

Five Year Financial Forecast - Narrative

FY2010 through FY2014

Executive Summary

The five year financial forecast for the City of Salem is used as a budget tool that enables municipal officials to review operating needs, identify fiscal challenges and opportunities, and help develop long term budgeting policies as part of an overall strategic plan. The five year financial forecast is invaluable in identifying key areas that the City needs to focus on such as rising health insurance costs, retirement assessments, and collective bargaining agreements. It also helps the City plan for its capital budget, debt service management, and long term sustainability.

Financial forecasting is the process of projecting revenues and expenditures over a five to ten year period. Factors that affect forecasting are current and future economic conditions, collective bargaining agreements, future operating and capital scenarios, and other factors that affect future revenues and expenditures.

The five year financial forecast is also used as a communication tool for both the City Council and the public. A separate power point document helps the administration communicate the long term strategies, fiscal challenges, and overall financial health of the City of Salem.

The forecast is always evolving and is constantly updated as information becomes available. The recent fiscal turmoil at the State and Federal level has created some of the greatest challenges of recent memory. Additionally, there are several State and local tax options being considered by the legislature to help offset the deep cuts in local aid. In order to be safe, the City is using the lowest local aid revenue figures as of June 1, 2009. Furthermore, we have not budgeted for any additional revenues that may become available either through the Federal Stimulus bill (ARRA) or through local options tax.

We hope that the conservative nature of our revenue forecasting will serve us well. We also are forecasting expenditures that are comparable with current trends at the State and local levels. Further detail as to the forecasted revenues and expenses are as follows:

Revenues

Tax Levy: \$69,964,463

The tax levy is the City's primary revenue source, comprising approximately 64% of the total revenues. Residential property values pay 72% of the total property taxes, while commercial, industrial, and personal property values pay 28%. The City has a split tax rate of 1.65, which translates to a residential rate of \$12.92/m. and commercial rate of \$24.54/m.

The City realizes an automatic 2.5% increase to the tax levy under Proposition 2 ½, plus any increase due to "new growth" in the City. New growth includes new development, condominium conversions, and renovations/expansions to existing properties, to name a few. The City has averaged \$894,404 over

the last eight years. As such, we have forecasted new growth at a flat rate of \$894,404 for the five year forecast, through FY14.

Local Receipts: \$13,255,000

Local receipts are locally generated revenues other than real and personal property taxes. Examples include motor vehicle excise, investment income, hotel/motel tax, fees, rentals, and charges. The City has decreased its estimate for local receipts by 3.4% for FY10 due to the economic slowdown. Specifically, motor vehicle excise has been decreased by 8.9% charges for services have been decreased by 9.3%, and miscellaneous recurring revenue has been decreased by 10.7%. For purposes of forecasting, it is estimated that local recurring receipts will increase by 2.5% for FY11-FY14.

The City also has budgeted \$1,750,000 for FY09-FY11 in miscellaneous non-recurring receipts. This represents a “host fee” that Dominion Power Plant pays the City as part of its three year agreement with the City. Since this payment is only guaranteed through FY11, we estimate zero dollars in miscellaneous non-recurring receipts after FY11.

Cherry Sheet Revenue (State Aid): \$21,056,663

Named for the cherry colored paper on which it was originally printed, the Cherry Sheet is the official notification by the Commissioner of Revenue to municipalities and regional school districts of estimated state aid to be paid and charges to be assessed over the next fiscal year. Cherry Sheets are usually issued each spring, following enactment by the Legislature of the state budget for the following year.

This year, the Legislature has cut the estimated state aid to the City of Salem by \$3,200,000 from the original FY09 amount (pre 9c cuts). This has created serious concerns for many communities, including the City of Salem. As a result of the cuts to state aid, the City has been forced to reduce workforce, privatize services, and modify health insurance plans. It is predicted that the State will increase the drastically reduced FY10 appropriation by 1.5% each year through FY14.

School Building Assistance: \$4,369,073

The Massachusetts School Building Authority (MSBA) administers the school building assistance program that reimburses cities, towns, and regional school districts varying percentages of their school construction costs depending on the wealth of the community or district and the category of reimbursement. The City of Salem was lucky enough to receive 90% reimbursement for all its building projects. The amounts listed in the five year forecast reflect the funding schedule of the MSBA for FY10 through FY14.

Enterprise Fund Revenue: \$12,749,473

An enterprise fund, authorized by MGL Chapter 44, Section 53F ½ is a separate accounting and financial reporting mechanism for municipal services for which a fee is charged in exchange for goods

or services. It allows a community to demonstrate to the public the portion of total costs of a service that is recovered through user charges and the portion that is subsidized by the tax levy, if any.

The City of Salem has three Enterprise Funds; water, sewer, and solid waste. The water and sewer enterprise funds, with estimated revenues of \$4,542,798 and \$7,506,675 respectively, provide for full cost recovery, including indirect costs that are appropriated in the general fund. Water and sewer enterprise fund revenues are estimated to increase an average of 5% over the next four fiscal years to keep pace with rising costs of assessments and debt service.

The Solid Waste Enterprise fund, established in FY08, does not recoup all operating costs. However, the \$700,000 estimated revenues will cover approximately 27% of the total cost of \$2,584,049 in FY10. The revenues from the Solid Waste Enterprise fund are projected to be flat through FY14, as the fee is not expected to change in the near future.

Other Financial Resources – Recurring: \$947,058

The City has three “receipts reserve” accounts; Harbormaster, Witch House, and Golf Course. Receipts reserve accounts are accounts in which proceeds are earmarked by law and placed in separate accounts for appropriation for particular purposes. The City treats these accounts similar to Enterprise Funds, by which the fees charged cover the expenses of the particular program. It is estimated that the revenues generated will increase each year by 2.5% to keep up with rising costs of running each of the three purposes.

The City has not budgeted any non-recurring “other financial resources” for FY10 through FY14.

Expenses

General Government: \$3,973,030

Departments under General Government include all of the financial offices and overhead support functions, including Mayor, City Council, accounting, assessing, legal, treasury, collector, purchasing, city clerk, etc. The estimated expense increase for general government services for the City will be 3% for FY11-FY14.

Public Safety: \$15,601,367

Departments under Public Safety include police, fire, inspectional services, electrical, and harbormaster. The estimated expense increase for public safety for the City will be 5% for FY11-FY14 due to the collective bargaining agreements for police and fire, as well as the rising costs of utilities for both electrical and harbormaster departments.

Public Works and Facilities: \$3,039,587

Departments under Public Works and Facilities include public services, engineering, snow and ice removal, and parking department. Estimated expense increase for public services is expected to increase at 5% per year through FY14. Engineering, snow and ice removal, and parking expense increase are expected to increase by 3% per year through FY14.

Human Services: \$808,302

Departments under Human Services include the health department, council on aging, and veterans' services. Expenses in human services are projected to increase by 3% per year due to normal increases in salaries and expenses.

Cultural and Recreation: \$2,224,856

Departments under Cultural and Recreation include library, park & recreation, golf course, witch house, Winter Island, and historical commission. Expenses in Culture and Recreation are projected to increase by 3% per year due to normal increases in salaries and expenses.

Fixed Costs: \$20,696,793

Fixed costs are costs that are legally or contractually mandated such as health insurance, retirement assessment, Medicare, workers compensation, unemployment, and several other items. Fixed costs continue to be the biggest challenge in municipal budgets. They account for over 17% of the total budget in FY10. Each fixed cost has its own projected increase over the five year forecast that reflects the average costs municipalities are seeing in each category. The projected increases for FY11-FY14 for each fixed cost are as follows:

- Health Insurance: 10%
 - Average increase statewide over the last several years.
- Retirement Assessment: 5%
 - Per actuarial report of 1/1/08, however, this may change due to the recent market performance and number of employees in the system at the next valuation.
- Retirement Anticipation Stabilization Fund: 5%
 - This fund is for those employees who retire and are due sick/vacation buyback.
- Capital Improvement Fund: 5%
 - This fund is for unexpected capital purchases/repairs and is scheduled to increase due to inflation and costs of goods.
- Medicare: 3%
 - Average increase in wages for City workers over the past several years.
- Municipal Insurance: 3%
 - Historical average of our increases since 2006.
- Worker's Comp: 3%
 - We are fully insured and expect rates to increase at this level.
- Unemployment: 3%
 - Reasonable estimate (we do not expect a large layoff in FY10).

- Non – Contributory Pension: -3%
 - Negative number due to the shrinking number of those retirees who are part of this group.

Fixed Costs – Debt Service: \$6,902,222

Debt service is the repayment cost, usually stated in annual terms and based on an amortization schedule, of the principal and interest on any particular bond issue. The overall debt service for the City is scheduled to decrease for existing debt; however, as part of our capital planning, we try to maintain a 2% increase in the total cost of debt service so that we can actively manage the replacement of vehicles and machinery, maintenance on existing buildings and infrastructure, and construction of new facilities.

Assessment – North Shore Regional Vocational School District: \$1,531,740

The assessment to the City of Salem from NSRVSD reflects the number of students attending the school and the associated costs. It is estimated that these assessments will increase 3% through FY14.

Education: \$45,876,000

The School Committee oversees the budget process for the schools, and it has approved a budget of \$45,876,000, the same sum that was approved in fiscal year 2009. Additional funds have been made available for special education purposes through the 2009 American Recovery and Reinvestment Act (ARRA). Nevertheless, the budget for the Salem Public Schools (SPS) will have a decrease of 16 full time equivalent positions.

For financial forecasting purposes, we expect that the cost of education will increase the general fund budget by 3% per year in both personnel and non-personnel expenses. The City’s finance director and the School’s business administrator continue to work on cost saving measures and shared services to ensure that the level of staff at the SPS will be adequate to provide quality education to its students.

Enterprise Fund Expenses: \$13,203,457

Expenses in the enterprise fund represent personnel, expenses, contracted services, assessments, and debt service costs for the three enterprise funds of the City: water, sewer, and solid waste. Expenses in the funds are projected to rise from FY11 to FY14 as follows:

- Water Enterprise
 - Personnel: 4%
 - Expenses: 4%
 - Assessments: 4%
 - Debt Service: per debt schedule (actual and projected)
- Sewer Enterprise
 - Personnel: 4%
 - Expenses: 4%
 - Assessments: 4%
 - Debt Service: per debt schedule (actual and projected)

- Solid Waste Enterprise
 - Personnel: 3%
 - Expenses: 3%
 - Contracted Services: 3%

Cherry Sheet Assessment: \$6,485,907

Named for the cherry colored paper on which it was originally printed, the Cherry Sheet is the official notification by the Commissioner of Revenue to municipalities and regional school districts of estimated state aid to be paid and charges to be assessed over the next fiscal year. Cherry Sheets are usually issued each spring, following enactment by the Legislature of the state budget for the following year.

The categories of charges include retired teachers' health insurance costs, mosquito control projects, RMV non-renewal surcharge, MBTA, and tuition assessment. This year's overall assessments have increased by 6% from last year's assessment of \$6,118,712. The majority of the increases are attributable to charter school sending tuition (11% increase from \$2,514,135 to \$2,794,955) and Essex County Tech sending tuition (37% increase from \$241,532 to \$331,233).

The increase in the assessments by \$368,000 combined with the decrease in revenue of \$3,200,000 leaves the City with an overall revenue shortfall for FY10 from the Commonwealth of \$3,568,000. It is projected that the Cherry Sheet assessment from the Commonwealth will increase 4% from FY11 to FY14.

Other Expenditures: \$1,998,469

- Overlay: \$725,296
 - Overlay is an account established annually to fund anticipated property tax abatements exemptions and uncollected taxes in that year. It is anticipated that overlay will increase at 3% per year for FY11 to FY14.
- Snow and Ice Deficit \$875,000
 - The winter season of FY09 proved to be one of the worst in decades and caused the City to have an \$875,000 deficit to be raised in FY10. It is anticipated that these deficits will decrease in future fiscal years. The amount has been reduced to \$500,000 for FY11 to FY14.
- Cherry Sheet Offset: \$76,202
 - Offset receipts are receipts from the Cherry Sheet that are to be used for a specific purpose (school lunch and public library). These obligations are expected to increase 3% for FY11 to FY14.
- Other Deficits
 - Deficit Bond (Chapter 15 of the Acts of 2008): \$175,780
 - The City's deficit bonds are projected to decrease as per the debt schedule.

- School Lunch Deficit: \$146,191
 - The City has to raise this deficit for FY10 and FY11, and then the deficit will be eliminated for FY12 and on.

Conclusion

The City of Salem, like all municipalities throughout the Commonwealth, continue to struggle with rising fixed costs, a sluggish economy, and contractual obligations that make balancing budgets very challenging. In most cases, Proposition 2 ½, the law that regulates the increases a municipality can increase its property taxes, does not allow for property tax revenue to keep up with the costs of doing business.

The five year financial forecast is a tool that helps us best manage the challenges. It is a tool that uses reasonable estimates in both revenue and expenditure trends while considering the overall economic picture of the current times. The goal is to project revenues and expenditures up to five years into the future which will help the administration analyze where current trends are leading and estimate if money will be available for discretionary spending such as capital purchases, collective bargaining settlements, and new municipal program. It also will help identify those “budget buster” items that need reform from the local or state government.

The five year forecast, combined with the capital improvement program and FY10 budget will continue to be the basis for all future financial planning for the City of Salem.

**City of Salem
Five Year Financial Forecast
FY 2010 - 2014**

Updated 6/4/2009

REVENUES	% INC/DEC ACTUAL	% INC/DEC FY10-FY13	FY09 RECAP	FY10 - Mayor's RECOMMENDED	FY11 PROJECTED	FY12 PROJECTED	FY13 PROJECTED	FY14 PROJECTED
TOTAL: TAX LEVY	3.83%	see above	67,385,423	69,964,463	72,607,979	75,317,582	78,094,926	80,941,703
TOTAL: LOCAL RECEIPTS	-3.43%		13,726,034	13,255,000	13,542,625	12,087,441	12,087,441	12,087,441
CHERRY SHEET REVENUE 9c cuts	-13.14%	1.50%	24,243,216	21,056,663	21,769,829	22,096,376	22,427,822	22,764,239
SCHOOL BLDG ASSISTANCE	per SBA	per SBA	4,369,073	4,369,073	4,365,107	3,575,805	2,588,609	2,588,609
OFS - RECURRING	-59.99%	2.50%	2,367,049	947,058	970,734	995,003	1,019,878	1,045,375
OFS - NON RECURRING	-100.00%	0.00%	668,880	0	0	0	0	0
TOTAL ENTERPRISE FUND REVENUE		varies	12,663,392	12,749,473	13,306,519	14,188,975	15,133,203	15,133,203
TOTAL REVENUES	-1.80%		124,586,436	122,341,730	126,562,792	128,261,181	131,351,878	134,560,569

EXPENDITURES								
TOTAL: GENERAL GOVERNMENT	-4.33%	3.00%	4,152,943	3,973,030	4,092,221	4,214,988	4,341,437	4,471,680
TOTAL: PUBLIC SAFETY	-1.90%	5.00%	15,904,313	15,601,367	16,381,435	17,200,507	18,060,532	18,963,559
TOTAL: PUBLIC WORKS & FACILITIES	-0.98%	4.25%	3,069,818	3,039,587	3,170,713	3,307,769	3,451,034	3,600,798
TOTAL: HUMAN SERVICES	-7.09%	3.00%	869,965	808,302	832,551	857,528	883,253	909,751
TOTAL: CULTURAL AND RECREATIONAL	0.42%		2,215,505	2,224,856	2,291,602	2,360,350	2,431,160	2,504,095
TOTAL FIXED COSTS	3.69%		19,959,833	20,696,793	22,206,835	23,843,628	25,618,663	27,544,524
DEBT SERVICE - LONG TERM	-4.06%	2.00%	6,925,496	6,644,102	6,776,984	6,912,524	7,050,774	7,191,790
DEBT SERVICE - SHORT TERM	88.13%	2.00%	137,200	258,120	263,282	268,548	273,919	279,397
ASSESSMENT - NORTH SHORE VOC.	-7.15%	3.00%	1,649,661	1,531,740	1,577,692	1,625,023	1,673,774	1,723,987
ESSEX AGGIE/NORTH SHORE VOC MERGER					1,000,000	1,000,000	1,000,000	1,000,000
CITY EXPENDITURE TOTAL	-0.19%		54,884,734	54,777,897	57,593,315	60,590,863	63,784,547	67,189,581
SCHOOL EXPENDITURE TOTAL	0.00%		45,876,000	45,876,000	47,252,280	48,669,848	50,129,944	51,633,842
TOTAL: WATER ENTERPRISE	-0.11%	varies	3,866,923	3,862,673	4,098,852	4,722,744	4,843,056	4,975,536
TOTAL: SEWER ENTERPRISE	0.93%	varies	6,694,722	6,756,735	7,059,491	7,631,733	8,107,405	8,394,586
TOTAL: TRASH ENTERPRISE	-0.64%	3.00%	2,600,780	2,584,049	2,661,570	2,741,418	2,823,660	2,908,370
ENTERPRISE FUND EXPENDITURE TOTAL	0.31%		13,162,425	13,203,457	13,819,914	15,295,895	15,774,121	16,278,492
TOTAL - CITY, SCHOOL, AND ENTERPRISE	-0.06%		113,923,159	113,857,354	118,665,508	124,556,606	129,688,611	135,101,916
OTHER EXPENDITURES								
CHERRY SHEET ASSESSMENT	6.00%	4.00%	6,118,712	6,485,907	6,745,343	7,015,157	7,295,763	7,587,594
TOTAL: OTHER EXPENDITURES	-52.55%		4,212,093	1,998,489	1,647,514	1,510,309	1,530,819	1,552,093
TOTAL EXPENDITURES	-1.54%		124,253,964	122,341,730	127,058,366	133,082,073	138,515,193	144,241,602
BUDGET GAP			332,472	0	-495,573	-4,820,891	-7,163,315	-9,681,033

LONG-TERM DEBT OBLIGATIONS FY 2010- 2028

Date of Issue	Original Issue	Project	Outstanding at June 30, 2009		Pmt O/S	Interest Rate (%)	2010		2011		2012		2013	
			Principal	Interest			Principal	Interest	Principal	Interest	Principal	Interest		
Bonds:														
7/1/1996	7,000,000	School Construction	x	x	5.125-5.750%	995,000	75,000.00	54,800.00	80,000.00	50,497.50	85,000.00	45,835.00	90,000.00	40,825.00
7/1/1996	1,800,000	School Construction	x	x	5.125-5.750%	645,000	95,000.00	34,047.50	95,000.00	28,775.00	95,000.00	23,407.50	90,000.00	18,112.50
9/15/2000	10,705,000	Bates School Construction	x	x	4.50-6.75%	7,605,000	505,000.00	367,291.26	535,000.00	343,623.76	565,000.00	318,041.26	600,000.00	290,363.76
9/15/2000	450,000	Swimming Pool	x	x	4.50-6.75%	120,000	40,000.00	4,620.00	40,000.00	2,800.00	40,000.00	940.00	-	-
9/15/2000	470,000	Golf Course	x	x	4.50-6.75%	230,000	30,000.00	10,400.00	30,000.00	9,035.00	30,000.00	7,640.00	30,000.00	6,215.00
8/1/2001	4,710,000	School Construction	x	x	3.50-4.00%	1,025,000	520,000.00	30,600.00	505,000.00	10,100.00	-	-	-	-
8/1/2001	6,495,000	School Construction	x	x	3.50-4.00%	1,891,000	647,000.00	62,700.00	632,000.00	37,120.00	612,000.00	12,240.00	-	-
8/1/2001	2,935,000	Police Station	x	x	3.50-4.00%	879,000	293,000.00	29,300.00	293,000.00	17,580.00	293,000.00	5,860.00	-	-
1/15/2003	17,646,075	School Construction	x	x	3.00-5.00%	13,795,000	740,000.00	594,975.00	775,000.00	567,225.00	805,000.00	540,100.00	840,000.00	509,912.50
1/15/2003	9,523,925	School Construction	x	x	3.00-5.00%	7,440,000	400,000.00	320,853.76	415,000.00	305,853.76	435,000.00	291,328.76	455,000.00	275,016.26
1/15/2003	1,500,000	School Construction	x	x	3.00-5.00%	1,085,000	80,000.00	45,630.00	85,000.00	42,630.00	85,000.00	39,655.00	90,000.00	36,467.50
6/1/2003	4,480,000	School Construction	x	x	2.25-4.50%	1,885,000	485,000.00	55,568.75	475,000.00	41,775.00	485,000.00	27,675.00	460,000.00	10,350.00
1/1/2005	1,887,447	School Construction	x	x	3.00-5.00%	1,505,000	95,000.00	61,498.76	95,000.00	58,648.76	95,000.00	55,561.26	95,000.00	52,331.26
1/1/2005	577,553	School Construction	x	x	3.00-5.00%	455,000	30,000.00	18,582.50	30,000.00	17,682.50	30,000.00	16,707.50	30,000.00	15,687.50
1/1/2005	1,100,000	Parking Garage Repairs	x	x	3.00-5.00%	800,000	75,000.00	32,487.50	75,000.00	30,237.50	75,000.00	27,800.00	75,000.00	25,250.00
2006	2,330,656	Water-MWPAT-DW-05-12	N/A	x	2.00%	2,140,908	99,806.00	41,820.10	101,822.00	39,803.82	103,880.00	37,746.80	105,978.00	35,648.22
10/15/2007	6,885,633	High School	x	x	4.125-5.00%	6,540,000	345,000.00	267,618.76	345,000.00	250,368.76	345,000.00	233,118.76	345,000.00	215,868.76
10/15/2007	3,250,503	Water System Improvements	x	x	4.125-5.00%	3,080,000	165,000.00	126,062.50	165,000.00	117,812.50	165,000.00	109,562.50	165,000.00	101,312.50
10/15/2007	658,864	Police Equipment	x	x	3.750-5.00%	570,000	85,000.00	23,775.00	85,000.00	19,525.00	80,000.00	15,400.00	80,000.00	11,400.00
10/15/2007	775,000	Ferry Boat Project	x	x	4.00-5.00%	715,000	60,000.00	29,350.00	60,000.00	26,350.00	60,000.00	23,350.00	60,000.00	20,350.00
BOND TOTAL							53,400,908	4,864,806	2,211,981	4,916,822	2,017,444	4,463,880	3,610,978	1,665,111

HUD Section 108 Loans:

6/30/2004	350,000	HUD Section 108 B-94-MC-25			2.31-5.19%	210,000	35,000.00	9,362.50	35,000.00	7,806.75	35,000.00	6,168.75	35,000.00	4,462.50
HUD SECTION 108 TOTAL							210,000	35,000	9,363	35,000	7,807	35,000	35,000	4,463
TOTAL LONG-TERM DEBT							53,610,908	4,899,806	2,221,344	4,951,822	2,025,251	4,498,880	3,645,978	1,669,573

LONG-TERM DEBT OBLIGATIONS FY 2010- 2028

Date of Issue		Original Issue	Project	Pmt O/S Sch	Interest Rate (%)	2014		2015		2016		2017		2018	
						Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Bonds:															
7/1/1996		7,000,000	School Construction	x	x	5.125-5.750%	630,000.00	20,125.00	35,000.00	1,006.25	-	-	-	-	-
7/1/1996		1,800,000	School Construction	x	x	5.125-5.750%	90,000.00	12,937.50	90,000.00	7,762.50	90,000.00	2,587.50	-	-	-
9/15/2000		10,705,000	Bates School Construction	x	x	4.50-6.75%	640,000.00	260,283.76	680,000.00	227,603.76	720,000.00	192,603.76	765,000.00	155,000.63	815,000.00
9/15/2000		450,000	Swimming Pool	x	x	4.50-6.75%	-	-	-	-	-	-	-	-	-
9/15/2000		470,000	Golf Course	x	x	4.50-6.75%	30,000.00	4,760.00	30,000.00	3,275.00	30,000.00	1,775.00	20,000.00	512.50	-
8/1/2001		4,710,000	School Construction	x	x	3.50-4.00%	-	-	-	-	-	-	-	-	-
8/1/2001		6,495,000	School Construction	x	x	3.50-4.00%	-	-	-	-	-	-	-	-	-
8/1/2001		2,935,000	Police Station	x	x	3.50-4.00%	-	-	-	-	-	-	-	-	-
1/15/2003		17,646,075	School Construction	x	x	3.00-5.00%	875,000.00	476,312.50	915,000.00	441,312.50	950,000.00	404,712.50	990,000.00	365,525.00	1,035,000.00
1/15/2003		9,523,925	School Construction	x	x	3.00-5.00%	470,000.00	256,816.26	495,000.00	238,016.26	515,000.00	218,216.26	535,000.00	196,972.50	560,000.00
1/15/2003		1,500,000	School Construction	x	x	3.00-5.00%	95,000.00	32,867.50	100,000.00	29,067.50	100,000.00	25,067.50	105,000.00	20,942.50	110,000.00
6/1/2003		4,480,000	School Construction	x	x	2.25-4.50%	-	-	-	-	-	-	-	-	-
1/1/2005		1,887,447	School Construction	x	x	3.00-5.00%	95,000.00	47,581.26	95,000.00	42,831.26	95,000.00	38,081.26	95,000.00	34,281.26	95,000.00
1/1/2005		577,553	School Construction	x	x	3.00-5.00%	30,000.00	14,187.50	30,000.00	12,687.50	30,000.00	11,187.50	30,000.00	9,987.50	30,000.00
1/1/2005		1,100,000	Parking Garage Repairs	x	x	3.00-5.00%	75,000.00	21,500.00	75,000.00	17,750.00	75,000.00	14,000.00	75,000.00	11,000.00	8,000.00
2006		2,330,656	Water-MWPAT-DW-05-12	N/A	x	2.00%	108,119.00	33,507.25	110,303.00	31,323.03	112,532.00	29,094.68	114,805.00	26,821.31	24,502.02
10/15/2007		6,885,633	High School	x	x	4.125-5.00%	345,000.00	200,343.76	345,000.00	186,543.76	345,000.00	173,175.01	345,000.00	159,806.26	146,006.26
10/15/2007		3,250,503	Water System Improvements	x	x	4.125-5.00%	165,000.00	93,887.50	165,000.00	87,287.50	165,000.00	80,893.75	165,000.00	74,500.00	68,000.00
10/15/2007		658,864	Police Equipment	x	x	3.750-5.00%	80,000.00	7,800.00	80,000.00	4,600.00	80,000.00	1,500.00	-	-	-
10/15/2007		775,000	Ferry Boat Project	x	x	4.00-5.00%	60,000.00	17,650.00	60,000.00	15,250.00	60,000.00	12,925.00	60,000.00	10,600.00	8,200.00
BOND TOTAL							3,788,119	1,500,560	3,305,303	1,346,317	3,367,532	1,205,820	3,299,805	1,065,949	3,402,124
															922,350

HUD Section 108 Loans:

6/30/2004	350,000	HUD Section 108 B-94-MC-25		2.31-5.19%	35,000.00	2,705.50	35,000.00	908.25						
HUD SECTION 108 TOTAL					35,000	2,706	35,000	908						
TOTAL LONG-TERM DEBT					3,823,119	1,503,265	3,340,303	1,347,225	3,367,532	1,205,820	3,299,805	1,065,949	3,402,124	922,350

LONG-TERM DEBT OBLIGATIONS FY 2010- 2028

Date of Issue		Original Issue	Project	Pmt O/S Sch	Interest Rate (%)	2019		2020		2021		2022		2023	
Issue						Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Bonds:															
7/1/1996		7,000,000	School Construction	x	x	-	-	-	-	-	-	-	-	-	-
7/1/1996		1,800,000	School Construction	x	x	-	-	-	-	-	-	-	-	-	-
9/15/2000		10,705,000	Bates School Construction	x	x	865,000.00	70,527.50	915,000.00	24,018.75	-	-	-	-	-	-
9/15/2000		450,000	Swimming Pool	x	x	-	-	-	-	-	-	-	-	-	-
9/15/2000		470,000	Golf Course	x	x	-	-	-	-	-	-	-	-	-	-
8/1/2001		4,710,000	School Construction	x	x	-	-	-	-	-	-	-	-	-	-
8/1/2001		6,495,000	School Construction	x	x	-	-	-	-	-	-	-	-	-	-
8/1/2001		2,935,000	Police Station	x	x	-	-	-	-	-	-	-	-	-	-
1/15/2003		17,646,075	School Construction	x	x	1,080,000.00	278,945.00	1,125,000.00	224,945.00	1,170,000.00	168,695.00	1,220,000.00	116,045.00	1,275,000.00	59,925.00
1/15/2003		9,523,925	School Construction	x	x	580,000.00	150,155.00	605,000.00	121,155.00	630,000.00	90,905.00	660,000.00	62,555.00	685,000.00	32,195.00
1/15/2003		1,500,000	School Construction	x	x	115,000.00	11,750.00	120,000.00	6,000.00	-	-	-	-	-	-
6/1/2003		4,480,000	School Construction	x	x	-	-	-	-	-	-	-	-	-	-
1/1/2005		1,887,447	School Construction	x	x	95,000.00	26,681.26	95,000.00	22,881.26	95,000.00	19,081.26	95,000.00	15,281.26	90,000.00	11,362.50
1/1/2005		577,553	School Construction	x	x	30,000.00	7,587.50	30,000.00	6,387.50	25,000.00	5,187.50	25,000.00	4,187.50	25,000.00	3,156.26
1/1/2005		1,100,000	Parking Garage Repairs	x	x	75,000.00	5,000.00	50,000.00	2,000.00	-	-	-	-	-	-
2006		2,330,656	Water-MWPAT-DW-05-12	N/A	x	119,490.00	22,135.88	121,904.00	19,721.94	124,367.00	17,259.23	126,880.00	14,746.76	129,443.00	12,183.53
10/15/2007		6,885,633	High School	x	x	345,000.00	132,206.26	345,000.00	118,406.26	345,000.00	104,606.26	345,000.00	90,806.26	345,000.00	77,006.26
10/15/2007		3,250,503	Water System Improvements	x	x	160,000.00	61,600.00	160,000.00	55,200.00	160,000.00	48,800.00	160,000.00	42,400.00	160,000.00	36,000.00
10/15/2007		658,864	Police Equipment	x	x	-	-	-	-	-	-	-	-	-	-
10/15/2007		775,000	Ferry Boat Project	x	x	60,000.00	5,800.00	60,000.00	3,400.00	55,000.00	1,100.00	-	-	-	-
BOND TOTAL						3,524,490	772,388	3,626,904	604,116	2,604,367	455,634	2,631,880	346,022	2,709,443	231,829

HUD Section 108 Loans:

6/30/2004 350,000 HUD Section 108
B-94-MC-25

HUD SECTION 108 TOTAL

TOTAL LONG-TERM DEBT

3,524,490	772,388	3,626,904	604,116	2,604,367	455,634	2,631,880	346,022	2,709,443	231,829
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LONG-TERM DEBT OBLIGATIONS FY 2010- 2028

Date of Issue		Original Issue	Project	O/S	Pmt Sch	Interest Rate (%)	2024			2025			2026			2027			2028		
							Principal	Interest	Principal	Principal	Interest	Principal	Principal	Interest	Principal	Principal	Interest				
Bonds:																					
7/1/1996		7,000,000	School Construction	x	x	5.125-5.750%	-	-	-	-	-	-	-	-	-	-	-				
7/1/1996		1,800,000	School Construction	x	x	5.125-5.750%	-	-	-	-	-	-	-	-	-	-	-				
9/15/2000		10,705,000	Bates School Construction	x	x	4.50-6.75%	-	-	-	-	-	-	-	-	-	-	-				
9/15/2000		450,000	Swimming Pool	x	x	4.50-6.75%	-	-	-	-	-	-	-	-	-	-	-				
9/15/2000		470,000	Golf Course	x	x	4.50-6.75%	-	-	-	-	-	-	-	-	-	-	-				
8/1/2001		4,710,000	School Construction	x	x	3.50-4.00%	-	-	-	-	-	-	-	-	-	-	-				
8/1/2001		6,495,000	School Construction	x	x	3.50-4.00%	-	-	-	-	-	-	-	-	-	-	-				
8/1/2001		2,935,000	Police Station	x	x	3.50-4.00%	-	-	-	-	-	-	-	-	-	-	-				
1/15/2003		17,646,075	School Construction	x	x	3.00-5.00%	-	-	-	-	-	-	-	-	-	-	-				
1/15/2003		9,523,925	School Construction	x	x	3.00-5.00%	-	-	-	-	-	-	-	-	-	-	-				
1/15/2003		1,500,000	School Construction	x	x	3.00-5.00%	-	-	-	-	-	-	-	-	-	-	-				
6/1/2003		4,480,000	School Construction	x	x	2.25-4.50%	-	-	-	-	-	-	-	-	-	-	-				
1/1/2005		1,887,447	School Construction	x	x	3.00-5.00%	90,000.00	7,650.00	90,000.00	3,825.00	-	-	-	-	-	-	-				
1/1/2005		577,553	School Construction	x	x	3.00-5.00%	25,000.00	2,125.00	25,000.00	1,062.50	-	-	-	-	-	-	-				
1/1/2005		1,100,000	Parking Garage Repairs	x	x	3.00-5.00%	-	-	-	-	-	-	-	-	-	-	-				
2006		2,330,656	Water-MWPAT-DW-05-12	N/A	x	2.00%	132,058.00	9,568.52	134,726.00	6,900.68	137,447.00	4,178.95	140,224.00	1,402.24	-	-	-				
10/15/2007		6,885,633	High School	x	x	4.125-5.00%	345,000.00	63,206.26	345,000.00	49,190.63	340,000.00	35,062.50	340,000.00	21,037.50	340,000.00	7,012.50	-				
10/15/2007		3,250,503	Water System Improvements	x	x	4.125-5.00%	160,000.00	29,600.00	160,000.00	23,100.00	160,000.00	16,500.00	160,000.00	9,900.00	160,000.00	3,300.00	-				
10/15/2007		658,864	Police Equipment	x	x	3.750-5.00%	-	-	-	-	-	-	-	-	-	-	-				
10/15/2007		775,000	Ferry Boat Project	x	x	4.00-5.00%	-	-	-	-	-	-	-	-	-	-	-				
BOND TOTAL							752,058	112,150	754,726	84,079	627,447	55,741	640,224	32,340	500,000	10,313	40,343				

HUD Section 108 Loans:

6/30/2004 350,000 HUD Section 108 B-94-MC-25 2.31-5.19%

HUD SECTION 108 TOTAL

752,058	112,150	754,726	84,079	84,079	637,447	55,741	640,224	32,340	500,000	10,313
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TOTAL LONG-TERM DEBT

City of Salem, Massachusetts
Fiscal 2010
Long Term Debt Service By Month
As of February 10, 2009

<u>Purpose</u>	<u>Original Principal</u>	<u>July</u>	<u>August</u>	<u>September</u>	<u>October</u>	<u>November</u>	<u>December</u>	<u>January</u>	<u>February</u>	<u>March</u>	<u>April</u>	<u>May</u>	<u>June</u>	<u>Total</u>
1 School Remodeling	\$7,000,000 Principal		75,000.00											75,000.00
	Interest		28,431.25						26,368.75					54,800.00
2 School Renovation	\$1,800,000 Principal		95,000.00											95,000.00
	Interest		18,330.00						15,717.50					34,047.50
General Obligation Bonds of 1996	Principal		170,000.00											170,000.00
Payable August 15 and February 15	Interest		46,761.25						42,086.25					88,847.50
3 Bates School	\$10,705,000 Principal			505,000.00										505,000.00
	Interest			189,326.88						177,964.38				367,291.26
4 Golf Course Clubhouse	\$470,000 Principal			30,000.00										30,000.00
	Interest			5,537.50						4,862.50				10,400.00
5 Swimming Pool	\$450,000 Principal			40,000.00										40,000.00
	Interest			2,760.00						1,860.00				4,620.00
General Obligation Bonds of 2000	Principal			575,000.00										575,000.00
Payable September 15 and March 15	Interest			197,624.38						184,686.88				382,311.26
6 School Project	\$4,710,000 Principal	520,000.00												520,000.00
Refunding	Interest	20,500.00						10,100.00						30,600.00
7 Building Const. Police	\$2,935,000 Principal	293,000.00												293,000.00
Refunding	Interest	17,590.00						11,720.00						29,300.00
8 School Project	\$6,495,000 Principal	647,000.00												647,000.00
Refunding	Interest	37,820.00						24,880.00						62,700.00
General Obligation Bonds of 2001	Principal	1,460,000.00												1,460,000.00
Payable July 15 and January 15	Interest	75,900.00						46,700.00						122,600.00
9 School Project	\$17,646,075 Principal													
Bowditch School	Interest	297,487.50						740,000.00						740,000.00
10 School Project	\$9,523,925 Principal							297,487.50						594,975.00
Carlton School	Interest	160,426.88						400,000.00						400,000.00
11 School Project	\$1,500,000 Principal							160,426.88						320,853.76
Bates School	Interest	22,815.00						80,000.00						80,000.00
General Obligation Bonds of 2003	Principal							1,220,000.00						1,220,000.00
Payable July 15 and January 15	Interest	480,729.38						480,729.38						961,458.76
12 School Project-Refunding	\$4,480,000 Principal	485,000.00												485,000.00
General Obligation Bonds of 2003	Interest	31,118.75						24,450.00						55,568.75
Payable July 15 and January 15	Principal	485,000.00												485,000.00
13 Parking Garage	\$1,100,000 Principal							24,450.00						55,568.75
14 Witchcraft Elementary	Interest	16,243.75						75,000.00						75,000.00
15 Carlton School	\$1,887,447 Principal							16,243.75						32,487.50
	Interest	30,749.38						95,000.00						95,000.00
General Obligation Bonds of 2005	\$577,553 Principal							30,749.38						61,498.76
Payable July 1 and January 1	Interest	9,291.25						30,000.00						30,000.00
16 Water - MWPAT - DW-05-12	\$2,330,656 Principal	56,284.38						200,000.00						200,000.00
17 High School	Interest	99,806.00						56,284.38						112,588.76
18 Police Equipment	\$6,865,633 Principal													
19 Ferry Boat	\$658,864 Principal									129,496.88				129,496.88
20 Water System Improv.	\$775,000 Principal									10,825.00				23,775.00
General Obligation Bonds of 2007	Interest	\$3,250,503 Principal						15,425.00		13,925.00				60,000.00
Payable July 1 and January 1	Interest	65,093.75						165,000.00		60,968.75				29,350.00
	Principal	655,000.00												165,000.00
	Interest	231,590.63												126,062.50
Total		2,044,806.00	170,000.00	575,000.00	655,000.00	0.00	0.00	1,420,000.00	0.00	0.00	0.00	0.00	0.00	4,864,806.00
Grand Total		665,441.59	46,761.25	197,624.38	231,590.63	0.00	0.00	628,574.78	42,086.25	184,686.88	215,215.63	0.00	0.00	2,211,981.39
(1) Does not include HUD 108 1995-A loans		2,710,247.59	216,761.25	772,624.38	886,590.63	0.00	0.00	2,048,574.78	42,086.25	184,686.88	215,215.63	0.00	0.00	7,076,787.39

**Fiscal 2010
Short Term Debt Service By Month**

Purpose	Principal	July	August	September	October	November	December	January	February	March	April	May	June	Total
School	3,380,000				121,680.00									121,680.00
Sewer	940,000				33,840.00									33,840.00
Fire Departmental Equipment	440,000				15,840.00									15,840.00
Water	2,825,000				101,700.00									101,700.00
Police Equipment	185,000				6,660.00									6,660.00
Golf Course	100,000				3,600.00									3,600.00
Other General	960,000				34,560.00									34,560.00
Deficit Paydown (1)	855,000				145,000.00									145,000.00
Deficit Interest					30,780.00									30,780.00
Total	9,685,000	0.00	0.00	0.00	493,660.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	493,660.00
Total Debt Service														
Total		2,044,806.00	170,000.00	575,000.00	655,000.00	0.00	0.00	1,420,000.00	0.00	0.00	0.00	0.00	0.00	4,964,806.00
Principal		665,441.59	46,761.25	197,624.38	725,250.63	0.00	0.00	628,574.78	42,086.25	184,686.88	215,215.63	0.00	0.00	2,705,641.39
Interest		2,710,247.59	216,761.25	772,624.38	1,380,250.63	0.00	0.00	2,048,574.78	42,086.25	184,686.88	215,215.63	0.00	0.00	7,570,447.39
Grand Total														

(1) Paydown based on 7 year equal principal schedule.

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. The target funding date is projected to occur by fiscal year 2013. 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).

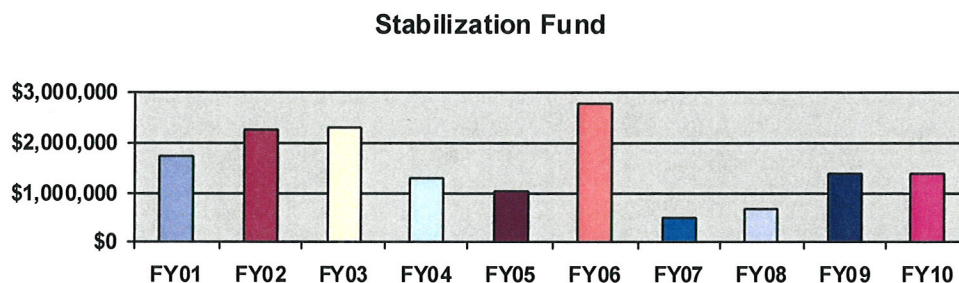
The stabilization fund should only be used for the following circumstances:

1. When net State Aid (receipts less assessments) is reduced by an amount less than the average of the prior two years.
2. 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).
3. When there is a catastrophic or emergency event(s) that cannot be supported by current general fund appropriations.

In FY 2009 there were two transfers made from the general fund to the stabilization fund. The first transfers equaled \$222,990.00 which was 20% of the free cash certification and in December \$500,000 was transferred to stabilization when the tax rate was set.

In FY 2010, there is no money budgeted to be transferred to the stabilization fund. Should factors changes between now and the time the actual tax rate is set, or once Free Cash has been certified, there could be transfers to the stabilization fund at that time.

Stabilization Fund			
Fiscal Year	Balance	Fiscal Year	Balance
2001	1,713,814	2006	277,759
2002	2,248,337	2007	487,980
2003	2,278,823	2008	648,947
2004	1,297,417	2009	1,382,691 As of 5/13
2005	1,021,351	2010	1,382,691 Estimated



Retirement Stabilization Fund

The Retirement Stabilization Fund was created in FY 2009 to fund all appropriations for sick and vacation time earned by an employee as regulated by collective bargaining agreements or City of Salem policy for non-union and management employees. When budget season begins, the finance department will request each department to determine if there are any employees in their department who may be retiring. Departments (including Salem Public Schools) will submit list of employees and the anticipated amounts of each employee's retirement buyout.

The Finance Department will calculate the cumulative amount of anticipated retirement dollars needed for the following year's budget and incorporate the amount into the Mayor's recommended budget submitted to Council. Starting in Fiscal year 2010, a line item has been added to the budget to account for retirement anticipations. This line item will be reviewed and voted on by the City Council as it does with other budgets.

Once Council approves the budget, the funds are then booked into the Retirement Stabilization Fund as voted. Appropriations both into and from the Retirement Stabilization Fund require a 2/3 vote of the City Council.

1. The fund is limited to 10% of the prior year's tax levy.

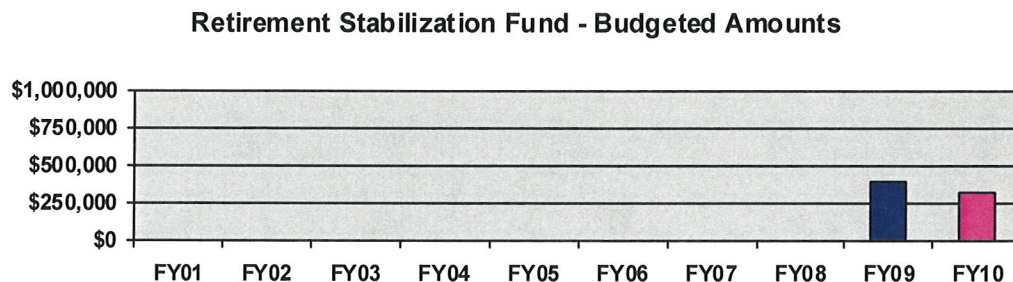
2. All interest earned in the Retirement Stabilization Fund will stay with the Fund.

Any appropriations that are not used during the fiscal year will be carried over into the next fiscal year as a fund balance. All employees who are on the list will then be compensated at retirement for their accrued sick, vacation, and other benefits that they are entitled once approved by both Human Resources and the Department Head.

If an employee retires that was not anticipated (nor budgeted for in the Retirement Stabilization Fund), the department head shall submit a request to the Mayor for a supplemental appropriation for the amount due to the employee who is retiring. The Mayor and Finance Director will consider the request and fund it from surplus Retirement Stabilization funds, other available funds or have the department fund the costs within their operating budget if other funds are unavailable.

In FY 2010 we budgeted \$325,000 to be transferred from the General Fund to the Retirement Stabilization Fund to cover anticipated retirements with the City and School during the year.

Retirement Stabilization Fund – Budgeted Amounts			
Fiscal Year	Balance	Fiscal Year	Balance
2001		2006	
2002		2007	
2003		2008	
2004		2009	400,000
2005		2010	325,000 Budgeted



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.

- 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).

As of FY 2010 no funds have been allocated to this fund.

Capital Project Fund – Short-Term Supplemental Miscellaneous & Unanticipated Funds

The City of Salem uses a capital project fund to supplement the short-term capital needs of the City.

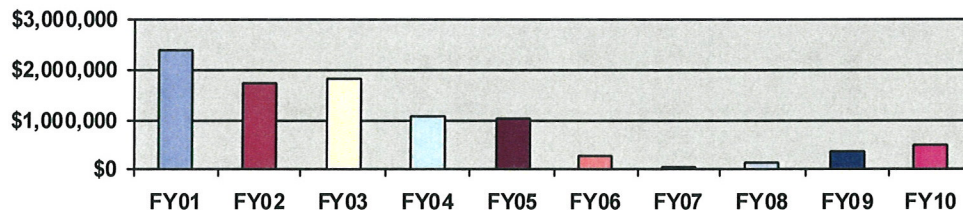
1. Twenty percent of any free cash available after funding #1 above will be allocated from free cash to the Capital Improvement Program (CIP) Fund.

These funds are used during the fiscal year for to supplement the Capital Improvement Plan (Section 7) for unanticipated or emergency equipment or repairs as needed, or for those items that don't meet the CIP criteria (value > \$25,000 and a life expectancy of 5 or more years).

In FY 2009, \$222,990 (20%) of the free cash was allocated to the CIP fund. In FY 2010 we have budgeted \$100,000 to be transferred from the General Fund to the Capital Projects Fund to cover short term capital needs during the fiscal year. Additional funds (20% of free cash) could be transferred once the Free Cash has been certified by the Department of Revenue (DOR).

Capital Project Fund – Short Term			
Fiscal Year	Balance	Fiscal Year	Balance
2001	2,369,246	2006	265,606
2002	1,704,045	2007	53,259
2003	1,823,015	2008	146,131
2004	1,070,569	2009	374,577 As of 5/13
2005	1,027,976	2010	474,577 Estimated

Capital Project Fund - Short Term



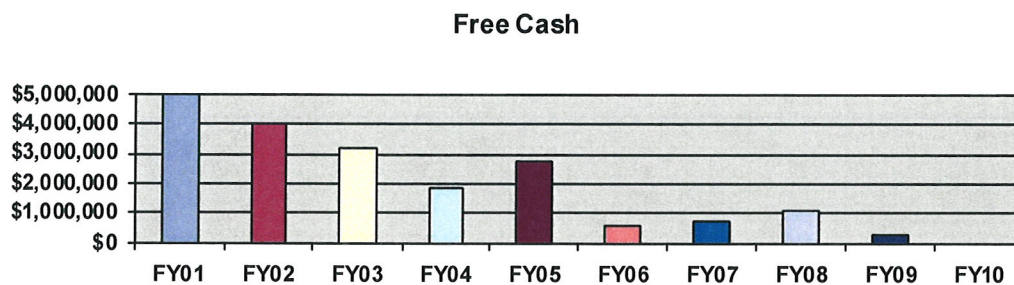
Free Cash

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 unfunded 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.

Free Cash			
Fiscal Year	Balance	Fiscal Year	Balance
2001	4,965,894	2006	538,372
2002	4,010,382	2007	691,149
2003	3,212,194	2008	1,114,950
2004	1,867,737	2009	244,778 As of 5/13
2005	2,732,090	2010	0 Estimated



Retained Earnings – Enterprise Funds

Retained Earnings is the portion of Net Assets Unrestricted that is certified by the Department of Revenue as available for appropriation. Certification requires submission of a June 30 balance sheet accompanied by all information necessary to calculate free cash in the General Fund. Once certified, retained earnings may be appropriated through the following June 30 and no appropriation may be in excess of the certified amount.

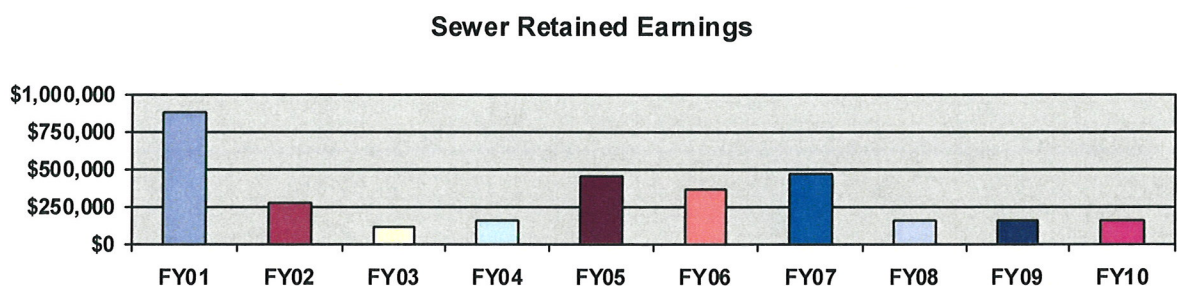
Retained earnings may be appropriated to:

1. Fund direct costs of the enterprise for the current fiscal year;
2. Fund costs appropriated in the General Fund operating budget and allocated to the enterprise for the current fiscal year;
3. Reimburse the General or other fund for subsidized capital costs of the enterprise not already reimbursed for the two full, immediately prior, fiscal years.

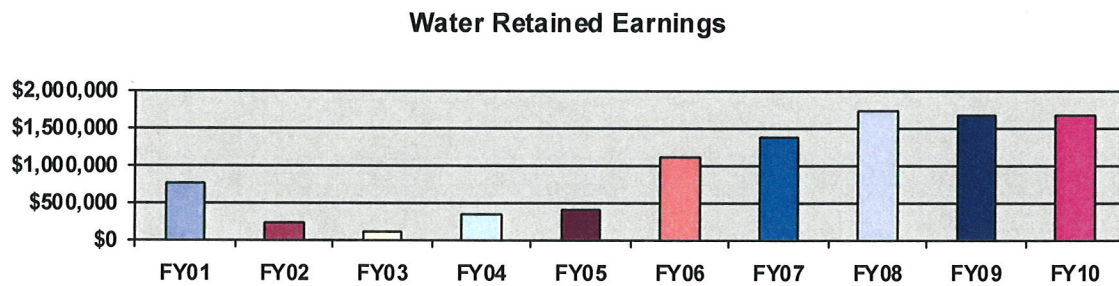
The City of Salem generally uses Water & Sewer retained earnings to fund capital improvements that may come up during the fiscal year as well as emergency repairs needed due to water or sewer main breaks or other related repairs. Some capital equipment may be funded during the year from these as well.

The following are the Sewer and Water retained earnings as of June 30 of each Fiscal Year. The Trash Enterprise fund is NOT a self-supporting fund and therefore has no retained earnings.

Sewer Retained Earnings			
Fiscal Year	Balance	Fiscal Year	Balance
2001	883,227	2006	364,610
2002	279,516	2007	471,874
2003	119,625	2008	168,999
2004	166,402	2009	165,999 As of 5/13
2005	463,387	2010	165,999 Estimated



Water Retained Earnings			
Fiscal Year	Balance	Fiscal Year	Balance
2001	760,396	2006	1,109,910
2002	245,930	2007	1,382,302
2003	121,221	2008	1,743,685
2004	365,429	2009	1,674,685
2005	412,058	2010	0
			As of 5/13 Estimated



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 CD'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 CD's. (Up to one year) which are fully collateralized through a third party agreement: Unlimited amounts

5. Bank accounts and CD'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 CD'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. CD'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.

DEBT POLICY

Capital Improvement Projects

When the city finances capital projects by issuing bonds, it will pay back the bonds within a period not to exceed the expected useful life of the project. Total net debt service payments from general obligation debt will not exceed five (5) percent of total annual operating budget as listed on part 1a of the annual tax rate recapitulation as submitted to the Department of Revenue. Per the total amount to be raised on the FY09 Tax Rate Recapitulation Sheet - \$125,133,648.97, this limit would be \$6,256,683. The FY10 amount would be calculated on the actual amount to be raised on the FY10 RECAP sheet.

Debt will only be issued for capital that is valued greater than \$25,000, and has a depreciable life of five (5) or more years. A cash flow statement will be required for each project funded with long term debt. Total general obligation debt will not exceed the limits provided in the state statutes.

Whenever possible, the city will use special revenue funds, special assessments, or other self-supporting bonds, instead of general obligation bonds. The city will not use long-term debt for current operations unless otherwise allowed via special legislation.

The city will maintain good communications with bond rating agencies about its financial condition. The city will follow a policy of full disclosure on every financial report and bond prospectus.

General Information on Debt Authorization and Legal Limit

Notes and notes including refunding notes are generally authorized on behalf of the City by vote of two-thirds of all the members of the City Council with the approval of the Mayor. Provision is made for a referendum on the filing of a petition bearing the requisite number of signatures. Borrowings for certain purposes require state administrative approval. When serial bonds or notes have been authorized, bond anticipation notes may be issued by the officers authorized to issue the serial bonds or notes. Temporary loans in anticipation of certain state and county reimbursements are generally authorized by majority vote but provision is made for temporary loans in anticipation of current revenues and federal grants and for other purposes in certain circumstances without City Council authorization.

The general debt limit of the City consists of a normal debt limit and a double debt limit. The normal debt limit is 5 percent of the valuation of taxable property as last equalized by the State Department of Revenue. The City can authorize debt up to this amount without State approval. It can authorize debt up to twice this amount (the double debt limit) with the approval of the State's Municipal Finance Oversight Board. Based on the

City's equalized valuation (EQV) of \$5,168,060,200, effective January 1, 2009, its normal debt limit is \$258,403,010 and its double debt limit is \$516,806,020.

There are many categories of general obligation debt which are exempt from and do not count against the general debt limit. Among others, these exempt categories include revenues anticipation notes and grant anticipation notes; emergency loans exempted by special laws, bonds for water (limited to 10 percent of equalized valuation), housing, urban renewal and economic development (subject to various debt limits) and electric, gas, community antenna television systems, and telecommunication systems (subject to separate limits. Revenue bonds and water pollution abatement revenue bonds are not subject to these debt limits. The general debt limit and the special debt limit for water bonds apply at the time debt is authorized. The other special debt limits generally apply at the time the debt is incurred.

The amount borrowed in each fiscal year by the issue of revenue anticipation notes is limited to the tax levy of the prior fiscal year, together with the net receipts in the prior fiscal year from the motor vehicle excise and certain payments made by the Commonwealth in lieu of taxes. The fiscal year ends on June 30. Notes may mature in the following fiscal year, and notes may be refunded into the following fiscal year to the extent of the uncollected, unabated current tax levy and certain other items, including revenue deficits, overlay deficits, final judgments and lawful un-appropriated expenditures, which are to be added to the next tax levy, but excluding deficits arising from a failure to collect taxes of earlier years. In any event, the period from an original borrowing to its final maturity cannot exceed one year.

Types of Obligations

General Obligations - Massachusetts cities and towns are authorized to issue general obligation indebtedness of the following types:

Serial Bonds and Notes.- These are generally required to be payable in equal or diminishing annual principal amounts beginning no later than the end of the next fiscal year commencing after the date of issue and ending within the terms permitted by law. Level debt service is permitted for bonds and notes issued for certain purposes including self supporting enterprise purposes, certain state aided school projects and for projects for which debt service has been exempted from property tax limitations. The maximum terms vary from one year to 40 years, depending on the purpose of the issue. Most of the purposes are capital projects. Bonds or notes may be made callable and redeemed prior to their maturity, and a redemption premium may be paid. Refunding bonds or notes may be issued subject to the maximum term measured from the date of the original bonds or notes. Serial bonds may be issued as "qualified bonds" with the approval the state Municipal Finance Oversight Board consisting of the Attorney General, the State Treasurer, the State Auditor, and the Director of Accounts, subject to such conditions and limitations (including restrictions on future indebtedness) as may be required by the Board. Qualified bonds may mature in not less than 10 or more than 30 years from their dates and are not subject to the amortization requirements described above. The State

Treasurer is required to pay the debt service on qualified bonds and thereafter to withhold the amount of the debt service from state aid or other state payments. Administrative costs and any loss of interest income to the State are to be assessed upon the city or town.

Bond Anticipation Notes (BAN). These generally must mature within two years of their original dates of issuance but may be refunded from time to time for a period not to exceed five years from their original dates of issuances, provided that (except for notes issued for certain school projects that have been approved for state school construction aid) for each year that the notes are refunded beyond the second year they must be paid in part from revenue funds in an amount at least equal to the minimum annual payment that would have been required if the bonds had been issued at the end of the second year. The maximum term of bonds issued to refund bond anticipation notes is measured from the date of the original issue of the notes, (except for certain school projects).

Revenue Anticipation Notes (RAN). These are issued to meet current expenses in anticipation of taxes and other revenues. They must mature within one year but, if payable in less than one year, may be refunded from time to time up to one year from the original date of issue. (Such notes may be extended beyond fiscal year end in an amount not exceeding current receivables.)

Grant Anticipation Notes (GAN). These are issued for temporary financing in anticipation of federal grants and state and county reimbursements. Generally they must mature within two years, but may be refunded from time to time as long as the municipality remains entitled to the grant or reimbursement.

Revenue Bonds - Cities and towns may issue revenue bonds for solid waste disposal facilities and for projects financed under the Commonwealth's Water Pollution Abatement or Drinking Water Revolving Loan Programs and for certain economic development projects supported by tax increment financing. In addition to general obligation bonds and notes, cities and towns having electric departments may issue electric revenue bonds, and notes in anticipation of such bonds, subject to the approval of the State Department of Telecommunications and Energy.