

Enterprise Fund Overview

What is an Enterprise Fund

An enterprise fund establishes a separate accounting and financial reporting mechanism for municipal services for which a fee is charged in exchange for goods or services. Under enterprise accounting, the revenues and expenditures of the service are segregated into a separate fund with its own financial statements, rather than commingled with the revenues and expenses of all other governmental activities. Financial transactions are reported using standards similar to private sector accounting. Revenues are recognized when earned and expenses are recognized when incurred, under a full accrual basis of accounting. An enterprise fund provides management and taxpayers with information to measure performance, analyze the impact of financial decisions, determine the costs of providing a service and identify any subsidy from the general fund in providing a service.

Enterprise accounting 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 or other available funds, if any. A community may choose to recover total service costs through user charges, but it is not required.

History

The enterprise fund statute, MGL Ch 44 § 53F ½ (formerly Chapter 41 § 39K), was enacted in 1986. Before that time, communities used special revenue funds authorized under various general laws or special acts in order to separately account for their business type services. These special revenue funds were limited, however, with regard to the services and costs covered. The funds were most commonly authorized for water, gas and electric utility departments and used primarily to account for annual operating costs, not the indirect costs, capital expenditures or fixed assets of the service. The purpose of the enterprise fund statute was to give communities the flexibility to account separately for all financial activities associated with a broader range of municipal services.

New for FY 2014

As part of the FY 2014 budget process the Mayor requested and the City Council approved the adoption of the Massachusetts Department of Revenue Division of Local Services Bulletin 2012-02B (page 3/7) which allows for the combining of water and sewer enterprise funds voted under MGL Ch 44 §53F ½ into a single water-sewer fund. The combined funds will be treated the same as the individual funds were and will have only one certified retained earnings. For operational and accounting purposes the water and sewer enterprise funds will remain separate and distinct funds but will be combined for the purpose of certifying retained earnings and for reporting on the annual Tax Recapitulation report which sets the annual tax rate. This will allow the City to use the Sewer Fund Balance to help offset Water revenue deficits and to help keep the water and sewer rate increases lower for rate payers.

Basis of Accounting

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

The following major proprietary funds are classified as Proprietary funds and audited as such:

- The Sewer Enterprise fund is used to account for the Sewer activities.
- The Water Enterprise fund is used to account for the Water activities.
- The Trash Enterprise fund is used to account for the Trash activities.

The following major proprietary funds are classified by the City as Special Revenue Funds but are audited and reported as proprietary funds:

- The Golf Course Enterprise fund is used to account for the Golf Course activities.

The following major proprietary fund is budgeted and revenue collected as part of the General Fund but is audited and reported as proprietary funds:

- The Parking Department Enterprise fund is used to account for the Parking activities.

For the entire MGL on Enterprise Funds visit the Massachusetts Department of Revenue website:

<http://www.mass.gov/Ador/docs/dls/publ/misc/EnterpriseFundManual.pdf>

**Five Year Financial Forecast
Water and Sewer Enterprise Funds
FY13 - FY17**

Updated 6/26/2013

Desc		FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
<i>projected percent increase</i>		<i>9%</i>	<i>5%</i>	<i>4%</i>	<i>3%</i>	<i>2%</i>
Water Rates	Residential	2.65	2.78	2.89	2.98	3.04
	Non-Residential	3.59	3.77	3.92	4.03	4.11

WATER REVENUE

User Charges	4,853,323	5,095,989	5,299,829	5,458,824	5,568,000
Other Department Revenue	200,000	270,000	280,800	289,224	295,008

WATER RATES

5,053,323	5,365,989	5,580,629	5,748,048	5,863,009
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Retained Earnings Appropriated 218,738

Other Financing Sources (OFS)

Subsidy from Sewer Fund Balance	258,970	136,447	42,120	8,699
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WATER OFS/Trans in

218,738	258,970	136,447	42,120	8,699
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TOTAL WATER REVENUE

5,272,061	5,624,959	5,717,076	5,790,168	5,871,708
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WATER EXPENSES

3% Administration	1,025,597	1,043,638	1,056,365	1,074,947	1,088,056
Insurance Expense (Deductibles)	2,500	2,500	2,500	2,500	2,500
Long Term Debt - existing	1,322,701	1,306,854	1,299,039	1,260,795	1,233,851
Short Term Debt - existing	3,000	3,000			
3% SBWSB Assessment	2,450,815	2,482,531	2,557,007	2,633,717	2,712,729
Retained Earnings Expended					
Reserve Fund					
Other Financing Uses (OFU)					

Subtotal	4,804,613	4,838,523	4,914,911	4,971,959	5,037,136
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2% Indirect Costs

	708,877	786,436	802,165	818,208	834,572
Subtotal	5,513,490	5,624,959	5,717,076	5,790,167	5,871,708

TOTAL WATER EXPENSES

5,513,490	5,624,959	5,717,076	5,790,167	5,871,708
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NET CHANGE IN WATER FUND BALANCE (Projected)	(241,429)	0	0	0	(0)
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NET CHANGE IN WATER/SEWER BALANCE (Projected)	655,080	740,047	617,733	664,550	641,402
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Five Year Financial Forecast
Water and Sewer Enterprise Funds
FY13 - FY17

Updated 6/26/2013

Desc		FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
<i>projected percent increase</i>		4%	5%	4%	3%	2%
Sewer Rates	Residential	5.40	5.67	5.90	6.07	6.20
	Non-Residential < 25,000 cu ft	8.19	8.60	8.94	9.12	9.31
	Non-Residential > 25,000 cu ft	10.49	11.01	11.45	11.68	11.91

SEWER REVENUE

User Charges	7,758,034	8,145,936	8,471,773	8,725,927	8,900,445
Other Department Revenue	225,000	450,000	450,000	450,000	450,000
Intergovernmental-SESD	800,000				

SEWER RATES

8,783,034	8,595,936	8,921,773	9,175,927	9,350,445
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OFS

Retained Earnings Appropriated

SESD Trans In

SESD PILOT SUBSIDY

SEWER OFS/Trans In

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TOTAL SEWER REVENUE

8,783,034	8,595,936	8,921,773	9,175,927	9,350,445
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SEWER EXPENSES

3% Administration	876,113	896,504	902,396	923,399	929,468
Insurance Expenses (Deductibles)	5,000	5,000	5,000	5,000	5,000
Long Term Debt	259,463	248,850	249,275	244,625	239,500
FY14-FY17 New Debt (Canal Street Improvements)		58,500	309,075	303,225	297,375
*Note - 58,500 not in FY2014 budget					
3% SESD Assessment	5,962,900	5,831,817	6,006,772	6,186,975	6,372,584
Retained Earnings Expended					
Other Financial Uses					

Subtotal	7,103,476	7,040,671	7,472,518	7,663,224	7,843,927
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2% Indirect Costs

	783,049	815,218	831,522	848,153	865,116
Subtotal	7,886,525	7,855,889	8,304,040	8,511,377	8,709,043

TOTAL SEWER EXPENSES

7,886,525	7,855,889	8,304,040	8,511,377	8,709,043
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NET CHANGE IN SEWER FUND BALANCE (Projected)

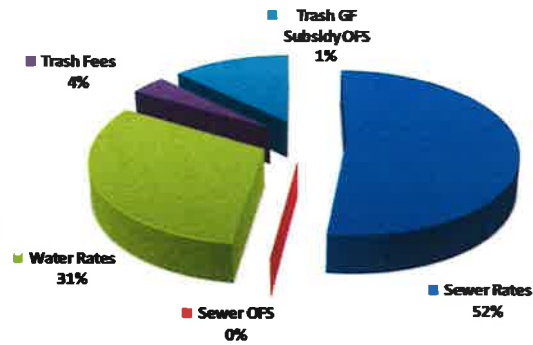
896,509	740,047	617,733	664,550	641,402
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**CITY OF SALEM
ENTERPRISE FUNDS A2 SUMMARY**

	ACTUAL FY 2012	RECAP FY 2013	Estimated FY 2014	Increase % FY 13 VS FY 14	INCREASE FY 13 VS FY 14
REVENUE					
SEWER RATES	7,459,648	7,758,034	8,145,936	5.00%	387,902
OTHER	481,872	225,000	450,000	100.00%	225,000
SEWER TRANS/OFS/GF SUBSIDIES	-	800,000			(800,000)
TOTAL SEWER REVENUE	7,941,520	8,783,034	8,595,936	-2.13%	(187,098)
WATER RATES	4,306,700	4,853,323	5,095,989	5.00%	242,666
OTHER	267,450	200,000	270,000	35.00%	70,000
WATER TRANS/OFS/GF SUBSIDIES/SEWER SUBSIDY	360,000	218,738	258,970	18.39%	40,232
TOTAL WATER REVENUE	4,934,150	5,272,061	5,624,959	6.69%	352,898
TRASH FEES	632,551	600,000	540,000	-10.00%	(60,000)
OTHER	54,283	50,000	45,000	-10.00%	(5,000)
TRASH TRANS/OFS/GF SUBSIDIES	2,047,493	2,160,684	1,839,288	-14.87%	(321,396)
TOTAL TRASH REVENUE	2,734,327	2,810,684	2,424,288	-13.75%	(386,396)
ENTERPRISE FUND TOTAL REVENUE	15,609,997	16,865,779	16,645,183	-1.31%	(220,596)
EXPENDITURES					
SEWER ADMIN	959,824	876,113	896,504	2.33%	20,391
SEWER FIXED COSTS	6,322,958	6,227,363	6,085,667	-2.28%	(141,696)
Sewer -Indirect Costs/OTHER FINANCIAL USES	776,463	783,049	815,218	4.11%	32,169
TOTAL SEWER EXPENDITURES	8,059,245	7,886,525	7,797,389	-1.13%	-89,136
WATER ADMIN	1,016,278	1,025,597	1,043,638	1.76%	18,041
WATER FIXED COSTS	3,546,595	3,779,016	3,794,885	0.42%	15,869
WATER -Indirect Costs/OTHER FINANCIAL USES	700,611	708,877	786,436	10.94%	77,559
TOTAL WATER EXPENDITURES	5,263,484	5,513,490	5,624,959	2.02%	111,469
TRASH PERSONNEL	30,416	34,585	67,078	93.95%	32,493
TRASH NON-PERSONNEL	2,703,912	2,776,099	2,357,210	-15.09%	(418,889)
TRASH -Indirect Costs/OTHER FINANCIAL USES	-	-	-		
TOTAL TRASH EXPENDITURES	2,734,328	2,810,684	2,424,288	-13.75%	32,493
ENTERPRISE FUND TOTAL EXPENDITURES	16,057,057	16,210,699	15,846,636	-2.25%	221,521

ENTERPRISE FUND – A2 REVENUE

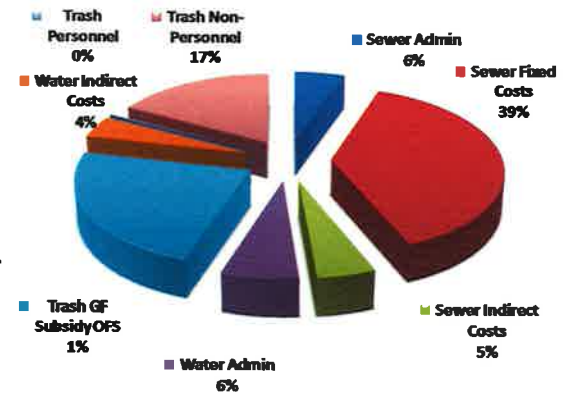
FY 2013



TOTAL \$ 16,865,779

ENTERPRISE FUND – A2 EXPENDITURES

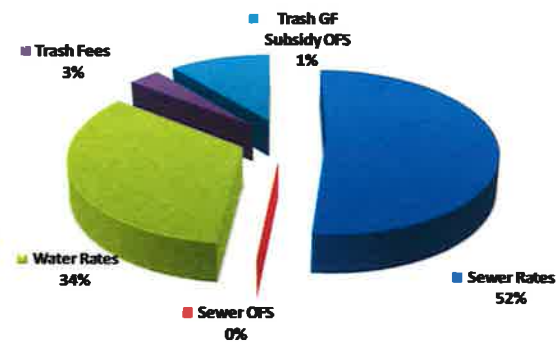
FY 2013



TOTAL \$ 16,210,699

ENTERPRISE FUND – A2 REVENUE

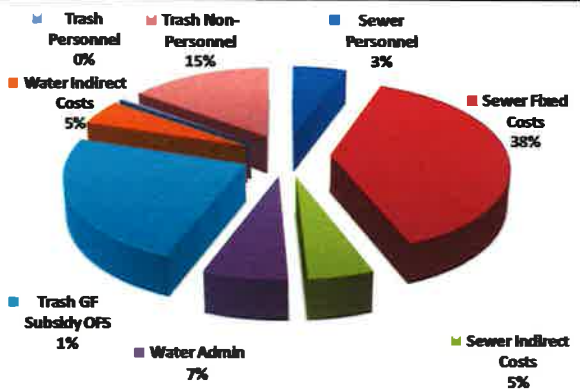
FY 2014



TOTAL \$ 16,645,183

ENTERPRISE FUND – A2 EXPENDITURES

FY 2014



TOTAL \$ 15,846,636

**SCHEDULE A-2
ENTERPRISE FUNDS
SALEM
SEWER ENTERPRISE FUND - FY14**

	FY12 Actual	FY13 Estimated DOR Recap	FY14 Mayor's Recommended	Percentage Change FY13 vs FY14
1. Enterprise Revenues & Available Funds				
User Charges	7,459,648	7,758,034	8,145,936	5.0%
Connection Fees				
Other Departmental Revenue	481,872	225,000	450,000	100.0%
Investment Income				
Intergovernmental-SESD	0	800,000	0	
Total Revenues	7,941,520	8,783,034	8,595,936	-2.1%
Retained Earnings Appropriated (stabilize rates in FY12 - meter install)	148,000	0		
Other Enterprise Available Funds - WS Combined			(798,547)	
Other Enterprise Available Funds	1324			
Total Revenue & Available Funds	8,090,844	8,783,034	7,797,389	-11.2%
2. Total Costs Appropriated				
a. Costs appropriated in enterprise fund				
Public Services	445,781	460,255	502,910	9.3%
Engineernig	514,043	415,858	393,594	-5.4%
Long Term Debt (principal and interest)	166,125	259,463	248,850	-4.1%
Short Term Debt (interest only)	0	0	0	
Other (SESD assessment)	6,140,989	5,962,900	5,831,817	-2.2%
Retained Earnings Expenditures	0			
Insurance Expense (Deductibles)	0	5,000	5,000	0.0%
Enc/Trans Out	15,844			
Total costs appropriated in enterprise fund	7,282,782	7,103,476	6,982,171	-1.7%
b. Costs appropriated in the general fund (to be transferred to enterprise)				
Total costs appropriated in the general fund	776,463	783,049	815,218	4.1%
Total Costs	8,059,245	7,886,525	7,797,389	-1.1%

**SCHEDULE A-2
ENTERPRISE FUNDS
SALEM
SEWER ENTERPRISE FUND - FY14**

	FY12 Actual	FY13 Estimated DOR Recap	FY14 Mayor's Recommended	Percentage Change FY13 vs FY14
3. Calculation of General Fund Subsidy				
Revenue & available funds	8,090,844	8,783,034	7,797,389	-11.2%
less: Total costs	8,059,245	7,886,525	7,797,389	-1.1%
less: Prior year deficit				
(Negative represents general fund subsidy)	31,599	896,509	0	
4. Sources of Funding for Costs Appropriated in the Enterprise Fund				
a. Revenue & available funds	8,059,245	7,886,525	7,797,389	-1.1%
b. Taxation				
c. Free Cash				
d. Non-Enterprise available funds				
Total Sources of Funding for Costs Appropriated in Enterprise Fund	8,059,245	7,886,525	7,797,389	-1.1%

**SCHEDULE A-2
ENTERPRISE FUNDS
SALEM
WATER ENTERPRISE FUND - FY14**

	FY12 Actual	FY13 Estimated DOR recap	FY14 Mayor's Recommended	Percentage Change FY13 vs FY14
1. Enterprise Revenues & Available Funds				
User Charges	4,306,700	4,853,323	5,095,989	5.0%
Connection Fees				
Other Departmental Revenue	267,450	200,000	270,000	35.0%
Investment Income				
Total Revenues	4,574,150	5,053,323	5,365,989	6.2%
Retained Earnings Appropriated (stabilize rates in FY12 - meter install)	360,000			
General Fund Subsidy for PR FY (FY12) Deficit		218,738		
General Fund Subsidy EOFY 2013				
Other Enterprise Available Funds			258,970	
Total Revenue & Available Funds	4,934,150	5,272,061	5,624,959	6.7%
2. Total Costs Appropriated				
a. Costs appropriated in enterprise fund				
Public Services	492,341	500,939	541,144	8.0%
Engineernig	523,937	524,658	502,494	-4.2%
Long Term Debt (principal and interest)	1,130,049	1,322,701	1,306,854	
Short Term Debt (interest only)	0	3,000	3,000	
Other (SBWSB assessment)	2,403,095	2,450,815	2,482,531	1.3%
Retained Earnings Expenditures	0	0	0	
Insurance Expense (Deductibles)	0	2,500	2,500	
Enc/Trans Out	13,451			
Total costs appropriated in enterprise fund	4,562,873	4,804,613	4,838,523	0.7%
b. Costs appropriated in the general fund (to be transferred to enterprise)				
Total costs appropriated in the general fund	700,611	708,877	786,436	10.9%
Total Costs	5,263,484	5,513,490	5,624,959	2.0%

**SCHEDULE A-2
ENTERPRISE FUNDS
SALEM
WATER ENTERPRISE FUND - FY14**

	FY12 Actual	FY13 Estimated DOR recap	FY14 Mayor's Recommended	Percentage Change FY13 vs FY14
<u>3. Calculation of General Fund Subsidy</u>				
Revenue & available funds	4,934,150	5,272,061	5,624,959	6.7%
less: Total costs	5,263,484	5,513,490	5,624,959	2.0%
less: Prior year deficit				
(Negative represents general fund subsidy)	(329,334)	(241,429)	0	
<u>4. Sources of Funding for Costs Appropriated in the Enterprise Fund</u>				
a. Revenue & available funds	5,263,484	5,513,490	5,624,959	2.0%
b. Taxation				
c. Free Cash				
d. Non-Enterprise available funds				
Total Sources of Funding for Costs Appropriated in Enterprise Fund	5,263,484	5,513,490	5,624,959	2.0%

**SCHEDULE A-2
ENTERPRISE FUNDS**

**SALEM
TRASH ENTERPRISE FUND - FY14**

1. Enterprise Revenues & Available Funds

	FY12 Actual	FY13 Estimated DOR Recap	FY 14 Estimated Mayor's Recommended	Percentage Change FY13 vs FY14
User Charges	632,551	600,000	540,000	-10.00%
Other Departmental Revenue	54,283	50,000	45,000	-10.00%
Total Revenues	686,835	650,000	585,000	-10.00%
Retained Earnings Appropriated**				
Other Enterprise Available Funds				
Total Revenue & Available Funds	686,835	650,000	585,000	-10.00%

2. Total Costs Appropriated

a. Costs appropriated in enterprise fund

Salaries	30,416	34,585	67,078	93.95%
Contracted Services - Collection				
Contracted Services - Disposal				
Contracted Services - Collection and Disposal (flat fee)	2,674,291	2,741,149	2,326,760	-15.12%
Other Expenses	29,621	34,950	30,450	-12.88%
Reserve Fund				
Total costs appropriated in enterprise fund	2,734,328	2,810,684	2,424,288	-13.75%

**SCHEDULE A-2
ENTERPRISE FUNDS**

**SALEM
TRASH ENTERPRISE FUND - FY14**

1. Enterprise Revenues & Available Funds

b. Costs appropriated in the general fund (to be transferred to enterprise)

Total costs appropriated in the general fund	0	0	0	
Total Costs	2,734,328	2,810,684	2,424,288	-13.75%

3. Calculation of General Fund Subsidy

Revenue & available funds	686,835	650,000	585,000	-10.00%
less: Total costs	2,734,328	2,810,684	2,424,288	-13.75%
less: Prior year deficit	0	0	0	
(Negative represents general fund subsidy)	(2,047,493)	(2,160,684)	(1,839,288)	-14.87%

4. Sources of Funding for Costs Appropriated in the Enterprise Fund

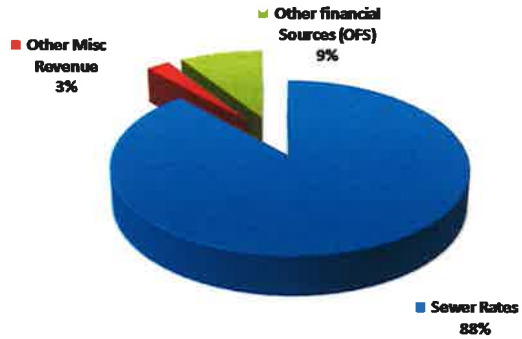
a. Revenue & available funds	686,835	650,000	585,000	-10.00%
b. Taxation	2,089,981	2,160,684	1,839,288	-14.87%
c. Free Cash				
d. Non-Enterprise available funds				
Total Sources of Funding for Costs Appropriated in Enterprise Fund	2,776,816	2,810,684	2,424,288	-13.75%

**CITY OF SALEM
REVENUE SUMMARY - ENTERPRISE FUNDS**

	Actual FY 2010	Actual FY 2011	Actual FY 2012	RECAP FY 2013	Estimated FY 2014	Increase % FY13 vs. FY14	Increase \$ FY13 vs. FY14
ENTERPRISE FUND							
SEWER RATES	7,170,497	7,587,055	7,941,520	8,783,034	8,595,936	-2.13%	1,008,881
SEWER TRANS/OFS	360,389	-	-	-	-		0
TOTAL SEWER	7,530,885	7,587,055	7,941,520	8,783,034	8,595,936	-2.13%	1,008,881
WATER RATES	4,270,968	4,728,851	4,574,150	5,053,323	5,365,989	6.19%	637,138
WATER TRANS/OFS	389	-	360,000	218,738	258,970		258,970
TOTAL WATER	4,271,357	4,728,851	4,934,150	5,272,061	5,624,959	6.69%	896,108
TRASH FEES	713,827	700,000	686,834	650,000	585,000	-10.00%	(115,000)
TRASH General Fund Subsidy/OFS	1,902,504	1,920,249	2,047,493	2,160,684	1,839,288	-14.87%	(80,961)
TOTAL TRASH	2,616,331	2,620,249	2,734,327	2,810,684	2,424,288	-13.75%	(195,961)
ENTERPRISE FUND TOTAL	14,418,573	14,936,155	15,609,997	16,865,779	16,645,183	-1.31%	1,709,028

ESTIMATED REVENUES SEWER ENTERPRISE FUND

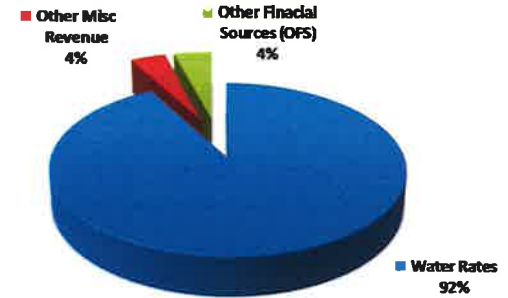
FY 2013



TOTAL \$ 8,783,034

ESTIMATED REVENUES WATER ENTERPRISE FUND

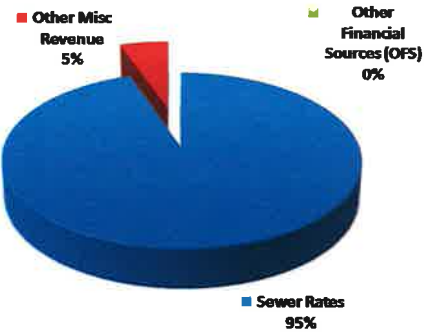
FY 2013



TOTAL \$ 5,272,061

ESTIMATED REVENUES SEWER ENTERPRISE FUND

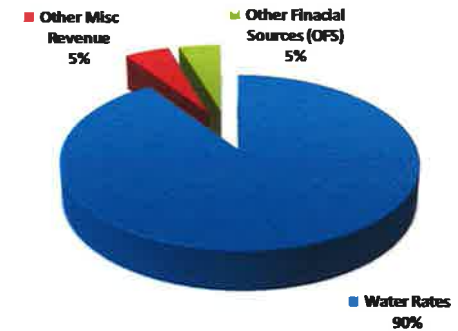
FY 2014



TOTAL \$ 8,595,936

ESTIMATED REVENUES WATER ENTERPRISE FUND

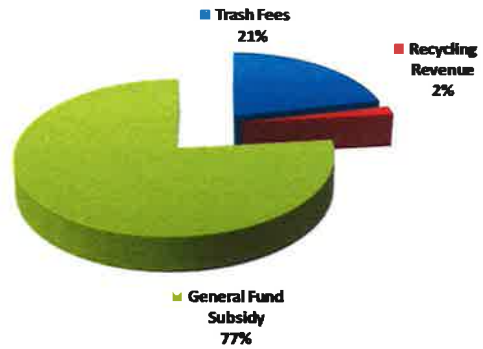
FY 2014



TOTAL \$ 5,624,959

ESTIMATED REVENUES TRASH ENTERPRISE FUND

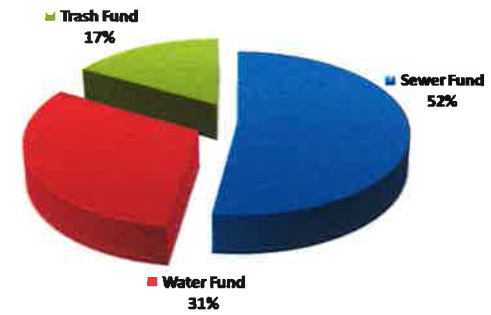
FY 2013



TOTAL \$ 2,810,684

TOTAL ESTIMATED REVENUES ENTERPRISE FUNDS

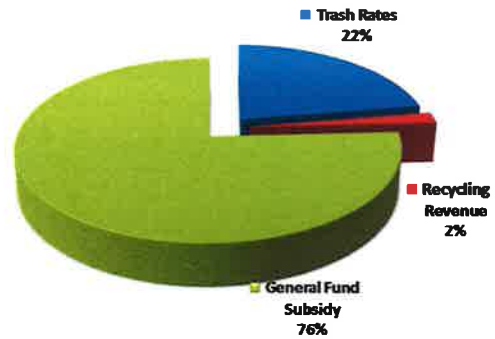
FY 2013



TOTAL \$ 16,865,779

ESTIMATED REVENUES TRASH ENTERPRISE FUND

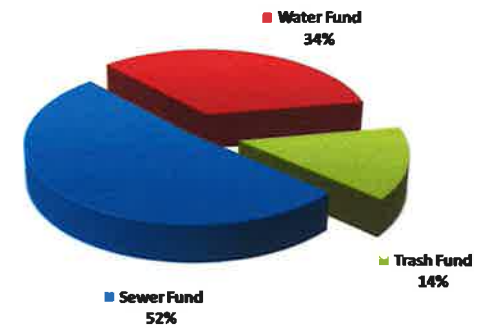
FY 2014



TOTAL \$ 2,424,288

TOTAL ESTIMATED REVENUES ENTERPRISE FUNDS

FY 2014



TOTAL \$ 16,645,183

ENTERPRISE FUND REVENUE DETAIL

In FY 2013 the City Council voted to COMBINE the water and sewer enterprise funds as allowed by the Department of Revenue as outlined in Bulletin 2012-B (page 3/7). Over the past two years the Water Enterprise fund revenues have not been sufficient to cover expenses. In FY 2013 we had to raise \$218,738 on the General Fund Tax Recapitulation to cover the FY 2012 deficit. We will also have to appropriate Free Cash to cover the June 30, 2013 anticipated deficit of approximately \$200,000. By combining the funds we can use sewer revenue to help offset the water deficit. We are also requesting a 5% increase on both water and sewer rates for FY 2014 to cover the deficit and to build up funds to cover anticipated water and sewer bond costs for projects including the Canal Street project which we anticipate to be approximately 16M.

The water and sewer funds will remain in separate funds for accounting and budgeting purposes within the City. But they will be combined for reporting purposes on the City's annual financial statements (CAFR) and for calculating Retained Earnings by the Department of Revenue.

Revenues for enterprise funds are derived from the following sources:

- **Charges and Fees** – Amounts paid by those who use the service. These include late charges, fees and interest incurred in the collection process.
- **Other Revenue Sources (OFS)** – Includes all other receipts such as state funding, grants, surplus from South Essex Sewer District (SESD) & the Salem Beverly Water Supply Board (SBWSB) and monies from apportioned and un-apportioned betterments and special assessments relating to the enterprise fund.
- **Retained Earnings** – The operating surplus of the enterprise fund. Based on the submission of a June 30 balance sheet, the retained earnings of an enterprise may be used for appropriations only after the Bureau of Accounts certifies it as a surplus. This surplus may be used for capital projects or to offset the operating budget, which effectively reduces the user charges, rates, or general fund subsidy. Like free cash and other general fund reserves, the surplus must be appropriated before the subsequent June 20. After July 1, no appropriation can be made from the surplus until after it is certified by the Director of Accounts.
- **General Fund Subsidy** – Any revenue deficits in an enterprise fund can and should be funded by the general fund, either during the initial budgeting process (if anticipated) or raised on the Recap after year end.

The City of Salem uses the following sources to fund each enterprise fund:

Sewer – User fees, penalties and interest, sewer liens, backflow tests, other miscellaneous revenue and any fund balance surplus at the South Essex Sewerage District (SESD). SESD surpluses are the result of our assessment payment being more than the actual costs of running SESD.

Water – User fees, penalties and interest, water liens, sale of water meters, and revenue from shutoffs.

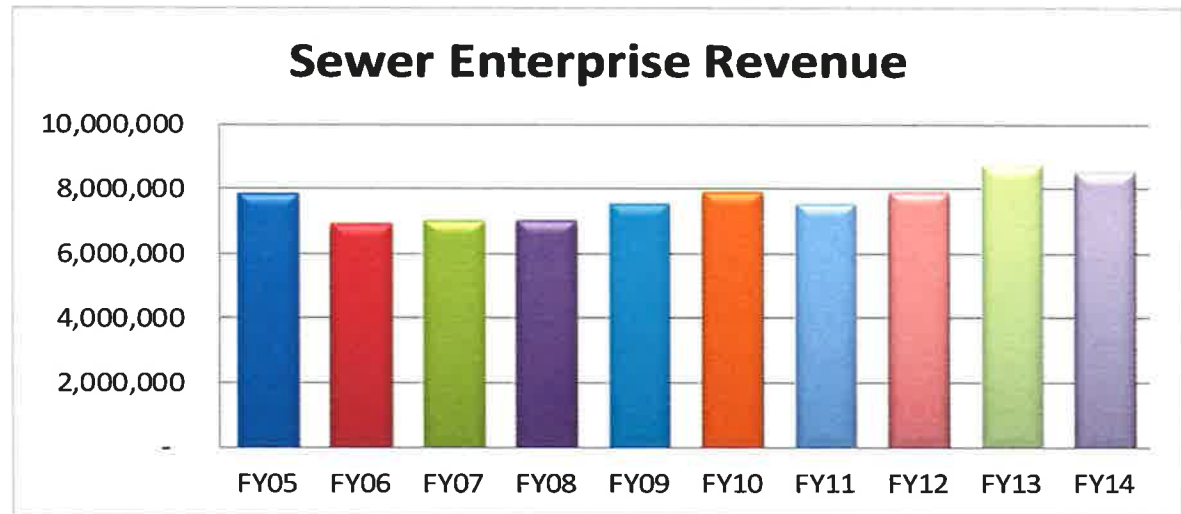
Trash – User fees, penalties and interest and general fund subsidy.

SEWER ENTERPRISE FUND

Sewer Revenue – The sewer revenues consist of penalties & interest, sewer rates revenues, sewer liens revenue, sewer backflow tests, and miscellaneous revenue. We also request on an annual basis that SESD send us any fund balances that they may be holding in our behalf.

In FY 2014 we are proposing a 5% rate increase to help cover operational, debt service, and assessment charges for FY2014 as well as help offset the water deficit. We anticipate increasing retained earnings to help fund our capital improvement program. The chart below shows an overall deficit of 2.1% due to the 800K we received from the South Essex Sewerage District (SESD) in FY 2013 (the City's retained earnings held by SESD) that we do not anticipate getting in FY 2014.

Sewer Enterprise Revenue		
Fiscal Year	Revenue	
2005	7,909,582	
2006	6,990,045	
2007	7,074,210	
2008	7,082,031	
2009	7,582,289	
2010	7,955,103	
2011	7,587,055	
2012	7,941,520	
2013	8,783,034	Per Recap
2014	8,595,936	Estimated
% Change FY13 vs. FY14		-2.1%



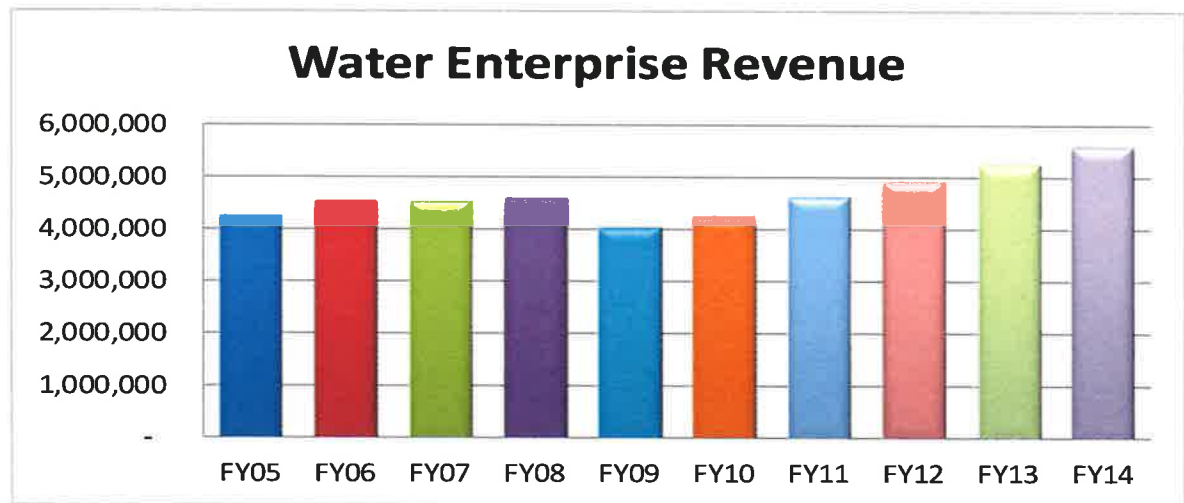
WATER ENTERPRISE FUND

Water Revenue – The water revenues consist of penalties & interest, water rates revenues, water liens revenue, and miscellaneous revenue.

In FY 2014 we are proposing a 5% rate increase to cover operational, debt service, and assessment charges for FY2014. As mentioned in the overview we are combining water and sewer funds in FY 2014 as allowed by the DOR to help offset a revenue deficit in the water fund. We anticipate sewer revenues will more than offset the water deficit and allow us to build up retained earning reserves to help fund future debt service for Capital Improvement Programs.

We also anticipate the final phase of the water meter program and the installation of new water meters for commercial building throughout the City will aide in increasing water reserves for FY 2014 and beyond.

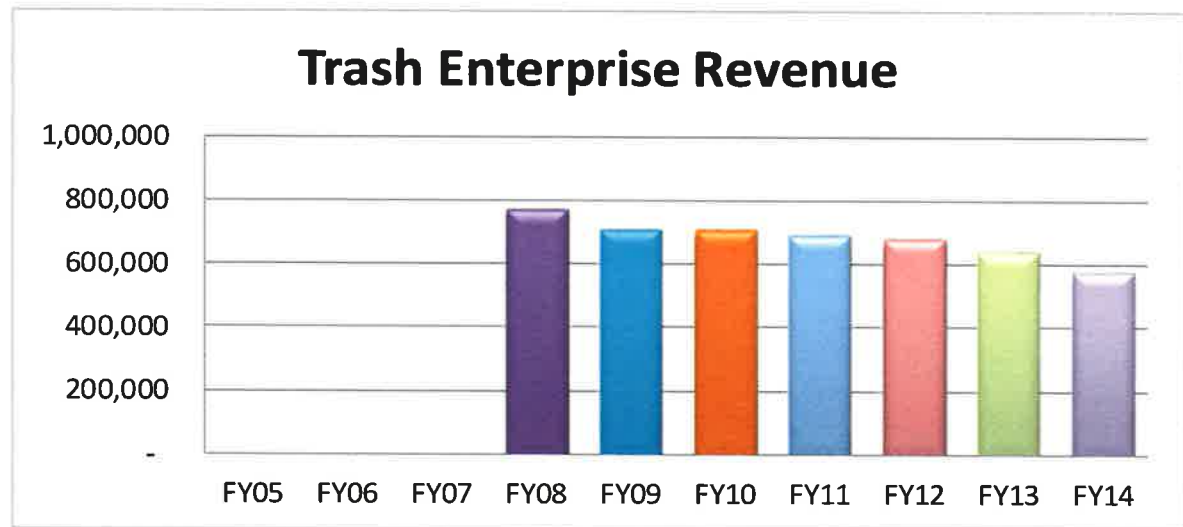
Water Enterprise Revenue		
Fiscal Year	Revenue	
2005	4,273,573	
2006	4,544,002	
2007	4,544,171	
2008	4,613,919	
2009	4,056,195	
2010	4,271,357	
2011	4,662,837	
2012	4,934,150	
2013	5,272,061	Per Recap
2014	5,624,959	Estimated
% Change FY13 vs. FY14		6.7%



TRASH ENTERPRISE FUND

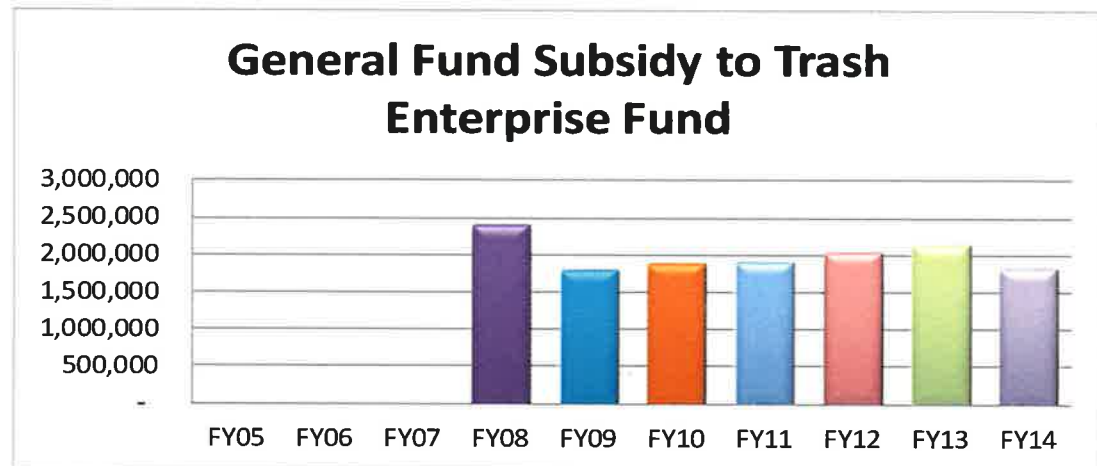
Trash Revenue – The trash revenues consist of penalties & interest and trash fee revenue. We subsidize the majority of the fund with a general fund transfer. We renegotiated the trash contract which resulted in a reduced trash collection fee which will allow us to reduce the amount we charge our ratepayers. In FY 2014 we anticipate a 10% revenue decrease based on lower rates. The City recently voted a mandatory recycling initiative which we hope will increase recycling rates and decrease trash tonnage.

Trash Enterprise Revenue		
Fiscal Year	Revenue	
2005		
2006		
2007		
2008	780,268	
2009	715,844	
2010	713,827	
2011	697,050	
2012	686,835	
2013	650,000	Per Recap
2014	585,000	Estimated
% Change FY13 vs. FY14		-10.0%



In FY 2014 we anticipate a 14.9% decrease in the General Fund Subsidy to the Trash Enterprise Fund due to the renegotiated trash contract. We reduced rate fees based on that factor as well.

GF Subsidy to Trash Enterprise Fund		
Fiscal Year	Revenue	
2005		
2006		
2007		
2008	2,425,186	
2009	1,811,834	
2010	1,902,504	
2011	1,912,399	
2012	2,047,493	
2013	2,160,684	Per Recap
2014	1,839,288	Estimated
% Change FY13 vs. FY14		-14.9%



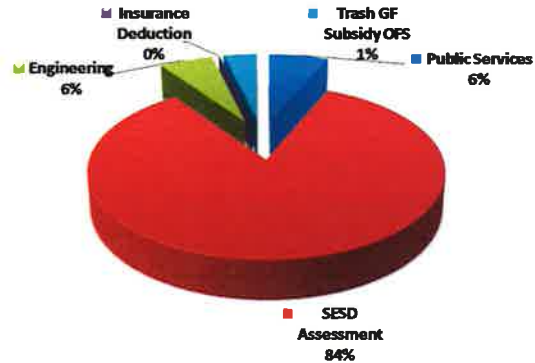
**CITY OF SALEM, MASSACHUSETTS
FY 2014 OPERATING BUDGET**

	ACTUAL EXPENDED FY 2012	ADOPTED BUDGET FY 2013	ADJUSTED BUDGET FY 2013	DEPT BUDGET FY 2014	MAYOR BUDGET FY 2014	FY 13 Adj vs FY 14 Budget Inc/Decr Amount Percentage	
ENTERPRISE FUNDS							
SEWER :							
Sewer - Public Services	445,781	460,255	491,769	501,395	502,910	11,141	2.27%
Sewer - Engineering	514,043	415,858	419,596	403,245	393,594	(26,002)	-6.20%
SESD Assessment	6,140,989	5,962,900	5,962,900	5,831,817	5,831,817	(131,083)	-2.20%
Long Term Debt	166,125	259,463	249,211	248,850	248,850	(361)	
Short Term Debt	0	-	-	-	-	-	
Sewer - Insurance Deduction	0	5,000	5,000	5,000	5,000	-	0.00%
TOTAL SEWER	7,266,938	7,103,476	7,128,476	6,990,307	6,982,171	-146,305	-2.05%
WATER :							
Water-Public Services	492,341	500,939	507,453	542,079	541,144	33,691	6.64%
Water-Engineering	523,937	524,658	528,396	512,045	502,494	(25,902)	-4.90%
Long Term Debt	1,130,049	1,322,701	1,312,449	1,306,854	1,306,854	(5,595)	-0.43%
Short Term Debt	0	3,000	3,000	3,000	3,000	-	0.00%
SBWS Assessment	2,403,095	2,450,815	2,450,815	2,482,531	2,482,531	31,716	1.29%
Water - Insurance Deduction	0	2,500	2,500	2,500	2,500	-	
TOTAL WATER	4,549,422	4,804,613	4,804,613	4,849,009	4,838,523	33,910	0.71%
TRASH :							
Trash - Engineering	2,734,328	2,810,684	2,810,684	2,465,395	2,424,288	(386,396)	-13.75%
TOTAL TRASH	2,734,328	2,810,684	2,810,684	2,465,395	2,424,288	(386,396)	-13.75%
ENTERPRISE FUND TOTAL	14,550,688	14,718,773	14,743,773	14,304,711	14,244,982	(498,791)	-3.38%

ADOPTED BUDGET SEWER ENTERPRISE FUND

FY 2013

TOTAL \$ 7,103,476

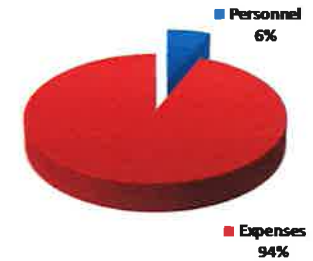


ADOPTED BUDGET SEWER ENTERPRISE FUND

FY 2013

SEWER FUND

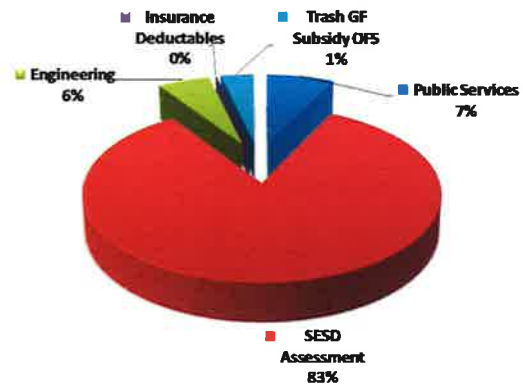
Personnel	438,844
Expenses	6,664,632
TOTAL	\$ 7,103,476



ADOPTED BUDGET SEWER ENTERPRISE FUND

FY 2014

TOTAL \$ 6,982,171

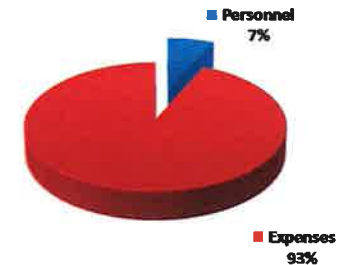


ADOPTED BUDGET SEWER ENTERPRISE FUND

FY 2014

SEWER FUND

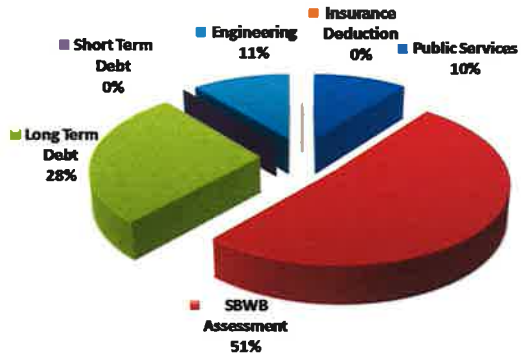
Personnel	466,325
Expenses	6,515,846
TOTAL	\$ 6,982,171



ADOPTED BUDGET WATER ENTERPRISE FUND

FY 2013

TOTAL \$ 4,804,613

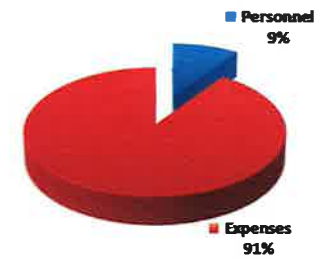


ADOPTED BUDGET WATER ENTERPRISE FUND

FY 2013

WATER FUND

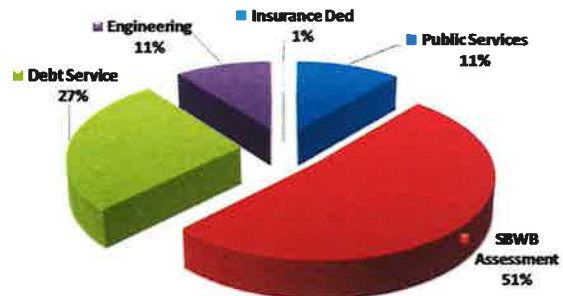
Personnel	455,284
Expenses	4,349,329
TOTAL	4,804,613



ADOPTED BUDGET WATER ENTERPRISE FUND

FY 2014

TOTAL \$ 4,838,523

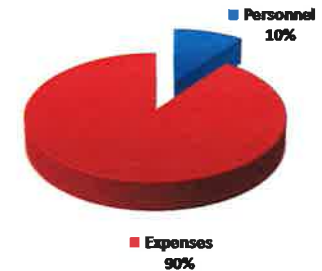


ADOPTED BUDGET WATER ENTERPRISE FUND

FY 2014

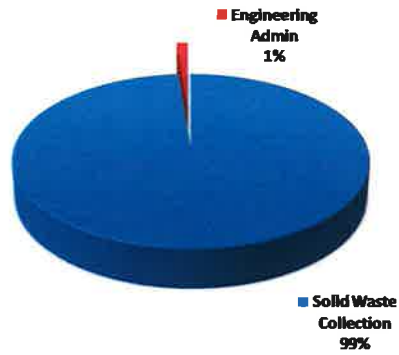
WATER FUND

Personnel	482,765
Expenses	4,355,758
TOTAL	4,838,523



**ADOPTED BUDGET
TRASH ENTERPRISE FUND**

FY 2013



TOTAL \$ 2,810,684

**ADOPTED BUDGET
TRASH ENTERPRISE FUND**

FY 2013

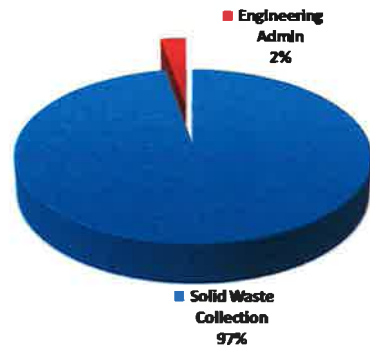
TRASH FUND

Personnel	34,585
Expenses	2,776,099
TOTAL	\$ 2,810,684



**ADOPTED BUDGET
TRASH ENTERPRISE FUND**

FY 2014



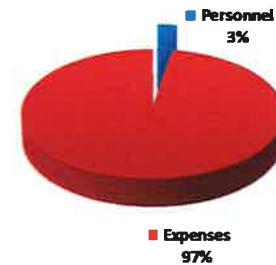
TOTAL \$ 2,424,288

**ADOPTED BUDGET
TRASH ENTERPRISE FUND**

FY 2014

TRASH FUND

Personnel	67,078
Expenses	2,357,210
TOTAL	2,424,288

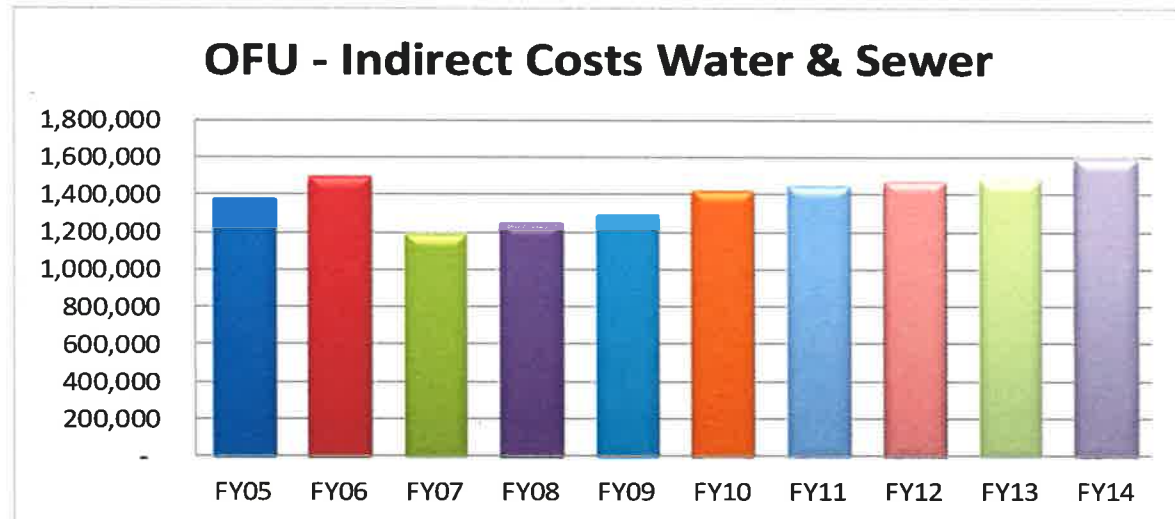


INTERFUND TRANSFERS/OTHER FINANCIAL USES (OFU)

Enterprise Fund Other Financial Uses (OFU) - The Water and Sewer Enterprise Funds, financed by water and sewer usage charges, provide reimbursements for direct and indirect costs associated with a variety of City services, provided by Finance, Treasury, Human Resources, and other City Departments. Additionally, enterprise funds provide reimbursements to the general fund for all employee benefits (health, life, dental insurances, etc) of those employees who work for the water and sewer departments, as well as costs for the maintenance of the Water and Sewer accounting and billing system. Finally, a portion of the City's assessments for property/casualty insurance, unemployment and worker's compensation are also captured in the indirect costs of the enterprise funds of the water and sewer departments.

For FY 2014 an increase in indirect costs of \$109,782(7.4%) is projected. The Trash Enterprise Fund is not self sustaining and therefore subsidized by the General Fund. Indirect Costs are booked by a journal entry from Tax Recapitulation Sheet (RECAP) when the Tax Rate is sent in December as voted by City Council.

Other Financial Uses Indirect Costs Water & Sewer		
Fiscal Year	Revenue	
2005	1,384,097	
2006	1,507,632	
2007	1,195,330	
2008	1,258,161	
2009	1,301,747	
2010	1,430,065	
2011	1,452,222	
2012	1,477,074	
2013	1,491,926	Per Recap
2014	1,601,654	Estimated
% Change FY13 vs. FY14		7.4%



2012 COMBINED RETAIL WATER AND SEWER RATE COMMUNITY CHARGE COMPARISON

		Water			Sewer					Last Rate	% change	Annual Cost per 120 HCF (approx 90,000 gallons)	
		Residential	Commercial		Residential	Commercial		Discounts	Fund	Adjustment	from FY2011		
Salem - 7/1/2012 current		\$ 2.65	\$ 3.59	HCF	\$ 5.40	\$ 8.19 \$ 10.49	0-250 HCF 251+ HCF	yes 10% water if pd. within 15 days	Enterprise Fund Water & Sewer	7/1/2012	5.60%	Water:	\$ 318.00
												Sewer:	\$ 648.00
												Combined:	\$ 966.00
Salem - 7/1/2013 Proposed		\$ 2.78	\$ 3.77	HCF	\$ 5.67	\$ 8.60 \$ 11.01	0-250 HCF 251+ HCF	yes 10% water if pd. within 15 days	Enterprise Fund Water & Sewer	7/1/2012	5.00%	Water:	\$ 445.00
												Sewer:	\$ 907.20
												Combined:	\$ 1,352.20
Beverly		\$ 2.52	same	HCF	\$ 5.87	same	HCF	no	Enterprise Water & Sewer	7/1/2012	3.60%	Water:	\$ 302.40
												Sewer:	\$ 704.40
												Combined:	\$ 1,006.80
Chelsea		\$ 4.10	same	0-10 HCF	\$ 8.03	same	0-10 HCF	no	Enterprise Fund	7/1/2011	7.50%	Water:	\$ 492.00
		\$ 4.99	same	> 10-15 HCF	\$ 8.75	same	> 10-15 HCF		Water & Sewer			Sewer:	\$ 964.00
		\$ 5.97	same	> 15HCF	\$ 10.06	same	> 15HCF					Combined:	\$ 1,456.00
Danvers		\$ 5.03		0-20 HCF	\$ 6.12		0-20 HCF	yes	General Fund	7/1/2012	4.50%	Water:	\$ 871.20
		\$ 5.60		20-24 HCF	\$ 6.30		20-24 HCF	15% water	Water & Sewer			Sewer:	\$ 915.60
		\$ 7.26		24 - Greater HCF	\$ 7.63		24-Greater HCF	elderly/low income				Combined:	\$ 1,786.80
			\$ 5.93	0-40 HCF		\$ 6.12	0-40 HCF						
			\$ 5.78	40- Greater HCF		\$ 6.30	40- Greater HCF						
Gloucester		\$ 9.16	same	HCF	\$ 11.10	same	HCF	no	Enterprise Fund Water & Sewer	7/1/2012	2.70%	Water:	\$ 1,099.20
												Sewer:	\$ 1,332.00
												Combined:	\$ 2,431.20
Lynn		\$ 3.33	same	0-27 HCF	\$ 6.12	same	0-27 HCF	yes	Enterprise Fund	7/10/2013	0.00%	Water:	\$ 400.00
		\$ 3.43	same	27-73 HCF	\$ 6.33	same	27-73 HCF	owner occ.	Water & Sewer			Sewer:	\$ 737.00
		\$ 3.47	same	73-2,812 HCF	\$ 6.39	same	73-2,812 HCF	elderly/disabled				Combined:	\$ 1,137.00
		\$ 3.52	same	balance	\$ 6.44	same	balance	single @ 15%, 2-fam @ 7.5%, 3-Fam @ 5%					
Marblehead		\$ 4.10	same	0-30 HCF	\$ 6.10	same	0-30 HCF	no	Enterprise Fund	7/1/2012	3.90%	Water:	\$ 549.00
		\$ 4.40	same	balance	\$ 6.45	same	balance		Water & Sewer			Sewer:	\$ 774.00
												Combined:	\$ 1,323.00
Peabody		\$ 2.44	\$ 2.90	0-15 HCF	\$ 3.25	\$ 3.75	0-15 HCF	no	General Fund	3/1/2003	0.00%	Water:	\$ 306.00
		\$ 2.66	\$ 3.16	15-30 HCF	\$ 3.58	\$ 4.13	balance		Water & Sewer			Sewer:	\$ 410.00
		\$ 2.90	\$ 3.44	balance								Combined:	\$ 716.00
Revere		\$ 3.22	\$ 4.70	HCF	\$ 10.05	\$ 14.20	HCF	yes senior	Enterprise Fund Water & Sewer	7/1/2012	0.00%	Water:	\$ 386.00
												Sewer:	\$ 1,206.00
												Combined:	\$ 1,592.00
Swampscott		\$ 6.40	same	HCF	\$ 5.60	same	HCF	no	Enterprise Fund Water & Sewer	8/1/2011	0.00%	Water:	\$ 812.00
												Sewer:	\$ 707.00
												Combined:	\$ 1,519.00

NOTE: All data taken from MWRA Annual Water and Sewer Retail Rate Survey - December 2012 except Danvers (source: Danvers DPW, May 2013)

Average Costs of listed communities:	
Water:	\$ 579.76
Sewer:	\$ 861.11
Combined:	\$ 1,440.87

Salem vs. Comparable Communities	
Water:	\$ (134.76)
Sewer:	\$ 46.09
Combined:	\$ 88.67

**Salem Debt Service Projection
FY2014 - FY2016 Projects**

			3.00% Projected Bond Interest Rate							
Water Enterprise			2014	2015	2016	2017	2018	2019	2020	2021
Water Meter Replacement (FY13)	\$ 1,400,000	Principal		140,000	140,000	140,000	140,000	140,000	140,000	140,000
		Interest	21,000	39,900	35,700	31,500	27,300	23,100	18,900	14,700
Gallow Hills Storage Tank - full rehab (FY14)	\$ 1,500,000	Principal		75,000	75,000	75,000	75,000	75,000	75,000	75,000
		Interest	22,500	43,875	41,625	39,375	37,125	34,875	32,625	30,375
Folly Hills Storage Tank - full rehab (FY14-FY15)	\$ 2,700,000	Principal		135,000	135,000	135,000	135,000	135,000	135,000	135,000
		Interest	40,500	78,975	50,625	46,575	42,525	38,475	34,425	30,375
Fire Hydrant Replacement System (FY14 - FY15)	\$ 640,000	Principal		32,000	32,000	32,000	32,000	32,000	32,000	32,000
		Interest	2,700	18,720	17,760	16,800	15,840	14,880	13,920	12,960
Transmission Main Sohier Road (FY15)	\$ 1,900,000	Principal			95,000	95,000	95,000	95,000	95,000	95,000
		Interest		28,500	55,575	52,725	49,875	47,025	44,175	41,325
Salem PS and Booster Station (FY16)	\$ 1,000,000	Principal			50,000	50,000	50,000	50,000	50,000	50,000
		Interest		15,000	29,250	27,750	26,250	24,750	23,250	21,750
Distribution Main Rehab (FY16)	\$ 6,000,000	Principal				300,000	300,000	300,000	300,000	300,000
		Interest			90,000	175,500	166,500	157,500	148,500	139,500
TOTAL: Water Enterprise	\$ 15,140,000	Principal	-	382,000	527,000	827,000	827,000	827,000	827,000	827,000
		Interest	86,700	224,970	320,535	390,225	365,415	340,605	315,795	290,985
Sewer Enterprise										
Canal Street Utility Program: Drainage	\$ 2,200,000	Principal		110,000	110,000	110,000	110,000	110,000	110,000	110,000
		Interest	33,000	64,350	61,050	57,750	54,450	51,150	47,850	44,550
Canal Street Utility Program: Sewer	\$ 400,000	Principal		20,000	20,000	20,000	20,000	20,000	20,000	20,000
		Interest	6,000	11,700	11,100	10,500	9,900	9,300	8,700	8,100
Canal Street Utility Program: Water	\$ 400,000	Principal		20,000	20,000	20,000	20,000	20,000	20,000	20,000
		Interest	6,000	11,700	11,100	10,500	9,900	9,300	8,700	8,100
Canal Street Utility Program: South River Conduit	\$ 900,000	Principal		45,000	45,000	45,000	45,000	45,000	45,000	45,000
		Interest	13,500	26,325	24,975	23,625	22,275	20,925	19,575	18,225
TOTAL: Departmental Equipment	\$ 3,900,000	Principal	-	195,000	195,000	195,000	195,000	195,000	195,000	195,000
		Interest	58,500	114,075	108,225	102,375	96,525	90,675	84,825	78,975
GRAND TOTAL: PRINCIPAL	\$ 19,040,000	Principal	-	577,000	722,000	1,022,000	1,022,000	1,022,000	1,022,000	1,022,000
GRAND TOTAL: INTEREST		Interest	145,200	339,045	428,760	492,600	461,940	431,280	400,620	369,960
GRAND TOTAL: PRINCIPAL AND INTEREST COMBINED			145,200	916,045	1,150,760	1,514,600	1,483,940	1,453,280	1,422,620	1,391,960

**Salem Debt Service Projection
FY2014 - FY2016 Projects**

	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>2030</u>	<u>2031</u>
Water Enterprise										
Water Meter Replacement (FY13)	140,000	140,000	140,000							
	10,500	6,300	2,100	-	-	-	-			
Gallow Hills Storage Tank - full rehab (FY14)	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000
	28,125	25,875	23,625	21,375	19,125	16,875	14,625	12,375	10,125	7,875
Folly Hills Storage Tank - full rehab (FY14-FY15)	135,000	135,000	135,000	135,000	135,000	135,000	135,000	135,000	135,000	135,000
	26,325	22,275	18,225	14,175	10,125	6,075	6,075	10,125	14,175	18,225
Fire Hydrant Replacement System (FY14 - FY15)	32,000	32,000	32,000	32,000	32,000	32,000	32,000	32,000	32,000	32,000
	12,000	11,040	10,080	9,120	8,160	7,200	6,240	5,280	4,320	3,360
Transmission Main Sohler Road (FY15)	95,000	95,000	95,000	95,000	95,000	95,000	95,000	95,000	95,000	95,000
	38,475	35,625	32,775	29,925	27,075	24,225	21,375	18,525	15,675	12,825
Salem PS and Booster Station (FY16)	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
	20,250	18,750	17,250	15,750	14,250	12,750	11,250	9,750	8,250	6,750
Distribution Main Rehab (FY16)	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000
	130,500	121,500	112,500	103,500	94,500	85,500	76,500	67,500	58,500	49,500
TOTAL: Water Enterprise	827,000	827,000	827,000	687,000	687,000	687,000	687,000	687,000	687,000	687,000
	266,175	241,365	216,555	193,845	173,235	152,625	136,065	123,555	111,045	98,535
Sewer Enterprise										
Canal Street Utility Program: Drainage	110,000	110,000	110,000	110,000	110,000	110,000	110,000	110,000	110,000	110,000
	41,250	37,950	34,650	31,350	28,050	24,750	21,450	18,150	14,850	11,550
Canal Street Utility Program: Sewer	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000
	7,500	6,900	6,300	5,700	5,100	4,500	3,900	3,300	2,700	2,100
Canal Street Utility Program: Water	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000
	7,500	6,900	6,300	5,700	5,100	4,500	3,900	3,300	2,700	2,100
Canal Street Utility Program: South River Conduit	45,000	45,000	45,000	45,000	45,000	45,000	45,000	45,000	45,000	45,000
	16,875	15,525	14,175	12,825	11,475	10,125	8,775	7,425	6,075	4,725
TOTAL: Departmental Equipment	195,000	195,000	195,000	195,000	195,000	195,000	195,000	195,000	195,000	195,000
	73,125	67,275	61,425	55,575	49,725	43,875	38,025	32,175	26,325	20,475
GRAND TOTAL: PRINCIPAL	1,022,000	1,022,000	1,022,000	882,000	882,000	882,000	882,000	882,000	882,000	882,000
GRAND TOTAL: INTEREST	339,300	308,640	277,980	249,420	222,960	196,500	174,090	155,730	137,370	119,010
GRAND TOTAL: PRINCIPAL AND INTEREST COMBINED	1,361,300	1,330,640	1,299,980	1,131,420	1,104,960	1,078,500	1,056,090	1,037,730	1,019,370	1,001,010

**Salem Debt Service Projection
FY2014 - FY2016 Projects**

Water Enterprise	2032	2033	2034	2035	2036	Total
Water Meter Replacement (FY13)						1,400,000
						231,000
Gallow Hills Storage Tank - full rehab (FY14)	75,000	75,000	75,000			1,500,000
	5,625	3,375	2,250			473,625
Folly Hills Storage Tank - full rehab (FY14-FY15)	135,000	135,000	135,000			2,700,000
	22,275	26,325	28,350			585,225
Fire Hydrant Replacement System (FY14 - FY15)	32,000	32,000	32,000			640,000
	2,400	1,440	480			194,700
Transmission Main Sohier Road (FY15)	95,000	95,000	95,000	95,000		1,900,000
	9,975	7,125	4,275	2,850		599,925
Salem PS and Booster Station (FY16)	50,000	50,000	50,000	50,000		1,000,000
	5,250	3,750	2,250	1,500		315,750
Distribution Main Rehab (FY16)	300,000	300,000	300,000	300,000	300,000	6,000,000
	40,500	31,500	22,500	13,500	9,000	1,894,500
TOTAL: Water Enterprise	687,000	687,000	687,000	445,000	300,000	15,140,000
	86,025	73,515	60,105	17,850	9,000	4,294,725
Sewer Enterprise						
Canal Street Utility Program: Drainage	110,000	110,000	110,000			2,200,000
	8,250	4,950	3,300			694,650
Canal Street Utility Program: Sewer	20,000	20,000	20,000			400,000
	1,500	900	600			126,300
Canal Street Utility Program: Water	20,000	20,000	20,000			400,000
	1,500	900	600			126,300
Canal Street Utility Program: South River Conduit	45,000	45,000	45,000			900,000
	3,375	2,025	1,350			284,175
TOTAL: Departmental Equipment	195,000	195,000	195,000	-	-	3,900,000
	14,625	8,775	5,850	-	-	1,231,425
						-
GRAND TOTAL: PRINCIPAL	882,000	882,000	882,000	445,000	300,000	19,040,000
GRAND TOTAL: INTEREST	100,650	82,290	65,955	17,850	9,000	5,526,150
GRAND TOTAL: PRINCIPAL AND INTEREST COMBINED	982,650	964,290	947,955	462,850	309,000	24,566,150