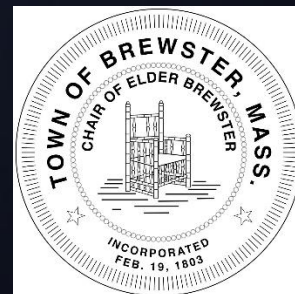




A Citizens Guide to Municipal Finance

*Town of Brewster
Finance Team*



April 29, 2024

Brewster Finance Team

Peter Lombardi, Town Manager

Donna Kalinick, Assistant Town Manager

Lisa Vitale, Treasurer/Collector

James Gallagher, Deputy Assessor

Mimi Bernardo, Finance Director

- Finance Team launched OpenGov platform in Winter 2022, starting with FY23 operating budget
- Goal of continuing to make budget information and processes more accessible and transparent
- 5 Year Capital Improvement Plan (CIP) was added to OpenGov platform in Winter 2023

*FY25 Budget can be found here:

[FY25 Table of Contents \(opengov.com\)](https://opengov.com)

Agenda

Overview of Budget Process

Financial Forecasting

Operating Budgets

Capital Improvement Plan

Debt & Bond Rating

Financial Reserves & Free Cash

Property Valuations & Tax Rate

Tax Exemptions, Abatements & Overlay

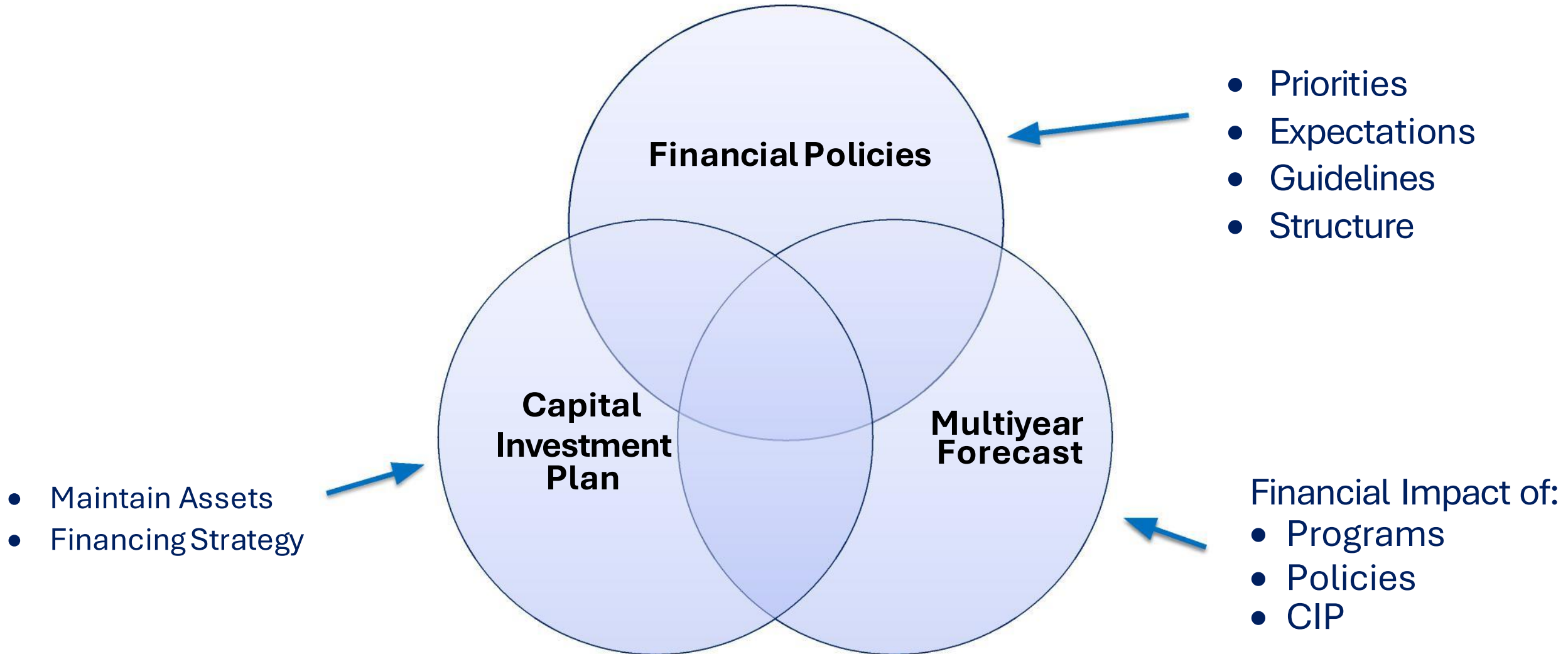
Collections

Annual Audit Process

Financial Policies

Questions?

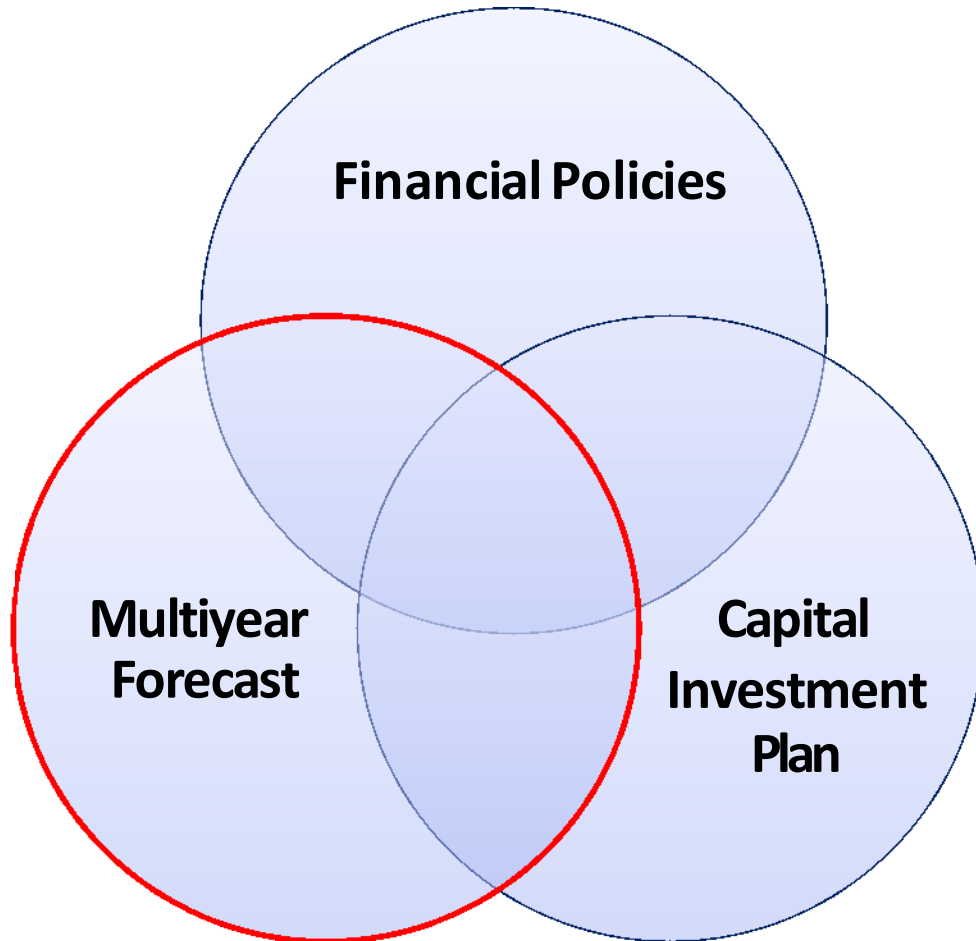
Budget Process – Overview



Brewster's Approach to Budgeting

- Select Board's Strategic Plan provides framework & focus for budget process
- Budget cycle begins with the Financial Forecast (5-year outlook) presented by the Budget Team in late fall/early winter - presented in a public meeting to the Select Board and Finance Committee
- Town Management issues operating budget guidelines to Department Heads in December based on findings of Financial Forecast
- Brewster Elementary School and Nauset Regional School District (NRSD) also receive budget guidance identifying Brewster's fiscal capacity, but they develop their budgets independent of the Town
- Budget Team meets with Department Heads one-on-one to discuss department needs (staffing, materials, services, and capital) in January - budgets are scrutinized line by line (any changes over \$1k must be substantiated in writing)

Budget Process – Financial Forecast



Serves as a planning and policymaking tool that projects revenues and expenditures over a multiyear period

- Captures annual, data-driven snapshots of the Town's financial condition based on assumptions and policy decisions
- Provides financial information to the community and relevant boards and committees
- Offers long-term insight on the effects of budget and capital financing strategies and informs budget development decisions

Brewster's Approach to Budgeting (cont'd)

- Budget Team works with Golf Director and Golf Commission to update Financial Forecast and Capital Improvement Plans for the Captains Golf Course each fall - forecasts help to determine membership rates & greens fees for upcoming season
- Water Department conducts rate study every 5 years to ensure water collections align with expenses and capital needs
- Department Heads present their recommended budgets to Select Board & Finance Committee in February
- Brewster Elementary Schools & NRSD finalize their budgets and present them to the Town in March
- Select Board and Finance Committee vote to support warrant articles in March/April
- Annual Town Meeting is held in May – residents vote on upcoming fiscal year budgets for Town and Schools

Local Government Budgeting Cycle

April – June

2nd semi-annual tax bills issued
Prepare warrant articles and motions
Annual Town Meeting approves budget
Town Clerk certifies appropriations
State budget finalized
Fiscal year ends

July – September

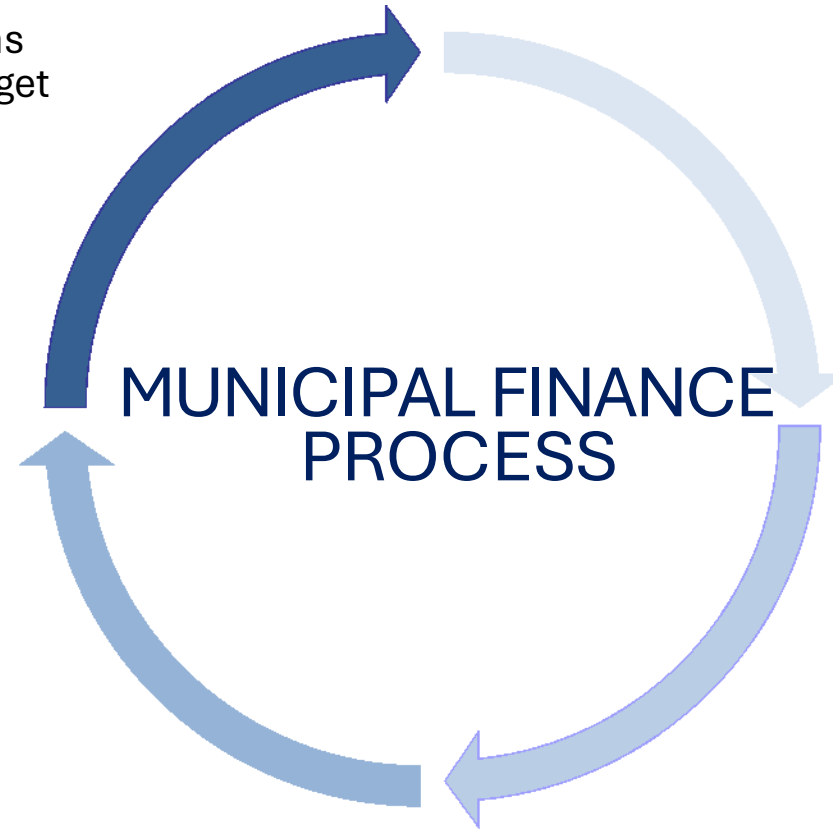
Fiscal year begins
Accountant closes books from previous years and submits balance sheet
Assessor submits growth and values
Select Board holds tax classification hearing and sets tax rate
Certify Free Cash

January - March

State budget released
Property valuation assessment date
Finalize budget and capital plan

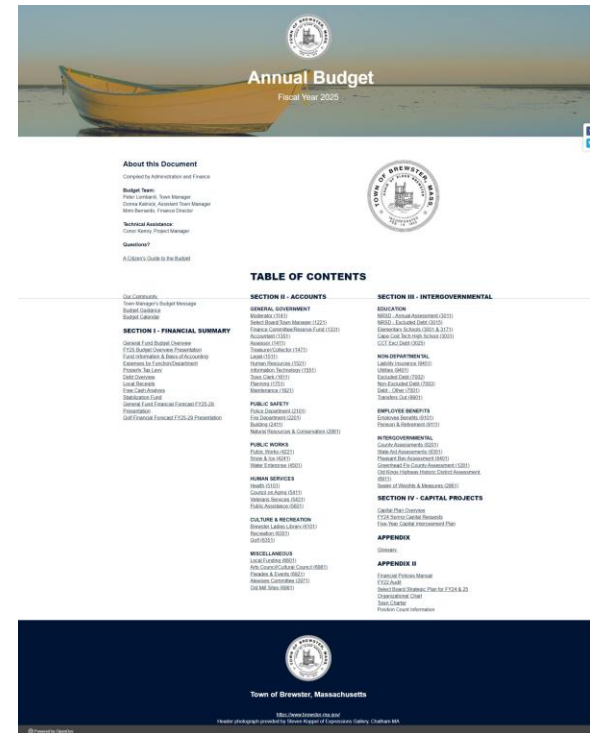
October - December

1st semi-annual tax bills issued
Begin budget/capital development processes



Local Government Budgeting Overview

- Represents the intersection of all aspects of municipal finance
- Translates community needs and priorities into services
- Provides short- and long-term fiscal context to guide decision-making
- Derives from a transparent, deliberative process that informs the public
- Serves as a community's single most important policy statement
- Is more than simply matching revenues to expenditures



Balanced Budget / Deficits

A municipality must pass a balanced budget

- MA Department of Revenue's Division of Local Services is responsible for ensuring that occurs

A municipal department cannot exceed its budget (including Schools)

- They must either use reserve funds to close the deficit or transfer from other areas of the budget where a surplus is projected
- One exception: Snow & Ice budget

A municipality cannot end the year in a deficit

- Steps must be taken toward end of the FY to bring the budget into balance
 - Reduce spending or appropriate from available funds (e.g., Free Cash, Stabilization Fund)
 - Select Board and Finance Committee can approve minor Year-End Transfers between departments
 - Town Meeting can approve larger transfers between departments
- If the Town can't close the deficit, it must "raise" the deficit as part of the ensuing FY's budget

Tax Levy

- Proposition 2 ½ places two caps on property taxes – a Levy Ceiling and a Levy Limit
- Levy Ceiling: Property tax levy cannot exceed 2.5% of the municipality's total property assessed value
- The tax rate cannot exceed \$25.00/\$1,000 (Brewster's current tax rate is \$6.81/\$1,000)
- Levy Limit: Annual Tax Levy (Town-wide property taxes) cannot increase by more than 2.5%
- New Growth and Local Receipts are exempt from Prop 2 ½
- Overrides and Debt Exclusions are also exempt by definition

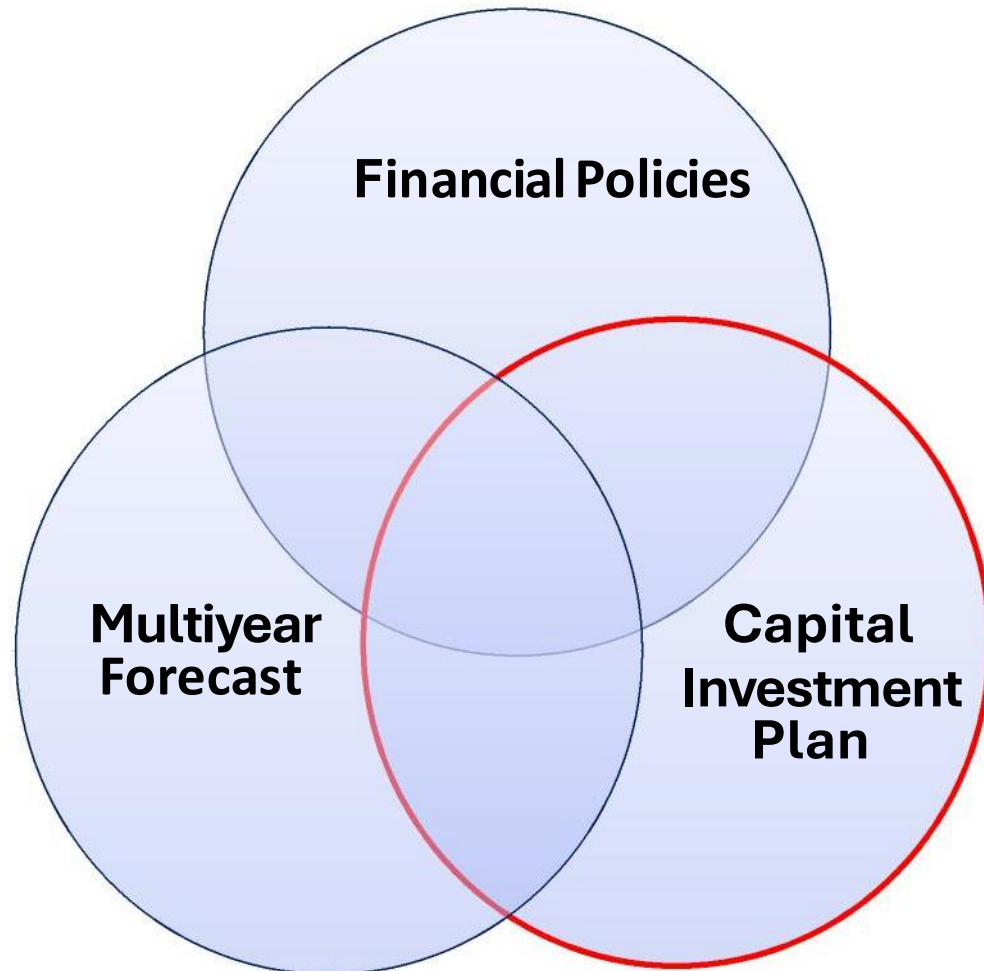
Overrides

- An operating override can be used to generate additional monies for any municipal expenditure
- It is generally intended and usually used to raise extra funds for annual operating and other recurring costs
- An operating override creates a permanent increase in the levy limit base
- An override increases the amount a community can raise in property taxes for the upcoming fiscal year and all future years
- Overrides require a simple majority vote by Town Meeting and in a local election

Recent Brewster Operating Overrides

<u>Year</u>	<u>Purpose</u>	<u>Amount</u>
2019	Personnel: Two Firefighters, One COA Program Coordinator, One Natural Resources Officer	\$309,000
2023	Brewster Elementary School	\$316,878
2023	Nauset Regional School District	\$647,720
2024 (proposed)	Brewster Elementary School	\$758,091

Budget Process – Capital Investment Plan



Benefits of a Capital Investment Plan (CIP)

- Identifies needs and goals
- Predictably of expenses over multiple years
- Reduces risk of unexpected and emergency costs
- Builds confidence that government is operating efficiently and effectively

* Finance Team working with Department Heads develops a 5 Year CIP which is updated annually and reviewed by Select Board and Finance Committee

The image displays two screenshots of Capital Investment Plan documents. The left document is titled 'Brewster Ladies' Library Capital Projects' and includes a table with columns for Project Name, FY21 Budget, FY22 Budget, FY23 Budget, FY24 Budget, and FY25 Budget. Below the table are three project descriptions: '40100 - Exterior Trim Repairs & Replacement / Painting', '40101 - Elevator Replacement (Construction)', and '40222(40223) Roof Replacement (Design and Construction)'. The right document is titled 'Town Manager/Select Board Capital Projects' and includes a similar table with columns for Project Name, FY21 Budget, FY22 Budget, FY23 Budget, FY24 Budget, and FY25 Budget. Below the table are three project descriptions: '40001 - Integrated Water Management Planning/Implementation (ongoing)', '40002 - Golf Course Septic Upgrade (OWRP)', and '40179 - Pond's Management Plan & Pilot Pond Study (OWMP)'. Each project description includes a small image and a brief summary of the project's scope and funding.

Capital Improvement Plan Funding Sources

- Free Cash is primary funding source of Capital Improvement Plan (~\$2M/year)*
- Water & Golf Enterprise fund their own capital through Retaining Earnings
- Ambulance Receipts fund majority of Fire Department capital
- Short-term debt is paid within levy (operating budget)
- Funding sources are diversified and sustainable
- Town maximizes state and federal grant opportunities
- \$1.5M available in Capital Stabilization fund to help reduce debt for larger capital projects

*Majority of Capital is funded at the Fall Town Meeting

Debt Exclusions

- A debt exclusion is an additional amount towns can raise above their levy limit to generate supplemental funding capacity for capital expenditures only
- An exclusion increases the maximum amount the community can levy for a temporary period of time to cover its annual debt service costs on a borrowing to finance major capital expenditures
- It does not become part of the permanent levy limit - once the debt is retired, the exclusion ends
- Town debt exclusions require a 2/3 majority vote by Town Meeting and in a local election
- Regional school debt exclusions require a simple majority vote (cumulative total) in a local election in all member towns (e.g., NRHS)

Debt

Debt management is a critical function for local finance managers

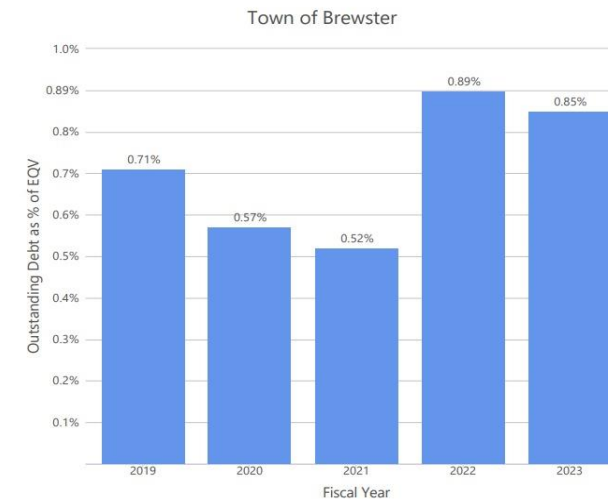
Municipalities must maintain their infrastructure:

- Schools, public safety facilities, other municipal buildings
- Parks, playgrounds, other open spaces
- Water & Golf facilities
- Streets, sidewalks, and culverts
- Information technology systems
- Heavy equipment (e.g., fire trucks, DPW trucks)

Long-Term General Obligation Bonds (GO Bonds)
Short-Term Debt: Bond Anticipation Notes (BANS)



Data Analytics and Resources Bureau
Outstanding Long Term Debt as a % of EQV
Data current as of 04/29/2024



Debt Categories

- Within the Levy Limit: Money borrowed for any lawful purpose that is part of the Town's regular annual operating budget and subject to the same limits as any other expense would be (subject to Prop. 2½)
- Outside the Levy Limit: Borrowing voted by Town Meeting and voters to be paid outside of the levy (not applicable to Prop. 2½) by a temporary surcharge on property taxes – a debt exclusion (e.g., Sea Camps Bay Property acquisition)
- Outside Debt: Includes all debt for the Water and Golf departments since they are enterprise funds, separate from the General Fund

Brewster's Current Debt Schedule

Fiscal Year	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038
Principal	2,160,000	2,160,000	2,125,000	2,070,000	2,010,000	1,855,000	1,875,000	1,895,000	1,600,000	1,555,000	1,570,000	1,420,000	1,435,000	1,265,000	955,000
Interest	1,133,048	1,042,561	943,434	866,508	797,405	731,920	672,145	618,863	572,254	532,286	491,938	450,323	412,058	372,808	336,956
Total Debt Service	3,293,048	3,202,561	3,068,434	2,936,508	2,807,405	2,586,920	2,547,145	2,513,863	2,172,254	2,087,286	2,061,938	1,870,323	1,847,058	1,637,808	1,291,956
Cumulative % Principal Retired	10.0%	15.5%	21.0%	26.3%	31.4%	36.2%	41.0%	45.9%	50.0%	54.0%	58.0%	61.6%	65.3%	68.6%	71.0%

Fiscal Year	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050	2051	2052
Principal	675,000	690,000	710,000	725,000	745,000	770,000	790,000	810,000	835,000	860,000	885,000	910,000	935,000	965,000
Interest	310,080	292,163	273,435	253,881	233,483	212,273	190,235	167,435	143,994	119,625	94,323	68,295	41,543	13,993
Total Debt Service	985,080	982,163	983,435	978,881	978,483	982,273	980,235	977,435	978,994	979,625	979,323	978,295	976,543	978,993
Cumulative % Principal Retired	72.7%	74.5%	76.3%	78.2%	80.1%	82.1%	84.1%	86.2%	88.3%	90.5%	92.8%	95.1%	97.5%	100.0%

(1) Excludes bond anticipation notes, lease and installment purchase obligations, overlapping debt and unfunded pension liability

(2) Principal totaling \$33,770,000 and interest totaling \$12,209,090 has been exempted from the provisions of Proposition 2 ½ (including \$20M for CCSC Bay)

(3) Principal totaling \$2,850,000 and interest totaling \$467,089 is self-supporting (e.g., road betterments)

(4) Brewster's Debt Schedule does not include the Nauset Regional High School excluded debt

Brewster's Bond Rating = AAA

- Municipal credit ratings are very similar to a consumer credit score: the higher your credit score (or credit rating for the local government) - the lower the interest you will pay
- A debt obligation rated “AAA” has the highest rating assigned by the credit rating agencies - the organization's capacity to meet its financial commitment on the obligation is viewed as extremely strong
- Brewster's most recent AAA rating (Fall 2021) noted the Town's strong economy and consistently balanced financial results, which have led the Town to maintain a very strong reserve position over the past several years and through various economic cycles

Financial Reserves

- General Stabilization – Town's "Rainy Day" fund in case of emergencies
- Capital Stabilization – To help avoid or reduce debt for medium capital projects
- Special Education Stabilization – To help cover unexpected elementary SPED costs
- Golf Capital Stabilization – To help avoid/reduce debt for Golf medium capital
- Water Quality Stabilization – To help pay for smaller water quality initiatives
- Finance Committee Reserve Fund (\$100k) – Included in operating budget for "extraordinary or unforeseen expenditures" (balance closes out at end of fiscal year)

Financial Reserves

Stabilization Fund History

	<u>FY19</u>	<u>FY20</u>	<u>FY21</u>	<u>FY22</u>	<u>FY23</u>	<u>FY24 (to date)</u>	<u>FY25 (proposed)</u>
<u>General Stabilization</u>							
Beginning Fund Balance	\$ 2,159,142	\$ 2,493,329	\$ 2,535,241	\$ 2,990,810	\$ 3,000,409	\$ 3,122,154	\$ 3,255,443
Transfers In & Interest Earned	\$ 334,187	\$ 41,912	\$ 1,205,569	\$ 9,598	\$ 121,745	\$ 133,290	\$ -
Transfers Out	\$ -	\$ -	\$ (750,000)	\$ -	\$ -	\$ -	\$ -
Ending Fund Balance	\$ 2,493,329	\$ 2,535,241	\$ 2,990,810	\$ 3,000,409	\$ 3,122,154	\$ 3,255,443	\$ 3,255,443
<u>Capital Stabilization</u>							
Beginning Fund Balance	\$ -	\$ -	\$ -	\$ 500,168	\$ 727,471	\$ 951,935	\$ 1,505,356
Transfers In & Interest Earned	\$ -	\$ -	\$ 500,168	\$ 227,302	\$ 224,465	\$ 553,420	\$ 262,500
Transfers Out	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Ending Fund Balance	\$ -	\$ -	\$ 500,168	\$ 727,471	\$ 951,935	\$ 1,505,356	\$ 1,767,856

Financial Reserves

Stabilization Fund History

	<u>FY19</u>	<u>FY20</u>	<u>FY21</u>	<u>FY22</u>	<u>FY23</u>	<u>FY24(to date)</u>	<u>FY25(proposed)</u>
<u>Water Quality Stabilization</u>							
Beginning Fund Balance	\$ -	\$ -	\$ -	\$ -	\$ -	32,543	\$ 47,767
Transfers In & Interest Earned	\$ -	\$ -	\$ -	\$ -	\$ 114,543	\$ 155,224	\$ 157,500
Transfers Out	\$ -	\$ -	\$ -	\$ -	\$ (82,000)	\$ (140,000)	
Ending Fund Balance	\$ -	\$ -	\$ -	\$ -	\$ 32,543	\$ 47,767	\$ 205,267
<u>Special Education Stabilization</u>							
Beginning Fund Balance	\$ -	\$ -	\$ -	\$ -	\$ -	36,460	\$ 40,898
Transfers In & Interest Earned	\$ -	\$ -	\$ -	\$ -	\$ 103,972	\$ 4,439	\$ -
Transfers Out	\$ -	\$ -	\$ -	\$ -	\$ (67,512)	\$ -	\$ -
Ending Fund Balance	\$ -	\$ -	\$ -	\$ -	\$ 36,460	\$ 40,898	\$ 40,898
<u>Golf Capital Stabilization</u>							
Beginning Fund Balance	\$ -	\$ -	\$ -	\$ -	\$ -	415,886	\$ 442,588
Transfers In & Interest Earned	\$ -	\$ -	\$ -	\$ -	\$ 415,886	\$ 376,701	\$ 300,000
Transfers Out	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (350,000)	\$ -
Ending Fund Balance	\$ -	\$ -	\$ -	\$ -	\$ 415,886	\$ 442,588	\$ 742,588

Free Cash

- "Free Cash" is comprised of unrestricted funds closed out from operations of the previous fiscal year
- Free Cash is not a “budget surplus” - it is generated when actual revenue collections exceed estimates and when expenditures are less than appropriations, plus unexpended Free Cash from the previous year
- Must be reviewed and certified by the MA Department of Revenue annually
- Once certified, funds are available for appropriation by Town Meeting for any lawful purpose – primarily used to help fund CIP in Brewster
- Certification expires on June 30 (end of the fiscal year)
- The goal is to certify Free Cash at 5-7% of our operating budget and to close out Free Cash balances of 2-2.5%

Property Valuation

- The primary responsibility of assessors is to value all real and personal property in their municipality each year for tax assessment purposes
- Assessors are required by Massachusetts law to assess all real and personal property at its fair cash value as of January 1 each year
- Assessors use mass appraisal procedures and techniques when determining the fair cash value of properties in their municipalities
- Key metric is Assessment to Sale Ratio (ASR): $\text{Assessed Value} / \text{Sales Price}$
- State requires annual adjustments so that Median ASR of qualified sales is within 10% of full market value

Free Cash

Town of Brewster Free Cash History							
Year		Certified Free Cash (start of FY)	Amount Reserved (end of FY)	Annual Free Cash Appropriations	Adjusted General Fund Operating Budget Total*	Free Cash Starting Balance as % of Operating Budget	Free Cash Ending Balance as % of Operating Budget
7/1/2018	FY19	\$ 1,989,981	\$ 884,814	\$ 1,105,167	\$ 40,572,087	4.90%	2.18%
7/1/2019	FY20*	\$ 2,937,130	\$ 1,940,130	\$ 997,000	\$ 42,367,321	6.93%	4.58%
7/1/2020	FY21	\$ 4,016,610	\$ 1,180,782	\$ 2,835,828	\$ 44,044,280	9.12%	2.68%
7/1/2021	FY22	\$ 4,501,333	\$ 955,117	\$ 3,546,216	\$ 46,071,182	9.77%	2.07%
7/1/2022	FY23	\$ 4,641,154	\$ 1,073,559	\$ 3,567,595	\$ 49,628,729	9.35%	2.16%
7/1/2023	FY24	\$ 5,130,085	\$ 1,197,288	\$ 3,932,797	\$ 54,305,057	9.45%	2.20%
7/1/2024	FY25	TBD					
Average		\$ 3,083,872	\$ 898,393	\$ 2,185,479	\$ 43,067,238	7.84%	2.39%
Median		\$ 2,542,316	\$ 833,652	\$ 1,757,763	\$ 42,367,321	7.83%	2.18%

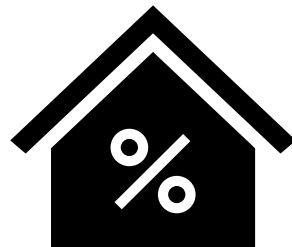
*Free Cash was certified before 2020 Annual Town Meeting was held (September) and voted on \$418,230 of Free Cash appropriations (mainly capital)

Valuation and Tax Rate Trends

Fiscal Year	FY2024	FY2023	FY2022	FY2021	FY2020
Total Assessed Value (Town Wide)	\$6,523,093,480	\$5,807,261,160	\$4,839,754,960	\$4,254,853,730	\$4,121,908,120
Median Single-Family Home Assessed Value	\$710,900	\$636,700	\$532,000	\$461,500	\$445,600
Tax Rate (per \$1,000)	\$6.81	\$6.99	\$7.85	\$8.58	\$8.62
Median SFH Tax Bill	\$4,841.23	\$4,450.53	\$4,176.20	\$3,959.67	\$3,841.07

Tax Rate

- Assessed values are determined independently from the tax levy – they are updated annually based on market conditions
- The tax levy is determined by preparing the budget, estimating available revenues, using the levy limit and levy ceiling as guidelines, factoring in new growth, determining overrides or debt exclusions, and determining an allowance for overlay
- Finally, once the annual tax levy is determined, it is divided by the total assessed value of all taxable real and personal property



FY24 Tax Impacts

- FY24 Tax Rate decreased by 2.6% to \$6.81/1000
- Median Single Family Home Value increased by 11.7% to \$710,900
- Median Single Family Tax Bill increased by 8.8% (\$390) to \$4,841
- Factors for FY24 Increase:
 - ~50% of increase from first half of Nauset Regional High School project debt exclusion
(second half to impact FY25 budget once long-term debt is issued)
 - ~25% of increase from Nauset School overrides (District & Elementary)
 - ~25% of increase from standard annual Proposition 2½ to support all
Town increases and 4% school increases

Tax Exemptions

- Exemptions are a release or discharge from the obligation to pay all or a portion of a local property tax
- Applicants must demonstrate that they clearly qualify on an annual basis
- Exemptions can apply to Exempt Properties or Exempt Persons (e.g., Charitable Organizations, Disabled Veterans, Blind Persons)
- Exempt status is determined as of July 1, which is the beginning of the fiscal year - ownership, occupancy, use, age or any other eligibility criteria must be met as of that date

Tax Abatements

- Abatements are reductions in the amount of an assessed tax
- The abatement process provides an opportunity for property owners to dispute their property valuation thereby reducing their assessed taxes
- Reasons to grant an abatement include the following: To correct errors in an assessment; to put into effect a statutory exemption; to remove an uncollectible assessment from the municipality's records
- Abatements and exemptions do not reduce the tax levy - those tax dollars must be raised elsewhere

Overlay

- Overlay is a single account to fund abatements and exemptions of committed real and personal property taxes for any fiscal year
- The overlay amount is determined by the Board of Assessors and may be raised in the tax rate without appropriation
- Excess overlay can be transferred to overlay surplus by vote of the Board of Assessors - overlay surplus may then be appropriated by the legislative body for any lawful purpose (e.g., Preschool Family Support Program)



New Growth

- New Growth is a dollar increase in the annual levy limit that reflects additions to the community's tax base since last fiscal year
- New Growth is a category of increased property value monitored by the MA Department of Revenue - it includes increases to property value due to development (new construction and additions/improvements), subdivisions, and/or new personal property
- New Growth does not include value increases from market adjustments
- New Growth increases the levy limit so that cities and towns can raise additional taxes to meet service demands due to new development
- Brewster typically budgets about \$250k/year for annual New Growth

Exemption/Abatement/Overlay Trends

Fiscal Year	FY2023	FY2022	FY2021	FY2020	FY2019
Exemptions Granted (\$Tax)	\$131,734.22	\$105,973.73	\$113,469.29	\$109,304.27	\$110,898.62
Abatements Granted (\$Tax)	\$29,484.07	\$75,522.09	\$34,537.57	\$47,952.25	\$60,729.19
Transfers	\$90,000.00	\$80,000.00	\$80,000.00	\$80,000.00	\$130,000.00
Total Overlay Expended	\$251,218.29	\$261,495.82	\$228,006.86	\$237,256.52	\$301,627.81
Overlay Allowance	\$299,260.51	\$385,089.44	\$125,000.00	\$400,000.00	\$211,553.97
Change in Overlay Balance	+\$48,042.22	+\$123,593.62	-\$103,006.86	+\$162,743.48	-\$90,073.84
Overlay Ending Balance	\$817,945.48	\$769,903.26	\$646,309.64	\$749,316.50	\$586,573.02

Tax Collections

- The Collector's office's responsibility is to collect real estate, personal property and motor vehicle excise tax
- The Town operates on a fiscal year which runs from July 1 to June 30 and issues property taxes semi-annually
- Property taxes come due on November 1st (first half) and May 1st (second half)
- Motor Vehicle excise taxes are issued monthly based upon when the vehicle is registered with the Registry of Motor Vehicles – values established by the state
- Property taxes are the largest funding source for Brewster's Town budget (83.5%)
- Timely collections are essential for providing services to residents
- Brewster has a very high collection rate

Percentage Rate of Collections:

Fiscal Year	2023	2022	2021	2020	2019
Percent Tax Levy Collected	99.31%	99.65%	98.59%	98.51%	98.85%

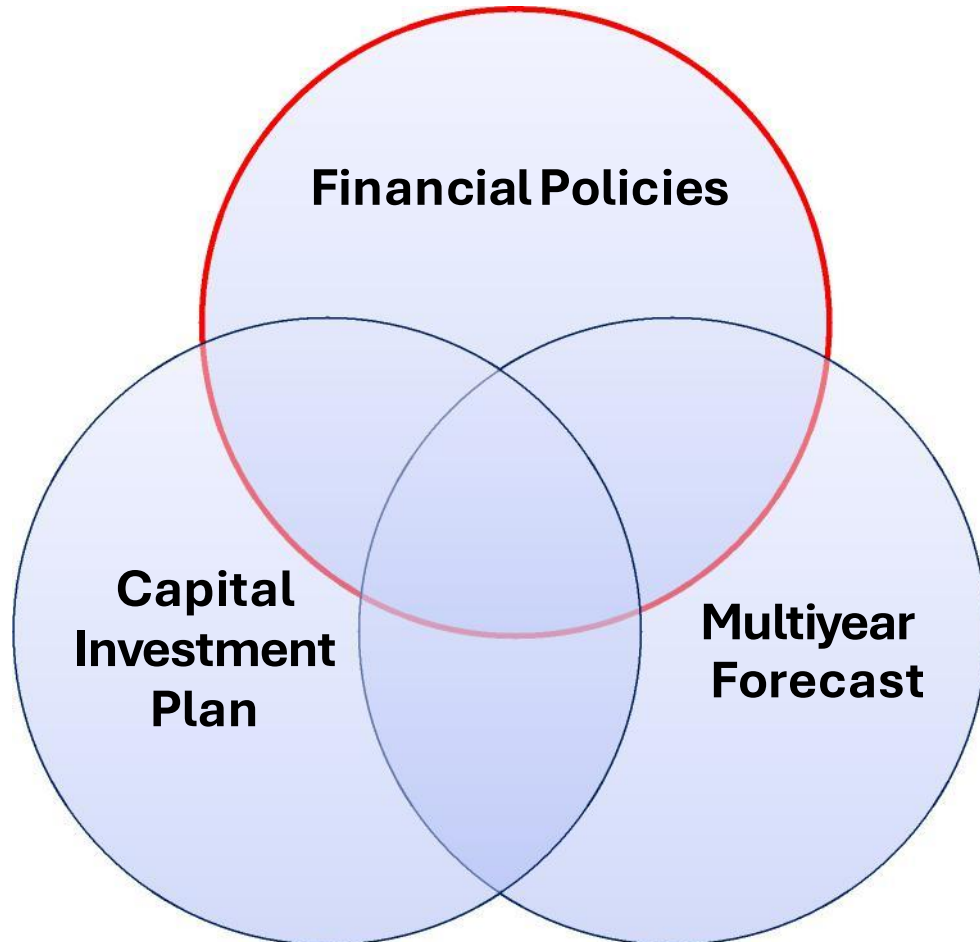
New Growth Trends

Fiscal Year	FY2024	FY2023	FY2022	FY2021	FY2020
New Growth (In Value \$)	\$50,094,370	\$49,295,740	\$56,104,790	\$44,168,890	\$36,080,503
New Growth (In Tax Base \$)	\$350,160	\$386,971	\$481,379	\$380,736	\$309,571
Outliers (Value)	\$7M – Serenity Apartments	\$7.6M - Solar producing greater than 25kw no longer tax exempt	\$26M – Utilities (Gas) - change in valuation methodology	\$12M – Utilities (Electric) - change in valuation methodology	No major outlier. \$1M – Utilities (Cable)
Outliers (percent of new growth)	14%	15%	46%	27%	3%

Audit

- Brewster Audit Committee was established in 2019 via Town Meeting vote and is included in the Town of Brewster General Bylaws
- The audit firm is chosen through a Request for Proposal process and must be independent from the Town
- In the fall, the audit firm begins interim fieldwork - most of the audit work is performed on site (Brewster Town Hall)
- Final audited financial statements are required to be completed by December 31st and are presented to management, the Audit Committee, the Finance Committee, and the Select Board
- Current audit services contract is with R.E. Brown & Company for fiscal years 2022, 2023, and 2024
- R.E. Brown & Co. has issued an unqualified (clean) opinion for Fiscal Years 2022 and 2023
- A 'Management Letter' is a formal communication from an auditor to a client's management that discusses findings and recommendations
- Brewster has not had a Management Letter since the Fiscal Year 2021 audit

Budget Process – Financial Policies



Financial Policies

- Financial Reserves
- Other Post Employment Benefits (OPEB) Liability
- Short Term Rental Revenues

Brewster's Financial Policies are in line with Best Practices Recommended by the Massachusetts Department of Revenue

Financial Policies: OPEB

- Developed by Brewster Finance Team and adopted by Select Board in December 2019
- Other Post-Employment Benefits represent the Town's obligation to provide retiree health insurance - similar to our pension liability
- Brewster's unfunded OPEB liability in 2019 was \$16.3M - current liability is \$14.4M
- Bi-annual actuarial analysis is conducted to update our liability
- Town increased our annual contributions to OPEB by \$50k/year from FY20-22
- \$300k/year appropriated to OPEB Trust Fund in operating budget appropriations as of FY23
- Current OPEB Trust Fund balance is \$3.8M
- Plan to increase annual contributions to OPEB Trust Fund once Town fully funds our pension obligations (estimated to occur in 2036)

Financial Policies: Reserves

- Developed by Brewster Finance Team, consistent with MA Department of Revenue recommendations - adopted by Select Board in January 2020
- Sets Free Cash target of 5-7% of General Fund operating budget and year-end Free Cash balance target of 2-2.5% - Free Cash to be spent on one-time expenditures and to build reserves
- Sets General Stabilization target minimum of 5+% of operating budget (currently 5.6%)
- Sets Capital Stabilization target maximum of 10% of operating budget (currently 3.1%)
- Sets Enterprise Fund Retained Earnings target minimums of 20% of Golf and Water operating budgets (currently 58% for Water & 48% for Golf)
- Sets Overlay Surplus balance target of 1-2% of operating budget (currently 1.5%)

40 Financial Policies: Short-Term Rental Revenues

- New Short-term rental (STR) surcharge first imposed in FY20
- Anticipated STR receipts could be included in FY22 budget for first time
- Developed by Brewster Finance Team and adopted by Select Board in May 2021
- Proactively allocated new revenue stream to certain targeted areas:
 - 50% to Affordable Housing Trust
 - 25% to Capital Stabilization
 - 15% to Water Quality Capital Stabilization (created in May 2022)
 - 10% to operating expenses related to Select Board Strategic Plan initiatives
- Appropriated to those funds based on projected revenues as part of Town's operating budget appropriation
- FY25 STR revenue estimate = \$1.05M

Brewster's Financial Best Practices

- Received Government Finance Officer Association's Distinguished Budget Presentation Award for our FY24 budget (including FY23-27 CIP)
- Develop sustainable budgets informed by financial forecasting
- Annually update 5-Year Capital Improvement Plan
- Develop and implement critical financial policies
- Targeted use of new revenue sources
- Created several new stabilization funds
- Increased reserve fund balances consistent with financial policies
- Reduced unfunded liabilities
- Produced clean audits
- Maintained high collection rates
- Secured AAA bond rating



Questions?

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