

CITY OF BEVERLY

FINANCIAL FORECAST

FY 2019 TO FY 2023

Prepared by
The Financial Forecasting Committee

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Introduction

This forecast represents the work of the Financial Forecasting Committee, a committee composed of councilors, school committee members, Finance Director for the city and Finance Director for the schools and residents. This document is to be used as a tool by the City of Beverly policymakers in making appropriate financial decisions.

This forecast focuses on the period of FY19 to FY23 in order to provide policy makers, citizens, municipal and school officials, and other stakeholders with an understanding of the immediate and multiyear outlook of the city of Beverly's finances. FY20 to FY23 represents the estimated revenues for those years with municipal expenditures expected to continue at current service levels.

The purpose of the forecast is to determine the capacity of the City's revenue base to fund the current programs and services of the city and the school system as well as to fund debt service, insurance, capital expenditures, and other assessments through FY23.

In brief, the City's revenue base is comprised of the property tax, state aid, motor vehicle excise tax, local receipts, interest income and some inter fund transfers. The principal revenue growth over this five year period traditionally incorporates property taxes, local aid, and estimated receipts. The City's revenue forecast and all revenue assumptions are documented in this report.

The City's spending requirements have been forecasted based on maintaining current services in all municipal departments including the school department. This forecast assumes a 2.5% wage increase for all municipal employees in FY20 and FY21. General expenses have been increased consistent with the financial requirements for health and property insurance, retirement, state, county and vocational school assessments. The municipal expenditure forecast and assumptions are detailed in the attached spreadsheets.

The school forecast incorporates an overall budget increase of 5.1% for FY20, 3.8% in FY21, 3.0% in FY22, and 3.1% in FY23. The school budget forecast also provides funding for step and lane increases consistent with the collective bargaining agreement. The FY20 budget considers the elimination or adjustments in certain school fees charged to residents, such as the reduction in the full-day Kindergarten tuition fee.

The City has incorporated a responsible approach regarding revenues, specifically relating to estimated receipts. This strategy is consistent with the recently passed Financial Policies. This approach should allow reserves to properly be enhanced for future use. This public policy based position should allow for the continuation of current services, properly fund schools and handle cost challenges associated with health insurance and future debt requirements.

Financial Forecast FY19-FY23

	FY19	FY20	FY21	FY22	FY23
Total Estimated Revenues Forecast Committee	\$130,491,956	\$134,469,346	\$138,261,427	\$142,145,948	\$145,257,065
Total Estimated Expenditures Forecast Committee	\$130,491,956	\$135,605,898	\$139,591,870	\$143,744,830	\$148,040,215
Forecast Committee Surplus/(Deficit)	0	(\$1,136,552)	(\$1,330,443)	(\$1,598,883)	(\$2,783,150)

Revenue Forecast and Assumptions

The following are the assumptions for each category of revenue. The Revenue Forecast for FY19 through FY23 is presented on the last page of this section.

Tax Levy and New Growth

The tax levy is the principal revenue for funding the City's general fund. It is also the revenue source that will provide the major annual growth in each year of the forecast versus any other revenue category. The City of Beverly taxes to the maximum allowable under the laws of Proposition 2 ½, and this forecast assumes continuation of this policy for future years.

The maximum allowable levy is comprised of the base levy from the prior fiscal year, increased by 2.5% pursuant to the provisions of Proposition 2 ½, plus an increase for New Growth, which is then reduced by a provision for abatements and exemptions (overlay). Overlay is projected at \$775,000 each year for the period in question (FY20 through FY23).

The new growth is being calculated at \$1.2MM for FY20, which is consistent with the responsible approach of the financial policies within the City of Beverly. The Committee is further considering a \$950,000 in new growth for future years beyond FY20. These new growth calculations are consistent with historic averages.

Local Aid

The City receives various types of state aid. The two major categories are Chapter 70 (Education Aid) and Unrestricted General Government Aid (formerly Lottery Aid and Additional Assistance).

Chapter 70 Aid is the City's single largest form of state aid. Municipalities in Massachusetts can receive Chapter 70 Aid based upon four different components of the revised formula enacted into law in FY07: 1) Foundation Aid, 2) Down-payment Aid of the Fully Phased in Foundation Budget, 3) Per pupil Minimum Increase Aid, or 4) Growth Aid. Since Beverly spends more than Foundation Budget, it does not qualify for the first two categories of Chapter 70 Aid.

For FY20 and for all future years, the Forecast Committee realizes that the Massachusetts legislature is considering additional funding for Chapter 70. As such, and consistent with the City’s Financial Policies, the Forecast Committee suggests a slight increase to state aid for future years.

School Construction Reimbursement

Future school construction reimbursement funds should remain constant based upon current eligibility. In FY23, the forecast anticipates no more reimbursements, based upon the new School Building Assistance formulas.

Pilots

The city receives Payments in Lieu of Taxes (Pilots) from nonprofit institutions. This forecast has indicated that \$236,667 will be received in each of the years under consideration.

Medicaid and Medicare D

Medicaid revenue is posted to the general fund and administered by the school department. This forecast assumes annual reimbursement of \$520,000, consistent with prior years. Medicare D is anticipated to be \$300,000 into the future.

Motor Vehicle and Other Excise

This forecast provides that \$4,640,000 is an appropriate amount to be level funded for each year from FY20-FY23.

Local Receipts

This category of revenue includes licenses and permits, departmental revenues, rental income, payments in lieu of taxes, fines and penalties on interest on taxes and municipal lien certificates. The Committee, again using a responsible approach, anticipates \$2,601,998 for each year through FY23. Historical trends indicate that this is obtainable over the next few years.

Meals/Rooms Tax

The City Council adopted the local option meals tax nine years ago and collections have continued to increase annually. This forecast provides for \$855,000 each year through FY23. This may be adjusted in future years as new restaurants and lodging (e.g., AirBNB) revenue opportunities improve.

Interest Income

These revenue estimates are nominal in nature when considering the total amount of revenue collected by the City. That said, this forecast anticipates \$75,000 for each year through FY23.

Transfers from Enterprise Funds

Transfers from enterprise funds are known as indirect funds to offset expenditures within the general fund. These funds come from water, sewer, sanitation, golf & tennis, etc. This forecast anticipates level funding of \$1,193,513 in future years, as this revenue tends not to fluctuate.

Other Available Funds (Special Revenue Transfers)

This forecast anticipates level revenue projections of \$472,851 until FY23.

Penalties and Interest

Penalties and interest come from late tax payments. This forecast anticipates level revenue in the amount of \$352,052.

One Time Revenue

In FY19, the City relied on \$649,925 from the sale of the McKay school building. There are no anticipated one time revenues in the near future. However, the Committee acknowledges the Briscoe school building is surplussed and subject to potential disposition if a re-use option does not materialize.

City of Beverly - General Fund Revenues
DRAFT Forecast FY 19 to FY 23

	FY19 Adopted	FY20 Forecast	FY21 Forecast	FY22 Forecast	FY23 Forecast	
REVENUES:						
A PROPERTY TAX: PRIOR FY LEVY LIMIT	\$99,407,098.00	\$103,596,036.45	\$107,385,937.36	\$111,020,585.80	\$114,746,100.44	
B Plus 2 1/2 % Increase	\$2,485,177	\$2,589,901	\$2,684,648	\$2,775,515	\$2,868,653	
C Plus "New Growth"	\$1,675,000	\$1,200,000	\$950,000	\$950,000	\$950,000	
D LEVY	\$103,567,275	\$107,385,937	\$111,020,586	\$114,746,100	\$118,564,753	
E Less: Overlay (Provision for Abatements)	-\$700,000	-\$775,000	-\$775,000	-\$775,000	-\$775,000	
F TAX REVENUE NET OF OVERLAY	\$102,867,275	\$106,610,937	\$110,245,586	\$113,971,100	\$117,789,753	
G State Aid (to General Fund) net school choice reimb	\$14,759,543	\$15,743,196	\$15,900,628	\$16,059,634	\$16,220,231	1% annual increase
H School Construction Reimburesment	\$868,132	\$868,132	\$868,132	\$868,132	\$0	
I PILOTS	\$236,667	\$236,667	\$236,667	\$236,667	\$236,667	
J Medicaid	\$520,000	\$520,000	\$520,000	\$520,000	\$520,000	
K Medicare D	\$300,000	\$300,000	\$300,000	\$300,000	\$300,000	
L Motor Vehicles, Boat Excise	\$4,740,000	\$4,640,000	\$4,640,000	\$4,640,000	\$4,640,000	
M Local Reciepts	\$2,601,998	\$2,601,998	\$2,601,998	\$2,601,998	\$2,601,998	
N Meals and Room Tax	\$855,000	\$855,000	\$855,000	\$855,000	\$855,000	
O Interest Income	\$75,000	\$75,000	\$75,000	\$75,000	\$75,000	
P Transfers from Enterprise Funds	\$1,193,513	\$1,193,513	\$1,193,513	\$1,193,513	\$1,193,513	
Q Other Available Funds (Special Rev. transfers)	\$472,851	\$472,851	\$472,851	\$472,851	\$472,851	
R Penalties and Interest	\$352,052	\$352,052	\$352,052	\$352,052	\$352,052	
S One Time Revenue	\$649,925	\$0	\$0	\$0	\$0	
ESTIMATED REVENUES	130,491,956	134,469,346	138,261,427	142,145,948	145,257,065	

Municipal Expenditure Forecast and Assumptions

This section presents the expenditure assumptions for each category within the municipality with an attached forecast spreadsheet presented afterward.

Salaries and Wages

The basic assumption in the forecast is to maintain level services. The forecast assumes a 2.5% increase in wages and salaries for FY20 and FY21, with a 2% increase in FY22 and FY23.

Expenses

This category is for the procurement of supplies, small equipment and payments for professional associations. The forecast anticipates a 1.5% annual increase for FY20 through FY23.

Capital Outlay

This forecast provides for a 2.5% annual increase from FY20 through FY23 which involves capital purchases from the general fund.

Property & Casualty Insurance

This line represents insurance costs for all buildings and facilities. It is assumed that a 3.0% increase will be necessary from FY20 through FY23, plus \$40k for a new police station.

Sanitation

This forecast assumes that there will not be an increase in the trash fee. It is anticipated that an annual increase in the sanitation line item of \$60k is necessary.

Health Insurance

The City of Beverly is a self-insured entity. This forecast anticipates a 3% increase in each of the next four years.

Debt

The funding articulated in the forecast is per the debt schedules received from the City’s financial advisor. This forecast includes the new debt requirements associated with the new Middle School and makes assumptions regarding the timing of new debt consistent with the city’s capital improvement plan. Further, the debt costs incorporate funding associated with a new police station project.

Retirement

The City is one of two members of the Beverly Contributory Retirement System (BCRS). The other member is the Beverly Housing Authority (BHA). Each year in compliance with actuarial standards, assessments are calculated to comply with Massachusetts General Laws Chapter 32B. There is an assumption of a 4.45% funding increase per the PERAC funding schedule.

OPEB Trust Contribution

This forecast anticipates \$60,032 in FY20, increasing proportionally in future years to the payroll. Also, consideration is given to the Financial Policies, where free cash transfers should occur depending upon the amount of free cash certified.

Workers Compensation, Payroll Tax and Life Insurance

The City anticipates a 2% annual increase in this category. The FY20 forecast of \$1,097,418 will increase to \$1,164,589 in FY23.

State and County Assessments

The city is assessed each year for such services as the Metropolitan Area Planning Council, Mosquito Control Projects, the MBTA, School Choice Sending Tuition, and other services. It is anticipated that a 1% growth will be necessary based upon historical information.

Reserve For Unforeseen/Reserve Accounts

This category represents the city’s operating reserve accounts, including the new centralized sick time buy back reserve. This forecast anticipates level funding from FY20 through FY23 in the amount of \$1,000,000 each year.

Roads and Sidewalks

This forecast assumes level funding in the amount of \$1,500,000 from FY20 through FY23.

Total Projected Municipal Expenditures

The reconciliation of all municipal expenditures indicates an FY20 cost of \$72,779,705, increasing to \$78,797,072 in FY23.

Schools

This forecast provides for school expenditure increases as follows: FY20 - \$60,697,111; FY21 - \$63,033,537; FY22 - \$64,932,088; FY23 - \$66,916,637. These amounts are what the Beverly Public School system deems necessary to address their educational requirements.

Vocation School Assessments

The assessment for vocational school assessments is a functionality of school enrollment. This forecast assumes a 3% annual increase, consistent with historical trends.

City of Beverly - General Fund Expenditures
DRAFT Forecast FY 19 to FY 23

	FY19 Approved	FY20 Forecast	FY21 Forecast	FY22 Forecast	FY23 Forecast		
EXPENDITURES:							
<i>A</i>	SALARIES & WAGES	\$23,247,155	\$24,066,617.18	\$24,768,282.61	\$25,563,648.26	\$26,074,921.23	1% in FY19, 2.5% in FY20, 2.5% in FY21, 2% in FY22 and FY23
<i>B</i>	EXPENSES	\$7,229,004	\$7,447,439	\$7,559,151	\$7,672,538	\$7,787,626	1.5% annual increase
<i>C</i>	CAPITAL OUTLAY	\$1,070,669	\$1,197,436	\$1,124,872	\$1,152,993	\$1,181,818	2.5% annual increase
<i>D</i>	PROPERTY/CASUALTY INSURANCE	\$725,000	\$790,000	\$813,700	\$878,111	\$904,454	3% annual adjustment + \$40K for new police station
<i>E</i>	SANITATION	\$1,198,750	\$1,258,750	\$1,318,750	\$1,378,750.00	\$1,438,750.00	\$60K increase annually
<i>F</i>	HEALTH INSURANCE (CITY SIDE & RETIREES)	\$10,511,743	\$10,827,095	\$11,151,908	\$11,486,465	\$11,831,059	3% annual increase
<i>G</i>	Total Debt per Cap ex schedules	\$10,982,899	\$10,982,899	\$10,889,600	\$11,130,560	\$11,712,244	per most recent cap ex schedules Assumption of 4.45% funding increase
<i>J</i>	RETIREMENT ASSESSMENT	\$10,548,119	\$11,034,128	\$11,525,147	\$12,038,016	\$12,573,707	annually per PERAC funding schedule
<i>Ja</i>	OPEB trust contribution	\$58,568	\$60,032	\$61,533	\$62,764	\$64,019	increases proportional to payroll
<i>K</i>	WORKERS COMP, PAYROLL TAX, LIFE INS.	\$1,075,900	\$1,097,418	\$1,119,366	\$1,141,754	\$1,164,589	2% increase
<i>L</i>	STATE/COUNTY ASSESSMENTS	\$1,502,862	\$1,517,891	\$1,533,070	\$1,548,400	\$1,563,884	1% growth based on historical average
<i>M</i>	RESERVES (UNFORESEEN, Retirements, 53rd pay week)	\$1,009,132	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	
<i>N</i>	ROADS AND SIDEWALKS	\$1,500,000	\$1,500,000	\$1,500,000	\$1,500,000	\$1,500,000	
	Total Projected Municipal Expenditures	\$70,659,801	\$72,779,705	\$74,365,378	\$76,553,999	\$78,797,072	
<i>Q</i>	SCHOOL FUNDING	\$57,765,085	\$60,697,111	\$63,033,537	\$64,932,088	\$66,916,637	per last years school estimates
<i>R</i>	VOCATIONAL SCHOOL ASSESSMENT	\$2,067,070	\$2,129,082	\$2,192,955	\$2,258,743	\$2,326,505	assumes 3% annual increase
	GRAND TOTAL	\$130,491,956	\$135,605,898	\$139,591,870	\$143,744,830	\$148,040,215	
ESTIMATED REVENUES							
		130,491,956	134,469,346	138,261,427	142,145,948	145,257,065	
	Potential Surplus / (Deficit)	0	(1,136,552)	(1,330,443)	(1,598,883)	(2,783,150)	

Historical Revenue Information

Categories	FY 13	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19
Tax Levy	\$81,559,693	\$84,640,977	\$88,167,851	\$91,227,113	\$94,790,786	\$99,371,139	\$103,575
All Other Revenues	\$40,668,105	\$40,333,299	\$44,937,641	\$43,530,576	\$45,025,894	\$44,856,920	\$55,559,770
New Growth	\$859,178	\$1,060,975	\$1,403,828	\$843,008	\$1,307,730	\$2,185,551	\$1,703,762
Overlay	\$582,697	\$852,411	\$1,213,876	\$903,167	\$1,148,176	\$950,324	\$707,946
Total State Aid	\$12,178,655	\$12,446,155	\$13,024,097	\$13,481,186	\$14,673,413	\$14,896,862	\$15,315,904
Medicaid	\$439,975	\$591,042	\$527,760	\$563,148	\$758,359	\$617,694	\$520,000

Free Cash Certification

	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19
General Fund	\$5,709,284	\$7,200,422	\$6,285,357	\$8,263,150	\$9,370,853	\$7,307,453

Retained Earnings Certification

Water	\$663,063	\$691,875	\$1,268,135	\$1,530,461	\$1,789,163	\$1,807,941
Sewer	(\$311,134)	\$316,929	\$137,399	\$173,972	\$1,725,902	\$1,714,269
Sanitation	\$32,925	\$119,011	\$146,196	\$152,922	\$79,982	\$74,186
Golf	\$60,474	\$111,639	\$204,445	\$213,773	\$372,883	\$470,879
Senior Center	\$69,973	\$52,264	\$140,263	\$132,113	\$119,842	\$58,870
Recreation	\$220,848	\$270,475	\$221,381	\$371,588	\$378,694	\$226,844
Airport	(\$495,439)	\$537,375	\$306,998	\$127,267	\$146,106	\$725,952

Note: Each of the aforementioned certifications occurred in the fiscal year certified, as reported, however the certification is a result of the close of the prior fiscal year financials

Property Tax Levy

	FY 15	FY 16	FY 17	FY 18	FY 19
Residential	\$67,585,746	\$69,901,854	\$72,635,707	\$76,394,040	\$79,919,732
Open Space	\$9,850	\$10,045	\$9,968	\$9,668	\$9,465
Commercial	\$13,352,875	\$13,746,679	\$14,289,636	\$15,010,769	\$15,328,326
Industrial	\$3,913,444	\$3,996,435	\$3,830,718	\$4,073,720	\$4,399,872
<u>Personal</u>	<u>\$3,305,935</u>	<u>\$3,572,097</u>	<u>\$4,024,755</u>	<u>\$3,882,940</u>	<u>\$3,917,823</u>
Totals	\$88,167,851	\$91,227,113	\$94,790,786	\$99,371,139	\$103,575,221

Local Receipts

	FY 15	FY 16	FY 17	FY 18	FY 19
Motor Vehicle	\$4,698,620	\$4,944,350	\$4,902,443	\$5,391,335	\$4,725,000
Meals	\$667,730	\$734,040	\$745,979	\$765,393	\$675,000
Rooms	\$185,658	\$201,443	\$208,690	\$207,522	\$180,000
Other	\$7,292	\$20,803	\$16,095	\$11,210	\$15,000
Penalties & Interest	\$404,544	\$721,449	\$522,784	\$451,176	\$320,050
Pilots	\$238,716	\$38,130	\$382,125	\$181,667	\$236,667
Fees	\$465,915	\$499,959	\$621,189	\$493,594	\$421,000
Rentals	\$318,697	\$222,526	\$621,189	\$190,383	\$190,000
Library Revenue	\$6,104	\$13,944	\$14,648	\$15,362	\$7,500
Cemetery Revenue	\$108,763	\$109,100	\$111,650	\$109,715	\$90,000
Other Dept. Revenue	\$116,462	\$2,400	\$4,668	\$130,019	\$108,550
Licenses & Permits	\$1,956,890	\$2,760,143	\$2,265,530	\$2,338,507	\$1,606,750
Fines & Forfeits	\$131,690	\$91,697	\$62,772	\$98,020	\$75,000
Investment Income	\$34,303	\$56,112	\$99,799	\$216,214	\$75,000
Medicaid	\$527,759	\$563,148	\$758,359	\$617,694	\$520,000
Misc. Recurring	393,106	\$314,412	\$352,952	\$339,922	\$300,000
Misc. Non-Recurring	<u>\$799,313</u>	<u>\$1,306,248</u>	<u>\$1,780,247</u>	<u>\$172,188</u>	<u>\$125,000</u>
Totals	\$11,061,569	\$12,599,911	\$13,041,452	\$11,729,928	\$9,680,717

Note: FY19 are estimated local receipts, as the fiscal year has not closed. FY15, FY16, FY17, and FY18 are actual local receipt collections per the tax rate recapitulation sheet.

Other Historical Data

	FY 15	FY 16	FY 17	FY 18	FY 19
New Growth	\$1,403,828	\$843,008	\$1,307,730	\$2,185,551	\$1,703,762
Overlay	\$1,213,876	\$903,167	\$1,148,176	\$950,324	\$707,946
Total State Aid	\$13,024,097	\$13,481,186	\$14,673,413	\$14,896,862	\$15,315,904

Beverly Public Schools
Expenditure Forecast - FY20-FY23

<i>Expenditures:</i>	<i>Appropriated:</i> FY19	<i>Revised:</i> FY19	<i>Forecast:</i> FY20	<i>Forecast:</i> FY21	<i>Forecast:</i> FY22	<i>Forecast:</i> FY23	<i>Assumption:</i>
							<i>Based on staffing needs due to enrollment projections and projected additional staffing needs. Student enrollment continually increasing. Projecting negotiated 2% in FY20 with the an additional 1/2 % for Unit A due to a negotiated additional work day. Increase 2% in FY21-FY23.</i>
Salary and Wages	\$33,868,971	\$34,040,431	\$35,358,406	\$36,584,636	\$37,575,735	\$38,763,051	<i>Level funded in FY20 and 2% increase in FY21-FY23.</i>
Building Budgets	\$549,723	\$549,502	\$559,502	\$565,097	\$576,399	\$587,927	<i>Increase 3% in FY20 -FY23. Reduction in revolving offsets in FY21-FY23 projections.</i>
Utilities	\$897,895	\$892,584	\$925,361	\$1,109,122	\$1,193,896	\$1,229,713	<i>FY23.</i>
District Curriculum	\$333,627	\$333,627	\$333,627	\$336,963	\$340,333	\$343,736	
School Committee	\$49,040	\$48,705	\$48,705	\$48,832	\$48,961	\$49,090	<i>Increase 1% in FY21-FY23 in expense accounts.</i>
Buildings and Grounds	\$1,286,429	\$1,270,377	\$1,308,987	\$1,325,241	\$1,339,784	\$1,354,517	<i>Salary accounts increased based on negotiated contracts. Expense accounts level funded in FY20 and 1% for FY21-FY23.</i>
Transportation:							
<i>Regular</i>	\$964,727	\$1,008,788	\$1,056,548	\$1,076,792	\$1,097,381	\$1,118,333	<i>Salary accounts increased based on negotiated contracts. Expense accounts level funded in FY20 increased 1% for FY21-FY23.</i>
<i>Sped</i>	\$1,199,772	\$1,169,151	\$1,178,041	\$1,201,128	\$1,224,671	\$1,248,681	<i>Salary accounts increased based on negotiated contracts. Expense accounts increased 1% for FY21-FY23.</i>
SPED Tuition	\$5,699,417	\$5,690,415	\$6,029,351	\$6,269,876	\$6,617,616	\$6,872,789	<i>Increase 3% for FY20-FY23 for Tuition accounts.</i>
SPED Staff	\$2,507,532	\$2,508,016	\$2,570,696	\$2,622,107	\$2,674,546	\$2,728,034	<i>Based on staffing needs due to enrollment projections and projected additional staffing needs. Salary accounts increased based on negotiated contracts.</i>
SPED Expenses	\$641,895	\$655,838	\$750,024	\$787,084	\$808,955	\$831,468	<i>Increase 1% for FY20-FY23.</i>
Benefits	\$8,345,175	\$8,370,457	\$8,725,523	\$9,086,770	\$9,393,225	\$9,727,674	<i>3% increase in FY20-FY23 for Health Insurance account. Other benefit accounts level funded to 1% increase. Insurance is added for additional postions forecasted.</i>
Technology	\$417,013	\$417,013	\$417,013	\$569,839	\$575,537	\$581,293	<i>Added 100K FY21 to the Equipment account. 1% increase in other expense accounts.</i>
Admin. Expenses	\$198,060	\$184,842	\$169,507	\$171,202	\$172,914	\$174,643	<i>Level funded in FY20 and 1% increase for FY21-FY23.</i>
Steps/Column/Reserves	\$0	\$0	\$636,863	\$649,600	\$662,592	\$675,844	<i>Contractual Obligations of Steps and Columns.</i>
Substitutes	\$645,458	\$628,958	\$628,958	\$629,248	\$629,544	\$629,846	<i>Increase 1% for FY21-FY23.</i>
TOTAL BUDGET	\$57,604,734	\$57,768,704	\$60,697,111	\$63,033,537	\$64,932,088	\$66,916,637	
Budget Gap			\$0	\$0	\$0	\$0	
Forecasted: City Appropriation	\$57,604,734	\$57,768,704	\$60,697,111	\$63,033,537	\$64,932,088	\$66,916,637	
<i>Change in Appropriation:</i>							
<i>Change in Percent</i>			5.1%	3.8%	3.0%	3.1%	

III. School Budget Forecast and Assumptions

The forecast's assumptions are presented below and the complete school budget forecast is presented on the last page of this *Section*. FY19 shows the original appropriated budget as well as the revised budget for FY19 which includes \$163,970 in additional Chapter 70 funding. It should also be noted that the Forecast for FY20 represents a 5.1% increase over the FY19 appropriated budget as of 4/19/19 which is preliminary.

Salaries and Wages: The collective bargaining agreements for the various school unions have been negotiated through FY20. This forecast includes a 2% increase in FY20 with an additional ½% to Unit A for an additional work day. FY21-FY23 reflects additional staffing needs due to enrollment projections as well as forecasted contractual obligations. This forecast includes the necessary funding for column and step moves for teachers which is based on historical data and trends. This forecast anticipates \$250,000 reduction in Kindergarten fees in FY20, \$150,000 reduction in FY21 and FY22. It should be noted that the forecast includes wages for the Teacher Substitutes at \$80.00 per day/\$13.33 per hour.

Building Expenses and Curriculum Expenses: Building budgets are funded based upon enrollment numbers. The forecast has level funded the building budgets in FY20 and a 2% increase is projected in FY21-FY23. Curriculum expenses have increased by 1% in FY21-FY23. Enrollments continue to increase each year.

Utilities: The forecast has a 3% increase in FY20-FY23. Additional reductions for revolving account offsets are taken in FY21-FY23.

Buildings and Grounds: Buildings and grounds accounts were level funded and custodial supplies were increased by \$10,000 in FY20, and 1% in FY21-FY23.

Transportation: This forecast includes transportation services for Regular, Special Education, and Homeless students in FY20-FY23 which has been increasing each year. The contractual services portion of transportation expense has been increasing due to unfunded mandates.

Tuition: This forecast provides for a 3% increase in tuition costs based upon the recommendation of the Director of Pupil Personnel Services. It further includes \$189,168 for approved reconstruction costs. Circuit Breaker reimbursement is projected at 68% reimbursement in FY20. The forecast anticipates a reduction in Circuit Breaker offsets budgeted in FY20.

SPED Staff and Expenses: The salaried special education staff accounts increased to reflect additional staffing needs due to enrollment projections and contractual obligations at 2% in FY20 with an additional ½% to Unit A for an additional work day. SPED expenses accounts; supplies and materials were increased at 1% in FY21-FY23. Contracted services has been increasing each year and has been addressed in the FY20 budget forecast.

Benefits: The health insurance element of this category has been increased at 3% plus additional enrollments forecast in FY20, and increased at 3% for FY21-FY23. Workers Compensation and unemployment however are level funded.

Note: The FY20 School Budget Projection is based on the Governor's Budget Proposal with an estimated increase of \$800,924 in Chapter 70 funds.

APPENDIX A

City of Beverly

Financial Policies and Guidelines

Mayor Michael P. Cahill
November 2018

The Financial Policies and Guidelines contained herein are intended to serve as guidance and a reference tool for City officials and employees and members of the public on matters pertaining to the City's practices and procedures with respect to financial matters. Nothing herein is intended to or modifies state law, the City Charter, or any City Ordinance, and this document should not be viewed as a substitute for the need to identify, review, and understand any state or local law that may be applicable to any official act.

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BUDGET GUIDELINES

Beverly's Municipal government bears responsibility for delivering critical city services and maintaining and improving the city's infrastructure both from year to year and over time, while striving to ensure the long term financial health of the city. A thoughtful professional budget process positions municipal executive and legislative branch officials well to uphold and deliver on their responsibility to the residents and taxpayers of Beverly.

Efforts should be made to produce a budget which is structurally balanced. (Where recurring revenues fully fund recurring expenditures).

Efforts should be made to produce a budget which does not rely on aggressive revenue projections, which would potentially expose the City to revenue shortfalls.

Attention should be given to the City's long-term forecasting, reserve targets and capital plans when developing and submitting the City budget.

Any use of one-time, or non-recurring revenue within the operating budget, while permissible, should be clearly identified in the budget and include a plan to reduce reliance on such revenue in the future.

FINANCIAL RESERVES POLICY

The establishment and maintenance of adequate financial reserves are essential to providing the City with financial stability, flexibility and security, and can be used to finance unforeseen or emergency needs, to hold money for specific purposes, or, in some circumstances, to serve as a revenue source for the annual operating budget. Levels and trends of reserved and unrestricted fund balances in the General Fund are monitored by credit rating agencies and other stakeholders in evaluating creditworthiness, financial stability and exposure to financial risk. The perspective of these stakeholders, particularly rating

agencies, impacts the City's bond rating and consequently, its cost to fund major capital projects through long-term borrowing. Therefore, the City has the following financial goals and policies for funding and maintaining reserves.

Overall Goal

It is the overall goal of the City to reach and maintain a combined reserve level through its stabilization fund(s) and annual free cash certification of between 13% and 23% plus any specifically identified needs.

Free Cash Reserve

Free cash (see glossary of terms) refers to the remaining year-end balance in the City's General Fund determined to be unreserved and undesignated, and not offset by deficits. Free Cash is generated when actual revenue collections are in excess of estimates and when actual expenditures are less than appropriations at fiscal year-end. It is a cumulative balance that is recertified at the close of each Fiscal Year. Free Cash is available for appropriation after July 1 **and** only after it is certified by the Massachusetts Department of Revenue's Division of Local Services based on a balance sheet and other documents submitted by the City (typically 3-5 months after July 1).

The generation and use of Free Cash:

The City's target is to have an annual Free Cash certification between 3% and 8% of the current year General Fund operating budget.

Free Cash reserves are considered non-recurring revenue, therefore, free cash appropriations should be used for one-time expenditures, capital projects, to build or replenish stabilization funds, unforeseen or emergency needs, or to pay down debt.

The City should refrain from the use of Free Cash to fund recurring expenditures, unless such expenditures are unforeseen or needed for emergency purposes and the city anticipates that the reliance on Free Cash will not be recurring.

The City should typically not rely on free cash in any given year in an amount greater than can be replenished to reach the stated target of 3%-8% at the close of the fiscal year.

Stabilization Fund Reserves

The stabilization fund is a vehicle for achieving long-term financial stability while also improving the City's credit worthiness and fiscal flexibility. The fund is authorized by Massachusetts General Laws Chapter 40, Section 5B and serves as the City's main financial reserve for use in the event of an economic downturn, emergency, or temporary fiscal instability, as well as for planned budgetary pressure.

A primary purpose is to protect the City against an economic downturn resulting in reduced local aid from the Commonwealth, as well as shortfalls in other economically tied revenue sources including but not limited to new growth, excise taxes, meals and room taxes, and permit revenues. Ten to fifteen percent (10% to 15%) of the general fund operating budget is an appropriate target balance to maintain stability for three to four years of reduced revenue in those areas.

The city should not rely solely on stabilization fund and other reserve balances in the case of an economic down turn resulting in reduced revenues, but should use them judiciously in conjunction with spending reductions and budget restructuring should the need arise.

The City has established the following Stabilization Fund Policy:

The City of Beverly hereby establishes and shall maintain a special fund to be known as 'The Stabilization and Investment Fund', which shall be established pursuant to Massachusetts General Law Chapter 40, Section 5B. Upon the Department of Revenue certifying that the city has a positive free cash balance, within 90 days of such certification, the Mayor shall request an appropriation from such cash balance of no less than 10% of the certified amount, to be deposited into the city's Stabilization Fund, provided however that the requested amount in any given year cannot exceed 10% of the previous year's

tax levy, and provided further that the total balance of the city's Stabilization Fund shall not exceed 10% of the city's equalized valuation. A 2/3 vote of the city council is required for the specification or alteration of purpose for the Stabilization Fund. A 2/3 vote of the city council is required for any appropriation in or out of the city's Stabilization Fund. Notice and a public hearing, as dictated by Section 6-7 of the City Charter, shall be provided for any proposed appropriations in or out of the city's Stabilization Fund.

In any given fiscal year, the Mayor may request appropriation from the city's Stabilization Fund. The mayor shall identify the reasoning for a request for appropriation as one of the following: 1) to fund an unforeseen emergency, 2) to pay city expenses without short term borrowing, 3) to stabilize any anticipated capital cost fluctuations, 4) to make payments related to anticipated capital costs, debt associated with such capital costs, or any other lawful use related to capital projects, 5) to provide for shortfalls in the operating budget, 6) to provide for funding when State Aid has been decreased in the prior fiscal year, 7) for any other lawful purpose not specifically detailed here that would warrant an appropriation from the City's Stabilization Fund. Any interest earned shall be added to and become a part of the City's Stabilization Fund.

DEBT MANAGEMENT POLICY

The City Treasurer has responsibility for initiating borrowings and overseeing the City's debt obligations, as submitted by the Mayor and approved by the City Council. The purpose of this policy is to provide the Treasurer with guidance through a statement of City goals for the issuance and management of City debt. All debt will be issued and managed in accordance with Chapter 44 of Massachusetts General Laws. Accordingly, the City Treasurer should:

- Ensure high quality debt management decisions;
- Impose order and discipline in the debt issuance process;
- Promote consistency and continuity in the decision making process;
- Demonstrate a commitment to long-term financial planning objectives; and,

Strive to ensure that the debt management decisions are viewed positively by the rating agencies, investment community, and taxpayers.

Therefore, regarding the General Fund debt and debt service, the City shall:

- strive to maintain a debt ratio between 7% and 11% of its annual General Fund operating budget with a long term target of less than 9%.
- make efforts to schedule future, new debt service to coincide with reduced principal and interests obligations on maturing debt.
- endeavor to ensure that a bond term will not exceed the estimated useful life of the capital purchase or project being financed;
- employ a financial advisor and bond counsel to review and advise on all matters related to debt authorization and debt issuance.

Further, the City shall:

Endeavor to sell all municipal bond and note issuances by competitive bid. The competitive bid process guarantees the City adequate exposure in the market and reasonable expectation that interest rates and terms are competitive.

Seek to maintain the highest possible credit rating. To enhance the creditworthiness of Beverly, the City is committed to prudent financial management and systematic capital and long-term financial planning.

Maintain good communications with bond rating agencies about its financial condition. The City shall adhere to full disclosure on every financial report and bond prospectus (official statement).

Monitor all municipal borrowings on a regular basis to insure compliance with federal law and arbitrage limitations.

Not assume more tax-supported general obligation debt than it retires each year without conducting an objective analysis regarding the City's ability to assume and support additional debt service payments.

CASH AND INVESTMENT POLICY

SECTION 1: 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 two will deal with trust funds, bond proceeds, and any other funds with special circumstances such as stabilization funds. A separate Contributory Retirement Board is responsible for the investment of the pension funds.

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 City's business.

There are some cases when noninterest bearing accounts must be used because of agreements with federal and state granting authorities. In each case the un-invested balance will be kept at the minimum allowed by the agreement.

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. These risks shall be mitigated by the diversification and prudent selection of investment instruments, and choice of depository. 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

Note: *Public investments in Massachusetts are not protected through provisions in State law. Therefore, they are largely uncollateralized. Many banking institutions are willing to put up collateral, albeit at a cost to the City of a lower interest rate. The Treasurer negotiates for the highest rates possible, consistent with safety principles.*

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 State Treasurer and currently managed by Fidelity Investments. It invests in Bankers Acceptances, Commercial Paper of high quality, Bank Certificates of Deposit, Repurchase agreements (Repos), and U.S. Treasury obligations. It has Federal Deposit Insurance Corporation (F.D.I.C.) pass-through insurance on the C.D.'s and takes delivery on the Repos and Treasuries, Under Government Accounting Standards Board Regulation (GASB III), it is not considered an uncollateralized product.

2. U.S. Treasuries that will be held to maturity: **Unlimited amounts** (Up to one year maturity from date of purchase).

3. U.S. Agency obligations that will be held to maturity: **Unlimited amounts** (Up to one year maturity from date of purchase).

4. Bank accounts or Certificates of Deposit, hitherto termed C.D.'s in banking institutions that are rated by a recognized bank rating firm (e.g. Veribank) and receive the highest rating (eg. Veribank's "GREEN ***"): **Unlimited amounts** (Up to one year).

5. Money Market Funds allowed by Section 55 of Chapter 44 as amended by chapter 314 of the Acts of 1996: **Unlimited amounts** (funds are liquid).

6. Bank accounts or Certificates of Deposit, hitherto termed C.D.'s which are fully collateralized through a third party agreement, in banking institutions that are rated by a recognized bank rating firm (eg. Veribank) but do not receive the highest rating (eg. Veribank's "Green ***"): **Unlimited amounts** (Up to one year).

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 25% of the City's investments shall be invested in a single financial institution.

Authorization

The Treasurer has authority to invest city funds, subject to the statutes of the Commonwealth cited above. An investment Committee, whose members are the Mayor, the Finance Director, the Auditor, and the Treasurer, will develop and oversee the City's investment policy, approve financial institutions, and approve investment procedures.

Ethics

The City Treasurer (and the Assistant Treasurer) 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 the 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 City's investments.

Relationship with Financial Institutions

Financial institutions should be selected first and foremost with regard to safety. The City shall 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 brokers/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; and,

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).

Reporting Requirements

On a quarterly basis, a report containing the following information shall be prepared by the Treasurer and distributed to the members of the Investment Committee. The report shall 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.

SECTION 2: The Investment of Trust Funds and Bonds Proceeds

This section of the policy applies only to funds that can 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) may 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 the City which means that it is able to borrow at rates well below market rates. At the same time, the federal government has issued regulations to prevent the issuance of 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 shall be followed:

Unless debt is issued as a “small issuer,” that is, an entity issuing less than \$5 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.

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:

1. CONSTRUCTION DEBT

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

2. CAPITAL EXPENDITURES DEBT OTHER THAN CONSTRUCTION PROJECTS

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

3. 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.

CAPITAL IMPROVEMENT POLICY

Consistent with the Beverly City Charter, there shall be a Capital Improvement Program within the City. The Mayor shall submit a capital improvement program to the City Council at least 150 days before the start of each fiscal year. It shall include:

A clear and concise general summary of its contents;

A list of all capital improvements proposed to be undertaken during the next ensuing five years, with supporting information as to the need for each capital improvement;

Cost estimates, methods of financing and recommended time schedules for each improvement;

This information is to be annually revised by the Mayor with regard to the capital improvements still pending or in the process of being acquired, improved or constructed along with new priorities that may be added.

AUDIT POLICY

The City is committed to the completion of external, independent audits of its year-end financial statements in order to, among other things, ensure and to strengthen public confidence that:

The City's year-end financial statements are reliable, accurate, and complete;

Internal financial controls are in place and executed to protect community assets;

Departmental procedures are sound;

Credit rating agencies have evidence that the City's financial condition is healthy;

The City has a management tool for measuring performance, internal controls, and operating efficiencies;

Therefore, it is the policy of the City of Beverly, that:

An audit of the City's year-end financial statements shall occur every year, including a management letter and grant review;

The principal person or firm engaged to complete the audit is a Certified Public Accountant with Massachusetts municipal audit experience;

When seeking to engage audit services, the City shall solicit proposals from multiple firms or individuals;

The Mayor and his/her finance team will address comments and issues cited in the auditor's management letter with corrective action if warranted;

The audit firm shall annually present its audit product and findings to the City Council.

UNFUNDED LIABILITIES POLICY

Pension Liability

The Contributory Retirement System is a defined benefit program that is governed by Massachusetts General Laws Chapter 32 and is regulated by the Public Employee Retirement Administration Commission (PERAC), a state entity responsible for the oversight, guidance, monitoring, and regulation of the 105 public pension systems in Massachusetts. Funding for this system covers the costs of employees who are part of the City's retirement system, which does not include teachers, as their pensions are funded by the State. The City of Beverly is a member of the Beverly Retirement System and pays an annual pension assessment to that system. The system is required to update its actuarial valuation performed by PERAC every two years. Based on that valuation the retirement board adopts a recommended funding schedule.

In accordance with state law, PERAC regulations and government accounting standards, the City shall continue to fund this liability in the most fiscally prudent manner. In the event that a proposed city annual operating budget does not meet or exceed the contribution as determined by the adopted funding schedule, the Mayor shall make notification to the City Council in

conjunction with the Mayoral budget submission. Further the City shall make effort to fully fund this obligation in advance of the legal prescribed time frame of 2040.

References:
M.G.L. ch. 32

OPEB Liability

Other Post Employment Benefits (OPEB) refer to benefits, other than pensions, that City employees earn while actively working, but do not receive until they retire. These costs include city and school retirees' health insurance and life insurance benefits. In 2004, the Governmental Accounting Standards Board (GASB Statements 43 & 45) directed that cities and towns account for these liabilities and complete an actuarial analysis to identify their total OPEB liability. The ability of municipalities to address this liability has become a concern of public policy makers, finance officials, and bond rating agencies. It is widely recommended that municipalities establish and fund an OPEB trust to mitigate future costs and work towards a long term plan of addressing the issue.

Therefore, in order to avoid any potential detrimental impact OPEB costs might have on the City's annual operating budget, to help ensure positive audit results, and to protect the City's bond rating, it is the policy of the City of Beverly to:

Maintain the OPEB liability trust fund established by Order 195 of 2016, in accordance with Massachusetts General Laws, Chapter 32B, §20;

Arrange for the completion of an OPEB actuarial analysis every three years as required by GASB Statements 43 & 45;

Transfer an amount each year into the OPEB liability trust fund of at least 2% of the city's certified free cash balance;

The city will evaluate policies and strategies to limit future OPEB liabilities as legislatively allowed and legally appropriate;

The City may, as available funds provide, opt to set aside more funds for OPEB liabilities upon recommendation from the Mayor and approval by the City Council.

YEAR END ENCUMBRANCES POLICY

At the end of the fiscal year (June 30th), there may be funds in certain accounts that are committed to a specific purchase or purchase order, service (by service agreement) or project (by contract). Under these circumstances with the associated documentation, the unexpended funds may be encumbered.

Encumbrances may also be used to set aside specific appropriations for their intended purpose provided the anticipated expenditure is expected to occur in the near future. Examples are a settlement or judgement or for collective bargaining purposes in the event that management and labor are near an agreement at the end of a fiscal year.

GIFTS AND GRANTS POLICY

All grants shall be managed to comply with all applicable laws and regulations. Further, all gifts, donations and/or grants shall be managed and expended according to the instructions of the donor or grantor in accordance with state law. Chapter 44 Section 53A of Massachusetts General Law governs the acceptance and expenditure of grants or gifts of funds. Although this section allows any officer or department to accept grants or gifts of funds, it is the policy of the City to obtain Mayoral approval prior to receiving any grant or gift to ensure alignment with priorities and prevent any unintentional obligation by the City. Any funds received by the City cannot be expended for their intended purpose without approval by the City Council.

Gifts of tangible personal property are governed by Chapter 44 section 53A1/2 of the Massachusetts General Law and require City Council approval before they can be accepted by the City.

ENTERPRISE FUND POLICY

Enterprise fund accounting is permitted under Massachusetts General Law ch. 44 §53F½ and is intended to account for certain departmental activities outside of General Fund revenues and expenses. In most cases, these operations are funded predominantly by user-related revenue such as fees or rates and have stand-alone business-like characteristics. Revenues and expenditures associated with the services provided are accounted for separately from the City's General Fund and thereby offer a clear view of finances associated with that operation.

The City of Beverly has adopted Enterprise fund accounting as specified in Chapter 44 §53F½.

Certain city Enterprise Funds are designed to be self-sufficient while others plan for reliance on General Fund subsidies either in the form of direct cash transfers or absorption of central indirect costs within the General Fund budget. In either case, the structure shall be clearly illustrated through the budget process to show which operations are self-sustaining and which are subsidized.

Enterprise revenue may only be used to support the purposes of the specific enterprise.

The department operating under Enterprise Fund accounting is subject to the same annual operating budget process and budget approvals as all other City departments;

Rates and funding structures will be reviewed annually and, if adjusted, new rates shall take effect July 1 prospectively. Mid-year rate adjustments will only occur under significant emergency or unforeseen circumstances as determined by the Mayor with the approval of the City Council.

The Enterprise department is subject to the City's Capital Improvement Policy.

The Enterprise department may pay indirect costs to the General Fund to account for services provided by City employees relating to and for the benefit of the enterprise business;

Enterprise Fund retained earnings balances will be discussed as part of the annual budget development process to ensure capital funding plans and rate structures are appropriate.

The Mayor, with the approval of the City Council, may utilize retained earnings to make adjustments to the rates and/or invest in capital infrastructure consistent with the Capital Improvement Program.

GLOSSARY OF TERMS

(Source: State Division of Local Services)

Available Funds

Balances in the various fund types that represent non-recurring revenue sources. As a sound practice, they are frequently appropriated to meet unforeseen expenses, for capital expenditures or other one-time costs. Examples of available funds include free cash stabilization funds, overlay surplus, water surplus, and enterprise net assets unrestricted (formerly retained earnings).

Bond Rating

(Municipal) – A credit rating assigned to a municipality to help investors assess the future ability, legal obligation, and willingness of the municipality (bond issuer) to make timely debt service payments. Stated otherwise, a rating helps prospective investors determine the level of risk associated with a given fixed-income investment. Rating agencies, such as Moody's and Standard and Poor's, use rating systems, which designate a letter or a combination of letters and numerals where AAA is the highest rating and C1 is a very low rating.

Capital Budget

An appropriation or spending plan that uses borrowing or direct outlay for capital or fixed asset improvements. Among other information, a capital budget should identify the method of financing each recommended expenditure, i.e., tax levy or rates, and identify those items that were not recommended.

Capital Improvement Program

A blueprint for planning a community's capital expenditures that comprises an annual capital budget and a five- year capital program. It coordinates community planning, fiscal capacity and physical development. While all of the community's needs should be identified in the program, there is a set of criteria that prioritizes the expenditures.

Debt Authorization

Formal approval by a two-thirds vote of city council to incur debt, in accordance with procedures stated in M.G.L. ch. 44, §§1, 2, 3, 4a, 6-15.

Enterprise Fund

An enterprise fund, authorized by M.G.L. ch. 44 §53F¹/₂, 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. With an enterprise fund, all costs of service delivery--direct, indirect, and capital costs--are identified. This allows the community to recover total service costs through user fees if it chooses. Enterprise accounting also enables communities to reserve the "surplus" or net assets unrestricted generated by the operation of the enterprise rather than closing it out to the general fund at year-end. Services that may be treated as enterprises include, but are not limited to, water, sewer, hospital, and airport services. See DOR IGR 08-101

Equalized Valuations (EQV)

The determination of an estimate of the full and fair cash value (FFCV) of all property in the Commonwealth as of a certain taxable date. EQVs have historically been used as a variable in distributing some state aid accounts and for determining county assessments and other costs. The Commissioner of Revenue, in accordance with M.G.L. ch. 58 §10C, is charged with the responsibility of biannually determining an equalized valuation for each city in the Commonwealth.

Free Cash (Also Budgetary Fund Balance)

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 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. Important: free cash is not available for appropriation until certified by the Director of Accounts. (See Available Funds

GASB 45

This is a Governmental Accounting Standards Board (“GASB”) major pronouncement that each public entity account for and report other post-employment benefits (See OPEB) in its accounting statements. Through actuarial analysis, municipalities must identify the true costs of the OPEB earned by employees over their estimated years of actual service.

Levy

The amount a community raises through the property tax. The levy can be any amount up to the levy limit, which is re-established every year in accordance with Proposition 2 1/2 provisions.

Local Aid

Revenue allocated by the Commonwealth to cities, towns, and regional school districts. Estimates of local aid are transmitted to cities, towns, and districts annually by the "Cherry Sheets." Most Cherry Sheet aid programs are considered general fund revenues and may be spent for any purpose, subject to appropriation.

Local Receipts

Locally generated revenues, other than real and personal property taxes. Examples include motor vehicle excise, investment income, hotel/motel tax, fees, rentals, and charges. Annual estimates of local receipts are shown on the tax rate recapitulation sheet.

New Growth

The additional tax revenue generated by new construction, renovations and other increases in the property tax base during a calendar year. It does not include value increases caused by normal market forces or by revaluations. New growth is calculated by multiplying the assessed value associated with new construction, renovations and other increases by the prior year tax rate. The additional tax revenue is then incorporated into the calculation of the next year's levy limit. For example, new growth for FY07 is based on new construction, etc. that occurred between January and December 2005 (or July 2005 and June 2006 for accelerated new growth communities). In the fall of 2006, when new growth is being determined to set the FY07 levy limit, the FY06 tax rate is used in the calculation.

Non-Recurring Revenue Source

A one-time source of money available to a city. By its nature, a non-recurring revenue source cannot be relied upon in future years. Therefore, such funds should not be used for operating or other expenses that continue from year-to-year. (See Recurring Revenue Source)

OPEB (Other Post-employment Benefits)

Employees of state and local governments may be compensated in a variety of forms in exchange for their services. In addition to a salary, many employees earn benefits over their years of service that will not be received until after their employment with the government ends. The most common type of these post-employment benefits is a pension. Post-employment benefits other than pensions generally take the form of health insurance and dental, vision, prescription, or other healthcare benefits provided to eligible retirees, including in some cases their beneficiaries. They may also include some type of life insurance. As a group, these are referred to as OPEB. (See GASB 45).

Recurring Revenue Source

A source of money used to support municipal expenditures, which by its nature can be relied upon, at some level, in future years. (See Non-recurring Revenue Source).

Reserves (financial)

Financial reserves primarily include the Free Cash reserve and any and all stabilization funds established and funded by the City. These reserves require both Mayoral and City Council approval to transfer funds out of these reserve accounts. In addition to these set aside reserve accounts a city may choose to fund operating reserve funds within their annual budget. Examples of an operating reserve fund are; reserve for unforeseen expenditures, reserve for collective bargaining, reserve for separation of service expenses. These operating reserve funds are typically approved during the annual budget approval process and are for use during the ensuing fiscal year.

Special Revenue Fund

Funds, established by statute only, containing revenues that are earmarked for and restricted to expenditures for specific purposes. Special revenue funds include receipts reserved for appropriation, revolving funds, grants from governmental entities, and gifts from private individuals or organizations.

Stabilization Fund

A fund designed to accumulate amounts for capital and other future spending purposes, although it may be appropriated for any lawful purpose (M.G.L. 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 city council is required to establish, amend the purpose of, or appropriate money into or from the stabilization fund. (See DOR IGR 04-201)

Undesignated Fund Balance

Monies in the various government funds as of June 30 that are neither encumbered nor reserved, and are therefore available for expenditure once certified as part of free cash. (See Designated Fund Balance).

Unreserved Fund Balance (Surplus Revenue Account)

The amount by which cash, accounts receivable, and other assets exceed liabilities and restricted reserves. It is akin to a "stockholders' equity" account on a corporate balance sheet. It is not, however, available for appropriation in full because a portion of the assets listed as "accounts receivable" may be taxes receivable and uncollected. (See Free Cash).

User Charges/Fees

A municipal funding source where payment is collected from the user of a service to help defray the cost of providing the service. Note that any increases in the fees must satisfy the three tests set forth in the Emerson case. (See Emerson College v. Boston, 391 Mass. 415 (1984)).