



SECTION 3 – Budget Overview—General Fund

Budget Calendar

	Start Date	End Date
Mayor & Finance		
Finance Director prepares initial Revenue/Expenditure (FY08 RECAP) figures	1/18/2007	
Mayor issues budgets to departments with objectives & budget constraints *Budget Constraints (level fund, increase/decrease - what %?) Management/Non-union increases? If so, what % Must decide on FY 2008 School Budget figure Any union contracts not settled/figured into budget to council will require Free Cash in FY 2008	1/25/2007	
Budget salary workshops with Finance & Departments	1/29/2007	to 2/9/2007
Departments compile budget information & submit to Finance	1/29/2007	to 2/16/2007
Data Entry by Finance	2/19/2007	to 2/23/2007
Budget Review By Mayor, Finance, Department Heads	2/26/2007	to 4/30/2007
School Budget Submitted to Finance for Data Entry	4/16/2007	
Finance Director Finalizes FY08 Revenue/Expenditures - Balances Budget	5/10/2007	
Finance Department Prepares Final Budget for City Council	5/10/2007	5/15/2007
City Council		
Council receives budget (Must be prior to 5/17 for 45 days)	5/24/2007	
Administration & Finance budget review process	5/24/2007	to 6/27/2006
City Council Vote on City Budget	6/28/2006	

Budget Overview

The budget document is the instrument used by the budget-making authority to present a comprehensive financial program to the appropriating body.

Budget Format - The budget summary contains summary totals from all operating segments. The revenue section details revenue sources with expected trends. Each departmental section contains a department mission statement and financial data relating to the entire department, including personnel detail. The enterprise section includes revenue and expenditure trends of the self-sustaining enterprise funds along with departmental goals. The CIP section details all expected capital program outlays in the current fiscal year, as well as a summary of the next following years.

The Budget Process - The preparation of the Annual Budget for the City is governed by the provisions of the City Ordinance and Massachusetts General Laws.

The Finance Department prepared budget packages for each department in January. The Mayor has a City wide budget meeting, attended by all department heads and finance personnel, concerning a general overview of the state of the economy, and to outline specific guidelines dictating the preparation of individual department budgets. In consultation with the Finance Department, each department then prepared FY 08 operating budgets and a mission statement outlining the projected goals for the future. These operating budgets are submitted to the Finance Department for review and entry into the computerized accounting system. The budgets are then prepared for the Mayor's review.

In March and April, each department head met with the Mayor and Finance Director to review their proposed budgets and program changes for the coming year. As the proposed budgets were reviewed by the Mayor, the budgets submitted were adjusted based on the individual needs of each department. During the month of April, the Mayor finalized the Annual Budget document for submission to the City Council. The City Council accepts the budget and submits it to the subcommittee on Administration and Finance. The City Council Subcommittee on Administration and Finance then held subcommittee meetings with the Mayor, Finance Director and Department heads to review each departmental budget. The budget, which must be approved, by a majority vote of the City Council by June 30th of each year, was approved on June 28, 2007.

Budget Amendments – Any increase to the budget or budget transfers (either between personnel and non-personnel line items or between departments), must be submitted to the City Council by the Mayor for approval.

Mass Gen. Law Requirements - The budget preparation process for all Cities is governed by MGL Ch. 44. The General Laws require that the budget be supported by revenues earned during the year plus any savings from prior years. The General Laws also requires public involvement in the process, including the requirement for a public hearing on the proposed budget.

Developed under the Mayor's Direction - The Mayor provides leadership for the budget process by developing budgetary policy and working closely with department heads and the City Council to assure that the process identifies community needs and priorities and develops a farsighted and well crafted plan.

Crucial Budget Processes - The Mayor has initiated budget processes that provide the policy context for identification of priorities and development of initiatives.

The budget process goals include:

1. Policy Driven Planning: The budget is developed based upon community values and key City strategic financial and program policies. The City's Five Year Financial Forecast provides the nexus between the long-term financial

plan and budgetary development. The plan includes a comprehensive multi-year projection of the financial position and budget projections, including documentation of revenue and cost assumptions and projections.

2. Program of Services for the Community: The budget is designed to focus on financial information and missions and goals that have value added outcomes to the community through City services. The Mayor and the City Council will use the City's fundamental principles as a basis for allocation choices and policy discussions. It also provides a basis for measuring progress toward goals during the budget period.

3. Financial Plan of Allocation and Resource Management: The budget establishes the plan and legal appropriations to allow the City to operate during the fiscal year. The budget provides specific direction for departments and agencies for management of resources. It also provides broad goals related to the City's overall financial position and identifies business decisions required to keep the City financially viable and strong. It is developed using all available financial and planning reviews, including the Five Year Financial Forecast and the five-year rolling Capital Improvement Program.

4. Communication Tool: The budget is intended to communicate to a broad range of readers, both locally and around the region, as well as the larger governmental and financial community. The budget expresses priorities and goals, assignments and plans, targets and hopes. It is a key statement of City priorities, and is meant to provide confidence in and confirmation of the Ordinance-mandated, Mayor form of government.

FUND ACCOUNTING

What is Fund Accounting? - Fund accounting is an accounting system organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures, or expenses as appropriate. Resources are allocated to and accounted for in individual funds based upon purposed for which they are to be spent and the means by which spending activities are controlled. Fund accounting is used by states and local governments and by not-for-profit organizations that need to account for resources the use of which is restricted by donors or grantors.

What are the types of Funds? There are seven types of funds that should be used, as needed, by state and local governments, both general purpose and limited purpose. The types of funds are as follows:

Governmental Funds

1. ***The General Fund*** – to account for all financial resources except those required to be accounted for in another fund.
2. ***Special Revenue Funds*** – to account for the proceeds of specific revenue sources (other than expendable trust or for major capital projects) that are legally restricted to expenditures for specific purposed. These funds are used mostly for donations, state, federal, and other intergovernmental revenue and expenditures.
3. ***Capital Projects Funds*** – to account for financial resources to be used for the acquisition or construction of major capital facilities – other than those financed by proprietary funds and trust funds.
4. ***Debt Service Funds*** – to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Proprietary Funds

5. ***Enterprise Funds*** – to account for operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided the periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

6. *Internal Service Funds* – to account for the financing of goods or services provided by one department or agency to other departments or agencies of the governmental unit, or to other governmental units, on a cost-reimbursement basis.

Fiduciary Funds

7. *Trust and Agency Funds* – to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include (a) expendable trust funds, (b) nonexpendable trust funds, (c) pension trust funds, and (d) agency funds.

Accrual Basis in Governmental Accounting- The modified accrual basis of accounting, as appropriate, should be utilized in measuring financial position and operating results.

Governmental fund revenues and expenditures should be recognized on the modified accrual basis. Revenues should be recognized in the accounting period in which they become available and measurable. Expenditures should be recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt, which should be recognized when due.

Proprietary fund revenues and expenses should be recognized on the accrual basis. Revenues should be recognized in the accounting period in which they are earned and become measurable; expense should be recognized in the period incurred, if measurable.

Fiduciary fund revenues and expense or expenditures (as appropriate) should be recognized on the basis consistent with the fund's accounting measurement objective. Nonexpendable trust and pension trust funds (and investment trust funds) should be accounted for on the accrual basis; expendable trust funds should be accounted for on the modified accrual basis. Agency fund assets and liabilities should be accounted for on the modified accrual basis.

Transfer should be recognized in the accounting period in which the interfund receivable or payable arises.

PROPERTY TAX “101” - A TAXPAYERS GUIDE

By Frank Kulik – Director of Assessing, City of Salem, Massachusetts

Introduction

This information about real estate taxation is designed to explain the process leading to a tax bill and attempts to dispel many of the common misconceptions associated with this often-misunderstood subject. Slightly over half the money needed to fund Salem’s City Government must be raised through property taxation. The remainder of the revenue comes from other sources such as State aid and local receipts.

Massachusetts’s municipal law permits two types of local property taxation – real estate and personal property. Since it affects the greatest number of residents, most public attention is focused on the real estate tax. The following information pertains to the real estate tax.

Assessed Value & Tax Rate

Every year the Assessing Department adjusts all of the City’s taxable property according to a procedure outlined in Massachusetts General Law. The new “assessed value” is designed to reflect the property’s “full and fair cash value” on the first day of January prior to the December bill on which it first appears. It is important to note, that your assessed value is a year old when it appears on your bill and is not intended to be a reflection of the property’s current value. The assessors then “add up” the total assessed value of all of the City’s taxable property.

The City’s Finance Department provides the assessors with exactly how much revenue must be raised through property taxation. It is this revenue figure, divided into the total assessed value of the City’s taxable property that determines the basic “equalized” tax rate per \$1000 of assessed value. (Some communities use this rate to tax all classes of property – Salem does not.)

Since Salem has opted to tax residential taxpayers at a different rate than commercial/industrial taxpayers, all the Assessor’s information is submitted to the City Council, including a recommendation by the Mayor, and at the “annual “classification hearing” it is decided how the tax burden will be apportioned. The two new rates, when applied to the new property values, produce the required total revenue figure and become the tax rates for that fiscal year.

Every three years, subject to the dictates of the Commissioner of Revenue, the City is required to undergo a “re-certification” procedure. This is commonly known as a “re-val” year – the familiar abbreviated term for “revaluation.” In past years, it was at this time that property owners usually saw the greatest change in their property assessments. With the use of computerized mass appraisal systems, most communities, including Salem, now adjust their property assessments on a yearly basis. These assessments closely follow the fluctuations in the marketplace and reflect a property value on the 1st of January prior to the bill on which the new assessed value first appears.

How is Property Value Determined?

The average residential dwelling in Salem gets its new assessment each year from the Assessing Department's analysis of the property market. You could correctly say that the amount your "new neighbors" paid your "old neighbors" for the houses in your area provided the Assessors with the basis for your new assessment. The Assessors program the mass appraisal system with relevant sales information and it generates new values for similar property that did not sell.

Income producing property, such as multi-unit residences or commercial/industrial property is also valued by the mass appraisal system only by a different methodology. Each year the Assessors request "income and expense" information from owners of "income" producing property and develop values based on the "return on investment". Sales and cost aspects of this methodology are important factors but the greatest emphasis is based on income.

What Makes a Tax Bill Go Up or Down?

Many factors can affect the total amount of your property tax bill and often many influences are at work at the same time. Historically, the yearly cost of running a City increases each year much in the same way the cost of maintaining a household increases each year. If nothing else changed, this increase would more than likely cause your tax bill to go up.

These factors could also contribute to an increase:

- Improvement to a property in the form of an addition, finished basement or attic or other alteration that would increase the property's market value.
- A greater increase in the market value of a particular section of the City when compared to another section.
- The discovery by the assessors of incorrect property information such as an additional apartment unit, bathroom or finished basement that was not recorded on the previous assessment.
- In the case of income producing property, the increase of income versus the cost of doing business.
- Loss of taxable property to tax exempt status thereby diminishing the tax base.
- Loss of commercial/industrial property causing a shift in the tax burden to the residential taxpayer.

These factors could contribute to a decrease:

- A decrease in the market value of a particular section of the City when compared to another section.
- The reduction in the value of the property as a result of an alteration made to the structure,
- The deterioration of the property as a result of neglect, disaster or accident.
- In the case of income producing property, either the loss of income or a change in the income expense ratio.
- Reduction of a form of revenue consuming municipal service(s).
- Other forms of budget reduction.
- The addition to the tax base of taxable property

As you can see from the above, there are many dynamics to each tax bill. Any single factor, but usually a combination of factors, will influence the amount of your bill. Although an “average” tax bill can be statistically produced, very few bills would actually reflect the statistical average.

What about Proposition 2 ½?

Simply stated, Proposition 2 ½ says that a community cannot collect any more than 2 ½ % more than the maximum amount it was legally allowed to collect through property taxation in the previous year. This refers to the “total” amount that the City collects from the community and not the “individual” amount it collects from a taxpayer.

What is “Growth” and why is it Important

“Growth,” when referred to by municipal officials, means property eligible for taxation this year that was not there last year. The reason why so much importance is attributable to the “growth figures” is that this infusion of this new found revenue assists in defraying the impact of budget increases on the tax bill.

Large capital building projects normally contribute to the bulk of the growth figures, but the simple addition of a deck to the back of a house is also part of the calculation. The cumulative effect of growth on the City’s economy can often reduce a tax bill by a couple of percent over what it would have been had this “growth” not occurred.

What is the “Power Plant” Agreement

Back in 1997, and as a result of the uncertainties surrounding the deregulation of the electricity generating industry, the City entered into a financial agreement with the operators of the power plant on Fort Avenue. Designed to allow both sides a degree of future financial planning, the agreement outlines a yearly schedule of payments in lieu of calculated tax assessments.

During Fiscal Years 1998-2001, the total remittance amount was \$8.7 million a year. In FY 2002, this amount was reduced to \$7.7 million. In FY 2003 it was again reduced to \$6.7 million, and in FY 2004 – FY 2007 it was reduced to \$5.025 million. Although plans for a plant upgrade were noted in the agreement and procedures for changing the remittance amount addressed, to date there has been no change to the plant’s current status.

The impact the reduction of revenue has on the tax bill is essentially the reverse effect of growth. It is a revenue contribution that was there last year that is not there this year. Because State aid and local receipts are determinants in the amount to be raised from property taxation, the impact does not translate to a dollar for dollar increase, but like growth, can translate to a percent or two on a tax bill.

Summary

Although a community’s tax rate or rates are often a measure of comparison by one city to another, your actual tax bill consists of not one but two parts – the tax rate and the property’s value assessment. The

better comparison would be to compare a similar home, in a like neighborhood and the "bottom line" of an actual tax bill.

Remember, the city's budget and what part of those funds come from property taxation, determine the amount property owners are asked to contribute in the form of their tax bills. The property assessment and tax rate are the mathematical way in which that sum is realized.

The City maintains a "state of the art" computerized mass appraisal system and periodically reviews, through various processes, all its taxable property. The resulting citywide adjustments made to property database assure taxpayers the most equitable distribution of the tax burden Salem can provide.

Internet access to this information offers Salem's citizens and taxpayers a clear look at the statistical component of their property assessment and a way to track any discrepancies that might warrant correction now and into the future.

Revenue Overview

General Fund Budget Summary

A key component of the budget development process is the identification of revenue assumptions and projections to determine the range of choices that the Mayor can make in allocating resources. The City's revenue plans attempt to balance the desire to reduce the impact of government cost on the taxpayer, to provide for a relatively stable and diversified revenue portfolio that is not highly subject to economic fluctuations, and to equate the cost of services to the revenues received. Because of the critical nature of this information the revenue analysis and the revenue projections are monitored, updated and presented to the Mayor on a monthly basis. If significant changes in revenue streams were to present the potential for shortfalls, this process would allow for the action(s) to be made in time to maintain fiscal stability.

The City does not have the statutory ability to change rates and formulas for many of its revenue sources. The rates and/or formulas for property tax and certain fines, for example, are set by the State. The City may set user fees, permits and licenses. In 1980, the voters approved a statewide property tax initiative, Proposition 2 1/2. Prop. 2 1/2 established, among several restrictions, a "2 ½ percent cap" on property taxes increases in all local taxing districts in the State.

City revenues are divided into six basic categories recommended by the National Committee on Governmental Accounting. The categories are taxes, charges for services, licenses and permits, fines and forfeits, intergovernmental revenue, and miscellaneous revenue. The following is a discussion of the City's projections for those categories in FY 08.

GENERAL FUND REVENUE DETAIL

TAXES

Real and Personal Property Tax

The primary source of revenue for most municipalities in the Commonwealth is real and personal property taxes; however, the property tax as a percentage of all revenues can greatly differ from community to community. For purposes of taxation, real property includes land, buildings and improvements erected or affixed to land and personal property consists of stock, inventory, furniture, fixtures and machinery. The City's Board of Assessors determines the value of all taxable land, which is revalued at fair market value every three years and updated every year. The City of Salem revalued all real property in FY 07 adjusting property values to within 90%-100% of market value. The City's Board of Assessors is also responsible for determining the value of personal property through an annual review process.

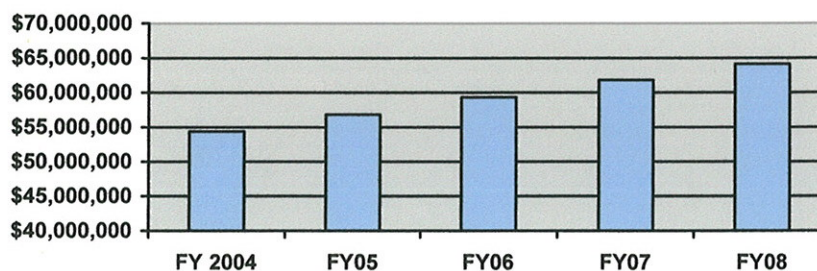
Major Changes:

There are three major factors that influence the amount of revenue generated by real and personal property taxes:

1. Automatic 2.5% Increase – The levy limit is the maximum amount that can be collected through real and personal property taxes by the municipality. Each year, a community's levy limit automatically increases by 2.5% over the previous year's levy limit. This increase, which does not require any action on the part of local officials, is estimated to be \$1,544,823 for FY 08.
2. New Growth – A community is able to increase its tax levy limit each year to reflect new growth in the tax base. Assessors are required to submit information on growth in the tax base for approval by the MA Department of Revenue as part of the tax rate setting process. In FY 08, based on current trends, new growth is estimated to be \$786,432
3. Overrides/Exclusions – A community can permanently increase its levy limit by successfully voting an override. Debt and Capital exclusions, on the other hand, are temporary increases in a community's levy limit for the life of the project or debt service. Only a Debt or Capital exclusion can cause the tax levy to exceed the levy limit. The levy limit for Salem for FY07 was \$61,792,926. The levy ceiling is 2.5% of the valuation of the community (EQV). The ceiling for Salem in FY 07 was \$124,458,002. As the following shows, the City is just under its levy limit for FY07, but has plenty of room under the levy ceiling.

Year to Year Comparison	FY 04	FY 05	FY 06	FY 07	FY 08	% Change FY 07 – FY 08
Tax Levy (per RECAP)	\$54,374,223	\$56,839,329	\$59,292,238	\$61,785,514	\$64,124,182*	3.8%

*Estimated



Motor Vehicle Excise Tax Receipts – MGL Chapter 60A, Section 1 sets the motor vehicle excise rate at \$25 per \$1000 valuation. The City collects these monies based on data provided by the Massachusetts Registry of Motor Vehicles. The Registry, using a statutory formula based on a manufacturer's list price and year of manufacture, determines valuations. The City or Town in which a vehicle is principally garaged at the time of registration collects the motor vehicle excise tax.

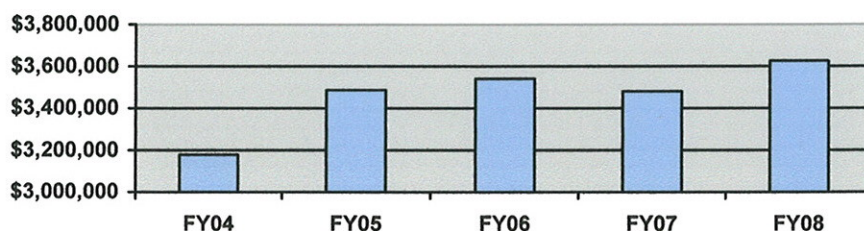
In January 1992, the Registry of Motor Vehicles implemented a new computer tracking system that will force auto owners to pay their excise taxes. Those who do not pay will not be allowed to renew registrations and licenses. Cities and Towns must notify the Registry of delinquent taxpayers and the City currently has a deputy collector that prepares excise collection reports on computer tape for the Registry of Motor Vehicles.

Major Changes:

This revenue source had expanded in recent years as the City has had an increase in new housing and condo conversions. Due to an increase in the housing construction and condo conversions the Motor Vehicle receipts are expected to increase slightly in FY 08. Furthermore, the City has renegotiated its contract with its Deputy Collector, Kelley and Ryan. These negotiations resulted in modifications that will enhance the amount of demand fees the City receives for each excise bill not paid in a timely fashion.

Year to Year Comparison	FY 04	FY 05	FY 06	FY 07	FY 08	% Change FY 07 – FY 08
Motor Vehicle Excise	\$3,178,767	\$3,485,883	\$3,540,267	\$3,479,295*	\$3,624,587*	4.2%

*Estimated



OTHER EXCISE

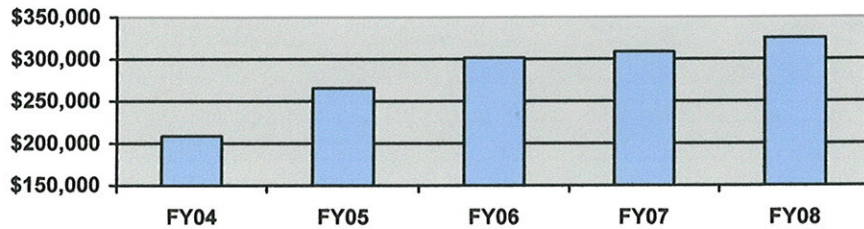
Hotel Excise – (Room Occupancy Excise - MGL Chapter 64G) This category includes taxes received through the state that are collected from all hotels, motels, and other lodging houses within the City at a rate up to, but not exceeding, 4% of the total amount of rent for each such occupancy. Hotel excise for the first three quarters of FY07 have been favorable, as we have collected over 90% of estimated revenues for FY07 through March 2007. As such, we have slightly increased our estimated revenue for FY08 by 2.5%.

Boat Excise – As per MGL Chapter 60B Section 2, boat excise tax is levied by each city and town in each fiscal year on every vessel, and its equipment, for the privilege of using the waterways of the

Commonwealth. We have level funded the FY08 estimated revenue for boat excise. Combined with the hotel/motel excise tax, the overall percentage increase of receipts for FY08 will be 2.1%.

Year to Year Comparison	FY 04	FY 05	FY 06	FY 07	FY 08	% Change FY 07 – FY 08
Hotel/Boat Excise	\$208,500	\$265,418	\$301,239	\$308,500*	\$315,000*	2.1%

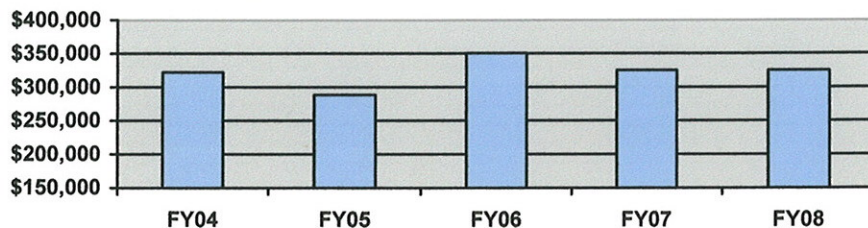
*Estimated



Penalties and Interest - This category includes delinquent interest on all taxes and tax title accounts. It also contains demand fees on real and personal property taxes as well as demands and warrants on late motor vehicle excise taxes and boat excise taxes. This has been level funded for FY08.

Year to Year Comparison	FY 04	FY 05	FY 06	FY 07	FY 08	% Change FY 07 – FY 08
Penalties & Interest	\$322,003	\$288,874	\$350,651	\$325,000*	\$325,000*	0%

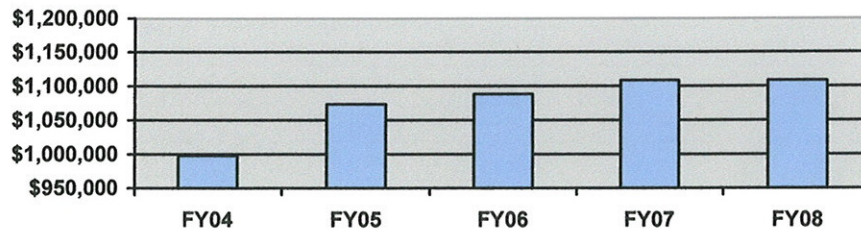
*Estimated



Payment In Lieu Of Taxes (PILOT) - Many communities, Salem included, are not able to put all the property within its borders to productive, tax generating uses. Federal, state and municipal facilities, hospitals, churches and colleges are examples of uses that are typically exempt from local property tax payments. The City currently has PILOT agreement with several entities, including the South Essex Sewerage District, North Shore Medical Center, and the Salem Housing Authority, as well as some Urban Redevelopment Corporations (MGL Chapter 121A). This revenue stream is fairly predictable and, as such, we have level funded this account for FY08.

Year to Year Comparison	FY 04	FY 05	FY 06	FY 07	FY 08	% Change FY 07 – FY 08
PILOT	\$997,853	\$1,073,539	\$1,088,753	\$1,108,500*	\$1,108,500*	0.0%

*Estimated



CHARGES FOR SERVICES / SUMMARY

Services / Charges / User Fees – Charges for services are a revenue source to assist municipalities to offset the cost of certain services provided to the community. Some of the fees within this category are board of health, building and plumbing, electrical, engineering inspections as well as park and recreational fees. In FY 2007 the trash fee was also added to this category as well as passport and ferry fees.

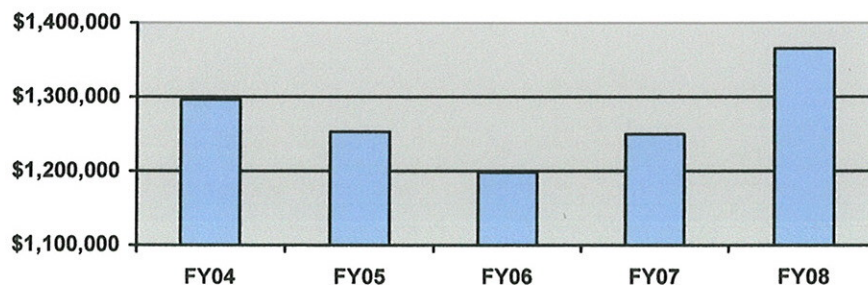
Major Changes:

This revenue source will change in FY08 for several reasons. The trash fee will now be accounted for in an Enterprise fund. As such, these revenues will not be general fund revenues and will be removed from the “local receipts” of the City. Also, the City has begun processing passports in the Collector’s office. We receive \$30 per passport and have estimated an additional \$15,000 for FY08. Also, we have increased our administration fee for police and fire special details from \$2 per hour to 10% of the cost of the detail. This increase will generate \$50,000 in FY08. Finally, the revenue from our ferry operator is scheduled to increase 25% from FY07, resulting in an additional \$15,000 in revenue for FY08.

These changes in revenues, as well as some modest increases assumed to the current charges for services, will allow for an estimated increase in charges for services (net of the trash fees being moved to the enterprise fund) of \$115,000, or 9.2%

Year to Year Comparison	FY 04	FY 05	FY 06	FY 07	FY 08	% Change FY 07 – FY 08
Charges for Services	\$1,296,431	\$1,252,781	\$1,198,182	\$1,250,000*	\$1,365,000*	9.2%

*Estimated



PARKING FEES / SUMMARY

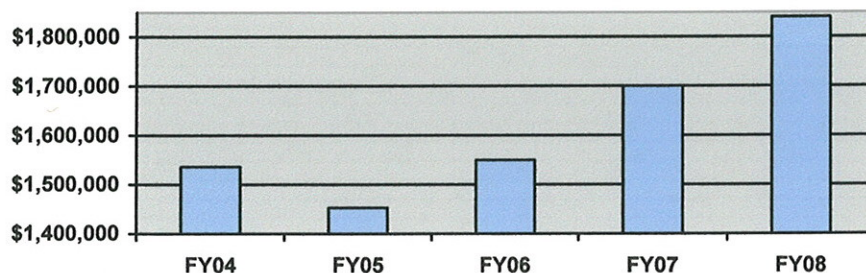
Parking Fees – Parking revenues are from fees charged for parking at the Museum Place Mall Parking Garage, South Harbor Parking Garage, Church Street Lot, and all metered parking. Parking revenues are set by City Ordinance.

Major Change:

The fee for Haunted Happenings parking is proposed to increase from \$15 to \$20 for ten days in October (Saturdays and Sundays in October, Columbus Day, and Halloween Night). This modification is estimated to raise revenue for parking by \$40,000. This increase, combined with the positive trend in parking fees collected in FY07 are the contributing factors in increasing the estimated receipts for parking fees in FY08 by \$140,000 from the FY07 estimate.

Year to Year Comparison	FY 04	FY 05	FY 06	FY 07	FY 08	% Change FY 07 – FY 08
Parking Fees	\$1,536,390	\$1,453,089	\$1,549,832	\$1,700,000*	\$1,840,000*	8.2 %

*Estimated



LICENSES AND PERMITS / SUMMARY

Licenses & Permits - License and permit revenue arises from the City's regulation of certain activities (e.g., selling alcoholic beverages). A person or organization pays a license fee to engage in the activity for a specified period. The primary licensing agency in the City is the City Council. All fees are set by one of three methods: State law, City By-Law or Licensing Body.

Liquor Licenses - Under Chapter 138 of the General Laws of Massachusetts, the City is empowered to grant licenses regulating the sale of alcoholic beverages. License fees vary depending upon the type of establishment, closing hours, number of days open, and whether the license is for all alcohol or beer and wine. All licenses issued by the City Council, with the exception of short-term and seasonal liquor licenses, have a maximum fee set by State statute.

Entertainment - Entertainment licenses are issued for live performances, movie theaters, automatic amusement machines, billiard tables, bowling alleys, and several other forms of entertainment.

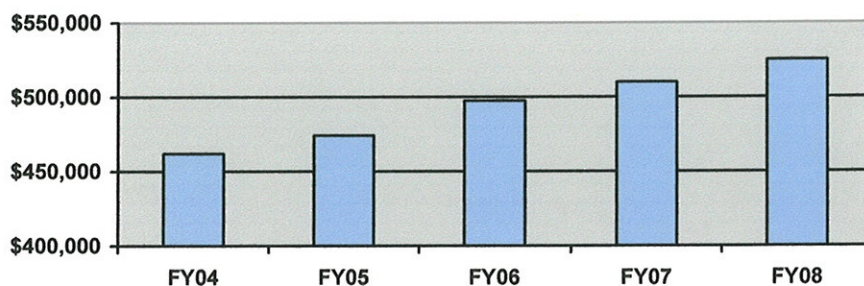
City Clerk Licenses & Permits - The City Clerk issues licenses and permits primarily relating to marriages, births, deaths and dog registrations.

Other Departmental Permits - Other Departments issue various permits including smoke detector, LP gas, firearms, and constable fees.

The potential development of several properties, including the transfer station, Salem Oil and Grease, and Flynntan are projected to contribute to license and permit revenues for FY08. As such, we have projected a modest increase of 2.9% in FY08.

Year to Year Comparison	FY 04	FY 05	FY 06	FY 07	FY 08	% Change FY 07 – FY 08
License & Permits	\$461,982	\$474,284	\$497,478	\$510,000*	\$525,000*	2.9 %

*Estimated



FINES AND FORFEITS

Court Fines – Non-parking offenses result in fines for moving violations. Responding to the community's desires and public safety concerns, the police department has been focused on enforcing speed limits in local neighborhoods. Other moving violations that are included in this category are driving while intoxicated, passing in the wrong lane, and failing to stop at the traffic signal. These fines, collected by the District Court, are distributed to the City on a monthly basis. The City has also begun to explore red light cameras at certain dangerous intersections that are not State roads. This would have a major impact on local receipts, however, the Department of Revenue has addressed this issue in Bulletin 2007-05B and has stated that estimated receipts for these violations can not be allowed for tax rate setting purposes "...until these procedures under review by state agencies have been ruled upon and until the local government can document that it has properly employed them."

Parking Fines - The collection of outstanding parking fines continues to be an important source of revenue to the City. Parking violation revenues are used to partially fund the budgets of many City departments. The timely collection of fines has been aided by automation, and by State law that violators are prohibited from renewing their driver's licenses and registrations until all outstanding tickets are paid in full.

Major Changes:

In the Department of Revenue's Financial Management Review of August 2006, it is recommended that we change the dollar penalty for meter violation. The report reads:

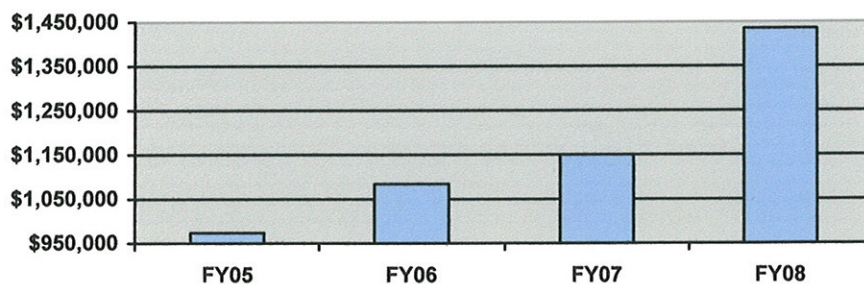
"In Salem, the penalty for a parking meter violation (\$10) is less than the maximum charge for parking in a city garage or lot (\$12). As a result, whether for reasons of convenience or because it is an acceptable risk, drivers have an incentive to park on the street."

As such, it is proposed that we increase the fine for meter violation from \$10 to \$15. This increase will further discourage individuals to park all day in our one-hour and two-hour meters that are intended for short term parking for local businesses. We also propose increasing the late fees by \$5 for both the first and second notification for those who do not pay their violations in a timely manner. These modifications are estimated to increase local receipts for fines by \$270,000.

Also, the hiring of an inspectional services director and the successful implementation of a 21D program (non-criminal fines for building, health, and noise violations) are estimated to raise an additional \$15,000 in revenue for the City.

Year to Year Comparison	FY 05	FY 06	FY 07	FY 08	% Change FY 07 – FY 08
Fines & Forfeits	\$973,995	\$1,084,428	\$1,150,000*	\$1,435,000*	24.8%

*Estimated



INTERGOVERNMENTAL REVENUE

Cherry Sheet - State Cherry Sheet revenue funds are the primary intergovernmental revenue and in the case of many cities, is the single largest source of annual revenue. Cherry Sheet revenue consists of direct school aid, local aid, and specific reimbursements and distributions such as aid to public libraries, veteran's benefits, police career incentives, and a number of school related items. For the FY 08 budget process, the City projected a 6.2% increase of Cherry Sheet revenues based on conservative assumptions offered by Governor's House 1 Budget. For a complete copy of the Cherry Sheet Manual or the actual Cherry Sheet Local Receipts and/or Assessments go to: www.mass.gov.

Every year the Commonwealth sends out to each municipality a "Cherry Sheet", named for the pink-colored paper on which it was originally printed. The Cherry sheet comes in two parts, one listing the State assessments to municipalities for MBTA, Charter Schools, RMV non-renewal fees, Retired

Teachers Health Insurance, air pollution control districts, and the other State programs; the other section lists the financial aid the City will receive from the State for funding local programs. Each Cherry Sheet receipt is detailed below.

Per the latest estimates from the Massachusetts Department of Revenue's Division of Local Services:

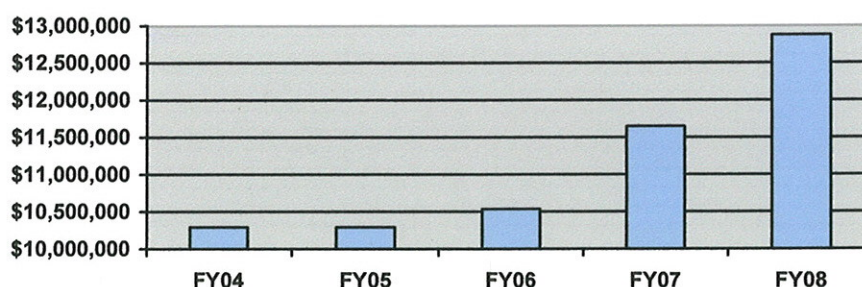
"Estimates for Chapter 70, Lottery, and Additional Assistance are based on a local aid resolution approved by the Legislature on April 4, 2007. For all other programs, the House Ways & Means Budget estimates represent the best available numbers for budget planning purposes."

As such, we are using HWM figures for FY08 budget planning purposes, and the figures below represent these figures.

School Aid - Chapter 70 school aid is based on a complex formula that takes into account: (1) statewide average cost per pupil; (2) local district pupil counts, with weighing factors to reflect varying costs among programs such as special education or vocational education, and (3) municipal fiscal "ability to pay" for education, as measured by equalized valuation per capita as a percent of statewide averages.

Year to Year Comparison	FY 04	FY05	FY 06	FY 07	FY 08	% Change FY 07 – FY 08
Chapter 70	\$10,290,730	\$10,290,730	\$10,536,330	\$11,648,162*	\$12,876,914*	10.5%

*Estimated



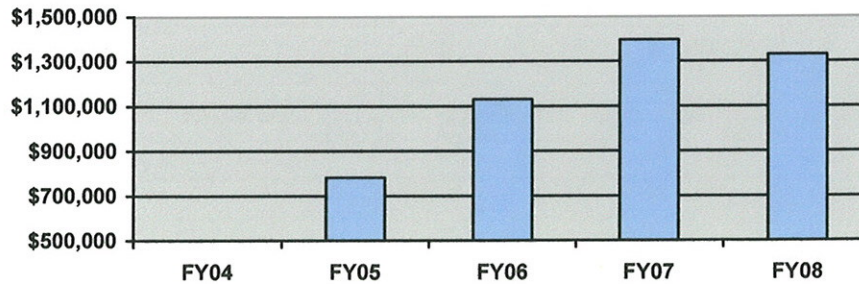
Local Aid - The major non-school state aid items are Lottery Aid, Charter School Tuition Reimbursement and Additional Assistance. These funds are unrestricted and can therefore be used by the municipality for any municipal purpose.

Charter Tuition Reimbursement - Under Chapter 71, Section 89, 2004 Chapter 46 of the Acts of 1997 provides for the reimbursement sending districts for the tuition they pay to Commonwealth charter schools. It is a reimbursement for those students that elect to attend a charter school. Sending districts are reimbursed a portion of the costs associated with pupils attending charter schools beginning with the second quarterly distribution. There are three levels to the reimbursement; 100% of the tuition increase in the first year, 60% of the tuition increase in the second year, and 40% of the tuition increase in the third year. In addition, the reimbursement covers 100% of the first-year cost of pupils at charter schools who attend private or independent schools in the previous year. The

reimbursement also covers 100% of the cost of any sibling students whose tuition brings a district above its statutory assessment cap of 9% of net school spending. The reimbursement is subject to appropriation in the final budget for the Commonwealth.

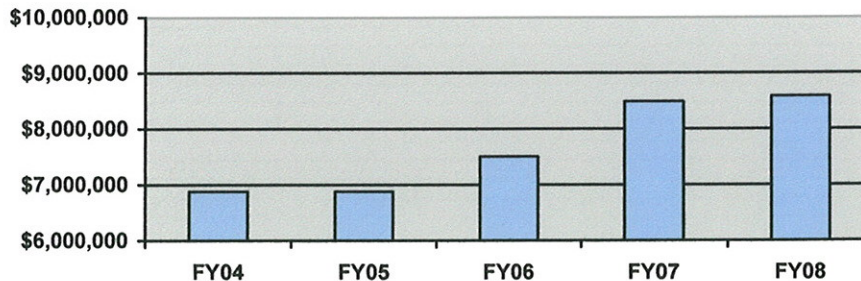
Year to Year Comparison	FY 04	FY05	FY 06	FY 07	FY 08	% Change FY 07 – FY 08
Charter School Reimburse	\$13,948	\$782,350	\$1,131,218	\$1,394,982*	\$1,330,131*	-4.6%

*Estimated



Year to Year Comparison	FY 04	FY 05	FY 06	FY 07	FY 08	% Change FY 07 – FY 08
Lottery	\$3,582,967	\$3,582,967	\$4,204,299	\$5,187,791*	\$5,286,837*	1.9%
Additional Assistance	\$3,298,731	\$3,298,731	\$3,298,731	\$3,298,731*	\$3,298,731*	0.0%
Total	\$6,881,698	\$6,881,698	\$7,503,030	\$8,486,522*	\$8,585,568	0.0%

*Estimated



OTHER CHERRY SHEET & TOTAL

This is the total of all cherry sheet revenues including those above and also Police Career Incentive, Veterans Benefits, State Owned Land, and Abatements Vet, Blind, Spouses & Elderly as described below.

Police Career Incentive - Under Chapter 41 of the General Laws, members of participating police departments receive a salary increase predicated on the amount of college credits earned toward a law enforcement degree. The Commonwealth reimburses municipalities for one-half of this salary increase.

Under the revised law, officers are awarded a ten-percent increase in their base pay for an Associate's Degree, a twenty percent increase for a Bachelor's degree and a twenty-five percent increase for a Master's degree.

Veterans' Benefits - Under Chapter 115, Section 6, municipalities receive a seventy-five percent State reimbursement on the total expenditures made on veterans' financial, medical and burial benefits.

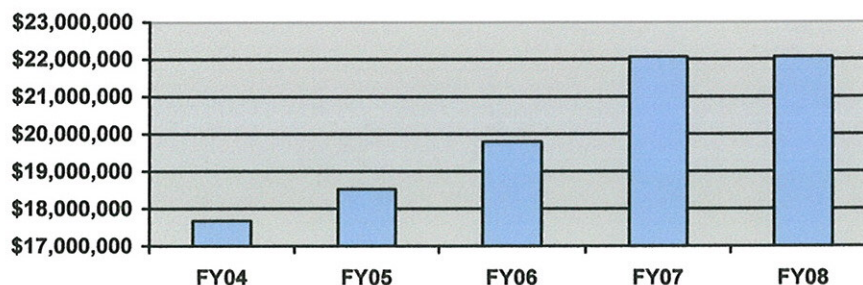
Real Estate Abatements - The State Cherry Sheet reimburses the City for loss of taxes due to real estate abatements to veterans, surviving spouses and the legally blind. The abatement categories are authorized by the State. The City is not empowered to offer abatements in other categories. Under Chapter 59, Section 5, of the General Laws, municipalities are reimbursed for amounts abated in excess of \$175 of taxes of \$2,000.00 in valuation times the rate, whichever is greater. Qualifying veterans or their surviving spouse receive an abatement of \$175 or \$2,000 in valuation times the tax rate, whichever is the greater. Chapter 59, Section 5, Clause 17c, of the General Laws, as amended by Section 2, Chapter 653 of the Acts of 1982, provides a flat \$175 in tax relief to certain persons over seventy, minors, and widows/widowers. Chapter 59, Section 5, Clause 37a, of the General Laws as amended by Section 258 of the Acts of 1982 provides an abatement of \$500 for the legally blind.

Elderly Exemption - Under Chapter 59, Section 5, Clause 41b, of the General Laws as amended by Section 5, of Chapter 653 of the Acts of 1982, qualifying persons over seventy years of age are eligible to receive a flat tax exemption of \$500.

State Owned Land - The State reimburses communities in which certain types of state owned land is located. Payment is for the amount of tax on the land only if the parcel were held privately, not for buildings or any other improvements erected on or affixed to the land.

Year to Year Comparison	FY 04	FY 05	FY 06	FY 07	FY 08	% Change FY 07 - FY 08
Total Cherry Sheet	\$17,678,576	\$18,526,876	\$19,789,849	\$22,152,077*	\$23,518,328*	6.2%

*Estimated



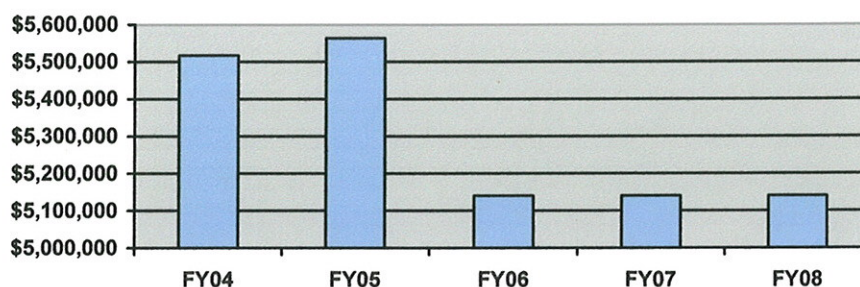
School Construction - The School Assistance Act, as amended, provides for the reimbursement of school construction projects that involve any of the following: The replacement of unsound or unsafe buildings; the prevention or elimination of overcrowding; prevention of the loss of accreditation; energy conservation projects, and the replacement of, or remedying of, obsolete buildings. The law also provides formulas (involving equalized valuation, school population, construction costs, and interest payments) for reimbursement of costs that include fees, site development, construction, and original equipping of the school.

In July of 2004, the governor signed Chapter 208 and Chapter 210, of the Acts of 2004 into law, which makes substantial changes to the School Building Assistance (SBA) program. This legislation transfers responsibility for the SBA program from the Department of Education to the Massachusetts School Building Authority (MSBA), under the Office of the State Treasurer. The authority is a new and independent governing body comprised of seven members. The legislation under Chapter 210 dedicates 1 percent of the sales tax receipts to help fund School Building projects. For more information go to www.mass.gov/msba.

The City of Salem still receives payments under the old SBA program (Approximately 5.1M per year) and also receives monthly reimbursements for ALL eligible costs for the ongoing High School Project under the new MSBA program.

Year to Year Comparison	FY 04	FY 05	FY 06	FY 07	FY 08	% Change FY 07 – FY 08
MSBA	\$5,516,928	\$5,563,233	\$5,140,317	\$5,140,317*	\$5,140,317*	0.0%

*Estimated



MISCELLANEOUS REVENUE

Interest On Investments - Under Chapter 44 Section 55B of the Mass. General Laws, all monies held in the name of the City which are not required to be kept liquid for purposes of distribution shall be invested in such manner as to require the payment of interest on the money at the highest possible rate reasonably available. The investment decision must take into account safety, liquidity and yield.

Medicaid Income – In accordance with laws and regulations governing the Medicaid program, school systems are mandated by the Individuals with Disabilities Education Act (IDEA) to provide health related services to their special education student population. They are permitted to file claims for partial federal reimbursement for both their student health services and the administrative support expenditures incurred in providing those services. We receive both the Direct Student Expenditures reimbursement (school based health services provided directly to the student) and the Administrative expenditures reimbursement (to assist in the delivery of SPED services to students.)

Medicare Part D – Medicare Part D is part of the Medicare Modernization Act (MMA) that was signed into law on 12/8/2003. One of the key provisions of MMA was the introduction of the Medicare Prescription Drug Benefit (Part D). This subsidizes part of the cost of drug costs for retirees. However, since the City of Salem offers its employees health insurance with prescription drug benefits that are superior to the Medicare part D benefits, we become eligible for a Medicare subsidy. This

subsidy is 28% of Rx claims between \$250 and \$5,000. This subsidy is designed to encourage employers to continue offering health benefits with prescription drug coverage that is actuarially equivalent or better than what is offered under Medicare Part D.

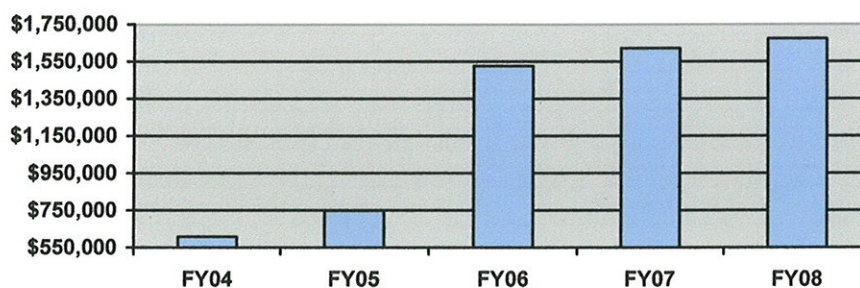
Miscellaneous Recurring – This category is used for all ‘other’ non-categorized income such as revenue from sale of copies of reports generated by a department, sale of data from tax files, census files, etc.

Major Changes:

In FY 2006 the City of Salem received a significant increase in miscellaneous income due to additional filing for Medicare Reimbursements for SPED students. In FY 2007 the City started receiving Medicare Part D reimbursements as described above.

Year to Year Comparison	FY 04	FY 05	FY 06	FY 07	FY 08	% Change FY 07 – FY 08
Misc Revenue Combined	\$608,791	\$748,284	\$1,526,077	\$1,622,000*	\$1,672,000*	0.0%

*Estimated



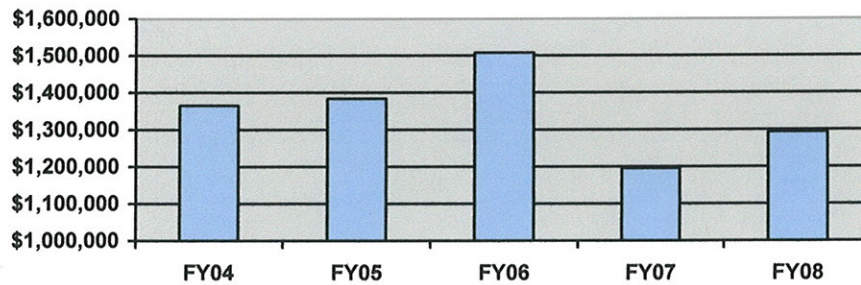
INTERGOVERNMENTAL / INTERFUND TRANSFERS

Enterprise Fund Transfer - The Water and Sewer Enterprise Funds, financed by water and sewer usage charges, provide reimbursements for direct and indirect costs associated with a variety of City services, including those offered by Technology, the Accountant, the Mayor, Treasury, Personnel, City Solicitor, Collector, and the City Clerk

Additionally, enterprise funds provide reimbursements to the general fund for all employee benefits (including fringe benefits) of those employees who work for the water and sewer departments, as well as costs for the maintenance of the Water and Sewer accounting and billing system. Finally, a portion of the City's assessments for property/casualty insurance, unemployment and worker's compensation are also captured in the indirect costs of the enterprise funds of the water and sewer departments.

<u>Year to Year Comparison</u>	<u>FY 04</u>	<u>FY 05</u>	<u>FY 06</u>	<u>FY 07</u>	<u>FY 08</u>	<u>% Change FY 07 – FY 08</u>
Indirect Costs W/S	\$1,365,192	\$1,384,098	\$1,507,633	\$1,195,330*	\$1,239,908*	3.7%

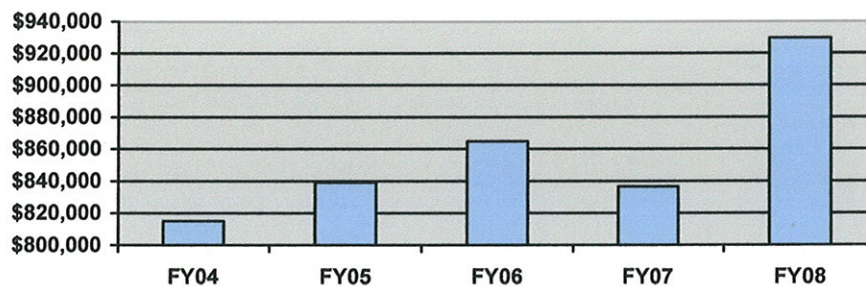
*Estimated



Receipts Reserved for Appropriation – The City of Salem has three Receipts Reserved Funds for Harbormaster, Golf Course, and Witch House. The revenue earned from these activities is credited to each of these special revenue funds. At the request of the Mayor, that money is appropriated by the City Council to cover both direct and indirect costs of each department in December for purposes of the certification of the City's tax rate by the Massachusetts Department of Revenue, as well as periodically throughout the year at the request of the department head of the Golf Course, Witch House, or Harbormasters Office to cover unforeseen or extraordinary expenses.

<u>Year to Year Comparison</u>	<u>FY 04</u>	<u>FY 05</u>	<u>FY 06</u>	<u>FY 07</u>	<u>FY 08</u>	<u>%Change FY 07 – FY 08</u>
R/Res Combined	\$815,000	\$839,236	\$864,669	\$836,552*	\$929,483*	11.1%

*Estimated



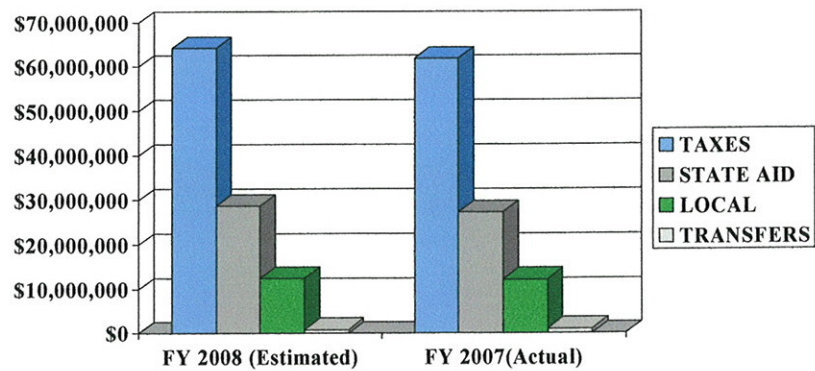
The City has three other receipts reserved accounts – Sale of Lots, Sale of Vaults, and Salem Common. The first two can only be used for the care and maintenance of graves in the City's cemetery, and the Salem Common money can only be used for care and maintenance of the Salem Common. This money is transferred to the General Fund by appropriation from the City Council as needed.

Other Financing Sources – The City of Salem has in the past used Free Cash, Stabilization, and overlay to offset the budget. For fiscal year 2008 none of these reserves will be used to balance the budget.

GENERAL FUND BUDGET GRAPHS

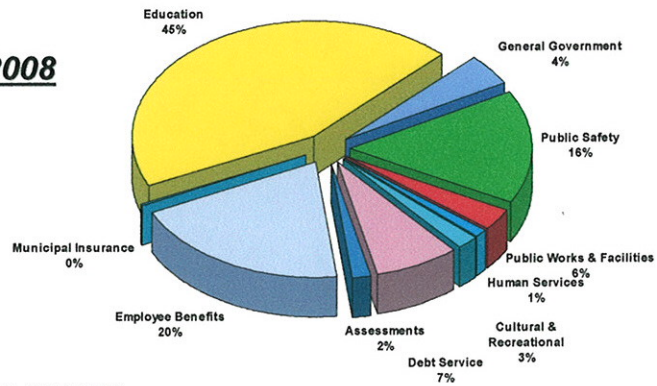
FY 2008

REVENUES FY08 VS FY07



ADOPTED BUDGET GENERAL FUND

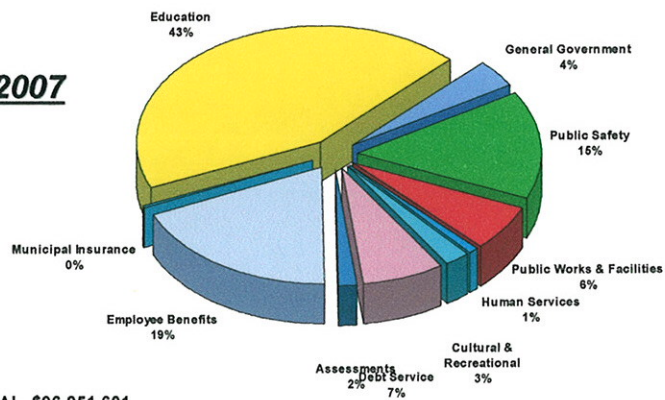
FY 2008



TOTAL \$97,072,724

ADOPTED BUDGET GENERAL FUND

FY 2007



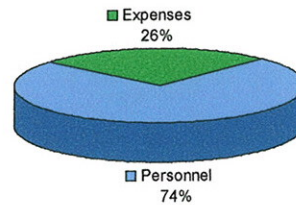
TOTAL \$96,051,601

ADOPTED BUDGET GENERAL FUND - CITY

FY 2008

GENERAL FUND

• Personnel	\$39,909,214
• Expenses	<u>14,123,321</u>
• TOTAL	\$54,032,535



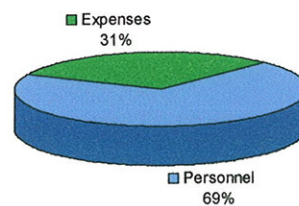
■ Personnel ■ Expenses

ADOPTED BUDGET GENERAL FUND - CITY

FY 2007

GENERAL FUND

• Personnel	\$37,410,277
• Expenses	<u>16,477,974</u>
• TOTAL	\$53,888,251



■ Personnel ■ Expenses