

City of Salem
Five Year Financial Forecast
FY 2011 - 2015

Updated 5/26/2011

	% INC/DEC FY11 v FY12	% INC/DEC FY13-FY15	FY11 RECAP	FY12 MAYOR - REC	FY13 PROJECTED	FY14 PROJECTED	FY15 PROJECTED
REVENUES							
TOTAL: TAX LEVY	3.32%	see above	72,993,129	75,417,957	77,909,406	80,469,201	83,099,112
TOTAL: LOCAL RECEIPTS	-5.32%		12,883,000	12,198,000	11,606,075	11,896,227	12,193,633
CHERRY SHEET REVENUE	4.35%	1.00%	23,966,838	25,008,703	25,258,790	25,511,378	25,766,492
SCHOOL BLDG ASSISTANCE	per SBA	per SBA	4,310,837	3,521,535	2,534,339	2,534,330	2,534,339
OFS - RECURRING	6.46%	2.50%	974,070	1,037,042	1,061,968	1,087,517	1,113,705
OFS - NON RECURRING	0.00%	0.00%	0	0	0	0	0
TOTAL ENTERPRISE FUND REVENUE	6.17%	varies	12,965,906	13,766,502	14,087,526	14,401,574	14,785,731
TOTAL REVENUES	2.23%		128,093,780	130,949,739	132,458,104	135,900,227	139,493,011
EXPENDITURES							
TOTAL: GENERAL GOVERNMENT	-0.48%	3.00%	4,350,461	4,329,537	4,459,423	4,593,206	4,731,002
TOTAL: PUBLIC SAFETY	2.54%	varies	16,313,544	16,728,235	17,533,425	18,377,938	19,263,712
TOTAL: PUBLIC WORKS & FACILITIES	1.64%	varies	3,168,739	3,220,679	3,346,249	3,477,625	3,615,083
TOTAL: HUMAN SERVICES	9.34%	3.00%	841,621	920,210	947,816	976,251	1,005,538
TOTAL: CULTURAL AND RECREATIONAL	2.62%		2,259,204	2,318,374	2,387,925	2,459,563	2,533,350
TOTAL FIXED COSTS	0.92%		23,049,732	23,262,179	24,967,835	26,816,597	28,821,331
DEBT SERVICE - LONG TERM	1.84%	varies	6,521,152	6,641,058	5,604,684	5,584,884	4,926,909
DEBT SERVICE - FY2012 CIP					643,610	1,121,019	1,089,191
DEBT SERVICE - SHORT TERM	-79.71%	varies	172,472	35,000	100,000	100,000	100,000
ASSESSMENT - NORTH SHORE VOC.	0.79%	5.00%	1,588,602	1,601,211	1,681,272	1,765,335	1,853,602
ESSEX AGGIE/NORTH SHORE VOC MERGER		varies			90,460	180,920	452,299
CITY EXPENDITURE TOTAL	1.36%		58,265,527	59,056,483	61,762,699	65,453,337	68,392,018
SCHOOL EXPENDITURE TOTAL	2.85%		47,532,631	48,886,000	50,352,580	51,863,157	53,419,052
TOTAL: WATER ENTERPRISE	12.28%	varies	4,035,893	4,531,381	4,607,909	4,692,386	4,780,840
TOTAL: SEWER ENTERPRISE	4.10%	varies	6,827,791	7,108,047	7,339,430	7,545,560	7,763,151
TOTAL: TRASH ENTERPRISE	4.57%	3.00%	2,620,249	2,739,981	2,822,180	2,906,846	2,994,051
ENTERPRISE FUND EXPENDITURE TOTAL	6.64%		13,483,933	14,379,409	14,769,519	15,144,792	15,538,042
TOTAL - CITY, SCHOOL, AND ENTERPRISE	2.55%		119,282,091	122,321,892	126,884,798	132,461,287	137,349,112
TOTAL: OTHER EXPENDITURES	37.40%		1,358,218	1,866,154	1,617,812	1,645,148	1,673,178
TOTAL EXPENDITURES	2.60%		127,632,887	130,949,739	135,534,770	141,419,882	146,628,275
BUDGET GAP			460,894	0	-3,076,666	-5,519,654	-7,135,264

Five Year Financial Forecast - Narrative FY2011 through FY2015

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 news of Dominion closing the Power Plant in 2014 has been the most significant item to be addressed in term of long term planning. Additionally, the Salem Public Schools will be opening a new Charter School that will need to be funded and accounted for beginning in FY2012. This new Charter School was established to help curb the dropout rate in the City while keeping the Chapter 70 funds in tact.

The City of Salem will also see the effect of a full year's worth of local options meals tax (.75%) and local options hotel/motel tax (1.0%) in FY2012. It is expected that the City will realize \$825,000 from the two local options in FY2012. Due to the nature of these revenues, we will expect to see this revenue remain steady for FY2012 and beyond.

Furthermore, the rising costs in providing health insurance for our employees and retirees have created a great challenge not only in balancing the FY2012 budget, but also keeping the costs of health care affordable and manageable beyond FY2012. Currently there are bills being debated to help municipalities control costs of health insurance, providing some of the same options that the Commonwealth has when it comes to modifying copayments to health insurance providers without collective bargaining, so long as the benefits are comparable with the State's Group Insurance Commission's most popular plan (Tufts Navigator). The percentage contributions will still have to be bargained with the unions.

The five year forecast is assumed to be realistic in its assumptions, both for revenue and expenditures. Revenue forecasting is based upon historical trends as well as current economic conditions. Expenditure forecasting is based upon the same factors, as well as known facts that pertain to specific sectors (i.e. collective bargaining agreements, long term contracts, debt service, etc.). Further detail as to the forecasted revenues and expenses are as follows:

Revenues

Tax Levy: \$75,417,957

The tax levy is the City's primary revenue source, comprising approximately 65% of the City's total general fund revenues. Residential property values pay 69.8% of the total property taxes, while commercial, industrial, and personal property values pay 30.2%. The City has a split tax rate of 1.65, which translates to a residential rate of \$15.01/m. and commercial rate of \$29.08/m. for FY2011.

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's Assessor has seen a dramatic drop in all of the above listed growth categories due to the poor economic climate. The City has typically averaged approximately \$900,000 per year in new growth; however, it is recommended by the City's Assessor that the growth estimate to be used for FY2012 should be \$600,000.

Local Receipts: \$12,198,000

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 5.3% for FY2012 due primarily to expiration of the Dominion tax agreement. Estimated non-recurring revenues have been decreased by \$875,000 (50%) due to the hold harmless language that expires on December 31, 2011. It is expected that the hold harmless agreement will reimburse us for at least half of the "host fee" of \$1.75 million that we've received in FY2011.

Most other local receipts are level funded, except for motor vehicle excise, which has been increased by \$190,000, which is \$100,000 less than the three year average of receipts. Also, miscellaneous recurring receipts have been decreased by \$200,000 due to anticipated decreases in Medicaid reimbursements from school related expenses. For purposes of forecasting, it is estimated that local recurring receipts will increase by 2.5% for FY2013-FY2015.

Cherry Sheet Revenue (State Aid): **\$25,008,703**

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 increased the estimated state aid to the City of Salem by approximately \$1 million from the FY2011 amount. However, this is a misleading because most of the increase is attributable to increases to the Chapter 70 account (\$18.5 million in FY12 vs. \$17 million in FY2011) which will replace the expiring dollars the schools received from the State Fiscal Stabilization Fund (SFSF) which was funded through the American Recovery and Reinvestment Act of 2009 (ARRA).

Unrestricted General Government Aid has been reduced by \$422,000 (from \$5.83 million to \$5.41 million). The two accounts (Chapter 70 and UGGA) account for the lion's share of the cherry sheet dollars; as such, the total increase to State Aid for FY2012 will go up 4.4%.

It is difficult to gauge the amount that the Commonwealth will allocate to the 351 municipalities due to the volatile economy. Nevertheless, we need to assume a figure for purposes of completing the five-year financial forecast. Therefore, it is predicted that the State will increase the FY2012 appropriation by 1% each year through FY2015. We hope that this is a conservative estimate; however, it could be quite the opposite.

School Building Assistance: **\$3,521,535**

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 FY2012 through FY2015.

Enterprise Fund Revenue: \$13,766,502

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 \$5,231,992 and \$7,884,510 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 have various increases over the next four fiscal years depending on the costs of assessments from the Salem Beverly Water Supply Board and the South Essex Sewer District, as well as the debt service from some of the major projects underway in the City, including the installation of new water meters throughout the City, the reconstruction of several water mains, the Highland Ave. Water tank construction, the rehabilitation of the Gallows and Folly Hill storage tanks, South River Basin upgrades, and the Forrester St. relief drain.

The Solid Waste Enterprise fund, established in FY08, does not recoup all operating costs. However, the \$650,000 estimated revenues will cover approximately 24% of the total cost of \$2,739,981 in FY2012. The revenues from the Solid Waste Enterprise fund are projected to be flat through FY2015, as the fee is not expected to change in the near future.

Other Financial Resources – Recurring: \$1,037,042

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 departments.

The City also has one “offset receipt” account for the Electrical department, used to pay the City Electricians for their work on fire systems of commercial properties. This account is expected to be level funded for the foreseeable future.

The City has not budgeted any non-recurring “other financial resources” for FY2011 through FY2014.

Expenses

General Government: \$4,329,537

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 FY2013 through FY2015.

Public Safety: \$16,728,235

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 police and fire and 3% for inspectional services, electrical and harbormaster for FY2013 through FY2015. These increased are expected due to the historical costs of 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: \$3,220,679

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 FY2015. Engineering and parking expense increase are expected to increase by 3% per year through FY2015, and the snow and ice budget will be level funded through FY2015.

Human Services: \$920,210

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, although the increase of veterans returning from war may put additional pressures on the veterans' budget which is primarily driven by costs of veterans' benefits.

Cultural and Recreation: \$2,318,374

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: \$23,262,179

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 approximately 18% of the total budget in FY2011. 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 FY2013 through FY2015 for each fixed cost are as follows:

- Health Insurance: 10%
 - Average increase statewide over the last several years.
- Retirement Assessment: 4.5%
 - Per actuarial report of 1/1/10.
- Retirement Anticipation Stabilization Fund: 5%
 - This fund is for those employees who retire and are due sick/vacation buyback.
- Capital Improvement Fund: various
 - This fund is typically used for unexpected capital purchases/repairs, however, the FY2012 Capital Improvement Program has proposed to fund \$254,217 into this account to pay for many capital needs throughout the City. By using this approach, the City will not look to issue long term bonds for these projects/equipment purchases. The City plans to fund the CIP with \$200,000 per year through FY2015 and beyond.
- 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 Compensation: 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 FY12).
- Non – Contributory Pension: -3%
 - Negative number due to the shrinking number of those retirees who are part of this group.

Fixed Costs – Debt Service: \$6,676,058

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: \$1,601,211

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 5% through FY2015.

Education: \$48,886,000 plus \$764,000 for new Charter School

The School Committee oversees the budget process for the schools, and it has approved a budget of \$48,886,000 for FY2012 regular school, an increase of \$1,353,369 that was approved in fiscal year 2011 (\$47,532,631). Additional funds have been budgeted (\$764,000) to fund the new Charter School that will begin operation in September of 2011.

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: \$14,379,409

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 FY2013 to FY2015 as follows:

- Water Enterprise
 - Personnel: 3%
 - Expenses: 3%
 - Assessments: 3%
 - Debt Service: per debt schedule (actual and projected)
- Sewer Enterprise
 - Personnel: 3%
 - Expenses: 3%
 - Assessments: 3%
 - Debt Service: per debt schedule (actual and projected)

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

Cherry Sheet Assessment: \$6,761,693

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 (\$1,931,725), mosquito control projects, RMV non-renewal surcharge, MBTA, and tuition assessment. This year's overall assessments have decreased by 3.3% (decrease of \$230,885) from last year's assessment of \$6,992,578.

It is projected that the Cherry Sheet assessment from the Commonwealth will increase 4% from FY2012 to FY2014.

Other Expenditures: \$1,866,154

- Overlay: \$975,349
 - 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 vary in its increases due to the triennial certifications of values per the DOR and the increased values of properties throughout the City. Typically, a municipality will increase its overlay on certification years (our next triennial will occur in FY2013) due to the adjustments typically made to conform to all Massachusetts General Laws for assessing property taxes.
- Snow and Ice Deficit \$775,000
 - The winter season of FY2011 was severe and left us with a deficit of over \$900,000 to raise as part of the FY2012 tax rate certification process. Some of these expenses have been offset by school funds, leaving the City with a balance of \$775,000 to raise on the FY2012 recap. It is anticipated that future deficits will decrease in future fiscal years. The amount has been increased to \$500,000 for FY2013 and level funded for FY2014 and FY2015.

- Cherry Sheet Offset: \$75,805
 - 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 FY2013 to FY2015.

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 FY2012 budget will continue to be the basis for all future financial planning for the City of Salem.

Long-Term Debt Obligations
Fiscal Year 2011 - 2031

Date of Issue	Original Issue	Project	O/S	Pmt Sch	Interest Rate (%)	Outstanding at June 30, 2011	2012		2013		2014		2015		2016	
							Principal	Intererst	Principal	Interest	Principal	Intererst	Principal	Interest	Principal	Intererst
Bonds:																
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%	612,000.00	612,000.00	12,240.00	-	-	-	-	-	-	-	-
8/1/2001	2,935,000	Police Station	x	x	3.50-4.00%	293,000.00	293,000.00	5,860.00	-	-	-	-	-	-	-	-
1/15/2003	17,646,075	School Construction	x	x	3.00-5.00%	12,280,000.00	805,000.00	540,100.00	840,000.00	509,912.50	875,000.00	476,312.50	915,000.00	441,312.50	950,000.00	404,712.50
1/15/2003	9,523,925	School Construction	x	x	3.00-5.00%	6,625,000.00	435,000.00	291,328.76	455,000.00	275,016.26	470,000.00	256,816.26	495,000.00	238,016.26	515,000.00	218,216.26
1/15/2003	1,500,000	School Construction	x	x	3.00-5.00%	920,000.00	85,000.00	39,655.00	90,000.00	36,467.50	95,000.00	32,867.50	100,000.00	29,067.50	100,000.00	25,067.50
6/1/2003	4,480,000	School Construction	x	x	2.25-4.50%	925,000.00	465,000.00	27,675.00	460,000.00	10,350.00	-	-	-	-	-	-
1/1/2005	1,887,447	School Construction	x	x	3.00-5.00%	1,315,000.00	95,000.00	55,561.26	95,000.00	52,331.26	95,000.00	47,581.26	95,000.00	42,831.26	95,000.00	38,081.26
1/1/2005	577,553	School Construction	x	x	3.00-5.00%	395,000.00	30,000.00	16,707.50	30,000.00	15,687.50	30,000.00	14,187.50	30,000.00	12,687.50	30,000.00	11,187.50
1/1/2005	1,100,000	Parking Garage Repairs	x	x	3.00-5.00%	650,000.00	75,000.00	27,800.00	75,000.00	25,250.00	75,000.00	21,500.00	75,000.00	17,750.00	75,000.00	14,000.00
2006	2,330,656	Water-MWPAT-DW-05-12	N/A	x	2.00%	1,939,280.00	103,880.00	37,746.80	105,978.00	35,648.22	108,119.00	33,507.25	110,303.00	31,323.03	112,532.00	29,094.68
10/15/2007	6,885,633	High School	x	x	4.125-5.00%	5,850,000.00	345,000.00	233,118.76	345,000.00	215,868.76	345,000.00	200,343.76	345,000.00	186,543.76	345,000.00	173,175.01
10/15/2007	3,250,503	Water System Improvements	x	x	4.125-5.00%	2,750,000.00	165,000.00	109,562.50	165,000.00	101,312.50	165,000.00	93,887.50	165,000.00	87,287.50	165,000.00	80,893.75
10/15/2007	658,864	Police Equipment	x	x	3.750-5.00%	400,000.00	80,000.00	15,400.00	80,000.00	11,400.00	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%	595,000.00	60,000.00	23,350.00	60,000.00	20,350.00	60,000.00	17,650.00	60,000.00	15,250.00	60,000.00	12,925.00
1/19/2010	8,285,000	G.O. State Qual Refunding*	x	x	2.00-5.00%	8,285,000.00	870,000.00	254,975.00	840,000.00	237,875.00	1,400,000.00	194,475.00	840,000.00	146,875.00	850,000.00	121,525.00
10/15/2010	7,464,000	Water Bonds	x	x	3.00 & 4.00%	7,464,000.00	444,000.00	269,860.00	440,000.00	256,600.00	440,000.00	243,400.00	440,000.00	230,200.00	440,000.00	217,000.00
10/15/2010	1,690,000	Sewer Bonds	x	x	3.00 & 4.00%	1,690,000.00	105,000.00	61,125.00	100,000.00	58,050.00	95,000.00	55,125.00	95,000.00	52,275.00	95,000.00	49,425.00
10/15/2010	1,995,000	CIP 2009 Bonds	x	x	3.00 & 4.00%	1,995,000.00	245,000.00	64,525.00	245,000.00	57,175.00	235,000.00	49,975.00	225,000.00	43,075.00	210,000.00	36,550.00
10/15/2010	4,224,000	CIP 2010 Bonds	x	x	3.00 & 4.00%	4,224,000.00	394,000.00	143,760.00	390,000.00	132,000.00	385,000.00	120,375.00	380,000.00	108,900.00	380,000.00	97,500.00
BOND TOTAL						54,983,280.00	5,706,880.00	2,230,350.58	4,815,978.00	2,051,294.50	4,953,119.00	1,865,803.53	4,450,303.00	1,687,994.31	4,502,532.00	1,530,853.46
HUD Section 108 Loans:																
6/30/2004	350,000	HUD Section 108 B-94-MC-25			2.31-5.19%	140,000	35,000.00	6,168.75	35,000.00	4,462.50	35,000.00	2,705.50	35,000.00	908.25		
HUD SECTION 108 TOTAL						140,000.00	35,000.00	6,168.75	35,000.00	4,462.50	35,000.00	2,705.50	35,000.00	908.25		
TOTAL LONG-TERM DEBT						55,123,280.00	5,741,880.00	2,236,519.33	4,850,978.00	2,055,757.00	4,988,119.00	1,868,509.03	4,485,303.00	1,688,902.56	4,502,532.00	1,530,853.46

*Refinanced 1/19/10 as General Obligation State Qualified Bond

Long-Term Debt Obligations

Fiscal Year 2011 - 2031

Date of Issue	Original Issue	Project	2017		2018		2019		2020		2021		2022		2023	
			Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Bonds:																
9/15/2000	10,705,000	Bates School Construction*	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9/15/2000	450,000	Swimming Pool*	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9/15/2000	470,000	Golf Course*	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8/1/2001	4,710,000	School Construction	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8/1/2001	6,495,000	School Construction	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8/1/2001	2,935,000	Police Station	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1/15/2003	17,646,075	School Construction	990,000.00	365,525.00	1,035,000.00	323,450.00	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	535,000.00	196,972.50	560,000.00	174,235.00	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	105,000.00	20,942.50	110,000.00	16,480.00	115,000.00	11,750.00	120,000.00	6,000.00	-	-	-	-	-	-
6/1/2003	4,480,000	School Construction	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1/1/2005	1,887,447	School Construction	95,000.00	34,281.26	95,000.00	30,481.26	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	30,000.00	9,987.50	30,000.00	8,787.50	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	75,000.00	11,000.00	75,000.00	8,000.00	75,000.00	5,000.00	50,000.00	2,000.00	-	-	-	-	-	-
2006	2,330,656	Water-MWPAT-DIW-05-12	114,805.00	26,821.31	117,124.00	24,502.02	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	345,000.00	159,806.26	345,000.00	146,006.26	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	165,000.00	74,500.00	160,000.00	68,000.00	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	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10/15/2007	775,000	Ferry Boat Project	60,000.00	10,600.00	60,000.00	8,200.00	60,000.00	5,800.00	60,000.00	3,400.00	55,000.00	1,100.00	-	-	-	-
1/19/2010	8,285,000	G.O. State Qual Refunding*	785,000.00	73,300.00	830,000.00	47,887.50	860,000.00	17,200.00	-	-	-	-	-	-	-	-
10/15/2010	7,464,000	Water Bonds	440,000.00	201,600.00	440,000.00	184,000.00	440,000.00	166,400.00	440,000.00	148,800.00	440,000.00	131,200.00	440,000.00	113,600.00	440,000.00	96,000.00
10/15/2010	1,690,000	Sewer Bonds	95,000.00	46,100.00	95,000.00	42,300.00	95,000.00	38,500.00	95,000.00	34,700.00	90,000.00	31,000.00	85,000.00	27,500.00	85,000.00	24,100.00
10/15/2010	1,995,000	CIP 2009 Bonds	150,000.00	30,400.00	140,000.00	24,600.00	135,000.00	19,100.00	130,000.00	13,800.00	130,000.00	8,600.00	30,000.00	5,400.00	30,000.00	4,200.00
10/15/2010	4,224,000	CIP 2010 Bonds	330,000.00	85,200.00	315,000.00	72,300.00	315,000.00	59,700.00	310,000.00	47,200.00	305,000.00	34,900.00	170,000.00	25,400.00	170,000.00	18,600.00
BOND TOTAL			4,314,805.00	1,347,036.33	4,407,124.00	1,179,229.54	4,504,490.00	1,002,760.90	3,686,904.00	824,596.96	3,569,367.00	661,334.25	3,356,880.00	517,921.78	3,434,443.00	374,728.55
HUD Section 108 Loans:																
6/30/2004	350,000	HUD Section 108 B-94-MC-25	-	-	-	-	-	-	-	-	-	-	-	-	-	-
HUD SECTION 108 TOTAL			-	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL LONG-TERM DEBT			4,314,805.00	1,347,036.33	4,407,124.00	1,179,229.54	4,504,490.00	1,002,760.90	3,686,904.00	824,596.96	3,569,367.00	661,334.25	3,356,880.00	517,921.78	3,434,443.00	374,728.55

*Refinanced 1/19/10 as General Obligation State Qualified Bond

Long-Term Debt Obligations
Fiscal Year 2011 - 2031

Date of Issue	Original Issue	Project	2024		2025		2026		2027		2028		2029		2030		2031	
			Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Bonds:																		
9/15/2000	10,705,000	Bates School Construction*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9/15/2000	450,000	Swimming Pool*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9/15/2000	470,000	Golf Course*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8/1/2001	4,710,000	School Construction	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8/1/2001	6,495,000	School Construction	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8/1/2001	2,935,000	Police Station	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1/15/2003	17,646,075	School Construction	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1/15/2003	9,523,925	School Construction	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1/15/2003	1,500,000	School Construction	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6/1/2003	4,480,000	School Construction	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1/1/2005	1,887,447	School Construction	90,000.00	7,650.00	90,000.00	3,825.00	-	-	-	-	-	-	-	-	-	-	-	-
1/1/2005	577,553	School Construction	25,000.00	2,125.00	25,000.00	1,062.50	-	-	-	-	-	-	-	-	-	-	-	-
1/1/2005	1,100,000	Parking Garage Repairs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2006	2,330,656	Water-MWPAT-DW-05-12	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	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	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	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10/15/2007	775,000	Ferry Boat Project	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1/19/2010	8,285,000	G.O. State Qual Refunding*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10/15/2010	7,464,000	Water Bonds	435,000.00	78,500.00	435,000.00	61,100.00	430,000.00	43,800.00	230,000.00	30,600.00	230,000.00	21,400.00	230,000.00	12,200.00	95,000.00	5,700.00	95,000.00	1,900.00
10/15/2010	1,690,000	Sewer Bonds	85,000.00	20,700.00	85,000.00	17,300.00	85,000.00	13,900.00	85,000.00	10,500.00	85,000.00	7,100.00	85,000.00	3,700.00	50,000.00	1,000.00	-	-
10/15/2010	1,995,000	CIP 2009 Bonds	30,000.00	3,000.00	30,000.00	1,800.00	30,000.00	600.00	-	-	-	-	-	-	-	-	-	-
10/15/2010	4,224,000	CIP 2010 Bonds	170,000.00	11,800.00	170,000.00	5,000.00	40,000.00	800.00	-	-	-	-	-	-	-	-	-	-
BOND TOTAL			1,472,058.00	226,149.78	1,474,726.00	169,278.81	1,222,447.00	114,841.45	955,224.00	73,439.74	815,000.00	38,812.50	315,000.00	15,900.00	145,000.00	6,700.00	95,000.00	1,900.00
HUD Section 108 Loans:																		
6/30/2004	350,000	HUD Section 108 B-94-MC-25	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
HUD SECTION 108 TOTAL			-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL LONG-TERM DEBT			1,472,058.00	226,149.78	1,474,726.00	169,278.81	1,222,447.00	114,841.45	955,224.00	73,439.74	815,000.00	38,812.50	315,000.00	15,900.00	145,000.00	6,700.00	95,000.00	1,900.00
*Refinanced 1/19/10 as General Obligation State Qualified Bond																		

City of Salem, Massachusetts
Fiscal 2012
Long Term Debt Service By Month
As of May 18, 2011

Purpose	1710	Original Principal		July	August	September	October	November	December	January	February	March	April	May	June	Total
1 Building Const. Police	5910	\$2,935,000	Principal	293,000.00												293,000.00
Refunding	5930		Interest	5,860.00												5,860.00
2 School Project	5900	\$6,495,000	Principal	612,000.00												612,000.00
Refunding	5943		Interest	12,240.00												12,240.00
General Obligation Bonds of 2001			Principal	905,000.00												905,000.00
Payable July 15 and January 15			Interest	18,100.00												18,100.00
3 School Project	5908A	\$17,646,075	Principal	0.00						805,000.00						805,000.00
Bowditch School	5948A		Interest	270,050.00						270,050.00						540,100.00
4 School Project	5908E	\$9,523,925	Principal	0.00						435,000.00						435,000.00
Carlton School	5948B		Interest	145,664.38						145,664.38						291,328.76
5 School Project	5908C	\$1,500,000	Principal	0.00						85,000.00						85,000.00
Bates School	5948C		Interest	19,827.50						19,827.50						39,655.00
General Obligation Bonds of 2003			Principal	0.00						1,325,000.00						1,325,000.00
Payable July 15 and January 15			Interest	435,541.88						435,541.88						871,083.76
6 School Project	5908D	\$4,480,000	Principal	465,000.00						0.00						465,000.00
Refunding	5948D		Interest	17,325.00						10,350.00						27,675.00
General Obligation Bonds of 2003			Principal	465,000.00						0.00						465,000.00
Payable July 15 and January 15			Interest	17,325.00						10,350.00						27,675.00
7 Parking Garage	5908E	\$1,100,000	Principal	0.00						75,000.00						75,000.00
	5948E		Interest	13,900.00						13,900.00						27,800.00
8 Witchcraft Elementary	5908F	\$1,887,447	Principal	0.00						95,000.00						95,000.00
	5948F		Interest	27,780.63						27,780.63						55,561.26
9 Carlton School	5908G	\$577,553	Principal	0.00						30,000.00						30,000.00
	5948G		Interest	8,353.75						8,353.75						16,707.50
General Obligation Bonds of 2005			Principal	0.00						200,000.00						200,000.00
Payable July 1 and January 1			Interest	50,034.38						50,034.38						100,068.76
10 MWPAT DW-05-12	610034 5916	\$2,330,656	Principal	103,880.00						0.00						103,880.00
	610034 5936		Interest	19,392.80						18,354.00						37,746.80
MWPAT DW-05-12			Principal	103,880.00						0.00						103,880.00
Payable July 15 and January 15			Interest	19,392.80						18,354.00						37,746.80
11 High School	5908H	\$6,885,633	Principal				345,000.00						0.00			345,000.00
	5948H		Interest				120,871.88						112,246.88			233,118.76
12 Police Equipment	5910A	\$658,864	Principal				80,000.00						0.00			80,000.00
	5930A		Interest				8,700.00						6,700.00			15,400.00
13 Ferry Boat Project	5918	\$775,000	Principal				60,000.00						0.00			60,000.00
	5938		Interest				12,425.00						10,925.00			23,350.00
14 Water System Improvements	610034 5920	\$3,250,503	Principal				165,000.00						0.00			165,000.00
	610034 5939		Interest				56,843.75						52,718.75			109,562.50
General Obligation Bonds of 2007			Principal				650,000.00						0.00			650,000.00
Payable October 15 and April 15			Interest				198,840.63						182,590.63			381,431.26
15 School Remodeling	5919A	\$870,000	Principal			80,000.00						0.00				80,000.00
Refunding			Interest			17,275.00						16,475.00				33,750.00
16 School Renovations	5919B	\$545,000	Principal			100,000.00						0.00				100,000.00
Refunding			Interest			6,575.00						5,575.00				12,150.00
17 Bates School	5919C	\$6,656,100	Principal			617,300.00						0.00				617,300.00
Refunding			Interest			105,015.50						98,842.50				203,858.00
18 Golf Course Clubhouse	5919D	\$172,000	Principal			32,000.00						0.00				32,000.00
Refunding			Interest			2,565.00						2,245.00				4,810.00
19 Swimming Pool	5919E	\$41,900	Principal			40,700.00						0.00				40,700.00
Refunding			Interest			407.00						0.00				407.00
General Obligation State Qualified Bonds of 2010			Principal			870,000.00						0.00				870,000.00
Payable September 1 and March 1			Interest			131,837.50						123,137.50				254,975.00
20 Water Systems Improvement		\$1,964,000	Principal			104,000.00						0.00				104,000.00
			Interest			36,760.00						35,200.00				71,960.00
21 Water Meters		\$3,000,000	Principal			200,000.00						0.00				200,000.00
			Interest			55,000.00						52,000.00				107,000.00
22 Water Main		\$2,500,000	Principal			140,000.00						40,000.00				180,000.00
			Interest			46,500.00						90,900.00				137,400.00
23 Sewer Pump Station		\$190,000	Principal			15,000.00						0.00				15,000.00

City of Salem, Massachusetts
Fiscal 2012
Long Term Debt Service By Month
As of May 18, 2011

Purpose	1710	Original Principal	July	August	September	October	November	December	January	February	March	April	May	June	Total
24 South River Basin Upgrade		Interest			3,500.00						3,275.00				6,775.00
		Principal			90,000.00						0.00				90,000.00
25 Golf Course Dept. Equip		Interest			27,850.00						26,500.00				54,350.00
		Principal			10,000.00						0.00				10,000.00
26 Dump Truck		Interest			1,750.00						1,600.00				3,350.00
		Principal			10,000.00						0.00				10,000.00
27 DPW Equipment		Interest			1,075.00						925.00				2,000.00
		Principal			10,000.00						0.00				10,000.00
28 Engineering Infrastructure		Interest			1,075.00						925.00				2,000.00
		Principal			15,000.00						0.00				15,000.00
29 Engineering Seawalls		Interest			2,625.00						2,400.00				5,025.00
		Principal			5,000.00						0.00				5,000.00
30 Police Vehicles		Interest			875.00						800.00				1,675.00
		Principal			15,000.00						0.00				15,000.00
31 Police Equipment		Interest			1,050.00						825.00				1,875.00
		Principal			10,000.00						0.00				10,000.00
32 Police Radar		Interest			750.00						600.00				1,350.00
		Principal			5,000.00						0.00				5,000.00
33 Police Range Repair		Interest			375.00						300.00				675.00
		Principal			10,000.00						0.00				10,000.00
34 Fire Pumper Truck		Interest			600.00						450.00				1,050.00
		Principal			25,000.00						0.00				25,000.00
35 Turnout Gear Equipment		Interest			6,875.00						6,500.00				13,375.00
		Principal			10,000.00						0.00				10,000.00
36 Parking Equipment		Interest			525.00						375.00				900.00
		Principal			5,000.00						0.00				5,000.00
37 Witch House		Interest			875.00						800.00				1,675.00
		Principal			5,000.00						0.00				5,000.00
38 Departmental Equipment		Interest			875.00						800.00				1,675.00
		Principal			5,000.00						0.00				5,000.00
39 Forest River Pool		Interest			875.00						800.00				1,675.00
		Principal			20,000.00						0.00				20,000.00
40 Forest River Park		Interest			2,850.00						2,550.00				5,400.00
		Principal			5,000.00						0.00				5,000.00
41 Willow Public Bathroom		Interest			875.00						800.00				1,675.00
		Principal			10,000.00						0.00				10,000.00
42 Fire Alarm Receiver		Interest			1,750.00						1,600.00				3,350.00
		Principal			5,000.00						0.00				5,000.00
43 Traffic Signal		Interest			475.00						400.00				875.00
		Principal			20,000.00						0.00				20,000.00
44 School Fire Alarm Systems		Interest			1,500.00						1,200.00				2,700.00
		Principal			15,000.00						0.00				15,000.00
45 School Buses		Interest			2,225.00						2,000.00				4,225.00
		Principal			15,000.00						0.00				15,000.00
46 School Infrastructure		Interest			2,325.00						2,100.00				4,425.00
		Principal			5,000.00						0.00				5,000.00
47 School Equipment		Interest			1,375.00						1,300.00				2,675.00
		Principal			10,000.00						0.00				10,000.00
48 Parking Multi Space Meters		Interest			525.00						375.00				900.00
		Principal			10,000.00						0.00				10,000.00
49 Parking Posts & Signage		Interest			750.00						600.00				1,350.00
		Principal			10,000.00						0.00				10,000.00
50 Police Vehicles 2		Interest			750.00						600.00				1,350.00
		Principal			30,000.00						0.00				30,000.00
51 Fire SCBA Compressor		Interest			2,100.00						1,650.00				3,750.00
		Principal			5,000.00						0.00				5,000.00
52 Public Service Equip. & Vehicles		Interest			875.00						800.00				1,675.00
		Principal			30,000.00						0.00				30,000.00
53 Public Service Garage Doors		Interest			5,150.00										9,850.00
		Principal			5,000.00										5,000.00

City of Salem, Massachusetts
Fiscal 2012
Long Term Debt Service By Month
As of May 18, 2011

Purpose	1710	Original Principal	July	August	September	October	November	December	January	February	March	April	May	June	Total
54 Roads, Sidewalks & Crosswalks		Interest			475.00						400.00				875.00
		Principal			110,000.00						0.00				110,000.00
55 Playground Equipment		Interest			27,250.00						25,600.00				52,850.00
		Principal			5,000.00						0.00				5,000.00
56 Furlong Park Remodeling		Interest			875.00						800.00				1,675.00
		Principal			24,000.00						0.00				24,000.00
57 Willows Gazebo Roof		Interest			5,235.00						4,875.00				10,110.00
		Principal			5,000.00						0.00				5,000.00
58 Roads, Sidewalks & Crosswalks 2		Interest			375.00						300.00				675.00
		Principal			10,000.00						0.00				10,000.00
59 Canal St. Improvement Design		Interest			2,750.00						2,600.00				5,350.00
		Principal			35,000.00						0.00				35,000.00
60 Storage Tanks		Interest			8,725.00						8,200.00				16,925.00
		Principal			100,000.00						0.00				100,000.00
61 School Ballfield Remodeling		Interest			17,500.00						16,000.00				33,500.00
		Principal			10,000.00						0.00				10,000.00
62 School Field House Remodeling		Interest			1,350.00						1,200.00				2,550.00
		Principal			5,000.00						0.00				5,000.00
		Interest			675.00						600.00				1,275.00
General Obligation State Qualified Bonds of 2010		Principal			1,188,000.00						0.00				1,188,000.00
Payable September 1 and March 1		Interest			278,545.00						260,725.00				539,270.00
Total		Principal	1,473,880.00	0.00	2,058,000.00	650,000.00	0.00	0.00	1,525,000.00	0.00	0.00	0.00	0.00	0.00	5,706,880.00
		Interest	540,394.06	0.00	410,382.50	198,840.63	0.00	0.00	514,280.26	0.00	383,862.50	182,590.63	0.00	0.00	2,230,350.58
Grand Total			2,014,274.06	0.00	2,468,382.50	848,840.63	0.00	0.00	2,039,280.26	0.00	383,862.50	182,590.63	0.00	0.00	7,937,230.58

(1) Does not include HUD 108 1995-A loans.

Fiscal 2012
Short Term Debt Service By Month

Purpose	Amount Borrowed	July	August	September	October	November	December	January	February	March	April	May	June	Total
Wharf Expansion - State Aid Anticipation Note	\$3,000,000 Interest				30,000.00									30,000.00
Total	3,000,000	0.00	0.00	0.00	30,000.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	30,000.00
Total Debt Service														
Total	Principal	1,473,880.00	0.00	2,058,000.00	650,000.00	0.00	0.00	1,525,000.00	0.00	0.00	0.00	0.00	0.00	5,706,880.00
	Interest	540,394.06	0.00	410,382.50	228,840.63	0.00	0.00	514,280.26	0.00	383,862.50	182,590.63	0.00	0.00	2,260,350.58
Grand Total		2,014,274.06	0.00	2,468,382.50	878,840.63	0.00	0.00	2,039,280.26	0.00	383,862.50	182,590.63	0.00	0.00	7,967,230.58

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 general fund operating budget (5.7M based on 2012 budget). The target funding date is projected to occur by fiscal year 2020. 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).

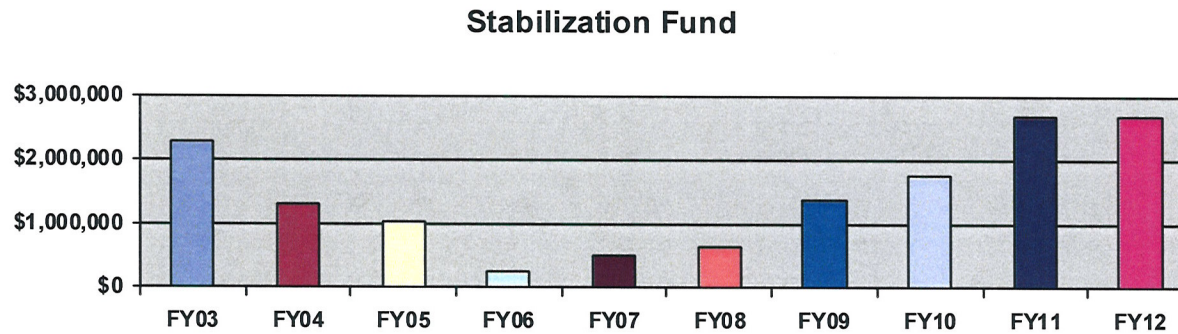
The stabilization fund should only be used for the following circumstances:

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 2011 there was a transfer made from the general fund to the stabilization fund. The transfer was \$150,122.00 which was 20% of the free cash certification.

In FY 2012, we are not anticipating any budget amount 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. We anticipate 20% of the FY 2011 Free cash certification to be transferred to stabilization as per policy.

Stabilization Fund			
Fiscal Year	Balance	Fiscal Year	Balance
2003	2,278,823	2008	648,947
2004	1,297,417	2009	1,371,937
2005	1,021,351	2010	1,752,400
2006	277,759	2011	2,682,464
2007	487,980	2012	2,700,000
			As of 5/15 Estimated



Retirement Stabilization Fund

The Retirement Stabilization Fund was created in FY 2008 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 was 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.

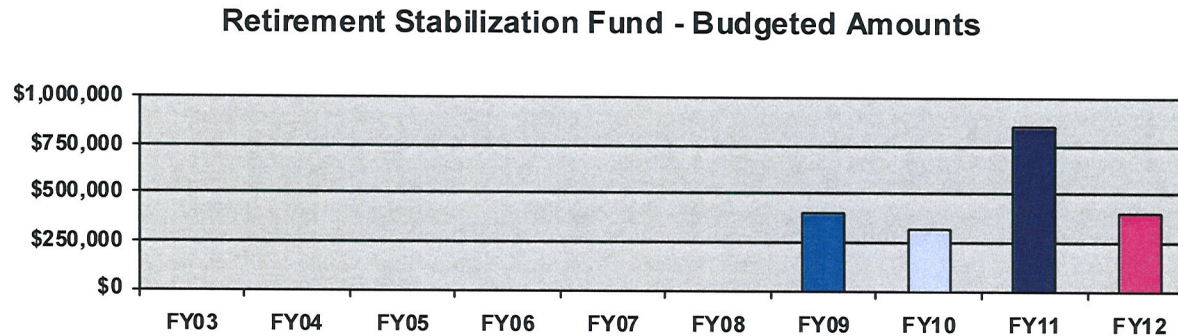
1. The fund is limited to 10% of the prior year's tax levy.
2. All interest earned in the Retirement Stabilization Fund will stay with the Fund.

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 2011 we budgeted \$850,000 to be transferred from the General Fund to the Retirement Stabilization Fund to cover anticipated retirements with the City and School during the year. In FY 2012 we are budgeting 400,000 to be transfer to this fund.

Retirement Stabilization Fund – Budgeted Amounts				
Fiscal Year	Budgeted	Fiscal Year	Budgeted	
2003		2008		
2004		2009	400,000	
2005		2010	325,000	
2006		2011	850,000	
2007		2012	400,000	Budgeted



Other Post Employment Benefit (GASB 45)

The City is mandated by the Governmental Accounting Standards Board (GASB) to start accounting for Other Post Employment Benefit (OPEB) as outlined in statement 45. In FY 2011 the City Council voted to establish n OPEB Stabilization Fund. We anticipate funding this account through annual appropriation from certified free cash as we do for our Capital Project and our Stabilization fund.

- Initially, ten percent of any free cash certified 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).

Other Post Employment Benefit (OPEB)					
Fiscal Year	Balance	Fiscal Year	Balance		
2003		2008			
2004		2009	0		
2005		2010	0		
2006		2011	0		
2007		2012	10,000	Estimated	



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.

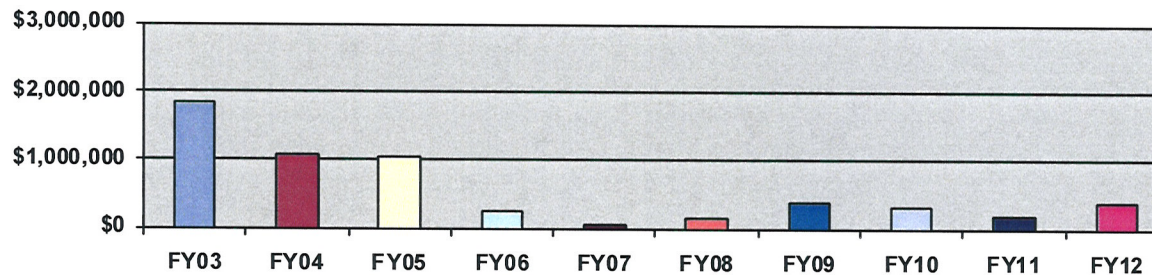
1. Twenty percent of any free cash available after funding #1 above will be allocated from free cash to the Capital Improvement Program (CIP) Fund.

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 2011, \$150,122 (20%) of the free cash was allocated to the CIP fund. In FY 2012 we have budgeted \$200,000 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). We estimate the FY 2012 beginning fund balance to be 177,173.

Capital Project Fund – Short Term			
Fiscal Year	Balance	Fiscal Year	Balance
2003	1,823,015	2008	146,131
2004	1,070,569	2009	367,567
2005	1,027,976	2010	309,240
2006	265,606	2011	177,173 As of 4/30
2007	53,259	2012	377,173 Estimated

Capital Project Fund - Short Term



Free Cash

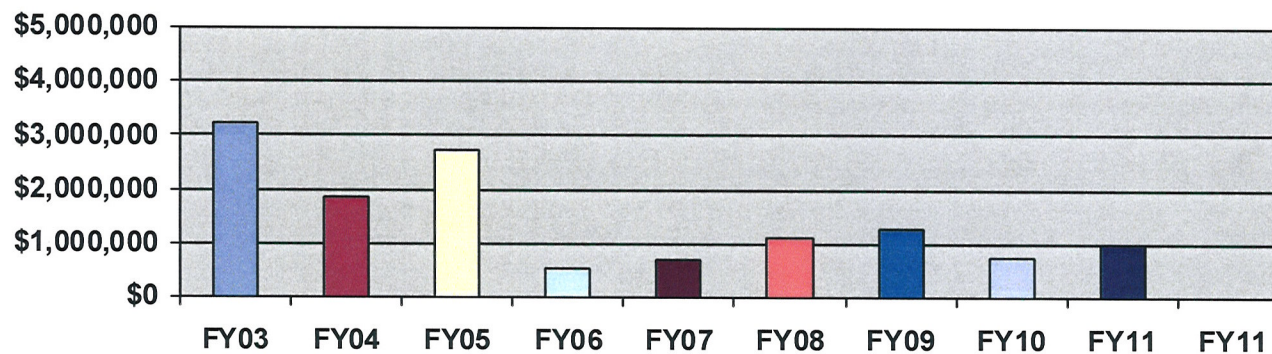
Free cash is the remaining, unrestricted funds from operations of the previous fiscal year including unexpended free cash from the previous year, actual receipts in excess of revenue estimates shown on the tax rate recapitulation sheet, and unspent amounts in budget line-items. Unpaid property taxes 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 un-funded liabilities related to employee benefits, including Health Insurance Trust Fund, Workers' Compensation Fund, Unemployment Fund, and any health benefits payable through Police and Fire operating budgets (111f settlements). Free Cash available may also be used to augment general fund appropriations for expenses that increased due to extraordinary and/or unforeseen events as detailed by the department head of the affected budget. We do anticipate approximately \$1,000,000 in free cash for 6/30/11 due to bond premiums received in FY 2011 that were unanticipated.

Free Cash Certified by DOR					
Fiscal Year	Certified		Fiscal Year	Certified	
2003	3,212,194		2008	1,114,950	
2004	1,867,737		2009	1,261,200	
2005	2,732,090		2010	750,607	
2006	538,372		2011	1,000,000	Estimated
2007	691,149		2012	0	Estimated

Free Cash



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.

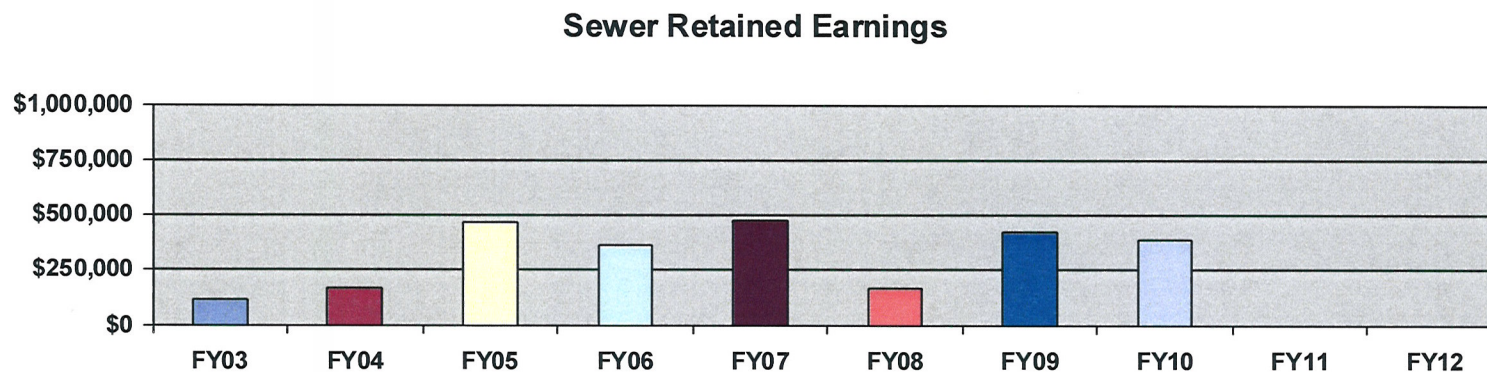
Retained earnings may be appropriated to:

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.

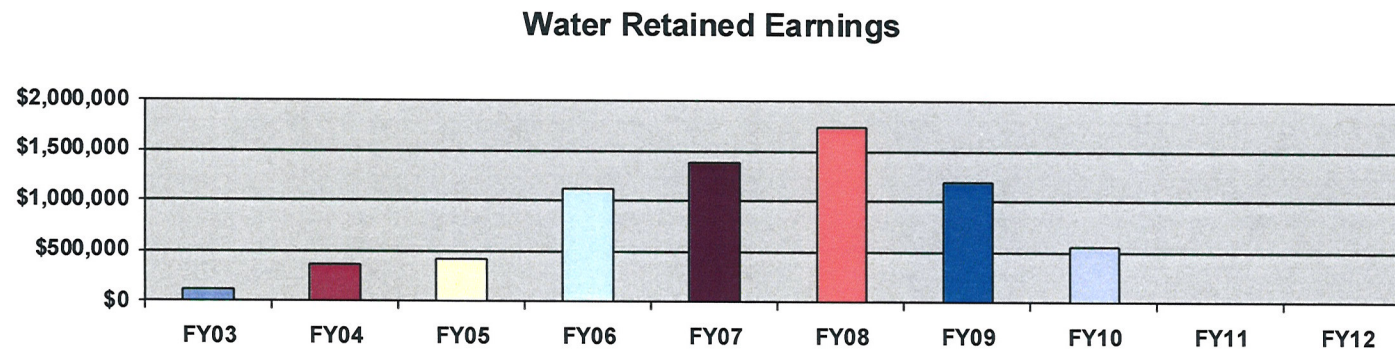
The City of Salem generally uses Water & Sewer retained earnings to fund capital improvements that may come up during the fiscal year as well as emergency repairs needed due to water or sewer main breaks or other related repairs. Some capital equipment may be funded during the year from these as well.

The following are the Sewer and Water retained earnings as of June 30 of each Fiscal Year. The Trash Enterprise fund is not currently a self-supporting fund and only had minimal retained earnings of \$7,905.00 on 6/30/10. We do not anticipate any balance for 6/30/11.

Sewer Retained Earnings Certified by DOR					
Fiscal Year	Certified		Fiscal Year	Certified	
2003	119,625		2008	168,999	
2004	166,402		2009	424,141	
2005	463,387		2010	388,323	
2006	364,610		2011	0	Estimated
2007	471,874		2012	0	Estimated



Water Retained Earnings Certified by DOR			
Fiscal Year	Certified	Fiscal Year	Certified
2003	121,221	2008	1,743,685
2004	365,429	2009	1,189,261
2005	412,058	2010	552,230
2006	1,109,910	2011	0 Estimated
2007	1,382,302	2012	0 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%

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

Bond Ratings – Upgraded

On October 11, 2010 the City of Salem received notification from Standard and Poor's that they City's bond rating was increased from AA- to A based on their view of the City's improved financial management procedures and sound budgeting practices. The increased bond rating will help decrease the City's borrowing costs and send a positive message with regard to the City's approach to budgeting both operational and capital needs.

The bond rating upgrade is a great acknowledgement of all of the City's work to improve the management of its finances. This is a confirmation that, despite the down economy, Salem is managing its resources as well as it can.

Reasons for the upgrade cited by Standard and Poor's include the City's improved financial management procedures which began in 2007 and budget changes that eliminated the negative general fund balance in FY 2008 allowing for structurally balanced budgets in FY 2009 and FY 2010. A stable area employment and good household incomes, extremely strong per capita market values and low net debt position are other reasons mentioned for the bond rating increase.

Moody's recalibrated local government ratings in Massachusetts, including regional school and other districts. On April 26, 2010, Moody's upgraded the City of Salem's bond rating from A2 to Aa3.

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 FY11 Tax Rate Recapitulation Sheet - \$128,166,683.85, this limit would be \$6,408,329.19. The FY12 amount would be calculated on the actual amount to be raised on the FY12 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 \$4,568,374,700, effective January 1, 2011, its normal debt limit is \$228,418,735 and its double debt limit is \$456,837,470.

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.