of the FY2012 budget.

The Committee clearly recognized the need to address this issue on an on-going, more permanent basis and investigated the options available to do so. One option the Committee thoroughly vetted was a concept that arose from the meeting with the representatives from First Southwest Company and Powers & Sullivan. During that meeting, the Committee reviewed data supplied by First Southwest that compared

Brookline to the 27 communities in Massachusetts rated Aaa by either Moody's or S&P [6] in terms of debt, levels of Free Cash, fund balance levels, and "excess capacity".[7]

The metric that caught the attention of the Committee was the level of outstanding debt per capita: Brookline had the second lowest level of the 27 communities. This was something the Committee delved into in great detail, as it seemed counterintuitive to the observation that the Town has done a remarkable job of maintaining and improving its capital assets. With the Town having been able to fund the construction of new facilities (Senior Center and the Municipal Service Center), undertake major renovations of schools, libraries, the Health Center, Town Hall, the Swimming Pool, and the Public Safety Headquarters, and complete significant public works projects (landfill closure and Beacon St. reconstruction), the question was "how could Brookline have such comparatively low-levels of debt?".

The analysis showed that the answer, in part, lies in the Town's policies regarding CIP funding and Free Cash allocation. In summary, these policies result in an average of $6.8 million in cash being made available for pay-as-you-go CIP (i.e., cash instead of borrowing). This is shown in the table below:

	FY06	FY07	FY08	FY09	FY10	FY11	FY12
Tax Supported portion of 5.5% Policy	1,712,208	1,809,820	2,017,460	1,664,896	1,005,470	2,113,691	1,707,580
Free Cash Supported	3,779,809	4,491,704	2,891,385	5,020,852	3,121,351	3,670,340	4,413,752
2008 Override	0	0	0	750,000	768,750	787,969	807,668
Overlay Supported	0	950,000	850,000	0	255,000	0	0
Capital Project Surplus	0	623,039	169,155	590,000	830,000	0	0
FY11 One-Time Classroom Capacity $ from Schools Hea Ins Surplus	0	0	0	0	0	530,000	
From Parking Meters	0	0	0	0	0	0	50,000
Total Pay-as-you-go CIP	**5,492,017**	**7,874,563**	**5,928,000**	**8,025,748**	**5,980,572**	**7,101,999**	**6,979,001**

The three primary and on-going components of the pay-as-you-go funding stream (the portion of the 5.5% policy, Free Cash, and funds from the 2008 Override) alone average $6 million. Based on survey data collected during the Committee's work, Brookline dedicates more funding for pay-as-you-go CIP than its comparable communities. As shown in the table on the following page, Brookline's pay-as-you-go commitment to the CIP is 3.3% of revenue, the highest in the dataset.

[6] 15 communities are rated Aaa by Moody's, the Town's rating agency.

[7] Excess Capacity is the difference between the maximum allowable property tax levy and the actual amount of property tax levied by the community.

Community	General Fund Revenue	Pay-Go CIP	Pay-Go CIP % of Rev
Andover	$131,934,684	$1,246,000	0.9%
Arlington	$113,954,730	$1,201,900	1.1%
Belmont	$83,752,934	$2,190,185	2.6%
Brookline	**$208,587,542**	**$6,979,000**	**3.3%**
Cambridge	$443,288,905	$2,625,000	0.6%
Hingham	$81,794,382	$865,000	1.1%
Lexington	$152,709,711	$3,570,174	2.3%
Needham	$114,561,620	$2,388,749	2.1%
Wayland	$66,902,456	$1,325,000	2.0%
Wellesley	$124,394,832	$3,008,242	2.4%
Weston	$65,023,678	$1,030,940	1.6%

The second part of the answer is that many communities rely very heavily on Debt Exclusion Overrides to fund major capital projects, an approach very different from Brookline's. The table below provides a history of the impact debt exclusions have had on the tax levy for various communities. Looking at the FY2011 data, you see that Brookline, at $1.26 million, has the third lowest amount of debt service supported by debt exclusions.[8] At the other end, communities such as Wellesley, Needham, and Weston have between $7 million - $9 million in excluded debt. While Brookline employs a larger pay-as-you-go component of CIP funding, thereby avoiding the need to borrow, the data shows some communities relying more on debt -- a large percentage of which is funded via debt exclusions.

DEBT EXCLUSION HISTORY - YEARLY IMPACT ON TAX LEVY

FY	Andover	Arlington	Belmont	Brookline	Concord	Framingham	Hingham	Lexington	Needham	Wayland	Wellesley	Weston	Winchester
97	2,482,482		1,805,533	**113,419**	544,685		1,446,965	1,174,088	1,863,648	2,156,724	1,012,450	2,392,836	
98	1,877,982		1,244,817	**675,200**	545,529		1,302,135	1,100,500	1,790,518	2,207,897	1,053,610	2,439,162	
99	1,781,413	1,220,822	1,441,944	**1,437,500**	772,688		1,302,443	1,033,500	1,770,054	2,115,815	1,289,940	2,816,518	
00	1,693,184	1,087,354	1,260,694	**2,149,296**	725,749		1,939,253	120,000	1,804,690	1,932,166	1,246,141	2,806,387	235,200
01	1,564,873	1,146,216	793,294	**1,867,645**	681,370		2,329,475	950,625	565,270	2,226,515	1,196,313	3,521,830	631,538
02	2,835,792	2,007,525	748,059	**1,832,812**	842,228	152,058	3,834,399	1,708,200	2,313,793	2,259,826	2,467,635	4,625,641	1,116,431
03	3,543,906	2,052,096	778,734	**1,744,870**	713,204	433,639	2,127,582	1,567,988	2,348,951	2,002,940	2,136,637	5,556,449	1,164,868
04	3,912,680	2,000,153	2,300,660	**1,705,344**	1,568,997	481,567	2,363,839	4,189,338	2,405,964	1,861,951	2,378,815	5,599,897	1,029,848
05	3,335,446	2,056,781	2,842,494	**1,676,384**	1,839,238	652,504	2,245,492	5,325,085	2,893,456	1,605,706	2,315,579	5,664,039	981,714
06	3,051,543	1,197,479	2,736,044	**1,648,734**	2,486,543	1,306,243	2,164,337	4,943,313	4,318,355	1,787,414	2,416,689	5,921,949	1,199,384
07	3,110,790	1,755,952	3,051,318	**1,614,854**	2,693,506	300,625	2,061,859	5,127,256	5,878,925	1,891,476	3,794,401	6,476,641	1,105,679
08	2,909,928	1,436,024	3,278,106	**1,568,947**	3,026,989	297,824	1,944,873	5,275,147	5,712,046	1,560,666	3,743,003	6,687,232	1,004,931
09	3,173,848	1,119,201	3,670,145	**1,692,696**	3,931,336	316,082	1,924,819	4,251,286	5,244,802	1,495,331	4,876,375	7,174,302	968,988
10	3,037,491	1,025,542	3,368,022	**1,667,074**	4,512,636	290,841	4,163,858	5,746,386	6,004,469	2,215,392	6,504,370	7,205,908	1,313,394
11	2,860,362	945,868	4,817,671	**1,258,944**	4,015,430	417,180	3,843,474	5,753,549	7,255,895	2,933,339	8,954,943	6,810,118	1,753,702
TOTAL	**41,171,720**	**19,051,013**	**34,137,535**	**22,653,719**	**28,900,128**	**4,648,563**	**34,994,803**	**48,266,261**	**52,170,836**	**30,253,158**	**45,386,901**	**75,698,909**	**12,505,677**

[8] The Town's share (net of State assistance) of the High School and New Lincoln School projects were funded via Debt Exclusions.

The table below shows the extent to which these communities rely on debt exclusions, as measured by excluded debt as a percent of total General Fund debt service. As it shows, at 14% of debt service being funded by the additional taxes allowed only by the passage of a debt exclusion, Brookline is at the low end. Conversely, eight of the communities have excluded debt comprising 50% or more of total debt, with Weston at 96%.

Community	FY10 Gen Fund Debt Svc	FY10 Debt Exclusion Debt Service	FY10 Excluded Debt as % of Total
Andover	$13,107,947	$3,037,491	23.2%
Arlington	$7,670,000	$1,025,542	13.4%
Belmont	$4,707,866	$3,368,022	71.5%
Brookline	**$11,886,156**	**$1,667,074**	**14.0%**
Cambridge	$45,872,232	$0	0.0%
Concord	$6,929,638	$4,512,636	65.1%
Framingham	$8,723,176	$290,841	3.3%
Hingham	$7,956,755	$4,163,858	52.3%
Lexington	$10,002,472	$5,746,386	57.4%
Needham	$9,943,937	$6,004,469	60.4%
Newton	$14,372,208	$0	0.0%
Wayland	$4,244,865	$2,215,392	52.2%
Wellesley	$10,838,934	$6,504,370	60.0%
Weston	$7,507,792	$7,205,908	96.0%
Winchester	$9,646,007	$1,313,394	13.6%

By definition, debt exclusions are increases in taxes, so the impact they have on property tax bills over time was reviewed. While the data could not isolate solely on the impact debt exclusions have had on tax bills,[9] the overall growth in tax bills over a period of time can be measured. Clearly, there is a correlation between a heavier reliance on debt exclusions and larger increases in taxes. The table on the following page shows the growth in the average single family (SF) tax bill and in the average residential (resi) tax bill[10] since FY2000.

During this period, Brookline's SF tax bill increased 57% while the average residential tax bill grew 48%. The average growth of the data set is 85% (SF) and 82% (residential), meaning Brookline's growth was about 2/3's of the data set for SF and less than 60% of the data set for residential. Some communities realized tax bill growth twice as large as Brookline's (e.g., Lexington and Wellesley). If you look at those communities that are heavily dependent on debt exclusions to fund capital projects, you see larger tax bill growth.

[9] Other causes of growth in tax bills are (a) the general 2 ½% annual increase in the levy, (b) general overrides for operating purposes, (c) adoption of the Community Preservation Act (CPA), and (d) shifts in the allocation of taxation between commercial and residential properties.

[10] The average residential tax bill is important to look at because there are communities where single family homes are not the majority of the housing stock, Brookline being one of them. In Brookline, less than 30% of residential parcels are single family homes, while approximately 60% are condos.

MUNICIPALITY	DATA	2000	2011	FY11 vs FY00
ANDOVER	AVG SF TAX BILL	4,598	7,480	62.7%
	AVG RESI TAX BILL	4,501	7,135	58.5%
BELMONT	AVG SF TAX BILL	5,356	9,676	80.7%
	AVG RESI TAX BILL	4,795	8,182	70.6%
BROOKLINE	**AVG SF TAX BILL**	**7,921**	**12,439**	**57.0%**
	AVG RESI TAX BILL	**5,116**	**7,573**	**48.0%**
CAMBRIDGE	AVG SF TAX BILL			
	AVG RESI TAX BILL	3,682	5,459	48.3%
CONCORD	AVG SF TAX BILL	5,655	11,074	95.8%
	AVG RESI TAX BILL	5,534	10,916	97.2%
DOVER	AVG SF TAX BILL	6,209	12,074	94.5%
	AVG RESI TAX BILL	6,730	13,097	94.6%
HINGHAM	AVG SF TAX BILL	4,447	7,224	62.4%
	AVG RESI TAX BILL	4,341	7,536	73.6%
LEXINGTON	AVG SF TAX BILL	4,689	10,032	113.9%
	AVG RESI TAX BILL	4,671	9,933	112.7%
NEWTON	AVG SF TAX BILL	5,318	8,592	61.6%
	AVG RESI TAX BILL	4,988	7,920	58.8%
WAYLAND	AVG SF TAX BILL	5,917	11,471	93.9%
	AVG RESI TAX BILL	6,094	11,448	87.9%
WELLESLEY	AVG SF TAX BILL	5,084	11,281	121.9%
	AVG RESI TAX BILL	5,125	11,192	118.4%
WESTON	AVG SF TAX BILL	8,064	15,835	96.4%
	AVG RESI TAX BILL	8,323	15,840	90.3%
WINCHESTER	AVG SF TAX BILL	5,175	9,167	77.1%
	AVG RESI TAX BILL	4,928	8,427	71.0%

AVG GROWTH OF THE AVG SF TAX BILL	84.8%
AVG GROWTH OF THE AVG RESI TAX BILL	81.8%

BROOKLINE vs AVG GROWTH OF THE AVG SF TAX BILL	67.2%
BROOKLINE vs AVG GROWTH OF THE AVG RESI TAX BILL	58.7%

It is evident that some of these communities view debt exclusions as part of their CIP financing strategy. By doing this, less on-going revenue is required for debt service, thereby leaving more funding available for operating purposes. However, it makes funding major capital projects more challenging, and perhaps less likely, since they must be approved by the electorate via the debt exclusion vote. This is the opposite of how Brookline approaches its capital financing: 5.5% of revenue + funding from the 2008 Override + more than ¾'s of Free Cash (on average) provides significant resources for the CIP, dramatically lessening the need for debt exclusions.

Another common measure of debt that was reviewed and compared against comparables was General Fund debt service as a percent of revenue. The table on the following page shows that Brookline, at 5%, has the lowest percentage. However, this debt measure can be skewed because of simple math: for smaller communities, the debt service associated with financing a major capital project ends up being a much higher percentage of revenue. For example, a $25 million school project results in a debt service payment of approximately $2.375 million in the first year, which is equal to approximately 3.7% for a town like Weston or Wayland; for Brookline it would equal approximately 1%. Add to this the pay-as-you-go CIP / Debt Exclusion analysis from above and you can see why Brookline tends to fall at the lower end of the scale in terms of debt measurements.

Community	GF Revenue	GF Debt Svc	GF Debt Svc % of Rev
Andover	$131,934,684	$8,118,664	6.2%
Arlington	$113,954,730	$8,019,440	7.0%
Belmont	$83,752,934	$6,074,259	7.3%
Brookline	**$208,587,542**	**$10,344,421**	**5.0%**
Cambridge	$443,288,905	$46,287,067	10.4%
Hingham	$81,794,382	$7,387,904	9.0%
Lexington	$152,709,711	$10,668,333	7.0%
Needham	$114,561,620	$11,406,472	10.0%
Wayland	$66,902,456	$7,776,459	11.6%
Wellesley	$124,394,832	$14,652,519	11.8%
Weston	$65,023,678	$7,483,112	11.5%

This debt analysis was an important part of the Committee's work, as it showed that while other communities may be investing more of their budget in capital as measured by outstanding debt and debt service ratios, it is (a) being accomplished by increased taxes on the residents and (b) being skewed by the size of a community's budget. Tax bills in those communities that have relied on debt exclusions for capital in lieu of having a sufficient on-going revenue stream dedicated for capital have grown at a far higher rate than Brookline's. Therefore, those facts should be considered when looking at both total CIP funding and debt ratios. The Committee believes that Brookline's ability to comparatively limit the growth in tax bills while maintaining a robust CIP is a testament to the financial management of the Town, which is guided by the fiscal policies that have been in place.

Even with this Debt Exclusion analysis, the Committee was still interested in the possibility of taking a slightly different approach to CIP funding, specifically looking at the comparatively larger pay-as-you-go CIP component than its comparables. The Committee was intrigued with the possibility of leveraging those funds further. In other words, would it be practicable to borrow for some of the projects planned for as pay-as-you-go and use that capacity as the more permanent solution to the declining fund balance issue?

The FY2012 – FY2017 CIP was reviewed and the pay-as-you-go CIP projects shown on the following page were identified as the projects that could be borrowed for instead of being funded with cash, while at the same time maintaining a balanced CIP:

	FY12	FY13	FY14	FY15	FY16	FY17	TOTAL
Fire Sta Renov	$625	$320	$195	$190			$1,330
Billy Ward Playground	$660						$660
Clark Playground	$510						$510
Larz Anderson Park				$250			$250
Soule Playground					$500		$500
Pierce School (Aud, Elec Distrib)	$750		$350				$1,100
Swimming Pool						$550	$550
TOTAL	**$2,545**	**$320**	**$545**	**$440**	**$500**	**$550**	**$4,900**
Estimated Debt Service (cumul.)		$363	$397	$435	$484	$540	$2,219
Net Change in Pay-Go CIP	**$2,545**	**($43)**	**$148**	**$5**	**$16**	**$10**	**$2,681**

This model showed that a one-time sizeable appropriation ($2.545 million) could be made to the Stabilization Fund by borrowing for the projects shown in FY2012 instead of paying for them in cash. In order to maintain the schedule of projects included in the CIP and to keep it in balance, the projects shown in FY2013 – FY2017 would also have to be funded via borrowing instead of with cash. There was one significant issue with this approach, however, and that is the impact the Devotion School project has on the CIP in FY2018. As detailed in the Town's FY2012 Financial Plan (pages I-21 and VII-5), at current estimates, the sheer size of the project would push the Town over its 5.5% CIP policy. By borrowing for the projects shown in the table above instead of paying for them in cash, the amount above the 5.5% policy in FY2018 grows, as shown in the table below:

Based on Current Debt Management Plan	FY16	FY17	FY18
Prior Yr Net Rev	$213.979	$221.299	$227.845
Existing Net Debt	$5.459	$5.079	$4.503
New Debt from Prior FY's	$2.270	$3.257	$5.689
New Debt in that FY	$1.079	$2.589	$2.546
Total Net Debt	$8.808	$10.925	$12.738
Net Debt as a % of Rev	4.1%	4.9%	5.6%
Pay-Go CIP	1.4%	0.6%	-0.1%

Based on Additional Borrowing Model	FY16	FY17	FY18
Prior Yr Net Rev	$213.979	$221.299	$227.845
Existing Net Debt	$5.459	$5.079	$4.503
New Debt from Prior FY's	$2.692	$3.726	$6.055
New Debt in that FY	$1.141	$2.496	$2.460
Total Net Debt	$9.292	$11.301	$13.018
Net Debt as a % of Rev	4.3%	5.1%	5.7%
Pay-Go CIP	1.2%	0.4%	-0.2%

Because of the position the CIP is in for FY's 17-18 resulting from the Devotion School project, it did not make sense to follow the approach of borrowing more now and using that free-up capacity to help stabilize the fund balance issue. In addition, this would be a one-time infusion as opposed to the more permanent solution that is required.

However, the Committee found the analyses very helpful in generating thoughts about how to develop an alternate approach that helps the Town realize the goal of protecting against further erosion of the Town's fund balance levels. The Committee then focused its attention on Free Cash and the possibility of devising an approach to maintain / improve fund balance position while at the same time not reducing the Town's commitment to the CIP and not hindering the ability to address fund balances in employee-related funds (e.g., worker's comp, unemployment).

The revised Free Cash Policy being proposed uses "Unreserved Fund Balance + Stabilization Fund as a percent of revenue" as the "trigger" for Free Cash support of the fund balance issue. We recommend that if the ratio is less than 10%, then Free Cash will be used[11] to get that variable to the 10% level, with a goal of 12.5%. It was evident that the Town has many needs that Free Cash can go toward, and up until this time, maintaining an UFB at a level deemed prudent by the ratings agencies has not been one of them. In fact, the current Free Cash policy is in direct conflict with such a goal since all certified Free Cash is "spent", thereby almost assuring that the UFB level will decline in the ensuing year.

The current Free Cash policy has worked very well and has allowed the Town to address a number of critical needs (e.g., Landfill-related corrective action and related settlement costs, bringing up fund balances of employee-related benefits funds, and funding capital needs that arise during the CIP process). However, at this point in time the Town should amend its Free Cash Policy so that the issue of declining UFB can be addressed, while at the same time potentially steering additional funds to unfunded liabilities, all without dramatically altering the level of funding available for the CIP. It simply comes down to prioritizing the use of Free Cash, and the Committee believes the model being proposed does this.

An important part of the Free Cash Policy being recommended by the Committee relates to CIP funding. The proposal was born out of the analysis detailed above concerning pay-as-you-go CIP -- further evidence of the complex inter-relationships between the Town's policies for reserves, Free Cash, and CIP funding. The Committee is recommending that Free Cash be used to bring "Total CIP Funding" up to 7.5% of the prior year's net revenue, which is the percentage equivalent of the dollar amount used to program the "out-years" of the CIP. This is shown in the table on the following page:

[11] In this instance, Free Cash can be "used" by either leaving it unallocated or appropriating it into the Stabilization Fund.

	FY13	FY14	FY15	FY16	FY17
Net Revenue	**$200.09**	**$206.36**	**$213.98**	**$221.30**	**$227.84**
5.5% CIP					
Tax Supported	$1.89	$2.24	$2.98	$2.96	$1.25
Debt Financed	$8.81	$8.76	$8.37	$8.81	$10.93
BAN's	$0.10	$0.10	$0.10	$0.10	$0.10
Total 5.5% CIP	**$10.80**	**$11.10**	**$11.45**	**$11.87**	**$12.27**
Other Revenue-Financed CIP					
Free Cash Supported	$3.06	$3.02	$2.99	$2.96	$2.94
2008 Override	$0.83	$0.85	$0.87	$0.89	$0.91
From Parking Meters	$0.05	$0.05	$0.05	$0.05	$0.05
Total Other Rev-Financed CIP	**$3.94**	**$3.92**	**$3.91**	**$3.90**	**$3.91**
GRAND TOTAL CIP	**$14.74**	**$15.02**	**$15.36**	**$15.77**	**$16.18**
Grand Total CIP as % of Prior Yr Net Rev	**7.6%**	**7.5%**	**7.4%**	**7.4%**	**7.3%**

Historically, Total CIP Funding has ranged from 7.5% to 9% of revenue, as shown in the table below. The difference between the 7.5% used to build the out-years of the CIP and the historical range of 7.5% - 9% is a combination of (1) the use of infusions of one-time monies to augment the CIP and (2) Free Cash available for the CIP exceeding the estimate used for the out-years (which is approximately $3 million per year). Typically, a Free Cash certification that is greater than the estimate allows the Town to move projects forward, fund new projects, and/or fund increases in project cost estimates.

	FY06	FY07	FY08	FY09	FY10	FY11	FY12
Net Revenue	**$159.38**	**$167.51**	**$174.65**	**$183.42**	**$185.70**	**$187.72**	**$194.58**
5.5% CIP							
Tax Supported	$1.71	$1.81	$2.02	$1.66	$1.01	$2.11	$1.71
Debt Financed	$6.67	$6.91	$6.45	$7.57	$7.86	$7.64	$8.56
BAN's	$0.20	$0.11	$0.10	$0.12	$0.29	$0.09	$0.10
Total 5.5% CIP	**$8.58**	**$8.83**	**$8.57**	**$9.35**	**$9.15**	**$9.84**	**$10.36**
Other Revenue-Financed CIP							
Free Cash Supported	$3.78	$4.49	$2.89	$5.02	$3.12	$3.67	$4.41
2008 Override	$0.00	$0.00	$0.00	$0.75	$0.77	$0.79	$0.81
Overlay Supported	$0.00	$0.95	$0.85	$0.00	$0.26	$0.00	$0.00
Capital Project Surplus	$0.00	$0.62	$0.17	$0.59	$0.83	$0.00	$0.00
FY11 One-Time Classroom Capacity $ from Schools Hea Ins Surplus	$0.00	$0.00	$0.00	$0.00	$0.00	$0.53	$0.00
From Parking Meters	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.05
Total Other Rev-Financed CIP	**$3.78**	**$6.06**	**$3.91**	**$6.36**	**$4.98**	**$4.99**	**$5.27**
GRAND TOTAL CIP	**$12.36**	**$14.89**	**$12.48**	**$15.71**	**$14.13**	**$14.83**	**$15.64**
Grand Total CIP as % of Prior Yr Net Rev	**8.1%**	**9.3%**	**7.5%**	**9.0%**	**7.7%**	**8.0%**	**8.3%**

Since the core CIP Financing Policy is the dedication of 5.5% of the prior year's net revenue for capital purposes, the 7.5% - 9% in Total CIP Funding means that Free Cash, the 2008 Override Funding, and any other one-time funds appropriated for CIP purposes has added funding equivalent to 2% - 3.5% of revenue. For the out-years of the CIP, it means that Free Cash, the 2008 Override Funding, and Parking Meter Receipts add 2% to the core 5.5% Policy.

Therefore, the Committee recommends amending the Free Cash Policy to say that, after funding the annual Operating Budget Reserve (priority one), using Free Cash to the extent required to have the UFB at a level of at least 10% of revenue (priority two), and funding the Liability/Catastrophe Fund to the extent necessary to maintain that fund at an amount equivalent to 1% of prior year net revenue (priority three), remaining Free Cash should be used to bring Total CIP Funding to a level equivalent to 7.5% of prior year net revenue. This establishes a "floor" for CIP funding and does not diminish the overall level of commitment; rather, it recognizes that this has been the historical level of funding for the CIP.

Another issue related to Free Cash that the Committee studied was the current policy that triggers an appropriation into the Affordable Housing Trust Fund (AHTF) once Free Cash exceeds $6 million. The Town's Advisory Committee questioned the appropriateness of the current formula, appropriately described as having a "cliff effect." The primary concern voiced about the formula is that at $5,999,999, not one dollar is allocated to the AHTF; however, at $6 million, $350,000 (5%) would go into the AHTF. A swing of $350,000 because of an additional dollar of Free Cash does raise questions about the construct of the current policy.

After meeting with the Chair of the Housing Advisory Board (HAB) and Town staff, the Committee is recommending a "need based trigger" based on the fund balance of the AHTF. This is the same approach taken to funding the Operating Budget Reserve (a stated and proven need for a 1% fund), the UFB (a stated and proven need for a balance of at least 10%), the Liability/Catastrophe Fund (a stated and proven need for a 1% fund), and the CIP (a stated and proven need for funding equivalent to 7.5%). The recommendation is to have 10% of remaining Free Cash go to the AHTF if the fund balance in the fund falls below $5 million. The fund balance in the AHTF has been at least $5 million figure since FY06, as shown in the table on the following page:

AFFORDABLE HOUSING TRUST FUND	2004	2005	2006	2007	2008	2009	2010
Prior Year Fund Balance	3,742,815	3,697,754	4,535,020	5,258,404	5,460,803	5,511,692	6,402,773
Free Cash	316,455	348,312					
Sale of 154 University Rd		676,846					
Inclusionary Zoning (Developers)	410,133	1,077,623	349,203	554,254	187,275	550,372	0
Loan Repayments		358,339	135,014			221,000	
Misc			5,000				
Interest	43,425	102,676	249,165	299,894	257,114	119,709	49,911
Total Revenue	770,013	2,563,797	738,383	854,149	444,389	891,081	49,911
Housing Projects	815,073	1,726,530		651,750	393,500		1,000,000
Appraisal Svcs							
Planning Consulting Svcs			14,999				
Conferences							
Total Expenditures	815,073	1,726,530	14,999	651,750	393,500	0	1,000,000
Trust Fund Balance	**3,697,754**	**4,535,020**	**5,258,404**	**5,460,803**	**5,511,692**	**6,402,773**	**5,452,684**

The $5 million level is also the dollar amount required to fund HAB's goal of creating or maintaining 25 affordable units annually. Having a fund balance of this size is important if the fund is to continue to act as "bridge funding" for affordable housing projects.

The Committee discussed how any remaining Free Cash should be allocated. The current "Special Use" category of the Free Cash Policy states that "Free Cash may be used to augment the trust funds related to fringe benefits and unfunded liabilities related to employee benefits." The Committee recommends that greater emphasis be placed on using remaining Free Cash, if any, for aiding in the funding of the Town's unfunded liabilities, such as OPEB's and pensions. The language being recommended allows for that to occur.

Under this proposal, if, after funding the Operating Budget reserve, addressing the UFB issue, funding (if required) the Liability/Catastrophe reserve at the 1% level, bringing Total CIP Funding up to 7.5%, and funding (if required) the AHTF, a Free Cash balance remains, the Town would have flexibility in where to allocate it. It could go to augment the CIP, or into the OPEB trust fund, or into one/some of the other employee-related trust funds, or into the AHTF above the amount called for by the formula. This is where the issue of prioritization of needs comes in again. We envision the Town Administrator, through his Financial Plan, making the recommendation, which would then obviously be vetted through the normal budget review process.

The following summarizes the Committee's recommendation on how to allocate Free Cash, which was approved unanimously at the meeting on April 11, 2011:

1. <u>Appropriated Budget Reserve</u> – an amount equivalent to 0.25% of the prior year's net revenue is appropriated as part of the Town's 1% Appropriated Budget Reserve Fund.

2. <u>Unreserved Fund Balance / Stabilization Fund</u> – Free Cash is used to maintain an Unreserved Fund Balance plus Stabilization Fund in an amount equivalent to no less than 10% of revenue, with a goal of 12.5%.

3. <u>Liability/Catastrophe Fund</u> – Free Cash is used to reach the 1% funding target of the Town's Liability/Catastrophe Fund.

4. <u>Capital Improvement Program (CIP)</u> – remaining Free Cash is dedicated to the CIP so that total CIP funding as a percent of the prior year's net revenue is not less than 7.5%.

5. <u>Affordable Housing Trust Fund (AHTF)</u> – 10% of remaining Free Cash is used for the AHTF if the unreserved fund balance in the fund is less than $5 million.

6. <u>Special Use</u> – any remaining Free Cash is used to augment the trust funds related to fringe benefits, unfunded liabilities related to employee benefits, including pensions and Other Post-Employment Benefits (OPEB's), and other one-time uses, including additional funding for the CIP and AHTF.

In might be helpful to look at a couple of different scenarios, as doing so shows how the Free Cash sequencing works and what the dollar amounts could be. Each scenario on the following page shows three different levels of Free Cash ($5 million, $6 million, and $7 million) with the assumptions of (1) a need of $500,000 to fund 25% of the Operating Budget Reserve, (2) a need of $150,000 to fully-fund the Liability/Catastrophe Fund, and (3) a need to make a deposit into the AHTF.

Scenario A assumes no need to address the UFB issue (meaning that ratio is above 10%). Scenarios B through D show the need to address the UFB issue, each at different amounts. Under Scenario A, all needs are met at any Free Cash certification and amounts remain for the Special Use category. At the other end, Scenario D shows how, at a $5 million Free Cash certification and the need to address the UFB issue, there would not be enough Free Cash to fully-fund the CIP at 7.5% or to make a deposit into the AHTF.

SCENARIO A - Unreserved Fund Balance/Stabilization Fund Above 10%						
Free Cash Certification	1. Reserve Fund	2. Unreserved Fund Balance/ Stabilization Fund	3. Liability/ Catastrophe	4. CIP	5. AHTF	6. Spec Use
$5,000,000	$500,000	$0	$150,000	$3,000,000	$135,000	$1,215,000
$6,000,000	$500,000	$0	$150,000	$3,000,000	$235,000	$2,115,000
$7,000,000	$500,000	$0	$150,000	$3,000,000	$335,000	$3,015,000
SCENARIO B - Unreserved Fund Balance/Stabilization Fund Below 10% -- $1M required						
Free Cash Certification	1. Reserve Fund	2. Unreserved Fund Balance/ Stabilization Fund	3. Liability/ Catastrophe	4. CIP	5. AHTF	6. Spec Use
$5,000,000	$500,000	$1,000,000	$150,000	$3,000,000	$35,000	$315,000
$6,000,000	$500,000	$1,000,000	$150,000	$3,000,000	$135,000	$1,215,000
$7,000,000	$500,000	$1,000,000	$150,000	$3,000,000	$235,000	$2,115,000
SCENARIO C - Unreserved Fund Balance/Stabilization Fund Below 10% -- $1.5M required						
Free Cash Certification	1. Reserve Fund	2. Unreserved Fund Balance/ Stabilization Fund	3. Liability/ Catastrophe	4. CIP	5. AHTF	6. Spec Use
$5,000,000	$500,000	$1,500,000	$150,000	$2,850,000	$0	$0
$6,000,000	$500,000	$1,500,000	$150,000	$3,000,000	$85,000	$765,000
$7,000,000	$500,000	$1,500,000	$150,000	$3,000,000	$185,000	$1,665,000
SCENARIO D - Unreserved Fund Balance/Stabilization Fund Below 10% -- $2M required						
Free Cash Certification	1. Reserve Fund	2. Unreserved Fund Balance/ Stabilization Fund	3. Liability/ Catastrophe	4. CIP	5. AHTF	6. Spec Use
$5,000,000	$500,000	$2,000,000	$150,000	$2,350,000	$0	$0
$6,000,000	$500,000	$2,000,000	$150,000	$3,000,000	$35,000	$315,000
$7,000,000	$500,000	$2,000,000	$150,000	$3,000,000	$135,000	$1,215,000

The final recommendation of the Committee is related to the CIP Financing Policy. As currently written, the amount provided to the CIP is stated as a percent of prior year net revenue (5.5%) plus a dollar amount from the 2008 Override, adjusted for inflation. The Committee recommends simplifying this so that it is all expressed in percentage terms. When the 5.5% plus funding from the 2008 Override (inflated) plus the $50,000 from the Parking Meter Fund is added, it is equal to 6% of the prior year's net revenue. This is shown in the table on the following page:

	FY13	FY14	FY15	FY16	FY17	FY18
5.5% CIP						
Tax Supported	$1.89	$2.24	$2.98	$2.96	$1.25	($0.21)
Debt Financed	$8.81	$8.76	$8.37	$8.81	$10.93	$12.74
BAN's	$0.10	$0.10	$0.10	$0.10	$0.10	$0.10
Total 5.5% CIP	**$10.80**	**$11.10**	**$11.45**	**$11.87**	**$12.27**	**$12.63**
Other Revenue-Financed CIP						
2008 Override	$0.83	$0.85	$0.87	$0.89	$0.91	$0.94
From Parking Meters	$0.05	$0.05	$0.05	$0.05	$0.05	$0.05
Total Other Rev-Financed CIP	**$0.88**	**$0.90**	**$0.92**	**$0.94**	**$0.96**	**$0.99**
TOTAL CIP W/O FREE CASH	**$11.68**	**$12.00**	**$12.37**	**$12.81**	**$13.24**	**$13.62**
Total CIP w/o Free Cash as % of Prior Yr Net Rev	**6.0%**	**6.0%**	**6.0%**	**6.0%**	**6.0%**	**6.0%**

In addition to simplifying the formula, it has the added benefit of ameliorating the issue of the 5.5% policy being exceeded in FY2018. The Tax Supported portion goes from -$210K in the table above to $930K as shown in the table below:

	FY13	FY14	FY15	FY16	FY17	FY18
6% CIP						
Tax Supported	$2.86	$3.24	$4.02	$4.03	$2.35	$0.93
Debt Financed	$8.81	$8.76	$8.37	$8.81	$10.93	$12.74
BAN's	$0.10	$0.10	$0.10	$0.10	$0.10	$0.10
Total 6% CIP	**$11.77**	**$12.11**	**$12.48**	**$12.94**	**$13.38**	**$13.77**
Other Revenue-Financed CIP						
2008 Override	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
From Parking Meters	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Total Other Rev-Financed CIP	**$0.00**	**$0.00**	**$0.00**	**$0.00**	**$0.00**	**$0.00**
TOTAL CIP W/O FREE CASH	**$11.77**	**$12.11**	**$12.48**	**$12.94**	**$13.38**	**$13.77**
Total CIP w/o Free Cash as % of Prior Yr Net Rev	**6.0%**	**6.0%**	**6.0%**	**6.0%**	**6.0%**	**6.0%**

While the "Total CIP w/o Free Cash" increases, it does so only slightly.[12] It should be clear that is not the reason why the issue of exceeding the 5.5% policy in FY2018 goes away. Rather, that is accomplished simply by staying within the "true" current CIP funding level of 5.5% of prior year net revenue + the 2008 Override + $50K in Parking Meter receipts, which is equivalent to 6%.

[12] Total CIP funding increases in the first year because of rounding up to 6%. In the out-years, it increases due to that same reason and because both the Override funding and the Meter receipts are tied to Net Revenue, which grows approximately 3%/year, whereas the Override funding has been increased 2.5%/yr and the Meter receipts were a flat amount.

CONCLUSION

As stated at the beginning of this Report, the adoption of and compliance with prudent fiscal policies should be a basic undertaking for any government. Fortunately for the residents of Brookline, the Town takes a proactive approach, with core policies regarding reserves, use of Free Cash, and capital financing serving as the bedrock of the Town's financial planning. The Committee believes that the current fiscal policies have served the Town well and have contributed substantially to its ability to avert large scale reduction in programs and services during the recent economic recession.

We feel that the following recommendations provide modest, yet important changes to the policies to make them more responsive and relevant to changing circumstances. Most importantly, the maintenance of adequate Unreserved Fund Balance (UFB) levels is critical to provide the Town with financial flexibility and to retain the premier bond rating of Aaa.

- We recommend that UFB be formally considered a priority in the Town's fiscal policies. Specifically, we propose that the allocation of Free Cash be done in a manner that ensures the Town's year-end UFB[13] not fall below an amount equivalent to 10% of general fund revenues. This is accomplished by using the following Free Cash sequencing:

    1.) <u>Appropriated Budget Reserve</u> – an amount equivalent to 0.25% of the prior year's net revenue is appropriated as part of the Town's 1% Appropriated Budget Reserve Fund.

    2.) <u>Unreserved Fund Balance / Stabilization Fund</u> – Free Cash is used to maintain an Unreserved Fund Balance plus Stabilization Fund in an amount equivalent to no less than 10% of revenue, with a goal of 12.5%.

    3.) <u>Liability/Catastrophe Fund</u> – Free Cash is used to reach the 1% funding target of the Town's Liability/Catastrophe Fund.

    4.) <u>Capital Improvement Program (CIP)</u> – remaining Free Cash is dedicated to the CIP so that total CIP funding as a percent of the prior year's net revenue is not less than 7.5%.

    5.) <u>Affordable Housing Trust Fund (AHTF)</u> – 10% of remaining Free Cash is used for the AHTF if the unreserved fund balance in the fund is less than $5 million.

    6.) <u>Special Use</u> – any remaining Free Cash is used to augment the trust funds related to fringe benefits, unfunded liabilities related to employee benefits, including pensions and Other Post-Employment Benefits (OPEB's), and other one-time uses, including additional funding for the CIP and AHTF.

[13] Again, when calculating this metric, Moody's includes the Town's Stabilization Fund.

- We recommend a simplification of the Capital Improvement Plan (CIP) financing policy by consolidating separate revenue sources into an overall allocation of 6.0% of prior year net revenue. In addition, we recommend that the Free Cash policy formally target total capital spending to represent 7.5% of prior year net revenue.

- We acknowledge the arbitrary nature of the current allocation formula of Free Cash to the Affordable Housing Trust Fund and recommend that future allocations be made on a need-based formula. Specifically, the Committee recommends a "need based trigger" based on the fund balance of the AHTF. The recommendation is to have 10% of remaining Free Cash go to the AHTF if the fund balance in the fund falls below $5 million.

- We recommend that long-term funding of the Town's unfunded financial liabilities, including Employee Pensions and OPEB's, be adopted as a formal fiscal policy of the Town.

In addition, the Committee unanimously recommends two actions directly related to the FY2012 budget:

- to support the Town Administrator's budget recommendation for FY2012 to withhold the allocation of $1.7 million from Free Cash in order to bolster the Town's year-end fund balance.

- to support the Town Administrator's allocation of $355,264 to the Affordable Housing Trust Fund.

Lastly, as a result of the continuously evolving fiscal environment within which the Town must function, we again recommend that the Board of Selectmen reconvene this Committee or convene a successor committee in three to five years to revisit the policies at that time.

It is our belief that these recommendations result in the Town having a formal UFB Policy, something the Town currently lacks, that does not reduce the level of commitment to the CIP or to other important reserves. This is accomplished by creating a new Free Cash Policy that better prioritizes the needs of the Town. In addition, the Town will have a formal Unfunded Liability policy.

Each of these proposed policies are included in their entirety in the Appendix.

APPENDIX A: RECOMMENDED POLICIES

RESERVE POLICIES

The establishment and maintenance of adequate financial reserves provide the Town of Brookline with financial flexibility and security and is recognized as an important factor considered by bond rating agencies, the underwriting community and other stakeholders. The Town shall maintain the following general, special, and strategic reserve funds:

- **Budget Reserve** – to respond to extraordinary and unforeseen financial obligations, an annual budget reserve shall be established under the provisions of MGL Chapter 40, Section 6. The funding level shall be an amount equivalent to 1% of the prior year's net revenue, maintained in the manner set out below. Any unexpended balance at the end of the fiscal year must go toward the calculation of free cash; no fund balance is maintained.

    - Funding from Property Tax Levy – an amount equivalent to 0.75% of the prior year's net revenue shall be allocated from the Property Tax levy to the Appropriated Budget Reserve.
    - Funding from Free Cash – an amount equivalent to 0.25% of the prior year's net revenue shall be allocated from Free Cash, per the Town's Free Cash Policies, to the Appropriated Budget Reserve.

- **Unreserved Fund Balance / Stabilization Fund** – the Town shall maintain an Unreserved Fund Balance plus Stabilization Fund in an amount equivalent to no less than 10% of revenue, as defined in the Town's Audited Financial Statements, with a goal of 12.5%. If the balance falls below 10% at the end of the fiscal year, then Free Cash shall be used to bring the amount up to 10%, as described in the Free Cash Policy, as part of the ensuing fiscal year's budget. The Stabilization Fund shall be established under the provisions of MGL Chapter 40, Section 5B.

1. The Stabilization Fund may only be used under the following circumstances:
    a. to fund capital projects, on a pay-as-you-go basis, when available Free Cash drops below $2 million in any year; and/or
    b. to support the operating budget when Net Revenue, as defined in the CIP policies, increases less than 3% from the prior fiscal year.

2. The level of use of the Stabilization Fund shall be limited to the following:
    a. when funding capital projects, on a pay-as-you-go basis under #1a. above, no more than $1 million may be drawn down from the fund in any fiscal year. The maximum draw down over any three year period shall not exceed $2.5 million.
    b. when supporting the operating budget under #1b. above, the amount drawn down from the fund shall be equal to the amount necessary to bring the year-over-year increase in the Town's prior year net revenue to 3%, or $1 million, whichever is less. The maximum draw down over any three year period shall not exceed $2.5 million.

3. In order to replenish the Stabilization Fund if used, in the year immediately following any draw down, an amount at least equivalent to the draw down shall be deposited into the fund. Said funding shall come from Free Cash.

- **Liability / Catastrophe Fund** – established by Chapter 66 of the Acts of 1998, and amended by Chapter 137 of the Acts of 2001, this fund shall be maintained in order to protect the community against major facility disaster and/or a substantial negative financial impact of litigation. The uses of and procedures for accessing the fund are described in the above referenced special act. The target fund balance is 1% of the prior year's net revenue and funding shall come from available Free Cash and other one-time revenues.

- **Overlay Reserve** – established per the requirements of MGL Chapter 59, Section 25, the Overlay is used as a reserve, under the direction of the Board of Assessors, to fund property tax exemptions and abatements resulting from adjustments in valuation. The Board of Selectmen shall, at the conclusion of each fiscal year, require the Board of Assessors to submit an update of the Overlay reserve for each fiscal year, including, but not limited to, the current balances, amounts of potential abatements, and any transfers between accounts. If the balance of any fiscal year overlay exceeds the amount of potential abatements, the Board of Selectmen may request the Board of Assessors to declare those balances surplus, for use in the Town's Capital Improvement Plan (CIP) or for any other one-time expense.

FREE CASH POLICIES

Free Cash shall not be used for Operating Budget purposes. It shall be utilized in the following manner and order:

1. Appropriated Budget Reserve – an amount equivalent to 0.25% of the prior year's net revenue shall be appropriated as part of the Town's 1% Appropriated Budget Reserve Fund, as allowed for under MGL Chapter 40, Section 6 and as described in the Town's Reserve Policies.

2. Unreserved Fund Balance / Stabilization Fund – Free Cash shall be used to maintain an Unreserved Fund Balance plus Stabilization Fund in an amount equivalent to no less than 10% of revenue, as defined in the Town's Audited Financial Statements, with a goal of 12.5%, as described in the Town's Reserve Policies. If the Stabilization Fund were drawn down in the immediate prior fiscal year, then an allocation shall be made to the Fund in an amount at least equivalent to the draw down of the immediate prior fiscal year.

3. Liability / Catastrophe Fund – to the extent necessary, Free Cash shall be used to reach the funding target of the Town's Liability / Catastrophe Fund, as described in the Town's Reserve Policies.

4. Capital Improvement Program (CIP) – remaining Free Cash shall be dedicated to the CIP so that total CIP funding as a percent of the prior year's net revenue is not less than 7.5%, to the extent made possible by available levels of Free Cash.

5. Affordable Housing Trust Fund (AHTF) – in order to support the Town's efforts toward creating and maintaining affordable housing, 10% of remaining Free Cash shall be appropriated into the AHTF if the unreserved fund balance in the AHTF, as calculated in the Town's financial system, is less than $5 million.

6. Special Use – remaining Free Cash may be used to augment the trust funds related to fringe benefits, unfunded liabilities related to employee benefits, including pensions and Other Post-Employment Benefits (OPEB's), and other one-time uses, including additional funding for the CIP and AHTF.

CAPITAL IMPROVEMENT PROGRAM (CIP) POLICIES

Planning, budgeting and financing for the replacement, repair and acquisition of capital assets is a critical component of the Town of Brookline's financial system. Prudent planning and funding of its capital infrastructure ensures that the Town can continue to provide quality public services in a financially sound manner. The development of a Capital Improvement Program (CIP) is the mechanism that the Town uses to identify projects, prioritize funding and create a long-term financial plan that can be achieved within the limitations of the Town's budget.

Definition of a CIP Project

A capital improvement project is any project that improves or adds to the Town's infrastructure, has a substantial useful life, and costs $25,000 or more, regardless of funding source. Examples of capital projects include the following:

- Construction of new buildings
- Major renovation of or additions to existing buildings
- Land acquisition or major land improvements
- Street reconstruction and resurfacing
- Sanitary sewer and storm drain construction and rehabilitation
- Water system construction and rehabilitation
- Major equipment acquisition and refurbishment
- Planning, feasibility studies, and design for potential capital projects

Evaluation of CIP Projects

The capital improvement program shall include those projects that will preserve and provide, in the most efficient manner, the infrastructure necessary to achieve the highest level of public services and quality of life possible within the available financial resources.

Only those projects that have gone through the CIP review process shall be included in the CIP. The CIP shall be developed in concert with the operating budget and shall be in conformance with the Board's CIP financing policy. No project, regardless of the funding source, shall be included in the CIP unless it meets an identified capital need of the Town and is in conformance with this policy.

Capital improvement projects shall be thoroughly evaluated and prioritized using the criteria set forth below. Priority will be given to projects that preserve essential infrastructure. Expansion of the capital plan (buildings, facilities, and equipment) must be necessary to meet a critical service. Consideration shall be given to the distributional effects of a project and the qualitative impact on services, as well as the level of disruption and inconvenience.

The evaluation criteria shall include the following:

- Eliminates a proven or obvious hazard to public health and safety
- Required by legislation or action of other governmental jurisdictions
- Supports adopted plans, goals, objectives, and policies
- Reduces or stabilizes operating costs
- Prolongs the functional life of a capital asset of the Town by five years or more
- Replaces a clearly obsolete facility or maintains and makes better use of an existing facility
- Prevents a substantial reduction in an existing standard of service
- Directly benefits the Town's economic base by increasing property values
- Provides new programs having social, cultural, historic, environmental, economic, or aesthetic value
- Utilizes outside financing sources such as grants

CIP Financing Policies

An important commitment is to providing the funds necessary to fully address the Town's capital improvement needs in a fiscally prudent manner. It is recognized that a balance must be maintained between operating and capital budgets so as to meet the needs of both to the maximum extent possible.

For the purposes of these policies, the following definitions apply:

- Net Operating Revenue - Gross revenues, less net debt exclusion funds, enterprise (self-supporting) operations funds, free cash, grants, transfers from other non-recurring non-general funds, and non-appropriated costs.
- Net Direct Debt (and Debt Service) - Gross costs from local debt, less Prop 2 1/2 debt exclusion amounts and amounts from enterprise operations.
- Net Tax-Financed CIP - Gross amount of appropriations for capital improvements from current revenues, less amounts for enterprise operations, grants, free cash, transfers, and non-recurring special revenue funds.

The capital improvements program shall be prepared and financed in accordance with the following policies:

OUTSIDE FUNDING
State and/or federal grant funding shall be pursued and used to finance the capital budget wherever possible.

ENTERPRISE OPERATIONS - SELF SUPPORTING
Capital projects for enterprise operations shall be financed from enterprise revenues solely.

CIP BUDGET ALLOCATIONS - 6% OF NET REVENUES

Total net direct debt service and net tax-financed CIP shall be maintained at a level equivalent to 6% of prior year net operating revenues.

- TAX FINANCED ALLOCATION - 1.5% OF NET REVENUES
  Net tax-financed capital expenditures shall be maintained at a target level equivalent to 1.5% of prior year net operating revenues.

- DEBT-FINANCED ALLOCATION - 4.5% OF NET REVENUES
  Net direct debt service shall be maintained at a target equivalent to 4.5% of prior year net operating revenues.

DEBT MANAGEMENT POLICIES

Debt financing of capital projects shall be utilized in accordance with the following policies:

- Debt financing for projects supported by General Fund revenue shall be reserved for capital projects and expenditures which either cost in excess of $250,000 or have an anticipated life span of five years or more, or are expected to prolong the useful life of a capital asset by five years or more. For projects supported by Enterprise Fund revenue, debt financing shall be reserved for capital projects and expenditures that cost in excess of $100,000.

- Bond maturities shall not exceed the anticipated useful life of the capital project being financed. Except for major buildings and water and sewer projects, bond maturities shall be limited to no more than ten years.

- Bond maturities shall be maintained so that at least 60% of the outstanding net direct debt (principal) shall mature within 10 years.

- Total outstanding general obligation debt shall not exceed 2.5% of the total assessed value of property.

- Total outstanding general obligation debt per capita shall not exceed $2,385, which reflects $2,000 inflated annually since July 1, 2004. This amount shall continue to be adjusted annually by the consumer price index (CPI) for all urban consumers (northeast region all items).

- Total outstanding general obligation debt per capita shall not exceed 6% of per capita income, as defined by the Census Bureau of the U.S. Department of Commerce.

FREE CASH

After using free cash in accordance with the Town's free cash policy, available free cash shall be used to supplement the CIP so that total CIP funding as a percent of the prior year’s net revenue is not less than 7.5%, to the extent made possible by levels of available free cash.

UNFUNDED LIABILITIES POLICY

Defined as “the actuarial calculation of the value of future benefits payable less the net assets of the fund at a given balance date”, unfunded liabilities represent a significant financial obligation for all levels of government across the country. In Brookline and other Massachusetts municipalities, the two primary unfunded liabilities are for Pensions and Other Post-Employment Benefits (OPEB’s).

- <u>Pensions</u> – the Contributory Retirement System is a defined benefit program that is governed by Massachusetts General Laws, Ch. 32 and is regulated by the Public Employee Retirement Administration Commission (PERAC), a State entity responsible for the oversight, guidance, monitoring, and regulation of Massachusetts' 105 public pension systems. Funding for this system covers the costs of employees who are part of the Town's retirement system, which does not include teachers, as their pensions are funded by the State.

  In accordance with State law, PERAC regulations and government accounting standards, the Town contracts for an actuarial valuation of the retirement system to quantify the unfunded liability on a biennial basis. Under current State law, the Town then establishes a funding schedule to fully-fund this liability by 2040. The Town shall continue to fund this liability in the most fiscally prudent manner, recognizing the fact that the adoption of a funding schedule is, by law, the responsibility of the local retirement board.

- <u>OPEB’s</u> – these consist primarily of the costs associated with providing health insurance for retirees and their spouses. The Government Accounting Standards Board (GASB) issued Statements No. 43 and No. 45 in 2004 to address the OPEB issue. GASB 43 required the accrual of liabilities of OPEB generally over the working career of plan members rather than the recognition of pay-as-you-go contributions, while GASB 45 required the accrual of the OPEB expense over the same period of time. The reporting requirements of GASB 43 and 45 include disclosures and schedules providing actuarially determined values related to the funded status of the OPEB. This requires that the accrued liabilities be determined by a qualified actuary using acceptable actuarial methods.

  While there is currently no legal requirement to fund OPEB’s, the Town shall continue to follow its plan to move toward fully-funding the Annual Required Contribution (ARC), ultimately developing a funding schedule that fully-funds OPEB’s according to a schedule similar to the pension funding schedule. This plan should continue to include annual increases in the portion of the appropriation supported by General Fund revenues. It should also include using the “run-off” from the pension system once that system is fully-funded. In order to determine the funding schedule, the Town shall continue its current practice of having an independent actuary prepare biennial valuations, which is in compliance with GASB’s requirement.

APPENDIX B: FUND BALANCE HISTORY

FUND BALANCE HISTORY

DESCRIPTION	FY92	FY93	FY94	FY95	FY96	FY97	FY98	FY99	FY00	FY01
Revenue	97,771,469	102,520,492	106,550,632	113,548,343	121,197,506	124,801,670	132,858,076	139,855,227	150,247,660	163,587,289
Transfers In	1,604,690	1,667,651	1,708,406	2,978,381	2,336,511	2,307,098	1,520,198	1,402,798	1,481,884	3,333,409
Total Revenue	99,376,159	104,188,143	108,259,038	116,526,724	123,534,017	127,108,768	134,378,274	141,258,025	151,729,544	166,920,698

General Fund Balance	3,351,704	4,927,250	5,153,145	7,638,501	13,247,823	17,165,097	20,705,814	23,815,689	33,079,566	32,731,903
$ Change		1,575,546	225,895	2,485,356	5,609,322	3,917,274	3,540,717	3,109,875	9,263,877	(347,663)
% Change		47.0%	4.6%	48.2%	73.4%	29.6%	20.6%	15.0%	38.9%	-1.1%
As a % of Rev	**3.4%**	**4.7%**	**4.8%**	**6.6%**	**10.7%**	**13.5%**	**15.4%**	**16.9%**	**21.8%**	**19.6%**

Unreserved Gen. Fund Balance	1,934,700	2,834,606	3,298,807	4,885,878	8,686,207	11,510,011	14,648,372	20,725,866	21,308,614	19,703,536
$ Change		899,906	464,201	1,587,071	3,800,329	2,823,804	3,138,361	6,077,494	582,748	(1,605,078)
% Change		46.5%	16.4%	48.1%	77.8%	32.5%	27.3%	41.5%	2.8%	-7.5%
As a % of Rev	**1.9%**	**2.7%**	**3.0%**	**4.2%**	**7.0%**	**9.1%**	**10.9%**	**14.7%**	**14.0%**	**11.8%**

Stab. Fund Balance							740,798	1,621,642	3,401,765	3,726,109
$ Change							740,798	880,844	1,780,123	324,344
% Change								118.9%	109.8%	9.5%
As a % of Rev							**0.6%**	**1.1%**	**2.2%**	**2.2%**

Stab. Fund Balance + Unres. Gen Fund Bal.	1,934,700	2,834,606	3,298,807	4,885,878	8,686,207	11,510,011	15,389,170	22,347,508	24,710,379	23,429,645
$ Change		899,906	464,201	1,587,071	3,800,329	2,823,804	3,879,159	6,958,338	2,362,871	(1,280,734)
% Change		46.5%	16.4%	48.1%	77.8%	32.5%	33.7%	45.2%	10.6%	-5.2%
As a % of Rev	**1.9%**	**2.7%**	**3.0%**	**4.2%**	**7.0%**	**9.1%**	**11.5%**	**15.8%**	**16.3%**	**14.0%**

FUND BALANCE HISTORY

DESCRIPTION	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10
Revenue	148,244,053	153,109,486	156,623,842	164,625,253	172,364,174	181,192,264	188,500,703	200,490,973	202,996,104
Transfers In	3,782,550	4,744,404	4,906,892	4,988,571	5,196,804	4,561,647	5,404,928	5,582,788	4,827,659
Total Revenue	152,026,603	157,853,890	161,530,734	169,613,824	177,560,978	185,753,911	193,905,631	206,073,761	207,823,763
General Fund Balance	35,017,417	37,886,690	36,300,722	34,134,572	33,979,770	31,315,811	32,246,625	34,393,035	17,922,815
$ Change	2,285,514	2,869,273	(1,585,968)	(2,166,150)	(154,802)	(2,663,959)	930,814	2,146,410	(16,470,220)
% Change	7.0%	8.2%	-4.2%	-6.0%	-0.5%	-7.8%	3.0%	6.7%	-47.9%
As a % of Rev	**23.0%**	**24.0%**	**22.5%**	**20.1%**	**19.1%**	**16.9%**	**16.6%**	**16.7%**	**8.6%**
Unreserved Gen. Fund Balance	20,981,758	22,939,370	19,303,725	16,207,860	17,481,220	17,637,857	20,304,781	19,657,428	16,473,508
$ Change	1,278,222	1,957,612	(3,635,645)	(3,095,865)	1,273,360	156,637	2,666,924	(647,353)	(3,183,920)
% Change	6.5%	9.3%	-15.8%	-16.0%	7.9%	0.9%	15.1%	-3.2%	-16.2%
As a % of Rev	**13.8%**	**14.5%**	**12.0%**	**9.6%**	**9.8%**	**9.5%**	**10.5%**	**9.5%**	**7.9%**
Stab. Fund Balance	4,075,624	4,134,138	4,174,396	4,512,932	4,744,349	5,024,267	5,249,522	5,356,986	5,398,393
$ Change	349,515	58,514	40,258	338,536	231,417	279,918	225,255	107,464	41,407
% Change	9.4%	1.4%	1.0%	8.1%	5.1%	5.9%	4.5%	2.0%	0.8%
As a % of Rev	**2.7%**	**2.6%**	**2.6%**	**2.7%**	**2.7%**	**2.7%**	**2.7%**	**2.6%**	**2.6%**
Stab. Fund Balance + Unres. Gen Fund Bal.	25,057,382	27,073,508	23,478,121	20,720,792	22,225,569	22,662,124	25,554,303	25,014,414	21,871,901
$ Change	1,627,737	2,016,126	(3,595,387)	(2,757,329)	1,504,777	436,555	2,892,179	(539,889)	(3,142,513)
% Change	6.9%	8.0%	-13.3%	-11.7%	7.3%	2.0%	12.8%	-2.1%	-12.6%
As a % of Rev	**16.5%**	**17.2%**	**14.5%**	**12.2%**	**12.5%**	**12.2%**	**13.2%**	**12.1%**	**10.5%**

APPENDIX C: FUND HISTORIES

RESERVE FUND TRANSFERS

	APPROP.	ADDITIONAL APPROP.	TOTAL RESERVE FUND	EXPENDED	UNCOMMITTED BALANCE	% OF RES. FUND EXP.
FY94	467,190	50,000	517,190	421,117	96,073	**81.4%**
FY95	769,573	0	769,573	483,105	286,468	**62.8%**
FY96	769,573	100,000	869,573	611,883	257,690	**70.4%**
FY97	789,573	0	789,573	325,696	463,877	**41.2%**
FY98	815,000	0	815,000	532,153	282,847	**65.3%**
FY99	820,500	0	820,500	717,287	103,213	**87.4%**
FY00	834,276	0	834,276	527,947	306,329	**63.3%**
FY01	875,000	0	875,000	874,880	120	**100.0%**
FY02	930,687	0	930,687	343,325	587,362	**36.9%**
FY03	1,024,730	0	1,024,730	851,935	172,795	**83.1%**
FY04	1,070,000	0	1,070,000	1,070,000	0	**100.0%**
FY05	1,476,305	0	1,476,305	1,432,168	44,138	**97.0%**
FY06	1,524,420	0	1,524,420	843,474	680,946	**55.3%**
FY07	1,593,755	0	1,593,755	603,861	989,894	**37.9%**
FY08	1,675,113	0	1,675,113	774,834	900,279	**46.3%**
FY09	1,746,545	0	1,746,545	1,298,647	447,898	**74.4%**
FY10	1,834,186	0	1,834,186	1,392,000	442,186	**75.9%**
FY11	1,851,956	0	1,851,956		1,851,956	**0.0%**

CATASTROPHE & LIABILITY FUND

	2005	2006	2007	2008	2009	2010	2011
Prior Year Balance	1,153,239	893,071	1,120,427	1,261,092	1,338,133	366,862	1,330,590
Interest Earned	24,622	41,240	65,626	62,556	28,618	7,042	7,830
Free Cash	172,896	406,616	225,039	254,629	297,476	1,443,397	437,000
Operating Budget							18,500
Recoveries	70,483						
Additional Contributions							
Sub-Total	1,421,241	1,340,927	1,411,093	1,578,277	1,664,227	1,817,301	1,793,920
Liability Expenditures	528,169	220,500	150,000	240,143	1,297,365	470,805	
Catastrophe Expenditures						15,906	75,909
Other							
Total Expenditures	528,169	220,500	150,000	240,143	1,297,365	486,711	75,909
Year End Balance	**893,071**	**1,120,427**	**1,261,092**	**1,338,133**	**366,862**	**1,330,590**	**1,718,011**
Net Revenue from Prior Yr	147,630,595	152,442,001	159,377,514	167,511,304	174,654,540	183,418,648	185,695,597
Funding Target 1% Prior Yr Net Revenu	1,476,306	1,524,420	1,593,775	1,675,113	1,746,545	1,834,186	1,856,956
Over / Under Target	(583,234)	(403,993)	(332,683)	(336,980)	(1,379,683)	(503,596)	(138,945)
% Funded	**60.49%**	**73.50%**	**79.13%**	**79.88%**	**21.01%**	**72.54%**	**92.52%**
Proposed Free Cash							
Proposed Year-End Balance	893,071	1,120,427	1,261,092	1,338,133	366,862	1,330,590	1,718,011
Over / Under Target	(583,234)	(403,993)	(332,683)	(336,980)	(1,379,683)	(503,596)	(138,945)
% Funded	**60.49%**	**73.50%**	**79.13%**	**79.88%**	**21.01%**	**72.54%**	**92.52%**

STABILIZATION FUND

		2005	2006	2007	2008	2009	2010	2011
Net Revenue from Prior Yr		147,630,595	152,442,001	159,377,514	167,511,304	174,654,540	183,418,648	185,695,597
Fully Funded	3.00%	4,428,918	4,573,260	4,781,325	5,025,339	5,239,636	5,502,559	5,570,868
Current Funding		4,174,396	4,512,932	4,744,349	5,024,267	5,249,522	5,356,986	5,398,393
Over/(Under) Funded		**(254,522)**	**(60,328)**	**(36,977)**	**(1,072)**	**9,886**	**(145,574)**	**(172,475)**
Drawdown		0	0	0	0	0	0	0
Proposed Funding Plan:								
Free Cash		246,892	39,004	22,248	-	-		-
Interest Earned		91,664	192,413	257,670	225,255	107,464	41,407	80,976
Other (Adjustments)		(20)						71,868
Total Additional Funding		338,536	231,417	279,918	225,255	107,464	41,407	152,844
Final Balance		**4,512,932**	**4,744,349**	**5,024,267**	**5,249,522**	**5,356,986**	**5,398,393**	**5,551,237**
Current % Funded		**94%**	**99%**	**99%**	**100%**	**100%**	**97%**	**97%**
Proposed % Funded		**102%**	**104%**	**105%**	**104%**	**102%**	**98%**	**100%**

** Prior to FY05, the Fund was a "Capital Stab. Fund" and the funding target was 1% of the replacement value of buildings.

RETIREE HEALTH TRUST FUND	2005	2006	2007	2008	2009	2010	2011
Beginning Balance	3,737,188	3,874,262	4,117,439	4,650,708	4,608,476	5,680,587	7,104,821
New Funding							
Operating Budget					-	-	(770,000)
Redirect Retirement Actuarial Funds							
Annual Funding - Non-Contributory Ret							-
Medicare Part D Reimbursement							
Intergovernmental Funds Budgeted							277,531
Schools							-
Transfer From Prior Heath Program					306,549		
Year End Un Matched Health Ins Funds					693,451	400,000	870,000
Total New Funding	-	-	-	-	1,000,000	400,000	377,531
Interest Earned	137,219	243,177	567,510	(18,733)	128,237	1,076,627	392,823
Ending Balance Before Exp.'s	**3,874,407**	**4,117,439**	**4,684,949**	**4,631,975**	**5,736,713**	**7,157,214**	**7,875,175**
Expenditures							
Fund Manager Fee/Bank Charges	145		21,741	23,499	56,126	52,393	56,126
Audit/Consulting			12,500				
Total Expenditure	145	-	34,241	23,499	56,126	52,393	56,126
Year End Balance	**3,874,262**	**4,117,439**	**4,650,708**	**4,608,476**	**5,680,587**	**7,104,821**	**7,819,049**
Accuarial Accrued Liability	**150,176,300**	**157,492,500**	**342,061,421**	**358,151,724**	**242,539,387**	**253,971,431**	**265,220,583**
Assets At Year End	**3,874,262**	**4,117,439**	**4,650,708**	**4,608,476**	**5,680,587**	**7,104,821**	**7,819,049**
Un-Funded Accuarial Accrued Liabilit	**146,302,038**	**153,375,061**	**337,410,713**	**353,543,248**	**236,858,800**	**246,866,610**	**257,401,534**
Percentage Funded	**2.58%**	**2.61%**	**1.36%**	**1.29%**	**2.34%**	**2.80%**	**2.95%**

UNEMPLOYMENT TRUST FUND

	2005	2006	2007	2008	2009	2010	2011
Prior Year Fund Balance	36,453	36,453	109,499	105,391	210,758	317,686	624,324
Current Year Appropriation		125,000	155,000	250,000	300,000	300,000	325,000
Reserve Fund Transfer		52,000				440,000	
Surplus from Pers Bene Acct's		42,212				100,000	
Interest Earned		5,638	9,114	6,084	2,971	828	9,493
Total Revenue	36,453	261,303	273,613	361,475	513,729	1,158,514	958,817
Unemployment Insurance		151,804	168,221	150,717	196,043	534,190	500,000
Adjustments							
Trust Fund Balance	**36,453**	**109,499**	**105,391**	**210,758**	**317,686**	**624,324**	**458,817**
Change in Fund Balance		73,046	(4,108)	105,367	106,928	306,638	(165,507)
% Change in Fund Balance		200.4%	-3.8%	100.0%	50.7%	96.5%	-26.5%

PUBLIC SAFETY IOD MEDICAL EXPENSES TRUST FUND

	2005	2006	2007	2008	2009	2010	2011
Prior Year Fund Balance		0	0	1,305,349	2,716,418	3,994,828	5,140,806
Current Year Appropriation			1,450,000	1,600,000	1,550,000	1,350,000	1,350,000
Reserve Fund Transfer			90,000				
Reimbursements				70,000	20,629		
Interest					5,989	1,013	64,908
Total Revenue	0	0	1,540,000	2,975,349	4,293,036	5,345,841	6,555,714
Medical / Hospital Expenses			234,651	258,931	298,208	205,035	140,973
Trust Fund Balance	**0**	**0**	**1,305,349**	**2,716,418**	**3,994,828**	**5,140,806**	**6,414,741**
Change in Fund Balance		0	1,305,349	1,411,069	1,278,410	1,145,978	1,273,935
% Change in Fund Balance				108.1%	47.1%	28.7%	24.8%

WORKERS COMPENSATION FUND	2005	2006	2007	2008	2009	2010	2011
Prior Year Fund Balance	510,570	449,074	(720,619)	(1,605,216)	(2,583,267)	(3,587,461)	(4,743,907)
Free Cash	153,704		250,000	250,000	200,000	0	0
Current Year Appropriation	895,000	0	0	0	0	0	0
Surplus from Pers Bene Acct's	200,000	50,000					
Total Revenue	1,759,275	499,074	(470,619)	(1,355,216)	(2,383,267)	(3,587,461)	(4,743,907)
Administrative	1,758	283	833	689	1,359	933	980
Overhead Salaries	80,684	82,319	70,883	87,427	76,022	76,351	78,642
D.I.A Assessments	2,367	797	1,300	2,207	3,488	(368)	(379)
Consultants	65,421	17,676					
Stop Loss	100,751	109,310	109,332	96,808	78,650	93,587	76,973
N.E. Baptist (Occ Health Svcs)	94,975	77,100	112,275	93,190	90,750	97,800	97,800
Professional/Tech Svcs			55,957	49,010	53,319	22,898	
Outside Legal Counsel				65,152	40,578	28,993	28,993
TPA				24,500	24,500	23,858	23,858
Settlements	33,190	93,810		133,270	41,274	22,500	45,000
Workers Comp Payroll	635,225	453,103	499,683	497,281	485,219	462,698	465,859
Workers Comp Medical	295,830	385,295	284,335	178,517	309,035	327,198	357,178
Total Expenditures	1,310,200	1,219,693	1,134,598	1,228,051	1,204,194	1,156,449	1,174,903
Trust Fund Balance	**449,074**	**(720,619)**	**(1,605,216)**	**(2,583,267)**	**(3,587,461)**	**(4,743,907)**	**(5,918,810)**
Change in Fund Balance	(61,496)	(1,169,693)	(884,598)	(978,051)	(1,004,194)	(1,156,446)	(1,174,903)
% Change in Fund Balance	-12.0%	-260.5%	122.8%	60.9%	38.9%	32.2%	24.8%

AFFORDABLE HOUSING TRUST FUND

	2005	2006	2007	2008	2009	2010	2011
Prior Year Fund Balance	3,697,754	4,535,020	5,258,404	5,460,803	5,511,692	6,402,773	5,452,684
Free Cash	348,312						
Sale of 154 University Rd	676,846						
Inclusionary Zoning (Developers)	1,077,623	349,203	554,254	187,275	550,372	0	
Loan Repayments	358,339	135,014			221,000		
Misc		5,000					
Interest	102,676	249,165	299,894	257,114	119,709	49,911	49,911
Total Revenue	2,563,797	738,383	854,149	444,389	891,081	49,911	49,911
Housing Projects	1,726,530		651,750	393,500		1,000,000	
Appraisal Svcs							
Planning Consulting Svcs		14,999					
Conferences							
Total Expenditures	1,726,530	14,999	651,750	393,500	0	1,000,000	0
Adjustments							
Trust Fund Balance	**4,535,020**	**5,258,404**	**5,460,803**	**5,511,692**	**6,402,773**	**5,452,684**	**5,502,596**
Change in Fund Balance	837,267	723,384	202,399	50,889	891,081	(950,089)	49,911
% Change in Fund Balance	22.6%	16.0%	3.8%	0.9%	16.2%	-14.8%	0.9%

APPENDIX D: FREE CASH HISTORY

ANNUAL FREE CASH (FY spent in)					
Certified by the State Department of Revenue					
FY88	FY89	FY90	FY91	FY92	FY93
1,508,815	99,799	3,024,563	(2,571,495)	(2,378,823)	(87,835)
FY94	FY95	FY96	FY97	FY98	FY99
1,500,333	3,078,581	3,896,988	4,412,943	7,506,461	5,783,683
FY00	FY01	FY02	FY03	FY04	FY05
12,157,308	6,225,673	6,317,277	6,966,241	5,602,961	6,966,241
FY06	FY07	FY08	FY09	FY10	FY11
4,606,534	5,387,435	3,814,792	5,954,963	7,053,295	4,590,079
FY12					
7,105,288					

USE OF FREE CASH	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Free Cash Certification	5,783,683	12,157,308	6,225,673	6,317,277	6,966,241	4,606,534	5,387,435	3,814,792	5,954,963	7,053,295	4,590,079	5,380,264
- Non-Appropriated Reserve	875,000	620,458	683,177	718,017								
- Operating Budget Reserve - 0.25% of Prior Year Net Rev					369,076	381,105	398,444	418,778	436,636	458,547	464,239	469,288
- OPEB's		200,000		357,158								
- Worker's Comp					153,704		250,000	250,000	200,000			
- Stabilization Fund	95,400	235,000			246,892	39,004	22,248					
- Liability / Catastrophe		310,229	341,589		172,896	406,616	225,039	254,629	297,475	1,443,397	437,000	141,959
- Affordable Housing		1,000,000	311,225	316,455	348,312							355,264
- Landfill Settlement										2,030,000		
- Operating Budget (COA)											18,500	
- CIP	4,715,508	9,791,621	4,808,983	4,925,647	5,675,360	3,779,809	4,491,704	2,891,385	5,020,852	3,121,351	3,688,840	4,413,752

NOTES:

(1) In FY01, in addition to the $875K Unappropriated Reserve, $97,775 was left unspent.
(2) In FY03, in addition to the $683K Unappropriated Reserve, $80,700 was left unspent.
(3) The Free Cash certification for use in FY12 was $5.784 million. The $5.38 million shown is what is recommended for use.
(4) Prior to FY02, an amount equivalent to 0.75% of prior year net rev was set aside as an Unapprop. Reserve. In FY02, that amount was reduced to 0.5%. Beginning in FY05, the amount was reduced to 0.25% of prior year net rev and became part of the Town's 1% appropriated Operating Budget Reserve.
(5) The $18,500 used for the Operating Budget in FY11 was replenished at the Fall TM using additional State Aid.

APPENDIX E: MEASUREMENT OF DEBT VARIABLES

MEASUREMENT OF DEBT VARIABLES

	VARIABLE	FY11	FY12	FY13	FY14	FY15	FY16	FY17
	Legal Limit for Outstanding Debt = 5% of Equalized Valuation (EQV)							
	EQV for 1/1/10 = $15.985 billion. Assume 2.5% annual growth. (In millions)	$15,985.3	$16,384.9	$16,794.6	$17,214.4	$17,644.8	$18,085.9	$18,538.0
	Outstanding Debt as a % of EQV	0.5%	0.5%	0.5%	0.4%	0.4%	0.5%	0.5%
	General Fund Outstanding Debt as a % of EQV	0.4%	0.4%	0.4%	0.3%	0.3%	0.4%	0.5%
	Net General Fund Outstanding Debt as a % of EQV	0.4%	0.4%	0.4%	0.3%	0.3%	0.4%	0.5%
	Total Outstanding Debt (in millions)	$76.0	$83.2	$78.8	$72.2	$73.8	$90.2	$104.9
	General Fund Outstanding Debt (in millions)	$62.6	$69.3	$66.1	$60.5	$62.7	$80.8	$96.0
	Net General Fund Outstanding Debt (in millions)	$58.2	$65.6	$63.2	$57.9	$60.5	$79.0	$94.4
	Total Debt Service (in millions)	$12.2	$12.9	$13.2	$12.6	$12.0	$12.6	$14.3
	General Fund Debt Service (in millions)	$9.5	$10.3	$10.5	$9.9	$9.5	$9.9	$12.0
	Net General Fund Debt Service (in millions)	$8.4	$9.1	$9.9	$9.3	$8.9	$9.3	$11.4
	Total Debt Service Per Capita	$221	$232	$239	$229	$217	$227	$259
	General Fund Debt Service Per Capita	$172	$186	$189	$179	$171	$179	$217
	Net General Fund Debt Service Per Capita	$152	$166	$181	$170	$163	$170	$208
	Total Debt Service as a % of Revenue	5.4%	5.5%	5.5%	5.1%	4.7%	4.7%	5.2%
	General Fund Debt Service as a % of General Fund Revenue	4.7%	5.0%	4.9%	4.5%	4.2%	4.2%	5.0%
	Net General Fund Debt Service as a % of General Fund Revenue	4.2%	4.4%	4.6%	4.2%	3.9%	4.0%	4.7%
A.	Total Outstanding Debt Per Capita as a % of Per Capita Income	2.1%	2.3%	2.1%	1.9%	1.9%	2.2%	2.5%
	General Fund Outstanding Debt Per Capita as a % of Per Capita Income	1.7%	1.9%	1.7%	1.6%	1.6%	2.0%	2.3%
	Net General Fund Outstanding Debt Per Capita as a % of Per Capita Income	1.6%	1.8%	1.7%	1.5%	1.5%	1.9%	2.2%
B.	Total Outstanding Debt Per Capita	$1,386	$1,518	$1,437	$1,317	$1,346	$1,646	$1,914
	General Fund Outstanding Debt Per Capita	$1,143	$1,264	$1,207	$1,104	$1,144	$1,475	$1,751
	Net General Fund Outstanding Debt Per Capita	$1,062	$1,197	$1,152	$1,057	$1,104	$1,441	$1,723
C.	Total Outstanding Debt as a % of Assessed Value (AV)	0.5%	0.5%	0.5%	0.4%	0.4%	0.5%	0.6%
	General Fund Outstanding Debt as a % of Assessed Value (AV)	0.4%	0.4%	0.4%	0.4%	0.4%	0.5%	0.5%
	Net General Fund Outstanding Debt as a % of Assessed Value (AV)	0.4%	0.4%	0.4%	0.4%	0.4%	0.5%	0.5%
D.	Total Debt Maturing Within 10 Years	83%	80%	82%	83%	84%	79%	76%
	General Fund Debt Maturing Within 10 Years	80%	76%	78%	81%	82%	76%	74%
E.	CIP Financing as a % of Prior Year's Net Revenue	5.25%	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%
	Debt-Financed CIP as a % of Prior Year's Net Revenue	4.11%	4.59%	4.53%	4.38%	4.05%	4.11%	4.93%
	Revenue-Financed CIP as a % of Prior Year's Net Revenue	1.14%	0.91%	0.97%	1.12%	1.45%	1.39%	0.57%

Town Policies

A. Total Outstanding Debt Per Capita = shall not exceed 6% of Per Capita Income.
B. Total Outstanding Debt Per Capita = shall not exceed $2,385 (for FY11).
C. Total Outstanding Debt = shall not exceed 2.5% of Assessed Value (AV).
D. Bond Maturities = 60% of General Fund principal shall mature within 10 years.
E. CIP Financing = 5.5% of Prior Year's Net Revenue, with a goal of 4.25% from Debt-Financed and 1.25% from Revenue-Financed.

NOTE: "Net General Fund Debt" is total General Fund Debt less the share paid for by the State for the Lincoln, Heath, and Baker projects.

APPENDIX F: *Town of Brookline Credit Comparison with Massachusetts Aaa/AAA Rated Communities* **– FirstSouthwest**

TOWN OF BROOKLINE, MASSACHUSETTS

Credit Comparison with Massachusetts Aaa/AAA Rated Communities

February 2011

FirstSouthwest
A PlainsCapital Company

54 Canal Street, Suite 320
Boston, MA 02114
Telephone (617) 619-4409 Fax (617) 619-4411

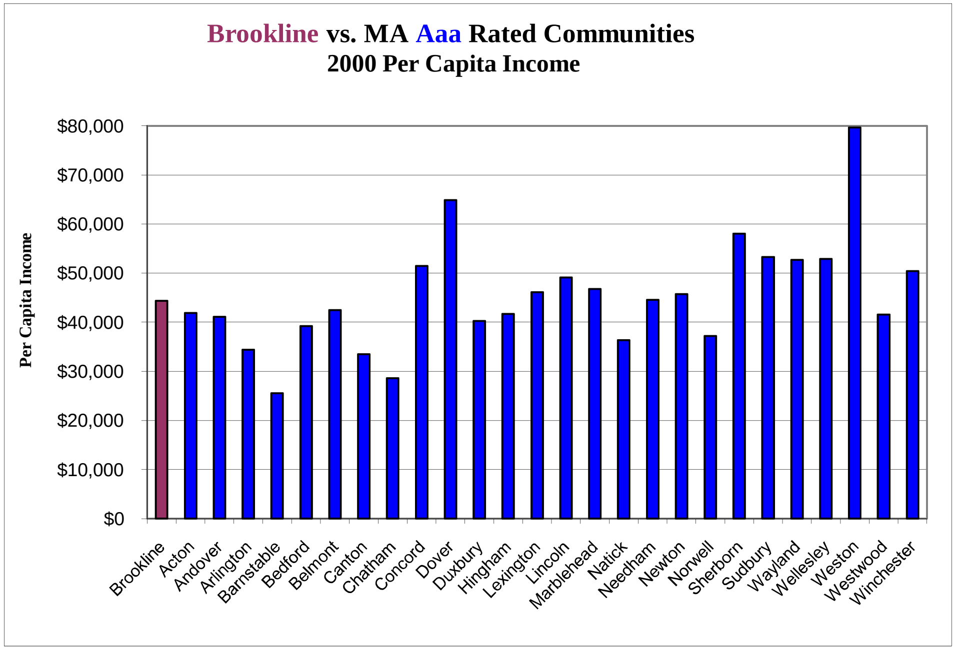
TOWN OF BROOKLINE, MASSACHUSETTS

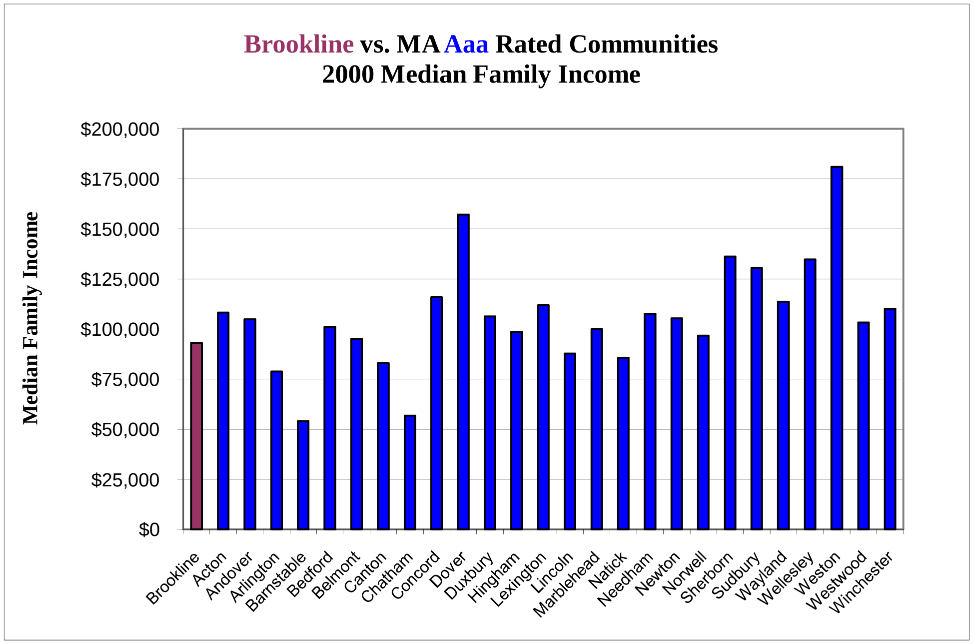
Credit Comparison with Massachusetts Aaa/AAA Communities

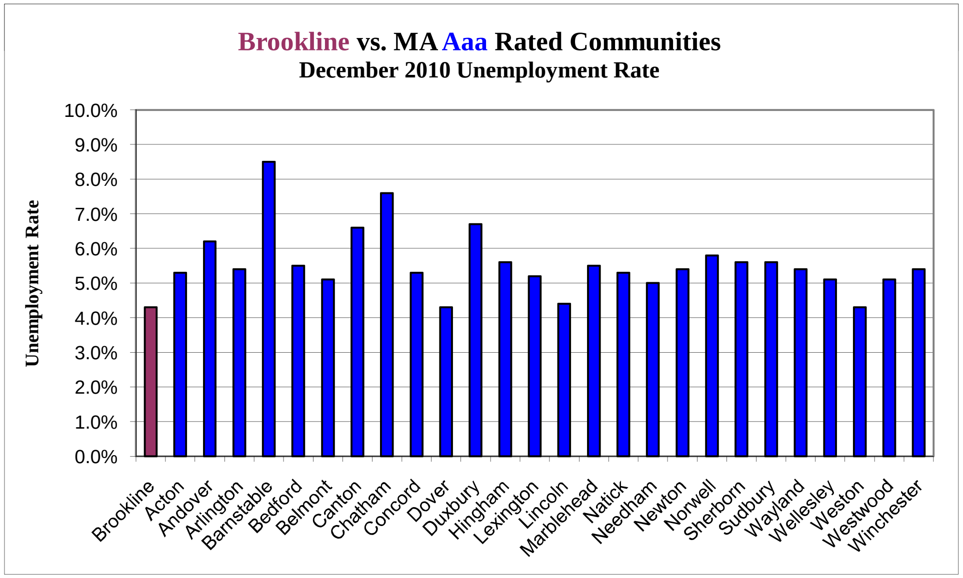
	Economics								Debt			Finances								
Issuer	Moody's/ S&P	2000 Population	2000 Per Capita Income	2000 Median Family Income	December 2010 Unemployment Rate	2010 Equalized Valuation	Per Capita EQV	FY 11 Residential AV as a % of Total AV	6/30/10 General Obligation Bonded Debt Outstanding	Bonded Debt Per Capita	Cumulative % of Principal Retired in 10 Years	7/1/10 Free Cash	6/30/09 Stabilization Fund Balance	FY 09 Total Fund Balance	FY 09 Undesignated General Fund Balance	FY 09 Total Revenues	Total Fund Balance as a % of Revenue	Undesignated and Stabilization Fund Balance as a % of Revenue	FY 11 Excess Lower Levy Limit Capacity	Cumulative Excess Lower Levy Limit Capacity for the past 10 years
Brookline	Aaa/NR	57,107	44,327	92,993	4.3%	16,024,896,500	280,612	90.8%	74,382,500	1,303	86.9%	7,105,288	5,356,986	34,393,035	19,657,428	206,073,761	16.69%	12.14%	33,911	197,408
Acton	Aaa/AAA	20,331	41,901	108,189	5.3%	3,988,811,200	196,194	87.2%	44,956,829	2,211	60.4%	4,650,574	-	9,868,681	5,347,611	75,773,096	13.02%	7.06%	293,210	1,022,245
Andover	Aa1/AAA	31,247	41,133	104,820	6.2%	7,405,664,700	237,004	79.5%	87,909,402	2,813	75.0%	1,609,894	4,279,569	3,506,549	3,015,527	129,356,207	2.71%	5.64%	70,925	2,153,110
Arlington	Aa1/AAA	42,389	34,399	78,741	5.4%	7,388,658,200	174,306	94.0%	55,962,959	1,320	92.7%	770,498	2,598,024	5,268,282	170,173	116,808,825	4.51%	2.37%	23,955	315,165
Barnstable	NR/AAA	47,821	25,554	54,026	8.5%	14,945,861,000	312,538	88.4%	133,588,339	2,794	79.5%	10,746,572	13,530,478	16,421,306	13,249,667	126,169,231	13.02%	21.23%	97,966	797,910
Bedford	Aaa/AAA	12,595	39,212	101,081	5.5%	3,009,721,800	238,962	77.9%	45,100,184	3,581	73.0%	2,394,874	3,048,328	9,066,164	3,838,204	67,364,032	13.46%	10.22%	630,829	10,144,025
Belmont	Aaa/NR	24,194	42,485	95,057	5.1%	5,579,451,400	230,613	93.9%	58,810,504	2,431	56.6%	4,019,916	-	8,861,315	6,639,173	82,886,775	10.69%	8.01%	192,274	1,458,887
Canton	Aa1/AAA	20,775	33,510	82,904	6.6%	4,386,215,300	211,129	76.6%	60,313,869	2,903	77.0%	990,878	3,102,096	11,249,485	2,682,155	76,672,405	14.67%	7.54%	118,466	4,832,681
Chatham	Aa2/AAA	6,625	28,594	56,750	7.6%	6,915,743,700	1,043,886	93.0%	37,195,180	5,614	85.3%	1,051,336 (1)	1,737,959	6,267,670	3,085,936	33,820,613	18.53%	14.26%	73,683	2,009,255
Concord	Aaa/NR	16,993	51,477	115,839	5.3%	5,562,518,600	327,342	90.6%	79,599,887	4,684	68.4%	8,635,340	3,117,230	14,240,625	8,902,455	76,274,496	18.67%	15.76%	2,039,388	9,131,196
Dover	Aaa/AAA	5,558	64,899	157,168	4.3%	2,482,558,300	446,664	97.4%	13,534,200	2,435	82.7%	4,433,983	739,793	7,508,216	3,767,405	30,085,966	24.96%	14.98%	206,504	2,350,702
Duxbury	Aa1/AAA	14,248	40,242	106,245	6.7%	3,853,684,100	270,472	96.1%	22,304,617	1,565	82.9%	3,649,573	1,015,164	5,845,794	4,731,295	59,766,351	9.78%	9.61%	722,691	2,642,414
Hingham	Aaa/AAA	19,882	41,703	98,598	5.6%	6,257,344,000	314,724	86.4%	71,544,570	3,598	71.4%	4,749,226 (1)	-	7,099,935	5,546,260	78,226,398	9.08%	7.09%	553,725	3,068,739
Lexington	Aaa/NR	30,355	46,119	111,899	5.2%	8,647,848,600	284,890	87.2%	80,118,076	2,639	81.2%	7,125,000	7,714,270	19,170,311	10,455,940	150,196,364	12.76%	12.10%	57,462	1,279,872
Lincoln	NR/AAA	8,056	49,095	87,842	4.4%	2,014,226,600	250,028	96.2%	10,323,915	1,282	92.5%	3,340,722	-	6,599,038	3,728,659	28,876,264	22.85%	12.91%	12,974	514,235
Marblehead	NR/AAA	20,377	46,738	99,892	5.5%	5,580,750,300	273,875	94.7%	28,080,000	1,378	68.8%	4,595,434	-	8,914,807	4,457,484	65,231,624	13.67%	6.83%	4,179	139,782
Natick	Aa1/AAA	32,170	36,358	85,715	5.3%	7,121,910,600	221,384	76.5%	56,409,171	1,753	89.7%	5,899,906	2,874,075	10,198,558	6,156,031	105,680,082	9.65%	8.54%	38,982	351,163
Needham	NR/AAA	28,911	44,549	107,570	5.0%	7,730,432,400	267,387	86.9%	85,433,027	2,955	73.3%	3,380,269	4,398,963	13,272,534	6,140,369	109,652,065	12.10%	9.61%	20,251	409,031
Newton	Aaa/NR	83,829	45,708	105,289	5.4%	22,520,035,100	268,643	89.5%	216,847,049	2,587	50.0%	8,018,399	16,688,591	20,169,278	10,523,218	302,623,049	6.66%	8.99%	16,898	387,798
Norwell	NR/AAA	9,765	37,222	96,771	5.8%	2,614,682,100	267,761	83.7%	22,357,940	2,290	75.9%	1,359,573	2,155,819	7,263,552	4,584,128	40,990,752	17.72%	16.44%	17,985	781,325
Sherborn	Aa1/AAA	4,200	58,055	136,211	5.6%	1,209,091,300	287,879	95.4%	11,085,000	2,639	85.5%	1,416,779 (1)	510,016	2,333,461	1,664,195	22,213,762	10.50%	9.79%	43,373	804,066
Sudbury	Aa1/AAA	16,841	53,285	130,399	5.6%	4,256,033,800	252,719	92.9%	36,205,000	2,150	83.8%	249,418	1,857,558	9,202,147	1,038,246	79,203,460	11.62%	3.66%	20,789	1,123,990
Wayland	Aaa/NR	13,100	52,717	113,671	5.4%	3,288,024,700	250,994	94.9%	40,662,612	3,104	70.1%	8,536,596	1,520,236	11,025,564	7,106,601	61,106,450	18.04%	14.12%	20,778	739,382
Wellesley	Aaa/AAA	26,613	52,866	134,769	5.1%	10,032,866,400	376,991	88.5%	110,439,258	4,150	66.2%	9,471,751	2,786,551	16,645,253	12,443,909	116,734,052	14.26%	13.05%	30,988	131,573
Weston	Aaa/AAA	11,469	79,640	181,041	4.3%	5,797,438,800	505,488	95.4%	65,984,457	5,753	85.9%	4,255,473	-	8,235,479	3,741,518	71,884,565	11.46%	5.20%	2,930,716	11,963,247
Westwood	Aa1/AAA	14,117	41,553	103,242	5.1%	3,845,002,400	272,367	86.6%	38,145,287	2,702	79.3%	985,616	1,210,708	4,390,757	2,069,926	68,429,130	6.42%	4.79%	227,756	891,775
Winchester	Aaa/AAA	20,810	50,414	110,226	5.4%	5,775,099,500	277,516	94.5%	63,675,456	3,060	72.7%	5,761,181	9,672,142	11,479,581	8,429,836	82,351,003	13.94%	21.98%	42,921	349,679
Brookline's Rank out of 27		2	14	21	1	2	10	15	20	2	4	7	5	1	1	2	7	10	18	25

(1) Free cash is as of 7/1/09.

(2) Comparison excludes Cambridge and Boston.







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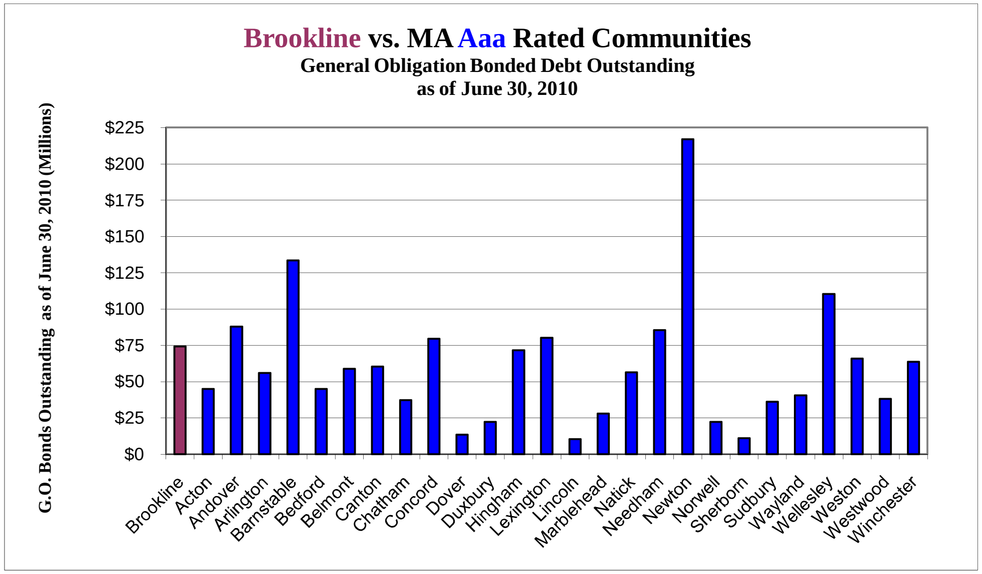

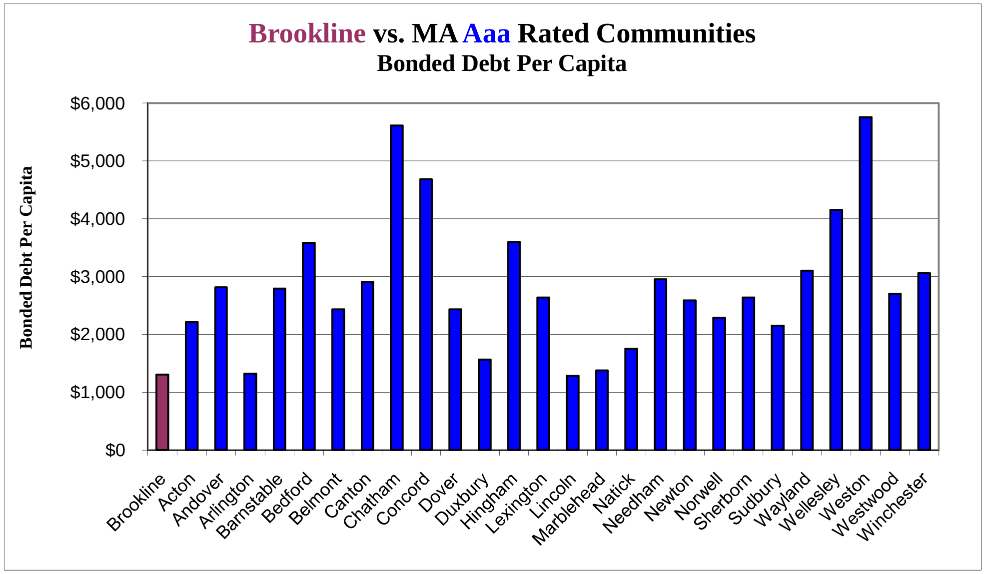

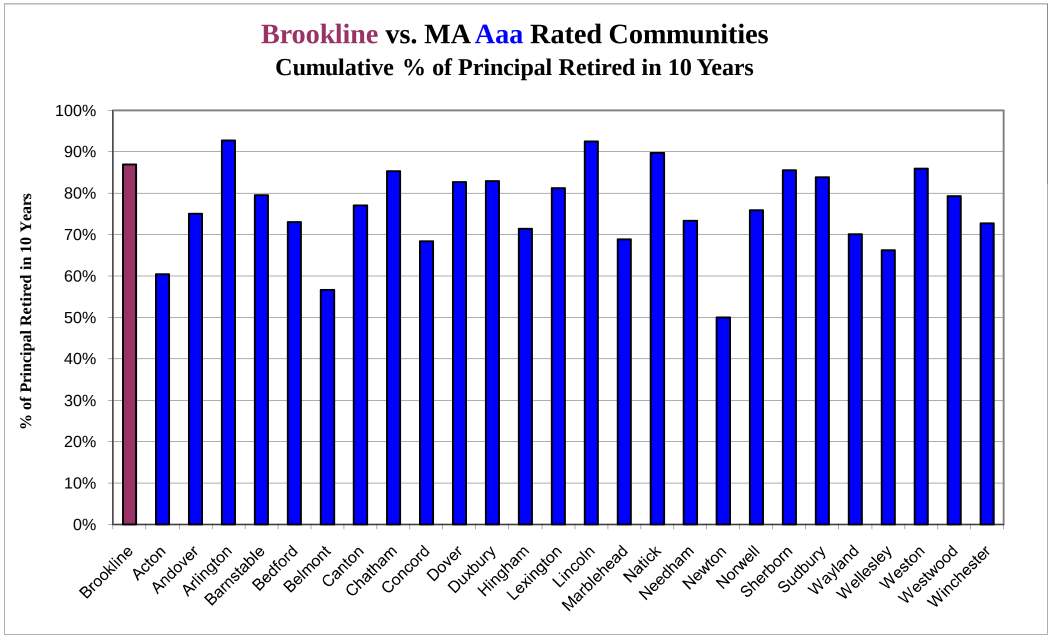

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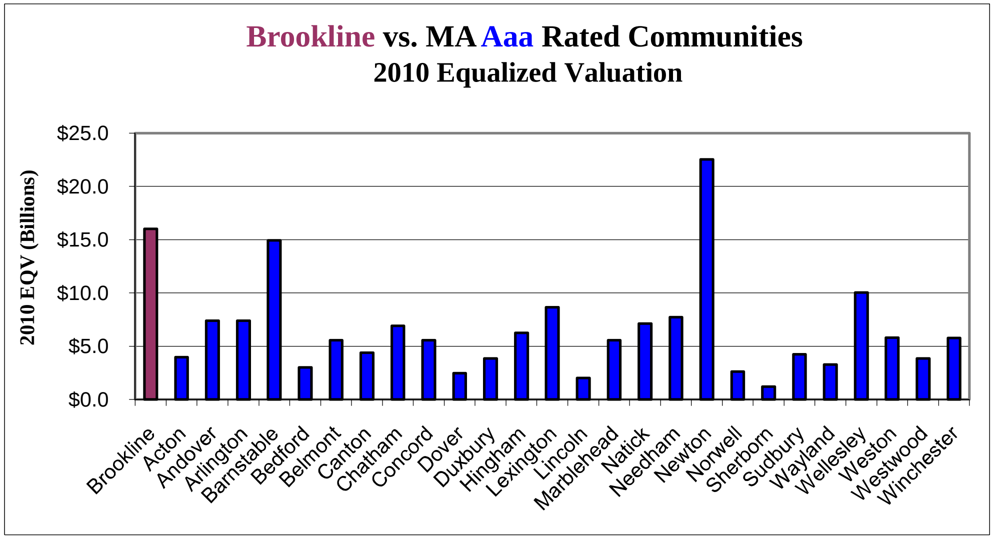

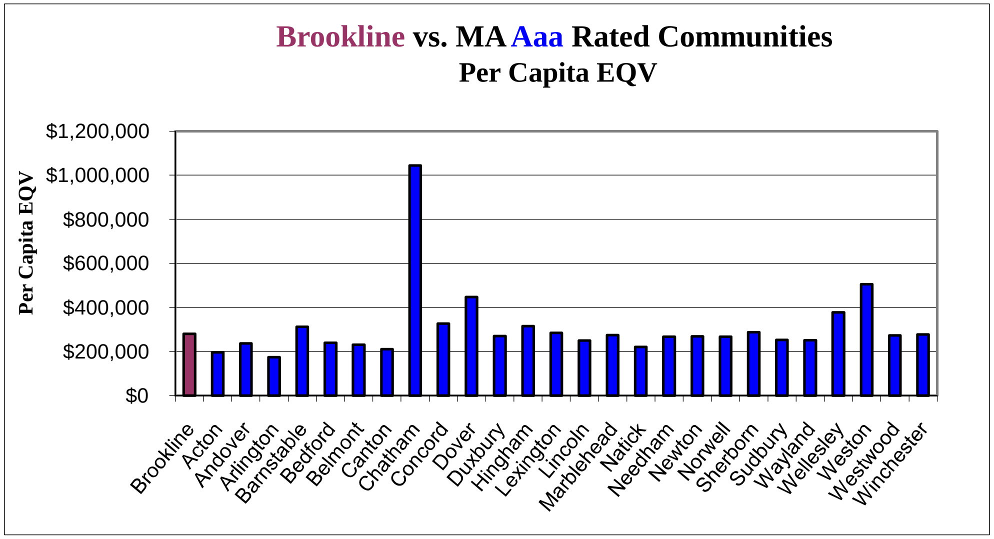

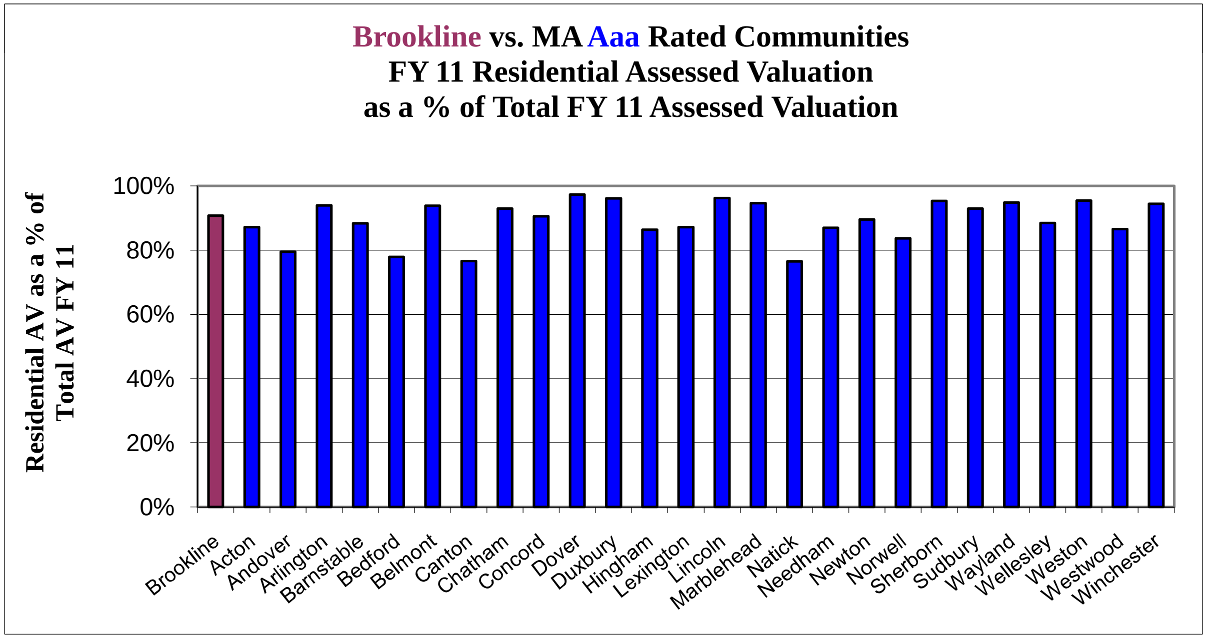

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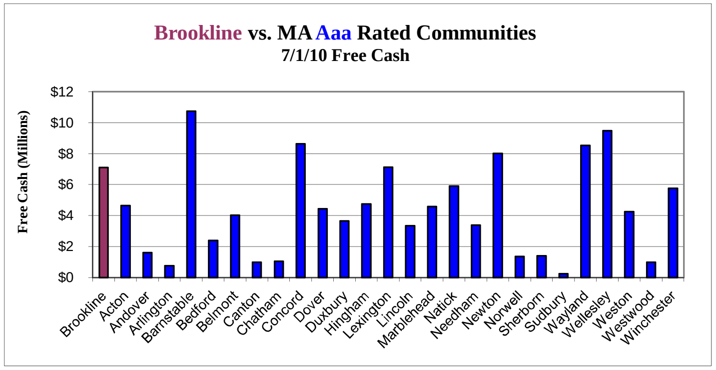
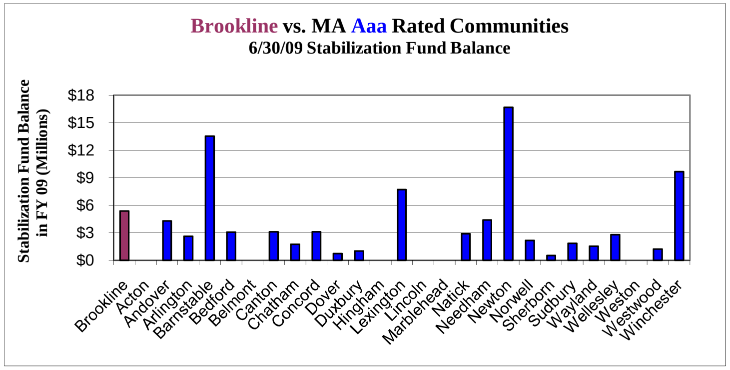
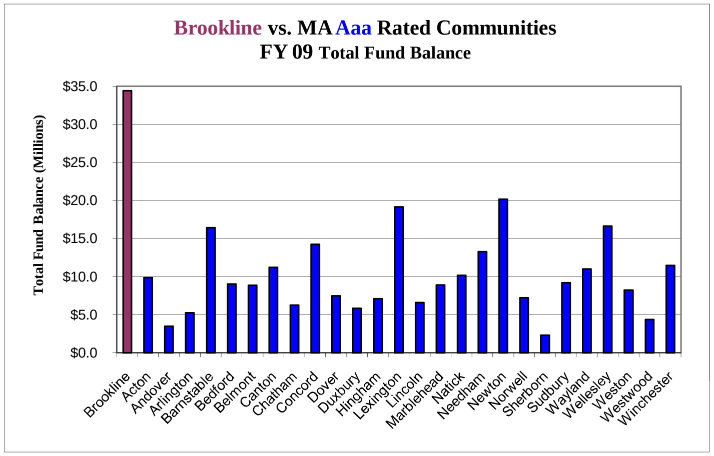
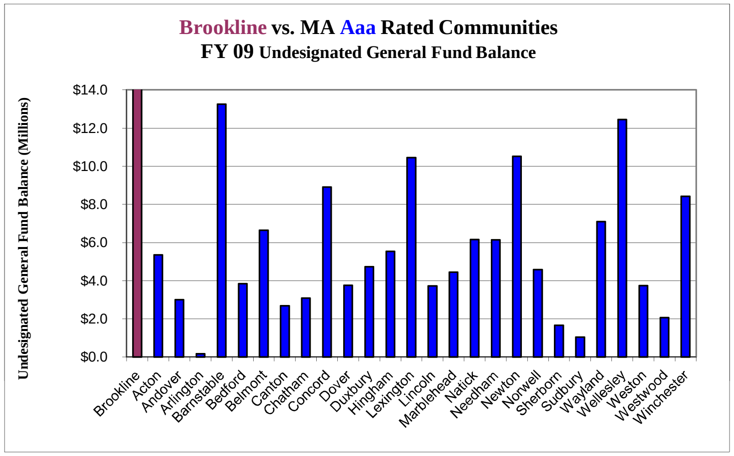
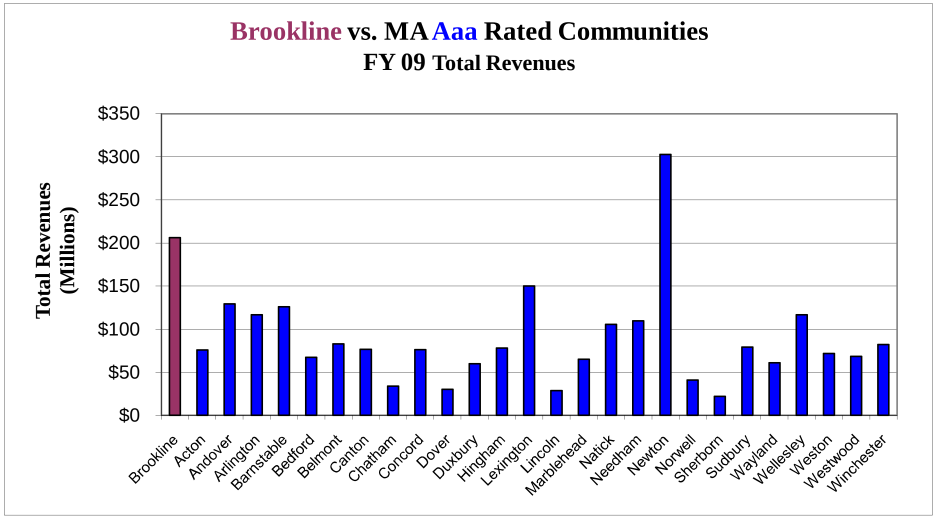


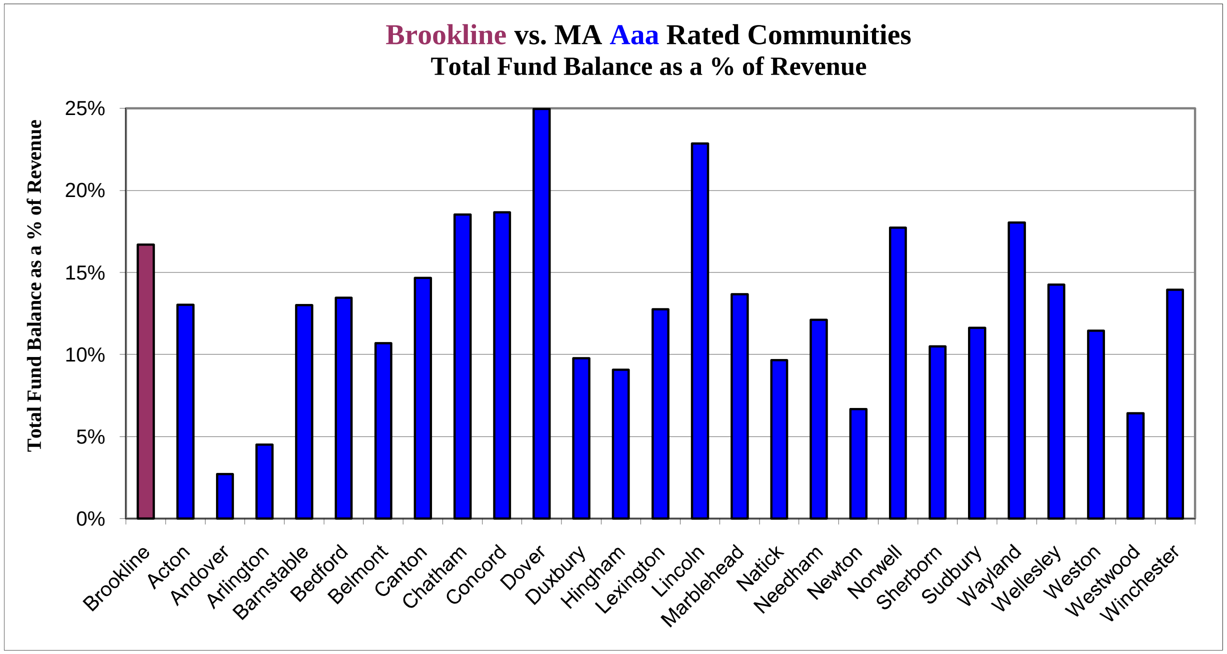


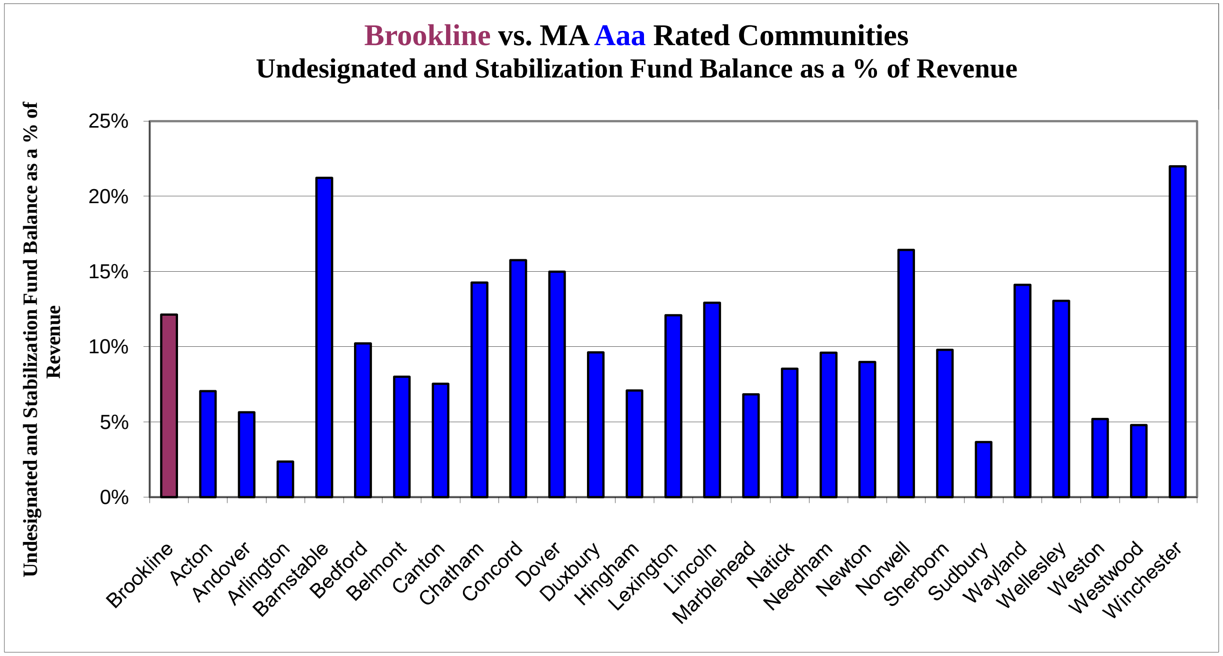






*Chatham, Hingham and Sherborn's Free Cash is as of July 1, 2009.





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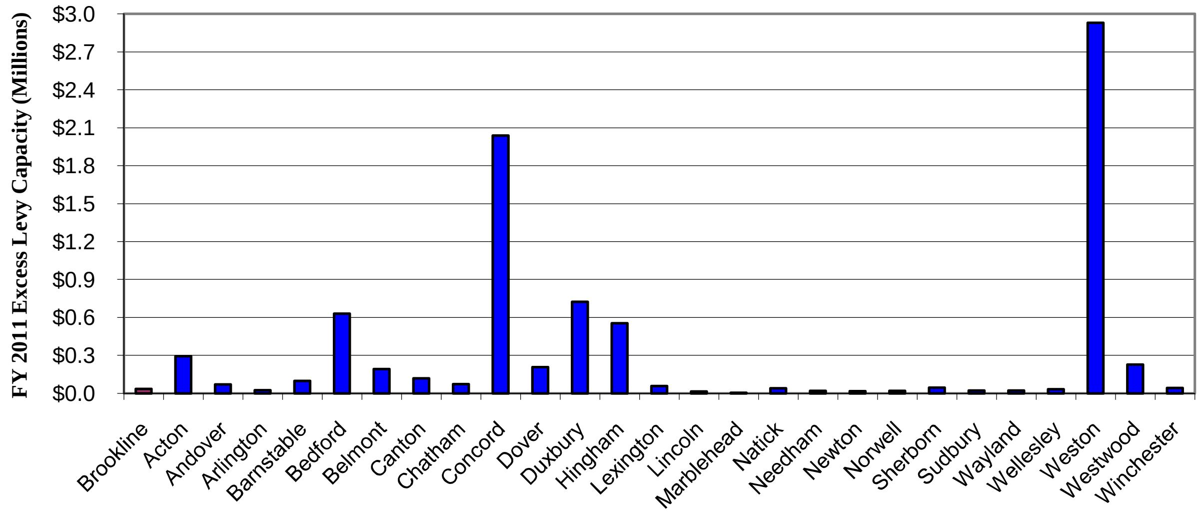
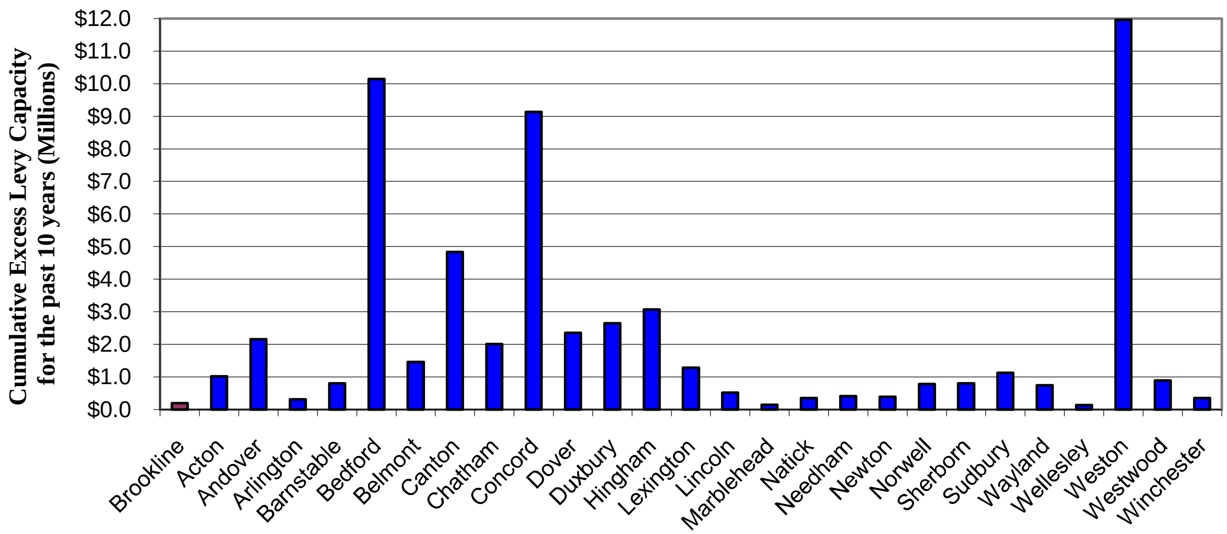
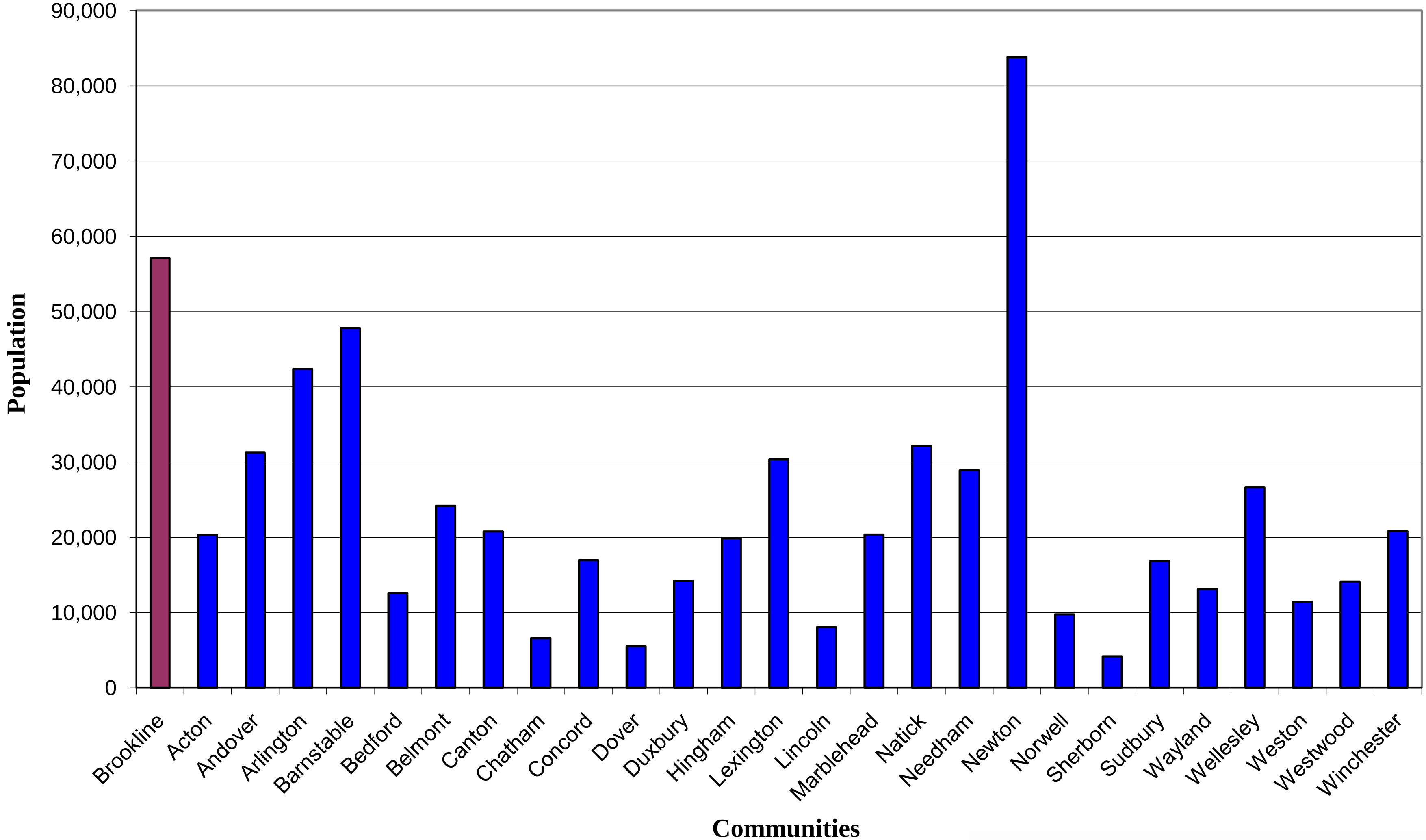
Brookline vs. MA Aaa Rated Communities
FY 2011 Excess Lower Levy Limit Capacity



Brookline vs. MA Aaa Rated Communities
Cumulative Excess Lower Levy Limit Capacity for the past 10 years



Brookline vs. MA Aaa Rated Communities
2000 Census Population



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APPENDIX G: MOODY'S CREDIT RATING REPORT FOR BROOKLINE (FEB, 2011)

Moody's
INVESTORS SERVICE

New Issue: MOODY'S ASSIGNS Aaa RATING TO BROOKLINE'S (MA) $11M G.O. BONDS

Global Credit Research - 01 Feb 2011

AFFIRMATION OF Aaa AFFECTS $84.7 MILLION IN OUTSTANDING RATED DEBT, INCLUDING CURRENT OFFERING

Municipality
MA

Moody's Rating

ISSUE	RATING
General Obligation Municipal Purpose Loan of 2011 Bonds	Aaa

Sale Amount	$10,375,000
Expected Sale Date	02/11/11
Rating Description	General Obligation Limited Tax

Opinion

NEW YORK, Feb 1, 2011 -- Moody's Investors Service has assigned a Aaa rating to the Town of Brookline's $11 million General Obligation Municipal Purpose Loan of 2011 Bonds. Concurrently, Moody's has affirmed the Aaa rating assigned to approximately $74.7 million in outstanding long-term parity debt.

SUMMARY RATING RATIONALE

This issue is secured by the town's general obligation limited tax pledge as debt service has not been voted exempt from the provisions of Proposition 2 ½. Proceeds from the sale will be used to fund capital projects related to a school renovation, wastewater system improvements, and a small portion related to a golf course. The Aaa rating incorporates the town's currently sound financial position, sizable and affluent tax base, and affordable debt position.

STRENGTHS

- Affluent and primarily residential tax base

- Proactive budgeting strategies

CHALLENGES

- Limited available reserves

- Limited revenue raising flexibility

DETAILED CREDIT DISCUSSION

FINANCIAL POSITION REMAINS SOUND

While Moody's expects near term fiscal operations will remain pressured by the potential for additional state aid reduction, weak local receipts growth and ongoing expenditure demands, Moody's expects Brookline's well managed financial position to remain healthy given the town's proactive budgeting strategies. The General Fund experienced the third consecutive operating surplus ($4.7 million), driven primarily by expenditure savings in general government ($1.8 million), employee benefits ($1.7 million), and debt service interest ($1.2 million). Due to a transfer of the town's encumbrances and continuing appropriations to the Capital Article Fund, the total General Fund declined by $16.4 million. At year-end the Capital Article Fund maintained a balance of $9.8 million which is intended to help finance ongoing capital needs. The town defeased $31.6 million of outstanding debt associated with a school project and was able to pay down $18.3 million due to a lump sum payment from the Massachusetts School Building Authority reflecting their portion of related debt. Due to the one-time lump-sum payment, the town's annual revenues are inflated. At year-end, available reserve levels (Unreserved General Fund balance and Stabilization Fund) declined by $3.1 million to $21.9 million or 10.5% of revenues. While still healthy, this represents the town's lowest available reserve balance as a percent of revenues since at least 2003.

The town's fiscal 2011 budget represents a -0.6% ($1.2 million) reduction from the prior year. With the exception of property taxes (3.5% growth), all revenue sources have been budgeted below fiscal 2010 levels. Growth of operating expenditures is driven largely by the school department with a budgeted increase of 4.5% ($3.1 million). Further, as in prior years, the budget includes the town's entire certified free cash balance ($4.5 million) and conservatively assumes a 5.4% ($892,000) reduction in state aid. The budget does not include any extraordinary adjustments given that the town was able to reduce fiscal 2011 health insurance expenditures by approximately $4.5 million as the town joined the Commonwealth's Group Insurance Commission on July 1, 2010. Management reports that, year to date, revenues are running close to budget and municipal expenditures are generally favorable. Given the town's practice of appropriating its entire certified free cash balance, typically for capital, as well as ongoing expenditure demands and slow revenue growth, the town's ability to maintain a stable reserve position may be challenged at year-end. Looking ahead, the town's ability to maintain structurally balance operations and maintain reserves levels in step with budget growth will be an important consideration in future rating reviews.

Indicative of the town's focus on long term financial planning and stability, management maintains additional resources outside of the general fund, including a $1.7 million liability reserve to mitigate the effects of unanticipated legal claims. Additionally, the town maintains an Other Post-Employment Benefits (OPEB) Trust Fund created to address the town's actuarial accrued OPEB liability of $323 million, all of which was unfunded. The fund had a $6.1 million balance at the end of fiscal 2010 and the town's fiscal 2011 budget calls for a $1 million appropriation towards the liability. This represents a $750,000 increase from the town's typical $250,000 annual OPEB funding increase. Further, the fiscal 2011 budget also increases the town's pension contribution by dedicating its new local option meals and rooms tax revenues to offset a potentially sharp increase in pension funding in fiscal 2012. The town intends to partially offset the increase with additional $1 million appropriations in fiscal 2010 and 2011 from the local options taxes, which were adopted during fiscal 2010.

SIZABLE AND AFFLUENT TAX BASE REMAINS STABLE

Moody's anticipates growth of Brookline's sizable $16 million tax base to remain modest over the near term given continued weakness in the regional real estate market and recessionary economic conditions. Favorably located adjacent to the City of Boston, (G.O. rated Aaa/stable outlook) and within easy access to the region's largest economic center via public transportation, equalized value has increased at an average annual rate of 4.1% annually over the past five years. Following a slight (0.7%) assessed value reduction in fiscal 2008, the town experienced a 3.4% increase in 2009, following a town wide property revaluation, and a 0.9% and 0.6% increase in 2010 and 2011, respectively. The town has experienced modest residential (90% of assessed value), commercial (8.3% of assessed value) and industrial value growth in each of the last three fiscal years. Notably, the town's fiscal 2010 new growth levy of $1.7 million represented the town's lowest amount in at least eight years and was below the $2.2 million average since 2004. The new growth levy increased slightly in $1.8 million in 2011. While the pace of large scale development has slowed, the town expects future tax base growth to be supported by several development projects in planning or underway, including an estimated $100 million commercial development at 2 Brookline Place. Wealth indices in Brookline well exceed commonwealth and national medians, as reflected in the high equalized value per capita of $283,510 (322% of the nation, 198% of the state) and per capita income of $44,327 or 170.8% of the state median.

FAVORABLE DEBT PROFILE WITH MANAGEABLE FUTURE BORROWING; ACTIVE PAY-AS-YOU-GO CAPITAL PROGRAM

Moody's expects Brookline's below average 0.4% (of equalized value) net direct debt burden to remain affordable due to the town's conservative debt policies, above-average rate of amortization (86.5% within 10 years), anticipated state school construction assistance, ongoing pay-as-you-go capital spending, and steady but manageable future borrowing plans. The town's direct debt burden increases to 1.9% when incorporating Brookline's share of overlapping Norfolk County (rated Aa3/positive outlook), Massachusetts Water Resources Authority (senior lien debt rated Aa2/stable outlook), and Massachusetts Bay Transportation Authority (assessment bonds Aa1/negative outlook) obligations. After adjusting for commonwealth school construction assistance, the debt burden falls to an affordable 1.8% of equalized value. Further, debt service claimed a manageable 4.8% of general fund expenditures in fiscal 2010 however approximately 60% of Brookline's bonded debt is excluded from Proposition 2 ½ or supported by user fees, reducing pressure on the General Fund.

Brookline's borrowing practices are guided by an annually-updated capital improvement plan coupled with a debt management policy limiting net capital budget allocations, typically 5.5% of the town's prior-year operating revenues. In an effort to provide fiscal 2010 budget relief, the town reduced its net capital budget allocation to 5% with the goal of increasing its appropriation back to the 5.5% level by 2012. The updated six-year capital improvement plan calls for $153 million in capital expenditures through fiscal 2017, with proposed general fund borrowing of $71.6 million (45.8% of plan) and cash funding of $19.4 million (12.4% of plan). Given the town's comprehensive and prudent approach to capital financing Moody's expects Brookline's debt profile to remain affordable.

WHAT COULD CHANGE THE RATING - DOWN

- Multi-year General Fund deficits, limiting the city's financial flexibility

- Significant further deterioration in taxable values or demographic profile

KEY STATISTICS:

2008 Population estimate: 54,896 (-3.9% since 2000)

2010 Equalized value: $16 Billion

2010 Equalized value per capita: $291,194

Average annual equalized value growth (2006-2011): 4.1%

2000 Per capita income: $44,327 (170.8% of commonwealth median, 205.3% of nation)

2000 Median family income: $92,993 (150.8% of commonwealth median, 185.8% of nation)

Overall debt burden: 1.9%

Adjusted overall debt burden: 1.8%

Amortization of principal (10 years): 86.5%

FY 2010 General fund balance: $17.9 million (7.5% of General Fund revenues)

FY 2010 Available reserves: $21.9 million (9.2% of General Fund revenues)

Post-sale long-term G.O. bonds outstanding: $84.7 million

The principal methodology used in this rating was General Obligation Bonds Issued by U.S. Local Governments published in October 2009.

REGULATORY DISCLOSURES

Information sources used to prepare the credit rating are the following: parties involved in the ratings, public information, and confidential and proprietary Moody's Investors Service information.

Moody's Investors Service considers the quality of information available on the credit satisfactory for the purposes of assigning a credit rating.

Moody's adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources Moody's considers to be reliable including, when appropriate, independent third-party sources. However, Moody's is not an auditor and cannot in every instance independently verify or validate information received in the rating process.

Please see ratings tab on the issuer/entity page on Moodys.com for the last rating action and the rating history.

The date on which some Credit Ratings were first released goes back to a time before Moody's Investors Service's Credit Ratings were fully digitized and accurate data may not be available. Consequently, Moody's Investors Service provides a date that it believes is the most reliable and accurate based on the information that is available to it. Please see the ratings disclosure page on our website www.moodys.com for further information.

Please see the Credit Policy page on Moodys.com for the methodologies used in determining ratings, further information on the meaning of each rating category and the definition of default and recovery.

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APPENDIX H: MOODY'S RESEARCH REPORTS

Moody's Investors Service
Municipal Credit Research

February 2002

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Your General Fund Balance - One Size Does Not Fit All !

Special Comment

This special comment provides a broad overview of Moody's approach to General Fund balance analysis.

Questions relating to fund balances are probably the most frequent of all questions asked to a credit analyst. However, fund balance is only one part of the financial analysis, and finances only one of many factors considered in the rating. Financial health is also not just focused on General Fund balance, but the financial integrity of all funds. For the purpose of this comment, however, we will focus solely on General Fund balance, or reserves. *For a more encompassing overview of Moody's Financial analysis please refer to Moody's Special Comment, "Moody's Approach To Local Government Financial Analysis" dated January 2002.*

A municipality's prudent fiscal policies should include some plan or policy related to reserves. The accumulation of prudent reserves in more favorable economic times could be a resource to sustain communities in the inevitable downturn. Moody's believes that operating reserves (or fund balance) is not only a prudent fiscal management tool, but also an important credit factor in the analysis of financial flexibility.

continued on page 3

Author

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Senior Production Associate

Charles Ornegri

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Need for Reserves

Recessions have demonstrated how municipal budgets can be hurt by declines in economically sensitive revenues (e.g., sales taxes, income taxes, interest income, and bed taxes), and unanticipated cuts in state revenue sharing funds. Additional factors of an even more unpredictable nature can also drain budgets. These have typically been associated with natural disasters such as hurricanes, earthquakes, and floods.

Factors Influencing Accumulation of Reserves

Pressures, which may impact the level of reserves that can be accumulated, include: statutory limitations, political pressure (e.g. concern of re-election), resident sensitivity, unions, and operating or capital needs. Reserves are not to be viewed as competing or contradictory to these limitations, but as a means of helping municipalities achieve these as well as other ends.

Benefits of Maintaining Adequate Reserves

Maintaining adequate reserves has several internal and external benefits. Internally, reserves can provide for cash flow needs until major revenues are received, reducing or eliminating the need for cash flow borrowing; provide funds to leverage state or federal grants; and provide for the unexpected. Externally, reserves tend to be viewed favorably by investors, rating agencies, and local banks with which a municipality does business, thus benefiting ratings and the potential need for lines of credit.

How Much is Enough?

Administrators struggle to determine the reserve amount that would be universally accepted by investors, residents, rating agencies, and governing officials. In truth, no figure can satisfy all these concerns given their varied interests. The level of reserves should be predicated on items such as cyclical vulnerability of revenue streams, likelihood of natural disasters, and volatility of expenditure items (e.g. Medicaid, Social Services, Health Care).

Depending on which vulnerabilities are more significant in each situation, should dictate whether to utilize a number of days of operating expenses, or a flat percentage in formulating reserve levels. In the former case a minimum of one to two months of operating expenses is considered reasonable, while in the latter instance a minimum level of between 5% to 10% should targeted. However, determining which end of the spectrum is best suited to a municipality's needs must be governed by the sensitivity of revenue streams and the potential for natural disasters or other unforeseen budget fluctuations.

Other factors that should be included in the final determination of reserve balances are: the level of budgetary fixed costs, the amount of non-voted debt supported by traditional operating funds, historical delays in adoption of state budgets, proximity to operating limits, other statutory limitations on revenues, and timing on reception of major revenue sources. In these situations, greater reserves should be considered.

Formal Policy or Targeted Goal?

Many municipalities have inquired whether reserves, or General Fund balance, should be governed by formal policy (ordinance, inclusion in local charters), or could targeted levels suffice.

Moody's analysis considers the formality of reserve policies, and the more formal policies are viewed more favorably because they minimize political considerations of adequate reserve levels and keep the municipalities more focused on providing structural balance in their operations, with less dependence on one-time reserves. There have been instances where a municipality has demonstrated a long-term adherence to more informal policies, or targets, which Moody's has felt comfortable relying upon. But more often than not, informal policies have been associated with uneven long-term financial performance. Formal policies, when part of a comprehensive financial management program, can be an effective operating tool.

How "Real" is Your Fund Balance?

There are fund balances and there are fund balances. Sometimes targets or policies are predicated on total balances that include questionable items such as reserves for encumbrances, inventories, and subsequent years' expenditures, while undesignated balances tend to be narrow and fluctuate wildly. Sometimes operating reserves include receivables and accrued items which tend to present a less than accurate representation of fund balance.

Moody's considers the amount of available cash in the composition of fund balance, and how much of that actually falls to the unreserved/undesignated portion of fund balance. The more cash, the more liquid the balance and the more operating flexibility is maintained by the municipality.

Conclusion

Moody's views those credits which adhere to a fund balance strategy as being more pro-active and reflecting positively on management. Sometimes an education process is required, either for local officials or residents, on the value of maintaining reserves. Reserve levels should be determined locally, but based logically on factors considered in this comment. Whether reserves are set-aside in the form of rainy day funds, stabilization funds, or just plain undesignated balances, operating fund balances are an important part of credit assessment.

To order reprints of this report (100 copies minimum), please call 1.212.553.1658.

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Rating Methodology

Moody's
U.S. Public Finance

October 2009

General Obligation Bonds Issued by U.S. Local Governments

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Summary

This methodology report provides a detailed explanation of how Moody's evaluates the credit quality of bonds issued by counties, cities, school districts and other special districts in the United States that are backed by the entity's ad valorem taxing power. General Obligation (GO) ratings are forward-looking assessments of relative creditworthiness, based on Moody's analysis of four broad rating factors:

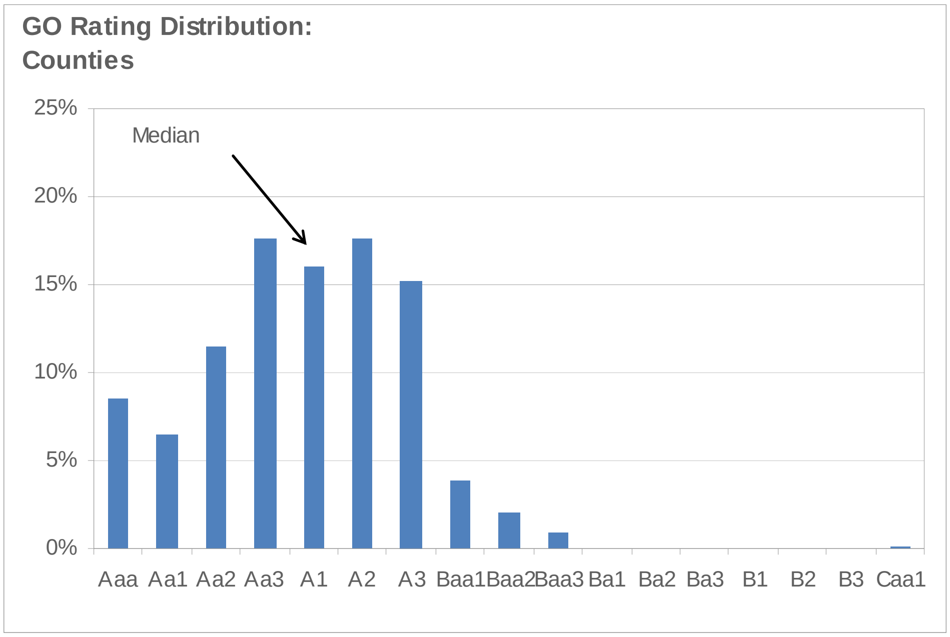
- Economic Strength
- Financial Strength
- Management and Governance
- Debt Profile

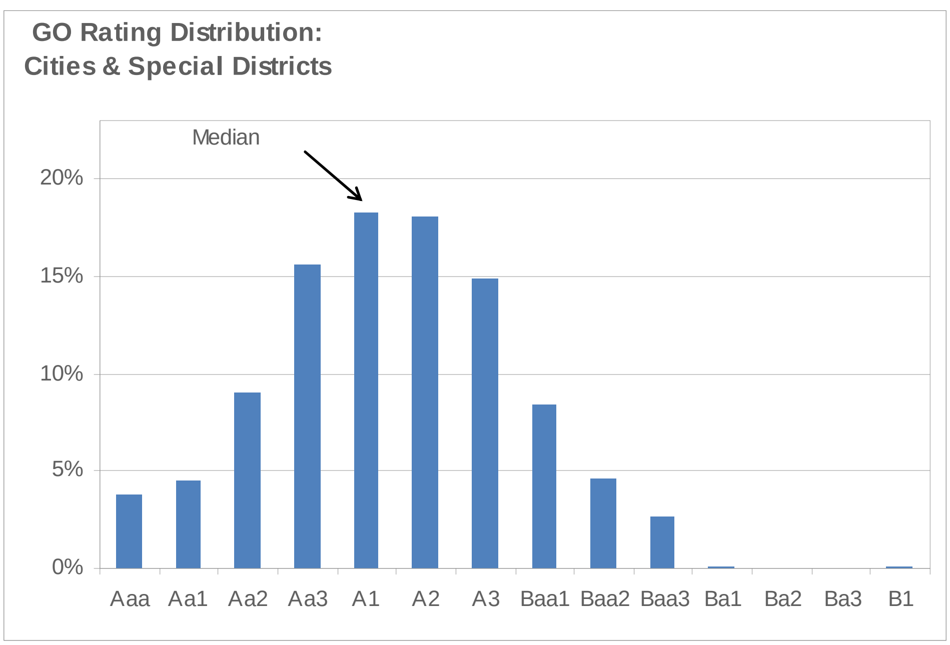
Moody's employs a weighted average approach to analyzing these factors to arrive at a rating range. The precise rating is based on a comparison with peers, interactions of the individual factors, and additional considerations that may not adequately be captured within the factors. While this framework is comprehensive, it still may not adequately capture the complex web of economic, financial and political issues that affect a local government's relative creditworthiness. Therefore, some of our general obligation ratings may lie outside the rating range implied by the weighted average approach.

Moody's Investors Service

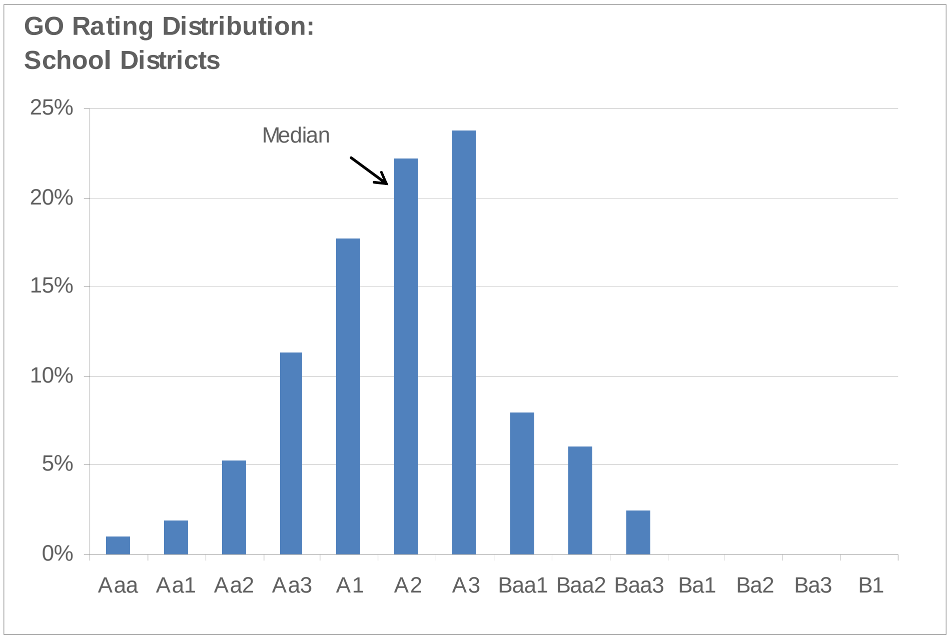
OVERVIEW OF MOODY'S LOCAL GOVERNMENT GENERAL OBLIGATION RATINGS

Moody's maintains GO ratings (or Issuer Ratings, which describe what the GO rating would be for governments that do not have outstanding GO debt) for approximately 8,200 local governments. These include ratings for counties (approximately 1,000); cities, towns, villages (referred to as "cities" for purposes of this report, approximately 3,300); special purpose districts (approximately 600); and school districts (approximately 3,300). The U.S. local government sector is largely investment grade-rated, with only a handful of incidents of default. The median public ratings for counties, cities and school districts are A1, A1, and A2 respectively, as shown below.





General Obligation Bonds Issued by U.S. Local Governments



The G.O. rating generally conveys the highest and best security that a state or local government can offer, typically based upon a pledge of its full faith and credit. While local government GO bonds are secured by a pledge to levy property taxes sufficient to pay debt service, the analysis of GO credit quality is not limited to the narrow coverage of debt service by dedicated property taxes. The unconditional nature of this pledge ensures that in most cases all revenue producing powers of the municipality are legally committed to debt repayment. Accordingly, the GO analysis assesses overall financial flexibility and distance to distress, based on a broad evaluation of four rating factors.

METHODOLOGICAL APPROACH

Rating Factors

Moody's rating approach for local government GO bonds includes an analysis of four key rating factors and 16 sub-factors:

I. ECONOMIC STRENGTH

a. Size and growth trend
b. Type of economy
c. Socioeconomic and demographic profile
d. Workforce profile

II. FINANCIAL STRENGTH

a. Balance sheet/liquidity
b. Operating flexibility
c. Budgetary performance

III. MANAGEMENT AND GOVERNANCE

a. Financial planning and budgeting
b. Debt management and capital planning
c. Management of economy/tax base
d. Governing structure
e. Disclosure

IV. DEBT PROFILE

a. Debt burden

b. Debt structure and composition

c. Debt management and financial impact/flexibility

d. Other long-term commitments and liabilities

General Obligation Bonds Issued by U.S. Local Governments

Analytic Approach

Moody's general obligation bond ratings are forward-looking assessments of an entity's relative credit strength, and reflect our analysis of four rating factors – Economic Condition and Outlook, Financial Position and Performance, Debt Profile, and Management – as measured against a combination of qualitative and quantitative criteria. Each of the four factors is evaluated individually, incorporating unique state and sector attributes; ultimately, the rating outcome reflects a weighting of these assessments according to the following weighting system:

Economic Strength	40%
Financial Strength	30%
Management and Governance	20%
Debt Profile	10%

Economic Strength carries the greatest weight in our assessment of credit quality, as the property tax base is the source of bondholder security and the economy provides the source of leverage to support municipal operations. Moody's tax base analysis incorporates absolute valuation and historic growth rates, a qualitative assessment of the stability of the local economy and the relative socio-demographic strength of the community. Given the diversity and size of the local government sector, we see great variation among local economies with regard to both size and qualitative characteristics. As peer comparisons are an important component of rating committee discussions, economic factors weigh heavily in our determination of the relative credit quality of local governments.[1]

An entity's Financial Strength carries the next greatest weight, as a strong financial position can mitigate economic vulnerabilities or, conversely, a weak financial position in an economically vibrant community may signal an inability to leverage a strong tax base. Analysis of financial position and performance includes both a retrospective financial statement analysis, as well as a forecast of future financial flexibility based on a review of the current year's budget document and year to date performance. A strong financial position is highly correlated with the strength of management.

Rating Implications of Limited Tax GO Pledges are Considered on a Case By Case Basis

Most often, the GO security offers the issuer's full faith and credit pledge to levy ad valorem taxes, without limit as to rate or amount, for the timely payment of debt service (an unlimited tax, or GOULT pledge). In some instances, however, the property tax pledge is limited (GOLT). This may occur if taxes levied for debt service are subject to an overall cap on the property tax levy. Alternatively, an issuer may be legally permitted to levy an additional property tax for specific purposes, up to a specified rate or amount, and this additional, limited taxing authority is pledged to secure debt.

A rating distinction of up to two notches below an issuer's general obligation unlimited tax rating (e.g. from A1 to A3) may be applied to reflect the narrower security offered by a GOLT pledge. Moody's assesses the relative strength of unlimited vs. limited tax securities on a case by case basis, considering among other things the legal provisions which protect bondholders' potential claims on tax revenue in the event of a default. We also consider the degree to which a currently levied, limited tax rate is below the legally allowed maximum. Occasionally municipalities issue bonds combining limited tax and unlimited tax debt authorizations; here, the limited tax rating would generally apply.

Moody's also considers additional factors which may mitigate the relative credit weakness of the narrower limited tax security, resulting in a rating assigned to a limited tax issue equivalent to that of the local government's unlimited tax bonds. Mitigating factors often include:

- A strong financial position, including ample general fund reserves and adherence to comprehensive financial policies, which can cushion cyclical declines in property tax revenue or expenditure spikes
- Steady tax base growth which provides property tax revenue necessary to keep pace with expenditure growth

[1] Moody's utilizes a different weighting approach to evaluate state GO credit quality. Our state scorecard over-weights Finance and Management factors (30% each) relative to Debt and Economy factors (20% each). Most striking in comparison to the local government weighting approach is the underweighting of economic factors in the state scorecard. This reflects the lesser degree of variation among state economies as compared with the local government sector, as state economies, by definition, are broad and generally diverse.

General Obligation Bonds Issued by U.S. Local Governments

Management and Governance carries a relatively lower weight of 20%, but is nevertheless important as management also affects other key rating factors. To the degree that management is proactive and policies and procedures are institutionalized, a stable credit profile is more likely to be maintained. Moody's general obligation bond ratings typically do not rise and fall with economic cycles; this stability is largely a reflection of local governments' ability to manage through difficult times. In combination, Financial Strength together with Management and Governance account for 50% of our assessment, underlining our view that relative strength in these two factors can mitigate economic challenges and drive rating outcomes.

Debt Profile rarely is the primary driver of a rating outcome, as reflected in its relatively low 10% weighting; however, debt burden trends are an indicator of a population's capacity to absorb additional obligations. In the event that a local government's capital needs are great, this may foretell future financial distress. Debt may become a greater concern if a municipality's variable rate debt exposure or swap portfolio presents significant liquidity or budgetary risks.

The outcome of this weighted average approach provides one input into Moody's credit analysis. Emphasis given to each factor may vary depending on where the credit lies on the rating scale and the degree to which it is an outlier on a given factor. These considerations, as well as the interaction between factors, may cause rating committee decisions to deviate from the rating range implied by the weighted average of the factors.

FACTOR 1: ECONOMIC STRENGTH

The economic strength of a locality drives its ability to generate adequate financial resources – either through property tax levy, sales tax revenue or other revenue streams -- to meet operational and debt service needs. As such, this factor measures the intrinsic strength of the local revenue base.

Subfactor 1.a: Size and Growth Trend

Because GO bonds are secured by a property tax pledge, the size of the tax base is an important indicator of a local government's credit quality. Generally, a larger tax base offers the flexibility to generate substantial property tax revenue with only a minor increase in tax rates. Moody's analysis of economic growth incorporates a review of historical trends, including average annual increases in assessed and full valuation and building permit activity over time, to provide an indication of future economic performance. We review at least five years of historical assessed and full valuations (primarily valuation of real estate and personal property), paying close attention to growth patterns during periods of national or regional economic downturn. We also consider the kind of growth that has occurred. For example, does growth reflect appreciation of existing properties, which tends to be economically volatile, or new development? Further, if there is new development, is there existing demand or is development speculative? Additionally, Moody's will review historical building permit activity trends for residential and commercial construction to determine which sector is driving growth.

We also assess prospects for continuing development, which are projected based upon availability of land for future development, opportunities for annexation, and adequacy of infrastructure to support new development. Other factors that may affect a locality's ability to attract or retain growth potential include local taxing structure (compared with competing localities), labor costs, and availability of adequate labor supply to meet needs of local business. Moody's also considers the extent to which management is channeling assets and resources to promote future growth and development, including investment in infrastructure, management of zoning issues and other development factors. Additionally, the demand for new development is assessed, in part, by evaluating current occupancy rates and trends for all sectors of the real estate market. In reviewing more mature economies that are fully developed, Moody's will focus on efforts being undertaken to redevelop and generate the potential for new growth.

Subfactor 1.b: Type of Economy

Moody's analysis of a local economy considers its role in the larger regional economy and how this might cushion or exacerbate vulnerability to economic shocks. On the most basic level, Moody's considers the type of economy: is it an urban center, a suburb or a rural area? Is it a residential bedroom community or an industrial, retail or services center? Based on the type of local economy, Moody's will focus its questions and comparisons to include things like commuting patterns, office or retail vacancy rates, or residential building permit activity.

Tax base diversity indicates a local economy's ability to weather fluctuations in a particular sector. With a diverse mix of industries, the impact of downturns in any particular sector may be less pointed. Risk associated with the presence of an industry vulnerable to downturn (i.e., tourism) may be partially mitigated by diversity within the economy, enabling continued growth in the face of a downturn in any one sector. Moody's will determine whether a diverse mix of industries is present to support job growth, tax base stability or growth, and a range of primary revenue streams for a locality. Moody's also considers the stability offered by institutional presences within a local economy. Economies anchored by universities or government presences, such as state capitols, often are better able to weather economic downturns as employment at these institutions tends to benefit from a greater degree of stability than other sectors.

Loss of a major taxpayer or downturn in a particular industry can be especially harmful to a local economy if it represents a major portion of the overall tax base. Apart from hurting ad valorem tax revenue, loss of a major taxpayer may lead to a spike in unemployment and adversely affect the operations of ancillary industries, in turn leading to indirect tax base declines. Moody's considers the assessed valuation of a locality's ten largest taxpayers in order to gauge concentration levels. In addition, concentration within a specific industry, especially vulnerable sectors like automotive manufacturing, will trigger a closer analysis of current operations among the top ten taxpayers. When available, a listing of the total levy generated by each of the top ten taxpayers will provide a clearer picture of the revenue impacts of any concentration. For example, a taxpayer may represent a major concentration of a locality's assessed valuation; however, due to incentives or other arrangements, a taxpayer may comprise a relatively small portion of revenues. Concentration among the top taxpayers also introduces potential risk to sales tax and income tax revenues, as closure or downsizing may affect local income levels, thereby reducing these revenues.

Subfactor 1.c: Wealth and Demographics

A variety of demographic measures offer an indication of the ability of a locality to generate revenue to meet ongoing operational and debt service needs. We look at population trends using data provided by the US Census Bureau as a reflection of overall economic health. Population declines often accompany job losses, concentrating the burden for funding government expenditures within a smaller base of residents. Conversely, we recognize that rapid population growth could tax the resources of a locality as it endeavors to meet the demands for services created by a larger population.

Moody's compares per capita and median family income trends of a community to those of the nation. A community that has higher wealth levels may have relative flexibility to increase property tax rates in order to meet financial needs. Likewise, a wealthier community has greater spending power to sustain sales tax revenue and provide the demand necessary to support growth in the commercial and service sectors. Poverty trends are also considered; these may indicate the degree to which a local government could be strained by certain expenditures, such as those related to social service programs or public safety.

Moody's also considers full value per capita as a rough proxy for wealth. Relatively high full value per capita reflects the property wealth of the population; it may also reflect a concentrated tax base or a seasonal tourism-based economy with a relatively small permanent population. Conversely, a lower full value per capita could reflect the presence of significant tax-exempt property, such as a university, that nevertheless reflects a stable source of local revenue generation.

Subfactor 1.d: Workforce Profile

Moody's analysis of workforce issues is focused on determining whether there is an adequate match between the needs of local businesses and the local labor supply, most typically based upon a review of employment data provided by the Bureau of Labor Statistics. Unemployment rates, adjusted for any seasonal fluctuation, are perhaps the most current measure of an area's economic health. Equally important are the unemployment trends over a period of time, which illustrate a municipality's demonstrated ability to withstand changes in national or regional economic fortunes and may provide an indication of future employment performance. Moody's compares local unemployment with statewide and national norms to assess an entity's relative economic vitality. Commuting patterns also enable Moody's to understand a locality's role in the regional economy and the vibrancy of the local employment market, both indicators of economic performance and influences on revenue raising potential.

FACTOR 2: FINANCIAL STRENGTH

Moody's financial analysis includes a review of historical financial performance as an indication of an issuer's ability to weather budgetary pressures stemming from economic downturns or other factors. Our analysis focuses on multiyear financial trends, rather than performance in any given year, to indicate financial health over the medium term. Financial flexibility is a key area of analysis, as it provides insight into a local government's ability to maintain or augment its financial position going forward, ensuring a sufficient buffer to address any unexpected contingencies.

Subfactor 2.a: Balance Sheet / Liquidity

One financial statistic that is key to evaluating financial strength is the General Fund balance as a percent of revenues. This ratio provides a measure of the financial reserves potentially available to fund unforeseen contingencies as well as likely future liabilities. It is important to emphasize that the strength of a given level of fund balance varies depending on the particular issuer and its respective operating environment. Larger balances may be warranted if budgeted revenues are economically sensitive and therefore not easily forecasted, or to offset risk associated with tax base concentration, unsettled labor contracts and pending litigation. Alternately, municipalities with substantial revenue raising flexibility may carry smaller balances; this weakness is offset by their ability to generate additional resources when necessary. Accounting presentation varies from state to state; functions that are typically funded through the General Fund may be divided among several governmental funds, depending upon statewide norms. To provide meaningful comparisons across states, Moody's considers combined operating fund reserves as a percent of combined operating fund revenues, in addition to our analysis of the General Fund.

Although we assess fund balance in relation to sector medians, we are cognizant of statewide restrictions that may skew this comparison; for example, New York school districts are not permitted to maintain undesignated reserves in excess of 4% of the subsequent year's budget. Our analysis factors an entity's ability to maintain a healthy financial position within these statutory constraints, such as through the creation and funding of additional reserves. To the extent that significant reserves that are available to fund regular operating needs are held outside of the General or operating funds, Moody's analysts will add these funds to operating fund reserves to determine total available reserves as a percent of operating revenues.

Moody's balance sheet analysis also factors the composition of assets and liabilities; quality of receivables is reviewed to determine the likeliness of their realization. For instance, interfund receivables are analyzed to determine whether the assets to make payment are available or expected to become available in the near term. If not, we may adjust the fund balance downward, to more accurately reflect available resources. Moody's also relies on trends of receivables and payables for an indication of the evolution of a municipality's financial position. For instance, payables that increase at a significant pace may indicate future financial stress on a municipality's resources, while increased receivables may indicate delays in revenue realization or prompt questions about reliability of these receivables.

In addition to evaluating financial reserves, Moody's approach also considers the liquidity of the reserves. Solvency refers to having the assets to cover liabilities; however, funds may be solvent but may lack liquidity if non-cash assets do not convert to cash before liabilities are due. As the best defense against short term liquidity risk is cash, Moody's analyzes year-end cash (net of any proceeds of cash flow borrowing) as a percent of operating revenues. A declining net cash position may raise a red flag regarding an entity's financial health, particularly at lower rating levels; or it may suggest use of a municipality's cash for a capital project which may ultimately be reimbursed by the state or from future bond proceeds. We recognize that a mismatch between the timing of local government receipts and disbursements may necessitate issuance of cash flow notes; however, an increasing reliance on cash flow borrowing relative to budget growth is similarly an indicator of financial stress.

Moody's also reviews the financial condition of major internal service funds. In some cases, these funds may hold large reserves and represent another source of operating flexibility. On the other hand, budget pressures in the General and operating funds may be masked by artificially low charges for services provided by the internal service fund, essentially shifting an operating deficit from the General and operating funds to the internal service funds.

Subfactor 2.b: Operating Flexibility

The extent to which government financial managers can exert local control over operating performance is a significant determinant of an entity's ability to maintain a satisfactory distance from fiscal distress. Local governments face inevitable budgetary pressures which may be managed from either the revenue or expenditure side. To the extent an issuer has flexibility to control both revenues and expenditures, financial flexibility will be maximized. Importantly, in addition to considering an issuer's flexibility to increase revenues or reduce expenditures as necessary, Moody's also considers its demonstrated willingness to do so. When an issuer is unwilling to tap available flexibility, the value of that flexibility as a positive credit factor is diminished.

An entity's revenue raising flexibility may be constrained by constitutional or statutory property tax limits, such as property tax levy limits or caps on operating millage or millage increases. Moody's also considers the ability to raise various fees or tax rates without external approval as a factor in assessing revenue raising flexibility. Requirements for voter approval of budgets also limit flexibility, given the potential political resistance to tax increases. Additionally, local governments that rely on local source revenues for the majority of their operating revenues generally have greater control over their financial condition than those entities that are heavily dependent on outside sources such as state aid or other intergovernmental revenues which are prone to reduction during times of state fiscal stress.

Local control over expenditures is also reviewed. A higher proportion of fixed costs, such as debt service or mandated social service expenditures, as a percent of expenditures reduces flexibility to adjust expenditures if revenues fall below expectations. Conversely, funding of non-operating needs from recurring sources, such as financing of capital improvements on a pay-as-you-go basis, enhances flexibility; as these non-essential expenditures may be eliminated in the event of unforeseen budgetary pressures. Flexibility is also impacted to the extent an entity is bound by collective bargaining contracts, which limit control of expenditures; or to the extent it is exposed to enterprise sectors that carries significant operating risk (e.g. county nursing homes, which often require General Fund operating subsidies).

Property Tax Limitations are Considered in Context of Overall Financial Flexibility

Property tax is a primary revenue stream for many local governments and is generally considered a relatively stable and predictable source. In response to increasing local property tax burdens, compounded by periods of explosive market value growth in certain regions since the 1970s, several states began imposing property tax limitations. Since the 1978 adoption of California's constitutional amendment to limit property tax growth, commonly known as Proposition 13, a range of state limits have been enacted, either through constitutional amendment, legislation, or within a state's budgetary process. In other instances, limitations are specifically defined by local charter and are governed by a charter process at the local level that is similar to enacting constitutional amendments at the state level. These limitations can pose a range of fiscal constraints on a local government's ability to raise revenues and maintain structural balance. Statutory limitations within a state are sometimes different, depending on the taxing jurisdiction. For example, in Kansas, cities and counties have not had levy limits since 1999, whereas school districts are limited to 20 mills. Moody's assesses the impact of property tax limitations on local governments' financial flexibility and credit strength by evaluating the following factors:

Mechanics and parameters of limitation

- Limitations can be defined as maximum caps on the total rates or limitations on the annual rate of increase on property tax levies. Limitations can be some combination of the two, as is the case with California's Proposition 13, which caps property taxes at 1% of assessed valuation and also limits annual growth to the lesser of 2% or CPI, with exceptions for sales or improvements to existing property.
- The scope of the limitation is also critical; certain expenditures may be excluded from the limit, reducing the impact of the limit and improving the issuer's ability to maintain financial flexibility.
- Limitations can also be more discretely defined, with specific rate limits for different purposes. For example, Iowa cities have limitations for certain levies, but no limits for other purposes. The general operating levy is limited to $8.10 per $100 of taxable valuation, a special capital projects levy is limited to $.675 while special revenue levies for police and fire are unlimited.
- Limitations may be ongoing and continuing, as enacted by state constitution or legislation. In some states, such as Wisconsin and Minnesota, the limits are imposed during the state's budget process and may or may not be imposed from one biennial budget to the next. For municipalities in states that periodically impose levy limits, they are sometimes able to stabilize finances in non-limited years, giving them the ability to prepare financially for years where revenue growth will be more restricted.

Access to additional taxing or revenue capacity

- Some local governments are able to maintain their levies below state limitations, leaving an unused margin that is fully accessible when needed. For example, a municipality may levy only 5 mills under a 10 mill cap that they could utilize for excess capacity. Similarly, municipalities operating under a growth limitation are sometimes allowed to accumulate any unused portion of the property tax limit from one year to the next, building a margin. Any voluntarily untapped margin that is accessible in future years grants the local government additional revenue raising flexibility when needed.

- Additionally, some limits allow for the local government to exceed or reduce the limitation, often by referendum vote or vote by the governing body, such as the city council, school board, or town meeting.
- Different local governments may have more or less control over raising additional revenues, such as special taxes, fees, and surcharges that could provide alternate revenue raising flexibility.
- Moody's will also consider the political will to use this margin, acknowledging that a significant available margin does not enhance flexibility if political pressures prevent its use. For local governments that have the option to implement overrides or leverage unused margins under existing limitations, a demonstrated willingness by management and the governing body to approve these local actions is key. While there may be political difficulties to enacting such property tax increases, Moody's views the ability to raise sufficient revenues to maintain structural balance in light of a demonstrated willingness.

State and local fiscal oversight

- Some states monitor and enforce local governments' compliance with tax limitations and overall maintenance of fiscal healthy. Generally, strong oversight at the state or local level is viewed as a positive factor, limiting the likelihood of a local government developing serious financial stress under a property tax limit. Municipalities without periodic oversight or strong local policies could experience unmonitored financial decline that would be further stressed by the inability to rapidly increase property tax revenues under existing limitations.

Expenditure flexibility

- A local government's control over expenditures is also critical in light of the scope of the revenue limitations we are considering.
- An issuer with a higher proportion of fixed costs, such as debt service or mandated social service expenditures, reduces flexibility to adjust expenditures if revenues fall below expectations. Expenditure flexibility is also limited to the extent an entity is bound by collective bargaining contracts.
- Conversely, a larger proportion of more discretionary items, such as the financing of pay-go capital or the existence of enhanced services and other non-essential expenditures that can be reduced or eliminated, provides a degree of flexibility in the event of unforeseen budgetary pressures.

Subfactor 2.c: Budgetary Operations

Moody's evaluates a local government's operating trend to see that financial reserves increase in step with budgetary growth. Additionally, we analyze operating performance to assess structural balance, i.e. the ability to fund recurring expenditures from recurring revenues. Reliance on non-recurring, or "one-shot" revenues, such as proceeds from the sale of assets, windfall delinquent tax collections, or the use of fund balance as a revenue source, leaves the issuer vulnerable should these one-time revenues fail to materialize in the future.

Additionally, revenue structures dependent on economically sensitive revenue sources, such as sales tax or real estate transfer taxes, are dependent on broader economic forces beyond the issuer's control, and pose a risk to budgetary operations. In contrast, property taxes tend to be less volatile, as lags built assessment practices often delay the impact of economic fluctuation. When volatile revenues fund a significant portion of operating costs, Moody's analysts try to gauge how much of the risk is mitigated by management's approach to budgeting for such revenue, what revenue alternatives exist, and what reserve policy is in place to counter any fluctuations. Trends in revenues are also examined, specifically if major sources of revenues shift from more predictable revenue sources to more vulnerable ones, thereby increasing risk.

FACTOR 3: MANAGEMENT AND GOVERNANCE

General obligation credit ratings do not generally move up in boom times and fall in recessions. One of the main factors behind this stability is the proven ability of governmental managers to implement strategies that maintain credit strength over the long-term. A strong governmental management team prepares well for economic downturns, maintains strong controls during boom times, and manages well during all phases of an economic cycle. Strong management can also mitigate challenges that are outside of the municipality's control, such as economic vulnerability or the existence of statutory revenue caps.

Subfactor 3.a: Financial Planning and Budgeting

Moody's assessment of management and governance includes a comparison of budget versus actual performance trends, focusing on the accuracy of both revenue and expenditure forecasts. Revenue forecasting is a key concern, as overly optimistic revenue budgeting can lead to shortfalls within a fiscal year. The strongest financial managers work with information that is updated on a regular basis. For instance, property tax revenue projections will be more reliable if they are based on historic trends and include reasonable assumptions about the future of the local real estate market, the direction of national interest rates, and the local government's likely tax collection rate. Similarly, strong sales tax revenue projections incorporate recent actual trends and indicators of likely future purchasing demand – such as population trend numbers, expected unemployment rates and the impact of current and expected nearby retail competition. The strongest management teams have a solid track record of meeting projections in most line items over several years.

Moody's analysts also assess the government's track record of expenditure controls and conservative but reasonable expenditure projections. In Moody's view, the strongest management teams are able to discuss the levels of flexibility within each expenditure line item as well as discuss the details about the assumptions behind their budgeting. We bring to these expectations a sensitivity to political realities and to the sometimes difficult balancing act that government officials must perform between providing services and controlling costs. Strong expenditure controls lessen the likelihood of fiscal distress, within a fiscal year and beyond. Further, in times of economic weakening, revenues such as sales tax and income tax are likely to stagnate or even decline, and property tax collection rates may fall. The demonstrated ability and willingness to make mid-year budget adjustments in the face of revenue weakness are often key to keeping a budget balanced and avoiding reliance on non-recurring sources such as asset sales or draws from reserves. These "one-shot" approaches weaken management's options in the following fiscal year, when continued expenditure growth could cause further fiscal distress.

Adoption of fund balance policies, and adherence to these policies, increases the likelihood that sufficient levels of fund balance will be maintained, regardless of economic cycles or administrative turn-over. The fiscal policies of a well-managed municipality typically incorporate a plan related to reserves that establishes target and minimum fund balance levels, and specifies when they can be used. Policies that set fund balance levels based on the degree of fiscal vulnerability faced by a particular municipality (including such things as the cyclicality of its revenue streams, the volatility of expenditure items and the likelihood of natural disasters) are generally more effective than those that do not. Moody's places relatively more reliance on investment and fund balance policies when they are in writing and have been adopted by the government in some formalized manner, such as through a resolution. A written policy, while not necessarily legally binding, indicates to Moody's that government officials have discussed the policy in full and reached consensus, and that the policy is likely to remain in place with a change in management.

Because the results of one fiscal year impact the next, Moody's sees value in the development of multi-year fiscal plans. Long-term fiscal plans generally encompass periods from three to five years, although some span as long as 10 years. These plans can provide useful information about a municipality's finances such as the level of revenue growth necessary to fund particular spending levels, or the impact that a slowdown in revenues or materially higher spending levels could have on fiscal stability. The best fiscal plans incorporate long-term capital planning, including the identification of future debt service costs and additional operational costs associated with any new capital construction. Such integrated plans illustrate how a municipality intends to pay for projected service level increases and inflationary budget growth.

By plugging in various economic assumptions, government officials can use these plans to envision their budgetary needs over the near- to medium-term. Officials can "stress test" certain revenue streams – for instance, possibly learning that level state aid funding could be offset by expected property tax revenue growth, allowing for normal expenditure growth even during a state's fiscal crisis. Well constructed plans also identify areas of potential financial flexibility – for example, capital spending that could be reduced or fees that could be increased. In short, multi-year fiscal plans perform two important functions: one, they compel the issuer to develop quantitative contingency plans for various "what if" scenarios; and, two, they provide a road map that shows where the government's management team intends to go over the next several years.

Subfactor 3.b: Debt Management and Capital Planning

Formalized debt planning and debt policies provide bondholders with reassurances that debt burdens and operational debt costs will be kept at manageable levels while ongoing capital needs continue to be met. Debt policies typically specify both target debt burden levels and maximum allowable debt burden levels; the community's borrowing needs over the next five to ten years are then projected against these targets. Also, if an entity plans to issue a portion of their debt as variable rate obligations, or enter into interest rate swaps, it is important for the debt policy to incorporate management's reasons for utilizing these structures, and strategies for minimizing associated risks.

Regularly updated, multi-year capital improvement plans are useful tools in prioritizing and planning for future capital needs, and identifying financing sources for each of the upcoming capital projects. The strongest governmental management teams then incorporate their capital improvement plans into their debt projections and multi-year operating projections – identifying how both debt levels and operating capital expenditures will impact the balance sheet and financial operations. Some management teams adopt policies for their pay-as-you-go financing of capital work, such as earmarking certain revenues (e.g. impact fees) to be diverted annually into pay-go capital spending. Policies may also specify target levels for debt service as a percentage of overall expenditures.

Moody's also evaluates management's ability to cushion against risk related to variable rate debt and derivatives, particularly in light of recent and ongoing volatility in the variable rate debt markets. Here, we consider the frequency of monitoring variable rate debt and swap portfolios, demonstrated response to market changes, budgeting for interest rate volatility, and maintenance of sufficient liquidity in the event of bank bond term-outs or swap terminations.

Subfactor 3.c: Management of Economy / Tax Base

We recognize that, generally, economic performance is the most difficult of the four rating factors for management to control. Nevertheless, monitoring economic performance is an important practice, as economic indicators can cue management to adjust financial or debt policies in order to offset the impacts of an economic downturn or challenge. Strong managers also understand how historical economic trends can be used as a predictor for future economic performance, and can incorporate this analysis into economic forecasts and ultimately, into policy decisions. The successful pursuit by management of effective economic development or redevelopment is generally seen as a positive rating factor, while incentives that lead to uncertain revenues or services that are in excess of development benefits can negatively impact ratings.

Subfactor 3.d: Governing Structure

The statutory and regulatory environments in which local governments operate can vary significantly by state and by sector. Moody's analysis includes a comparison of peers within a given state, to evaluate management's ability to maximize flexibility relative to others facing the same constraints. However, as statutory limitations may materially impact relative credit quality on an absolute basis, we also conduct nationwide comparisons to assess relative credit quality. For example, imposition of a statewide 4% property tax cap in New Jersey has contributed to widespread utilization of fund balance to support operations across the state. We recognize this trend, and consider management's ability to operate within this new limitation. To maintain the consistency of our ratings, however, we also compare these municipalities to credits in other states that may not face similar caps. Absent other mitigating factors, we would expect local government credit quality to be depressed somewhat in state's that place disproportionate limitations on financial flexibility.

Additionally, we recognize that local governments, by definition, are influenced by political considerations. Often, in allocating and managing limited resources to meet growing demands for services, financial managers face political pressure to make decisions that adversely impact credit quality. For example, elected officials may oppose revenue enhancements, such as property tax levy increases, or may promise services which the municipality is not in a position to fund. In the best case, government financial managers have the autonomy to make financial policy decisions and are insulated from political considerations. On the other hand, elected officials can provide an effective check on financial policy decisions – ideally, the relationship between management and elected officials is a constructive one. In extreme cases of local government fiscal distress, an external oversight board may be appointed. Moody's views this oversight to be a positive step toward halting what may otherwise be a credit in "free fall," as the oversight board is further removed from local political concerns, freeing it to make what may be unpopular decisions to restore financial stability.

Existence of Oversight Boards May Enhance Credit Quality

Moody's considers the existence of state oversight of local government operations to be a positive rating factor. In some instances, agencies such as the Local Government Commission in North Carolina, or the Local Finance Board in New Jersey, play a supervisory role, establishing accountability, controls and consistency with regards to local government operations statewide. While these agencies do not provide direct credit enhancement, Moody's believes that they ensure consistent standards of financial integrity. Thus, although this type of oversight does not directly factor into our local government ratings, it may indirectly support credit quality by encouraging and/or requiring conservative fiscal management practices.

Alternately, in some states, mechanisms exist to impose state oversight or control boards to oversee the operations of local governments experiencing fiscal distress. Examples include the Buffalo (NY) Fiscal Stability Authority (BFSA) and the Pennsylvania Intergovernmental Cooperation Authority (PICA) which oversees the City of Philadelphia. Once established, these boards may exert varying degrees of control over a municipality's financial operations, including review and approval of budgets, contracts and debt issuances, or requirements for the development of multi-year financial recovery plans. Establishment of a control board may bring immediate fiscal relief in the form of additional state aid to the municipality or authorization for the issuance of deficit funding bonds. Oversight boards may also issue debt ultimately repaid by the local government's revenues, but structured to insulate the repayment stream from municipal financial distress; the enhanced bond security may enable a local government that might otherwise have fallen below investment grade to continue to access the capital markets. Moody's believes that the existence of such an oversight board does not raise credit quality; but, assuming a constructive relationship exists between the board and the municipality, it, may create a rating floor (generally investment grade) below which the local government's rating is unlikely to fall.

Subfactor 3.e: Disclosure

Full and timely disclosure of financial matters is a basic tenet of a well-functioning capital market system. The strongest management teams have audited or reviewed financial reports prepared annually, generally within six to nine months of the close of the fiscal year. Financial statements that are attested to by an outside firm are viewed as being more reliable than preliminary documents prepared by members of the government's finance department. While Moody's rates the debt of certain issuers that do not publish annual audits (usually, small communities), we generally consider those issuers to have weaker financial reporting practices and, therefore, weaker disclosure practices. The Governmental Accounting Standards Bureau (GASB) creates the accounting principles by which governmental accountants prepare their audited financial statements, and compliance with these standards increases transparency and comparability among issuers (assuming the use of these accounting principles are the norm for the state, with New Jersey's statutory accounting standard as one of several notable exceptions).

Moody's also considers the timeliness of annual budget adoption. Timely budget adoption allows for effective allocation of resources and ensures that government commitments are funded. The budget process allows stakeholders with competing demands on resources to prioritize needs. Management skills are tested when these stakeholders must be brought together, sometimes in a politically charged environment. Inability to adopt a budget in a timely manner may reflect management's failure to achieve consensus concerning a community's goals and priorities. Besides allowing for the uninterrupted provision of government services, to the extent the budget is adopted prior to the start of the fiscal year, the budget provides a basis for tracking financial performance. (Again, New Jersey is a notable exception, where passage of budgets after the start of the fiscal year is the norm and reflects local governments' ability to adopt continuing budgets and mail estimated tax bills, allowing for provision of services and finalization of prior year actual performance to inform the budget process.)

Below Investment Grade Credits Face Range of Challenges

While local government credit quality is generally strong given the broad nature of the general obligation pledge, a number of credits, typically those that are economically distressed or lacking in sound fiscal management, fall below investment grade (i.e., rated below Baa3). This group currently represents only about 0.1% of the 8,200 general obligation ratings maintained by Moody's in the local government sector.

Non-investment grade local government credits tend to display a unique array of credit risks, including significant erosion in the economic base, an extremely weakened financial position, and a limited willingness or ability to resolve these challenges. A trend of structurally imbalanced operations can result in deficit fund balance positions and a growing reliance on cash flow borrowing to provide operating liquidity. Certain of today's stressed credits have failed to benefit from the nation's recent economic expansionary period, leaving them with minimal financial flexibility to weather the current economic recession. Further, many of these credits remain dependent on discretionary allotments of state aid that may decline given weakening state economies.

Moody's places significant emphasis on the adoption and implementation of a reasonable plan to alleviate fiscal distress when evaluating below investment grade credits. These plans often incorporate non-recurring sources to augment reserves, including infusions of extraordinary state aid, deficit reduction bond proceeds or proceeds from the sale of municipal assets. Reviews of below investment grade ratings generally focus on the likelihood of a return to structural balance through recurring revenue enhancement and/or expenditure reductions as well as an established track record of renewed stability, reflecting willingness and ability to maintain any improvements.

FACTOR 4: DEBT PROFILE

Moody's analyzes how much debt the economic base is supporting, the flexibility to absorb additional borrowing needs, expected future borrowing needs and the resulting pro-forma impacts. Additionally, Moody's examines the impact of debt on financial flexibility, and management's ability to conservatively structure debt repayment.

Subfactor 4.a: Debt Burden

The debt burden measures the financial leverage of a community by calculating the amount of debt outstanding (or the accreted value, in the case of Capital Appreciation Bonds) compared to the entity's full valuation. Ultimately, the more leveraged a tax base is, the more difficult it is to service existing debt and to afford additional debt, and the greater the likelihood that tax base or financial deterioration will result in pressures to fund fixed debt service expenditures. Moody's assesses both the direct debt burden, which is that debt supported by a municipality's own revenue stream; and indirect debt burden, which includes debt incurred by overlapping or underlying entities, such as a school district and a city in the case of a county. The overall debt burden represents the total debt shouldered by the property tax base. As the areas of responsibility of different levels of government vary by state (e.g. in some states, counties issue debt on behalf of school districts, whereas in other states school districts have borrowing authority), analysis of overall debt burdens allows for more meaningful comparisons across states. There could be extreme instances when significant borrowing by one entity could have adverse credit implications for an overlapping entity.

Frequently, in calculating an issuer's debt burden, Moody's definition of "debt" differs from states' definitions of debt, with respect to statutory debt limitations. Specifically, state statute may exclude from its calculation general obligation debt that has any source of supporting revenue, even a dedicated property tax. For example, in certain states, bonds issued for open space preservation and supported by an open space property tax will be excluded from the calculation of an entity's statutory debt limits. However, Moody's would continue to carry this debt on the debt statement, as it is ultimately supported by the property tax base. Further, Moody's analysts include capital leases, lease revenue debt and other fixed obligations in our debt burden calculation. Bond Anticipation Notes are also included, as these will ultimately be converted to long term debt. On the other hand, long term operational liabilities, such as accrued vacation days, are not captured by Moody's on the debt statement.

Analysts may deduct general obligation tax debt that is supported by enterprise revenues such as water and sewer charges from our debt burden calculation. As a general guideline, if an essential enterprise system with supporting revenue streams has been self-supporting for the three preceding years, we will exclude the debt. For this reason, general obligation water and sewer supported debt is frequently deducted from our debt burden analysis. However, recently enacted rate adjustments or reliance on one-time revenues (ie: connection fees) may provide for analytical differences to this approach. Unlike certain enterprise revenues, with rare exceptions, Moody's does not back-out tax increment or special assessment supported debt. While we internally analyze the mitigating impact of these revenue streams on the general levy, we believe that these concentrated revenue streams from benefited properties are more similar to property tax supported obligations putting a burden on property values.

Generally, sales tax-secured debt is included in the debt burden if: (1) it is issued to fund capital needs related to services typically provided by the government (e.g. park improvements), (2) sales tax revenues in excess of debt service obligations revert to the general operating funds and are available to fund operating needs, or (3) the debt is ultimately secured by a general obligation pledge, although it is expected to be serviced from sales tax receipts. In these cases, Moody's analyzes debt with and without the sales tax component to better understand the debt burden's source impact. Although included in the debt burden calculation, the availability of sales tax revenues to offset debt service can mitigate the rating impact of an above-average debt burden.

Moody's will exclude sales tax revenue bonds when (1) the bonds are issued to fund needs not related to typical general government functions (e.g. stadium or mass transit capital improvements) and (2) the sales tax revenues are segregated and available only to fund debt service or capital expenditures related to these functions.

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Some states provide assistance to local governments, particularly school districts, for the payment of general obligation debt service. Although, in many cases, these programs have a long track record, the state payments are often subject to annual appropriation. Therefore, Moody's does not generally deduct the portion of general obligation debt expected to be paid with state aid. But, in these situations, analysts will calculate an "adjusted" debt level reflecting expected statement payments and Moody's will consider both the gross and the adjusted debt levels in assigning the rating.

Sample Debt Statement ($000) by FY	2008
FY End Date	**6/30/2008**
Source of Debt Data	**Audited**
General obligation, unlimited tax bonds	14,705
GOULT/Water & Sewer	8,694
General obligation, limited tax bonds	
Unconditional general fund obligations	
Sales tax and other special tax bonds	2,500
State loans	16,267
Lease rental bonds/COPs	
Capital leases	1,182
Assessment debt with government commitment	
Other guaranteed debt	
BANs, capital notes, CP	6,700
Other direct tax supported debt	
Gross direct debt	**50,048**
Less: Self-supporting GO debt	-8,694
Less: Self-supporting GOLT debt	
Less: Self-supporting lease debt	
Less: Other self-supporting debt	-16,267
Net direct debt	**25,087**
Overlapping debt	21,853
Overall net debt	**46,939**
Adjustments	
Adjusted overall net debt	
Net Direct Debt as % of Full Value	**1.4**
Debt Burden (Overall Net Debt as % of Full Value)	**2.2**

Subfactor 4.b: Debt Structure and Composition

The structure of principal amortization is one indication of an entity's willingness and ability to repay debt. Generally, a conservative principal amortization schedule matches the useful life of the financed project. For example, structuring thirty year bonds for technology upgrades would be inconsistent with the expected useful life of the project. In such a scenario, repaying a liability for an asset that no longer exists could challenge the willingness of an entity to make debt payments; this is particularly relevant for appropriation-backed debt. Further, back end-loaded debt structures make it more difficult for borrowers to layer additional debt in the future. A level principal amortization schedule is common (e.g. 50% principal repayment within ten years for twenty year bonds); however, the amortization rate is also driven by matching the useful life of the projects. We also note that, while the structure of an individual series of debt may look irregular as a stand-alone repayment, it may be fine when considered in conjunction with the total amortization schedule of all community debt.

Moody's will also analyze the composition of the debt profile to assess a municipality's exposure to the interest rate and liquidity risks inherent in variable rate debt. The amount of variable rate debt that can be assumed by an issuer without jeopardizing its long-term rating will largely depend on its general credit strength and the following liquidity characteristics:

- Tightness of budgeted revenues and expenses;
- Predictability and seasonality of operating cash reserves during the year;
- Availability of financial resources not budgeted for operating needs; and
- Matching of interest rate-sensitive assets with variable rate exposure.

Moody's will test sufficiency of an issuer's liquidity under various term-out, swap termination, and interest rate scenarios.

Subfactor 4.c: Debt Management and Financial Impact/Flexibility

The structure of debt, the level of debt and future borrowing needs can all impact the financial operations of a community. Debt service payments represent a required expense. As such, there is limited line-item flexibility available should financial operations become stressed. This is particularly true for limited tax general obligation debt or appropriation leases, in which debt service expenditures effectively compete with operating expenditures. Debt service as a percent of operating expenditures can vary, and frequently ranges from 5 - 15%. However, for communities experiencing rapid growth or pursuing aggressive principal amortization, this range can increase significantly. Moody's will consider the availability of dedicated revenue streams (e.g. special sales tax dedicated for debt service) as a mitigating factor when assessing the impact of debt service on a municipality's financial operations.

Subfactor 4.d: Other long term commitments and liabilities

Moody's analysis of a municipality's debt profile includes an assessment of the degree to which other non-debt long term commitments, such as pension obligations and other post-employment benefits (OPEB), primarily retiree health benefits, impact the entity's long term flexibility. Moody's views both OPEB and pension obligations as having debt-like characteristics, however, they tend to allow some flexibility to alter the terms of the obligation, such as benefit eligibility requirements. Moody's therefore considers the impact of these obligations in our overall credit assessment of an issuer. Additionally, should a municipality choose to provide funding for these long term liabilities through the issuance of pension obligation bonds or OPEB bonds, those bonds would be included in our debt burden calculations.

Moody's will analyze pension and OPEB funding levels to assess the future impact on an entity's financial operations. We recognize that funding levels naturally will rise and fall as actual experience diverges from actuarial assumptions, as benefits change, or as investment returns fluctuate. In the case of an unfunded pension liability, Moody's will examine the reason that it has arisen and the entity's ability and willingness to address it over a reasonable period of time. When assessing the credit impact of an unfunded OPEB liability, Moody's analysts will also consider assumptions regarding medical costs, as well as issuers' flexibility under relevant statutes or contracts to modify their post-employment health benefit offerings. In either case, a trend of declining funding levels and/or failure to make recommended annual payments would be viewed as negative credit factors.

Pension Obligations Expected to Place Near Term Pressure on Ratings

A broad deterioration in funding levels for public sector pensions is adding to fiscal pressure on some state and local governments and could contribute to negative rating actions for select issuers in the next several years. This reduction in funding levels is largely driven by significant investment losses in pension plans in the range of 20-30% throughout 2008, and early 2009-losses which for some issuers came on top of longer- term demographic pressures. Lastly, the problem for some issuers will be exacerbated by decisions by select governments to defer pension contributions during periods of budgetary stress.

Greater credit stress will be felt by both the government issuers that entered this cycle with marginal funding levels as well as those that face inflexible regulatory or legal pension funding requirements. Despite the recent strong performance of the equity markets since March 2009, asset losses from earlier periods continue to weigh on plan asset valuations. Historically, stock market volatility poses pro-cyclical economic risks. Funding pressure could partially ease if there is continued rapid rise in equity market values and rising rates lead to actuarial reduction in accrued liabilities through application of a higher discount rate.

In evaluating the strength or weakness of a rated issuer's retirement system we begin with a review of the funded ratio to assess the extent to which a government has set aside resources to meet its pension obligations. Our focus is on four key factors: the level of benefits, investment results, reporting assumptions, and the constitutional and legal requirements such as those covering funding levels and funding mandates.

Additionally, we examine the impact of management decisions on the viability of pension programs and the resulting credit implications. These management decisions may include reductions in plan contributions to meet a current budget, whether to under-fund a pension plan, and making a contribution that is less than a municipality's annual pension cost. Other "red flags" that may warn of potential fiscal distress are the changing of actuarial firms or committing limited municipal resources to new pension funding that is deferred until some future date.

WHAT CAN MAKE A RATING MOVE UP OR DOWN

Local government ratings generally remain outstanding for the life of the bonds. Moody's regularly reviews outstanding ratings through a ratings surveillance process. This process includes a review of annual financial disclosure documents, and may also include a phone call with management to discuss relevant trends, particularly if the credit profile appears to have changed since the last rating review.

Through regular monitoring, we evaluate changes that are absolute in nature (e.g. has the tax base size increased or decreased substantially? Are there material changes in financial reserves or liquidity?) as well as changes in relation to peers across the state and nation (e.g. do changes in unemployment rates mirror regional trends, or is the credit an outlier with regard to this economic indicator?) Modest changes in an entity's credit profile over short periods of time are not likely to result in rating movement; our focus instead is on more significant, multi-year trends. While economic factors carry the greatest weight in Moody's rating assignments, we have seen that over time, financial changes are most likely to drive rating movements. This reflects the fact that, generally speaking, economic changes tend to occur gradually; and that even in times of economic stress, managers have historically been able to take action in an effort to maintain stable credit quality.

Outlooks and Watchlist Provide Information Regarding Direction of Likely Rating Movement

In order to provide information regarding the short term and medium term direction of a particular rating, we employee outlooks and watchlist designations– to inform investors, issuers, and intermediaries of potential rating action.

A Moody's rating outlook is an opinion regarding the likely direction of an issuer's rating over the medium term. Where assigned, rating outlooks fall into the following four categories: Positive (POS), Negative (NEG), Stable (STA), and Developing (DEV – contingent upon an event). In the few instances were an issuer has multiple ratings with outlooks of differing directions, an "(m)" modifier (indicating multiple, differing outlooks) will be displayed, and Moody's written research will describe any differences and provide the rationale for these differences. A RUR (Rating(s) Under Review) designation indicates that the issuer has one or more ratings under review for possible change, and thus overrides the outlook designation. When an outlook has not been assigned to an eligible entity, NOO (No Outlook) may be displayed. Outlooks are employed for large or high profile issuers only; the vast majority of local government credits have no outlook assigned

Moody's uses the Watchlist to indicate that a rating is under review for possible change in the short term. A rating can be placed on review for possible upgrade (UPG), on review for possible downgrade (DNG) or more rarely with direction uncertain (UNC). A credit is removed from the Watchlist when the rating is upgraded, downgraded or confirmed.

Appendix A: General Obligation Rating Factors

Moody's methodology for rating U.S. local government general obligation bonds incorporates analysis of the following rating factors and subfactors:

1. Economic Strength (40%)
   a. Size and Growth Trend
      i. Tax base size
      ii. Historic growth trend
      iii. Future growth potential
   b. Type of Economy
      i. Industry concentration
      ii. Stability
      iii. Taxpayer concentration
   c. Socioeconomic and Demographic Profile
      i. Population trend
      ii. Poverty level
      iii. Full value per capita
      iv. Income
   d. Workforce Profile
      i. Unemployment rate
2. Financial Strength (30%)
   a. Balance Sheet/Liquidity
      i. General Fund balance as a % of General Fund revenues
      ii. Liquidity trend
   b. Operating Flexibility
      i. Revenue raising flexibility
      ii. Local control over expenditures
   c. Budgetary operations
      i. Trend of structurally balanced operations
      ii. Exposure to volatile revenue streams
      iii. Property tax collection rates
      iv. Exposure to state aid reductions

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3. Management and Governance (20%)

   a. Financial planning and budgeting

      i. Trend of budget-to-actual performance

      ii. Existence of and adherence to policies and procedures

      iii. Multi-year budgeting practices

   b. Debt Management and Capital Planning

      i. Multi-year capital planning practices

      ii. Management of risk related to variable rate debt and derivatives

      iii. Existence of and adherence to debt policies

   c. Economic Forecasting and Monitoring

      i. Monitoring of economic performance

   d. Governance Structure

      i. Constructive relationship with elected officials

   e. Disclosure

      i. Timely disclosure of key documents

4. Debt Profile (10%)

   a. Debt Burden

      i. Net direct debt as % of full value

      ii. Overall net debt as % of full value

   b. Debt Structure and Composition

      i. Amortization rate (10 years)

      ii. Liquidity and budgetary risk related to variable rate debt or derivatives

   c. Debt Management and Impact on Financial Flexibility

      i. Debt service as % of total operating expenditures

   d. Other Long Term Commitments and Liabilities

      i. Pension funding ratio

Appendix B: Moody's Rating Definitions

WHAT IS A MOODY'S CREDIT RATING?

Moody's ratings are intended to provide capital market participants with a framework for comparing the credit quality of debt securities. A credit rating compresses an enormous amount of diverse information into a single symbol. Bonds with the same credit rating, therefore, may be comparable with respect to overall credit quality but may differ with respect to specific credit quality characteristics.

Aaa
Issuers or issues rated Aaa demonstrate the strongest creditworthiness relative to other US municipal or tax-exempt issuers or issues.

Aa
Issuers or issues rated Aa demonstrate very strong creditworthiness relative to other US municipal or tax-exempt issuers or issues.

A
Issuers or issues rated A present above-average creditworthiness relative to other US municipal or tax-exempt issuers or issues.

Baa
Issuers or issues rated Baa represent average creditworthiness relative to other US municipal or tax- exempt issuers or issues.

Ba
Issuers or issues rated Ba demonstrate below-average creditworthiness relative to other US municipal or tax-exempt issuers or issues.

B
Issuers or issues rated B demonstrate weak creditworthiness relative to other US municipal or tax- exempt issuers or issues.

Caa
Issuers or issues rated Caa demonstrate very weak creditworthiness relative to other US municipal or tax-exempt issuers or issues.

Ca
Issuers or issues rated Ca demonstrate extremely weak creditworthiness relative to other US municipal or tax-exempt issuers or issues.

C
Issuers or issues rated C demonstrate the weakest creditworthiness relative to other US municipal or tax-exempt issuers or issues.

Note: Moody's appends numerical modifiers 1, 2, and 3 to each generic rating category from Aa through Caa. The modifier 1 indicates that the issuer or obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category.

Appendix C: Moody's Local Government Financial Ratio Definitions

This appendix provides definitions of terms and ratios used in local government credit analysis.

Actual/Estimated Population, Annual Value

For a census year, this is the population within the boundaries of the local government as reported by the US Census. For other years, these are actual or estimated population figures reported by the local government itself or other sources.

Average Annual Increase in Full Value (%)

The compound average annual increase in Total Full Value over the preceding five-year period. Thus, the Average Annual Increase in Full Value reported for 2002 is the average annual increase over the period 1997 to 2002. In cases where five years of data are not available, this statistic is calculated for the preceding four-year period. In some states, where assessed values or equalization rates are reset on a two-year cycle, average annual increase may be calculated for the preceding six-year period.

Debt Burden (Overall Net Debt as % Full Value)

Overall Net Debt Outstanding divided by the fiscal year or most recent Total Full Value for the local government. Overall Net Debt Outstanding is equal to Direct Net Debt plus Overlapping Debt. Direct Net Debt is the local government's gross debt less sinking fund accumulations, short-term operating debt, and bonds and other debt deemed by Moody's analysts to be fully self-supporting from enterprise revenues. Direct Net Debt typically includes the non-self supporting portion of the local government's general obligation bonds, sales and special tax bonds, general fund lease obligations, bond anticipation notes, and capital leases. Overlapping Debt is the net debt of all overlapping and underlying units of local government that share the local government's property tax base, apportioned in accordance with property valuation.

Debt Service as % of Operating Expenditures

Debt service expenditures for all Operating Funds and debt service funds combined divided by Operating Expenditures.

Direct Net Debt Outstanding ($000)

The local government's gross debt less sinking fund accumulations, short-term operating debt, and bonds and other debt deemed by Moody's analysts to be fully self-supporting from enterprise revenues. Direct Net Debt typically include the non-self supporting portion of the local governments general obligation bonds, sales and special tax bonds, general fund lease obligations, bond anticipation notes, and capital leases.

Direct Net Debt as % of Full Value

Direct Net Debt Outstanding divided by the fiscal year or most recent Total Full Value for the local government.

Full Value per Capita ($)

Total Full Value divided by the fiscal year or most recent population for the local government.

General Fund Balance as % of Revenues

Total general fund balance as reported in the local governments financial statements divided by Total General Fund Revenues.

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General Obligation / Issuer Rating

In most states, the rating assigned by Moody's to the local governments General Obligation Unlimited Tax Bonds or, in the absence of GOULT debt, the Issuer (Implied General Obligation) rating assigned by Moody's. In some states, such as Texas and Nevada, where certain types of local government can only issue General Obligation Limited Tax Bonds, the rating shown is for the issuers GOLT debt.

Median Family Income

Median family income for residents within the boundaries of the local government as reported by the US Census.

Median Family Income as % of State

Median Family Income for the local government divided by Median Family Income for the state in which the local government is located.

Median Family Income as % of U.S.

Median Family Income for the local government divided by Median Family Income for the United States.

Operating Expenditures

Total expenditures for all Operating Funds and debt service funds combined including net transfers out and other uses as reported in the local government's financial statements. In some cases, Operating Expenditures may exclude certain items such as deposits of bond proceeds to refunding escrows which have been included in expenditures or other uses in the financial statements but which have been deemed by Moody's analysts to be non-recurring in nature. Note that when Operating Funds and debt service funds are combined to determine Operating Expenditures, transfers in are netted against transfers out.

Operating Funds Balance as % of Revenues

Total fund balance of all Operating Funds combined as reported in the local governments financial statements divided by Total Operating Funds Revenues.

Operating Funds

Operating Funds consist of the general fund as well as certain Special Revenue Funds that Moody's analysts have determined account for core governmental operations or operations that, in the case of similar local governments, would be accounted for in the general fund. Operating Funds include debt service funds for the calculation of the ratio

Debt Service as a % of Operating Expenditures.

Operating Funds generally do not include debt service funds for calculation of Operating Funds Balance, Operating Funds Balance as % of Revenues and similar ratios.

Overall Net Debt Outstanding ($000)

Direct Net Debt plus the net debt of all overlapping and underlying units of local government that share the local government's property tax base, apportioned in accordance with property valuation.

Payout, 10 Years

The percentage of current principal outstanding scheduled to be retired in the next 10 years.

Per Capita Income

Per capita family income for residents within the boundaries of the local government reported by the US Census.

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Per Capita Income as % of State

Per Capita Income for the local government divided by Per Capita Income for the state in which the local government is located.

Per Capita Income as % of U.S.

Per Capita Income for the local government divided by Per Capita Income for the Unites States.

Population Change 1990-2000 (%)

The increase or decrease in population, expressed as a percent, within the boundaries of the local government from the 1990 Census to the 2000 Census.

Poverty Rate (%) (2000 Census)

Percentage of persons within the boundaries of the local government with incomes below the poverty level, as reported by the US Census.

Top Ten Tax Payers as % of Total, Most Recent Value

Total assessed value of the ten largest property taxpayers for the local government, divided by the total assessed value of the local government, for the most recent year for which largest taxpayer data are available. In some cases, largest taxpayer data are reported using levy figures rather than assessed value figures. In those cases this statistic is the total levy for the ten largest taxpayers as a percent of the total levy for all taxpayers of the local government.

Total Full Value ($000)

Estimated full market value of all taxable property within the boundaries of the local government as reported by local or state sources. Users of these data should be aware of significant variation in the methods and quality of property assessment from state to state and even among the municipal governments within a state. Definitions of taxable property also vary across the country, as does the dependability of equalization ratios used to convert assessed value to full value.

Total General Fund Revenues ($000)

Total revenues including transfers in and other sources for the general fund as reported in the local government's financial statements. In some cases, General Fund Revenues may exclude certain items such as bond proceeds which have been included in revenues or other sources in the financial statements but which have been deemed by Moody's analysts to be non-recurring in nature.

Total Operating Funds Revenues ($000)

Total revenues for all Operating Funds combined including net transfers in and other sources as reported in the local government's financial statements. In some cases, Operating Fund Revenues may exclude certain items such as bond proceeds which have been included in revenues or other sources in the financial statements but which have been deemed by Moody's analysts to be non-recurring in nature. Note that when Operating Funds are combined to determine Operating Funds Revenues, transfers in are netted against transfers out; as a result the value for Operating Funds Revenues may occasionally be less than the value General Fund Revenues.

Unreserved General Fund Balance as % of Revenues

Unreserved general fund balance as reported in the local governments financial statements divided by Total General Fund Revenues. In some cases, Unreserved General Fund Balance reported by Moody's may include certain amounts shown as reserves in the financial statements that Moody's analysts have deemed would be available to meet operating contingencies.

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Unreserved Operating Funds Balance as % of Revenues

Unreserved fund balance of all Operating Funds combined as reported in the local governments financial statements divided by Total Operating Funds Revenues. In some cases, Unreserved Operating Funds Balance reported by Moody's may include certain amounts shown as reserves in the financial statements that Moody's analysts have deemed would be available to meet operating contingencies.

Unreserved, Undesignated General Fund Balance as % of Revenues

Unreserved, undesignated general fund balance as reported in the local governments financial statements divided by Total General Fund Revenues. In some cases, Unreserved, Undesignated General Fund Balance reported by Moody's may include certain amounts shown as reserves or designations in the financial statements that Moody's analysts have deemed would be available to meet operating contingencies.

Unreserved, Undesignated Operating Funds Balance as % of Revenues

Unreserved, undesignated fund balance of all Operating Funds combined as reported in the local governments financial statements divided by Total Operating Funds Revenues. In some cases, Unreserved, Undesignated Operating Funds Balance reported by Moody's may include certain amounts shown as reserves or designations in the financial statements that Moody's analysts have deemed would be available to meet operating contingencies.

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