

SECTION 6 – Financial Plans & Policies

**Five Year Financial Forecast
FY08-FY12**

	% INC/DEC ACTUAL	% INC/DEC FY09-FY12	FY07 PER RECAP	FY08 MAYOR'S REC.	FY09 PROJECTED	FY10 PROJECTED	FY11 PROJECTED	FY12 PROJECTED
REVENUES								
TAX LEVY								
PRIOR YEAR LEVY LIMIT			59,342,731	61,792,926	64,124,182	66,537,311	69,035,070	71,620,302
PROPOSITION 2.5 INCREASE TO LEVY		2.50%	1,483,568	1,544,823	1,603,105	1,663,433	1,725,877	1,790,508
NEW GROWTH (FY08 ESTIMATE = 5 YEAR AVG.)	-18.64%	3.00%	966,627	786,432	810,025	834,326	859,355	885,136
TOTAL: TAX LEVY	3.77%	see above	61,792,926	64,124,182	66,537,311	69,035,070	71,620,302	74,295,945
TOTAL: LOCAL RECEIPTS	0.47%	2.50%	12,153,295	12,210,087	12,464,089	12,775,691	13,095,084	13,422,461
CHERRY SHEET REVENUE	6.17%	3.00%	22,152,077	23,518,328	24,223,878	24,950,594	25,699,112	26,470,085
SCHOOL BLDG ASSISTANCE	per SBA	per SBA	5,140,317	5,140,317	5,140,317	5,140,317	5,140,317	4,351,015
OFS - RECURRING	-13.05%	2.50%	1,068,979	929,483	952,720	976,538	1,000,952	1,025,975
OFS - NON RECURRING	-100.00%	0.00%	388,228	0	0	0	0	0
WATER ENTERPRISE FUND	5.60%	4.00%	3,977,442	4,200,196	4,368,204	4,542,932	4,724,649	4,913,635
SEWER ENTERPRISE FUND	1.65%	4.00%	6,928,813	7,043,383	7,325,118	7,618,123	7,922,848	8,239,762
TRASH ENTERPRISE FUND (general fund revenue in FY07)	n/a	4.00%	0	800,000	832,000	865,280	899,891	935,887
TOTAL REVENUES	3.84%		113,602,077	117,965,976	121,843,637	125,904,545	130,103,154	133,654,766
EXPENDITURES								
TOTAL: GENERAL GOVERNMENT	7.00%	3.00%	3,731,173	3,992,342	4,112,112	4,235,476	4,362,540	4,493,416
TOTAL: PUBLIC SAFETY	8.16%	5.00%	14,341,161	15,511,605	16,287,185	17,101,545	17,956,622	18,854,453
TOTAL: PUBLIC WORKS & FACILITIES	-51.04%	4.25%	6,279,989	3,074,436	3,206,221	3,343,936	3,487,860	3,638,281
TOTAL: HUMAN SERVICES	0.55%	3.00%	833,372	837,990	863,130	889,024	915,694	943,165
TOTAL: CULTURAL AND RECREATIONAL	5.52%	3.00%	2,016,605	2,127,825	2,191,660	2,257,410	2,325,132	2,394,886
FIXED COSTS								
HEALTH INSURANCE - CITY/SCHOOL	8.98%	10.00%	9,429,000	10,275,797	11,303,377	12,433,714	13,677,086	15,044,794
SALEM RETIREMENT ASSESSMENT	6.45%	per actuary	7,065,685	7,521,529	8,131,905	8,468,422	8,818,905	9,183,936
MEDICARE - CITY/SCHOOL	1.55%	3.00%	645,000	655,000	674,650	694,890	715,736	737,208
MUNICIPAL INSURANCE - CITY ONLY*	6.63%	3.00%	306,000	326,300	336,089	346,172	356,557	367,254
WORKMAN COMP. - CITY/SCHOOL	0.00%	3.00%	305,000	305,000	314,150	323,575	333,282	343,280
UNEMPLOYMENT - CITY/SCHOOL	0.00%	3.00%	260,000	260,000	267,800	275,834	284,109	292,632
NON-CONTRIBUTORY PENSION	-18.26%	-3.00%	175,000	143,047	138,756	134,593	130,555	126,638
RETIREMENT ANTICIPATION STABILIZATION FUND		5.00%		194,488	204,212	214,423	225,144	236,401
C.I.P. (TO EXISTING FUND)		5.00%		125,000	131,250	137,813	144,703	151,938
TOTAL FIXED COSTS	8.91%	see above	18,185,685	19,806,161	21,502,188	23,029,434	24,686,077	26,484,083
DEBT SERVICE - LONG TERM	-1.75%	2.00%	6,688,252	6,571,422	6,702,850	6,836,907	6,973,646	7,113,119
DEBT SERVICE - SHORT TERM	94.63%	2.00%	297,452	578,933	590,512	602,322	614,368	626,656
ASSESSMENT - NORTH SHORE VOC.	9.39%	3.00%	1,514,582	1,656,821	1,706,526	1,757,721	1,810,453	1,864,767
CITY EXPENDITURE TOTAL	0.50%	varies	53,888,251	54,157,535	57,162,383	60,053,774	63,132,392	66,412,824
SCHOOL EXPENDITURE TOTAL	2.00%	3.00%	42,163,350	43,040,189	44,331,395	45,661,337	47,031,177	48,442,112
TOTAL: WATER ENTERPRISE	5.98%	varies	3,415,681	3,619,930	4,233,327	4,355,447	4,483,948	4,618,017
TOTAL: SEWER ENTERPRISE	1.41%	4.00%	6,295,244	6,383,741	6,639,091	6,904,654	7,180,840	7,468,074
TOTAL: TRASH ENTERPRISE		3.00%	0	3,225,186	3,385,028	3,552,820	3,728,958	3,913,858
ENTERPRISE FUND EXPENDITURE TOTAL	36.23%	varies	9,710,925	13,228,857	14,257,446	14,812,921	15,393,747	15,999,949
TOTAL - CITY, SCHOOL, AND ENTERPRISE	4.41%	varies	105,762,526	110,426,581	115,751,224	120,528,032	125,557,315	130,854,885
ASSESSMENT - CHERRY SHEET	12.40%	4.00%	5,914,866	6,516,883	6,777,558	7,048,661	7,330,607	7,623,831
TOTAL: OTHER EXPENDITURES	-47.28%	varies	1,917,273	1,022,512	1,782,173	1,504,139	1,526,763	1,550,066
TOTAL EXPENDITURES	4.70%		113,594,665	117,965,976	124,310,956	129,080,832	134,414,685	140,028,782
BUDGET GAP			7,412	0	-2,467,319	-3,176,286	-4,311,531	-6,374,016

Five Year Financial Forecast & FY08 Budget Overview

Financial Procedures - Budget

- Annual "Financial Procedures" are mandated by City Ordinance
 - Budget Preparation (2-502)
 - Capital Budget (2-503)
 - Long Term Financial Forecast (2-147)
 - Revenue Survey Questionnaire (2-505)
- Adherence to financial procedures ensures the status of the City's finances for the present and future and identifies areas of need or concern going forward
- The budget process will begin with the submission of the operating budget for FY08 to the City Council by May 15th along with the Capital Budget. The annual audit for FY06 has been completed and distributed to the Council
- This five year financial forecast serves as a pre-budget financial review and a long term financial forecast

Budget History

FY	City	School	Total	% Increase
96	44,806,402	24,903,473	69,709,875	
97	39,742,315	26,941,564	66,683,879	-4.54%
98	40,208,673	28,577,486	68,786,159	3.06%
99	42,290,879	31,312,768	73,603,647	6.55%
00	43,515,285	34,000,000	77,515,285	5.05%
01	45,944,918	36,200,000	82,144,918	5.64%
02	48,129,546	38,500,000	86,629,546	5.18%
03	48,837,623	40,425,000	89,262,623	2.95%
04	51,069,337	39,525,000	90,594,337	1.47%
05	53,693,629	40,209,283	93,902,912	3.52%
06	52,379,610	41,663,350	94,042,960	0.15%
07	53,888,101	42,163,500	96,051,601	2.09%
08	53,838,047	43,040,189	96,878,236	0.86%*

*Note – Trash costs moved from GF to Enterprise fund in FY08

- 12 year average budged increase
 - City = 1.7% increase
 - School = 5.7% increase
 - Total City Budget = 3.2% increase
- Consumer Price Index (CPI) average over the last ten years = 3.17%

FY 2008 Operating Budget = \$117,965,976

“What makes up the operating Budget?”

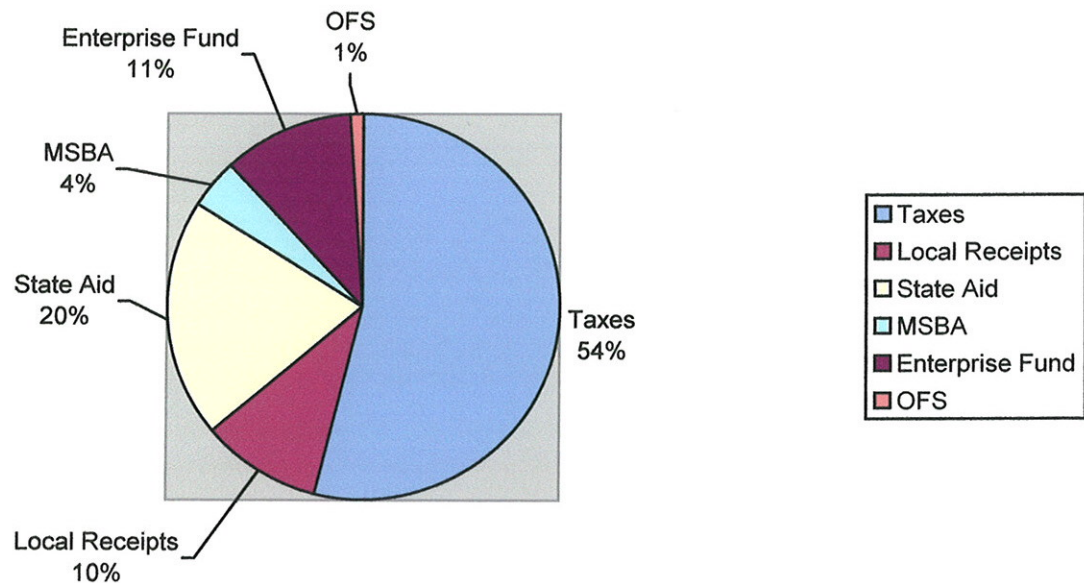
• Revenues

- Property Taxes
- Local Receipts
- State Aid
- Massachusetts School Building Authority (MSBA) reimbursements
- Enterprise Fund Revenues
 - Water
 - Sewer
 - Trash
- Other Financing Sources
 - Golf Course
 - Harbormaster
 - Witch House

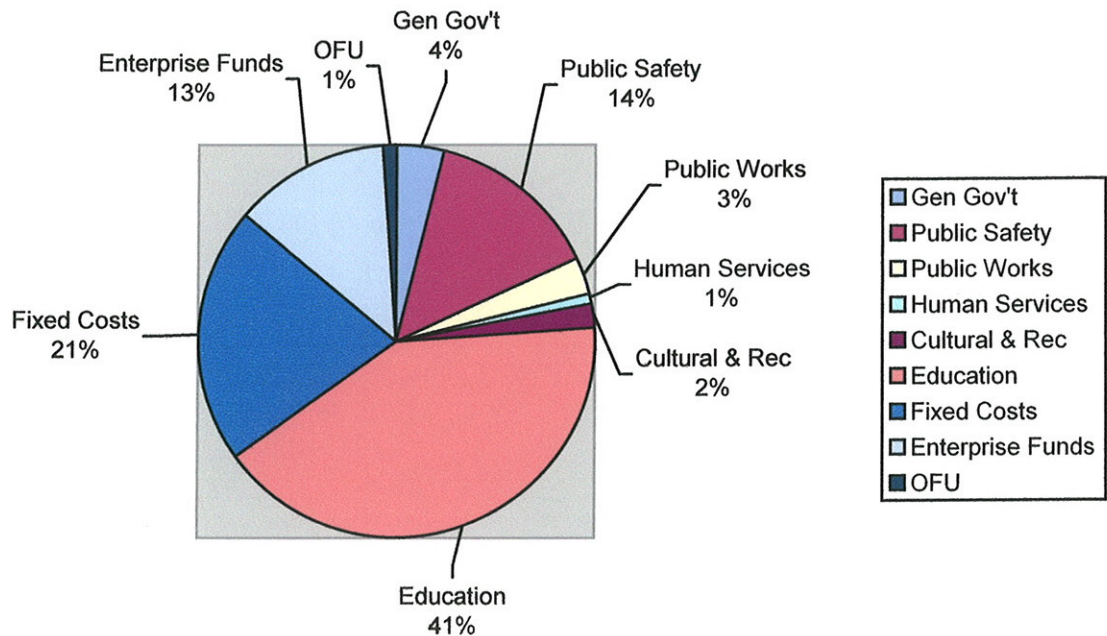
• Expenditures

- General Government
- Public Safety
- Public Works
- Human Services
- Culture and Recreation
- Education
- Debt Service
- Fixed Costs
 - Retirement
 - Health Insurance
- State Assessments
- Enterprise Fund Expenses
- Other Financing Uses

Revenue Summary



Expense Summary



Five Year Financial Forecast

	FY07	FY08	FY09	FY10	FY11
Property Tax	61,792,926	64,124,182	66,537,311	69,035,070	71,620,302
Local Receipts	12,153,295	12,210,087	12,464,089	12,775,691	13,095,084
State Aid	22,152,077	23,518,328	24,223,878	24,950,594	25,699,112
MSBA Revenue	5,140,317	5,140,317	5,140,317	5,140,317	5,140,317
Enterprise Funds	10,906,255	12,043,579	12,525,322	13,026,355	13,547,388
OFS	1,457,207	929,483	952,720	976,538	1,000,952
TOTAL REVENUE	113,602,077	117,965,976	121,843,637	125,904,545	130,103,154
General Gov't	3,731,173	3,992,342	4,112,112	4,235,476	4,362,540
Public Safety	14,341,161	15,511,605	16,287,185	17,101,545	17,956,622
Public Works	6,279,989	3,074,436	3,206,221	3,343,936	3,487,860
Human Services	833,372	837,990	863,130	889,024	915,694
Culture/Recreation	2,016,605	2,127,825	2,191,660	2,257,410	2,325,132
Education	43,677,912	43,040,189	44,331,395	45,661,337	47,031,177
Debt Service	6,985,704	7,150,355	7,293,395	7,439,226	7,588,011
Fixed Costs	18,185,685	19,806,161	21,502,188	23,029,434	24,686,077
Enterprise Funds	9,710,925	13,228,857	14,257,446	14,812,921	15,393,747
State Assessments	5,914,866	6,516,883	6,777,558	7,048,661	7,330,607
OFU	1,917,273	1,022,512	1,782,173	1,504,139	1,526,763
TOTAL EXPENSE	113,594,665	117,965,976	124,310,956	129,080,832	134,414,685
BUDGET GAP	7,412	0	(2,467,319)	(3,176,286)	(4,311,531)

Understanding the Numbers

REVENUES

- **Revenue – Tax Levy (including new growth).**
 - Property Taxes are projected to grow at 2.5% of the prior year levy plus any “new growth”.
 - New Growth is projected to be \$786,432 for FY08; this is a six year average of actual new growth from FY02 through FY07.
 - New Growth is projected to increase 3% per year after FY08 for planning purposes.
 - New Growth is a very important factor in future budgeting because it is new growth that has the ability to permanently raise the amount the City can raise in tax revenue under Proposition 2 ½.
- **Revenue - Local Receipts.**
 - Local receipts are projected to increase by 0.47% due to the establishment of a Trash Enterprise Fund. Receipts for trash bills are currently accounted for in the General Fund.
 - Other local receipts are projected to increase in FY08 by 6.55% due to positive trends in motor vehicle excise taxes and charges for service, as well as proposed modifications to parking fines and other new recurring revenue sources, including passport processing, police detail administration fees, and a new deputy collector contract that will give the City more revenues than the prior agreement.
 - For FY09-FY11, the City is assuming local receipts to increase 2.5% per year.
- **Revenue – State Aid.**
 - Senate Ways and Means budget recommendation for FY08 increases Lottery Aid by \$99,046 or 1.91%, and level funds Additional Assistance @ \$3.3 M.
 - Chapter 70 School Aid increases by \$1,228,752 or 10.5%.
 - MSBA payments for school building projects are per the MSBA reimbursement schedule.
 - The future of Local Aid for FY09 – FY11 is difficult to predict. For planning purposes, the City is assuming a 3% overall increase to Local Aid.
- **Revenue – Enterprise Funds.**
 - Enterprise fund revenue is projected to increase at 4% per year.
 - Water and sewer enterprise funds are fully self-supporting operations (including indirect costs).
 - Trash enterprise fund will require a general fund subsidy of approximately \$2.5M to cover the total costs of collecting the City’s solid waste.
 - Because the trash enterprise fund is not self-supporting, there are no indirect costs captured.
- **Revenues – Other Financing Sources.**
 - Other financing sources are revenues that are collected and placed in special revenue accounts that are then transferred to the general fund annually in December for tax rate setting purposes.
 - The three accounts that make up these other financing sources are:
 - Golf Course - Witch House - Harbormaster
 - The receipts transferred are to cover the costs of operating the respective departments’ operations (including indirect costs).
 - The Department of Revenue, in its financial management review, has suggested that we create Enterprise Funds for both the golf course and witch house.
 - For FY09 – FY11, these revenues are projected to increase 2.5%.

EXPENSES

- **Expenses – Operating Expenses.**
 - Operating expenses for school department via general fund appropriation are projected to increase 2% for FY08.
 - This increase does not include increases to fixed costs for teachers (i.e. retirement assessment, health insurance, other fringe) as these costs are accounted for in the City's fixed costs and are not separated (School vs. City).
 - All other operating expenses for City departments are projected to increase 2.7% for FY09 – FY11.
- **Expenses – State Assessments.**
 - Senate Ways and Means recommended budget has the City's assessments increasing 10.2% in FY08 (from \$5,914,866 to \$ 6,516,883).
 - Two assessments that drive the increase are:
 - Sending Tuition – Charter School has increased 24.62% (\$576,218).
 - Retired Teachers Health Insurance has increased 6.37% (\$120,784).
 - For FY09-FY11, state assessments are projected to increase 4%.
- **Expenses – Fixed Costs.**
 - Health insurance appropriation will increase 8.98% for FY08 and is projected to increase by 10% for FY09 – FY11.
 - Retirement assessment comes from the actuarial schedule of the Salem Retirement Board. FY08 assessment increases 6.45% in FY08 (\$455,844). For FY09-FY11, the increases average 4.1%.
 - Debt Service cost is based upon current debt obligations and future projected costs of capital and infrastructure. These increase are projected to increase 2% per year from FY09-FY11.

FY 2008 Budget Snapshot: “as of today”

- The City has estimated total revenues to be \$117,965,976
- Departmental budgets, as submitted = \$117,965,976
- BUDGET GAP = \$0

Budget has been balanced by the following measures:

- Cut over \$1 million of expenses from Department Head requests
- Smoothing of assessment for the unfunded liability of the Salem Retirement Board
- Recurring revenue enhancements

Budget Busters

- **Health Insurance.**
 - The cost of health insurance continues to be the #1 budget buster in most communities, with double digit increases over the last several years.
 - The City's health insurance is estimated to cost \$10.3 million, an increase 8.98% for FY08.
- **Retirement Assessment (unfunded liability).**

- The City's retirement system has an unfunded liability of over \$40 million dollars. As such, the City (and all other members of the retirement system) are assessed an amount that will have the system fully funded by 2028 (required by law).
 - This assessment for FY08 is estimated to be \$7.5 million, an increase of 6.5% for FY08.
- **Collective Bargaining Agreements.**
 - The City has several outstanding contracts to settle, including the Teachers Union, Police, and AFSCME, all of which will create future liabilities.

Budget Uncertainties

- **Salem Power Plant**
 - Current agreement set to expire on 6-30-07
 - Highest real estate taxes in City @ \$5,025,000 for FY07
 - 4.3% of total budget
 - 8.13% of tax levy (FY07 tax levy = \$61,785,514)
 - Long term future of Salem Power Plant in jeopardy due to State environmental regulations
- **Upcoming Collective Bargaining Contracts**
 - These future liabilities have to be considered as we prepare the FY08 budget:
 - Salem Teachers Union
 - AFSCME – AFL-CIO Local 294 (School)
 - AFSCME – AFL-CIO Local 1818 (City)
 - Salem Police Patrolman's Association & Superior Officer's Association

NEW GROWTH – Smart new growth can help offset structural deficits by increasing the levy capacity of the City. By developing vacant land or improving underutilized properties, we can create budget relief, as we have in the past with the following projects:

Examples of New Growth

- **Salem Laundry**
 - Old value = \$1,017,900
 - New value (60 condominiums) = \$23,383,000
- **Ten Federal Street**
 - Old value = \$2,159,400
 - New value = \$4,743,900
- **Beverly Cooperative Bank**
 - Old value (three parcels) = \$756,000
 - New value = \$2,654,500
- **Seven Crombie Street**
 - Old value = \$0 (tax exempt property – Church)
 - Present Value (approx.) = \$1,500,000
 - Future Value (approx.) = \$3,800,000
- **Ninety Six Swampscott Road**
 - Old value (empty bldg – former plastic business) = \$6,000,000
 - New value (commercial/industrial condominiums) = \$9,000,000 (approx.)

Potential New Growth

Examples of current underutilized properties in Salem

Salem Oil & Grease (current assessment = \$1,374,900)

- Similar comparison project: Exeter Int'l (\$4,457,000)
 - Commercial new growth = \$3,082,100 in value
 - \$63,121 to tax levy

Salem Suede (current assessment = \$1,170,600)

- Similar comparison project: Old Gauthier Motors (\$2,163,400)
 - Commercial new growth = \$992,800 in value
 - \$20,332 to tax levy

Boston/Bridge (current assessment = \$1,003,500)

- Similar comparison project = 2 Goodhue St. (\$4,676,900)
 - Commercial new growth = \$3,673,400 in value
 - \$75,231 in tax levy

Flynntan (current assessment = \$724,800)

- Similar comparison project = 435 Highland Ave (\$3,797,000)
 - Commercial new growth = \$3,072,200 in value
 - \$62,918 in tax levy

Universal Steel

- Similar comparison project = Old Salem Paper (\$1,444,500)
 - Commercial new growth = \$696,700
 - \$14,268 in tax levy

Note: The estimated “potential new growth” for the above five projects is approximately \$236,000. These are examples and do not reflect anything that is in progress. These figures are just for discussion purposes only. If the above projects were reality, the City would have an additional \$236,000 to address further budget issues.

Financial Reserve Policies

Stabilization Fund

A stabilization fund is a fund designed to accumulate amounts for capital and other future spending purposes, although it may be appropriated for any lawful purpose (MGL Ch. 40 §5B). Communities may establish one or more stabilization funds for different purposes and may appropriate into them in any year an amount not to exceed ten percent of the prior year's tax levy. The total of all stabilization fund balances shall not exceed ten percent of the community's equalized value, and any interest shall be added to and become a part of the funds. A two-thirds vote of the city council is required to establish, amend the purpose of, or appropriate money from the stabilization fund.

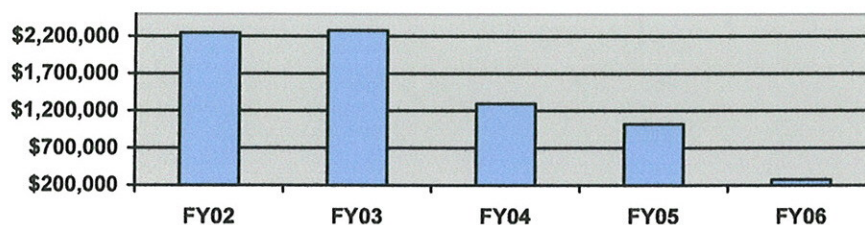
The City has set a target level for the Stabilization fund of 5% of the City's current operating budget (\$5,650,000). The target funding date is projected to occur by fiscal year 2011. The stabilization fund shall be funded by appropriations from free cash, operating budget appropriations when available, and other one time non-recurring revenues that become available for appropriation per M.G.L.

1. Any draw down of the stabilization fund from the prior fiscal year should be allocated from the certified free cash if available.
2. Twenty percent of any free cash available after funding #1 above will be allocated from free cash to the stabilization fund, up to the proposed reserve balance of the stabilization fund (5% of operating budget).

The stabilization fund should only be used for the following circumstances:

- When net State Aid (receipts less assessments) is reduced by an amount less than the average of the prior two years.
- When Local Receipts projected are below a three per cent (3%) increase of the prior two year's actual receipts as reported on page three of the Tax Rate Recapitulation as certified by the Director of the Bureau of Accounts (excluding non-recurring receipts).
- When there is a catastrophic or emergency event(s) that cannot be supported by current general fund appropriations.

Year to Year Comparison	FY 02	FY 03	FY 04	FY 05	FY 06
Stabilization	\$2,248,337	\$2,278,823	\$1,297,417	\$1,021,351	\$277,759



Other Post Employment Benefit (GASB 45)

The City is mandated to start accounting for Other Post Employment Benefit (OPEB) in FY 2008 once the actuarial study is complete.

3. Twenty percent of any free cash available after funding #1 above will be allocated from free cash to the OPEB Reserve Fund for the future liability of current worker's post employment benefits (other than retirement pension). This includes the cost of health, life, and dental benefits. The amount to be funded for GASB 45 is to be determined by an actuarial study that is to be performed by an actuary that the City chooses (perhaps in conjunction with actuarial studies done by the Salem Contributory Retirement System).

Capital Improvement Program (CIP) Fund

The City uses a capital improvement program (CIP) to supplement the short-term capital needs of the City.

4. Twenty percent of any free cash available after funding #1 above will be allocated from free cash to the Capital Improvement Program (CIP) Fund.

See Capital Improvement Plan (Section 9) for more information.

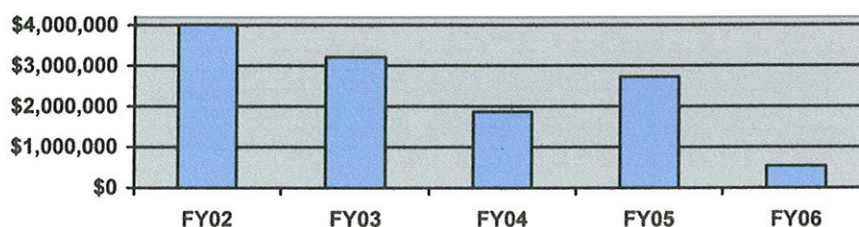
Free Cash

Free cash is the remaining, unrestricted funds from operations of the previous fiscal year including unexpended free cash from the previous year, actual receipts in excess of revenue estimates shown on the tax rate recapitulation sheet, and unspent amounts in budget line-items. Unpaid property taxes and certain deficits reduce the amount that can be certified as free cash. The calculation of free cash is based on the balance sheet as of June 30, which is submitted by the community's auditor, accountant, or comptroller. Free cash is not available for appropriation until certified by the Massachusetts Director of Accounts. Free cash is the term used for a community's funds that are available for appropriation. Once free cash is certified, it is available for appropriation by City Council.

Free cash may be used for any lawful municipal purpose and provides communities with flexibility to fund additional appropriations after the tax rate has been set. Free cash balances do not necessarily carry forward to the next fiscal year (July 1st); the Director's certification expires on June 30th at the end of the fiscal year.

The City's policy is to use free cash for reserves, capital, and special uses in accordance with the policies set forth by the Mayor and Finance Director as stated above. Any free cash available after funding the above may be used to augment trust funds related to fringe benefits and un-funded liabilities related to employee benefits, including Health Insurance Trust Fund, Workers' Compensation Fund, Unemployment Fund, and any health benefits payable through Police and Fire operating budgets (111f settlements). Free Cash available may also be used to augment general fund appropriations for expenses that increased due to extraordinary and/or unforeseen events as detailed by the department head of the affected budget.

Year to Year Comparison	FY 02	FY 03	FY 04	FY 05	FY 06
Free Cash	\$4,010,382	\$3,212,194	\$1,867,737	\$2,732,090	\$538,372



Investment Policies

Section I - The investment of General Funds, Special Revenue Funds, Enterprise Funds, and Capital Projects Funds.

Scope

This section of the policy applies only to short term operating funds such as general funds, special revenue funds, enterprise funds, and capital project funds. Section 2 will deal with trust funds, bond proceeds, and any other funds with special circumstances such as stabilization funds. A separate Contributory Retirement Board, either local or county, is responsible for the investment of the pension funds.

Objectives

Massachusetts General Laws, Chapter 44, section 55B requires the municipal/district treasurer to invest all public funds except those required to be kept un-invested for purposes of immediate distribution. Modern banking systems enable the public treasurer to maintain even these funds in interest bearing form until the date a disbursement order clears through the banking system.

The state law further requires that invested funds are to be placed at the highest possible rate of interest reasonably available, taking account of safety, liquidity and yield. Therefore, these guidelines are intended to further the objective of securing the highest return that is consistent with safety of principal while meeting the daily cash requirements for the operation of the entity's business.

- **Safety** of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital through the mitigation of credit risk and interest rate risk. The diversification and prudent selection of investment instruments and choice of depository shall mitigate these risks. Credit risk is the risk of loss due to the failure of the security issuer or backer. Interest rate risk is the risk that the market value of the security will fall due to changes in general interest rates.
- **Liquidity** is the next most important objective. The overall investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. Since all possible cash demands cannot be anticipated, the treasurer shall carry out investment activities in a manner that provides for meeting unusual cash demands without the liquidation of investments that could result in forfeiture of accrued interest earnings, and loss of principal in some cases.
- **Yield** is the third, and last, objective. Investments shall be undertaken so as to achieve a fair market average rate of return, taking into account safety and liquidity constraints as well as all legal requirements.

Investment Instruments

The Treasurer may invest in the following instruments:

1. Massachusetts State pooled fund: Unlimited amounts (Pool is liquid)

The Massachusetts Municipal Depository Trust (MMDT), an investment pool for state, local, county and other independent governmental authorities, is under the auspices of the Massachusetts State Treasurer and currently managed by Fidelity Investments. It invests in Bankers Acceptances, Commercial Paper of high quality, Bank Certificates of Deposit, Repurchase agreements (Repos), and U. S. Treasury Obligations. It has Federal Deposit Insurance Corporation (F.D.I.C.) pass-through insurance on the C.D.'s and takes delivery on the Repos and Treasuries. Under Government Accounting Standards Board Regulation (GASB III), it is not considered an uncollateralized product.

2. U. S. Treasuries that will be held to maturity: Unlimited amounts (Up to one-year maturity from date of purchase)
3. U.S. Agency obligations that will be held to maturity. Unlimited amounts (Up to one-year maturity from date of purchase)
4. Bank accounts or Certificates of Deposit, hitherto termed C.D.'s. (Up to one year) which are fully collateralized through a third party agreement: Unlimited amounts
5. Bank accounts and C.D.'s (Up to one year) fully insured by F.D.I.C. and in some cases also Depository Insurance Fund of Massachusetts (D.I.F.M): \$100,000 limit All bank accounts and C.D.'s in one institution are considered in the aggregate to receive the \$100,000 insurance coverage.
6. Unsecured bank deposits of any kind such as other checking, savings, money market, or Certificates of Deposit accounts at Banks that do not fit the above categories. These investments are subject to the following limitations: These investments will be limited to no more than 5% of an institution's assets and no more than 10% of a municipality's cash. Their credit worthiness will be tracked by Veribanc, Sheshunoff, or other bank credit worthiness reporting systems. They will be diversified as much as possible. C.D.'s will be purchased for no more than three months and will be reviewed frequently.

Diversification

Diversification should be interpreted in two ways: in terms of maturity as well as instrument type and issuer. The diversification concept should include prohibition against over concentration of maturities as well as concentration in a specific institution. With the exception of U.S. Treasury obligations or investments fully collateralized by U.S. Treasuries or agencies, and State pools (MMDT), no more than 10% of the Town's investments shall be invested in a single financial institution.

Authorization

The Treasurer has authority to invest municipality/district funds, subject to the statutes of the Commonwealth cited above.

Ethics

The Treasurer (and any Assistant Treasurers) shall refrain from any personal activity that may conflict with the proper execution of the investment program or which could impair or appear to impair ability to make impartial investment decisions. Said individuals shall disclose to the Chief Executive Officer any material financial interest in financial institutions that do business with the City. They shall also disclose any large personal financial investment positions or loans that could be related to the performance of the town's investments.

Relationship with Financial Institutions

Financial institutions should be selected first and foremost with regard to safety. Municipalities/Districts should subscribe to and use one or more of the recognized bank rating services, such as Veribanc or Sheshunoff. Brokers should be recognized, reputable dealers.

The Treasurer shall require any brokerage houses and broker/dealers, wishing to do business with the municipality, to supply the following information to the Treasurer:

- Audited financial statements
- Proof of National Association of Security Dealers certification
- A statement that the dealer has read the municipality's investment policy and will comply with it
- Proof of credit worthiness (minimum standards: at least five years in operation and a minimum capital of 10 million dollars)

Section II - The Investment of Trust Funds and Bond Proceeds

This section of the policy applies only to funds that could be invested long term, i.e. trust funds, stabilization funds and bond proceeds. For issues subject to arbitrage rebate, an arbitrage tracking system such as those available at banks and Mass Municipal Depository Trust (MMDT) will be used to track expenditures of and interest earned on borrowed funds. Alternative tracking systems should be approved by and used under the advice of Bond Counsel.

Arbitrage Regulations

Tax free debt may be issued by cities, towns, and districts, which means that they are able to borrow at rates well below market rates. At the same time, the federal government has issued regulations to prevent them from issuing debt with the goal of investing the borrowed funds at a higher rate of interest than that at which the money was borrowed, or committing arbitrage. If the federal regulations are not followed, there are fines and penalties, but even worse, the tax free status of the debt could be jeopardized. The following arbitrage regulations will be followed:

Unless debt is issued as a "small issuer," that is, an entity issuing less than \$10 million of tax exempt debt in a calendar year, the proceeds shall be used within certain prescribed time frames, or be subject to fines and penalties as described above.

Following are the general rules and time frames for spending borrowed funds in order to avoid having to pay a rebate to the Federal government on investment income earned on the borrowed funds. All funds must be used according to the following schedules or sooner:

CONSTRUCTION DEBT

First six months:	10%
First year:	45%
Eighteen months:	75%
Two years:	100%

CAPITAL EXPENDITURES DEBT OTHER THAN CONSTRUCTION PROJECTS

First six months:	15%
First year:	60%
Eighteen months:	100%

ALL OTHER MUNICIPAL PURPOSE DEBT

First six months:	100%
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TRUST FUNDS

Trust Funds may be co-mingled and invested in any instruments allowed by the Legal List issued by the Banking Commissioner each July. Each trust fund must be accounted for separately.

STABILIZATION FUNDS

The Stabilization Fund shall not exceed ten per cent of the equalized valuation of the city or town, and any interest shall be added to and become a part of the fund. The treasurer may invest the proceeds in the following:

- National Banks
- Savings Banks
- Cooperative banks or trust companies organized under Massachusetts laws
- Securities legal for savings banks (i.e. those on the Legal List described above)
- Federal Savings and Loan Associations situated in the Commonwealth
- Massachusetts Municipal Depository Trust

Reporting Requirements

On a regular basis (quarterly, semi-annually, or annually), a report containing the following information will be prepared by the Treasurer and distributed to the Chief Executive Officer, Town Manager, and/or Finance Committee, as appropriate. The quarterly report will include the following information, as a minimum requirement:

- A listing of the individual accounts and individual securities held at the end of the reporting period.
- A listing of the short-term investment portfolio by security type and maturity to ensure compliance with the diversification and maturity guidelines established in the "Diversification" section of this Investment Policy.
- A summary of the income earned on a monthly basis and year to date basis shall be reported.
- The municipal treasurer shall include in the report a brief statement of general market and economic conditions and other factors that may affect the City's cash position.
- The report should demonstrate the degree of compliance with the tenets set forth in the Investment Policy.