



Attach. 1.

CITY OF CAMBRIDGE • EXECUTIVE DEPARTMENT

Robert W. Healy, City Manager

Richard C. Rossi, Deputy City Manager

July 14, 2009

TO: Councillor David P. Maher, Finance Committee Chair
Members of the Finance Committee

FROM: Robert W. Healy, City Manager

SUBJECT: Finance Summary

The following provides information for the Finance Committee meeting of July 15, 2009:

1. **Federal Stimulus Funding (ARRA)** – The City anticipates receiving nearly \$3.5 million to be expended over the next 36 months, under the ARRA programs that are entitlement formula based. These include:

a.) \$1,302,128 in Homeless Prevention and Rapid Re-Housing Program allocated under the HUD Emergency Shelter Grant formula. This application has been approved by HUD, but the formal grant award notice has not been received. Consistent with the federal guidelines for the program, most of the funds will be used for direct client support to help families and individuals who are facing eviction to retain their rental housing or to help those living in shelter secure housing.

b.) \$851,070 as additional stimulus funding allocated to Community Development Block Grant eligible communities. This money will be used for Street and Sidewalk Improvements, the Bio-Medical Training Program that was victim of State Budget cuts, and the Best Retail Practice Program. As is the case in (a.), the Grant Application has been submitted to HUD and approved, but the formal Grant Award has not yet been received.

c.) \$1,139,400 from the Energy Efficiency and Conservation Block Grant from the Department of Energy to be utilized as follows:

<i>Municipal Building Energy Efficiency Program</i> (Boiler replacement, lighting upgrades and controls, Heating controls/prog thermostats, etc. and Insulation)	\$759,600
<i>Community-based Energy Efficiency Campaign</i> (Low-income market education program, Residential Building to market energy efficiency Programs, Small commercial buildings)	\$250,000
<i>Community Energy Efficiency Incentives</i> (Incentive offers to 1-4 Multi Family, Small Commercial, and AC replacement program)	\$100,000
<i>Public Bicycle Parking Capital Program</i>	\$ 29,800

d.) \$246,068 for the Edward Byrne Memorial Competitive Grant Program (The purpose of this grant is for Law Enforcement purposes and improving the functioning of the criminal justice system.) Total award to be submitted to secure two full-time grant positions that will be lost in FY10 due to the elimination of COPS funds in the State Budget. The positions are Neighborhood Coordinator and Case Manager for Investigations.)

Additionally, I have submitted applications totaling \$2,419,172 for the following competitive grants:

Massachusetts Department of Energy Resources
Mass Clean Cities/Green Communities Grant Application for Municipal Vehicles
(retrofitting for 8 cars and 6 buses)
Total Hybrid Retrofit grant application: \$676,000

Department of Justice
COPS Hiring Grants
(Grant Duration 36 mos., funds must be obligated for authorized activities
by 18 mos.)
*Total award to be submitted includes annualized salary for four (4) full-time
officers at step 1 thru step 3: \$1,340,111*

Research and Evaluation of Recovery Act State and Local Law Enforcement Assistance Program
(The purpose of this grant is to support the initiatives of the Recovery Act that focus on objectives to evaluate programs that increase capacity of State and Local Criminal Justice Program)
Goals of the Program – To enhance problem-solving and knowledge-based policing and to increase capacity of its Crime Analysis Unit: \$403,061

2. **State Budget** - The impact of the final FY10 State Budget is included in Attachment A. The net impact of the reduction in Local Aid to Cambridge is nearly \$2 million.

3. **Local Option Meals & Room Occupancy Excise** - The State Budget also provide cities and towns in the Commonwealth the opportunity to replace some or all of their loss in local aid by allowing, for the first time, an allocation of .75% of the Meals Excise Tax upon local acceptance, and has allowed a local option of increasing the room occupancy excise by 2%. In Cambridge's case, adopting these options will replace the lost revenue from reduction in State Aid. I am recommending that the City Council adopt both these options in accordance with the procedure outlined in Attachment B. This action would need to be taken at the July 27th City Council meeting in order to go into effect for October 1, 2009.

Absent this adoption, the submitted budget could only be otherwise balanced by increasing the Property Tax Levy for FY10 or reducing the adopted FY10 Budget by over \$2 million.

RWH/mec
Attachments

FY10 REVENUES

A

	FY09 Cherry Sheet Estimate	FY10 Governor's Proposal (House 1)	FY10 Final Cherry Sheet	Difference Gov. vs. Final	Change
Education:					
Chapter 70	9,316,701	9,316,701	9,130,367	(186,334)	-2.0%
Offset Receipts:					
School Lunch	25,956	28,137	28,137	-	0.0%
Sub-Total, All Education Items	9,342,657	9,344,838	9,158,504	(186,334)	-2.0%
				(186,334)	
General Government:					
Lottery Aid	7,615,265	-			
General Fund Subsidy to Lottery	1,165,975	-			
Additional Assistance	17,956,060	-			
General Munic. Aid	26,737,300	20,093,955	18,927,802	(1,166,153)	-5.8%
Police Career Incentive	1,415,984	896,338	211,433	(684,905)	-76.4%
Veterans' Benefits	264,676	358,106	355,835	(2,271)	-0.6%
Exemptions: Vets, Blind & Surviving Spouses	130,789	-	-	-	
Exemptions: Elderly	68,774	-	-	-	
Sub-total Exemption Reimb.	199,563	179,174	179,174	-	0.0%
Offset Receipts:					
Public Libraries	127,314	105,440	91,212	(14,228)	-13.5%
Sub-Total, All General Government	28,744,837	21,633,013	19,765,456	(1,867,557)	-8.6%
				(1,867,557)	
Total Estimated Receipts Without Charter School Aid or New Revenues	38,087,494	30,977,851	28,923,960	(2,053,891)	-6.6%
				(2,053,891)	
Charter Tuition Reimbursement	1,844,112	287,801	1,297,724	1,009,923	350.9%
Total Estimated Receipts All Existing Items	39,931,606	31,265,652	30,221,684	(1,043,968)	-3.3%
				(1,043,968)	

FY10 CHARGES

A.

	FY09 Cherry Sheet Estimate	FY10 Governor's Budget (House 1)	Final Budget FY10	Difference Gov. vs. Final	
State Assessments and Charges:					
Air Pollution Districts	37,258	37,550	37,550	0	
Metropolitan Area Planning Council	29,644	30,020	30,020	0	
RMV Non-Renewal Surcharge	493,140	457,940	457,940	0	
Sub-Total, State Assessments	560,042	525,510	525,510	0	
Transportation Authorities:					
MBTA	8,171,565	8,300,855	8,302,878	2,023	0.02%
Boston Metro. Transit District	2,967	2,826	2,826	0	
Sub-Total, Transportation Authorities	8,174,532	8,303,681	8,305,704	2,023	
Annual Charges Against Receipts:					
Special Education	44,032	63,034	62,704	(330)	-0.52%
Sub-Total, Annual Charges	44,032	63,034	62,704	(330)	
Tuition Assessments					
School Choice Sending Tuition	2,593	5,000	0	(5,000)	-100%
Sub-Total, Tuition Assessments	2,593	5,000	0	(5,000)	
Total Estimated Charges Without Charter School	8,781,199	8,897,225	8,893,918	(3,307)	-0.04%
Charter School Sending Tuition	7,754,545	6,369,954	7,302,143	932,189	14.63%
Total Estimated Charges All Items	16,535,744	15,267,179	16,196,061	928,882	6.08%
				928,882	

CAMBRIDGE

A. EDUCATION:

Distributions and Reimbursements:

1. Chapter 70	9,130,367
2. School Transportation <i>Chs. 71, 71A, 71B and 74</i>	
3. Retired Teachers' Pensions <i>Ch. 32, s. 20 (2) (c)</i>	
4. Charter Tuition Reimbursements <i>Ch. 71, s. 89</i>	1,297,724

Offset Items – Reserve for Direct Expenditure:

5. School Lunch <i>1970, Ch. 871</i>	28,137
6. School Choice Receiving Tuition <i>Ch. 76, s. 12B, 1993, Ch. 71</i>	

Sub-Total, All Education Items	10,456,228
--------------------------------	------------

B. GENERAL GOVERNMENT:

Distributions and Reimbursements:

1. Unrestricted General Government Aid	18,927,802
2. Local Share of Racing Taxes <i>1981, Ch. 558</i>	
3. Regional Public Libraries <i>Ch. 78, s. 19C</i>	
4. Police Career Incentive <i>Ch. 41, s. 108L</i>	211,433
5. Urban Renewal Projects <i>Ch. 121, ss. 53-57</i>	
6. Veterans' Benefits <i>Ch. 115, s. 6</i>	355,835
7. Exemptions: Vets, Blind, Surviving Spouses & Elderly <i>Ch. 58, s. 8A; Ch. 59 s. 5</i>	179,174
8. State Owned Land <i>Ch. 58, ss. 13-17</i>	

Offset Item - Reserve for Direct Expenditure:

9. Public Libraries <i>Ch. 78, s. 19A</i>	91,212
---	--------

Sub-Total, All General Government	19,765,456
-----------------------------------	------------

C. TOTAL ESTIMATED RECEIPTS, FISCAL 2010	30,221,684
--	------------

CAMBRIDGE

A. County Assessment, County Tax: *Ch. 35, ss. 30, 31* _____

B. STATE ASSESSMENTS AND CHARGES:

1. Retired Employees Health Insurance *Ch. 32A, s. 10B* _____
2. Retired Teachers Health Insurance *Ch. 32A, s. 12* _____
3. Mosquito Control Projects *Ch. 252, s. 5A* _____
4. Air Pollution Districts *Ch. 111, ss. 142B, 142C* _____
5. Metropolitan Area Planning Council *Ch. 40B, ss. 26, 29* _____
6. Old Colony Planning Council *1967, Ch. 332* _____
7. RMV Non-Renewal Surcharge *Ch. 90; Ch. 60A* _____

37,550

30,020

457,940

525,510

Sub-Total, State Assessments

C. TRANSPORTATION AUTHORITIES:

1. MBTA *Ch. 161A, ss. 8-9; 1974, Ch. 825, ss. 6-7* _____
2. Boston Metro. Transit District *1929, Ch. 383; 1954, Ch. 535* _____
3. Regional Transit *Ch. 161B, ss. 9, 10, 23; 1973, Ch. 1141* _____

8,302,878

2,826

8,305,704

Sub-Total, Transportation Assessments

D. ANNUAL CHARGES AGAINST RECEIPTS:

1. Multi-Year Repayment Programs _____
2. Special Education *Ch. 71B, ss. 10, 12* _____
3. STRAP Repayments *1983, Ch. 637, s. 32* _____

62,704

Sub-Total, Annual Charges Against Receipts

62,704

E. TUITION ASSESSMENTS:

1. School Choice Sending Tuition *Ch. 76, s. 12B, 1993, Ch. 71* _____
2. Charter School Sending Tuition *Ch. 71, s. 89* _____
3. Essex County Technical Institute Sending Tuition *1998, Ch. 300, s. 21* _____

7,302,143

Sub-Total, Tuition Assessments

7,302,143

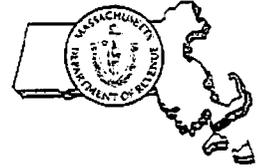
F. TOTAL ESTIMATED CHARGES, FISCAL 2010

16,196,061

Released June 30, 2009

For additional information about how the estimates were determined and what may cause them to change in the future, please click on the following link: [Local Aid Estimate Program Summary](#).

B



Bulletin

2009-15B

LOCAL OPTION EXCISES

TO: Assessors, Accountants, Auditors, Clerks, Mayors, Selectmen, City/Town Managers, Finance Directors, City/Town Councils, City Solicitors and Town Counsels

FROM: Robert G. Nunes, Deputy Commissioner & Director of Municipal Affairs

DATE: July 2009

SUBJECT: New Local Meals Excise and Amended Local Room Occupancy Excise Rate

This *Bulletin* provides preliminary information about the procedures for implementing sections of the Fiscal Year 2010 state budget regarding local option excises on restaurant meals and room occupancies. The Department of Revenue (DOR) collects the local excises in addition to the state taxes on the occupancies or meals and distributes the collections on a quarterly schedule.

The FY10 state budget:

- Adds a new local option excise of .75 percent on sales of restaurant meals originating within the municipality.
- Increases the maximum rate of the existing local option room occupancy excise from four to six percent (four and one-half to six and one-half percent for Boston).

Local excises become operative only if accepted by a city or town. Acceptance is by majority vote of the municipal legislative body, subject to local charter. G.L. c. 4, § 4. Questions about the charter requirements in your community should be referred to municipal counsel. As further explained in this *Bulletin*, acceptance of either local excise, or amendment of the local room occupancy excise rate, must occur at least 30 days in advance of the first day of a calendar quarter in order to become operative for that quarter. **Communities must report their acceptance or amendment of these local excises to the Division of Local Services (DLS) in the manner prescribed by this *Bulletin*.**

Additional guidance on implementation issues and procedures will be issued in the future.

If you have questions about these notification requirements, please contact the Municipal Data Bank at databank@dor.state.ma.us.

The Division of Local Services is responsible for oversight of and assistance to cities and towns in achieving equitable property taxation and efficient fiscal management. The Division regularly publishes IGRs (Informational Guideline Releases detailing legal and administrative procedures) and the *Bulletin* (announcements and useful information) for local officials and others interested in municipal finance.

LOCAL OPTION MEALS EXCISE
Chapter 27, §§ 60 and 156 of the Acts of 2009
Adding General Laws Chapter 64L
Effective for sales of restaurant meals on or after October 1, 2009

A city or town may now impose an excise of .75% on the sales of restaurant meals originating within the municipality by accepting G.L. c. 64L, § 2(a). As with the existing local option room occupancy excise, the DOR will collect the local meals excise at the time it collects the state tax on the sale. Therefore, the local excise applies to all meals subject to the state sales tax. A community may not vary the rate or the meals subject to the excise.

The DOR will distribute the collections to the city or town on the same quarterly schedule that applies to the local room occupancy excise. G.L. c. 64L, § 2(b). The distribution schedule is found in Attachment A. A community may dispute its distribution by notifying the DOR, in writing, within one year of the distribution. G.L. 64L, § 2(b).

To assist in the administration of the excise, the DOR may provide cities and towns with certain information, including the total collections in the prior year and the identity of vendors collecting the tax locally. G.L. c. 64L, § 2(d).

Acceptance Procedure

Acceptance of the local option meals excise is by majority vote of the municipal legislative body, subject to local charter. To accept G.L. c. 64L, § 2(a), the following or similar language may be used:

VOTED: That the city/town of _____ accept G.L. c. 64L, § 2(a) to impose a local meals excise.

Acceptance Effective Date

A community's acceptance of the local meals excise becomes operative on the first day of the next calendar quarter after the vote, provided that date is at least 30 days after the vote to accept. If not, the acceptance becomes operative on the first day of the second quarter after the vote. **As a result, October 1, 2009 is the earliest an acceptance can become operative for FY10. A community must accept on or before August 31, 2009 in order for the DOR to begin collecting the excise on that date.**

For the start dates of each quarter and last date an acceptance vote will take effect for that quarter, please see the schedule in Attachment A.

A city or town may make the acceptance operative at the start of a later quarter by including the later start date in the vote ("to take effect on January/April /July/October 1, 2____.")

Notification Requirements

(1) Notice of Acceptance

The city or town clerk must notify the Municipal Data Management/Technical Assistance Bureau within the DLS whenever the statute is accepted or rescinded. (“Notification of Acceptance/Rescission–Meals Excise”). The notice is to be submitted **within 48 hours** of the vote. **Without timely notice, the DOR cannot begin collecting the excise for the city or town.**

(2) List of Restaurants

After the clerk notifies the DLS of the community’s acceptance, the local licensing board or official will be asked to verify the restaurants or other establishments that serve meals in the community. The verified information will be used by the DOR to notify vendors of their obligations to collect and pay over the local excise and to ensure that sales are properly sourced to the community. More detailed instructions will be provided, but local officials should be prepared to review and verify this information on an expedited basis.

Revenue Estimates

Within the next few weeks, the DOR expects to **release estimates** of the amounts each city or town could collect from imposing the local meals excise. At that time, we will provide further information about the use of meals excise revenue as an estimated receipt in the FY10 tax rate. **No community will be allowed to use new local meals excise revenues in the FY10 tax rate, however, unless it has accepted the statute before the rate is set.**

LOCAL OPTION ROOM OCCUPANCY EXCISE
Chapter 27, §§ 51, 52 and 154 of the Acts of 2009
Amending General Laws Chapter 64G, § 3A
Effective for occupancies on or after August 1, 2009

A city or town may impose, up to a maximum rate, a local excise on the rental of rooms in hotels, motels, lodging houses and bed and breakfast establishments by accepting G.L. c. 64G, § 3A. The maximum rate communities may now impose is 6% (6.5% for Boston). Previously, the maximum rate was 4% (4.5% for Boston). The local excise applies to all room occupancies subject to the state room occupancy excise. A community may not vary the occupancies subject to the excise, but may adopt any rate up to the maximum. A city or town that accepts the local room occupancy excise may also amend its excise rate, but it can only revoke or amend the rate once a year.

Acceptance or Amendment Procedure

Acceptance of the local option room occupancy excise, or amendment of the local excise rate, is by majority vote of the municipal legislative body, subject to local charter. To accept, the city or town must vote to accept G.L. c. 64G, § 3A and specify the local excise rate. The following or similar language may be used:

VOTED: That the city/town of _____ accept G.L. c. 64G, § 3A to impose a local room occupancy excise at the rate of _____ percent.

The following or similar language may be used to amend the local rate:

VOTED: That the city/town of _____ impose the local room occupancy excise under G.L. c. 64G, § 3A at the rate of _____ percent.

or

VOTED: That the city/town of _____ amend its local room occupancy excise under G.L. c. 64G, § 3A to the rate of _____ percent.

Acceptance or Amendment Effective Date

A community's acceptance of the local room occupancy excise, or amendment of its excise rate, becomes operative on the first day of the next calendar quarter after the vote, provided that date is at least 30 days after the vote to accept or amend. If not, the acceptance or amendment becomes operative on the first day of the second quarter after the vote. **As a result, October 1, 2009 is the earliest an acceptance or amendment can become operative for FY10. A community must accept or amend on or before August 31, 2009 in order for the DOR to begin collecting the excise or new excise rate on that date.**

For the start dates of each quarter and last date an acceptance vote will take effect for that quarter, please see the schedule in Attachment A.

A city or town may make the acceptance or amendment operative at the start of a later quarter by including the later start date in the vote (“to take effect on January/April /July/October 1, 2____.”)

Notification Requirements

The city or town clerk must notify the Municipal Data Management/Technical Assistance Bureau within the DLS whenever the statute is accepted or rescinded, (“Notification of Acceptance/ Rescission-Room Occupancy”) or the excise rate is amended (“Notification of Acceptance-Room Occupancy Rate Change”). The notice is to be submitted **within 48 hours** of the vote. **Without timely notice, the DOR cannot begin collecting the excise or new excise rate for the city or town.**

Revenue Estimates

Within the next few weeks, the DOR expects to **release estimates** of the amounts each city or town could collect from imposing or increasing the local room occupancy excise. At that time, we will provide further information about the use of room occupancy excise revenue as an estimated receipt in the FY10 tax rate. **No community will be allowed to use new local room occupancy excise revenues in the FY10 tax rate, however, unless it has accepted the statute or amended its excise rate before the tax rate is set.**

ATTACHMENT A
LOCAL OPTION EXCISE TIMETABLE

FY QUARTER	QUARTER START DATE	ACTION DEADLINE	DISTRIBUTION DATE	REVENUE COLLECTED DURING
Q1	July 1	May 31 ¹	September 30	June, July, August
Q2 ²	October 1	August 31	December 31	September, October, November
Q3	January 1	December 1	March 31	December, January, February
Q4	April 1	March 1	June 30	March, April, May

¹ Latest date to accept or amend in order to implement for full fiscal year. In first year, community will receive collections from July – May (11 months). Community will receive full year collections thereafter.

² Earliest Quarter acceptances or amendments can become operative for FY10. If community implements in this quarter, it will receive collections from October – May (8 months) during FY10.

**Massachusetts Department of Revenue
Division of Local Services
Municipal Databank**

(City/Town)

**Notification of Acceptance/Rescission
General Laws Chapter 64L, § 2A
(Local Option Meals Tax)**

The Commissioner of Revenue is hereby notified that the City/Town of _____, by an act of its legislative body on _____, _____, has accepted/rescinded the provisions of General Laws Chapter 64L, § 2A to impose a local meal tax. Please complete the contact information below for the Local Licensing Authority (required for establishment verification purposes).

(City/Town Clerk)

(Date)

Local Licensing Authority

Name: _____, Title: _____

Telephone: _____ Email Address: _____

Please submit this form in one of three ways to:

databank@dor.state.ma.us

(617) 660-7023 (fax)

Municipal Databank
PO Box 9569
Boston, MA 02114-9569

**Massachusetts Department of Revenue
Division of Local Services
Municipal Databank**

(City/Town)

**Notification of Acceptance
General Laws Chapter 64G, § 3A
(Room Occupancy Rate Change)**

The Commissioner of Revenue is hereby notified that the City/Town of _____, by an act of its legislative body on _____, _____, has voted to increase/decrease the local room occupancy excise to a rate of _____ percent under the provisions of General Laws Chapter 64G, § 3A.

(City/Town Clerk)

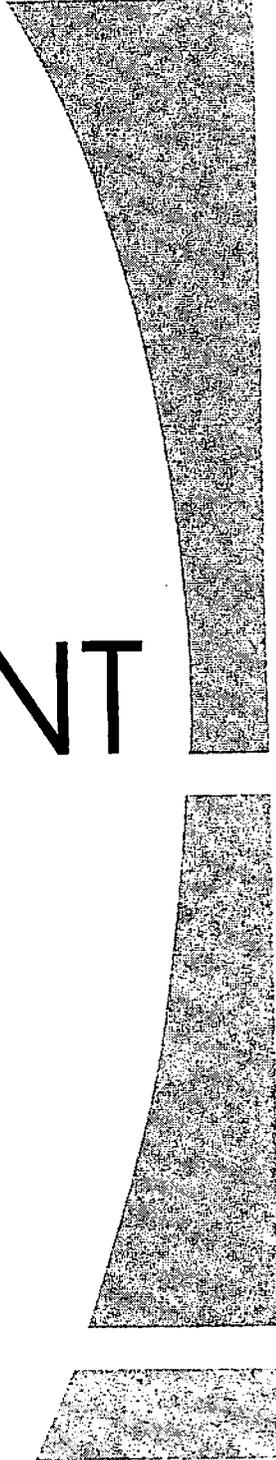
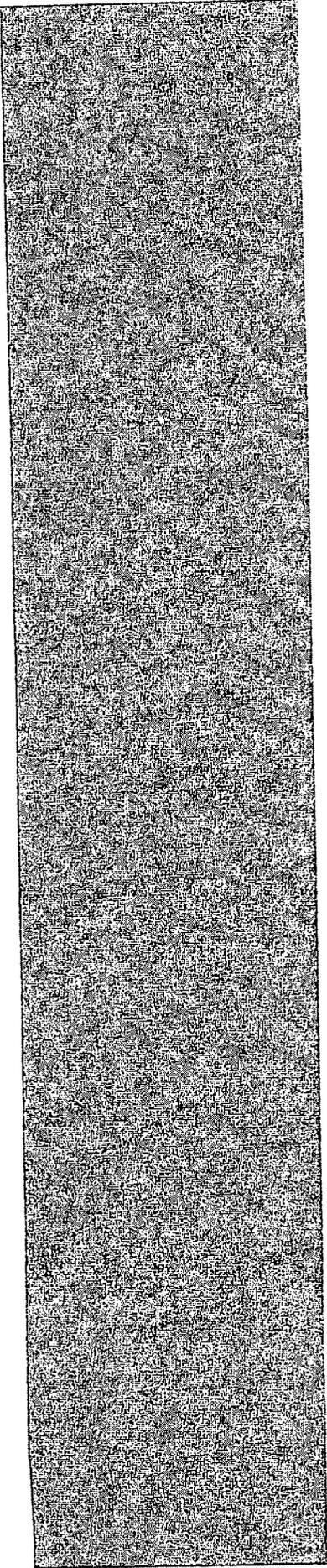
(Date)

Please submit this form in one of three ways to:

databank@dor.state.ma.us

(617) 660-7023 (fax)

Municipal Databank
PO Box 9569
Boston, MA 02114-9569



2008 INVESTMENT REPORT

COMMONWEALTH OF MASSACHUSETTS

*Public Employee Retirement
Administration Commission*

The Honorable Domenic J. F. Russo
Chairman

The Honorable A. Joseph DeNucci
Auditor of the Commonwealth
Vice Chairman

The Honorable Deval Patrick
Governor of the Commonwealth

The Honorable Paul V. Doane
Investment Professional

James M. Machado
Sergeant
Fall River Police Department

Donald R. Marquis
Former Town Manager
Arlington

Robert B. McCarthy
President of the Professional
Firefighters of Massachusetts

Joseph E. Connarton
Executive Director



Commonwealth of Massachusetts
Public Employee Retirement Administration Commission
Five Middlesex Avenue, Suite 304 | Somerville, MA 02145
Phone 617 666 4446 Fax 617 628 4002
TTY 617 591 8917 Web www.mass.gov/perac

LETTER FROM THE EXECUTIVE DIRECTOR

June 4, 2009

We are pleased to release this Investment Report for 2008. Since the adoption of Chapter 68 of the Acts of 2007, the Public Employee Retirement Administration Commission (PERAC) has issued an Investment Report, containing investment and funding results, prior to issuance of our Annual Report that includes a more exhaustive analysis of the activities of the Massachusetts public pension systems. Chapter 68 mandates that systems which do not meet certain investment and funding standards must transfer assets to the Pension Reserves Investment Trust Fund (PRIT) to be invested by the Pension Reserves Investment Management Board (PRIM). In light of the impact that these results may have on some systems, the Commission believes that it is imperative that this data be disseminated as soon as possible. The market conditions that prevailed in 2008 also underscore the need to release this data. We anticipate that the full Annual Report for 2008 will be ready for distribution in the near future.

The two comparative components established under Chapter 68 are funded ratio and 10-year investment performance. The funded ratio standard is 65% and, based on investment performance results for 2008, the investment standard is 2.65% (PRIM 10-year return 4.65% minus 2.00%).

PERAC, in Memo #35, 2007, outlined the principles that it would apply in conducting analysis pursuant to that law.

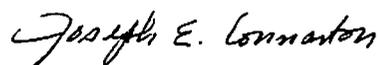
PERAC has completed its analysis of system funded status and investment performance in accordance with Chapter 68 of the Acts of 2007. Applying the tests set forth in that statute, PERAC has determined that **no** retirement board will be ordered to transfer its assets to the Pension Reserves Investment Trust Fund (PRIT) based on 2008 results.

This report delineates investment returns for several periods: 2008, 2004-2008 inclusive, 1999-2008 inclusive, and since inception through 2008. The funded ratios are as of the date of the most recent valuation available to PERAC.

This Report is the result of the efforts of the PERAC Investment Unit which includes Director Bob Dennis, Vicky Marcorelle, Veronica Colon and Rose Cipriani. As usual, they have accomplished a difficult task in a professional and efficient manner and we commend them.

I hope you find this Report informative and helpful as you assess the state of our retirement systems.

Sincerely,



Joseph E. Connarton
Executive Director

PERFORMANCE REVIEW AND ANALYSIS

As of December 31, 2008, the composite asset allocation for the 55 local systems that invested predominantly on their own was: 31.9% Domestic Equity, 11.9% International Equity, 1.7% Emerging Markets, 25.7% Fixed Income (Domestic and International, including TIPS), 2.7% High Yield, 9.6% Real Estate, 0.6% Timber, 4.7% Alternative Investments, 5.4% Hedge Funds, 0.9% Balanced Funds, 2.1% PRIT Core, and 2.7% Cash. Assets in these systems totaled about \$10.5 billion. The composite asset allocation of these systems is similar to average asset allocations reported in national surveys of state and local pension plans. Nevertheless, there is a wide divergence in our local systems' asset allocations compared to the composite levels. For instance, allocations to domestic equity ranged from 9% to 58%, and allocations to international equity ranged from zero (2 systems) to 28%. While 25 systems had allocations in excess of 10% in real estate, ten systems had no explicit exposure to this asset class (some of these had modest exposure through a partial investment in the PRIT Core Fund.) Thirty-three of the 55 systems had at least some exposure to alternative investments (and seven others had exposure through partial investment in the PRIT Core Fund), while allocations within these systems ranged from less than 1% to 9%. Thirty-two systems invest in absolute return (hedge funds). Fifteen systems had allocations to emerging markets, 19 systems had explicit allocations to high yield fixed income, and 8 systems invested in timber.

At the beginning of 2008, 41 local systems invested all (or essentially all) of their assets in the PRIT Core Fund. During the

year, another eight systems joined PRIT, either voluntarily or as a result of Chapter 68. Assets of these 49 systems totaled nearly \$4.4 billion at year-end. The asset allocation of that \$37.8 billion fund as of December 31, 2008, was 20.5% Domestic Equity (19.7% conventional and 5.8% portable alpha), 17.6% International Equity, 3.7% Emerging Markets, 12.6% Fixed Income (10.1% US Bonds and 2.5% TIPS and other real return investments), 7.1% High Yield, 12.1% Real Estate, 4.3% Timber, 11.4% Alternative Investments, 5.6% Absolute Return (Hedge Funds).

Compared to public funds nationwide, PRIT has below-average allocation to domestic equity and above-average exposure to nontraditional asset classes. In addition to the 49 systems that invested essentially all their assets in the PRIT Core Fund at year-end, 12 systems had partial investments in the PRIT Core Fund (in some cases, representing a significant portion of total assets) and nearly 40 systems participated in one or more of the PRIT Fund's segmentation options.

Performance for 2008 among the 104 local systems ranged from -19.3% to -33.1%. The median return was -28.0% and the composite return was -28.6%. For the 63 systems that began 2008 investing on their own, the median return was -26.6%. Eight of these systems joined the PRIT Fund at various times during 2008. For the 55 systems that still invested on their own at year-end, the median return was -26.3%.

The median return for the 41 local systems that invested totally with PRIT for the entire year was -29.3%, slightly better than that of the PRIT Fund itself (-29.5%). Internal cash positions or cash flows, as well as returns from

The composite asset allocation of these systems is similar to average asset allocations reported in national surveys of state and local pension plans.

remaining investment partnerships, may have enhanced or subtracted from the returns of individual systems relative to PRIT's basic return. Up until 2008, a fundamental fact of institutional investing involving endowment funds, foundations, and public and private pension funds was that larger entities had been performing decisively better than smaller ones in recent years. For several years, the PRIT Fund's size had enabled it to invest meaningfully and efficiently in a wider range of asset classes than many of the local systems, and its clout enabled it to gain access to the top tier of managers in these nontraditional asset classes, particularly in alternative investments. 2008 was a trend-changing year, however, as smaller and mid-sized funds generally held up better than their larger counterparts. Thus, while the PRIT Fund's performance in past years was enhanced by its holdings in several asset classes — such as Alternative Investments, Timber, Emerging Markets, Hedge Funds, and Real Estate — that provided strong diversification benefits, 2008 was a year when nearly all asset classes were down. PRIT's Core Fixed Income portfolio was slightly positive for the year, but returns from Real Estate (-15.8%), Timber (-17.2%), Absolute Return (19.0% net), and High Yield Bonds (-23.1%) were very disappointing while International Equity (-42.3%) and Emerging Markets Equity (-55.5%) were major contributors to the Fund's below-average peer performance. Since hedge funds had a rare year of negative returns, PRIT's Portable Alpha strategy served to detract from rather than enhance domestic equity performance.

As has typically been the case over the years, the performance of the local systems that invest on their own has been in line with national public fund medians. The 2008 median return (-26.3%) for the non-PRIT local systems was within the range of the following public fund universe medians: New England Pension Consultants/ICC, -24.8%; Wilshire/TUCS, -24.9% (-26.2% for funds with

assets greater than \$5 billion); Mellon Analytical Solutions, -26.8%; and Northern Trust, -26.6%.

The ten local systems with the best performance last year registered losses of between -19.3% and -22.5%. They were all among the commonwealth's smaller systems; portfolio asset sizes ranged from \$7.5 million to \$130 million. Five of these systems do not employ an investment consultant and utilize only one investment manager for substantially all their equity and fixed income assets. These systems generally had well-above-average cash positions, several in the range of 20% and one as high as 26%. In several cases, the systems made strategic moves during the course of the year to decrease their exposure to risky assets and increase their holdings of cash. These systems generally also had above average allocations to investment-grade fixed income, as much as 42% of total portfolio assets in some cases. Some of these systems also benefited from their investment managers registering strong investment performance relative to their market benchmarks.

Among the 55 non-PRIT systems as of year-end, seven underperformed the PRIT Fund last year, with returns ranging from -29.8% to -33.1%. These included both small and mid-sized systems, with portfolio sizes ranging from \$17 million to \$209 million. They generally had small, if any, cash positions and several had above-average equity positions, with as much as 48% in domestic equity and 17% in international equity. These systems generally saw investment managers underperform their benchmarks in several, and in some cases all, asset classes. Three of these systems were particularly hurt by investment-grade fixed income managers who trailed their benchmark by as much as 27% as a result of significant overweighting in corporate bonds and underweighting in US Treasuries, the one sector that showed appreciation last year.

2008 Returns & Annualized Past Returns (In Percent)

	Return (2008)	5-Year Return	10-Year Return	Return (Since 1985)
ADAMS	-21.71	0.82	2.90	7.84
AMESBURY	-28.97	1.09	2.49	7.40
ANDOVER	-29.32	-0.73	1.04	7.84
ARLINGTON	-30.99	-0.47	1.27	8.02
ATHOL	-28.1	-0.04	1.49	6.60
ATTLEBORO	-27.42	2.15	3.60	8.31
BARNSTABLE COUNTY	-29.13	1.11	1.96	6.72
BELMONT	-22.54	3.74	4.13	8.81
BERKSHIRE COUNTY	-29.08	3.53	4.66	8.72
BEVERLY	-29.41	-0.04	3.45	8.10
BLUE HILLS REGIONAL	-28.25	3.68	3.47	8.28
BOSTON	-24.21	3.20	3.66	8.71
BRAINTREE	-21.35	2.99	4.39	8.45
BRISTOL COUNTY	-26.22	1.40	3.22	8.39
BROCKTON	-29.26	0.95	3.60	8.44
BROOKLINE	-27.98	1.05	2.96	8.35
CAMBRIDGE	-28.61	1.24	3.69	8.81
CHELSEA	-29.18	2.95	1.18	7.32
CHICOPEE	-29.84	-0.18	1.60	7.54
CLINTON	-31.97	1.30	3.04	7.02
CONCORD	-23.93	2.38	3.38	8.15
DANVERS	-27.15	0.38	2.27	7.43
DEDHAM	-29.42	3.59	4.65	9.35
DUKES COUNTY	-23.83	2.80	2.71	6.94
EASTHAMPTON	-29.32	3.62	3.23	7.74
ESSEX REGIONAL	-33.05	-0.12	2.19	8.09
EVERETT	-29.73	1.98	1.51	7.91
FAIRHAVEN	-29.4	3.52	4.63	9.10
FALL RIVER	-27.55	0.31	1.31	7.92
FALMOUTH	-24.56	1.82	2.99	8.69
FITCHBURG	-27.04	0.65	1.70	7.12
FRAMINGHAM	-29.34	3.62	3.68	9.07
FRANKLIN REGIONAL	-26.82	1.56	2.85	7.63
GARDNER	-29.54	3.55	4.69	9.22
GLOUCESTER	-29.13	1.41	2.57	8.51
GREATER LAWRENCE	-20.13	0.90	2.61	6.61

Funded Ratios

Funded Ratio	Date of Most Recent Valuation
90.4%	1/1/2008
65.3%	1/1/2008
73.0%	1/1/2007
75.3%	1/1/2008
53.3%	1/1/2007
75.5%	1/1/2007
62.6%	1/1/2007
55.3%	1/1/2008
82.0%	1/1/2007
60.6%	1/1/2008
78.0%	1/1/2008
67.6%	1/1/2008
74.7%	1/1/2008
65.8%	1/1/2007
89.7%	1/1/2008
67.3%	1/1/2008
92.0%	1/1/2008
47.6%	1/1/2007
65.7%	1/1/2008
66.3%	1/1/2007
96.1%	1/1/2008
71.3%	1/1/2007
92.0%	1/1/2008
64.6%	1/1/2007
77.7%	1/1/2008
67.7%	1/1/2008
36.9%	1/1/2008
84.2%	1/1/2008
57.1%	1/1/2006
67.6%	1/1/2008
54.8%	1/1/2008
75.3%	1/1/2008
73.5%	1/1/2008
70.6%	1/1/2008
55.8%	1/1/2008
95.3%	1/1/2007

2008 Returns & Annualized Past Returns (In Percent)

	Return (2008)	5-Year Return	10-Year Return	Return (Since 1985)
GREENFIELD	-28.01	1.68	2.71	7.96
HAMPDEN COUNTY REG.	-25.06	1.13	2.93	8.30
HAMPSHIRE COUNTY	-23.7	2.20	2.95	7.86
HAVERHILL	-26.23	2.81	6.67	9.91
HINGHAM	-29.39	3.56	4.68	9.04
HOLYOKE	-32.51	-1.23	1.98	8.40
HULL	-29.26	3.31	3.21	7.27
LAWRENCE	-29.16	0.26	0.86	7.10
LEOMINSTER	-28.88	1.95	3.94	7.92
LEXINGTON	-32.83	1.69	2.61	8.42
LOWELL	-29.27	3.14	3.63	8.90
LYNN	-27.11	1.93	2.43	7.65
MALDEN	-20.47	3.72	4.90	9.58
MARBLEHEAD	-29.44	3.58	4.68	8.98
MARLBOROUGH	-20.53	2.93	3.94	8.18
MASS HOUSING FINANCE	-24.64	1.10	2.39	7.01
MASSPORT	-26.57	2.06	3.27	8.63
MASS TURNPIKE	-27.75	0.84	2.56	7.84
MASS WATER RESOURCES	-22.29	2.89	4.24	7.15
MAYNARD	-26.86	0.86	3.11	7.23
MEDFORD	-22.47	2.39	4.45	8.65
MELROSE	-26.81	2.11	2.83	8.11
METHUEN	-26.2	0.12	2.29	7.42
MIDDLESEX COUNTY	-24.5	2.50	2.77	8.15
MILFORD	-31.79	-0.03	2.82	7.72
MILTON	-29.23	3.09	4.39	9.18
MINUTEMAN REGIONAL	-29.7	3.56	4.68	9.34
MONTAGUE	-29.35	3.61	4.71	8.87
NATICK	-31.94	-1.27	-0.32	7.31
NEEDHAM	-28.98	3.61	4.71	9.60
NEW BEDFORD	-26.95	2.78	4.20	7.45
NEWBURYPORT	-29.2	3.35	3.26	7.69
NEWTON	-27.72	1.63	3.14	8.28
NORFOLK COUNTY	-28.7	1.11	3.19	8.13
NORTH ADAMS	-21.2	3.69	4.78	9.28
NORTH ATTLEBORO	-24.21	0.81	3.11	7.92

Funded Ratios

Funded Ratio	Date of Most Recent Valuation
67.5%	1/1/2007
66.5%	1/1/2008
63.4%	1/1/2007
60.8%	1/1/2008
80.1%	1/1/2008
66.0%	1/1/2007
51.5%	1/1/2008
48.9%	1/1/2008
83.5%	1/1/2008
100.5%	1/1/2008
58.8%	1/1/2007
48.1%	1/1/2007
73.3%	1/1/2008
89.9%	1/1/2008
64.5%	1/1/2007
94.4%	1/1/2007
110.6%	1/1/2008
77.4%	1/1/2008
82.7%	1/1/2007
75.1%	1/1/2007
69.1%	1/1/2008
64.6%	1/1/2008
56.6%	1/1/2008
50.7%	1/1/2008
73.5%	1/1/2007
80.5%	1/1/2007
118.3%	1/1/2007
84.3%	1/1/2008
69.2%	1/1/2008
79.5%	1/1/2007
44.9%	1/1/2007
65.0%	1/1/2008
67.1%	1/1/2008
65.7%	1/1/2008
67.1%	1/1/2007
82.9%	1/1/2008

2008 Returns & Annualized Past Returns (In Percent)

	Return (2008)	5-Year Return	10-Year Return	Return (Since 1985)
NORTHAMPTON	-19.32	4.13	4.98	9.11
NORTHBRIDGE	-29.53	3.56	4.71	9.13
NORWOOD	-20.57	2.83	4.60	8.78
PEABODY	-29.43	0.20	2.00	8.18
PITTSFIELD	-27.45	0.44	1.75	7.74
PLYMOUTH	-27.88	1.43	2.41	8.16
PLYMOUTH COUNTY	-29.07	1.51	3.76	8.77
PRIM	-29.5	3.50	4.65	9.41
QUINCY	-24.69	1.72	3.45	7.95
READING	-29.42	3.60	4.65	9.03
REVERE	-28.46	3.42	4.53	7.95
SALEM	-28.94	0.55	2.04	7.72
SAUGUS	-29.32	3.53	4.68	8.96
SHREWSBURY	-27.58	1.61	3.09	8.57
SOMERVILLE	-26.27	2.47	3.85	8.21
SOUTHBRIDGE	-30.35	-0.40	1.97	7.70
SPRINGFIELD	-28.57	2.04	2.15	7.98
STATE	-29.55	3.56	4.66	9.26
STATE TEACHERS	-29.55	3.56	4.66	9.27
STONEHAM	-29.28	3.58	4.11	8.42
SWAMPSCOTT	-23.19	3.04	3.96	9.00
TAUNTON	-24.31	1.89	3.84	9.28
WAKEFIELD	-29.5	3.54	4.67	9.53
WALTHAM	-24.67	2.25	2.42	8.48
WATERTOWN	-26.16	1.79	3.78	7.86
WEBSTER	-27.2	1.90	2.71	7.31
WELLESLEY	-29.36	1.97	3.31	9.93
WEST SPRINGFIELD	-21.9	1.94	3.16	7.68
WESTFIELD	-24.96	1.26	2.04	8.02
WEYMOUTH	-27.95	2.23	4.14	9.64
WINCHESTER	-25.72	3.52	4.45	9.15
WINTHROP	-28.05	3.22	2.32	8.35
WOBURN	-26.63	2.05	3.48	8.91
WORCESTER	-27.28	2.52	3.79	8.60
WORCESTER REGIONAL	-26.65	0.83	2.60	7.87
COMPOSITE	-28.61	3.13	4.25	8.94

Funded Ratios

Funded Ratio	Date of Most Recent Valuation
66.0%	1/1/2008
84.8%	1/1/2008
89.7%	1/1/2007
60.3%	1/1/2008
55.6%	1/1/2007
68.7%	1/1/2008
61.4%	1/1/2007
Not Applicable	Not Applicable
65.0%	1/1/2007
75.7%	7/1/2007
59.4%	1/1/2008
55.7%	1/1/2008
66.3%	1/1/2007
77.0%	1/1/2008
62.9%	1/1/2007
58.6%	1/1/2008
42.4%	1/1/2008
89.4%	1/1/2008
73.9%	1/1/2008
68.2%	1/1/2007
51.6%	1/1/2008
68.1%	1/1/2008
80.6%	1/1/2008
64.4%	1/1/2008
69.0%	1/1/2008
49.4%	1/1/2008
106.1%	1/1/2008
67.2%	1/1/2008
74.0%	1/1/2007
71.9%	1/1/2007
81.5%	1/1/2007
69.4%	1/1/2007
77.9%	1/1/2008
85.3%	1/1/2008
56.3%	1/1/2007
Not Applicable	Not Applicable



Commonwealth of Massachusetts
Public Employee Retirement Administration Commission
Five Middlesex Avenue, Suite 304 | Somerville, MA 02145
Phone 617 666 4446 *Fax* 617 628 4002
TTY 617 591 8917 *Web* www.mass.gov/perac