

Budget Calendar

	Start Date	End Date
Mayor & Finance		
Finance Director prepares initial Revenue/Expenditure (FY09 RECAP) figures	2/8/2008	
Mayor issues budgets to departments with objectives & budget constraints *Budget Constraints Level Fund - Use Contractual Increases Management/Non-union increases? If so, what % Must decide on FY 2009 School Budget figure	2/14/2008	
Budget salary workshops with Finance & Departments	2/20/2008	to 2/28/2008
Departments compile budget information & submit to Finance	2/15/2008	to 3/6/2008
Data Entry by Finance	2/29/2008	3/14/2008
Budget Review By Mayor, Finance, Department Heads	3/18/2008	to 4/30/2008
School Committee Review of School Budget	4/30/2008	5/15/2008
Finance Director Finalizes FY09 Revenue/Expenditures - Balances Budget	5/12/2008	
Preliminary Budget Outline for City Council-5 Year Forecast W/FY09 Budget Gap	5/8/2008	
Final School Budget to Finance Department for processing for City Council	5/14/2008	5/22/2008
Finance Department Prepares Final Budget for City Council	5/15/2008	5/22/2008
City Council		
Council receives budget (Must be prior to 5/17 for 45 days)	5/22/2008	
Administration & Finance budget review process	5/22/2008	to 6/26/2008
Oral Budget Presentation to Council	6/3/2008	
City Council Vote on City Budget	6/26/2008	

Budget Overview

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

Balanced Budget – A budget is considered in balance when revenues are equal to, or exceed expenditures. This is a requirement of all Massachusetts communities.

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 prepares an 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 must be approved by a majority vote of the City Council by June 30th of each year.

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 sued, 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*** – The General Fund is the major operating fund of municipal governments, and it accounts for the vast majority of municipal operations. The General Fund is supported by revenues from real estate and personal property taxes, state and federal aid, excise taxes, investment income, fines and forfeitures, and fees and charges. Most of the municipal departments, including the schools, are supported in whole or in part by the General 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.

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

Fund Balance & Fund Equity – The arithmetic difference between the amount of financial resources and the amount of liabilities recorded in the fund is the FUND EQUITY. Residents of the governmental unit have no legal claim on any excess of liquid assets over current liabilities; therefore, the Fund Equity is not analogous to the capital accounts of an investor-owned entity. Accounts in the Fund Equity category of the General Fund and special revenue funds consist of reserve accounts established to disclose that portions of the equity are not available for appropriation (reserved or designated); the portion of equity available for appropriation is disclosed in an account called FUND BALANCE.

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, the equalized rate information is submitted to the City Council, with 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 “recertification” procedure. This is commonly known as a “revaluation year”. 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 disproportionate 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 disproportionate 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 was a revenue contribution that was there in previous years that is not there in the ensuing tax years. 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.

In December 2007, the City and Dominion Energy, the present owners of the plant agreed to a one-year payment in lieu of taxes that would provide the City an additional remittance of \$250,000 over last year’s total. Negotiations to reach a longer term agreement are expected to continue during the coming months.

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 tax assessors 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. Visit www.salem.com for more information.

**RECAP SHEET
COMPARISON OF FISCAL YEAR 2007 TO 2009
MAYOR RECOMMENDATION**

REVENUES	ACTUAL - DOR FY2007 Recap	ACTUAL - DOR FY2008 Recap	ESTIMATED FY2009 Recap	INCREASE (DECREASE)
PROPERTY TAXES				
PRIOR FISCAL YEAR LEVY LIMIT	59,342,731	61,792,926	64,441,432	2,648,506
2 1/2% Increase	1,483,568	1,544,823	1,611,036	66,213
Current New Growth (Value increases from new building) (FY09 based upon 6 year average of new growth)	966,627	1,103,683	900,000	(203,683)
LEVY LIMIT Subtotal (from DOR levy limit sheet)	61,792,926	64,441,432	66,952,468	2,511,036
LOCAL RECEIPTS				
MOTOR VEHICLE	3,479,295	3,350,000	3,450,000	100,000
OTHER EXCISE	308,500	315,000	335,000	20,000
INTEREST ON TAXES	325,000	275,000	285,000	10,000
IN LIEU OF TAXES	1,108,500	1,280,000	1,280,000	0
CHARGES FOR SERVICES	1,250,000	1,475,000	1,475,000	0
PARKING FEES	1,700,000	1,840,000	1,825,000	(15,000)
LICENSES AND PERMITS	510,000	525,000	600,000	75,000
FINES AND FORFEITS	1,150,000	1,281,000	1,215,000	(66,000)
INVESTMENT INCOME	150,000	200,000	225,000	25,000
MISCELLANEOUS RECURRING INCOME	1,472,000	1,472,000	1,400,000	(72,000)
MISCELLANEOUS NON-RECURRING INCOME	0	1,430,917	30,000	(1,400,917)
Local Receipt Subtotal (pg. 2 recap IIb. 1)	12,153,295	13,443,917	12,120,000	(1,323,917)
TRASH ENTERPRISE FUND REVENUE	0	800,000	800,000	0
SEWER ENTERPRISE FUND REVENUE	6,821,039	7,043,383	7,391,020	347,637
WATER ENTERPRISE FUND REVENUE	4,085,216	4,200,196	4,494,863	294,667
Enterprise Fund Subtotal (pg. 2 recap IIIb. 3)	10,906,255	12,043,579	12,685,883	642,304
OTHER REVENUES AND FINANCING SOURCES				
CHERRY SHEET REVENUE (pg. 2 recap IIIa. 1)	22,152,077	23,188,542	24,219,587	1,031,045
MASSACHUSETTS SBA PAYMENTS (pg. 2 recap IIIa. 2)	5,140,317	5,140,317	4,365,107	(775,210)
FREE CASH FOR PARTICULAR PURPOSE (pg. 2 recap IIIc. 1)	314,495	676,602	0	(676,602)
OTHER AVAILABLE FUNDS APPROPRIATED (pg. 2 recap IIIc. 2)	232,427	439,055	0	(439,055)
FREE CASH USED FOR:				0
Level the Tax Rate (pg. 2 recap IIId. 1b.)	0	550,000	0	(550,000)
OFS - voted on 12-8-05 for Reduce Tax Rate (pg. 2 recap IIId. 4)				0
R/Res - Witch House	164,746	168,281	175,267	6,986
R/Res - Golf Course	470,000	509,396	530,600	21,204
R/Res - Harbormaster	201,806	196,900	234,136	37,236
Other	73,733	0	0	0
Estimated State + Other Revenue Subtotal	28,749,601	30,869,093	29,524,697	(1,344,396)
TOTAL REVENUES	113,602,077	120,798,021	121,283,048	485,027
EXPENDITURES				
GENERAL GOVERNMENT	3,731,173	4,186,830	4,152,943	(33,887)
PUBLIC SAFETY	14,341,161	15,511,605	15,904,313	392,708
PUBLIC WORKS AND FACILITIES	6,279,989	3,074,436	3,069,818	(4,618)
HUMAN SERVICES	833,372	837,990	869,965	31,975
CULTURAL AND RECREATIONAL	2,016,605	2,127,825	2,215,505	87,680
DEBT SERVICE -	6,985,704	7,150,355	7,062,696	(87,659)
ASSESSMENT - N.S. REGIONAL VOCATIONAL SCHOOL	1,514,562	1,656,821	1,649,661	(7,160)
MUNI. INSURANCE - CITY ONLY (SCHOOL IN EDU. BDGT.)	306,000	326,300	326,300	0
EMPLOYEE BENEFITS:				0
SALEM RETIREMENT BOARD ASSESSMENT	7,065,685	7,521,529	7,790,999	269,470
NON-CONTRIBUTORY PENSIONS	175,000	143,047	130,692	(12,355)
UNEMPLOYMENT COMPENSATION	260,000	260,000	230,000	(30,000)
WORKMAN'S COMPENSATION	305,000	305,000	305,000	0
GROUP INSURANCE - CITY & SCHOOL COMBINED	9,429,000	10,275,797	10,029,642	(246,155)
MEDICARE - CITY AND SCHOOL COMBINED	645,000	655,000	672,200	17,200
CONTINGENCY FUNDS TO BE ESTABLISHED FOR FY08				
C.I.P. APPROPRIATION (TO EXISTING FUND)		125,000	75,000	
RETIREMENT ANTICIPATION STABILIZATION FUND (City and School)			400,000	
City Subtotal	53,888,251	54,157,535	54,884,734	727,199
EDUCATION - PUBLIC SCHOOLS PERSONNEL	42,163,350	43,040,189	31,789,050	(11,251,139)
Add: Deferred Raises - SPS 2008			1,000,000	
EDUCATION - PUBLIC SCHOOLS NON-PERSONNEL			12,586,950	12,586,950
Education Subtotal	42,163,350	43,040,189	45,376,000	1,335,811
GENERAL FUND SUBTOTAL	96,051,601	97,197,724	100,260,734	2,063,010
SEWER - ENTERPRISE FUND BUDGET (NET OF INDIRECT COSTS)	6,295,244	6,383,741	6,694,722	310,981
WATER - ENTERPRISE FUND BUDGET (NET OF INDIRECT COSTS)	3,415,681	3,619,930	3,866,923	246,993
TRASH - ENTERPRISE FUND BUDGET		3,225,186	2,600,780	(624,406)
ENTERPRISE SUBTOTAL	9,710,925	13,228,857	13,162,425	(66,432)
SUBTOTAL - GENERAL FUND + ENTERPRISE FUND	105,762,526	110,426,581	113,423,159	1,996,578
ADD - OTHER EXPENDITURES:				
CHERRY SHEET CHARGES (pg. 2 IIc of recap)	5,914,866	6,214,013	6,117,564	(96,449)
OTHER - Cherry Sheet Offset (pg. 2 IIb5 of recap)	88,288	96,540	92,911	(3,629)
Snow and Ice Deficit (pg. 2 IIb9 of	256,593	11,664	575,805	563,941
Other Deficits (pg. 2 IIb 10 of recap)	375,470	1,809,985	300,000	(1,509,985)
OVERLAY (Allowance for Abatements)	650,000	593,227	596,309	3,082
SPECIAL LEGISLATION - FY08 School Department (1/7 of \$1m)			177,500	177,500
SUPPLEMENTAL APPROPRIATIONS				0
From Raise and Appropriate (pg. 4 of recap other than budget)		488,586		(488,586)
From Free Cash (pg. 4 of recap)	314,495	676,602	0	(676,602)
From Other Available Fund (pg. 4 of recap)	232,427	439,055		(439,055)
SUBTOTAL - OTHER EXPENDITURES	7,832,139	10,329,672	7,859,889	(2,469,783)
TOTAL EXPENDITURES	113,594,665	120,756,253	121,283,048	(473,205)

GAP - Levy Limit minus the Net Amount To Be Raised.
(If this amount is negative it is beyond the Levy Limit and is not allowable without an override)

7,412

41,768

0

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 pages discuss in detail the City's projections for those categories in FY 09.

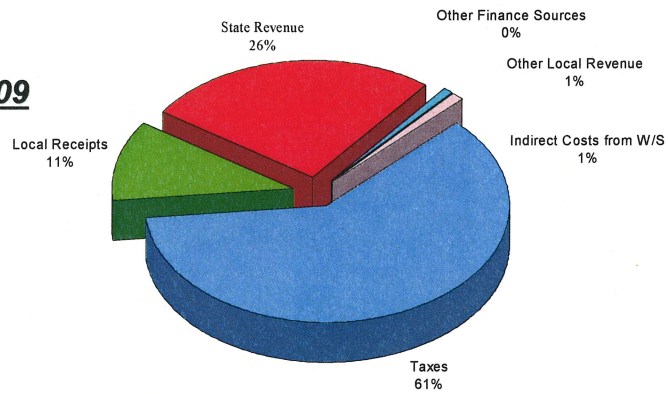
CITY OF SALEM
REVENUE SUMMARY - GENERAL & ENTERPRISE FUNDS

	Actual FY 2007	Actual* FY 2008	Estimated FY 2009	Increase % FY 08 VS FY 09	INCREASE FY 08 VS FY 09
GENERAL FUND					
REAL AND PERSONAL(NET)	60,971,012	63,444,097	66,952,468	5.53%	3,508,371
MOTOR VEHICLE	3,179,235	3,390,013	3,450,000	1.77%	59,987
HOTEL EXCISE	282,324	373,655	300,000	-19.71%	(73,655)
VESSEL EXCISE*	36,203	37,876	35,000	-7.59%	(2,876)
INTEREST ON TAXES	266,246	353,952	285,000	-19.48%	(68,952)
IN LIEU OF TAXES	1,282,516	1,229,435	1,280,000	4.11%	50,565
CHARGES FOR SERVICES	1,923,414	1,619,899	1,475,000	-8.94%	(144,899)
PARKING FEES	1,713,649	1,651,032	1,825,000	10.54%	173,968
LICENSES AND PERMITS	517,697	510,120	600,000	17.62%	89,880
FINES AND FORFEITS	1,085,729	1,222,170	1,215,000	-0.59%	(7,170)
INVESTMENT INCOME	221,474	321,741	225,000	-30.07%	(96,741)
MISCELLANEOUS INCOME	248,905	168,417	238,000	41.32%	69,583
MEDICAID INCOME	1,084,628	1,302,599	900,000	-30.91%	(402,599)
MEDICAID PART D REIMBURSEMENT	261,809	304,139	262,000	-13.86%	(42,139)
NON RECURRING	85,169	1,434,840	30,000	-97.91%	(1,404,840)
TOTAL LOCAL RECEIPTS	12,188,996	13,919,888	12,120,000	-12.93%	(1,799,888)
NET MA CHERRY SHEET ASST.	21,797,650	22,941,994	24,219,587	5.57%	1,277,593
MSBA REIMBURSEMENTS	5,140,317	5,140,317	4,365,107	-15.08%	(775,210)
R/RES REDUCE TAX RATE	836,552	874,577	940,003	7.48%	65,426
OFS/TRANSFERS IN	151,115	1,124,988	-	-100.00%	(1,124,988)
INDIRECT COSTS from W&S	1,195,330	1,239,908	1,324,238	6.80%	84,330
TOTAL OTHER RECEIPTS	29,120,965	31,321,784	30,848,935	-1.51%	(472,849)
GENERAL FUND TOTAL	102,280,973	108,685,769	109,921,403	1.14%	1,235,634
ENTERPRISE FUND					
SEWER RATES	6,474,210	6,480,185	7,391,020	14.06%	910,835
SEWER TRANS/OFS	600,000	601,846	-	-100.00%	(601,846)
TOTAL SEWER	7,074,210	7,082,031	7,391,020	4.36%	(2,605,804)
WATER RATES	4,544,171	4,483,929	4,494,863	0.24%	10,934
WATER TRANS/OFS	-	129,990	-	-100.00%	(129,990)
TOTAL SEWER	4,544,171	4,613,919	4,494,863	-2.58%	(3,403,528)
TRASH FEES	-	780,267	800,000	2.53%	19,733
TRASH General Fund Subsidy/OFS	-	2,425,186	1,800,780	-25.75%	(624,406)
TOTAL SEWER	0	3,205,453	2,600,780	-18.86%	(5,661,287)
ENTERPRISE FUND TOTAL	11,618,381	14,901,404	14,486,663	-2.78%	(6,424,072)
GRAND TOTAL	113,899,354	123,587,173	124,408,066	0.66%	820,893

*Unaudited Figures

ESTIMATED REVENUES GENERAL FUND

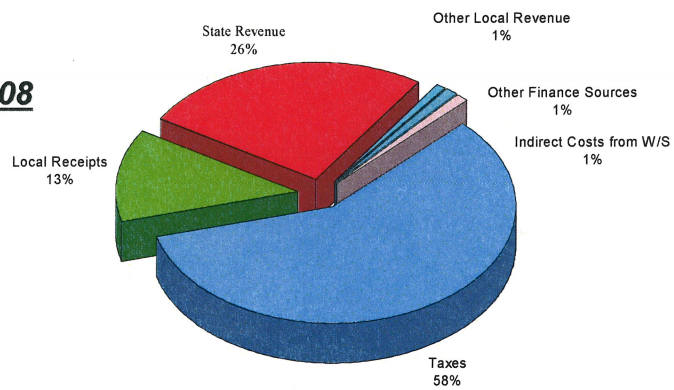
FY 2009



TOTAL \$109,921,403

ACTUAL REVENUES GENERAL FUND

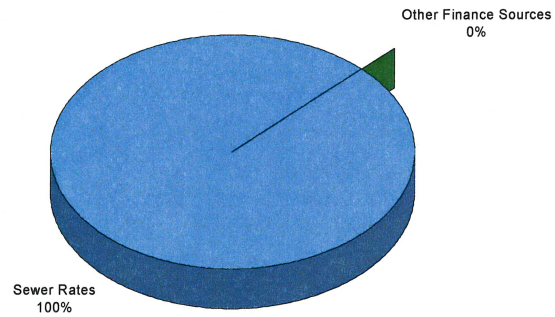
FY 2008



TOTAL \$108,685,769

ESTIMATED REVENUES SEWER ENTERPRISE FUND

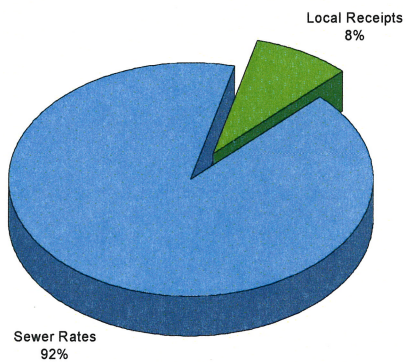
FY 2009



TOTAL \$7,391,020

ACTUAL REVENUES SEWER ENTERPRISE FUND

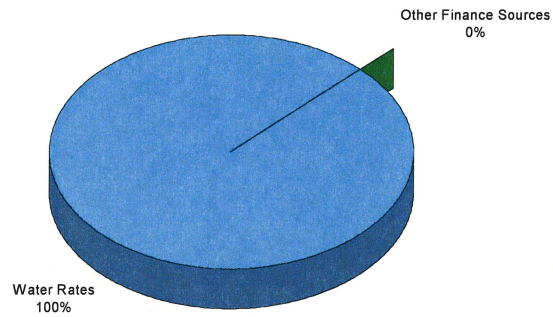
FY 2008



TOTAL \$7,082,031

ESTIMATED REVENUES WATER ENTERPRISE FUND

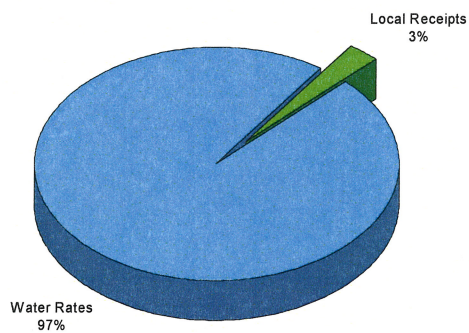
FY 2009



TOTAL \$4,494,863

ACTUAL REVENUES WATER ENTERPRISE FUND

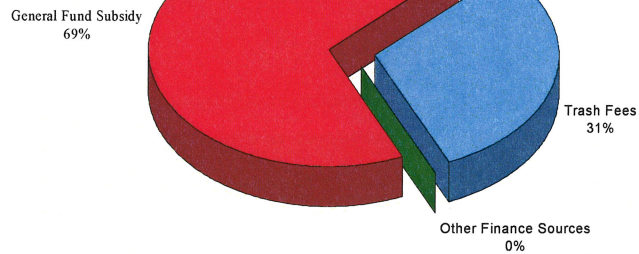
FY 2008



TOTAL \$4,610,919

ESTIMATED REVENUES TRASH ENTERPRISE FUND

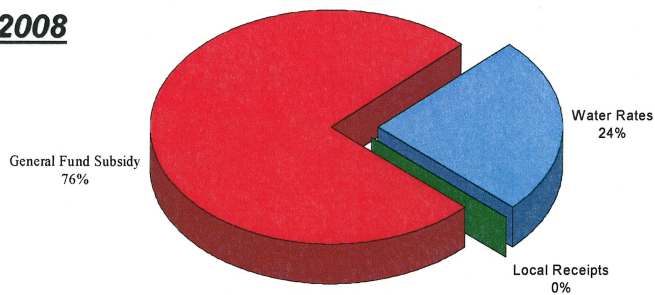
FY 2009



TOTAL \$2,600,780

ACTUAL REVENUES TRASH ENTERPRISE FUND

FY 2008



TOTAL \$3,205,453

**Massachusetts Department of Revenue
Division of Local Services
FY2009 Local Aid Estimates**

SALEM

	FY08 Cherry Sheet Estimate	FY09 Governor's Budget (House 2)	FY09 House Final Budget Proposal	FY09 SWM Budget Proposal
Education:				
Chapter 70	12,876,914	14,371,186	14,371,186	14,371,186
School Transportation	0	0	0	0
Retired Teachers' Pensions	0	0	0	0
Charter Tuition Assmnt Reimbursement	996,436	1,244,066	543,384	553,376
Offset Receipts:				
School Lunch	28,460	26,458	26,458	26,458
School Choice Receiving Tuition	0	0	0	0
Sub-Total, All Education Items	13,901,810	15,641,710	14,941,028	14,951,020
General Government:				
Lottery Aid	5,286,837	4,584,849	4,584,849	4,584,849
Gaming Proceeds for Lottery Gap	0	701,988	0	0
Gen Fund Sup to Hold Harmless	0	0	701,988	701,988
Total Lottery Aid	5,286,837	5,286,837	5,286,837	5,286,837
Additional Assistance	3,298,731	3,298,731	3,298,731	3,298,731
Local Share of Racing Taxes	0	0	0	0
Regional Public Libraries	0	0	0	0
Police Career Incentive	370,849	372,031	372,031	372,031
Urban Renewal Projects	0	0	0	0
Veterans' Benefits	65,807	46,181	46,181	46,181
Exempt: Vets, Blind & Surv Spouses	104,265	103,581	103,581	103,581
Exemptions: Elderly	39,156	41,666	41,666	41,666
State Owned Land	53,007	56,879	56,839	53,087
Offset Receipts:				
Public Libraries	68,080	68,080	70,070	66,453
Sub-Total, All Gen Government	9,286,732	9,273,986	9,275,936	9,268,567
Total Estimated Receipts	23,188,542	24,915,696	24,216,964	24,219,587

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 FY07 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.

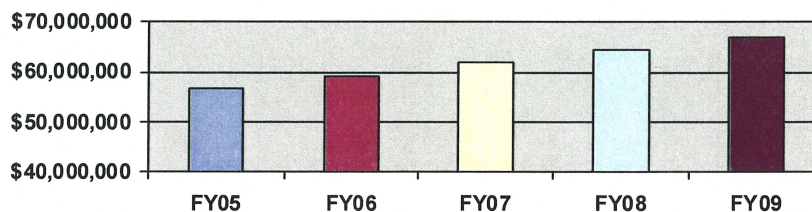
Factors influencing property taxes:

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 \$1,611,036 for FY 09.
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 Massachusetts Department of Revenue as part of the tax rate setting process. In FY 09, based on a six year average, new growth is estimated to be \$900,000.
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 FY08 was \$64,441,432. The levy ceiling is 2.5% of the valuation of the community (EQV). The ceiling for Salem in FY 08 was \$120,137,034. As the following shows, the City is just under its levy limit for FY09, but has plenty of room under the levy ceiling.

Year to Year Comparison	FY 05	FY 06	FY 07	FY 08	FY 09	% Change FY 08 – FY 09
Tax Levy (per RECAP)	\$56,839,329	\$59,292,238	\$61,785,514	\$64,441,432	\$66,952,468*	3.8%
*Estimated						

Tax Levy



Motor Vehicle Excise Tax Receipts – MGL Chapter 60A, Section 1 sets the motor vehicle excise rate at \$25 per \$1000 valuation. The City collects this revenue 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.

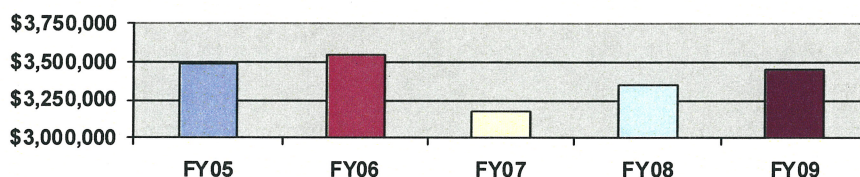
Those residents who do not pay their excise taxes in a timely manner are not allowed to renew registrations and licenses through a 'marking' process at the RMV. The City of Salem notifies the Registry of delinquent taxpayers, through its deputy collector, who prepares excise delinquent files for the Registry of Motor Vehicles.

We are projecting a moderate increase in this revenue source part of which is an agreement that all trash and recycling trucks will be registered in the City of Salem.

Year to Year Comparison	FY 05	FY 06	FY 07	FY 08	FY 09	% Change FY 08 – FY 09
Motor Vehicle Excise	\$3,485,883	\$3,540,267	\$3,179,235	\$3,350,000*	\$3,450,000	2.99%

*Estimated

Motor Vehicle Excise



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.

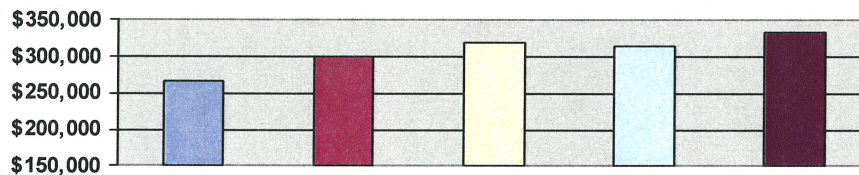
Hotel excise for the first three quarters of FY08 have been extremely favorable, as we have collected 112% of estimated revenues for FY08 through March 2008. As such, we have increased our estimated revenue for FY09 by 10.9%.

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. Due to prior fiscal year trends, we have reduced the FY09 estimated revenue for boat excise by -20.8%.

For hotel & boat excise tax, the combined overall increase of receipts for FY09 is projected at 6.4%.

Year to Year Comparison	FY 05	FY 06	FY 07	FY 08	FY 09	% Change FY 08 – FY 09
Hotel/Boat Excise	\$265,418	\$301,239	\$318,527	\$315,000*	\$335,000*	6.4%
*Estimated						

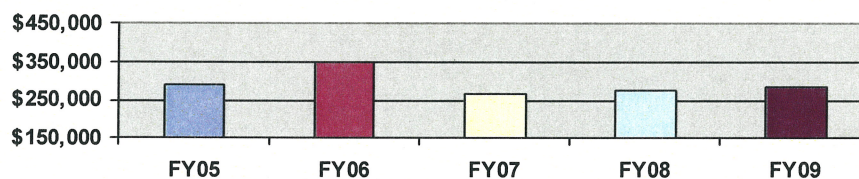
Hotel & Boat Excise



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. Due to economic factors, more taxpayers are falling behind on paying their taxes. As such, we have realized an increase in demand and interest fees. Based on a three year average, we have increased the amount for FY09 at 3.6%.

Year to Year Comparison	FY 05	FY 06	FY 07	FY 08	FY 09	% Change FY 08 – FY 09
Penalties & Interest	\$288,874	\$350,651	\$266,246	\$275,000*	\$285,000*	3.6%
*Estimated						

Penalties & Interest

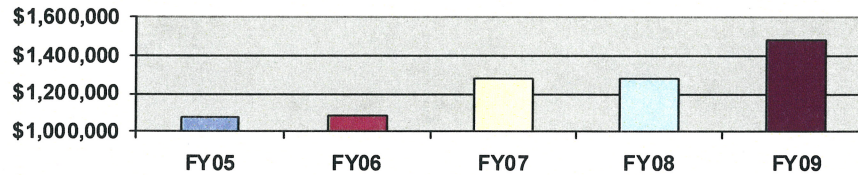


Payment In Lieu Of Taxes (PILOT) - Many communities, Salem included, are not able to put all the property within its borders to productive, tax generating uses. Federal, state and municipal facilities, hospitals, churches and colleges are examples of uses that are typically exempt from local property 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, Northeast Animal Shelter, as well as some Urban Redevelopment Corporations (MGL Chapter 121A). This revenue stream is fairly predictable and, as such, we have not projected any increase in this revenue source.

Year to Year Comparison	FY 05	FY 06	FY 07	FY 08	FY 09	% Change FY 08 – FY 09
PILOT	\$1,073,539	\$1,088,753	\$1,282,516	\$1,280,000*	\$1,280,000*	0.0%

*Estimated

PILOT Payments



CHARGES FOR SERVICES / SUMMARY

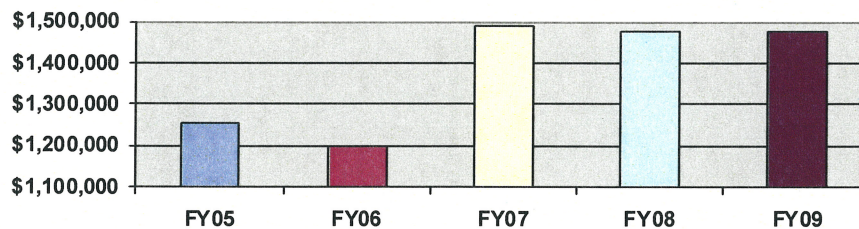
Services / Charges / User Fees – Charges for services are a revenue source to assist municipalities to offset the cost of certain services provided to the community. Some of the fees within this category are board of health fees, building and plumbing permits, electrical fees, engineering inspections 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. In FY08 the trash fee was moved to an enterprise fund, however police and fire administrative fees for detail work were added as a new revenue source.

This revenue is level funded for FY2009. We anticipate a slight decrease in building permits, but we are anticipating additional revenue from boat storage fees at Winter Island to offset the decrease in building permits.

Year to Year Comparison	FY 05	FY 06	FY 07	FY 08	FY 09	% Change FY 08 – FY 09
Charges for Services	\$1,252,781	\$1,198,182	\$1,488,414	\$1,475,000*	\$1,475,000*	0.0%

*Estimated

Charges for Services

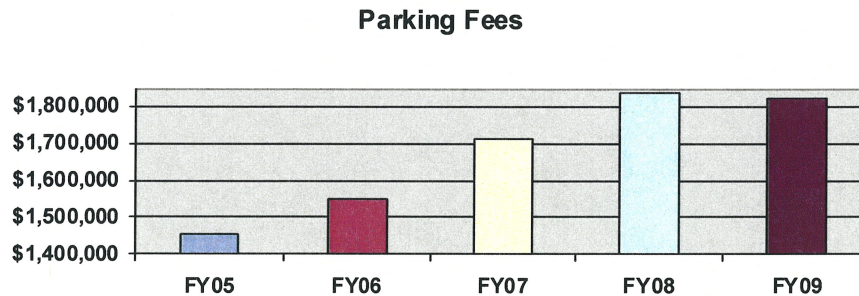


PARKING FEES / SUMMARY

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.

Parking fee revenue has fluctuated over the last three years. However, we anticipate new programs such as a per diem fee for construction vehicles at metered spaces and guaranteed parking at the South Harbor Garage that will slightly offset any losses. Therefore we anticipate a slight decrease in this revenue source.

Year to Year Comparison	FY 05	FY 06	FY 07	FY 08	FY 09	% Change FY 08 – FY 09
Parking Fees	\$1,453,089	\$1,549,832	\$1,713,649	\$1,840,000*	\$1,825,000*	-0.8%
*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. The City Clerk has increased her fees in FY 2008 and therefore we anticipate approximately \$50,000 higher revenues for FY 2009.

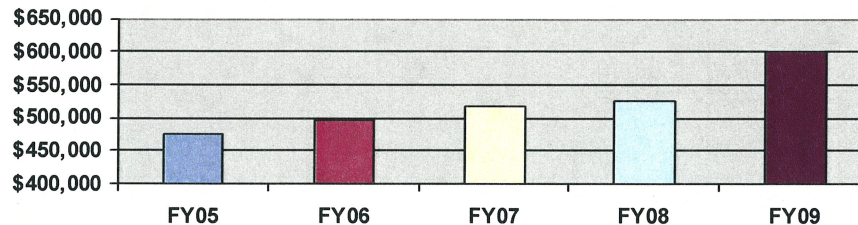
Other Departmental Permits - Other Departments issue various permits including smoke detector, LP gas, firearms, and constable fees.

We anticipate additional revenue of \$24,000 for 106 inspections performed by the Inspectional Service Division and \$50,000 in additional revenue from fee increases for vital records. Our vital record fees are now comparable to surrounding communities.

Year to Year Comparison	FY 05	FY 06	FY 07	FY 08	FY 09	% Change FY 08 – FY 09
License & Permits	\$474,284	\$497,478	\$517,697	\$525,000*	\$600,000*	14.3%

*Estimated

Licenses & Permits



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 2008-04B 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."

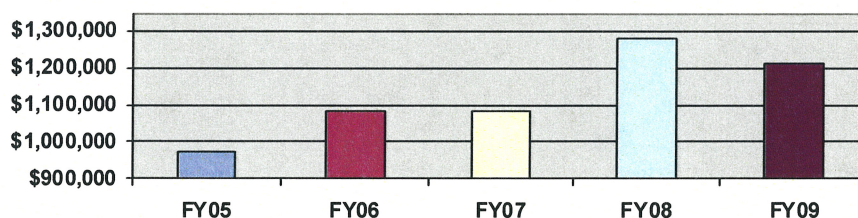
Parking Fines - The collection of outstanding parking fines continues to be an important source of revenue to the City. The timely collection of fines has been aided by automation, and by State law that violators are prohibited from renewing their driver's licenses and registrations until all outstanding tickets are paid in full. Like Motor Vehicle Excise, those individuals who do not pay their parking tickets in a timely manner are not allowed to renew registrations and licenses through a 'marking' process at the RMV. The City of Salem notifies the Registry of delinquent fine payers, through its deputy collector, who prepares parking ticket delinquent files for the Registry of Motor Vehicles.

For FY 2009, we project a decrease of -5.2% based on a three year average of receipts.

Year to Year Comparison	FY 05	FY 06	FY 07	FY 08	FY 09	% Change FY 08 – FY 09
Fines & Forfeits	\$973,995	\$1,084,428	\$1,085,729	\$1,281,000*	\$1,215,000 *	-5.2%

*Estimated

Fines & Forfeits



INTERGOVERNMENTAL REVENUE

Cherry Sheet - 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.

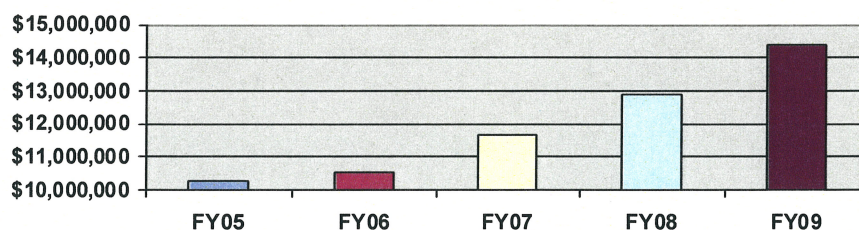
State Cherry Sheet revenue funds are the primary intergovernmental revenue and in the case of many cities, is the single largest source of annual revenue. Cherry Sheet revenue consists of direct school aid, local aid, and specific reimbursements and distributions such as aid to public libraries, veteran's benefits, police career incentives, and a number of school related items. For a complete copy of the Cherry Sheet Manual or the actual Cherry Sheet Local Receipts and/or Assessments go to:
www.mass.gov.

For the FY 09 budget, the City is budgeting a \$1,031,045 or 4.4% increase of Cherry Sheet revenues based on the assumptions offered by Senate Ways & Means Committee Budget. The Cherry Sheet assessments decreased by \$-96,449 or 1.6%. Net overall increase in Cherry Sheet revenue is 6.6%.

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 05	FY 06	FY 07	FY 08	FY 09	% Change FY 08 – FY 09
Chapter 70	\$10,290,730	\$10,536,330	\$11,648,162	\$12,876,914*	\$14,371,186*	11.6%
*Estimated						

Chapter 70

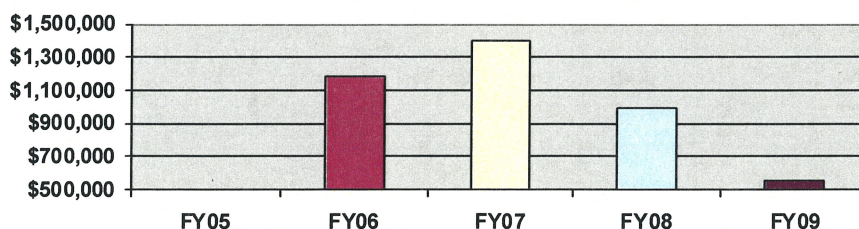


Local Aid - The major non-school state aid items are Lottery Aid, Charter School Tuition Reimbursement and Additional Assistance. These funds are unrestricted and can therefore be used by the municipality for any municipal purpose.

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 05	FY 06	FY 07	FY 08	FY 09	% Change FY 08 – FY 09
Charter School Reimburse	0	\$1,189,400	\$1,394,982	\$996,436*	\$553,376*	-44.5%
*Estimated						

Charter School Reimbursement



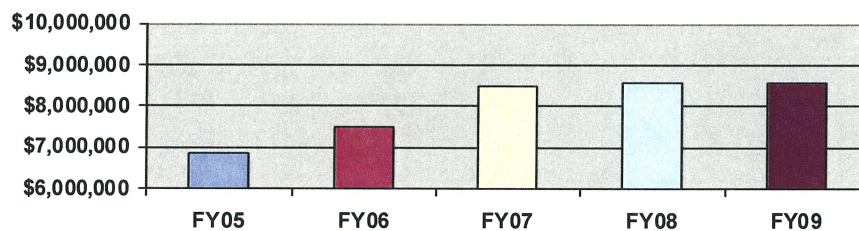
Lottery – Lottery formula is equalizing, with municipalities with lower property values receiving proportionately more aid than those with greater property values. The formula is based on population and Equalized Property Valuation. It should be noted that the state had to supplement \$701,988.00 in order to level fund lottery aid for FY 2009.

Additional Assistance – These aid amounts cannot be attributed to any one formula or factor, but rather are the combined legacy of several factors. For detailed description go to www.mass.gov/Ador/docs/dls/cherry/csmanual.pdf

Year to Year Comparison	FY 05	FY 06	FY 07	FY 08	FY 09	% Change FY 08 – FY 09
Lottery	\$3,582,967	\$4,204,299	\$5,187,791	\$5,286,837*	\$5,286,837*	0.0%
Additional Assistance	\$3,298,731	\$3,298,731	\$3,298,731	\$3,298,731*	\$3,298,731*	0.0%
Total	\$6,881,698	\$7,503,030	\$8,486,522	\$8,585,568*	\$8,585,568*	0.0%

*Estimated

Lottery & Additional Assistance



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