

NEW ISSUE

Ratings†	
Moody's	S&P
Aaa	AA+

In the opinion of Edwards Angell Palmer & Dodge LLP, Bond Counsel, based upon an analysis of existing law and assuming, among other matters, compliance with certain covenants, interest on the Series A Bonds, the Series B Bonds, and the Series D Bonds is excluded from gross income for federal income tax purposes under the Internal Revenue Code of 1986. Interest on the Series A Bonds, the Series B Bonds, and the Series D Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. In the opinion of Bond Counsel, under existing law, interest on the Series C Bonds is included in gross income of the owners thereof for federal income tax purposes under the Code. Under existing law, interest on all of the Bonds is exempt from Massachusetts personal income taxes, and the Bonds are exempt from Massachusetts personal property taxes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "Tax Exemption" herein.

CITY OF BOSTON, MASSACHUSETTS

\$86,190,000
GENERAL OBLIGATION BONDS
2011 SERIES A

\$38,295,000
GENERAL OBLIGATION BONDS
2011 SERIES B

\$41,620,000
GENERAL OBLIGATION BONDS
2011 SERIES C
(QUALIFIED SCHOOL CONSTRUCTION BONDS—FEDERALLY
TAXABLE—DIRECT PAYMENT)

\$14,425,000
GENERAL OBLIGATION BONDS
2011 SERIES D

Dated: Date of Delivery
Due: As shown on pages (i) and (ii) hereof

The Bonds will be issued by means of a book entry system evidencing ownership and transfer of the Bonds on the records of The Depository Trust Company and its participants. Details of payment of the Bonds are set forth in this Official Statement. Interest on the Bonds will be payable on October 1, 2011 and semiannually on each April 1 and October 1 thereafter until maturity or redemption prior to maturity. The Series A Bonds, the Series B Bonds, and the Series C Bonds will be subject to redemption prior to maturity as more fully described herein.

The Bonds will be valid general obligations of the City for the payment of the principal of and interest on which all taxable property in the City is subject to the levy of ad valorem taxes without limit as to rate or amount as more fully described herein under "Security for the Bonds."

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Bonds were sold by the City after competitive bidding pursuant to the Official Notice of Sale, dated March 9, 2011, and are offered subject to the final approving opinion of Edwards Angell Palmer & Dodge LLP, Boston, Massachusetts, Bond Counsel to the City, and to certain other conditions described herein and in the Official Notice of Sale. Public Financial Management, Inc., Boston, Massachusetts, serves as Financial Advisor to the City. U.S. Bank National Association, Boston, Massachusetts, will act as paying agent for the Bonds. It is anticipated that the Series A Bonds, the Series B Bonds, and the Series C Bonds will be available for delivery through DTC in New York, New York, on or about April 1, 2011. It is anticipated that the Series D Bonds will be available for delivery through DTC in New York, New York, on or about May 4, 2011.

March 16, 2011

† See "Credit Ratings."

CITY OF BOSTON, MASSACHUSETTS

\$86,190,000

GENERAL OBLIGATION BONDS

2011 SERIES A

Dated: Date of Delivery

Due: April 1, as shown below

<u>Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP*</u>	<u>Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP*</u>
2012	\$6,055,000	2.50%	0.39%	100853MM9	2022	\$2,800,000	3.00%	3.25%	100853MX5
2013	6,205,000	4.00	0.63	100853MN7	2023	2,890,000	3.50	3.50	100853MY3
2014	6,455,000	5.00	0.99	100853MP2	2024	2,990,000	4.00	3.61 †	100853MZ0
2015	6,780,000	5.00	1.45	100853MQ0	2025	3,105,000	4.00	3.77 †	100853NA4
2016	7,115,000	5.00	1.74	100853MR8	2026	3,235,000	4.00	3.89 †	100853NB2
2017	4,390,000	5.00	2.01	100853MS6	2027	2,645,000	4.00	3.98 †	100853NC0
2018	4,600,000	5.00	2.29	100853MT4	2028	2,750,000	4.00	4.07	100853ND8
2019	4,830,000	5.00	2.53	100853MU1	2029	2,865,000	4.00	4.16	100853NE6
2020	5,070,000	5.00	2.76	100853MV9	2030	2,975,000	4.25	4.26	100853NF3
2021	5,330,000	5.00	2.98	100853MW7	2031	3,105,000	4.25	4.36	100853NG1

† Priced to the April 1, 2021 optional redemption date. See “The Bonds—Redemption Prior to Maturity—Optional Redemption.”

CITY OF BOSTON, MASSACHUSETTS

\$38,295,000

GENERAL OBLIGATION BONDS

2011 SERIES B

Dated: Date of Delivery

Due: April 1, as shown below

<u>Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP*</u>	<u>Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP*</u>
2012	\$1,725,000	3.00%	0.34%	100853NH9	2020	\$2,430,000	5.00%	2.76%	100853NR7
2013	1,775,000	3.00	0.64	100853NJ5	2021	2,550,000	5.00	2.98	100853NS5
2014	1,830,000	4.00	0.98	100853NK2	2022	2,680,000	3.00	3.24	100853NT3
2015	1,905,000	5.00	1.45	100853NL0	2023	2,760,000	3.25	3.44	100853NU0
2016	2,000,000	5.00	1.74	100853NM8	2024	2,850,000	3.50	3.61	100853NV8
2017	2,100,000	5.00	2.01	100853NN6	2025	2,945,000	3.50	3.77	100853NW6
2018	2,205,000	5.00	2.29	100853NP1	2026	3,050,000	4.00	3.89 †	100853NX4
2019	2,315,000	5.00	2.53	100853NQ9	2027	3,175,000	4.00	3.98 †	100853NY2

† Priced to the April 1, 2021 optional redemption date. See “The Bonds—Redemption Prior to Maturity—Optional Redemption.”

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CITY OF BOSTON, MASSACHUSETTS
\$41,620,000
GENERAL OBLIGATION BONDS
2011 SERIES C

Dated: Date of Delivery

Due: April 1, as shown below

\$1,895,000 SERIAL BONDS

<u>Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP*</u>
2017	\$ 935,000	3.00%	2.96%	100853NZ9
2018	960,000	3.30	3.26	100853PA2

\$39,725,000 4.40% TERM BONDS DUE APRIL 1, 2026 @ 4.40%, CUSIP* 100853PB0

CITY OF BOSTON, MASSACHUSETTS
\$14,425,000
GENERAL OBLIGATION BONDS
2011 SERIES D

Dated: Date of Delivery

Due: April 1, as shown below

<u>Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP*</u>
2013	\$5,635,000	4.00%	0.60%	100853PC8
2014	2,990,000	3.00	0.92	100853PD6
2015	2,920,000	4.00	1.40	100853PE4
2016	2,880,000	4.00	1.68	100853PF1

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No dealer, broker, salesperson or other person has been authorized by the City of Boston or the original purchasers of the Bonds to give any information or to make any representations in connection with the Bonds or the matters described herein, other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information contained herein has been furnished by the City and certain information has been obtained from other sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness and is not to be construed as a representation of the underwriters of the Bonds or, as to information from other sources, of the City. This Official Statement is submitted in connection with the sale of the Bonds and may not be reproduced or used, in whole or in part, for any other purpose.

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OFFICIAL STATEMENT
of the
CITY OF BOSTON, MASSACHUSETTS
relating to
\$86,190,000
GENERAL OBLIGATION BONDS, 2011 SERIES A
\$38,295,000
GENERAL OBLIGATION BONDS, 2011 SERIES B
\$41,620,000
GENERAL OBLIGATION BONDS, 2011 SERIES C
(QUALIFIED SCHOOL CONSTRUCTION BONDS – FEDERALLY TAXABLE – DIRECT PAYMENT)
\$14,425,000
GENERAL OBLIGATION BONDS, 2011 SERIES D

This Official Statement (which includes the cover page and Appendices hereto) provides information concerning the City of Boston, Massachusetts (the “City”), and the \$86,190,000 General Obligation Bonds, 2011 Series A (the “Series A Bonds”), \$38,295,000 General Obligation Bonds, 2011 Series B (the “Series B Bonds”), \$41,620,000 General Obligation Bonds, 2011 Series C (Qualified School Construction Bonds – Federally Taxable – Direct Payment), and the \$14,425,000 General Obligation Bonds, 2011 Series D (the “Series D Bonds,” and together with the Series A Bonds, the Series B Bonds, and the Series C Bonds, the “Bonds”), to be issued by the City as described herein. Certain credit factors concerning the Bonds are described throughout this Official Statement, which should be read in its entirety. This Official Statement speaks only as of its date and the information contained herein is subject to change after this date.

THE CITY

The City of Boston, incorporated as a town in 1630 and as a city in 1822, is the largest city in Massachusetts and the capital of The Commonwealth of Massachusetts (the “Commonwealth”). The City and its component governmental units are responsible for the provision of a wide range of government services, including education, public safety, public health, urban planning and development and the maintenance of the City’s infrastructure, and for funding certain employee benefits, state authority assessments and debt service requirements. Its primary sources of revenue are property taxes, state aid and certain excises. Management of the City’s finances includes preparation of annual operating and capital budgets, the exercise of expenditure controls and cash management. For a full discussion concerning the City and its finances, see “Appendix A—City of Boston, Massachusetts, Information Statement Dated March 1, 2011 (the “Information Statement”).

As the economic hub of New England, Boston is a center for professional, financial, higher educational and medical services, and the focus of tourist and convention travel in New England. For a description of certain demographic and economic information about the City, see “Appendix A—Exhibit III—City of Boston—Selected Demographic and Economic Information.”

SECURITY FOR THE BONDS

The Bonds will be valid general obligations of the City, for the payment of the principal of and interest on which the full faith and credit of the City will be pledged. To the extent not paid from other legally available revenues of the City, the Bonds are payable from ad valorem taxes which may be levied upon all taxable property in the City without limit as to rate or amount.

Chapter 643 of the Acts of 1983 of the Commonwealth, as amended (the “Bond Procedure Act of 1983”), requires that the debt and interest charges on all general obligation indebtedness of the City (including the Bonds), if not otherwise provided for, be included in the City’s annual tax levy. The Bond Procedure Act of 1983 also mandates assessment of taxes in excess of the levy limits imposed by the statewide property tax limit (“Proposition 2½”) to the extent that the debt service on City obligations is not otherwise provided for in the tax levy or from other sources, with no allowance made for any other expenditures of the City. See “City Revenues—Property Taxes—Proposition 2½” in the Information Statement. Holders of City obligations do not have a statutory priority with respect to or a security interest in the portion of the tax levy attributable to such obligations. See “City Indebtedness—Classification of City Debt” in the Information Statement.

In the opinion of Bond Counsel, the City is subject to suit on the Bonds, and courts of competent jurisdiction have power in appropriate proceedings to order payment of a judgment on the Bonds from available funds or, in the absence of available funds, to order the inclusion of the required amount in the next annual tax levy. In exercising their discretion as to whether to enter such an order, the courts could take into account all relevant factors, including the current operating needs of the City and the availability and adequacy of other remedies. The Massachusetts

Supreme Judicial Court has stated in the past that a judgment against a municipality can be enforced by the taking and sale of property of any inhabitant. There has been no judicial determination, however, as to whether the remedy is constitutional under current due process and equal protection standards.

Payment of the principal and interest on the Bonds is not secured by or limited to a pledge of any particular revenue source of the City. Chapter 190 of the Acts of 1982 of the Commonwealth (the “1982 Funding Loan Act”) and the Bond Procedure Act of 1983 authorize the City to pledge to the payment of any of its general obligation notes or bonds all or any part of the revenues of the City derived from any tax, fee, distribution or reimbursement payable to the City (except distributions and reimbursements required by law to be specifically used for statutorily defined purposes), including state aid distributions and the proceeds of the City’s annual property tax levy. No obligations are currently outstanding which are secured by such a pledge. The Bond Procedure Act of 1983 also authorizes the City to issue special obligation bonds payable solely from the revenues of a revenue-producing facility. The only special obligation indebtedness of the City that was outstanding as of March 1, 2011 that is payable solely from such revenues was \$73.1 million of the City’s Special Obligation Refunding Bonds, Boston City Hospital Issue. See “City Indebtedness—Special Obligation Debt” in the Information Statement. To the extent required for the payment of any such indebtedness, the revenues pledged to their payment would not be available to pay the Bonds.

Chapter 152 of the Acts of 1997, as amended (the “Convention Center Act”), also authorizes the City to pledge certain excise receipts and other revenues of the City to the payment of special obligation bonds of the City issued under the authority of the Convention Center Act. The only indebtedness of the City that was outstanding under the Convention Center Act as of March 1, 2011 was \$93.5 million of the City’s Convention Center Loan, Act of 1997, Special Obligation Bonds, Series A. Proceeds of the Series B Bonds and other funds available to the City will be applied on the date of delivery of the Series B Bonds to advance refund all of such bonds and the pledge of such excise receipts and other revenues for the benefit of such bonds will be released and discharged on that date. See “Plan of Refunding” below and “City Indebtedness—Special Obligation Debt” in the Information Statement.

Except to the extent specifically pledged to the payment of certain indebtedness, state aid distributions to the City are generally available for the payment of bonds or notes of the City, but, under certain circumstances, they may be unavailable to the extent such distributions are applied to the payment of “qualified bonds” issued by the City (none of which are currently outstanding), or to the extent that such distributions may be applied under state law to the satisfaction of unpaid assessments due the Commonwealth from the City for debt issued by the Massachusetts Bay Transportation Authority, or for obligations of the City or of the Boston Water and Sewer Commission issued to the Massachusetts Water Pollution Abatement Trust. See “City Indebtedness—Classification of City Debt” in the Information Statement.

State statutes also provide that certain parking meter receipts may be used only for parking and related purposes and, accordingly, monies derived from this source may be unavailable to pay general obligation bonds and notes issued for other purposes. In addition, subject to certain limits, the City may annually authorize the establishment of one or more revolving funds in connection with the use of certain revenues for programs that produce those revenues. If it accepts certain statutory provisions, the City may also establish enterprise funds for certain purposes, including for a health care, solid waste, recreational or transportation facility, and for police or fire services. Under those provisions any surplus in the fund is restricted to use for capital expenditures or reduction of user charges. The City has not established any such revolving funds or enterprise funds.

Section 19A of Chapter 44 of the General Laws provides, in part, that if the City is or is likely to be unable to pay principal of or interest on any of its bonds or notes when due, it shall notify the state Commissioner of Revenue. The Commissioner shall certify such inability to the State Treasurer. The State Treasurer shall pay the due or overdue amount by the later of three days after the certification or one business day prior to the due date. This payment is limited, however, to the estimated amounts distributable by the Commonwealth to the City during the remainder of the fiscal year. If, for any reason, any portion of the certified sum has not been paid at the end of the fiscal year, the State Treasurer shall pay it as soon as practicable in the next fiscal year to the extent of the estimated distributions for such fiscal year. The sums so paid shall be charged with interest and administrative costs against the distributions to the City. The foregoing provisions are not a pledge of the faith and credit of the Commonwealth. The Commonwealth has not agreed to maintain existing levels of state distributions and the law requiring the Commonwealth to use estimated distributions to pay debt service may be subject to repeal by future legislation. Moreover, adoption of the Commonwealth’s annual appropriation act is often delayed beyond the beginning of the fiscal year, and estimated distributions which are subject to appropriation may be unavailable to pay local debt service until they are appropriated.

The rights of the holders of the Bonds and the enforceability of payment of the Bonds may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases. Massachusetts municipalities are not currently authorized by the Massachusetts General Laws to file a petition for bankruptcy under Federal Bankruptcy laws.

THE BONDS

Description

The Bonds will be dated their respective dates of delivery shown on the front cover of this Official Statement and will mature on April 1 of the years, and in the amounts, and will bear interest calculated on the basis of 30-day months and a 360-day year at the rates, shown on the inside front cover of this Official Statement. Interest on the Bonds will be payable on October 1, 2011 and semiannually thereafter on each April 1 and October 1, provided that if such day is not a business day, interest will be payable on the next business day,

The Bonds will be issued by means of a book-entry system, with bond certificates immobilized at The Depository Trust Company, New York, New York ("DTC"). Bond certificates will not be available for distribution to the public and will evidence ownership of the Bonds in principal amounts of \$5,000 or integral multiples thereof, with transfers of ownership effected on the records of DTC and its participants pursuant to rules and procedures established by DTC and its participants. Interest on the Bonds will be paid on the interest payment dates or upon redemption, and principal of the Bonds will be paid at maturity or upon redemption, to DTC or its nominee as registered owner of the Bonds. Transfer of principal or redemption price and interest payments to participants of DTC will be the responsibility of DTC; transfer of principal or redemption price and interest payments to beneficial owners by participants of DTC will be the responsibility of such participants and other nominees of beneficial owners. The record date for principal or redemption price and interest payments will be the fifteenth day of the month next preceding a debt service payment date or, if such day is not a business day, the next succeeding business day. The City will not be responsible or liable for maintaining, supervising or reviewing the records maintained by DTC, its participants or persons acting through such participants.

U.S. Bank National Association, Boston, Massachusetts, will act as paying agent for the Bonds (the "Paying Agent").

Authorization and Purpose

The Bonds will be issued pursuant to Chapter 643 of the Acts of 1983 of the Commonwealth, as amended, and various loan orders of the City Council approved by the Mayor. The Series A Bonds will be issued to finance various capital projects in the City. The Series B Bonds will be issued for the purpose of advance refunding the City's Convention Center Bonds as more fully described under "Plan of Refunding," below. The Series C Bonds will be issued to finance various school projects in the City. The Series D Bonds will be issued for the purpose of currently refunding certain outstanding general obligation bonds of the City as more fully described herein under "Plan of Refunding."

Series C Bonds - Qualified School Construction Bonds—Direct Payment

The Series C Bonds will be designated by the City as "Qualified School Construction Bonds" under the provisions of the American Recovery and Reinvestment Act of 2009 ("ARRA") and as defined in Section 54F of the Internal Revenue Code of 1986, as amended (the "Code"). The City also has elected to designate the Series C Bonds as "specified tax credit bonds" as defined in Section 6431(f) of the Code. As a result of such election, the Series C Bonds will bear interest which will be included in the gross income of holders thereof for federal income tax purposes, and the holders will not be entitled to any federal tax credits otherwise applicable to Qualified School Construction Bonds in connection with their holding of the Series C Bonds. The City will be entitled to receive cash subsidies ("Interest Subsidy Payments") from the United States Department of the Treasury (the "Treasury") equal to the lesser of: (i) 100% of the interest payable on the Series C Bonds or (ii) the amount of the applicable tax credit rate determined on the date of issuance of the Series C Bonds under Section 54A(b)(3) of the Code; provided that the City makes certain required filings in accordance with applicable federal rules pertaining to the Interest Subsidy Payments. Interest Subsidy Payments are treated as overpayments of tax, and accordingly are subject to offset against certain amounts that may be owed by the City to the federal government or its agencies. In addition, it is possible that the Interest Subsidy Payments could be reduced or eliminated or the timing of the payment thereof altered as a result of a change in federal law. The Interest Subsidy Payments received by the City are not pledged to pay the Series C Bonds, nor are their receipt a condition of payment of any portion of the principal of or interest on the Series C Bonds. Federal tax law imposes certain requirements for qualification of the Series C Bonds as

Qualified School Construction Bonds. There can be no assurance that the Series C Bonds will qualify as Qualified School Construction Bonds or as to the receipt, or timing of receipt, of Interest Subsidy Payments. The City is obligated to make payments of the principal of and interest on the Series C Bonds whether or not it receives Interest Subsidy Payments.

Redemption Prior To Maturity

Optional Redemption

The Series A Bonds, the Series B Bonds, and the Series C Bonds maturing on or before April 1, 2021 are not subject to redemption prior to maturity at the option of the City. The Series A Bonds, the Series B Bonds, and the Series C Bonds maturing after April 1, 2021 are subject to redemption prior to maturity at the option of the City, on or after April 1, 2021, as a whole or in part at any time, in such order of maturity as the City may determine and by lot within each maturity as selected by DTC and its participants, at a redemption price equal to the principal amount of Series A Bonds, Series B Bonds or Series C Bonds to be redeemed, plus accrued interest to the redemption date.

The Series D Bonds are not subject to redemption at the option of the City prior to their stated dates of maturity.

Extraordinary Mandatory Redemption – Series C Bonds

The Series C Bonds are subject to extraordinary mandatory redemption, in whole or in part, on April 1, 2014 or, in the event of an extension negotiated with the Internal Revenue Service, on an interest payment date that occurs on or before April 1, 2016, in an amount equal to any unexpended proceeds of the Series C Bonds at such date, at a redemption price equal to the principal amount of Series C Bonds to be redeemed, plus accrued interest to the redemption date.

Serial Redemption of Series C Term Bonds

The Series C Bonds maturing on April 1, 2026, unless called for earlier redemption as provided above, shall be retired in part prior to maturity by mandatory serial redemption on the dates and in the principal amounts specified below, at a redemption price equal to the principal amount to be redeemed, plus accrued interest to the redemption date.

<u>Redemption Date</u>	<u>Principal Amount</u>	<u>Redemption Date</u>	<u>Principal Amount</u>
April 1, 2019	\$ 990,000	April 1, 2023	\$7,005,000
April 1, 2020	1,035,000	April 1, 2024	7,310,000
April 1, 2021	1,080,000	April 1, 2025	7,630,000
April 1, 2022	6,710,000	April 1, 2026	7,965,000

Notice of Redemption

Notice of redemption of Bonds, specifying the numbers, series and maturities of the Bonds or portions thereof to be redeemed and the redemption date, will be given by the Paying Agent not less than 30 days prior to the redemption date by notice mailed to DTC or its nominee, as registered owner of the Bonds to be redeemed. The City will not be responsible for mailing notices of redemption to anyone other than DTC or its nominee. Notice having been given, the Bonds or portions thereof called for redemption will become due and payable on the designated redemption date. If on the redemption date monies are available for the redemption of the Bonds or portions thereof to be redeemed, together with interest accrued to the redemption date, then interest on such Bonds or portions thereof shall thereafter cease to accrue.

Book-Entry Transfer System

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of each series of the Bonds, each in the aggregate principal amount of that maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions, in deposited securities through electronic computerized book-entry transfers and

pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, is the holding company for DTC, National, and Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated securities. Access to the DTC system is also available to others as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity of a series are being deemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal or redemption price and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC or, its nominee, the Paying Agent, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal or redemption price and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the City or the Paying Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered to DTC.

The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

PLAN OF REFUNDING

Series B Bonds

The proceeds of the Series B Bonds, together with other funds available to the City, will be applied on the date of delivery of the Series B Bonds to advance refund the City's outstanding \$93,505,000 Convention Center Loan, Act of 1997, Special Obligation Bonds, Series A, maturing on May 1 in the years and in the principal amounts, bearing interest at the rates and otherwise as described in the following table (the "Refunded Convention Center Bonds"). The Refunded Convention Center Bonds maturing on May 1, 2011 will be paid on that date. All other Refunded Convention Center Bonds will be redeemed at par on May 1, 2012.

<u>Maturity Date</u>	<u>Principal</u>	<u>Interest Rate</u>	<u>CUSIP*</u>
<u>May 1</u>	<u>Amount</u>		
2011	\$3,725,000	4.000%	100857AJ0
2012	3,870,000	4.125	100857AK7
2013	4,030,000	4.250	100857AL5
2014	4,200,000	4.375	100857AM3
2015	4,385,000	5.000	100857AN1
2016	4,605,000	5.000	100857AP6
2017	4,835,000	5.000	100857AQ4
2018	5,075,000	5.000	100857AR2
2019	5,330,000	5.000	100857AS0
2020	5,600,000	5.000	100857AT8
2021	5,875,000	5.000	100857AU5
2022	6,170,000	5.000	100857AV3
2023	6,480,000	5.000	100857AW1
2024	6,805,000	5.000	100857AX9
2025	7,145,000	5.000	100857AY7
2027	15,375,000	5.000	100857AZ4

* Copyright, American Bankers Association. CUSIP data herein are provided by Standard & Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. The CUSIP numbers listed above are being provided solely for the convenience of bondholders only at the time of issuance of the Series B Bonds and the City does not make any representation with respect to such numbers or undertake any responsibility for their accuracy now or at any time in the future.

Upon delivery of the Series B Bonds, the City will enter into a Refunding Escrow Agreement (the "Escrow Agreement") with U.S. Bank National Association, Boston, Massachusetts, as escrow agent (the "Escrow Agent") to provide for the payment of the Refunded Convention Center Bonds. Upon receipt of the proceeds of the Series B Bonds, the City will transfer such proceeds, together with other funds available to the City in the amount of \$59,267,493.75, to the Escrow Agent for deposit in a Refunding Escrow Fund established under the Refunding Escrow Agreement. The Escrow Agent will invest such amounts in direct general obligations of, or obligations the timely payment of principal and interest on which are unconditionally guaranteed by, the United States of America ("Governmental Obligations") maturing in amounts and on dates, and bearing interest at rates, sufficient without reinvestment to pay when due the principal of and interest payable on the Refunded Convention Center Bonds on May 1, 2011, the interest payable on the Refunded Convention Center Bonds on November 1, 2011, and the principal of and interest payable on all remaining outstanding Refunded Convention Center Bonds upon the redemption of such bonds on May 1, 2012. The Refunding Escrow Fund, including the interest earnings on the Government Obligations, is pledged for the benefit of the holders of the Refunded Convention Center Bonds.

The Arbitrage Group, Inc. will verify from information provided to them the mathematical accuracy as of the date of the closing on the Series B Bonds of (i) the computation contained in the provided schedules to determine that the anticipated receipts from the Government Obligations and cash deposits, to be held in escrow, will be sufficient to pay, when due, the principal of and interest on the Refunded Convention Center Bonds, and (ii) the computation of yield on the Government Obligations contained in provided schedules used by Bond Counsel in its determination that the interest on the Series A Bonds, the Series B Bonds, and the Series D Bonds is excluded from gross income for federal income tax purposes. The Arbitrage Group, Inc. will express no opinion on the assumptions provided to them, nor as to the exclusion from gross income for federal income tax purposes of the interest on the Series A Bonds, the Series B Bonds, or the Series D Bonds.

Series D Bonds

The proceeds of the Series D Bonds, together with other funds available to the City, will be applied to currently refund \$15,365,000 aggregate principal amount of the City's General Obligation Bonds 2001 Series B, dated April 1, 2001, maturing on August 1 in the years and in the principal amounts, bearing interest at the rates and otherwise as described in the following table (the "Refunded 2001 Series B Bonds"). The Refunded 2001 Series B Bonds will be redeemed at par on August 1, 2011.

Refunded 2001 Series B Bonds

<u>Maturity Date</u> <u>August 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest Rate</u>	<u>CUSIP*</u>
2012	\$5,825,000	5.000%	1008523D2
2013	3,180,000	5.000	1008523E0
2014	3,180,000	5.000	1008523F7
2015	3,180,000	5.000	1008523G5

* Copyright, American Bankers Association. CUSIP data herein are provided by Standard & Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. The CUSIP numbers listed above are being provided solely for the convenience of bondholders only at the time of issuance of the Series B Bonds and the City does not make any representation with respect to such numbers or undertake any responsibility for their accuracy now or at any time in the future.

DEBT SERVICE REQUIREMENTS

The following table sets forth the gross debt service requirements for the City's outstanding general obligation bonds as of March 1, 2011, the gross debt service requirements on the Bonds, the portion of such gross debt service requirements that is related to the Refunded 2001 Series B Bonds, and the resulting gross debt service requirements on the City's general obligation bonds following the issuance of the Bonds. The table excludes the principal and interest payments with respect to the Refunded Convention Center Bonds because such bonds are special obligation bonds payable solely from certain excise receipts and other revenues of the City. See "Security for the Bonds" above.

Schedule of General Obligation Debt Service Payments (\$ in thousands)*

<u>Fiscal Year Ending June</u>	<u>Bonds/Notes</u> <u>Outstanding</u> <u>As of March 2011</u> ⁽¹⁾		<u>The Bonds</u>		<u>The Refunded</u> <u>2001 Series B Bonds</u>		<u>Total</u> <u>Principal</u> <u>and</u> <u>Interest</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Interest</u>
2011	\$ 24,567	\$ 9,042	\$ —	\$ —	\$ —	\$ —	\$ 33,609
2012	90,940	37,368	7,780	7,655	—	(768)	142,974
2013	85,680	33,520	13,615	7,502	(5,825)	(623)	133,869
2014	77,395	29,832	11,275	6,975	(3,180)	(398)	121,899
2015	71,590	26,392	11,605	6,490	(3,180)	(239)	112,657
2016	66,705	23,273	11,995	5,939	(3,180)	(80)	104,652
2017	63,010	20,347	7,425	5,368	—	—	96,149
2018	58,975	17,475	7,765	5,015	—	—	89,230
2019	53,730	14,934	8,135	4,643	—	—	81,441
2020	47,720	12,563	8,535	4,242	—	—	73,060
2021	42,320	10,502	8,960	3,822	—	—	65,604
2022	42,340	8,606	12,190	3,380	—	—	66,516
2023	38,195	7,343	12,655	2,921	—	—	61,114
2024	30,985	5,865	13,150	2,422	—	—	52,421
2025	27,279	4,549	13,680	1,881	—	—	47,388
2026	24,220	3,325	14,250	1,318	—	—	43,113
2027	18,975	2,214	5,820	716	—	—	27,725
2028	14,920	1,357	2,750	483	—	—	19,510
2029	8,485	625	2,865	373	—	—	12,348
2030	3,870	205	2,975	258	—	—	7,309
2031	—	—	3,105	132	—	—	3,237
Totals	<u>\$891,895</u>	<u>\$269,336</u>	<u>\$180,530</u>	<u>\$71,535</u>	<u>\$(15,365)</u>	<u>\$(2,106)</u>	<u>\$1,395,825</u>

* Rows and columns may not add due to rounding.

(1) Includes sinking fund payments with respect to the 2009 QSCBs and principal with respect to the Refunded Bonds.

Source: City of Boston Auditing Department.

Rate of Principal Retirement

The City will retire the following amounts of its outstanding general obligation bonds over the following respective periods. This table is stated in two ways, with scheduled principal retirement prior to the issuance of the Bonds, and then subsequent to the issuance of the Bonds. In the case of the City's \$20,000,000 General Obligation Bonds, 2009 Series A (Qualified School Construction Bonds), maturing September 15, 2024, sinking fund payments for the retirement of such bonds have been credited toward such retirement on the dates such payments are scheduled to be made under the respective paying agent agreements for such bonds.

<u>Term of Retirement</u>	<u>Debt Outstanding as of March 1, 2011 to be Retired (in thousands)</u>	<u>Percentage of Debt Outstanding as of March 1, 2011 to be Retired</u>	<u>Percentage of Debt Outstanding After Issuance of the 2011 Bonds to be Retired (in thousands)</u>	<u>Percentage of Debt Outstanding After Issuance of the 2011 Bonds to be Retired</u>
Fiscal 2011-2016	\$416,875	46.7%	\$ 457,780	43.3%
Fiscal 2017-2021	265,753	29.8	306,573	29.0
Fiscal 2022-2026	163,017	18.3	228,942	21.8
Fiscal 2027-2031	46,250	5.2	63,765	5.9
Total	<u>\$891,895</u>	<u>100.0%</u>	<u>\$1,057,060</u>	<u>100.0%</u>

Source: City of Boston Auditing Department.

LITIGATION

No litigation is pending or, to the knowledge of the City's Corporation Counsel, threatened (a) seeking to restrain or enjoin the issuance or delivery of the Bonds, (b) contesting or affecting any authority for or the validity of the Bonds, (c) contesting the power of the City to issue the Bonds or the power of the City to offer and sell the Bonds to the Underwriter, (d) contesting the power of the City to levy and collect taxes to pay the Bonds (e) contesting the corporate existence or boundaries of the City, or (f) contesting the title of officials of the City who have acted with respect to the proceedings for the issuance and sale of the Bonds to their respective offices.

There are pending in courts within the Commonwealth various suits in which the City is a defendant. No litigation is pending or threatened which is likely to result, either individually or in the aggregate, in final judgments against the City which would affect materially its ability to pay the principal of and interest on the Bonds when due or which would affect materially its financial condition.

TAX MATTERS

Series A Bonds, Series B Bonds, and Series D Bonds

In the opinion of Edwards Angell Palmer & Dodge LLP, Bond Counsel to the City ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, compliance with certain covenants, interest on the Series A Bonds, the Series B Bonds, and the Series D Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Bond Counsel is of the further opinion that interest on the Series A Bonds, the Series B Bonds, and the Series D Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other federal tax consequences arising with respect to the ownership or disposition of, or the accrual or receipt of interest on, the Series A Bonds, the Series B Bonds, and the Series D Bonds.

The Code imposes various requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Series A Bonds, the Series B Bonds, and the Series D Bonds. Failure to comply with these requirements may result in interest on the Series A Bonds, the Series B Bonds, or the Series D Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series A Bonds the Series B Bonds, and the Series D Bonds. The City has covenanted to comply with such requirements to ensure that interest on the Series A Bonds, the Series B Bonds, and the Series D Bonds will not be included in federal gross income. The opinion of Bond Counsel assumes compliance with these requirements.

Bond Counsel is also of the opinion that, under existing law, interest on the Series A Bonds, the Series B Bonds, and the Series D Bonds is exempt from Massachusetts personal income taxes, and the Series A Bonds, the Series B Bonds, and the Series D Bonds are exempt from Massachusetts personal property taxes. Bond Counsel has not opined as to other Massachusetts tax consequences arising with respect to the Series A Bonds, the Series B Bonds, and the Series D Bonds. Prospective Bondholders should be aware, however, that the Series A Bonds, the Series B Bonds, and the Series D Bonds are included in the measure of Massachusetts estate and inheritance taxes,

and the Series A Bonds, the Series B Bonds, and the Series D Bonds and the interest thereon are included in the measure of certain Massachusetts corporate excise and franchise taxes. Bond Counsel has not opined as to the taxability of the Series A Bonds, the Series B Bonds, and the Series D Bonds or the income therefrom under the laws of any state other than Massachusetts.

A complete copy of the proposed form of the opinion of Bond Counsel with respect to the Series A Bonds, the Series B Bonds, and the Series D Bonds is set forth in Appendix B hereto.

To the extent the issue price of any maturity of the Series A Bonds, the Series B Bonds, or the Series D Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest on such Bonds which is excluded from gross income for federal income tax purposes and is exempt from Massachusetts personal income taxes. For this purpose, the issue price of a particular maturity of the Series A Bonds, the Series B Bonds, and the Series D Bonds is the first price at which a substantial amount of such maturity of such Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Series A Bonds, the Series B Bonds, and the Series D Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Bondholders should consult their own tax advisors with respect to the tax consequences of ownership of Series A Bonds, the Series B Bonds, or the Series D Bonds with original issue discount, including the treatment of purchasers who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Series A Bonds, Series B Bonds, and the Series D Bonds purchased, whether at original issuance or otherwise, for an amount greater than the stated principal amount to be paid at maturity of such Bonds, or, in some cases, at the earlier redemption date of such Bonds (“Premium Bonds”), will be treated as having amortizable bond premium for federal income tax purposes and Massachusetts personal income tax purposes. No deduction is allowable for the amortizable bond premium in the case of obligations, such as the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, a Bondholder’s basis in a Premium Bond will be reduced by the amount of amortizable bond premium properly allocable to such Bondholder. Holders of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Series A Bonds, the Series B Bonds, and the Series D Bonds may adversely affect the value of, or the tax status of interest on, such Bonds. Further, no assurance can be given that pending or future legislation, including amendments to the Code, if enacted into law, or any proposed legislation, including amendments to the Code, or any future judicial, regulatory or administrative interpretation or development with respect to existing law, will not adversely affect the value of, or the tax status of interest on, the Series A Bonds, the Series B Bonds, and the Series D Bonds. Prospective Bondholders are urged to consult their own tax advisors with respect to proposals to restructure the federal income tax.

Although Bond Counsel is of the opinion that interest on the Series A Bonds, the Series B Bonds, and the Series D Bonds is excluded from gross income for federal income tax purposes and is exempt from Massachusetts personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Series A Bonds, the Series B Bonds, and the Series D Bonds may otherwise affect the federal or state tax liability of a Bondholder. Among other possible consequences of ownership or disposition of, or the accrual or receipt of interest on, the Series A Bonds, the Series B Bonds, and the Series D Bonds, the Code requires recipients of certain social security and certain railroad retirement benefits to take into account receipts or accruals of interest on such Bonds in determining the portion of such benefits that are included in gross income. The nature and extent of all such other tax consequences will depend upon the particular tax status of the Bondholder or the Bondholder’s other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences and Bondholders should consult with their own tax advisors with respect to such consequences.

Series C Bonds

In the opinion of Bond Counsel, under existing law, interest on the Series C Bonds is included in the gross income of the owners thereof for federal income tax purposes under the Code. Bond Counsel expresses no opinion regarding any other federal tax consequences related to the ownership or disposition of, or accrual or receipt of interest on, the Series C Bonds.

Bond Counsel is also of the opinion that, under existing law, interest on the Series C Bonds is exempt from Massachusetts personal income taxes, and the Series C Bonds are exempt from Massachusetts personal property taxes. Bond Counsel has not opined as to any other Massachusetts tax consequences arising with respect to the Series C Bonds. Prospective Bondholders should be aware, however, that the Series C Bonds are included in the income of Massachusetts estate and inheritance taxes, and the Series C Bonds and the interest thereon are included in the measure of certain Massachusetts corporate excise and franchise taxes. Bond Counsel has not opined as to the taxability of the Series C Bonds or the income therefrom under the laws of any state other than Massachusetts.

A complete copy of the proposed opinion of Bond Counsel with respect to the Series C Bonds is set forth in Appendix B hereto.

The following discussion summarizes certain U.S. federal tax considerations generally applicable to beneficial owners of the Series C Bonds that acquire their Bonds in the initial offering. The discussion below is based upon laws, regulations, rulings, and decisions in effect and available on the date hereof, all of which are subject to change, possibly with retroactive effect. Prospective investors should note that no rulings have been or are expected to be sought from the Internal Revenue Service (“IRS”) with respect to any of the U.S. federal income tax consequences discussed below, and no assurance can be given that the IRS will not take contrary positions. Further, the following discussion does not deal with all U.S. federal income tax consequences applicable to any given investor, nor does it address the U.S. federal income tax considerations applicable to investors who may be subject to special taxing rules (regardless of whether or not such persons constitute U.S. Holders), such as certain U.S. expatriates, banks, real estate investment trusts, regulated investment companies, insurance companies, tax-exempt organizations, dealers or traders in securities or currencies, partnerships, S corporations, estates and trusts, investors who hold their Series C Bonds as part of a hedge, straddle or an integrated or conversion transaction, or investors whose “functional currency” is not the U.S. dollar. Furthermore, the following discussion does not address (i) alternative minimum tax consequences or (ii) the indirect effects on persons who hold equity interests in a beneficial owner of Series C Bonds. In addition, this summary generally is limited to investors who become beneficial owners of Series C Bonds pursuant to the initial offering for the issue price that is applicable to such Bonds (i.e., the price at which a substantial amount of such Bonds is first sold to the public) and who will hold their Bonds as “capital assets” within the meaning of the Code.

As used herein, “U.S. Holder” means a beneficial owner of a Series C Bonds who for U.S. federal income tax purposes is an individual citizen or resident of the United States, a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States or any state thereof (including the District of Columbia), an estate the income of which is subject to U.S. federal income taxation regardless of its source or a trust with respect to which a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons (as defined in the Code) have the authority to control all substantial decisions of the trust (or a trust that has made a valid election under Treasury Regulations to be treated as a domestic trust). As used herein, “Non-U.S. Holder” generally means a beneficial owner of a Series C Bonds (other than a partnership) who is not a U.S. Holder. If an entity classified as a partnership for U.S. federal income tax purposes is a beneficial owner of Bonds, the tax treatment of a partner in such partnership generally will depend upon the status of the partner and upon the activities of the partnership. Partners in such partnerships should consult their own tax advisors regarding the tax consequences of an investment in the Series C Bonds (including their status as U.S. Holders or Non-U.S. Holders).

U.S. Holders

Interest. Stated interest on the Series C Bonds generally will be taxable to a U.S. Holder as ordinary interest income at the time such amounts are accrued or received, in accordance with the U.S. Holder’s method of accounting for U.S. federal income tax purposes.

“Original issue discount” will arise for U.S. federal income tax purposes in respect of any Series C Bonds if its stated redemption price at maturity exceeds its issue price by more than a de minimis amount (as determined for tax purposes). For any Series C Bonds issued with original issue discount, the excess of the stated redemption price at maturity of that Bond over its issue price will constitute original issue discount for U.S. federal income tax purposes. The stated redemption price at maturity of a Series C Bond is the sum of all scheduled amounts payable on such Bond other than qualified stated interest. U.S. Holders of Series C Bonds generally will be required to include any original issue discount in income for U.S. federal income tax purposes as it accrues, in accordance with a constant yield method based on a compounding of interest (which may be before the receipt of cash payments attributable to such income). Under this method, U.S. Holders of Series C Bonds issued with original issue discount generally will be required to include in income increasingly greater amounts of original issue discount in successive accrual periods.

“Premium” generally will arise for U.S. federal income tax purposes in respect of any Series C Bonds to the extent its issue price exceeds its stated principal amount. A U.S. Holder of a Series C Bonds issued at a premium may make an election, applicable to all debt securities purchased at a premium by such U.S. Holder, to amortize such premium, using a constant yield method over the term of such Bond.

Disposition of the Series C Bonds. Unless a nonrecognition provision of the Code applies, the sale, exchange, redemption, retirement (including pursuant to an offer by the City), reissuance or other disposition of a Series C Bond will be a taxable event for U.S. federal income tax purposes. In such event, a U.S. Holder of a Series C Bond generally will recognize gain or loss equal to the difference between (i) the amount of cash plus the fair market value of property received (except to the extent attributable to accrued but unpaid interest on the Bond which will be taxed in the manner described above under “Interest”) and (ii) the U.S. Holder’s adjusted tax basis in the Bond (generally, the purchase price paid by the U.S. Holder for the Bond, increased by the amount of any original issue discount previously included in income by such U.S. Holder with respect to such Bond and decreased by any payments previously made on such Bond, other than payments of qualified stated interest, or decreased by any amortized premium). Any such gain or loss generally will be capital gain or loss. A material modification of the terms of any Series C Bond may result in a deemed reissuance thereof, in which event a beneficial owner of the modified Bonds generally will recognize taxable gain or loss equal to the difference between the amount realized from the sale, exchange or retirement (less any accrued qualified stated interest which will be taxable as such) and the beneficial owner’s adjusted tax basis in the Bond.

In the case of a non-corporate U.S. Holder of a Series C Bond, the maximum marginal U.S. federal income tax rate applicable to any such gain may be lower than the maximum marginal U.S. federal income tax rate applicable to ordinary income if such U.S. holder’s holding period for the Bond exceeds one year. The deductibility of capital losses is subject to limitations.

Non-U.S. Holders

The following discussion applies only to non-U.S. Holders. This discussion does not address all aspects of U.S. federal income taxation that may be relevant to non-U.S. Holders in light of their particular circumstances. For example, special rules may apply to a non-U.S. Holder that is a “controlled foreign corporation” or a “passive foreign investment company,” and, accordingly, non-U.S. Holders should consult their own tax advisors to determine the United States federal, state, local and other tax consequences of holding the Series C Bonds that may be relevant to them.

Interest. Subject to the discussion below under the heading “Information Reporting and Backup Withholding,” payments of principal of, and interest on, any Series C Bond to a Non-U.S. Holder, other than a bank which acquires such Bond in consideration of an extension of credit made pursuant to a loan agreement entered into in the ordinary course of business, generally will not be subject to any U.S. withholding tax provided that the beneficial owner of the Bond provides a certification completed in compliance with applicable statutory and regulatory requirements, which requirements are discussed below under the heading “Information Reporting and Backup Withholding,” or an exemption is otherwise established.

Disposition of Series C Bonds. Subject to the discussion below under the heading “Information Reporting and Backup Withholding,” any gain realized by a Non-U.S. Holder upon the sale, exchange, redemption, retirement (including pursuant to an offer by the Commonwealth) or other disposition of a Series C Bond generally will not be subject to U.S. federal income tax, unless (i) such gain is effectively connected with the conduct by such Non-U.S. Holder of a trade or business within the United States; or (ii) in the case of any gain realized by an individual Non-U.S. Holder, such holder is present in the United States for 183 days or more in the taxable year of such sale, exchange, redemption, retirement (including pursuant to an offer by the State) or other disposition and certain other conditions are met.

U.S. Federal Estate Tax. A Series C Bond that is held by an individual who at the time of death is not a citizen or resident of the United States will not be subject to U.S. federal estate tax as a result of such individual’s death, provided that at the time of such individual’s death, payments of interest with respect to such Bond would not have been effectively connected with the conduct by such individual of a trade or business within the United States.

Information Reporting and Backup Withholding—U.S. Holders and non-U.S. Holders

Interest on, and proceeds received from the sale of, a Series C Bond generally will be reported to U.S. Holders, other than certain exempt recipients, such as corporations, on IRS Form 1099. In addition, a backup withholding tax may apply to payments with respect to the Series C Bonds if the U.S. Holder fails to furnish the payor with a correct taxpayer identification number or other required certification or fails to report interest or dividends required to be shown on the U.S. Holder’s federal income tax returns.

In general, a non-U.S. Holder will not be subject to backup withholding with respect to interest payments on the Series C Bonds if such non-U.S. Holder has certified to the payor under penalties of perjury (i) the name and address of such non-U.S. Holder and (ii) that such non-U.S. Holder is not a United States person, or, in the case of an individual, that such non-U.S. Holder is neither a citizen nor a resident of the United States, and the payor does not know or have reason to know that such certifications are false. However, information reporting on IRS Form 1042-S may still apply to interest payments on the Series C Bonds made to non-U.S. Holders not subject to backup withholding. In addition, a non-U.S. Holder will not be subject to backup withholding with respect to the proceeds of the sale of a Series C Bond made within the United States or conducted through certain U.S. financial intermediaries if the payor receives the certifications described above and the payor does not know or have reason to know that such certifications are false, or if the non-U.S. Holder otherwise establishes an exemption. Non-U.S. Holders should consult their own tax advisors regarding the application of information reporting and backup withholding in their particular circumstances, the availability of exemptions and the procedure for obtaining such exemptions, if available.

Backup withholding is not an additional tax, and amounts withheld as backup withholding are allowed as a refund or credit against a holder's federal income tax liability, provided that the required information as to withholding is furnished to the IRS.

The foregoing summary is included herein for general information only and does not discuss all aspects of U.S. federal income taxation that may be relevant to a particular holder of Series C Bonds in light of the holder's particular circumstances and income tax situation. Prospective investors are urged to consult their own tax advisors as to any tax consequences to them from the purchase, ownership and disposition of Bonds, including the application and effect of state, local, foreign and other tax laws.

Circular 230 Disclaimer

The preceding tax matters discussion related to the Series C Bonds is not intended or written to be used, and cannot be used, for the purpose of avoiding penalties that may be imposed under federal tax law in connection with the Series C Bonds. Such discussion was written to support the promotion or marketing of the Series C Bonds. Each purchaser of the Series C Bonds should seek advice based on such purchaser's particular circumstances from an independent tax advisor.

CREDIT RATINGS

Moody's Investors Service Inc., ("Moody's"), 7 World Trade Center at 250 Greenwich Street, New York, New York, and Standard & Poor's Rating Services, a division of the McGraw-Hill companies ("Standard & Poor's"), 55 Water Street, New York, New York, have assigned the ratings of "Aaa" and "AA+," respectively, to the Bonds. Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that any such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agency concerned, if in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of any such ratings may have an adverse effect on the market price of the Bonds.

COMPETITIVE SALE OF BONDS

The Bonds were offered for sale by the City on March 16, 2011, in accordance with the Official Notice of Sale dated March 9, 2011 (the "Official Notice of Sale").

Banc of America Merrill Lynch ("Banc of America") was the successful bidder for the Series A Bonds and the Series B Bonds. Information provided by Banc of America regarding the interest rates and reoffering yields of the Series A Bonds and the Series B Bonds is set forth on page ii of this Official Statement. The Series A Bonds are being purchased from the City by Banc of America at an aggregate price of \$93,425,040.79, reflecting the principal amount of \$86,190,000.00, plus net original issue premium of \$7,562,993.75, less underwriter's discount of \$327,952.96. The Series B Bonds are being purchased from the City by Banc of America at an aggregate price of \$40,765,384.84, reflecting the principal amount of \$38,295,000.00, plus net original issue premium of \$2,692,036.30, less underwriter's discount of \$221,651.46.

J.P. Morgan Securities LLC ("JPMorgan") was the successful bidder for the Series C Bonds. Information provided by JPMorgan regarding the interest rates and reoffering yields of the Series C Bonds is set forth on page iii of this Official Statement. The Series C Bonds are being purchased from the City by JPMorgan at an aggregate price

of \$41,523,282.50, reflecting the principal amount of \$41,620,000.00, plus net original issue premium to \$4,419.10, and less underwriter's discount of \$101,136.60.

Jefferies & Company, Inc. ("Jefferies") was the successful bidder for the Series D Bonds. Information provided by Jefferies regarding the interest rates and reoffering yields of the Series D Bonds is also set forth on page iii of this Official Statement. The Series D Bonds are being purchased from the City by Jefferies at an aggregate price of \$15,542,707.15, reflecting the principal amount of \$14,425,000.00, plus net original issue premium to \$1,142,229.65, and less underwriter's discount of \$24,522.50.

Banc of America, JPMorgan, and Jefferies, and any of their respective associates underwriting the Bonds, may offer to sell the Bonds to certain dealers and others at prices other than the initial offering prices, and the public offering prices may be changed from time to time by the underwriters.

LEGAL MATTERS

All legal matters incidental to the authorization and issuance of the Bonds are subject to the approval of Edwards Angell Palmer & Dodge LLP, Boston, Massachusetts, Bond Counsel to the City. Reference should be made to the form of opinions of Bond Counsel set forth in Appendix B for the matters to be covered therein. In addition, Corporation Counsel of the City will certify as to the accuracy of the statements contained in the first paragraph under the caption "Litigation."

INDEPENDENT AUDITORS

The financial statements of the City of Boston included as Exhibit I to Appendix A of this Official Statement have been audited by KPMG LLP, independent certified public accountants, to the extent and for the period indicated in their report thereon.

FINANCIAL ADVISOR

Public Financial Management, Inc. ("PFM") has served as financial advisor to the City for the issuance of the Bonds. PFM is not obligated to undertake, and has not undertaken, either to make an independent verification of or to assume responsibility for, the accuracy, completeness, or fairness of the information contained in this Official Statement. PFM is an independent financial advisory firm and is not engaged in the business of underwriting, trading, or distributing securities or other public securities.

CONTINUING DISCLOSURE

In order to assist the underwriter in complying with Rule 15c2-12 promulgated by the Securities and Exchange Commission (the "Rule"), the City will covenant for the benefit of owners of the Bonds to provide certain financial information and operating data relating to the City by not later than 270 days after the end of each fiscal year (the "Annual Report"), and to provide notices of occurrence of certain enumerated events, if material. The covenants will be contained in a Continuing Disclosure Certificate, the proposed form of which is provided in Appendix D (the "Certificate"). A Certificate will be executed on each of the respective delivery dates of the Bonds and incorporated by reference in the Bonds delivered on that date. The City has executed previous undertakings to provide annual reports or notices of material events in accordance with the Rule and has never failed to comply in all material respects with any such undertaking, except that, due to an administrative oversight, the annual reports required to be filed for fiscal years 2002, 2003 and 2004 were not filed within the time periods required under certain of such undertakings. The City has since filed a report to comply with such continuing disclosure undertakings, and it has implemented procedures to ensure timely filing of all future annual reports and notices of material events required thereunder.

In order to assist the City in carrying out its obligations under the Certificate and under its other continuing disclosure undertakings, the City has entered into an agreement with Digital Assurance Certification, L.L.C. ("DAC") pursuant to which DAC serves as dissemination agent for the City with respect to the continuing disclosure filings required to satisfy such obligations.

MISCELLANEOUS

This Official Statement is not to be construed as a contract or agreement between the City and the purchasers or holders of any of the Bonds. Any statements made in this Official Statement involving matters of opinion are intended merely as opinion and not as representation of fact. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale of the Bonds shall, under any circumstances, create any implication that there has been no change in the affairs of the City, or its agencies and authorities, since the date hereof.

CITY OF BOSTON, MASSACHUSETTS

By: /s/ Vivian Leo
Temporary Collector-Treasurer

Dated: March 16, 2011

CITY OF
BOSTON, MASSACHUSETTS



INFORMATION STATEMENT
Dated March 1, 2011

This Information Statement contains certain general and financial information concerning the City of Boston, Massachusetts (the "City"). The information is authorized by the City to be distributed to prospective purchasers in connection with bonds or notes offered for sale by the City, and to the Municipal Securities Rulemaking Board through the Electronic Municipal Market Access System (EMMA) for purposes of Rule 15c2-12 promulgated by the Securities and Exchange Commission. This Information Statement may not be reproduced or used in whole or in part for any other purpose without the express written consent of Vivian M. Leo, Temporary Collector-Treasurer, Boston, Massachusetts.

Any statements in this Information Statement involving matters of opinion, whether or not expressly so stated, are intended merely as opinion and not as representations of fact. The information and expressions of opinions herein are subject to change without notice and neither the delivery of this Information Statement nor any sale made pursuant to any official statement or offering memorandum to which it is appended, in which it is included by reference or with which it is distributed shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof.

This Information Statement contains forecasts, projections and estimates that are based on expectations and assumptions which existed at the time such forecasts, projections and estimates were prepared. In light of the important factors that may materially affect economic conditions of the City, the inclusion in this Information Statement of such forecasts, projections and estimates should not be regarded as a representation of the City that such forecasts, projections and estimates will occur. Such forecasts, projections and estimates are not intended as representations of fact or guarantees of results.

If and when included in this Information Statement, the word "expects," "forecasts," "projects," "intends," "anticipates," "estimates" and analogous expressions are intended to identify forward-looking statements and any such statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those projected. Such risks and uncertainties include, among others, general economic and business conditions, changes in political, social and economic conditions, regulatory initiatives and compliance with governmental regulations, litigation and various other events, conditions and circumstances, many of which are beyond the control of the City. These forward-looking statements speak only as of the date of this Information Statement. The City disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in the City's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

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THE CITY

The City, incorporated as a town in 1630 and as a city in 1822, exists under Chapter 486 of the Acts of 1909 and Chapter 452 of the Acts of 1948 of The Commonwealth of Massachusetts (the “Commonwealth”) which, as amended, constitute the City’s Charter.

The Mayor is the chief executive officer of the City. Thomas M. Menino, the Mayor of the City, was reelected to serve a fifth four-year term from January 2010 through January 2014. The Mayor has general supervision of and control over the City’s boards, commissions, officers, and departments. The portion of the City budget covering appropriations for all departments and operations of the City, except the School Department and the Boston Public Health Commission, is prepared under the direction of the Mayor. Prior to his service as Mayor, the Mayor served on the City Council. He served as Chairman of the City Council’s Ways and Means Committee from 1988 to 1992, and was elected President of the City Council in 1993.

The legislative body of the City is the thirteen-member City Council. The City Council enacts ordinances and adopts orders, which the Mayor may either approve or veto. Ordinances and orders, except for orders for the borrowing or appropriation of money and the reorganization of City departments, may be enacted by the City Council over the Mayor’s veto by a two-thirds vote. The City Council may reject or reduce a budget submitted to it by the Mayor, but the City Council may not increase a budget. For a description of the budget process, see “Financial Operations—Budget Process” herein.

The members of the City Council, all of whose current terms will end in January 2014, are set forth below.

Stephen J. Murphy (President)	At Large
Felix G. Arroyo.	At Large
John R. Connolly.....	At Large
Ayanna Pressley	At Large
Salvatore J. LaMattina	District 1
William P. Linehan	District 2
Maureen E. Feeney.....	District 3
Charles C. Yancey.....	District 4
Robert J. Consalvo	District 5
Matthew J. O’Malley	District 6
Vacant	District 7
Michael P. Ross.....	District 8
Mark B. Ciommo	District 9

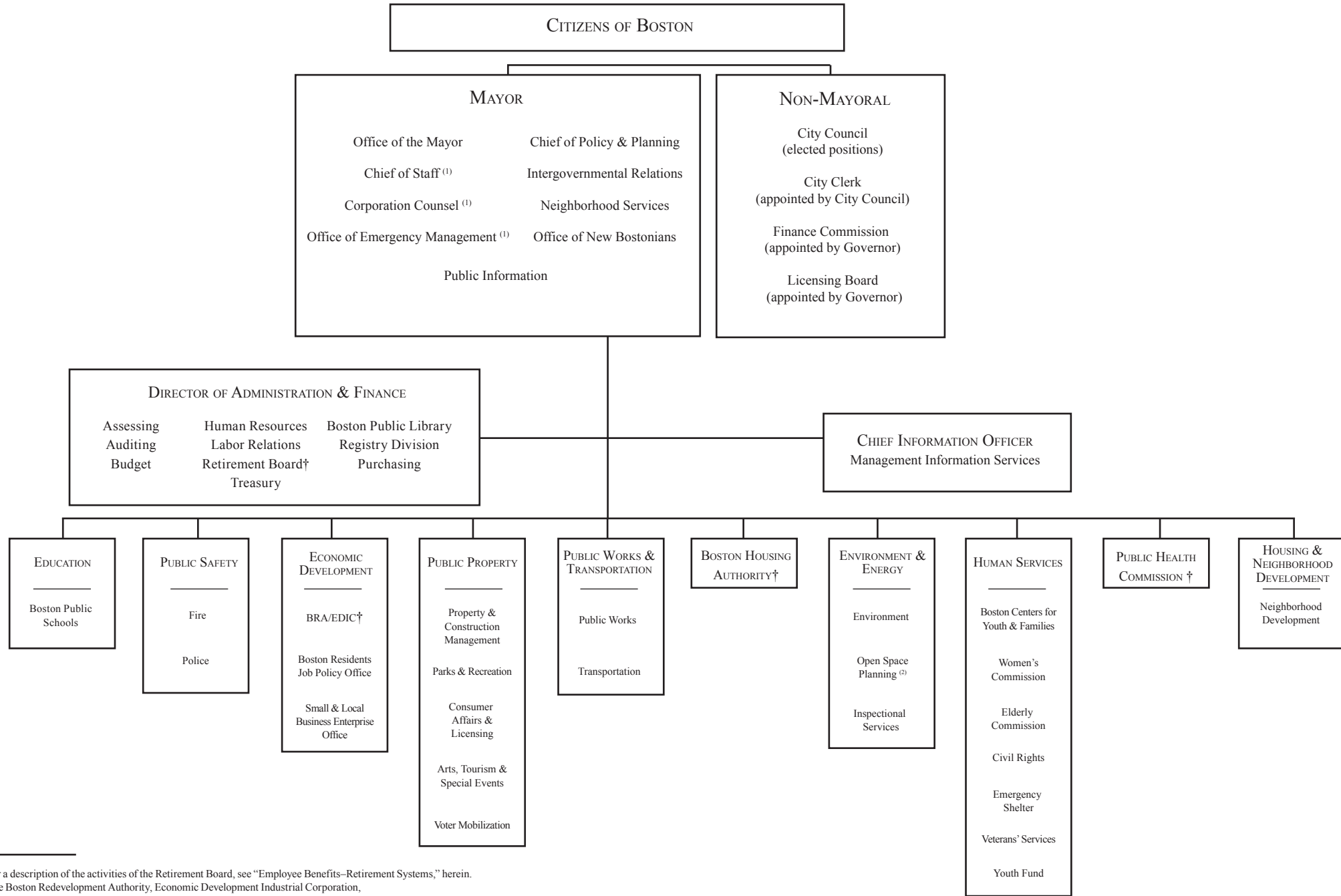
Organization of City Government

Mayor Menino established a cabinet form of government to recognize the major functional responsibilities of City government, to facilitate improvements in the conduct of the executive and administrative business of the City, and to eliminate duplication and waste.

The structure of the Mayor’s cabinet is set forth in the organizational chart on the following page.

ORGANIZATION OF CITY GOVERNMENT

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† For a description of the activities of the Retirement Board, see “Employee Benefits–Retirement Systems,” herein.
The Boston Redevelopment Authority, Economic Development Industrial Corporation, Boston Housing Authority and Boston Public Health Commission are bodies politic and corporate and political subdivisions of the Commonwealth. For a description of such entities, see “City Indebtedness – Debt of Agencies Related to the City.”

(1) Has cabinet rank.

(2) Programmatically within this cabinet; financially in Parks & Recreation.

With the exception of the Superintendent of Schools, the City officials profiled below serve at the pleasure of the Mayor.

Chief of Staff

Mitchell Weiss was appointed Chief of Staff in January 2010. From 2006 to 2009, Mr. Weiss was Executive Director of the Tobin Project, a virtual research center based in Cambridge, Massachusetts. Before joining the Tobin Project in 2006, Mr. Weiss was a Service Leadership Fellow in Mayor Menino's office. Prior to his transition to the public sector, Mr. Weiss worked at Merrill Lynch & Co. where he focused primarily on mergers and acquisitions for many well-recognized food companies. The Chief of Staff is a member of the Mayor's cabinet, and has an advisory role over all operations of City government. The Chief of Staff is also charged with supervising and directing the operations of the Mayor's office, including scheduling, security, policy and planning, press, constituent services and intergovernmental relations.

Chief of Policy and Planning

Michael J. Kineavy was appointed Chief of Policy and Planning in August 2004. Prior to his appointment, Mr. Kineavy served as Director of the Mayor's Office of Neighborhood Services. The Chief of Policy and Planning oversees the development and implementation of all policy initiatives for the City.

Chief Information Officer

William G. Oates was appointed Chief Information Officer in June 2006. Prior to his appointment Mr. Oates served as Senior Vice President and Chief Information Officer of Starwood Hotels and Resorts, Worldwide, Inc. The Chief Information Officer oversees the Department of Innovation and Technology, which is responsible for leveraging the use of technology and information, as well as working to improve the business of government and delivery of service.

Acting Director of Administration and Finance

Meredith Weenick was appointed Acting Director of Administration and Finance in September 2010, after having served as the Associate Director of Administration and Finance since 2007. Ms. Weenick previously served as a Service Leadership Fellow in Mayor Menino's office, and subsequently as Policy Advisor, working on city-wide policy development and implementation of major initiatives, from 2002 - 2007.

The City officials with principal responsibility for the City's finances are as follows:

Temporary Collector-Treasurer

Vivian M. Leo has been appointed Temporary Collector-Treasurer, and in that capacity is permitted to act with all of the powers and authority of the Collector-Treasurer. Ms. Leo has served for thirty-seven years in the City's Treasury Department, and for the past seventeen years has served as First Assistant Collector-Treasurer. The Collector-Treasurer is responsible for supervision of the City's Treasury Department, the collection of revenues due to the City, management of City borrowings and payment of all amounts due the City, including amounts due on account of borrowings by the City in the form of either temporary or permanent debt. The Collector-Treasurer is also the trustee and Custodian of over 300 City trust funds, and is an ex officio member of the board of the Massachusetts Convention Center Authority ("MCCA").

Budget Director

Karen A. Connor was appointed Budget Director in December 2005. Prior to her appointment, Ms. Connor served, respectively, as Acting Budget Director and as a Deputy Budget Director. The Budget Director is responsible for the supervision of the Office of Budget Management ("OBM"), which develops and oversees the operating budget for all departments and operations of the City except the School Department. OBM is also responsible for the City's Capital Plan. OBM prepares and monitors the City's capital budget and coordinates strategic and long-range capital planning for City departments.

City Auditor

Sally D. Glora was appointed Acting City Auditor in March 1990 and City Auditor in December 1990. Prior to her appointment as Acting City Auditor, Ms. Glora served as the Deputy City Auditor. The Auditor is responsible for monitoring the internal controls, managing grant funds, providing financial reports, maintaining the books and records for the City, and for approving all payments made by the City. Ms. Glora is an *ex officio* member of the State-Boston Retirement Board.

Commissioner of Assessing

Ronald W. Rakow was appointed Commissioner of Assessing in March 1993. Prior to his appointment, Mr. Rakow served as the Acting Commissioner of Assessing from September 1992 to March 1993. Prior to his appointment as the Acting Commissioner of Assessing, Mr. Rakow served as the Director of Research and Standards for the City's Assessing Department. The Commissioner of Assessing is responsible for supervision of the City's Assessing Department and the valuation for purposes of the tax levy of real and personal property located in the City. Commissioner Rakow has been appointed by the Temporary Collector-Treasurer to serve in her place on the MCCA board.

Chief Economic Development Officer

John F. Palmieri was appointed Chief Economic Development Officer and Director of the Boston Redevelopment Authority (the "BRA") in September 2007. Prior to his appointment, Mr. Palmieri served as Director of Development Services in Hartford, Connecticut. The Chief Economic Development Officer is responsible for planning, zoning, and economic development for the City. The Economic Development Cabinet is comprised of the BRA, the Economic Development and Industrial Corporation ("EDIC"), including the EDIC's office of Jobs and Community Services, the Office of Small and Local Business Enterprises, and the Office of Boston Residents Job Policy.

Chief of Education

Dr. Carol R. Johnson was named Superintendent of the Boston Public Schools by the Boston School Committee in June 2007, and her term extends to June 2012. Prior to her appointment by the Boston School Committee, Dr. Johnson served as Superintendent of the Memphis City Schools in Memphis, Tennessee, the largest district in the state. Dr. Johnson previously served as Superintendent of the Minneapolis Public Schools, where she was named Minnesota Superintendent of the Year. The Education Cabinet is responsible for managing the Boston Public Schools. Among the Education Cabinet's responsibilities is the development of a plan for schools and other City and non-City agencies to develop cooperative programs to guarantee that the best possible resources are available to Boston's children. For a description of the student population, staffing, curricula, and governance of the Boston Public Schools, see "The City—Principal Government Services—Schools" below.

Chiefs of Public Safety

Edward F. Davis, III, the City's Police Commissioner, and Roderick J. Fraser, Jr., the City's Fire Commissioner, are the Chiefs of the Public Safety Cabinet. Commissioner Davis, a veteran with more than 30 years of law enforcement experience, was appointed Police Commissioner in October 2006. Commissioner Fraser, a 20-year Navy veteran finishing as the Commanding Officer of the USS Underwood, and who had also served as Director of Engineering, Damage Control and Firefighting Training at the Surface Warfare Officers School Command in Newport, Rhode Island, was appointed Fire Commissioner in September 2006. The City's Police and Fire Departments provide and promote public safety and protection services, firefighting and fire prevention services. For a description of Police and Fire Department resources and personnel see "The City—Principal Governmental Services—Public Safety" below.

Director of the Office of Emergency Management

Donald E. McGough was appointed Director of the City's Office of Emergency Management in January 2008. Prior to his appointment Mr. McGough was employed as a Senior Homeland Security Consultant at the Public Consulting Group, Inc. Mr. McGough previously served as Assistant Chief of the Bureau of Administration and Technology for the Police Department, and as Chief of Staff to the Police Commissioner. The Office of Emergency Management is responsible for obtaining, allocating and managing state and federal funds designated for emergency preparedness initiatives, and to facilitate communication and cooperation across towns and cities in specific disciplines, such as law enforcement, fire service, emergency management, emergency medical services, public health, healthcare, and government administration.

Chief of Public Health

Dr. Barbara Ferrer was named Executive Director of the Boston Public Health Commission by its Board in March 2007. In that capacity, Dr. Ferrer joined the Mayor's cabinet as the Chief of Public Health. Prior to her appointment Dr. Ferrer served for five years as the Commission's Deputy Director where she played a key role in developing strategies to improve Boston's infant mortality rate and end racial and ethnic health disparities. The Commission, an independent agency, is a body politic and corporate and

political subdivision of the Commonwealth. The Commission is responsible for the implementation of public health programs in the City and serves as the board of health of the City. The Commission is divided into six programmatic areas, including: the Emergency Medical Service, which includes the City's ambulances, EMTs and paramedics responding to the "911" emergency system; Homeless Services; Communicable Disease Control; Substance Abuse Services; Community Health; and Child and Family Health. For additional information concerning the Boston Public Health Commission see "The City—Principal Government Services—Public Health" below.

Chief of Public Property

Michael Galvin was appointed Chief of Public Property in August 1994. Prior to his appointment, Mr. Galvin was employed by NYNEX and had previously served as the City's first "Executive on Loan." The Public Property Cabinet consists of the Parks and Recreation Department (except for the department's planning function, which falls under the Environmental and Energy Services Cabinet), the Election Department, the Office of Arts, Tourism and Special Events, the Office of Consumer Affairs and Licensing, and the Property and Construction Management Department, of which Mr. Galvin is Commissioner and Director of Public Facilities, and which includes Capital Construction, the Animal Control Unit, and Building Maintenance and Systems. The Cabinet's charge includes investigating opportunities to apply technological innovations to reduce costs or improve the delivery of basic services.

Chief of Environmental and Energy Services

James W. Hunt, III, was appointed Chief of Environmental and Energy Services in March 2005. Prior to his appointment, Mr. Hunt served as Assistant Secretary for the Commonwealth's Executive Office of Environmental Affairs and was responsible for administering the Massachusetts Environmental Policy Act. The Chief of Environmental and Energy Services is responsible for environmental and energy policies for the City and serves as chair of the City's Energy Management Board. The Environmental and Energy Services Cabinet is comprised of the Environment Department, Inspectional Services Department, the Parks and Recreation Department's Open Space Planning, Olmsted Park Revitalization, and Boston's Recycling Program. The Chief of Environmental and Energy Services also serves as a liaison to the Boston Water and Sewer Commission, and as a Board member of the Massachusetts Water Resources Authority, the Boston Groundwater Trust the Boston Harbor Islands Partnership and is co-chair of the City/State Groundwater Working Group.

Chief of Housing and Neighborhood Development

Evelyn Friedman was appointed Chief of Housing in February 2008. Prior to her appointment, Ms. Friedman served for seventeen years as the Executive Director of Nuestra Comunidad Development Corporation of Roxbury. In her capacity as Chief of Housing, Ms. Friedman is the Director of the Department of Neighborhood Development and is responsible for overseeing the Rental Housing Resource Center ("RHRC"). The Department of Neighborhood Development is responsible for business development, homeowner/homebuyer programs, housing development, surplus land and building management and disposition, and certain City capital construction projects. The RHRC provides a variety of services to tenants and owners of the City's residential housing stock.

Chief of Human Services

Daphne Griffin was appointed Chief of Human Services in February 2011. The Human Services Cabinet is responsible for providing human and other support services for all of Boston's residents through its seven departments: Boston Centers for Youth and Families, the Boston Youth Fund, the Elderly Commission, the Emergency Shelter Commission, the Women's Commission, the Veteran's Services Department, and the Office of Civil Rights, which is comprised of the Fair Housing Commission, the Commission for People with Disabilities, and the Human Rights Commission.

Chief of Public Housing

William E. McGonagle was appointed Chief of Public Housing by virtue of his appointment by Mayor Menino as Interim Administrator of the Boston Housing Authority (the "BHA") in June 2009. Mayor Menino elevated the position of Administrator of the BHA to the level of a cabinet post in December 1996. Prior to his appointment as Interim Administrator of the BHA, Mr. McGonagle has been an employee of the BHA since 1970 in increasingly responsible positions including that of Housing Manager, Area Director for Operations, and Deputy Administrator. The BHA is a public body established under the laws of the Commonwealth of Massachusetts. It is responsible for the financing, construction, operation, and management of public housing for low-income families and individuals.

Corporation Counsel

William F. Sinnott was appointed Corporation Counsel in March 2006. Prior to his appointment Mr. Sinnott served as an Assistant U.S. Attorney, and had been assigned to the District of Massachusetts in Boston. The Corporation Counsel has supervisory authority over all City attorneys and legal affairs. The Law Department provides a comprehensive array of legal services including formal and informal opinions and advice to the Mayor, the City Council, the Boston School Committee and other officials in matters relating to their official duties, and also represents all of the foregoing entities and individuals in litigation of all types. In addition, the Law Department reviews all City contracts, pursues claims on behalf of the City through affirmative litigation, and pursues foreclosure proceedings on tax delinquent property.

Principal Government Services

The following table shows the distribution of the City's fiscal 2011 appropriations by primary government functions and departments.

Purposes of City Appropriations—Fiscal 2011 ⁽¹⁾
(Budgetary Accounting Basis) ⁽²⁾
(\$ in thousands)

	<u>Amount</u>	<u>Percent of Total Appropriations</u>
General Government	\$ 77,443	3.2%
Public Safety	498,642	20.7
Public Works	100,566	4.2
Property and Development	27,676	1.1
Parks and Recreation	16,517	0.7
Library	30,369	1.3
Human Services.....	29,304	1.2
Schools	821,382	34.1
Boston Public Health Commission.....	69,793	2.9
Judgments and Claims	3,500	0.1
Employee Benefits	252,783	10.5
Current Period Retirement Contributions	196,207	8.1
Debt Requirements	132,313	5.5
State and District Assessments	<u>153,033</u>	<u>6.4</u>
Total.....	<u>\$2,409,528</u>	<u>100.0%</u>

(1) Represents the fiscal 2011 Budget amended by Mayoral Reallocations through February 4, 2011.

(2) See "Financial Operations – Operating Budgets" for a definition of budgetary accounting basis.

Source: City of Boston Auditing Department and Office of Budget Management.

A description of certain City principal governmental services follows:

Schools

The City's School Department provides both basic education and college preparatory curricula as well as specialized vocational educational programs. The school system enrolled 56,340 students for the 2009-2010 school year, a decrease of approximately 47 students from the preceding school year.

Pursuant to Chapter 108 of the Acts of 1992, the City's public schools are under the control of a School Committee, which consists of seven members appointed by the Mayor. Members of the School Committee have staggered four-year terms. In addition to appointing the Superintendent of Schools, the Boston School Committee approves the School Department budget for submission to the Mayor, and by and through the Superintendent, determines educational policy, makes all contracts for the purchase of materials for the operations of the schools, and maintains and operates school properties. The Superintendent of Schools has exclusive authority to make appointments and promotions for all teachers and other School Department personnel except for the positions of Community Superintendent, Chairman, Secretary, or Treasurer of the School Committee, School Committee Administrative Assistants, and Special Assistant Corporation Counsels. The School Committee appoints these excepted positions.

Public Safety

The Public Safety Cabinet is continuing to improve citywide service-delivery through consolidated and shared resources to provide more effective and efficient public safety services to Boston's communities.

The Police Department maintains eleven neighborhood police stations and one headquarters building. It also maintains nine support programs, consisting of the Police Academy, Firearms Training Range, Harbor Patrol Unit, Fleet Management Unit, Telecommunications Unit, Evidence and Property Management Facility, Special Operations Division, Stress Support Unit and Sexual Assault Unit.

The Fire Department maintains 40 facilities consisting of 34 neighborhood fire stations, one marine unit, a training academy, a fire prevention division, a fire alarm division, headquarters/maintenance division/fire investigation building, and a high-pressure pumping station.

The Mayor's Office of Emergency Preparedness coordinates and directs Boston's interdepartmental and multi-jurisdictional homeland security activities by advising the Mayor on issues and obtaining and managing outside funding. See "Director of the Office of Emergency Preparedness," above.

Public Health

The Boston Public Health Commission, successor to the City's Department of Health and Hospitals, is a body politic and corporate separate from the City created in 1996 when the operations of the City's former acute-care hospital, Boston City Hospital, were consolidated with the operations of Boston University Medical Center Hospital under the control of the Boston Medical Center Corporation ("BMCC"), a private, Massachusetts non-profit corporation. The Commission is governed by a seven-member board, six of whom are appointed by the Mayor, subject to confirmation by the City Council, and one of whom, as the chief executive officer of BMCC, serves *ex-officio*. The Commission functions as the City's board of health and operates a wide range of public health programs throughout the City funded from public and private grants and City appropriations. The Commission is a discretely presented component unit for GAAP reporting purposes in the City's annual audited financial statements. See "City Indebtedness—Debt of Agencies Related to the City—Boston Public Health Commission."

Public Works

The Public Works Department constructs and maintains highways, sidewalks, street lighting and bridges, and oversees snow removal, street cleaning, refuse removal and recycling. The Boston Water and Sewer Commission ("BWSC"), an independent agency, is responsible for the operation and maintenance of the City's water, sewer, and storm water drainage systems, the construction of improvements to those systems, and the collection of user charges for its services. See "City Indebtedness—Debt of Agencies Related to the City—Boston Water and Sewer Commission" below.

Other Services

The Boston Public Library Department operates a central library, 26 neighborhood branch libraries, and two service buildings. The Parks and Recreation Department manages approximately 2,200 acres of active, passive and historic parkland. The 2,200 acres of land include 272 parks, playgrounds, squares, malls, plazas, and other miscellaneous sites; 16 historic and three active cemeteries; one greenhouse facility; and approximately 33,600 street trees.

Suffolk County

While existing state law provides that the Mayor and City Council serve as the Commissioners of Suffolk County, which includes the Cities of Boston, Chelsea and Revere and the Town of Winthrop, all of the functions and costs of county government, (including the county courts, registry of deeds and the Office of the Suffolk County Sheriff) have been assumed by the Commonwealth, other than an annual assessment by the Commonwealth for the purpose of funding the unfunded portion of pension liability for retirees of the Office of the Suffolk County Sheriff who retired prior to January 1, 2010. This annual assessment can be no greater than the City's fiscal 2009 appropriation to support the Office of the Suffolk County Sheriff of approximately \$4.0 million, and will terminate when the pension liability of these retirees is fully funded.

City Employees

The following table shows the number of full-time equivalent City employees by department as of January 1 of each of the indicated years.

**Full-Time Equivalent
City Employees by Department ⁽¹⁾**

	<u>2009</u>	<u>2010</u>	<u>2011</u>
<i>City Funded:</i>			
Public Safety ⁽²⁾	4,686	4,431	4,476
Public Works.....	408	378	359
Other City Departments ⁽³⁾	2,833	2,712	2,596
Boston Public Health Commission ⁽⁴⁾	820	797	794
Subtotal	<u>8,747</u>	<u>8,318</u>	<u>8,225</u>
Schools	<u>8,572</u>	<u>8,211</u>	<u>8,047</u>
Total City Funded	<u>17,319</u>	<u>16,529</u>	<u>16,272</u>
<i>Grant Funded:</i>			
Schools	755	754	792
All Others ⁽⁵⁾	<u>1,427</u>	<u>378</u>	<u>292</u>
Total.....	<u>19,501</u>	<u>17,661</u>	<u>17,356</u>

(1) All data are as of January 1 in the year stated. The methodology used in compiling these data was established jointly by the City and the Boston Municipal Research Bureau.

(2) Public Safety includes both the Police Department and the Fire Department.

(3) Includes State-Boston Retirement System employees.

(4) Boston Public Health Commission employees are funded by the City, but are not employees of the City.

(5) All Others includes the Office of the Suffolk County Sheriff in 2009. Employees of the Office of the Suffolk County Sheriff were transferred to the Commonwealth as of January 1, 2010. (See "Suffolk County" above.)

Source: City of Boston Office of Budget Management.

Employee Relations

Under Massachusetts General Laws Chapter 150E, most municipal employees in the Commonwealth enjoy the right to join labor unions and bargain collectively over wages and other terms and conditions of employment. The Office of Labor Relations represents the Mayor and the City in all collective bargaining matters with all unions of City employees except School Department employee unions. The School Department's labor relations personnel similarly represent the School Committee and consult with the Office of Labor Relations regarding contract negotiations and other general labor matters. Additionally, the Office of Labor Relations has actively assisted the Boston Public Health Commission in collective bargaining negotiations with its 11 bargaining units and regularly interfaces with the Boston Public Health Commission on labor and employment matters.

Nearly all of the City's non-school department employees are organized into bargaining units represented by various unions. Most of these unions are affiliated with the AFL-CIO. Three large unions, the American Federation of State, County, and Municipal Employees ("AFSCME") Council 93 (laborer employees), the Service Employees International Union ("SEIU") Local 285 (clerical employees), and the Salaried Employees of North America ("SENA") Local 9158 (middle manager employees) represent the majority of the City's non-public safety employees.

Police officers are represented by four distinct unions, the Boston Police Patrolmen's Association ("BPPA"), the Boston Police Superior Officers Federation ("Federation"), the Boston Police Detectives Benevolent Society ("Detectives") and the Boston Police Detectives Benevolent Society, Superior Officers Unit ("Detective Superiors"). Firefighters and Fire Chiefs are divided into two bargaining units represented by a single union: the International Association of Firefighters ("IAFF") Local 718.

Boston teachers, teacher aides, school nurses, and substitutes are in a collective bargaining unit represented by the Boston Teachers Union ("BTU"), an affiliate of the AFL-CIO.

The table below represents a summary of the bargaining units representing City employees, the number of City employees represented by each bargaining unit, and the status of the City's contract with each bargaining unit.

Collective Bargaining Units (City and Schools)

<u>Union</u>	<u>Department</u>	<u>Number of Employees Represented</u> ⁽¹⁾	<u>Contract Expiration Date</u>
Boston Patrolmen's Association	Police	1,502	6/30/10
Boston Police Superior Officers	Police	240	6/30/10
Boston Police Detectives Benevolent Society	Police	272	6/30/10
Superior Detective Benevolent Society	Police	130	6/30/10
Forensic Group (BPD)	Police	20	9/30/10
School Traffic Supervisors Assoc.	Police	203	8/31/10
International Association of Firefighters, Local 718	Fire	1,490	6/30/11
Municipal Police Patrolmen's Association	Property & Construction Mgmt	53	6/30/10
Municipal Police Superior Officers Association	Property & Construction Mgmt	7	6/30/10
SEIU, Local 888	Citywide	1,084	9/30/10
SENA, Locals 9158 and 9158E	Citywide	641	9/30/10
AFSCME C93 (Citywide & various locals)	Citywide	1,149	6/30/10
AFSCME Local 1526	Library	222	6/30/10
Professional Staff Association (BPL)	Library	134	9/30/10
Park Rangers ⁽²⁾	Parks	10	N/A
Typographical Union	Police	3	9/30/10
OPEIU AFL-CIO L16 (Housing Inspectors)	Inspectional Services	23	6/30/10
Other City Unions	Inspectional Services and Property & Construction Mgmt	16	6/30/10
Boston Teachers Union	School	7,555	8/31/10
BASAS (School Administrators & Supervisors)	School	235	8/31/10
Administrative Guild	School	302	8/31/10
Planning & Engineering	School	32	8/31/10
Boston School Police	School	53	8/31/10
School Police Superior Officers Assoc.	School	20	6/30/10
School Custodians Local 1952, Painters & Allied			
Trades District Council #35	School	500	8/31/10
Plant Administrators Association	School	12	8/31/10
School Bus Monitors USWA Local 8751	School	369	6/30/10
Lunch Hour Monitors Association	School	373	8/31/10
AFSCME C93, Local 230 Cafeteria Workers	School	392	8/31/10
AFSCME C93, Storekeepers & Deliverymen	School	<u>7</u>	8/31/10
		16,919	

(1) Number of members (not Full-Time Equivalents) as of January 1, 2011.

(2) New association; an initial contract has not been agreed to at this time.

Source: Office of Budget Management, Boston Administrative Systems/Human Resources Management System (BAIS/HRMS) and Boston School Department.

Nearly all of the collective bargaining agreements between the City and the unions expired during calendar year 2010. The terms of such agreements remain in effect until execution of successor contracts. The current agreement with the International Association of Firefighters, Local 718, was the result of a binding arbitration award that was modified and approved by the City Council in June, 2010. That contract remains in effect until June 30, 2011. The City is currently in active negotiations with all of the police and civilian unions in an effort to reach mutual agreement on successor collective bargaining contracts which would be retroactive to the expiration dates of the prior contracts and which may include provisions for payment of increased wages from such dates, payable in the first year of the new contract. In addition to providing modest, affordable wage increases, the City will be seeking to make changes that will address the rapidly increasing cost of providing health insurance to its employees.

FINANCIAL OPERATIONS

Budget Process

Program-Based Budgeting

The City of Boston maintains a program-based budgeting system to track expenditures and service levels by major functions or “programs.” This budgeting system complies with the standards of the Government Finance Officers Association, which has consistently recognized the City’s efforts with its Distinguished Budget Presentation Award.

The City’s fiscal year begins July 1 and ends on June 30 of the following calendar year. Pursuant to state law, the Mayor must submit an operating budget to the City Council by the second Wednesday in April for its review and approval. Proposed appropriations for all departments and operations of the City (except for the public schools and public health services) are prepared under the direction of the Mayor in the Office of Budget Management (“OBM”). The Superintendent of Schools must submit a budget to the School Committee by the first Wednesday in February. The School Committee must approve a budget by the fourth Wednesday in March and forward this budget to the Mayor who may approve or reduce the total recommended budget. The Mayor then submits the school budget to the City Council for appropriation by the second Wednesday in May. In practice, the School Department appropriation request has been presented to the City Council in coordination with the Mayor’s operating budget request in April. The Boston Public Health Commission must submit a revenue and expenditure budget for public health services to the Mayor by the second Wednesday in March. If the proposed budget provides for expenditures in excess of the Commission’s projected revenues from non-City sources, the Mayor may either approve or reject the budget. If the Mayor accepts the budget, the amount required to fund the revenue deficiency (the “net cost of public health services”) is included in the annual budget for the City submitted to the City Council in April of each year. The Commission must adopt its public health services budget by the second Wednesday in June.

The City Council may reduce or reject any item in the Mayor’s budget but may not, except upon the recommendation of the Mayor, increase or add an item. The City, Boston Public Health Commission and School Department operating budgets for fiscal 2011 were approved by the City Council on June 30, 2010. See “Financial Operations—Fiscal 2011 Budget.” After approval of the budget and until the property tax rate is officially determined in mid-December, the Mayor may submit to the City Council such supplementary appropriation requests as are deemed necessary, including supplemental amounts for the School Department and the Boston Public Health Commission. The Mayor may also submit to the City Council supplementary appropriation requests subsequent to the setting of the property tax rate provided that an available source of revenue is identified. Under certain circumstances, the Mayor may, by executive order, require expenditures to be limited to an amount less than the appropriated level.

In the event that the City enters a fiscal year without an approved operating budget, the City continues departmental operations on a “one-twelfth” budget, as provided in the City Charter. Under the one-twelfth budget process, (a) payrolls for regular employees cannot exceed the average monthly expenditure of the last three months of the preceding fiscal year, (b) total liabilities incurred in any month cannot exceed amounts spent for similar purposes during any one month of the preceding fiscal year, and (c) monthly expenditures for new departments cannot exceed one-twelfth of their current fiscal year’s estimated costs.

By law, the City must establish its property tax rate each year so that the resulting property tax levy complies with the requirements of Proposition 2½. (For a discussion of Proposition 2½, see “City Revenues—Property Taxes—Proposition 2½.”) The amount raised in the tax levy equals the sum of (a) the aggregate of all amounts appropriated, granted or lawfully expended since the last annual tax levy and not provided for, plus (b) all debt and interest charges on general obligation debt of the City maturing during the fiscal year and not otherwise provided for, plus (c) all amounts necessary to satisfy final judgments, plus (d) provision for certain prior years’ deficits, less (e) the aggregate of all non-property tax revenues projected to be received in the City’s General Fund in amounts certified or approved by the Commonwealth for tax rate purposes. In general, the City is required to raise in the tax levy a deficit incurred on a statutory accounting basis in the prior year’s operating budget, or a deficit incurred in the property tax abatement reserves.

Capital Budgeting

The Office of Budget and Management manages the City’s capital plan, including evaluating the condition of the City’s capital assets, forecasting the timing and financial requirements of new construction and rehabilitation, and assessing the allocation of current and future resources to meet the

City's infrastructure needs. Through an annually updated five-year capital plan, the City refines its capital needs and resources each fiscal year. In April 2010, the Mayor released the fiscal 2011-2015 capital plan and initiated loan orders for City Council consideration. There is no statutory time frame for requesting or approving such orders. All fiscal 2011 capital authorizations were approved by the City Council by June 30, 2010.

OBM also provides ongoing project oversight during the implementation phase of capital projects. The City reviews and approves all capital contracts and monitors project costs and schedules to ensure the adequacy of available funding sources in accordance with the capital plan.

Summary and Comparison of Operating Results (Budgetary Basis)—Fiscal 2007-2010 and Fiscal 2011 Budget

The table below shows the City's General Fund budget for fiscal 2011, together with budgetary actual results for fiscal 2007 through 2010. In accordance with state law and regulations, the City's General Fund budget as shown below is prepared on a "budgetary basis" instead of accounting principles generally accepted in the United States of America ("GAAP"). Among the key differences between these two sets of accounting principles are that "budgetary" records property tax as it is levied while GAAP records it as it becomes susceptible to accrual, "budgetary" records certain activities and transactions in the General Fund that GAAP records in separate funds, and "budgetary" records as an expenditure any amount raised to cover a prior year deficit, and as a revenue any available funds raised from prior year surpluses, while GAAP ignores these impacts from prior years. The difference in accounting principles inevitably leads to varying results in excess or deficiency of revenues over expenditures.

**Fiscal 2011 Budget Compared to
Fiscal 2007, Fiscal 2008, Fiscal 2009 and Fiscal 2010 Actual Results
General Fund—Budgetary Basis
(\$ in millions)***

	Fiscal 2007 Actual Results	Fiscal 2008 Actual Results	Fiscal 2009 Actual Results	Fiscal 2010 Actual Results	Fiscal 2011 Budget ⁽¹⁾
Revenues:					
Recurring Revenue:					
Property Taxes	\$ 1,270.8	\$ 1,334.6	\$ 1,400.7	\$ 1,475.9	\$ 1,539.7
Overlay Reserve ⁽²⁾	(46.6)	(39.1)	(35.4)	(35.7)	(37.4)
Excises	80.2	92.3	106.9	103.4	105.3
Fines	67.4	67.7	70.4	70.7	70.4
Interest on Investments	43.5	39.5	17.8	3.2	2.0
Payments in Lieu of Taxes	32.4	31.4	34.0	34.9	35.7
Urban Redevelopment Chapter 121A	63.9	64.5	65.5	66.6	56.6
Misc. Department Revenue ⁽³⁾	53.6	59.5	71.6	64.5	133.1
Licenses and Permits	41.4	47.6	41.0	30.6	32.5
Penalties & Interest	8.7	8.5	7.8	8.0	7.7
Available Funds	3.2	12.1	14.2	17.1	17.1
State Aid	483.0	493.3	454.4	413.2	395.7
Teachers' Pension Reimbursement ⁽⁴⁾	93.3	105.4	118.8	0.0	0.0
Total Recurring Revenue	\$ 2,194.7	\$ 2,317.4	\$ 2,367.6	\$ 2,252.3	\$ 2,358.5
Non-Recurring Revenues					
Budgetary Fund Balance	7.5	20.0	35.0	45.0	45.0
Surplus Property Fund	-	5.7	-	6.0	6.0
Total Non-Recurring Revenues	7.5	25.7	35.0	51.0	51.0
Total Revenues	\$ 2,202.2	\$ 2,343.1	\$ 2,402.6	\$ 2,303.3	\$ 2,409.5
Expenditures:					
Departmental Expenditures					
City Departments	\$ 936.7	\$ 979.0	\$ 1,002.4	\$ 1,006.0	\$ 996.7
Boston Public Health Commission	63.8	68.2	69.4	70.0	69.8
School Department	747.5	795.5	810.0	817.8	821.4
Collective Bargaining Reserve	10.0	11.8	16.9	-	8.6
OPEB Stabilization Fund/Trust	-	20.0	25.0	20.0	35.0
Total Department Expenditures	\$ 1,758.0	\$ 1,874.5	\$ 1,923.7	\$ 1,913.8	\$ 1,931.4
Fixed Costs					
Pensions ^{(3) (4) (5)}	\$ 192.9	\$ 202.9	\$ 213.2	\$ 108.5	\$ 192.0
Debt Service ⁽⁶⁾	109.6	115.9	119.4	125.5	133.1
State Assessments	119.9	128.3	137.7	141.9	148.7
Suffolk County Sheriff Reserve	4.4	4.5	4.3	4.5	4.3
Reserve	2.2	1.1	0.0	0.1	0.0
Total Fixed Costs	\$ 429.0	\$ 452.7	\$ 474.7	\$ 380.3	\$ 478.1
Total Recurring Expenditures	\$ 2,187.0	\$ 2,327.3	\$ 2,398.5	\$ 2,294.2	\$ 2,409.5
Excess of Revenues Over Expenditures	\$ 15.2	\$ 15.8	\$ 4.1	\$ 9.1	\$ 0.0

* Columns may not add due to rounding.

- (1) Represents the budget at the time of the approval of the tax rate on December 17, 2010 plus any supplemental appropriations, and mayoral reallocations.
- (2) If the City's reserves for abatements prove at the end of the fiscal year to be insufficient to cover the City's abatement liability, the City is required to raise in the following year's tax rate an amount sufficient to generate additional reserves to cover the shortfall. In fiscal 2011, the City has reserved 2.5% of the net levy for abatements.
- (3) In fiscal 2011 the City made an extraordinary payment of \$82.0 million toward its pension liability, with \$59.5 million coming from a reserve for pension obligations and \$22.4 million coming from excess revenues accumulated in the deeds excise fund.
- (4) Legislation that was recently passed relieved the City from any responsibility for funding teacher pensions (as is the case in all other municipalities in Massachusetts). The budgetary effects of such a change are the elimination of the Teachers' Pension Reimbursement and a reduction to the Pension line-item appropriation for the liability of teachers' pensions. See "Employee Benefits—Retirement Systems."
- (5) Excludes noncontributory pensions and annuities that are included in departmental expenditures. The amount of such non-contributory pensions and annuities equaled \$4.6 million, \$4.1 million, \$4.1 million, \$4.1 million, and \$4.1 million, respectively in fiscal 2007, 2008, 2009, 2010 and 2011.
- (6) The debt service amount is derived from principal and interest payable in each fiscal year, less certain offsetting revenues. See "City Indebtedness-Debt Service Requirements."

Source: City of Boston Office of Budget Management and Auditing Department.

Fiscal 2007-2010 Actual Results

During the period of fiscal 2007 to 2010, the City maintained its pattern of the past two decades and produced budget surpluses in each year. Revenues grew steadily through the earlier years and slowed with the recession in fiscal 2010. State aid revenue to the City increased in fiscal 2008 only to decrease in each

succeeding year thereafter. The City responded to the change in resources with a mix of tools that included slowing the growth of departmental expenditures and the use of reserves.

In fiscal 2010, the City and the Commonwealth moved forward with a change to the mechanism for funding Boston teachers' pensions. This change relieved the City from any responsibility for the funding of teachers' pensions through the elimination of those pension costs from the City's funding schedule, a transfer of teachers' pension assets from the State-Boston Retirement System to the Commonwealth's Pension Reserves Investment Trust ("PRIT") fund, and ending the annual pay-as-you-go reimbursement to the City from the Commonwealth. For more on this change and pension-related changes in the fiscal 2011 budget, see "Employees Benefits – Retirements Systems".

Fiscal 2011 Budget

The following is a summary of the City's fiscal 2011 budget on a budgetary accounting basis. The figures cited are from the fiscal 2011 tax rate budget at the time of certification of both the aggregate amount of and the rates of tax for the City's fiscal 2011 property tax levy by the Massachusetts Department of Revenue, plus supplemental appropriations. This certification was completed on December 17, 2010.

Expenditures

In fiscal 2011, the City's budgeted expenditures total \$2.41 billion including direct expenditures for departmental services and fixed expenses, representing an increase of \$115.4 million or 5.0% from fiscal 2010 actual expenditures. Budgeted fiscal 2011 departmental expenditures compare with actual fiscal 2010 expenditures as follows: City Departments decreased \$9.3 million or 0.9%; the Public Health Commission decreased \$0.2 million or 0.3%; the School Department increased \$3.6 million or 0.4%; the Collective Bargaining Reserve increased \$8.6 and the appropriation to the Other Post Employment Benefit (OPEB) Trust Fund increased \$15.0 million or 75.0%. Budgeted fixed expenses for fiscal 2011 compare with fiscal 2010 actual expenses as follows: Pensions increased \$83.5 million or 77.0% due to factors described below; Debt Service increased \$7.6 million or 6.1%; and State Assessments increased \$6.8 million or 4.8%.

Despite an expected increase in health insurance costs, budgeted fiscal year 2011 expenses for City departments are lower than fiscal year 2010 actual expenditures. A material deficit in police overtime occurred in fiscal year 2010 that is not reflected in the fiscal year 2011 budget. The fiscal year 2011 Police budget has funding for new hires to cover the high attrition that the department has experienced which is expected to lower the amount of overtime needed for staffing shortages. The Police Commissioner has also made a concerted effort to reduce the use of nonessential overtime. Fiscal year 2010 actual expenditures also reflect a substantial deficit in the Execution of Courts account resulting from a reserve set aside to pay for possible adverse legal rulings. The fiscal year 2011 budget for Execution of Courts is level with the budgeted amount in fiscal year 2010. The increase in the School Department is largely reflective of health insurance increases.

The increase in pension costs is due to an extraordinary one-time payment made by the City in addition to the amount originally required by the pension funding schedule. Pension expenses are mandated by the City's pension funding schedule as approved by the state actuary and are a legal obligation of the City. The City would have been required to adopt a new pension funding schedule for fiscal year 2012 that would take into account the substantial investment losses experienced in 2008 during the stock market fall. In order to avoid the large increases in pension appropriations that would be required starting in fiscal 2012, the City elected to make a one-time payment from reserves of approximately \$82 million into the system in the current year that substantially reduced the future payments required by a new schedule. This strategy will allow the City to more easily adjust to the financial restraints in the coming fiscal years. The City's current pension schedule is expected to fully fund the system by the end of fiscal 2025, fifteen years earlier than the maximum allowed by law. See "Employee Benefits — Retirement Systems," below. State Assessments are also mandatory; the amounts are determined by the Commonwealth. All but a small portion of the increase in State Assessments is the result of increases in the assessment to the City for Massachusetts Bay Transportation Authority ("MBTA") service and for charter school tuition.

Revenues

Budgeted revenues for fiscal 2011 equal \$2.41 billion, an increase of \$106.3 million or 4.6% from fiscal 2010 actual revenues. Selected fiscal 2011 budgeted revenues compare with fiscal 2010 actual revenues as follows: the Gross Property Tax Levy (including new growth) increased \$63.8 million or 4.3%; Excises increased \$1.9 million or 1.9%; Interest on Investments decreased \$1.2 million or 37.2%; Licenses and Permits increased \$1.9 million or 6.3%; Available Funds from parking meter and cemetery fees remained level; State Aid decreased \$17.5 million or 4.2%; and Non-Recurring Revenue remained level.

The Property Tax, the City's largest source of revenue, has become increasingly important to the City's recent revenue growth given the losses in the City's second largest source of revenue: State Aid. Property tax revenues will increase in fiscal 2011, but while growth from a new development is expected to slow in coming years, the current levy remains comfortably below its statutory limit.

The increase in Excises is due only to the growth resulting from a full year of increased hotel excise tax rates and the addition of a new meals tax in fiscal 2010. These new tax revenues were adopted by the City Council in August 2009 and effective beginning October 2009. Fiscal 2010 collections represent 7 months of tax due to processing time required by the state Department of Revenue. Remaining Excise revenue from Motor Vehicle excise and Jet Fuel excise is budgeted to decrease from fiscal 2010 along with baseline (pre-tax rate increase) Hotel excise revenues due to continued uncertain economic conditions.

The increase in Miscellaneous Departmental Revenue reflects the extraordinary one-time payment of \$82.0 million toward the City's pension liability described above. The revenue supporting this payment is derived from a pension reserve and from the accumulation of many years of the City's share of deeds excise funds.

The decrease in Chapter 121A revenues is due to the movement of one large property from exempt to taxable status. The taxable value of that property is now included in the property tax levy and the amount of taxes collected exceeds the prior amount of revenue collected through the Chapter 121A agreement. The decrease in Interest on Investment revenue is based on the continued action of the Federal Reserve to maintain its target federal funds rate at between 0.0% and .25% and thus limiting returns on the City's conservative investments. The increase in Licenses & Permits is due to increased actual building permit activity occurring in the first half of fiscal 2011.

The decrease in State Aid is due to reductions in education aid and unrestricted general government aid and continues the trend of declining state support to all Massachusetts municipalities. For a more detailed look at State Aid, see "City Revenues – State Aid".

A portion of the Budgetary Fund Balance is budgeted for use in the OPEB Trust Fund (for a discussion of OPEB, see "Employee Benefits—Other Post Employment Benefits"). Budgetary Fund Balance is available for appropriation after certification of its value by the Massachusetts Department of Revenue. Fiscal 2011 becomes the seventh year of use of this source of funds since fiscal 1992.

Financial Statements

The City engages independent certified public accountants to audit and report on its financial statements in accordance with auditing standards generally accepted in the United States of America. An external Audit Committee, appointed by the Mayor, monitors the progress of the annual audit, reviews the recommendations of the firm and reports the Committee's activities and recommendations to the Mayor and the City Council.

The City's audited financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, ("GAAP"). The accounts of the City are organized on the basis of funds. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, net assets/fund balance, revenues and expenditures/expenses. For a discussion of the significant accounting policies employed in preparing the City's fiscal 2010 audited financial statements, see Note 2 of such audited financial statements, which are attached hereto as Exhibit I. The City's fiscal 2010 financial statements received an unqualified opinion.

GAAP accounting differs from the "statutory" accounting or "budgetary" accounting basis prescribed by the Bureau of Accounts of the Commonwealth, for the annual budget and property tax certification process. The major differences are explained in Note 4 of the fiscal 2010 audited financial statements, attached hereto as Exhibit I.

Attached hereto as Exhibit II are Comparative Balance Sheets and Statements of Revenues, Expenditures, Transfers and Equity for the fiscal years ended June 30, 2010, 2009, 2008, 2007 and 2006, which have been prepared by the City's Auditing Department based on information taken from the City's audited financial statements for those fiscal years.

Summary and Comparison of Operating Results (GAAP Basis)—Fiscal 2006-2010

The following table is a summary of the City's General Fund operating results as derived from the City's audited financial statements for fiscal years 2006 through 2010, which were prepared by the City and audited by KPMG LLP, an independent certified public accounting firm, in accordance with the GAAP basis of accounting.

**Summary of Statements of Revenues, Expenditures, Other Financing Sources
and Changes in Fund Equity Fiscal Years 2006-2010 (GAAP Basis)
(\$ in millions)***

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Total revenues.....	\$2,108.3	\$2,116.3	\$2,213.2	\$2,230.7	\$2,242.3
Total expenditures.....	<u>1,987.3</u>	<u>2,068.8</u>	<u>2,184.0</u>	<u>2,245.2</u>	<u>2,416.8</u>
Excess (deficiencies) of revenues over (under) expenditures	120.9	47.5	29.2	(14.6)	(174.6)
Total other financing (uses) sources	<u>(72.6)</u>	<u>23.1</u>	<u>40.8</u>	<u>41.2</u>	<u>53.1</u>
Excess of revenues and other financing sources over expenditures and other financing uses	<u>48.4</u>	<u>70.7</u>	<u>70.0</u>	<u>26.6</u>	<u>(121.5)</u>
Fund balance, beginning of year as previously reported	<u>613.0</u>	<u>661.4</u>	<u>732.0</u>	<u>802.0</u>	<u>828.7</u>
Fund balance, end of year ⁽¹⁾	<u>\$ 661.4</u>	<u>\$ 732.0</u>	<u>\$ 802.0</u>	<u>\$ 828.7</u>	<u>\$ 707.2</u>

* Columns may not add due to rounding.

(1) The undesignated fund balances for the General Fund for fiscal 2006, 2007, 2008, 2009 and 2010 were \$438.7 million, \$495.3 million, \$553.1 million, \$550.3 million and \$547.3 million, respectively.

Source: City of Boston Auditing Department.

The following is a summary analysis of the City's financial operations on a GAAP basis over the period fiscal 2008 through fiscal 2010. The figures appearing in this section for the period are derived from the City's audited annual financial statements. The analyses of revenues and expenditures in the text that follows are stated using data derived from the audited financial statements. For an explanation of the differences between the GAAP basis and Budgetary basis of accounting, see the audited financial statements at Exhibit I, Note 4, "Budgetary Data."

The City's major recurring revenue sources during this period were real and personal property taxes, state aid, payments in lieu of taxes ("PILOTs"), local excise taxes and departmental revenues, and other intergovernmental sources. The principal expenditures were for public safety, debt requirements, retirement costs, and the School Department. Reference is made to Exhibits I and II attached hereto for a detailed presentation of the City's financial operations.

Fiscal 2008

During fiscal year 2008, the City's revenues increased by 4.6% from fiscal year 2007. The City's largest sources of revenues were property taxes, state aid, excise taxes, and payment in lieu of taxes totaling \$1.49 billion (67.3% of total revenue). Property taxes increased \$57.9 million, an increase of 4.6% from the previous year. Departmental and other increased by \$13.4 million, representing a 20.4% change from fiscal 2007. The main factors were: an increase in fringe retirement reimbursement from grants of \$1.1 million, an increase in pension and annuities of \$5.4 million. Licenses and permits totaled \$46.0 million, a 13.0% increase from fiscal 2007. The primary factor was a \$3.9 million increase in building permit revenues.

The increase in revenues allowed for an increase in expense categories. The City's expenses covered a range of services. The largest expenses were for schools (\$782.5 million), public safety (\$509.3 million), other employee benefits (\$190.2 million), state and district assessments (\$132.8 million), debt service (\$115.8 million), public works (\$108.8 million), and retirement costs (\$95.2 million). Schools realized a \$38.7 million (5.2%) increase while public safety realized an expenditure increase of \$31.9 million (6.7%). The driving force behind the increased expenses for schools and public safety were increases in salaries and employer charges. The rise of the cost of health care was the main proponent for other employee benefits increasing by \$14.3 million. Public works represented a \$10.9 million increase primarily due to snow removal costs. State and district assessments realized a nearly 7.0% increase due to increases in Commonwealth assessments for charter school tuition and MBTA assessments. Debt service expenses increased due to increases in scheduled principal and interest payments. Retirement costs expenses increased due to an increase in the City's actuarially required contribution.

The General Fund's equity balance as of June 30, 2008 was \$802.0 million, as compared to \$732.0 million in fiscal 2007. The increase of \$70.0 million or 9.6% is primarily due to a continued increase in receipts from property and excise taxes. Please refer to the statements of General Fund activity in the Comparative Balance Sheets and Statements of Revenues and Expenditures (Exhibit II to this Appendix A),

and Note 2 in Notes to Basic Financial Statements (Exhibit I to this Appendix A) for a more in-depth explanation of these entries and the manner in which they impact the fund equity balance calculation.

Fiscal 2009

During fiscal year 2009, the City's revenues increased by 0.8% from fiscal year 2008. The City's largest sources of revenue were property taxes, excise taxes and fines totaling \$1.58 billion, or 70.7% of total revenue. Property taxes increased \$76.6 million, representing a positive change of 5.8% from fiscal year 2008. Departmental and other revenue increased by \$3.1 million, or 3.9% from the prior fiscal year. This growth was primarily caused by an increase in Medicaid part D and an increase in affirmative recovery receipts from the law department. Revenues from investment income and licenses and permits totaled \$59.1 million, a combined decrease of \$24.7 million from fiscal year 2008. The primary factor for the decrease in investment income was lower returns on the City's investments. The decrease in licenses and permits was due to a decline in the amount of building permits issued, a side effect of the slow real estate market.

In fiscal year 2009, expenditures increased by a total of \$61.2 million, or 2.8% from fiscal year 2008. The City's largest expenses were for schools (\$818.3 million), public safety (\$521.9 million), other employee benefits (\$191.6 million), state and district assessments (\$142.1 million), debt service (\$119.3 million), public works (\$112.2 million), and retirement costs (\$82.3 million). Schools experienced an expenditure increase of \$35.8 million (4.6%) while public safety realized an increase of \$12.6 million (2.5%). The cause of the increase in both schools and public safety was due to a continued growth in payroll and payroll related costs. State and district assessments realized a \$9.3 million (7.0%) increase due to Commonwealth assessments for charter school tuition and MBTA assessments. The \$3.3 million (3.1%) increase in public works expenditures was primarily due to snow removal costs.

The General Fund's equity balance as of June 30, 2009 was \$828.7 million, as compared to \$802.0 million in fiscal 2008. The increase of \$26.7 million, or 3.3%, was primarily due to continued increases in Real and Personal Property Tax revenues.

Fiscal 2010

In fiscal year 2010, the City's General Fund revenue increased by 0.5% from fiscal year 2009. The City's largest sources of revenues were property taxes, excise taxes and fines of \$1.66 billion or 74% of total revenue. Property taxes increased \$74.2 million, representing a positive change of 5.3% from fiscal year 2009. Departmental and other revenue, investment income and licenses and permits had a combined revenue decrease of \$30.1 million or 21.4% from fiscal 2009. Lower returns on City investments and a decline in building permits continue to be the major factors for this decrease in revenue.

Fiscal year 2010 General Fund expenditures increased by \$171.6 million, or 7.6% from fiscal year 2009. The City's largest expenditures were for schools (\$815.7 million), public safety (\$511.4 million), retirement costs (\$235.3 million), other employee benefits (\$224.2 million), and state and district assessments (\$146.3 million). Schools experienced a decrease in expenditures of \$2.6 million (0.3%), while Public Safety saw an expenditure decrease of \$10.5 million (2.0%). Other employee benefits and state and district assessments experienced increases of \$32.6 million (17.0%) and \$4.3 million (3.0%), respectively. Retirement costs increased \$153.0 million in 2010. This extraordinary increase is attributable to the aforementioned change in the funding of Boston Teachers' Pensions. As a direct result of the change in the funding mechanism between the City and the Commonwealth, the City did not receive \$118.8 million in state reimbursement for the Teachers' Pension contribution it made in fiscal year 2009. This change caused a notable, one-time impact to the City's retirement costs, as well as General Fund equity. Consequently, the City's General Fund equity balance as of June 30, 2010 was \$707.2 million, a decrease of \$121.5 million from fiscal year 2009.

Cash Balances

The following table represents the end-of-month unaudited cash balances for the City's General Fund commencing with fiscal 2008 and ending with the most recent month for which data is available.

The cash balances presented do not necessarily reconcile with revenue and expenditures for similar accounts calculated on a budgetary accounting basis or on a GAAP basis.

General Fund End-of-Month Cash Balances for Fiscal 2008-2011
(\$ in thousands)

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
July	\$964,125	\$914,382	\$1,055,772	\$979,209
August	931,790	873,859	1,037,852	954,515
September	906,303	870,116	966,445	940,787
October	950,603	809,804	977,341	890,839
November	867,062	842,027	927,851	923,062
December	786,370	896,395	781,347	725,861
January	876,276	901,785	902,410	829,575
February	827,375	929,254	982,327	790,116
March	858,115	929,342	805,402	—
April	942,479	1,029,689	923,559	—
May	915,466	1,036,455	918,114	—
June	924,644	998,855	1,005,930	—

Source: City of Boston Treasury Department.

Financial Administration

Pursuant to state law mandates and policy initiatives, the City has established a system of internal management controls. These controls are designed to maximize revenue collections, monitor operating and capital spending, evaluate infrastructure needs, and enhance the City's internal control in business procedures. Major components of the City's system of financial management controls include:

Revenue Collections

The City has implemented a comprehensive accounts receivable management program that coordinates the collection of departmental revenues. The City has afforded taxpayers the ability to remit payment for licenses, permits, fees, and fines with credit and debit cards and has given taxpayers an alternative choice in paying real estate taxes by use of online direct debit. The City secures its statutory lien for delinquent real estate taxes with instruments recorded at the Suffolk County Registry of Deeds ("tax takings"). For more information concerning tax takings and collection of delinquent real estate taxes, see "City Revenues—Property Taxes—Delinquent Taxes and Tax Title."

Debt Management

The City uses a comprehensive, interactive debt capacity model that assists debt management administrators in evaluating the potential impact of debt issues on cash flow, credit and statutory debt capacity.

The Treasury Department manages all City borrowings. The Treasury Department focuses on the timing of borrowings to take advantage of favorable market conditions and manages the City's cash flows to help obviate the need for short-term borrowings for operating purposes. The Treasury Department has established a series of debt management guidelines and has instituted a debt policy that direct the City's approach toward its debt management activities, including rapid debt repayment, the use of a debt capacity model for establishing debt affordability, limitations on the level of variable rate debt the City will employ, maintenance of the relationship between debt and repayment sources, target savings for refundings, and reporting and liaison with the financial community and the rating agencies.

Financial Management

Financial management is supported through the use of the Boston Administrative Information Systems (BAIS). BAIS is an integrated financial and human resources management system that is designed to track and control daily activities and report the financial position of the City. BAIS performs the specialized functions of encumbrance control, budget control, position management, payroll allotment reporting, fund accounting, and capital project and grant management. Real time edits prohibit excessive commitments and overspending, while on-line access to information, including monthly revenue and expenditure reports, allows department managers to evaluate directly the financial status of individual programs and the entire department. The utilization of these systems supports the rigorous monitoring and reporting requirements enforced by the City.

The City of Boston has consistently received unqualified opinions on the audit of its Basic Financial Statements and has been presented with a Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association for its Comprehensive Annual Financial Report.

Investment Policy

The City has enacted and annually reviews and updates its investment policy statement that dictates the types of investments made by the City Treasury. The policy also focuses on the appropriate balance of liquidity and the rate of return on investments. Bond proceeds, in conformance with the City's policy, are invested in highly liquid, fully collateralized investments.

Performance Management and Program Evaluation

Boston About Results (BAR) is the City's performance management and evaluation program. At its core, BAR aims to create a sustainable and reliable performance management system which captures the core functions of City departments and citywide strategic goals, assists in the decision-making process, identifies areas of improvement, and effectively communicates performance results to a broad range of stakeholders.

Using performance management as its foundation, BAR encourages organization changes and operational improvements that increase the effectiveness and productivity of City departments. The program does this by providing reliable, objective, and independent information and reports to City managers about department performance and operations.

Risk Management

The City of Boston's Risk Management Program focuses on a planned strategy of self-insurance supported by strong prevention and cost reduction efforts, financial reserves and catastrophic insurance.

The citywide program first focuses on limiting unnecessary asset losses due, for example, to third party legal liability claims, property losses, workplace injuries, employee healthcare and unemployment compensation. The City's Corporation Counsel defends the City in any lawsuits that arise from the normal course of operations. Assets and losses are tracked and quantified and areas are targeted for improvement efforts.

The City budgets for and funds the costs described above through the general fund, except for self-insured healthcare costs, which are managed by Blue Cross Blue Shield, and financed through an employee/employer trust fund established in compliance with Section 3A of Chapter 32B of the General Laws.

To protect the City's assets from adverse loss, commercial insurance is purchased strategically for certain exposures. A catastrophic property insurance policy provides \$100 million all risk protection after a \$13.0 million deductible; boiler and machinery losses are insured up to \$10 million. For unexpected large losses, the City maintains a catastrophic risk reserve, the available balance of which equaled \$12.6 million at the end of fiscal 2010.

Energy Management

The Mayor's Energy Management Board is charged with making decisions regarding the City's procurement, use, and conservation of energy as well as the minimization of the impact of fossil fuel consumption on public health. The Energy Management Board is comprised of the City's Director of Administration and Finance, Chief of Environmental and Energy Services, Chief of Public Property, and Chief of Public Health.

The Energy Management Board commissioned an Integrated Energy Management Plan that is intended to assure progress toward the fulfillment of its mission. The first project identified in the Integrated Energy Management Plan, lighting controls in City Hall, was completed in 2009, and a second phase of the efficiency project for City Hall is underway. Planning for the second project identified in the plan, a comprehensive energy management project at the main branch of the Boston Public Library, is also currently underway.

Since March 2005, the City has independently contracted with third party electricity suppliers to meet all of the City's electricity supply requirements. To date, the supply costs the City has paid to its third party electricity supplier have been less than the default supply costs offered by the City's local electricity distribution company, NSTAR - Boston Edison Company.

CITY REVENUES

The principal sources of City revenue available to meet operating expenditures are property taxes, state aid, excise revenues, departmental revenues, and federal and state grants, all of which are described below. Except as specifically noted, all amounts are stated on a budgetary accounting basis. References to fiscal 2011 are unaudited.

Property Taxes

Real and personal property taxes are the largest single source of the City's revenue. The City's gross property tax levy for fiscal 2011 equals \$1.54 billion, or 63.9% of City General Fund revenues for such period. Certain properties are subject to arrangements that suspend the imposition of real property taxes at normal rates in order to encourage development. See "City Revenues—Property Taxes—Revenues from Chapter 121A Properties" below.

As discussed below, Proposition 2½ limits the level of property taxation in the City. In fiscal 2011, the City will again levy taxes below the 2.5% ceiling on the overall effective tax rate. The City is not expected to reach the levy ceiling in the foreseeable future due to previous growth in the real estate market.

Proposition 2½

Proposition 2½ is a statewide tax limitation subject to amendment or repeal by the legislature that imposes two separate limits on the annual tax levy of a city or town. The primary limitation of Proposition 2½ is that the property tax levy in any city or town in the Commonwealth cannot exceed 2.5% of the full and fair cash valuation of the taxable real estate and personal property in that city or town (the "2½ ceiling"). The only exception is the temporary exclusion of debt service or capital costs from the levy ceiling restrictions, as described below.

Within the limits of the 2½ ceiling, the Growth Levy Limit is a secondary limitation imposed by Proposition 2½. The Growth Levy Limit prohibits the levy in a fiscal year from exceeding an amount equal to 102.5% of the maximum allowable limit for the preceding year, subject to exceptions for the following: property newly added to the tax rolls and valuation increases other than as a result of a general revaluation ("new growth"); temporary exclusions from the tax levy limitation to pay for capital costs or debt service on indebtedness; and "overrides," which are permanent increases in the tax levy for general expenditures of the city or town. Exclusions and overrides must be approved by a referendum of the voters of the city or town. The levy is permanently increased by the addition of new growth and overrides, except that any override to fund a stabilization fund will not be taken into account in calculating the maximum levy limit in subsequent fiscal years unless the City Council votes to appropriate such increased amount in such subsequent year to the stabilization fund. The exclusion of debt service by referendum temporarily increases the levy amount and the duration of the specific debt excluded. The Growth Levy Limit may be exceeded by an override in any year by a majority vote of the voters. An increase in the Growth Levy Limit under this procedure, however, does not permit a tax levy in excess of the 2½ ceiling, since the two limitations apply independently. The applicable tax limits may also be reduced in any year by a majority vote of the voters. The City's gross levy in fiscal 2011 equals \$1.54 billion. In fiscal 2011, the allowable 2.5% increase is \$36.6 million, and "new growth" is \$37.6 million.

In order to mitigate its adverse impact on local government revenues, Proposition 2½ limits the annual rate of increase of aggregate, statewide assessments made upon cities and towns by the Commonwealth and certain of its governmental entities, such as assessments made upon the City and certain other cities and towns for the MBTA, to 2.5% of the prior year's assessment. Proposition 2½ also limits the motor vehicle excise tax rate to 2.5%.

Notwithstanding the provisions of Proposition 2 ½ described above, the City's Bond Procedure Act of 1983 mandates assessment of taxes in excess of the Proposition 2½ levy limits to the extent that the debt service on City obligations is not otherwise provided for in the tax levy or from other sources, with no allowance made for any other expenditures of the City. See "City Indebtedness—Classification of City Debt."

Proposition 2½ Property Tax Levy Limits, Fiscal 2007-2011⁽¹⁾
(\$ in thousands)

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Total Assessed Valuation	\$86,516,106	\$90,067,297	\$90,387,171	\$87,256,532	\$86,800,583
Growth Levy Limit ⁽²⁾	1,271,017	1,334,309	1,400,631	1,465,230	1,539,709
Levy Ceiling	2,162,903	2,251,682	2,259,679	2,181,413	2,170,015
Tax Levy ⁽³⁾	1,270,260	1,334,278	1,400,015	1,465,058	1,539,680
Under Levy Ceiling	892,643	917,404	859,664	716,355	630,335

(1) Represents amounts assessed on January 1, and subsequently certified by the Massachusetts Department of Revenue in December of each fiscal year and does not include Omitted Assessments.

(2) The Growth Levy Limit is the maximum allowable levy as determined by Proposition 2½.

(3) For each fiscal year, the amount of the actual Tax Levy is the largest amount possible. The Growth Levy Limit would be exceeded if the tax rate were raised an additional cent (\$0.01).

Source: City of Boston Assessing Department.

Revaluation

State law mandates a revaluation of all taxable property every three years. These revaluations are reviewed and certified by the Commonwealth. In the years between revaluations, the Commonwealth permits municipalities to establish new values on the basis of market changes, using the most recent revaluation as a basis. The City has adjusted certified property values in accordance with this procedure in years when market conditions indicated such adjustment was necessary.

In November 2009, the City concluded work on its tenth triennial revaluation for fiscal 2010, with an assessment date of January 1, 2009. For fiscal 2011, assessments were based on market activity leading up to the assessment date of January 1, 2010. Fiscal 2011 assessments for many homeowners were level with the prior year, with some neighborhoods continuing to see declines in property value due to weakening real estate market conditions. As of the assessment date, the commercial market continued to experience moderate decline in total value. See “City Revenues—Property Taxation—Taxes by Use; Tax Rates.”

Certified Triennial Revaluations

<u>Assessment Date</u>	<u>Real and Personal Property Value</u>	<u>Applicable Years</u>
January 1, 2009	\$87.26 billion	fiscal 2010 through 2012
January 1, 2006	86.52 billion	fiscal 2007 through 2009
January 1, 2003	66.14 billion	fiscal 2004 through 2006
January 1, 2000	50.49 billion	fiscal 2001 through 2003

Source: City of Boston Assessing Department.

Taxation by Use; Tax Rates

The property tax base in the City consists of personal property and classes of real estate. The following table shows the classes of taxable real property assessed as of January 1, 2010. The fiscal 2011 tax rates were applied to the January 1, 2010 valuation to determine levy and tax liability for fiscal 2011.

Assessed Valuation of Taxable Real Property by Real Estate Classes, Assessment Dated January 1, 2010

<u>Real Estate Classes</u>	<u>Land Area (Square feet)</u>	<u>Land Valuation</u>	<u>Building Valuation</u>	<u>Total Valuation</u>
Apartments	33,284,882	\$ 1,226,857,875	\$ 3,018,299,483	\$ 4,245,157,358
Agricultural	1,439,267	74,000	175,600	249,600
Commercial	98,359,398	5,655,389,368	15,507,549,980	21,162,939,348
Commercial Condominium	10,530,412	5,221,300	2,021,340,700	2,026,562,000
Residential Condominium	59,792,276	-	23,939,877,723	23,939,877,723
Commercial Land	27,405,937	472,417,790	327,010,279	799,428,069
Condominium Main ⁽¹⁾	58,280,437	-	-	-
Condominium Parking	406,813	1,553,300	91,816,200	93,369,500
Industrial	19,017,398	289,188,984	310,116,987	599,305,971
Residential & Commercial	19,078,320	1,233,358,725	2,895,814,453	4,129,173,178
Residential Land	33,150,347	244,625,963	12,076,362	256,702,325
1-Family	156,431,903	4,200,859,288	7,119,694,268	11,320,553,556
2-Family	86,398,201	2,323,380,519	4,226,307,173	6,549,687,692
3-Family	52,658,856	1,673,699,220	3,831,916,390	5,505,615,610
4-Family (4-6 units)	<u>9,334,258</u>	<u>566,548,716</u>	<u>1,218,730,686</u>	<u>1,785,279,402</u>
TOTAL	665,568,705	\$17,893,175,048	\$64,520,726,284	\$82,413,901,332

(1) Condominium Main represents the total land area of all residential and commercial condominiums and condominium-parking units.

Source: City of Boston Assessing Department.

Tax Rates, Fiscal 2007-2011 (per \$1,000 of assessed value)

<u>Fiscal Year</u>	<u>Commercial, Industrial and Personal Property</u>	<u>Residential Property</u>
2011.....	\$31.04	\$12.79
2010.....	29.38	11.88
2009.....	27.11	10.63
2008.....	25.92	10.97
2007.....	26.87	10.99

Source: City of Boston Assessing Department.

The City utilizes five classes of property for taxation purposes: (i) residential, (ii) open space land, (iii) commercial, (iv) industrial and (v) personal property. Within limits under state law, the City may determine the share of the annual levy to be borne by each of the categories. Under these statutory limits, the residential tax rate cannot be given a discount greater than 50%, while the tax rate on the remaining business classes of property cannot exceed 175% of the overall effective tax rate.

The City may also exempt a portion of the assessed valuation of residential real property when used as the taxpayer's principal residence. The amount of the residential exemption can equal up to 30% of the average assessed value of all residential property in the City. In fiscal 2011, qualifying residents who receive the residential exemption have their taxable assessed values reduced by \$124,695. The residential exemption has no impact on the overall tax rate.

Tax Base

The following table shows, for purposes of year-to-year comparison, the assessed valuations with respect to all property in the City subject to taxation, used for determining the tax levies and tax rates in fiscal years 2007 through 2011.

Assessed Valuations—Fiscal Years 2007-2011⁽¹⁾
(\$ in thousands)*

Fiscal Years	Value of Taxable Land	Value of Taxable Buildings	Total Value Taxable Land and Buildings	Value of Taxable Personal Property	Total Assessed Taxable Value
2011.....	\$17,893,175	\$64,520,726	\$82,413,901	\$4,386,682	\$86,800,583
2010.....	17,936,674	65,072,740	83,009,414	4,247,118	87,256,532
2009.....	19,412,075	67,060,992	86,473,068	3,914,103	90,387,171
2008.....	18,745,434	67,529,364	86,274,798	3,792,499	90,067,297
2007.....	18,931,722	64,068,735	83,000,457	3,515,648	86,516,106

* Rows may not add due to rounding.

(1) Represents assessed values determined as of January 1 in the prior fiscal year. For example, fiscal 2011 assessed values are as of January 1, 2010.

Source: City of Boston Assessing Department.

The following table is a list of all of the taxpayers in the City that had an aggregate tax liability in excess of \$10.0 million for fiscal 2011. Assessed valuations and fiscal 2011 taxes reflect the valuation of property as of January 1, 2010 and the tax liability using applicable tax rates.

Largest Taxpayers: City of Boston, Fiscal 2011⁽¹⁾

Name	Personal Property Value⁽²⁾	Real Property Value	Total Assessed Value	Fiscal 2011 Tax Liability
Blackstone Real Estate Partners	\$840,720	\$2,607,580,500	\$2,608,421,220	\$80,965,395
NSTAR / Boston Edison Company	1,605,765,770	68,775,400	1,674,541,170	51,977,758
Boston Properties	4,522,320	1,303,053,400	1,307,575,720	40,587,150
Tishman Speyer Properties	357,970	899,432,000	899,789,970	27,929,481
Normandy Real Estate Partners ⁽³⁾		701,985,766	701,985,766	21,789,638
Fort Hill Associates	20,170	693,336,500	693,356,670	21,521,791
Brookfield Properties Corporation	123,890	673,442,500	673,566,390	20,907,501
Teachers Insurance And Annuity Association		577,598,000	577,598,000	17,928,642
National Grid, Inc.	408,151,610	35,457,100	443,608,710	13,769,614
One Hundred Federal Street, LPS	10,228,360	426,664,000	436,892,360	13,561,139
UIDC Of Massachusetts, Inc.	435,310	428,761,500	429,196,810	13,322,269
Fortis Property Group	212,280	395,270,400	395,482,680	12,275,782
Dewey Square Tower Associates	321,300	393,614,500	393,935,800	12,227,767
John Hancock Financial	661,950	387,939,600	388,601,550	12,062,192
	<u>\$2,031,641,650</u>	<u>\$9,592,911,166</u>	<u>\$11,624,552,816</u>	<u>\$360,826,119</u>

(1) The methodology used in creating the table involves the search of the title holder, or holders, of all major parcels of property in the City. This methodology does not necessarily locate all parcels owned by affiliates nor does it differentiate between percentage ownership in a particular parcel.

(2) Pursuant to Chapter 59 of the General Laws, Section 4, personal property consists of movable physical items not permanently attached to real estate. Many items of personal property are exempt from taxation in Massachusetts. Examples of taxable personal property include equipment owned by businesses, poles, wires and machinery of utility companies, and aircraft.

(3) Normandy Real Estate Partners acquired the Hancock Tower at auction in March 2009 (previously owned by Broadway Partners). Normandy Real Estate Partners, in turn, sold the Hancock Tower to Boston Properties in December 2010. The Hancock Tower is reflected in Normandy's real estate figure since they were owner of record as of the FY 2011 assessment date of January 1, 2010.

Source: City of Boston Assessing and Treasury Departments.

Real Estate Tax Levies and Collections

The following table shows the level of property tax levies, tax levies net of budgeted reserves for abatements ("Net % Gross"), the gross amount and proportion of each levy collected during the year of levy, the cumulative amount (net of refunds) and proportion of each levy collected as of June 30, 2010 and the total amount (net of refunds) of taxes (current and all prior levies) collected during fiscal 2006 through 2010. Excluded from the following table are receipts from PILOTs and receipts on account of Chapter 121A corporations.

Tax Collections In Relation To Property Tax Levies Fiscal 2006-2010
(Statutory Accounting Basis)
(\$ in millions)

<u>Fiscal Year</u>	<u>Tax Levy</u>			<u>Tax Levy Collected Within Year of Levy</u>			<u>Tax Levy Net of Refunds Collected as of June 30, 2010</u>		
	<u>Gross⁽¹⁾</u>	<u>Net</u>	<u>Net %</u>	<u>Gross Amount</u>	<u>%</u>		<u>Net Amount</u>	<u>%</u>	
					<u>Gross Levy</u>	<u>Net Levy</u>		<u>Gross Levy</u>	<u>Net Levy</u>
2010	\$1,465.5	\$1,429.8	97.6%	\$1,456.6	99.4%	101.9%	\$1,447.2	98.8%	101.2%
2009	1,400.7	1,365.3	97.5	1,392.7	99.4	102.0	1,383.2	98.8	101.3
2008	1,334.6	1,295.5	97.1	1,338.8	100.3	103.3	1,317.5	98.7	101.7
2007	1,270.8	1,223.9	96.3	1,260.2	99.2	103.0	1,252.6	98.6	102.3
2006	1,208.2	1,167.0	96.6	1,202.2	99.5	103.0	1,192.5	98.7	102.2

(1) Includes additional assessments billed in June of each fiscal year, as well as subsequently deducted residential exemptions.

Source: City of Boston Treasury Department.

The City's property tax bills are mailed quarterly in July, October, December, and April. The bills mailed in July and October represent preliminary tax bills each equal to one quarter of the previous fiscal year's liability. The fair cash value of the property or assessment for the purpose of determining the new fiscal year tax liability is reflected in the third and fourth quarter bills, which are mailed in December and April. See "City Revenues—Property Taxes—Taxation by Use; Tax Rates."

Delinquent Taxes and Tax Titles

Real and personal property taxes (not including motor vehicle, the room occupancy and the aircraft fuel excises) are based on values established by the Assessing Department as of each January 1, and are due in quarterly payments every August, November, February and May. Delinquent real estate and personal property taxes are subject to a 14% per annum interest charge. Subsequent to the end of the fiscal year in which real estate taxes become delinquent, the City secures its lien for such taxes by taking legal title to all delinquent properties, subject to the owners' right of redemption. After this process, known as a "tax taking," is complete, interest accrues on outstanding amounts of delinquent real estate taxes at the rate of 16% per annum. If the taxes remain unpaid for a period of six months from the tax taking, the City may petition the Land Court to foreclose the equity owner's right of redemption. Upon foreclosure, the City may then sell the property in order to liquidate the tax liability. The City estimates that the value of the properties to which such tax titles are attached is substantially less than the amount of delinquent taxes, charges, and interest owed.

Tax title receipts were \$16.9 million, \$16.2 million, and \$14.9 million, respectively, in fiscal 2008, 2009 and 2010.

Revenues from Chapter 121A Corporations

A local government in cooperation with its redevelopment authorities may suspend the imposition of real property taxes at normal levels on properties determined to be "blighted" in order to encourage redevelopment of such properties by special corporations organized under Chapter 121A ("Chapter 121A Corporations"). The City receives three forms of revenue from Chapter 121A Corporations. The first consists of excise PILOTs for each Chapter 121A Corporation that are collected by the Commonwealth and distributed to the City. The second form of revenue is contract payments resulting from agreements that may be entered into between the Chapter 121A Corporation and the City relating to City services available to the development. A third form of revenue does not generate significant payments.

Revenue received by the City from Chapter 121A Corporations for the last three fiscal years are shown in the following table.

Revenues to the City from Chapter 121A Corporations
(\$ in thousands)

<u>Fiscal Year Ended June 30</u>	<u>Excise Payments In Lieu of Taxes (Section 10)</u>	<u>Contracts Payments (Section 6A)⁽¹⁾</u>	<u>Total</u>
2010	\$40,616	\$25,978	\$66,594
2009	42,923	22,540	65,464
2008	39,292	25,250	64,541

(1) Contract Payments (Section 6A) include Chapter 121B, Section 16 payments.

Source: Office of Budget Management.

State Aid

State aid from the Commonwealth comprises the second largest revenue source to the City's General Fund. Over the course of the previous decade, support to municipalities from the Commonwealth has been reduced dramatically.

The Governor's fiscal 2012 budget proposes a reduction in one of the major categories of local aid to municipalities and an increase in another category compared with fiscal 2011 levels. The Legislature, however, has not yet released its budget proposals and has not acted on the Governor's plan. Therefore, no assurance can be given that state aid to municipalities will not be further reduced as the state budget process continues.

The effects of the current recession on the City's state aid include reductions in actual state aid totaling \$38.9 million, or 7.9% in fiscal 2009 and an additional \$41.2 million, or 9.1%, in fiscal year 2010. A further reduction of \$17.5 million, or 4.2%, is budgeted for fiscal 2011. In total, over the last three fiscal years the City has lost \$97.6 million or nearly 20% of its support from the Commonwealth.

Under the Massachusetts Constitution and state finance law, the State Treasurer has the authority to delay the allotment of state aid appropriations under certain circumstances. In addition, the statute governing the distribution of school aid provides that such payments are due only to the extent that sufficient funds are available. The State Treasurer is also empowered to deduct from state aid amounts appropriated to the City the amount of "charges" or "assessments." The largest of these assessments are those for MBTA service and tuition for students attending charter schools.

Assessments also include smaller charges for various state-provided services, which may include debt service paid by the Commonwealth on "qualified bonds" and any sums allocable to the Boston Water and Sewer Commission or the City that are due and unpaid on debt issued to the Massachusetts Water Pollution Abatement Trust ("MWPAT"). The City has no "qualified bonds" outstanding and has never been assessed for unpaid amounts due the MWPAT. Total state assessments are expected to amount to \$148.7 million in fiscal 2011. State assessments totaled \$137.7 million and \$141.9 million in fiscal years 2009 and 2010, respectively.

Total state aid net of assessments, or "net state aid," is expected to decrease \$24.3 million, or 9.0%, to \$247.0 million to the City in fiscal 2011. Net state aid totaled \$271.3 million in fiscal 2010 and \$316.7 million in fiscal 2008. Since fiscal 2007, the City has lost \$118 million or 32.3% of its net state aid.

State School Building Assistance

Under its school building assistance program, the Commonwealth of Massachusetts provides grants to cities, towns and regional school districts for school construction projects. Until July 26, 2004, the State Board of Education was responsible for approving grants for school projects and otherwise administering the program. Grant amounts ranged from 50% to 90% of approved project costs. Municipalities generally issued bonds to finance the entire project cost, and the Commonwealth disbursed the grants in equal annual installments over the term of the related bonds. Approved project costs included the interest expense incurred on debt issued by a municipality to finance the school project.

Due to demand for school building assistance grants far exceeding available funds, the state legislature created the Massachusetts School Building Authority (the "MSBA") in 2004 to finance and administer the school building assistance program. The MSBA has assumed all powers and obligations of the State Board of Education with respect to the program. In addition to certain other amounts, the legislation dedicates a portion of Commonwealth sales tax receipts to the MSBA to finance the program.

Projects previously approved for grants by the State Board of Education are entitled to receive grant payments from the MSBA based on the approved project cost and reimbursement rate applicable under the prior law. As of June 30, 2010, the City had approximately \$44.9 million of bonds outstanding for school projects approved for grants under the prior law at a reimbursement rate of 90% of approved project costs. The MSBA has paid and is expected to continue to pay the remaining amounts of the grants for such projects in annual installments to reimburse debt service on bonds issued by the City to finance such projects.

Projects on the State Board of Education's project priority waiting list as of July 1, 2004 are also entitled to receive grant payments from the MSBA based on the eligible project costs and reimbursement rates applicable under the prior law. In 2005, the MSBA approved grants at a reimbursement rate of 90% of approved project costs for three City projects on the priority waiting list as of July 1, 2004. In January 2009, the City and the MSBA executed a project funding agreement for Burke High School, the last City school project on the priority waiting list as of July 1, 2004, that will provide up to \$42.4 million in State support for the project. As of March, 2011, the City has received approximately \$40.3 million.

The MSBA in 2008 promulgated regulations with respect to the application and approval process for new projects. The range of reimbursement rates for such projects has been reduced to between 40% and 80% of approved project costs. In addition, the MSBA expects to pay grants for such projects as project costs are incurred pursuant to a project funding agreement between the MSBA and the municipality. In most cases, the receipt of these progress payments from the MSBA will eliminate the need for the municipality to borrow on a temporary basis to finance the MSBA's share of project costs. However, none of the interest expense incurred on debt issued by municipalities to finance their portion of the costs of new projects will be included in the approved project costs eligible for reimbursement.

Currently, two City school projects have been approved by the MSBA to move into the feasibility study phase to determine the most appropriate, cost effective solution for the projects. During the feasibility stage of each project, the City will be reimbursed by the MSBA for 75% of feasibility study costs. The ongoing analysis and consideration of the City's project proposal by the MSBA does not represent or imply a commitment by the MSBA to fund the project. The MSBA's financial commitment to a project is only determined through the project funding agreement after careful analysis and the development of architectural and engineering documents.

Excise Revenues

In addition to the major sources of revenue described above, the City receives various other types of revenues. See "Financial Operations—Summary and Comparison of Operating Results (Budgetary Basis)—Fiscal 2007-2010 and Fiscal 2011 Budget" above. In fiscal 2010 the City gained one new significant excise revenue source (meals excise) and expanded an existing source (room occupancy excise). The following is a description of those and other significant excise revenue sources of the City.

Room Occupancy Excise

In accordance with state law, the City historically imposed a 4.0% local room occupancy excise upon the transfer of occupancy of any room in a hotel, lodging house or motel. The Commonwealth granted authority to municipalities in 2009 to increase the local option room occupancy excise to 6.0%. The City adopted the increased local option room occupancy excise of 6.0%, effective October 1, 2009. The Massachusetts Department of Revenue is responsible for collecting and remitting local option room occupancy excise receipts to the City on a quarterly basis in arrears. The City's room occupancy excise receipts totaled \$40.3 million, \$36.6 million, and \$43.9 million, respectively, in fiscal 2008, 2009 and 2010. See "Summary and Comparison of Operating Results (Budgetary Basis) - Fiscal 2007-2010 and Fiscal 2011 Budget—Fiscal 2011 Budget—Revenues."

Pursuant to Chapter 152 of the Acts of 1997, as amended (the "Convention Center Act"), the City established the City of Boston Room Occupancy Excise Fund (the "Excise Fund"), to provide for the payment of the principal of and interest on indebtedness issued by the City to fund the City's share of costs of the Boston Convention and Exhibition Center Project (the "BCEC Project"). See "City Indebtedness—Special Obligation Debt." The Convention Center Act authorizes the City to retain in the Excise Fund any portion of the excise receipts not applied to such principal and interest or to transfer all or a portion of such amount to the City's General Fund. The City transferred \$23.0 million, \$27.0 million and \$30.0 million, respectively, in fiscal 2008, 2009 and 2010, from the Excise Fund to the General Fund.

Aircraft Fuel Excise

The City also assesses an aircraft fuel excise upon the sale of jet fuel. The Commonwealth collects this tax and distributes it to the City quarterly. The City's aircraft fuel excise receipts totaled \$18.8 million, \$34.5 million, and \$22.9 million respectively, in fiscal 2008, 2009 and 2010. It should be noted that the City received only three quarterly excise payments in fiscal 2008, and received a payment attributable to the fourth quarter of fiscal 2008 in fiscal 2009. In fiscal 2009, the City received three quarterly payments attributable to fiscal 2009 plus one quarterly payment attributable to fiscal 2008. This collection pattern has been repeated in fiscal 2010. See "Summary and Comparison of Operating Results (Budgetary Basis) - Fiscal 2007-2010 and Fiscal 2011 Budget."

Motor Vehicle Excise

The Commonwealth assesses an excise on the registration of motor vehicles, the proceeds of which are received by the municipality where the vehicle is principally garaged. The excise is a uniform rate of \$25 per \$1,000 of vehicle valuation. The City's annual motor vehicle excise receipts totaled \$49.6 million, \$44.6 million, and \$40.1 million respectively, in fiscal 2008, 2009 and 2010. See "Summary and Comparison of Operating Results (Budgetary Basis) - Fiscal 2007-2010 and Fiscal 2011 Budget."

Meals Excise

The Commonwealth granted authority to municipalities in 2009 to levy a .75% meals excise on locally sold prepared food and beverages at local option. The Massachusetts Department of Revenue is responsible for collecting and remitting meals excise receipts to the City on a quarterly basis. The City's annual meals excise receipts totaled \$10.0 million for the 7 months of FY10 when the tax was in effect. See "Summary and Comparison of Operating Results (Budgetary Basis) - Fiscal 2007-2010 and Fiscal 2011 Budget—Fiscal 2011 Budget—Revenues."

Vehicular Rental Surcharge

The Commonwealth imposes a \$10 surcharge on each vehicular rental transaction contract in the City. One dollar of each surcharge is paid to the City for deposit in the City's Excise Fund to provide for the payment of the principal of and interest on indebtedness issued by the City to fund the City's share of costs of the BCEC Project. The City's annual share of vehicular rental surcharges totaled \$1.2 million, \$1.1 million, and \$1.1 million respectively, in fiscal 2008, 2009 and 2010. See "City Indebtedness—Special Obligation Debt."

Departmental Revenues

Several City departments generate significant revenues from fees and charges.

Parking Fines

The City's annual parking fine receipts totaled \$63.3 million, \$65.9 million, and \$66.3 million respectively, in fiscal 2008, 2009 and 2010.

Building Permit Fees

The Inspectional Services Department performs a variety of functions for which fees are imposed such as the granting of building permits. The City's annual building permit fees totaled \$31.7 million, \$27.0 million and \$14.8 million respectively, in fiscal 2008, 2009 and 2010.

Municipal Medicaid Reimbursement

The Office of Budget Management oversees a vendor contract to collect federal reimbursements for Medicaid eligible services provided through the Boston Public Schools. The City's annual municipal Medicaid reimbursement revenue totaled \$15.8 million, \$14.7 million and \$18.7 million respectively, in fiscal 2008, 2009 and 2010.

Other Available Revenues

Under state law, proceeds of the sale of City facilities must be applied to the Surplus Property Disposition Fund to be used to finance capital projects, unless the City Council, with the approval of the Mayor, votes to credit to the General Fund the difference between the sale proceeds and the amount of debt (both principal and interest) incurred in acquiring or improving the sold facility. As of June 30, 2010, there was \$24.1 million remaining in the Surplus Property Disposition Fund.

Grants

The City receives both federal and state grant funds, some of which are determined according to formulas, and others that are awarded competitively. These moneys are recorded in special revenue funds.

Federal Grants

Some major sources of federal grant funds in fiscal 2010 included: a Community Development Block Grant (CDBG) Entitlement Program award of \$19.8 million; a Home Investment Partnership Program (HOME) award of \$8.5 million; a Housing Opportunities for Persons with AIDS Program (HOPWA) award of \$1.8 million, and a 2009 McKinney-Vento Homeless Assistance Program award of \$19.2 million. The City also received \$99.7 million in American Recovery and Reinvestment Act grant awards from the federal government and federal pass-through awards from the Commonwealth.

Major sources of federal grant funds for programs of the Boston Public Schools included: a Title I Elementary & Secondary Education Act of 1965 award of \$45.6 million; Special Education Entitlement Grant awards of \$21.8 million; and School Lunch Program awards of \$28.0 million. The Boston Public Schools were also awarded \$18.0 million from a variety of other federal grant sources during the 2010 fiscal year.

State Grants

In addition to State Aid, the City also received state grants. In fiscal year 2010, the Police Department received Community Services grant awards that totaled \$1.1 million from the Commonwealth's Office of Public Safety. Boston Public Schools were awarded approximately \$16.8 million. Furthermore, two major programs were supported by state education grants, the Special Education Student 50/50 Program totaling \$7.0 million and the Quality Full-Day Kindergarten Grant totaling \$2.4 million.

CITY INDEBTEDNESS

Classification of City Debt

Direct general obligation debt of the City is debt for which the City's full faith and credit are pledged and for the payment of which all taxable property in the City is subject to ad valorem taxation without limit as to rate or amount. General obligation bonds of the City may also be secured in certain circumstances by a pledge of specific City revenues. The special obligation debt of the City is debt, which may be secured solely by a pledge of specific revenues derived from a revenue-producing facility of the City or for the payment of which the City's obligation is subject to annual appropriation.

General Obligation Debt

On June 30, 2010, the City had outstanding approximately \$960.4 million of general obligation long-term bonds, all of which bear fixed rates of interest. On March 1, 2011, the City had approximately \$891.9 million of bonds outstanding.

The City is authorized to secure any of its general obligation indebtedness by a pledge of all or any part of any revenues of the City including, without limitation, any tax, such as real property taxes, any fees payable to or for the account of the City, and certain receipts, distributions and reimbursements held or to be received by the City from the Commonwealth. The City currently has no general obligation bonds or notes outstanding secured by such a pledge.

Debt Limits

All debt of the City requires the authorization of the City Council and approval of the Mayor. If the Mayor vetoes a loan order passed by the City Council, the charter of the City provides that the loan order is void and may not be passed over the Mayor's veto. Authorization of bonds under a loan order of the City Council includes, unless otherwise provided, the authorization to issue temporary notes in anticipation of such bonds.

The statutory debt limit for the City consists of a debt limit and a double debt limit. The debt limit is 5%, and the double debt limit is 10%, of the valuation of taxable property in the City as last equalized by the State Department of Revenue. Biannually, prior to January 31st, the Commissioner of Revenue establishes a final equalized valuation which is the basis for determining the debt limit for the following two-year period or until another equalization has been established. The equalized valuation of taxable property in the City established by the Commissioner of Revenue in January 2010 equals \$106.0 billion. Based on the current equalized valuation, the City's debt limit equals approximately \$5.30 billion, and its double debt limit equals \$10.60 billion.

The City may authorize debt up to its debt limit without state approval. The City may authorize debt over the debt limit up to the double debt limit with the approval of the Municipal Finance Oversight Board, composed of the State Treasurer and Receiver General, the State Auditor, the Attorney General and the Director of Accounts. As of June 30, 2010, the City had outstanding debt of \$792.6 million subject to the debt limit, and authorized but unissued debt subject to the debt limit of \$467.7 million. As of March 1, 2011, the City had outstanding debt of \$741.1 million subject to the debt limit, and authorized but unissued debt subject to the debt limit of \$596.9 million. Based on the City's current debt limit of \$5.30 billion, the City had the capacity to authorize an additional \$3.96 billion of debt as of March 1, 2011.

Debt Incurring Capacity
As of March 1, 2011
(\$ in thousands)

	<u>Debt Limit</u>
Normal Debt Limit as of June 30, 2010	\$5,293,826
Debt Outstanding as of June 30, 2010	(792,646)
Debt Authorized but Unissued as of June 30, 2010	<u>(467,711)</u>
Available Debt Incurring Capacity under the Debt Limit as of June 30, 2010	<u>4,033,469</u>
 Increase in Normal Debt Limit based on new EQV effective on January 31, 2011.....	 7,885
Debt Adjustments approved through March 1, 2011	0
New Authorization approved through March 1, 2011.....	(129,231)
Principal Paid through March 1, 2011	<u>51,543</u>
<u>Available Debt Incurring Capacity under Debt Limit as of March 1, 2011</u>	<u><u>\$3,963,666</u></u>

Source: City of Boston Office of Budget Management

There are many categories of general obligation debt which are not subject to the debt limit and are therefore not included in the Debt Incurring Capacity table above. Some such debt is, however, subject to other debt limits, dollar limitations or state approval. As of March 1, 2011, the City had a total of \$891.9 million in long term debt outstanding, of which \$150.8 million was exempt from the debt limit. As of that date the City also had \$81.8 million of long-term debt that was authorized but unissued and exempt from the debt limit.

Summary of Authorized but Unissued Within and Outside Debt
As of June 30, 2010 and March 1, 2011 ⁽¹⁾

	<u>Authorized / Unissued 6/30/10</u>	<u>New Authorizations And Adjustments 7/1/10 – 3/1/11</u>	<u>Issuance 7/1/10 through 3/1/11</u>	<u>Authorized / Unissued 3/1/11</u>
“Within” Debt Limit=	\$467,711,403	\$129,231,100	--	\$596,942,503
“Outside” Debt Limit=	80,484,113	1,313,900	--	81,798,013
TOTAL:	<u>\$548,195,516</u>	<u>\$130,545,000</u>	<u>--</u>	<u>\$678,740,516</u>

(1) Some columns may not add due to rounding.

Source: City of Boston Office of Budget Management.

Debt Statement

The following table sets forth the City’s general obligation debt as of March 1, 2011.

Debt Statement as of March 1, 2011
General Obligation Debt ⁽¹⁾

<u>Purpose for Which Issued</u>	<u>Principal Outstanding as of 6/30/10</u>	<u>Retired in Fiscal 2011 as of 3/1/11</u>	<u>Principal Outstanding as of 3/1/11</u>	<u>Deemed Payable from Related Revenues ⁽²⁾</u>	<u>Net Principal Amount</u>
General Purpose	\$ 660,754,265	\$ (39,353,121)	\$ 621,401,144	\$ (4,171,925)	\$ 617,229,220
MWPAT	7,575,000	(660,000)	6,915,000	(2,060,440)	4,854,560
Economic Development	2,166,397	(365,467)	1,800,931	–	1,800,931
State Urban Development Relocation	15,145,868	(1,451,844)	13,694,024	–	13,694,024
Schools	75,081,931	(7,588,212)	67,493,719	(44,905,175)	22,588,544
Public Buildings	62,840,973	(6,858,523)	55,982,450	(20,967,488)	35,014,962
Public Works	136,454,527	(12,120,402)	124,334,124	–	124,334,124
Cemeteries	386,042	(112,432)	273,610	–	273,610
Totals	<u>\$ 960,405,003</u>	<u>\$ (68,510,001)</u>	<u>\$ 891,895,003</u>	<u>\$ (72,105,028)</u>	<u>\$ 819,789,974</u>

(1) Columns may not add due to rounding.

(2) Includes revenues related to, or derived from facilities for which the debt was incurred. Such revenues include:

- a. Receipts from the Boston Public Health Commission for debt attributable to projects undertaken on behalf of the former Department of Health and Hospitals, and from the Fund for Parks and Recreation and rental income from a City-owned building at 1010 Massachusetts Avenue;
- b. Debt service subsidies on City debt issued to the MWPAT; and
- c. Grants from the MSBA for school construction projects.

Source: City of Boston Auditing Department.

Debt Service Requirements

The following table sets forth the City's debt service requirements for general obligation debt for each year from June 30, 2007 through 2010. The debt service requirements table shows the gross Debt Service Requirements, offset by revenues received from related sources.

Debt Service Requirements—Fiscal 2007-2010⁽¹⁾				
	Fiscal Year Ended June 30, 2007	Fiscal Year Ended June 30, 2008	Fiscal Year Ended June 30, 2009	Fiscal Year Ended June 30, 2010
Gross Debt Service Requirements Bonded Debt:				
Principal.....	\$ 82,875,539	\$ 84,072,086	\$ 88,327,660	\$ 91,783,669
Interest.....	<u>34,698,726</u>	<u>39,010,908</u>	<u>41,408,662</u>	<u>41,298,634</u>
Total.....	<u>117,574,265</u>	<u>123,082,994</u>	<u>129,736,322</u>	<u>133,082,303</u>
Less Revenue Deemed Available From Related Sources:⁽²⁾				
Boston Medical Center and Public Health Commission.....	1,482,942	1,185,666	1,433,847	1,409,115
Fund for Parks & Recreation/Irrigation Project.....	267,875	262,125	253,959	246,810
1010 Massachusetts Ave Project.....	1,622,576	1,652,301	1,707,466	1,754,534
Pension Management System.....	—	—	1,432,247	1,432,247
Premium and Subsidies.....	4,464,983	4,212,014	6,314,331	3,896,932
Accrued Interest.....	372,340	—	—	—
Plus Interest On Temporary Loan Notes and Additional Items:				
Revenue Anticipation.....	—	—	—	—
Cost of Issuance.....	255,541	149,621	314,503	648,273
Dudley Square Site/Sec. 108.....	—	—	<u>505,000</u>	<u>505,000</u>
Total Debt Service/Budget Summary.....	<u>109,619,090</u>	<u>115,920,509</u>	<u>119,413,977</u>	<u>125,495,938</u>
Additional Adjustments:⁽²⁾				
Plus:				
Convention Center Special Obligation Bonds.....	8,270,113	8,268,938	8,269,363	8,270,863
Less:				
School Construction Assistance.....	15,134,146	13,711,961	13,198,866	12,956,404
Room Occupancy Excise Fund.....	<u>8,270,113</u>	<u>8,268,938</u>	<u>8,269,363</u>	<u>8,270,863</u>
Total Net Debt Service Requirements.....	<u>\$ 94,484,944</u>	<u>\$ 102,208,548</u>	<u>\$ 106,215,111</u>	<u>\$ 112,539,534</u>

(1) Columns may not add due to rounding.

(2) Includes revenues related to, or derived from facilities for which the debt was incurred. Such revenues include: receipts from the Boston Medical Center and Public Health Commission for debt attributable to projects undertaken on behalf of the former Department of Health and Hospitals; the Fund for Parks and Recreation; rental income from a City-owned building at 1010 Massachusetts Avenue; the Retirement Board; Debt Service Subsidies on City debt issued to the MWPAT and grants from the MSBA for school construction projects.

Source: City of Boston Auditing Department and Office of Budget Management.

The related revenues shown in the foregoing Debt Statement and table of Debt Service Requirements are not pledged to the payment of specific indebtedness. However, such revenues may substantially reduce the amount of tax or other revenues of the City that must be raised to pay debt service on the related debt.

Certain Debt Ratios

The following table sets forth information as of March 1, 2011 with respect to the approximate ratio of the City's long-term general obligation debt to certain economic factors.

Debt Ratios As of March 1, 2011				Debt Per Capita as a % of Personal Income
	Amount	Per Capita⁽¹⁾	Ratio to Assessed Property Value⁽²⁾	Per Capita⁽³⁾
Gross General Obligation Debt	\$891,895,003	\$1,382.42	1.03%	2.64%
Net General Obligation Debt ⁽⁴⁾	819,789,974	1,270.66	0.95	2.43

(1) U.S. Census Bureau as of December 2010—Boston's Estimated 2009 Population equaled 645,169.

(2) Assessed Property Value equaled \$86.80 billion as of January 1, 2010. State law requires that property be assessed at fair cash value. See "City Revenues—Property Taxes—Revaluation."

(3) U.S. Department of Commerce, Bureau of Economic Analysis, February, 2011, Revised Series-Suffolk County's 2008 Per Capita Personal Income = \$52,276.

(4) As represented in "Debt Statement as of March 1, 2011."

Source: City of Boston Auditing Department and Boston Redevelopment Authority.

Three-Year Debt Summary

The following table sets forth a three-year summary of the status of the City's outstanding general obligation debt as of June 30th of each respective fiscal year and certain information concerning the City's debt service requirements for such fiscal periods.

Debt Summary, Fiscal 2008 - 2010 (GAAP Basis) (\$ in thousands)

	<u>2008</u>	<u>2009</u>	<u>2010</u>
Outstanding General Obligation Debt	\$912,061	\$925,039	\$960,405
Authorized But Unissued Debt.....	<u>\$565,408</u>	<u>\$620,070</u>	<u>\$548,196</u>
Debt Service.....	\$115,771	\$119,294	\$129,670
Debt Service as a % of Total General Fund Revenues, Transfers and Other Available Funds.....	5.1%	5.3%	5.6%
Debt Service as a % of Total General Fund Expenditures	5.3%	5.3%	5.4%
Debt Service as a % of Total Net Tax Levy.....	8.8%	8.6%	9.0%
Bonds Issued			
General Obligation - New Money	\$126,185	\$100,000	\$125,000
General Obligation – Refunding Bonds	<u>\$ 28,155</u>	<u>\$ 40,425</u>	<u>\$ 68,345</u>
Total Bonds Issued.....	<u>\$154,340</u>	<u>\$140,425</u>	<u>\$193,345</u>

Source: City of Boston Auditing Department.

Short-Term Borrowings

Although the City is authorized to borrow for operating purposes through the issuance of short-term notes in anticipation of revenue receipts, it has not done so in several years. In addition, the City is authorized to issue short-term debt obligations ("BANs") in anticipation of the issuance of long-term bonds. Currently, no BANs are outstanding.

Special Obligation Debt

In addition to general obligation indebtedness, the Bond Procedure Act of 1983 and various other special acts authorize the City to incur indebtedness which is secured by and payable solely from certain revenues of the City which are pledged for the payment of such indebtedness or which are subject to annual appropriation by the City for such purpose. The only special obligation indebtedness of the City outstanding as of March 1, 2011 was \$73.1 million Special Obligation Refunding Bonds, Boston City Hospital Issue (the "BCH Bonds") and \$93.5 million Convention Center Loan, Act of 1997, Special Obligation Bonds, Series A (the "Convention Center Bonds").

The BCH Bonds were issued in 2002 in connection with the restructuring of debt originally incurred by the City in 1990 (and refunded in 1993) to finance a major construction and renovation program for the City's former acute-care hospital then known as Boston City Hospital ("BCH"). On July 1, 1996, the operations of BCH and Boston University Medical Center Hospital were consolidated into Boston Medical Center, which is owned and operated by the Boston Medical Center Corporation ("BMCC"), a private Massachusetts non-profit corporation. Simultaneously with the consolidation, all other public health operations of the City's Department of Health and Hospitals, as well as title to BCH, were transferred to the Boston Public Health Commission (the "Commission"), and the BCH campus was leased to BMCC for an initial term of 50 years.

The BCH Bonds are special obligations of the City payable from, and secured solely by a pledge and assignment of amounts payable on a promissory note issued to the City by the Commission. The promissory note is in turn a special obligation of the Commission secured by an assignment and pledge of rents payable by BMCC to the Commission under the lease of the BCH campus and, upon any failure of BMCC to pay all or any part of such rent, the proceeds of certain assistance grants payable by the City to BMCC. The payment of assistance grants to BMCC is subject to annual appropriation by the City and the payment of rent by BMCC is contingent upon the appropriation and payment of such assistance grants. The

rent payments and the assistance grants are each at least equal, in amount and terms of payment, to the principal and interest payable on the BCH Bonds. The City has also covenanted and agreed, subject to appropriation, to meet any deficiency in the amounts otherwise pledged for the payment of the BCH Bonds. The BCH Bonds do not constitute general obligations of the City and the full faith and credit of the City are not pledged to the payment of the principal of and interest on the BCH Bonds.

The Convention Center Bonds were issued by the City in April, 2002 pursuant to Chapter 152 of the Acts of 1997 as amended (the “Convention Center Act”) to permanently finance certain costs incurred by the City in connection with the development of the Boston Convention and Exhibition Center (the “BCEC Project”), a joint development of the City, acting through the Boston Redevelopment Authority (the “BRA”), which was responsible for the acquisition, preparation and remediation of the site for the BCEC Project, and the Commonwealth, acting through the Massachusetts Convention Center Authority (the “MCCA”), which was responsible for the construction of the project and which owns and operates the facility. As provided in the Convention Center Act, the City reimbursed the BRA for \$181.3 million of site costs for the BCEC Project, funded in part from the proceeds of the Convention Center Bonds and in part from special revenues available to the City, including the proceeds from the sale of hackney (taxi) medallions authorized by the Convention Center Act.

The Convention Center Bonds do not constitute general obligations of the City and the full faith and credit of the City are not pledged to the payment of the principal of and interest on the Convention Center Bonds. The Convention Center Bonds are special obligations of the City payable solely from, and secured solely by a pledge of, certain excise receipts and other revenues deposited in the City of Boston Room Occupancy Excise Fund (the “Excise Fund”) established by the City in accordance with the Convention Center Act, including all amounts received by the City from the 6.0% local option room occupancy excise imposed in Boston and from a portion of a surcharge imposed by the Commonwealth on vehicular rental transaction contracts in Boston.

The Convention Center Act authorizes the City to annually transfer to the City’s General Fund all or any portion of the amounts deposited in the Excise Fund that are not required for the payment of the Convention Center Bonds or for the payment of any special obligation bonds or general obligation bonds of the City issued to refund the Convention Center Bonds. Amounts deposited in the Excise Fund have historically been more than sufficient to pay the debt service on the Convention Center Bonds, and the City anticipates that such amounts will in the future continue to exceed the debt service on such bonds and any bonds issued to refund such bonds. In fiscal 2008, 2009, and 2010, moneys in the Excise Fund in excess of the debt service requirements on the Convention Center Bonds were transferred to the General Fund in the amounts of \$23.0 million, \$27.0 million and \$30.0 million, respectively. See “City Revenues-Excise Revenues” above.

Debt of Agencies Related to the City

In addition to general obligation and special obligation indebtedness of the City, the City and certain agencies related to the City are authorized to issue debt which is solely an obligation of the agency or which, although issued by the City, are payable solely from revenues derived from projects financed by such debt. Except as described below, such obligations do not constitute a debt of the City.

Boston Water and Sewer Commission

The Boston Water and Sewer Commission (the “Commission”) is an independent body politic and corporate and a political subdivision of the Commonwealth created in July 1977. The Commission, among its other powers, is authorized to operate and maintain the water and sewer systems of the City, construct improvements to the systems, collect user charges for its services, and finance its activities and its borrowing through its revenues. The City is not obligated on debt issued by the Commission. The Commission’s user charges, as required by statute, are designed to produce revenues to the Commission sufficient to pay all of its current operating expenses. These user charges are anticipated to increase moderately. The City’s property tax base is not used to subsidize water and sewer services.

Economic Development and Industrial Corporation of Boston

The Economic Development and Industrial Corporation of Boston (“EDIC”) is a body politic and corporate and an instrumentality of the Commonwealth with a board of five members, also appointed as the members of the Boston Redevelopment Authority (“BRA”). EDIC has a variety of powers to assist industrial development projects in the City including the power to issue special obligation revenue bonds to finance economic development projects in the City, which are solely the obligation of EDIC, or the owner or lessee of the financed project. The City is also authorized to appropriate or borrow monies in aid of EDIC development projects within certain urban renewal debt limitations.

Boston Redevelopment Authority

The BRA is a public body politic and corporate constituting the City's redevelopment authority. It acts as the City's planning board and exercises certain powers of the state Department of Housing and Community Development. The BRA board consists of four members appointed by the Mayor, subject to confirmation by the City Council, and one appointed by the state Department of Housing and Community Development. The staff includes architects, economists, engineers, lawyers and urban planners, as well as management personnel and administrative support. The BRA provides the planning support for major construction, development and redevelopment activity in the City. Although the BRA is authorized to issue revenue bonds and notes which would not constitute indebtedness of the City, BRA projects have traditionally been financed through a combination of federal and state grants, the proceeds of general obligation bonds issued by the City and revenues from the lease or sale of land.

Boston Public Health Commission

The Boston Public Health Commission is a body politic and corporate and a political subdivision of the Commonwealth created in June 1996 as the successor to the City's Department of Health and Hospitals. See "The City—Principal Government Services—Public Health." The Commission is responsible for the implementation of public health programs in the City and serves as the board of health of the City. In addition to its other powers, the Commission is authorized by its enabling act, with the approval of the City Council and the Mayor, to borrow money for any of its corporate purposes from the City or from the Massachusetts Health and Educational Facilities Authority. Debt of the Commission is not a debt or other obligation of the City. Other than the promissory note described below, no debt of the Commission is currently outstanding.

Pursuant to agreements between the City, the Commission, BMCC and a trustee for the benefit of the registered owners of the BCH Bonds, the Commission has agreed to apply rents received from BMCC to the payment of a promissory note issued by the Commission to the City and assigned by the City as security for the BCH Bonds. Payments made by the Commission on the note are applied by the City to pay the principal of and interest on the BCH Refunding Bonds. See "City Indebtedness-Special Obligation Debt."

The Commission is also obligated to reimburse the City for debt service paid on all outstanding general obligation bonds of the City issued for public health and hospital purposes. Such bonds were outstanding on March 1, 2011 in the aggregate principal amount of \$3.7 million. The Commission has required, and can be expected to continue to require, substantial financial support from the City to maintain its public health mission and programs, including satisfaction of its obligations described above.

Other Agencies and Corporations

Two other public bodies are empowered, either by themselves or through the City, to issue special obligation revenue bonds. The BHA is responsible for the construction, financing and operation of residential housing for low-income persons. While the City provides certain municipal services to BHA developments, and capital expenditures for City infrastructure related to those developments, the City is not directly or indirectly liable for operating or debt service expenses of the BHA. The City, acting by and through the Boston Industrial Development Financing Authority, is authorized to issue revenue bonds to finance the construction of industrial, commercial and pollution-control facilities. The City has also traditionally provided financial assistance to a number of nonprofit corporations organized to provide and conduct civic and charitable functions for residents and visitors to the City and to stimulate the economic development of the City.

Major Contractual Obligations

In addition to its debt obligations, the City has substantial contractual obligations. Included in this category are the City's obligation for pension benefit payments to its contributory retirement system for City employees and other post employment benefits which is included in the annual tax levy (see "Employee Benefits"); agreements for the provision of sanitation, solid waste collection and disposal services (see "The City—Principal Government Services—Public Works"); and agreements with BMCC for the provision of operating assistance and capital grants (see "City Indebtedness—Special Obligation Debt" and "Debt of Agencies Related to the City—Boston Public Health Commission" above) The City has also executed several equipment lease agreements in order to finance the acquisition of departmental equipment. As of March 1, 2011, the amount outstanding under the lease agreements equaled \$29.1 million. Lease payments are subject to annual appropriation and are not included in the City's debt limit.

Capital Planning and Borrowing Program

Capital Planning Process

The capital planning process coincides with the annual budget cycle and provides an opportunity for City departments to identify their facility, equipment, infrastructure, technology and planning needs in a systematic manner and to forward their proposals to the Office of Budget Management (OBM) for funding consideration. The first phase concludes with the release of an updated five-year capital plan published as part of the City's annual budget document. The process allows for a continuing reassessment of capital needs. On April 13, 2010, the Mayor submitted his fiscal 2011 budget to the City Council which included \$53.3 million in new authorizations to support the fiscal 2011-2015 capital plan. All authorizations were approved by the City Council by June 30, 2010.

Capital Funding Plan

The City funds its capital plan primarily through general obligation bonds and external grants. The City awards construction contracts and incurs capital outlay costs based upon appropriations to be funded from bond proceeds and grant receipts. In circumstances where project expenditures occur prior to the receipt of bond proceeds or grant reimbursements, the City temporarily pays such costs from available funds.

Current Capital Investment Plans

The City's fiscal 2011-2015 capital plan proposes long-term investments over the next five years. In all, \$1.5 billion from City and non-City sources are proposed to be spent on capital projects. These expenditures will be used for improvements to schools, libraries, parks, community centers, roads, bridges, street lights and other City-owned facilities and infrastructure.

The fiscal 2011-2015 capital plan includes projects to improve the physical condition of the City's schools, including ongoing roof replacements, masonry repairs and fire alarm system upgrades. Significant investment in the City's technology infrastructure and business applications is underway including data center consolidations, server virtualization, implementation of a new computer-aided-dispatch system for public safety departments and an implementation of an enterprise asset management system. In December, 2010 a branch library reopened after a substantial renovation that makes the branch eligible for LEED certification in the category of commercial interiors. In the fall of 2011, a new LEED-Silver police station in Dudley Square will open. It is being built on a former brownfield site.

The maintenance of the City's roadways and sidewalks is a significant part of the capital plan. In fiscal 2010, 29.2 miles of roads were reconstructed or resurfaced. Nearly 20 miles of bike lanes were added. In December, the City completed a pilot program of replacing nearly 2,700 mercury vapor street lights with energy efficient LED lights. The City expects to replace a total of 6,000 street lights including the pilot program by the end of fiscal 2011. In addition, \$43 million in road and traffic signal improvements funded by the American Recovery and Reimbursement Act are ongoing including 27 miles of roadway resurfacing and upgrading traffic signal communications and major reconstruction of Dorchester Avenue.

In view of the economic and social benefits of consistent, long-range capital planning, the City remains committed to implementing its capital program.

EMPLOYEE BENEFITS

Retirement Systems

The City's employees are not participants in the federal social security system. The City participates in a contributory defined benefit retirement system that is administered by the State-Boston Retirement System ("SBRs"). The SBRs provides pension benefits to retired City employees under a state contributory retirement statute, and is administered by a Retirement Board comprised of five members: the City Auditor, who serves *ex-officio*; two individuals elected by members of the system; an individual chosen by the Mayor; and an individual chosen by the other four members or appointed by the Mayor if the other four members do not agree on a selection within 30 days of a vacancy. All retirement allowances are primarily paid by employer and employee contributions and the resulting investment earnings. Employee contributions in the form of a mandatory deduction from regular compensation constitute an annuity fund from which the annuity portion of the retirement allowance is paid.

On December 4, 2008, the City, the SBRs, the Commonwealth and the Public Employee Retirement Administration Commission, ("PERAC"), the state commission established to oversee all 106 Massachusetts public retirement systems, entered into a Memorandum of Agreement for transfer of the direct responsibility for funding Boston teachers' pension liabilities to the Commonwealth effective in

fiscal year 2010. Legislation mirroring this agreement was signed into law on May 22, 2010. The legislation eliminated the City's role in the funding of teachers' pension allowances, eliminated the state reimbursement to the City for teachers' pensions on a "pay-as-you-go" basis, and transferred pension fund assets held by the SBRS allocable to teachers' pension liabilities to the Commonwealth's Pension Reserve Investment Trust ("PRIT") fund. While the Commonwealth is now directly responsible for funding Boston teachers' pension liabilities, the SBRS continues to administer pension services for Boston teacher employees and retirees.

Chapter 61 of the Acts of 2009, as amended, transferred approximately 1,000 employees of the Suffolk County Sheriff's Department to the Commonwealth effective January 1, 2010. In addition, the same employees changed their membership from the SBRS to the state retirement system, their annuity accounts were transferred to the state system, and the Commonwealth is now responsible for the pension liability for all such employees retiring on or after January 1, 2010. Former employees of the Suffolk County Sheriff's Department who retired prior to January 1, 2010 remain with the SBRS and the City will be annually assessed for any unfunded portion of their pension liability.

In addition to the SBRS, the Boston Retirement System, the predecessor system to the SBRS, is funded by the City. This predecessor system has as its members only those active and retired employees whose employment commenced prior to 1946 and who have not elected coverage under the SBRS program. This system is funded on a "pay-as-you-go" basis. In addition to the SBRS and its predecessor system, the City also provides noncontributory retirement benefits to certain former employees whose employment predates the SBRS and its predecessor system, certain veterans who meet certain state law requirements, those former employees retired under Massachusetts Special Acts, or families receiving killed-in-the-line-of-duty benefits. The City is currently providing such benefits to approximately 143 pensioners.

Amounts expended or estimated to be expended by the City for pension and annuity contributions to SBRS and its predecessor system in the most recent fiscal periods (net of state reimbursements for teacher retirement costs) are as set forth below.

City of Boston Pensions and Annuities Costs
(Budgetary Accounting Basis)
(\$ in millions)

<u>Fiscal Year Ending June 30</u>	<u>SBRS Contributory System</u>	<u>Predecessor/ Noncontributory System</u>	<u>Teachers Pension Reimbursement</u> ⁽²⁾	<u>Net Pension Cost</u>
2011 Budgeted	\$192.0 ⁽¹⁾	\$4.2	\$0.0	\$196.2
2010	\$108.5	\$4.1	\$0.0	\$112.6
2009	213.2	4.1	(118.8)	98.5
2008	202.9	4.1	(105.4)	101.6
2007	192.9	4.6	(93.3)	104.2

(1) Includes an extraordinary contribution for one year only of \$82.0 million. See "Financial Operations—Fiscal 2011 Budget" above.

(2) Reflects change in the funding mechanism by the Commonwealth for Boston teachers' pension liability beginning in 2010.

Source: City of Boston Office Retirement Board.

The actuarial accrued liability of the SBRS exceeds the actuarial value of the SBRS's assets. As part of the change in the funding of Boston teachers' pension liability described above, the last two SBRS actuarial valuations included separate valuations for Boston teachers and for "All Other" SBRS members. The "All Other" category includes all non-teacher City employees and retirees plus all non-teacher employees of the Boston Redevelopment Authority, the Boston Housing Authority, the Boston Water and Sewer Commission, and the Boston Public Health Commission. While the City's annual operating budget includes amounts to be expended for pension and annuity contributions to SBRS and its predecessor system on account of employees of the Boston Public Health Commission, the City is not responsible for such contributions on account of employees of the Boston Redevelopment Authority, the Boston Housing Authority and the Boston Water and Sewer Commission.

The following table summarizes the results of the actuarial valuations as of January 1, 2008 and 2010 for SBRS – All Other. The actuarial valuation as of January 1, 2010 is incorporated herein by reference and is available at: <http://www.cityofboston.gov/retirement>.



Summary of Actuarial Valuation – SBRS – All Other
(\$ in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
January 1, 2010	\$3,181,966	\$4,552,070	\$1,370,103	69.9%	\$849,629	161.3%
January 1, 2008	3,254,342	4,205,966	951,624	77.4	860,089	110.6

Source: City of Boston Retirement Board.

Recent SBRS valuations assume a long-term rate of return of 8.0% for SBRS – All Other assets. The actuarial valuation of assets is determined by annually recognizing 20% of gains or losses, and in addition, to the extent necessary, by also recognizing any additional portion of gains or losses which keeps the actuarial valuation of assets between 80% to 120% of market value of assets. The net effect is to smooth the trend of annual pension funding during volatile short-term periods of asset gains and losses. The market value of assets of the SBRS – All Other as of January 1, 2010 was \$2.960 billion. The actuarial value of assets as of January 1, 2010 was 107.5% of the market value.

The following market rates of return are based on information provided from SBRS to PERAC, and reported in the PERAC annual 2009 report. The long-term average annualized return for the whole SBRS (measuring since January 1, 1985) is equal to 9.1%. The SBRS recorded a five-year average annualized return (January 1, 2005 through December 31, 2009) equal to 4.6% due largely to the rate of return for the SBRS of minus 24.2% in 2008. In calendar year 2009 investment rate of return result was 19.7%, the SBRS's best rate of return since 2003. The resulting increase during 2009 in asset value partially mitigated the decrease in asset value experienced in 2008.

In accordance with Chapter 68 of the Act of 2007, PERAC annually reviews investment performance and funded ratio of systems as of January 1st. If a system is: (i) less than 65% funded, and (ii) has trailed the investment performance of the PRIT fund by 2% or more on an average annualized basis over the previous ten year period, PERAC will declare the system underperforming and the system shall transfer its assets to the PRIT fund. Such transfer and control would be permanent. As of December 31, 2009, the SBRS has trailed the PRIT fund by approximately three-tenths of 1% on an average annualized rate of return basis over the previous ten year period.

The City is currently committed to a funding schedule for fiscal 2012, 2013, and 2014 that is based upon the actuarial valuation incorporating asset and liability data as of January 1, 2010. The funding schedule is calculated in accordance with the entry age actuarial cost method and includes paying the current year's estimated present value of benefits earned during the year ("normal cost") and an annual contribution (currently assumed to increase by 4.5% per year) toward reducing the unfunded liability of the SBRS to zero by 2025, fifteen years prior to the legally required funding date of 2040. The funding schedule also takes into account cost of living adjustments ("COLAs") set by the SBRS each year since 1999 and assumes a COLA will be approved in future years. The schedule will be further updated by the SBRS, in consultation with the City, with each new valuation at least every three years, subject to approval by PERAC.

Other Post Employment Benefits

In addition to the pension benefits described above, the City provides post-employment health care and life insurance benefits on a pay-as-you-go basis in accordance with state statute to approximately 13,900 City and Boston Public Health Commission participating retirees and their beneficiaries. The City currently pays 75% of Blue Cross/Blue Shield of Massachusetts premiums and 85% of HMO premiums for most retirees and their beneficiaries. The City also pays 50% of the premiums for \$5,000 of life insurance for each eligible retiree. Expenditures for such purposes are projected to be approximately \$146.3 million in fiscal 2011.

GASB Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, and GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, became effective June 30, 2007 and June 30, 2008, respectively. These statements require the City to account for and report the value of its future other post-employment benefit (OPEB) obligations currently rather than on a pay-as-you-go basis.

An independent actuarial valuation of the City's OPEB obligations at June 30, 2009, estimated that the total OPEB actuarial accrued liability of the City and the Boston Public Health Commission as of that date on account of then current retirees, beneficiaries and dependents and current active members was

between \$5.80 billion (partially funded) and \$3.69 billion (fully funded), depending on the funding policy elected by the City. Subsequent to that date, the City adopted MGL Chapter 32B, Section 18A, requiring future Medicare-eligible retirees to enroll in a Medicare supplemental plan on a prospective basis. In addition, the City completed transitioning all employees, including retirees, to an increased HMO premium share. A supplemental report to the actuarial valuation estimated that the total OPEB actuarial accrued liability of the City and the Commission after consideration of these actions was between \$4.7 billion (partially funded) and \$3.11 billion (fully funded). The City's annual actuarially required contribution to OPEB for fiscal year 2011 is projected to be approximately \$275.1 million under a partially funded policy and approximately \$217.9 million under an actuarially fully funded policy.

Due to the absence of legal authority to establish a trust fund for the purpose of prefunding OPEB liabilities in the same manner as traditional pension benefits when the GASB statements became effective, the City established an OPEB Stabilization Fund in the fiscal 2008 Budget for this purpose. An appropriation of \$20 million to the OPEB Stabilization Fund was included in the fiscal 2008 budget and \$25 million was included in the fiscal 2009 budget.

In June 2009, the City accepted Chapter 479 of the Acts of 2008 ("Chapter 479") authorizing the City to establish a separate trust fund and to appropriate amounts to the fund in accordance with a schedule developed by an actuary retained by the City and approved by the state actuary in order to reduce the City's unfunded actuarial OPEB liability and to meet the normal cost of future OPEB benefits. In accordance with Chapter 479, in February 2010 the City established an irrevocable Other Post Employment Benefits Trust Fund under a Trust Agreement between the City and the City's Collector-Treasurer as trustee and custodian. Appropriations of \$20 million and \$35 million to the City's OPEB Trust Fund were included in the fiscal 2010 budget and fiscal 2011 budget, respectively. A separate OPEB trust fund has also been established by the Boston Public Health Commission and the Commission invested \$1.25 million in the fund in fiscal 2011. The City also procured investment consulting services in order to optimize investment of the OPEB Stabilization Fund and the OPEB Trust Funds. The aggregate amount on deposit in the OPEB Stabilization Fund and the OPEB Trust Funds as of January 31, 2011 was approximately \$107.7 million.

Additional information regarding the City's OPEB obligations may be found in two financial reports—"Actuarial Valuation & Review of OPEB June 30, 2009," and "Actuarial Valuation & Review of OPEB (Supplemental Report) June 30, 2009"—which are available at <http://www.cityofboston.gov/AdministrationFinance>.



AVAILABILITY OF OTHER INFORMATION

The City's Auditing Department prepares a Comprehensive Annual Financial Report (CAFR) with respect to each fiscal year ended June 30 which generally becomes available in December of the following fiscal year. The CAFR is presented in three sections: (1) an Introductory Section which includes general information about the City and summarizes financial activity for the fiscal year; (2) a Financial Section which includes the Independent Auditors' Report on the City's Basic Financial Statements for the fiscal year, Management's Discussion and Analysis, the Basic Financial Statements for the fiscal year and the Combining and Individual Fund Financial Statements and Schedules for the various funds of the City, including required supplemental information; and (3) a Statistical Section which includes financial data, debt computations, and a variety of demographic, economic and supplemental statistical information concerning the City. Specific reference is made to the City's CAFR for the year ended June 30, 2010, which is available from the City. A copy of the CAFR has been filed with each Nationally Recognized Municipal Securities Information Repository currently recognized by the Securities and Exchange Commission and is also posted at the City's internet site at www.cityofboston.gov/auditing.

Questions regarding this Information Statement and requests for additional financial information concerning the City of Boston should be directed to Sally D. Glora, City Auditor, Boston City Hall, Room M-4, One City Hall Square, Boston, Massachusetts 02201-1020, telephone (617) 635-4671. Questions regarding legal matters relating to this Information Statement should be directed to Robert H. Hale, Edwards Angell Palmer & Dodge, LLP, 111 Huntington Avenue, Boston, Massachusetts 02199, telephone (617) 239-0407.

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City of Boston

Massachusetts

Basic Financial Statements and Required Supplementary Information

For the Fiscal Year Ended June 30, 2010

Thomas M. Menino, Mayor

Meredith Weenick, Acting Director of Administration and Finance

Sally D. Glora, City Auditor



Prepared by the City of Boston Auditing Department

City of Boston, Massachusetts
Basic Financial Statements and Required Supplementary Information
For the Fiscal Year Ended June 30, 2010

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Independent Auditors' Report

The Honorable Mayor and City Council
City of Boston, Massachusetts:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Boston (the City), Massachusetts, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of certain entities, which represent 3.1% and 2.7% of the assets and revenues of the aggregate remaining fund information, respectively, and 23.7% and 23.5% of the assets and revenues of the discretely presented component units, respectively. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion on the financial statements, insofar as it relates to the aggregate remaining fund information and the discretely presented component units and their effects on the governmental and fiduciary activities, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. The financial statements of the permanent funds and private-purpose trust funds were not audited in accordance with *Government Auditing Standards*. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Boston, Massachusetts, as of June 30, 2010, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with U.S. generally accepted accounting principles.



In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2010 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 3 through 15 and the schedules of funding progress and employers' contributions on page 70 are not required parts of the basic financial statements, but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

Boston, Massachusetts
November 19, 2010

Required Supplementary Information
Management's Discussion and Analysis
June 30, 2010
(Unaudited)

The City of Boston (the City) provides this Management's Discussion and Analysis to present additional information to the readers of the City's basic financial statements. This narrative overview and analysis of the financial activities of the City is for the fiscal year ended June 30, 2010. Readers are encouraged to consider this information in conjunction with the additional information that is furnished in the City's Comprehensive Annual Financial Report (CAFR).

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's financial statements. The City's basic financial statements include three components: 1) Government-wide Financial Statements, 2) Fund Financial Statements, and 3) Notes to the Financial Statements. This report also contains required supplementary information regarding historical pension information and other postemployment benefit (OPEB) plan information. The components of the financial statements are described in the following sections.

Basic Financial Statements

The basic financial statements include two types of financial statements that present different views of the City – the *Government-wide Financial Statements* and the *Fund Financial Statements*. These financial statements also include the *Notes to the Financial Statements* that explain some of the information in the financial statements and provide more detail.

Government-wide Financial Statements

The *Government-wide Financial Statements* provide a broad view of the City's operations in a manner similar to a private-sector business. The statements provide both short-term and long-term information about the City's financial position, which assists in assessing the City's economic condition at the end of the fiscal year. These are prepared using the economic resources measurement focus and the accrual basis of accounting. This basically means they follow methods that are similar to those used by most businesses. They take into account all revenues and expenses connected with the fiscal year even if cash involved has not been received or paid. The Government-wide Financial Statements include two statements:

- The *Statement of Net Assets* presents all of the government's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.
- The *Statement of Activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the City.

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Both the above financial statements have separate sections for the three different types of city programs or activities. These three types of activities are:

- *Governmental Activities* – The activities in this section are mostly supported by taxes and intergovernmental revenues (federal and state grants). Most services normally associated with city government fall into this category, including general government, human services, public safety, public works, property and development, parks and recreation, library, schools, county, public health programs, state and district assessments, and debt service.
- *Business-type Activities* – These functions normally are intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. These business-type activities of the City include the activities related to the City's Convention Center Bond Fund and Hospital Bond Fund.
- *Discretely Presented Component Units* – These are operations for which the City has financial accountability but function independent of the City. For the most part, these entities operate similar to private-sector businesses and the business-type activities described above. The City's four discretely presented major component units are the Boston Public Health Commission, the Boston Redevelopment Authority, the Economic Development Industrial Corporation, and the Trustees of the Boston Public Library

Complete financial statements of the individual component units can be obtained from their respective administrative offices. Additional information about the City's component units is presented in the Notes to the Financial Statements.

The Government-wide Financial Statements can be found immediately following this discussion and analysis.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The *Fund Financial Statements* focus on individual parts of the City government, reporting the City's operations in more detail than the Government-wide Financial Statements. All of the funds of the City can be divided into three categories. It is important to note that these fund categories use different accounting approaches and should be interpreted differently. The three categories of funds are:

Governmental Funds – Most of the basic services provided by the City are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the Government-wide Financial Statements. However, unlike the Government-wide Financial Statements, the Governmental Fund Financial Statements focus on near-term inflows and outflows of spendable resources. They also focus on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the government's

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near-term financing requirements. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under this approach, revenues are recorded when cash is received or when susceptible to accrual. Expenditures are recorded when liabilities are incurred and due. These statements provide a detailed short-term view of the City's finances to assist in determining whether there will be adequate financial resources available to meet the current needs of the City.

Because the focus of governmental funds is narrower than that of the Government-wide Financial Statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the Government-wide Financial Statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and the governmental activities. These reconciliations are presented on the page immediately following each governmental fund financial statement.

The City presents four columns in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. The City's three major governmental funds are – the General Fund, the Special Revenue Fund, and the Capital Projects Fund. All nonmajor governmental funds are combined in the "Other Governmental Funds" column on these statements. The Governmental Fund Financial Statements can be found immediately following the Government-wide Financial Statements.

Of the City's governmental funds, the General Fund is the only fund for which a budget is legally adopted. The *Statement of Revenues and Expenditures – Budgetary Basis* is presented on page 24. This statement provides a comparison of the original and final budget and the actual expenditures for the current and prior year.

In accordance with state law and regulations, the City's legally adopted General Fund budget is prepared on a "budgetary" basis instead of U.S. generally accepted accounting principles (GAAP). Among the key differences between these two sets of accounting principles are that "budgetary" records property tax as it is levied, while GAAP records it as it becomes susceptible to accrual, "budgetary" records certain activities and transactions in the General Fund that GAAP records in separate funds, and "budgetary" records any amount raised that covers a prior year deficit as an expenditure and any available funds raised from prior year surpluses as a revenue, while GAAP ignores these impacts from prior years. The difference in accounting principles inevitably leads to varying results in excess or deficiency of revenues over expenditures. Additional information and a reconciliation of "budgetary" to GAAP statements is provided in note 4 to the financial statements.

Proprietary Funds – These funds are used to show activities that operate more like those of commercial enterprises. Because these funds charge fees for services provided to outside customers including local governments, they are known as enterprise funds. Proprietary Funds provide the same type of information as the Government-wide Financial Statements, only in more detail. Like the Government-wide Financial Statements, Proprietary Fund Financial Statements use the accrual basis of accounting. No reconciliation is needed between the Government-wide Financial Statements for business-type activities and the

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Proprietary Fund Financial Statements. The basic Proprietary Funds Financial Statements can be found immediately following the Governmental Fund Financial Statements.

Fiduciary Funds— These funds are used to account for resources held for the benefit of parties outside the City government. Fiduciary funds are not reflected in the Government-wide Financial Statements because the resources of these funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. They use the accrual basis of accounting.

The City's fiduciary funds are the Employee Retirement Fund (the State-Boston Retirement System), which accounts for the transactions, assets, liabilities, and net assets of the City employees' pension plan, the OPEB Trust Fund, which is an irrevocable trust established for the accumulation of assets to reduce the unfunded actuarial liability associated with the City's obligation to other postemployment benefits, and the Private Purpose Trust Funds, which includes money held and administered by the City on behalf of third parties.

The Fiduciary Funds Financial Statements can be found immediately following the Proprietary Fund Financial Statements.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the Government-wide and the Fund Financial Statements. The Notes to the Financial Statements can be found immediately following the Fiduciary Funds Financial Statements.

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information, which includes a schedule of funding progress and a schedule of employer contributions for the State-Boston Retirement System as well as the schedule of funding progress for the City's OPEB plan.

CURRENT YEAR FINANCIAL IMPACTS

- Due to amendments in Massachusetts General Law, the funding mechanism for Boston Teachers' Pensions changed in fiscal year 2010. Consequently, the legislation eliminates the City's role in the funding of teachers' pension allowances and transfers pension fund assets held by the SBRS allocable to teachers' pension liabilities to the Pension Reserves Investment Trust (PRIT) Fund. As a result of the change in legislation, in fiscal year 2010 the City did not receive reimbursement of \$118.8 million in teachers' pension expense that was accrued for at the end of fiscal year 2009. This change caused a dramatic, one-time impact on the City's financial statements that is evident at the both the government-wide and fund levels, as will be highlighted in subsequent sections.
- In fiscal year 2010, the City of Boston's OPEB obligation continues to play an integral role in the government-wide financial results. With each passing year, the City is required to recognize an additional portion of its unfunded actuarial accrued liability, which will only continue to add to the deficit in unrestricted net assets.

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GOVERNMENT-WIDE FINANCIAL ANALYSIS

This analysis is based on the Statement of Net Assets found on page 17 and the Statement of Activities found on pages 18 and 19 of the financial statements.

Government-wide Highlights

Net Assets – Primary Government – The total assets of the City exceeded its liabilities at fiscal year ended June 30, 2010 by \$555.1 million (presented as net assets). At year end, the city had a deficit in unrestricted net assets in the amount of \$106.3 million. This represents the City's election to fund certain long term liabilities as they come due, rather than as they are incurred.

Changes in Net Assets – Primary Government – The City's total net assets decreased by \$224.9 million in fiscal year 2010. Net assets of governmental activities decreased by \$230.5 million, while net assets of the business-type activities increased by \$5.6 million.

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City's combined net assets (governmental and business-type activities) totaled \$555.1 million at the end of 2010, compared to \$780.1 million at the end of the previous year.

The components of net assets comprise the following: the investment in capital assets such as land, buildings, equipment, and infrastructure (road, bridges, and other immovable assets), less any related debt used to acquire that asset that is still outstanding – this amount is \$427.1 million indicating that the net book value of the City's capital assets exceeds the amount of capital debt outstanding. The City uses these capital assets to provide services to citizens; consequentially, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A portion of the City's governmental activities net assets, \$234.3 million or 40%, represents restricted net assets, or resources that are subject to external restrictions on how they may be used. Internally imposed designations of resources are not presented as restricted net assets. The remaining balance of net assets represents the deficit in unrestricted net assets. Unrestricted net assets decreased \$284.9 million from 2009. This decrease is largely due to the previously mentioned teachers' pension funding change and the increase in the OPEB actuarial liability which is discussed.

At the end of the current fiscal year, the City is reporting a positive net asset balance for the government as a whole. The negative net asset balance reported for business-type activities is offset by the positive balance reported for governmental activities. The negative balance in business-type activities is a result of special obligation bonds outstanding at year-end. These costs are intended to be covered by user charges, grants, and lease receipts from third parties.

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Net Assets (Deficit) – Primary Government
(In thousands)

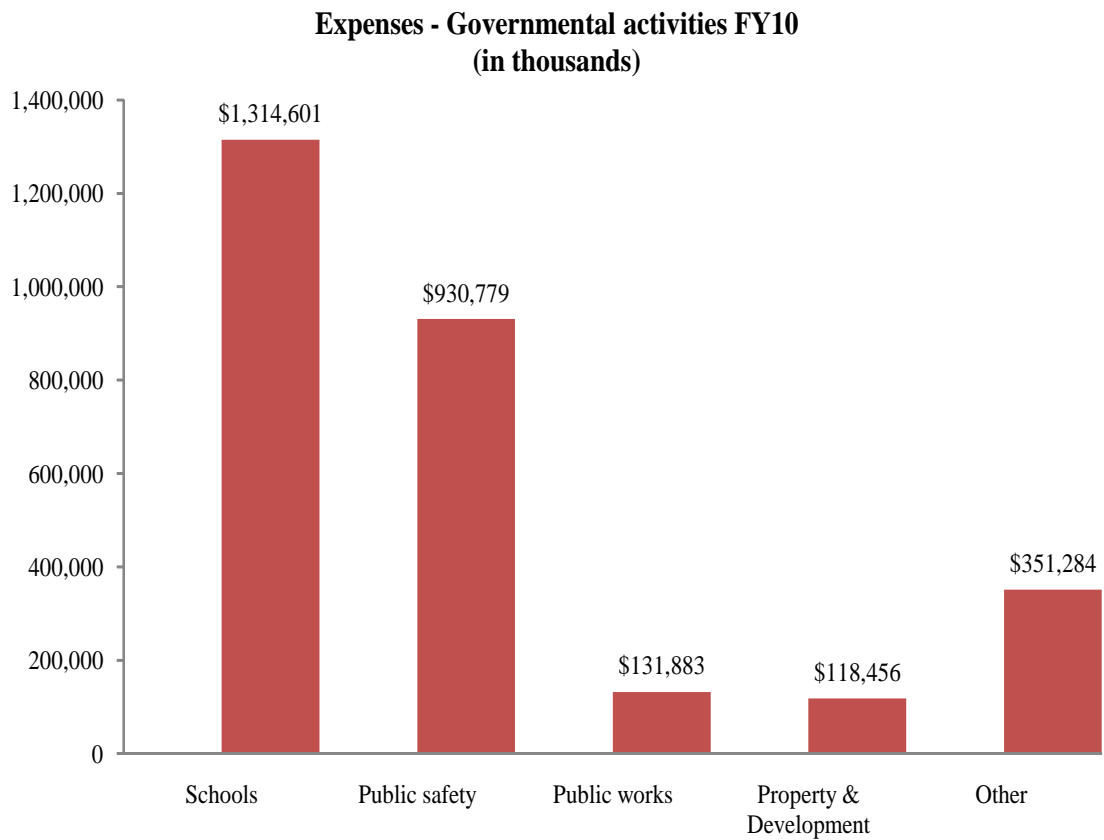
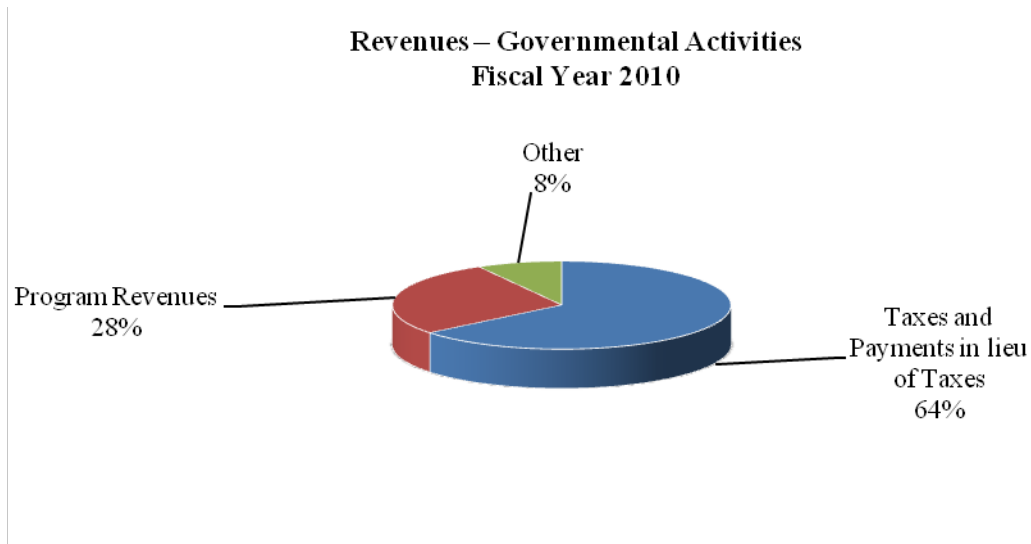
	Governmental activities		Business-type activities		Total	
	2010	2009	2010	2009	2010	2009
Current assets	\$ 1,423,188	1,472,556	66,457	64,289	1,489,645	1,536,845
Capital assets	1,348,199	1,285,270	0	0	1,348,199	1,285,270
Other assets	129,424	130,984	74,581	82,298	204,005	213,282
Total assets	\$ 2,900,811	2,888,810	141,038	146,587	3,041,849	3,035,397
Noncurrent liabilities	\$ 1,685,794	1,520,738	164,652	176,126	1,850,446	1,696,864
Current liabilities	622,705	545,195	13,554	13,264	636,259	558,459
Total liabilities	\$ 2,308,499	2,065,933	178,206	189,390	2,486,705	2,255,323
Invested in capital assets net of related debt	\$ 427,097	384,389	0	0	427,097	384,389
Restricted	234,339	217,070	0	0	234,339	217,070
Unrestricted	(69,124)	221,418	(37,168)	(42,803)	(106,292)	178,615
Total net assets (deficit)	\$ 592,312	822,877	(37,168)	(42,803)	555,144	780,074

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Changes in Net Assets (Deficit) – Primary Government
(In thousands)

	Governmental activities		Business-type activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program revenues:						
Charges for services	\$ 157,049	169,826	0	0	157,049	169,826
Operating grants and contributions	547,812	594,914	5,567	1,116	553,379	596,030
Capital grants and contributions	12,555	56,517	0	0	12,555	56,517
General revenues:						
Taxes:						
Property taxes, levied for general purposes	1,468,340	1,389,218	0	0	1,468,340	1,389,218
Excises	123,121	115,237	43,887	36,605	167,008	151,842
Payment in lieu of taxes	67,265	56,686	0	0	67,265	56,686
Grants and contributions not restricted	171,174	230,475	0	0	171,174	230,475
Investment income	17,221	22,584	3,567	6,299	20,788	28,883
Miscellaneous	21,901	12,107	0	0	21,901	12,107
Total revenues	<u>2,586,438</u>	<u>2,647,564</u>	<u>53,021</u>	<u>44,020</u>	<u>2,639,459</u>	<u>2,691,584</u>
Program expenses:						
General government	106,435	103,420	0	0	106,435	103,420
Human services	52,310	48,896	0	0	52,310	48,896
Public safety	930,779	920,790	0	0	930,779	920,790
Public works	131,883	145,867	0	0	131,883	145,867
Property and development	118,456	105,581	0	0	118,456	105,581
Parks and recreation	31,204	30,026	0	0	31,204	30,026
Library	50,050	52,881	0	0	50,050	52,881
Schools	1,314,601	1,316,314	0	0	1,314,601	1,316,314
Public health programs	71,453	71,618	0	0	71,453	71,618
Interest on long-term debt	39,832	28,041	0	0	39,832	28,041
Convention center	0	0	13,751	4,902	13,751	4,902
Hospital	0	0	3,635	3,924	3,635	3,924
Total program expenses	<u>2,847,003</u>	<u>2,823,434</u>	<u>17,386</u>	<u>8,826</u>	<u>2,864,389</u>	<u>2,832,260</u>
Excess (deficiency) before special items and transfers	(260,565)	(175,870)	35,635	35,194	(224,930)	(140,676)
Transfers	<u>30,000</u>	<u>27,000</u>	<u>(30,000)</u>	<u>(27,000)</u>	<u>0</u>	<u>0</u>
Change in net assets	(230,565)	(148,870)	5,635	8,194	(224,930)	(140,676)
Net assets (deficit) – beginning of year	822,877	975,247	(42,803)	(50,997)	780,074	924,250
Prior year adjustment – implementation of GASB49	<u>0</u>	<u>(3,500)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(3,500)</u>
Net assets (deficit) – end of year	<u>\$ 592,312</u>	<u>822,877</u>	<u>(37,168)</u>	<u>(42,803)</u>	<u>555,144</u>	<u>780,074</u>

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Governmental Activities

The City's governmental activities net assets decreased by \$230.5 million over the prior fiscal year. The following net changes occurred during the course of operations in fiscal year 2010: In the assets accounts, cash and investments increased by \$5.6 million, receivables decreased by \$187.9 million, and capital assets increased by \$62.9 million. In the liability accounts, there were increases in warrants and accounts payable of \$29.6 million, unearned revenue of \$11.6 million, and accrued liabilities of \$35.6 million. Additionally, an increase of \$105.6 million was recorded relative to the City's other postemployment obligation in 2010.

During fiscal year 2010, the City's revenues decreased by 2.3%. The City's largest sources of revenues were property taxes, excise taxes, and payment in lieu of taxes of \$1.66 billion (63.4% of total revenue) and \$717.4 million of program revenues (27.4% of total revenue). The primary factors for the increase in tax revenue were an increase in property tax, meals excise, and hotel room occupancy excise. The decrease in program revenue is attributable to decreases in MSBA reimbursements as well as building permit revenues. Investment income and other miscellaneous revenues for fiscal year 2010 totaled \$39.1 million, up \$4.4 million from fiscal year 2009. The primary cause of the increase is the result of a transfer of sale of surplus property revenue in fiscal year 2010, whereas fiscal year 2009 had no such transfer.

The City's expenses cover a range of services. The largest expenses were for schools (\$1.31 billion), public safety (\$930.8 million), public works (\$131.9 million), property and development (\$118.5 million), general government (\$106.4 million), public health programs (\$71.5 million), and human services (\$52.3 million). Despite a slight increase in expenses of \$23.6 million from 2009, the City was aggressive in containing costs in 2010 as a result of decreases in state funding. All categories of government continue to experience an increase in expenses due to the recognition of the City's OPEB expense, which increased \$105.6 million in 2010.

In 2010, governmental activities expenses exceeded program revenues (i.e., user charges, operating grants, and capital grants) by \$2.1 billion. This shortfall was covered primarily through taxes (\$1.66 billion) and unrestricted grants and contributions (\$171.2 million).

Comparative data on these revenues and expenses is itemized in the reporting of the *Changes in Net Assets (Deficit) – Primary Government* on page 9.

Business-type Activities

Net assets from business-type activities increased \$5.6 million during fiscal year 2010. This change in net assets resulted primarily from hotel/motel excise tax collections exceeding program expenses.

FINANCIAL ANALYSIS OF THE CITY'S FUND STATEMENTS

This analysis is based on the Governmental and Proprietary Fund Financial Statements on pages 20 through 27. As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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Fund Highlights

Governmental Funds – Fund Balances – As of the close of fiscal year 2010, the City's governmental funds reported a combined ending fund balance of \$963.2 million, a decrease of \$112.6 million from the prior year. Of this total amount, \$606.0 million represents the "unreserved and undesignated fund balances" with \$547.3 million of this amount in the General Fund. The decrease in fund balance is largely due to the previously mentioned change in teachers' pension funding.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financial requirements. In particular, unreserved fund balance may serve as a useful measure of a government's financial position at the end of the fiscal year.

General Fund – Fund Balance – The General Fund is the chief operating fund of the City. The City's General Fund – Fund Balance Policy states in part to maintain a GAAP undesignated fund balance in the General Fund that is 10%, or higher, of GAAP General Fund operating expenditures for the fiscal year. The GAAP undesignated fund balance at the end of fiscal year 2010 was \$547.3 million, which represents approximately 22.6% of GAAP General Fund operating expenditures.

However, because the City is required to follow the statutory basis of accounting rather than GAAP for determining the amount of undesignated fund balance that can be appropriated, it is the statutory (not the GAAP) fund balance that is used to calculate "free cash." Free cash is the amount of statutory fund balance in the General Fund, as certified by the Commonwealth of Massachusetts' Department of Revenue, which is available for appropriation and is generated when actual revenues, on a cash basis, exceed budgeted amounts and encumbrances are less than appropriations, or both.

The City has established the General Fund-Fund Balance Policy to ensure that the City maintains adequate levels of fund balance to mitigate current and future risks (i.e., revenue shortfalls and unanticipated expenditures). The policy in full states that the City shall maintain a GAAP undesignated fund balance in the General Fund that is 10% or higher than the current fiscal year's GAAP General Fund operating expenditures; and that the City shall only consider the certification of free cash (as defined by the Commonwealth of Massachusetts' Department of Revenue) in years where the appropriation of free cash shall not cause the fiscal year's GAAP undesignated fund balance to go below 10% of the fiscal year's GAAP General Fund expenditures while maintaining a budgetary undesignated fund balance between 5% and 10% of budgetary operating expenditures.

The City shall only consider the appropriation of certified free cash to offset: (1) certain fixed costs such as pension contributions and related postemployment health benefits and/or (2) to fund extraordinary and nonrecurring events as determined and certified by the City Auditor.

Special Revenue Fund – Fund Balance – The Special Revenue Fund accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for predefined purposes. The fiscal year

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2010 Special Revenue Fund balance is reported at \$173.1 million, a \$7.7 million decrease from fiscal year 2009. This decrease is due to increased expenditures in federal grants.

Capital Projects Fund – Fund Balance – The Capital Projects Fund accounts for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds and trust funds. The fiscal year 2010 Capital Projects Fund balance is \$45.3 million, a \$15.3 million increase from fiscal year 2009. The increase in fund balance is attributable to the excess balance of unspent bond proceeds from the issuance of general obligation bonds to fund capital projects.

Other Governmental Funds – Fund Balance – Other Governmental Funds account for assets held by the City in permanent trust funds. The fiscal year 2010 Other Governmental Funds fund balance is \$37.6 million, a \$1.3 million increase from fiscal year 2009. The increase in fund balance is largely due to the improvement in investment returns during fiscal year 2010.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the Government-wide Financial Statements for business-type activities. This information is presented on the same basis of accounting, but in more detail.

The City's proprietary funds net deficit for fiscal year 2010 was \$37.2 million. The net deficit in the proprietary funds is a result of the convention center special obligation bonds outstanding at year-end.

Budgetary Highlights

General Fund budgetary highlights include ending fiscal year 2010 with a \$9.1 million surplus. This represents the City's 25th consecutive year with a balanced budget. One significant change from the original budget to the final amended budget was in the area of public safety expenditures. The final amended budget reflects additional amounts required to fund the firefighter's retro-active pay, pursuant to an arbitration agreement between the City and the local firefighters union.

Although the budgetary estimates for revenue exceeded actual receipts in fiscal year 2010, the revenue deficit is due to a large decrease in state aid of \$131.9. This number is skewed by the change in funding structure of the teachers' pension. When the change to teachers' pension is considered, the decrease in state aid was only \$5.1 million. Favorable results were reported for other General Fund revenue sources. Departmental and other revenue posted a \$4.6 million favorable variance, while excises taxes posted a \$15.4 million favorable variance, largely due to an increase in meals and hotel room excise receipts.

The overall expenditure surplus of \$113.3 million is also the result of the funding change in teachers' pension, which is represented in the \$126.4 million favorable variance for retirement costs. Additionally, public works saw a \$4.3 million surplus, largely attributable decreased costs for snow removal. However, there was overspending in public safety and judgments and claims. Public safety deficits of \$10.3 million are generally due to overtime spending in the Police Department. Judgments and claims saw an increase in settled claims creating a \$12.5 million deficit.

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CAPITAL ASSETS AND LONG-TERM OBLIGATIONS

Capital Assets

The City's investment in capital assets for its governmental activities, as of June 30, 2010, has a net book value of \$1.35 billion, made up of costs totaling \$2.69 billion less accumulated depreciation of \$1.34 billion. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, and construction in progress. Infrastructure assets are items that are normally immovable and have value only to the City, such as roads, bridges, streets, sidewalks, drainage systems, lighting systems, and similar items.

The total increase in the City's investment in capital assets for the current fiscal year was approximately 4.9% in terms of net book value. However, actual expenditures to purchase or construct capital assets were \$136.5 million for the year. Most of this amount was used for the purpose of constructing or reconstructing buildings and building improvements. Depreciation charges for the year totaled \$72.7 million. Additional information on the City's capital assets can be found in note 8 of the Notes to the Financial Statements.

Long-Term Obligations

Debt Administration – The authority of the City to incur debt is governed by federal and state laws that restrict the amounts and purposes for which a municipality can incur debt. At year-end, the City had \$952.8 million in General Obligations Bonds principal outstanding – an increase of \$36.0 million over last year.

The key factor in this increase was the issuance of the March 18, 2010 Series A general obligation bonds totaling \$40.0 million exceeding principal repayments and the net effect of refundings. Further, \$68.4 million Series B was issued for the purpose of refunding certain outstanding general obligations of the City. Additionally, the City took advantage of Federal programs made available by the American Recovery and Reinvestment Act (ARRA) of 2009, by issuing the 2009 QSCB Series A and 2010 Series C-E bonds. The table below presents a summary of the savings from the ARRA bonds, versus a traditional, tax-exempt issuance.

	2009 Qualified School Construction Bond Series A	2010 Series C Taxable Build America Bonds	2010 Series D Taxable Recovery Zone Bonds	2010 Series E Taxable Qualified School Construction Bonds
Pricing Date	October 28, 2009	March 18, 2010	March 18, 2010	March 25, 2010
Par Amount	\$20,000,000	\$30,905,000	\$16,685,000	\$17,415,000
Debt Service Savings	\$4,940,843	\$965,419	\$2,700,573	\$8,175,982
PV of Debt Service Savings	\$3,651,130	\$733,825	\$2,266,309	\$6,402,105
Average Annual Savings	\$308,803	\$48,271	\$135,029	\$510,999

In March 2010, in conjunction with the City's annual bond offering, the rating service bureaus Moody's Investors Service and Standard & Poor's reaffirmed the City's bond ratings at Aa1 and AA+, respectively. Furthermore, in April 2010 Moody's Investors Services began the recalibration of its long-term U.S. municipal ratings to its global rating scale, in order to be more in line with the ratings it issues

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for corporate debt. Accordingly, the City of Boston's bond rating has been recalibrated from Aa1 to Aaa by Moody's on this new global ratings scale. General Obligation Bonds are backed by the full faith and credit of the City, including the City's power to levy additional taxes to ensure repayment of the debt. Accordingly, all general obligation debt currently outstanding has been approved by a vote of the City Council.

Notes and Leases Payable and Other Long-Term Obligations – The City's general long-term notes and leases and other long-term obligations increased by \$147.9 million, or 19.2%, during the current fiscal year. As in 2009, the key factor for this increase is the recognition of additional OPEB of \$105.6 million.

Additional information on the City's long-term debt obligations can be found in note 10 of the Notes to the Financial Statements.

NEW ACCOUNTING STANDARDS

During the fiscal year ended June 30, 2010, the City adopted GASB Statement No. 51 (GASB 51), *Accounting and Financial Reporting for Intangible Assets*, establishing accounting and financial reporting for intangible assets. Examples of intangible assets are easements, patents, computer software either purchased or internally generated. As with other capital assets, the useful life of an intangible asset must be greater than one year. Intangible assets are classified as capital assets and are included in note 8. The City has recognized intangible assets in the statement of net assets in accordance with GASB 51.

The City has also adopted GASB Statement No. 53 (GASB 53), *Accounting and Financial Reporting for Derivative Instruments*, as of June 30, 2010. SBRS adopted GASB 53 as of December 31, 2009. The adoption of this new standard did not have an effect on the City's or SBRS' beginning or ending net assets.

FUTURE ACCOUNTING PRONOUNCEMENTS

GASB has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this pronouncement is to enhance the usefulness of fund balance information and provide clearer fund balance classifications. Currently, fund balance is reported as restricted and unrestricted. Effective for fiscal year 2011 reporting, fund balance will be reported as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all of the City's citizens, taxpayers, customers, investors, and creditors. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: City of Boston, Auditing Department, Boston City Hall, Room M-4, Boston, MA 02201. Alternatively, these requests may also be made through email, by contacting the Auditing Department at CityAuditor@cityofboston.gov.



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Statement of Net Assets

June 30, 2010

(In thousands)

	Primary government		Component units
	Governmental activities	Business-type activities	
		Total	
Assets:			
Current assets:			
Cash and investments	\$ 1,132,772	11,326	1,144,098
Cash and investments held by trustees	39,960	83,079	123,039
Receivables, net:			
Property taxes	14,191	0	14,191
Intergovernmental	153,699	0	153,699
Other	40,472	0	40,472
Other assets	6,185	2,052	8,237
Internal balances	30,000	(30,000)	0
Due from primary government	0	0	0
Due from component units	5,909	0	5,909
Total current assets	1,423,188	66,457	1,489,645
Noncurrent assets:			
Intergovernmental receivables	63,685	0	63,685
Notes and other receivables	65,739	0	65,739
Other assets	0	0	0
Capital assets:			
Nondepreciable	76,097	0	76,097
Depreciable, net	1,272,102	0	1,272,102
Due from component units	0	74,581	74,581
Total noncurrent assets	1,477,623	74,581	1,552,204
Total assets	2,900,811	141,038	3,041,849
Liabilities:			
Current liabilities:			
Warrants and accounts payable	125,136	0	125,136
Accrued liabilities – current:			
Tax abatement liability	27,400	0	27,400
Compensated absences	47,462	0	47,462
Judgments and claims	63,080	0	63,080
Payroll and related costs	153,495	0	153,495
Deposits and other	67,401	2,304	69,705
Current portion of long-term debt and leases	107,393	11,250	118,643
Due to component units	542	0	542
Due to BMC	0	0	0
Due to primary government	0	0	0
Unearned revenue	30,796	0	30,796
Total current liabilities	622,705	13,554	636,259
Noncurrent liabilities:			
Bonds due in more than one year	892,558	164,652	1,057,210
Notes and leases payable due in more than one year	60,086	0	60,086
Other noncurrent liabilities	196,798	0	196,798
Other postemployment benefits obligation	536,352	0	536,352
Unearned revenue	0	0	0
Due to primary government	0	0	0
Total noncurrent liabilities	1,685,794	164,652	1,850,446
Total liabilities	2,308,499	178,206	2,486,705
Net assets (deficit):			
Investment in capital assets, net of related debt	427,097	0	427,097
Restricted for:			
Capital projects	24,108	0	24,108
Expendable trust	37,098	0	37,098
Federal and state grants	173,133	0	173,133
Unrestricted	(69,124)	(37,168)	(106,292)
Total net assets (deficit)	\$ 592,312	(37,168)	555,144

See accompanying notes to basic financial statements.

Statement of Activities
Year ended June 30, 2010
(In thousands)

Functions/programs	Expenses	Program revenues		
		Charges for services	Operating grants and contributions	Capital grants and contributions
Primary government:				
Governmental activities:				
General government	\$ 106,435	31,818	1,704	1,874
Human services	52,310	24	11,471	0
Public safety	930,779	85,305	87,809	552
Public works	131,883	12,190	0	6,440
Property and development	118,456	6,213	68,147	309
Parks and recreation	31,204	416	291	1,125
Library	50,050	765	3,474	724
Schools	1,314,601	20,318	374,916	1,531
Public health programs	71,453	0	0	0
Interest on long-term debt	39,832	0	0	0
Total governmental activities	2,847,003	157,049	547,812	12,555
Business-type activities:				
Convention Center	13,751	0	5,567	0
Hospital Bonds	3,635	0	0	0
Total business-type activities	17,386	0	5,567	0
Total primary government	2,864,389	157,049	553,379	12,555
Component units:				
Boston Public Health Commission	138,163	8,598	44,637	753
Boston Redevelopment Authority	28,713	7,897	13,863	0
Trustees of the Public Library of the City of Boston	12,289	1,497	7,798	0
Economic Development and Industrial Corporation of Boston	35,122	15,369	16,583	0
Total component units	214,287	33,361	82,881	753
General revenues:				
Taxes:				
Property taxes, levied for general purposes				
Excises				
Payments in lieu of taxes				
Grants and contributions not restricted				
Investment income				
City appropriation				
Miscellaneous				
Gain on disposal				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets (deficit) – beginning of year				
Net assets (deficit) – end of year				

See accompanying notes to basic financial statements.

Net (expense) revenue and changes in net assets			
Primary government			
Governmental activities	Business-type activities	Total	Component units
(71,039)	0	(71,039)	0
(40,815)	0	(40,815)	0
(757,113)	0	(757,113)	0
(113,253)	0	(113,253)	0
(43,787)	0	(43,787)	0
(29,372)	0	(29,372)	0
(45,087)	0	(45,087)	0
(917,836)	0	(917,836)	0
(71,453)	0	(71,453)	0
(39,832)	0	(39,832)	0
(2,129,587)	0	(2,129,587)	0
0	(8,184)	(8,184)	0
0	(3,635)	(3,635)	0
0	(11,819)	(11,819)	0
(2,129,587)	(11,819)	(2,141,406)	0
0	0	0	(84,175)
0	0	0	(6,953)
0	0	0	(2,994)
0	0	0	(3,170)
0	0	0	(97,292)
1,468,340	0	1,468,340	0
123,121	43,887	167,008	0
67,265	0	67,265	0
171,174	0	171,174	0
17,221	3,567	20,788	7,395
0	0	0	70,000
21,901	0	21,901	6,107
0	0	0	3,638
30,000	(30,000)	0	0
1,899,022	17,454	1,916,476	87,140
(230,565)	5,635	(224,930)	(10,152)
822,877	(42,803)	780,074	94,309
\$ 592,312	(37,168)	555,144	84,157

Balance Sheet – Governmental Funds**June 30, 2010**

(In thousands)

Assets	General	Special revenue	Capital projects	Other governmental funds	Total governmental funds
Cash and investments	\$ 880,912	132,917	62,006	229	1,076,064
Cash and investments held by trustees	0	0	2,341	37,619	39,960
Receivables, net:					
Property taxes	14,191	0	0	0	14,191
Intergovernmental	86,549	119,160	11,674	0	217,383
Departmental and other	34,039	65,831	0	153	100,023
Total receivables	134,779	184,991	11,674	153	331,597
Due from other funds	30,000	3,787	1,846	0	35,633
Due from component units	5,909	0	0	0	5,909
Total assets	<u>\$ 1,051,600</u>	<u>321,695</u>	<u>77,867</u>	<u>38,001</u>	<u>1,489,163</u>
Liabilities and Fund Balances					
Liabilities:					
Warrants and accounts payable	\$ 63,593	32,203	18,948	417	115,161
Accrued liabilities:					
Payroll and related costs	151,554	1,941	0	0	153,495
Deposits and other	22,468	34,716	2,427	0	59,611
Deferred revenue	100,196	79,703	11,174	0	191,073
Due to other funds	6,054	0	0	0	6,054
Due to component unit	542	0	0	0	542
Total liabilities	<u>344,407</u>	<u>148,563</u>	<u>32,549</u>	<u>417</u>	<u>525,936</u>
Fund balances:					
Reserved for:					
Encumbrances	36,808	49,418	86,234	486	172,946
Future appropriations	0	0	24,108	0	24,108
Unreserved:					
Designated for subsequent years' expenditures	123,103	0	0	0	123,103
Undesignated	547,282	123,714	(65,024)	0	605,972
Reported in permanent funds	0	0	0	37,098	37,098
Total fund balances	<u>707,193</u>	<u>173,132</u>	<u>45,318</u>	<u>37,584</u>	<u>963,227</u>
Total liabilities and fund balances	<u>\$ 1,051,600</u>	<u>321,695</u>	<u>77,867</u>	<u>38,001</u>	<u>1,489,163</u>

See accompanying notes to basic financial statements.

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets**June 30, 2010**

(In thousands)

Total fund balance – governmental funds	\$ 963,227
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:	
Land	25,128
Construction in progress	50,969
Land improvements	159,016
Buildings and improvements	1,720,283
Furniture and equipment	257,865
Infrastructure	475,567
Less accumulated depreciation	(1,340,629)
	<u>1,348,199</u>
Adjust deferred revenues and receivables to record revenues on an accrual basis	160,223
Internal service funds are included in the governmentwide statements	51,773
Bond issuance costs are capitalized in the governmentwide statements	6,185
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:	
General obligation bonds and notes	(993,115)
Capital leases	(35,504)
Bond issue premiums/discounts net	(45,726)
Deferred bond gains (losses)	14,308
Accrued interest on bonds	(11,993)
Compensated absences	(176,480)
Landfill	(8,795)
Judgments and claims	(115,738)
Other postemployment benefits	(536,352)
Tax abatements	(27,400)
Pollution remediation	(500)
	<u>(1,937,295)</u>
Net assets of governmental activities	<u><u>\$ 592,312</u></u>

See accompanying notes to basic financial statements.

**Statement of Revenues, Expenditures, and Changes in Fund Balances –
Governmental Funds**

Year ended June 30, 2010

(In thousands)

	General	Special revenue	Capital projects	Other governmental funds	Total governmental funds
Revenues:					
Real and personal property taxes	\$ 1,467,605	0	0	0	1,467,605
Excises	121,120	0	0	0	121,120
Payments in lieu of taxes	67,265	0	0	0	67,265
Fines	70,627	22	0	0	70,649
Investment income	3,246	25	0	5,636	8,907
Licenses and permits	32,907	0	0	0	32,907
Departmental and other	74,861	14,381	0	2,226	91,468
Intergovernmental	404,619	327,213	10,632	0	742,464
Total revenues	2,242,250	341,641	10,632	7,862	2,602,385
Expenditures:					
Current:					
General government	70,514	3,165	0	4,469	78,148
Human services	29,324	8,690	0	0	38,014
Public safety	511,365	12,150	0	0	523,515
Public works	96,641	8,482	0	0	105,123
Property and development	30,247	87,147	0	0	117,394
Parks and recreation	16,818	716	0	0	17,534
Library	29,853	3,578	0	0	33,431
Schools	815,694	147,009	0	0	962,703
Public health programs	70,000	1,214	0	0	71,214
County	0	69,040	0	0	69,040
Judgments and claims	10,181	0	0	0	10,181
Retirement costs	235,282	0	0	0	235,282
Other employee benefits	224,156	0	0	0	224,156
State and district assessments	146,323	0	0	0	146,323
Capital outlays	734	5,485	120,449	0	126,668
Debt service	129,670	3,414	0	0	133,084
Total expenditures	2,416,802	350,090	120,449	4,469	2,891,810
Excess (deficiency) of revenues under expenditures	(174,552)	(8,449)	(109,817)	3,393	(289,425)
Other financing sources (uses):					
Long-term debt and capital leases issued	0	11,360	133,132	0	144,492
Refunding bonds issued	0	0	68,345	0	68,345
Payments to escrow agent	0	(5,384)	(68,256)	0	(73,640)
Premiums on long-term debt issued	0	9,805	(2,171)	0	7,634
Transfers in (out)	53,058	(15,000)	(5,979)	(2,079)	30,000
Total other financing sources (uses)	53,058	781	125,071	(2,079)	176,831
Net change in fund balances	(121,494)	(7,668)	15,254	1,314	(112,594)
Fund balance – beginning of year	828,687	180,800	30,064	36,270	1,075,821
Fund balance – end of year	\$ 707,193	173,132	45,318	37,584	963,227

See accompanying notes to basic financial statements.

**Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balance of Governmental Funds to the Statement of Activities**

Year ended June 30, 2010

(In thousands)

Net change in fund balances – total governmental funds	\$ (112,594)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. In the statement of activities, the cost of those assets is depreciated over their estimated useful lives. Capital outlays (\$136,529) exceeded depreciation expense (\$72,656) and disposals (\$944).	62,929
Tax revenues in the statement of activities that are not reported as revenues in the governmental funds	2,737
Proceeds of long-term debt (\$212,837) increase long-term liabilities in the statement of net assets, but are included in the operating statement of the governmental funds. Repayment of bond, note, and lease principal (\$106,998) and payment to the escrow agent (\$73,640) are expenditures in the governmental funds, but reduce long-term liabilities in the statement of net assets. This is the amount by which proceeds exceed repayments and escrow payments.	(32,189)
Bond premiums net (\$4,011) increase the long-term liabilities in the statement of net assets, but are included in the operating statement of the governmental funds. Deferred losses on refunding (\$1,819) decrease long-term liabilities in the statement of net assets, but are included in the operating statement of the governmental funds. Bond issuance costs, net (\$649) are expenditures in the governmental funds, but are deferred assets in the statement of assets. This is the amount by which premiums and deferred losses on refundings exceeded issuance costs.	(5,181)
Intergovernmental revenues decrease receivables on the statement of net assets, but are included in the operating statement of governmental funds	(3,359)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. This amount represents the increase in liabilities for judgements and claims (\$36,670), compensated absences (\$3,676), other postemployment benefits (\$105,558) offset by a decrease in liabilities for pollution remediation (\$1,500), interest payable (\$989), and the landfill liability (\$124).	(143,291)
Net income from the internal service fund, which is presented in the statement of activities, but not in the governmental funds	383
Change in net assets of governmental activities	\$ <u><u>(230,565)</u></u>

See accompanying notes to basic financial statements.

**Statement of Revenues and Expenditures – Budgetary Basis
General Fund – Budget and Actual**

**Year ended June 30, 2010
(with comparative actual amounts for 2009)**

(In thousands)

	Original budget	2010 Final budget	Actual	Variance over (under)	2009 Actual
Revenues and other available funds:					
Real and personal property taxes, net	\$ 1,429,325	1,429,325	1,440,193	10,868	1,365,272
Excises	124,275	128,654	144,034	15,380	149,776
Commonwealth of Massachusetts	545,126	545,126	413,209	(131,917)	573,278
Departmental and other revenue	64,120	64,120	68,706	4,586	75,661
Fines	73,015	73,015	70,376	(2,639)	70,053
Payments in lieu of taxes	57,350	57,350	60,920	3,570	56,493
Investment income	6,500	6,500	3,182	(3,318)	17,835
Licenses and permits	31,260	31,260	30,558	(702)	41,008
Other available funds	72,088	72,088	72,088	0	53,219
Total revenues and other available funds	2,403,059	2,407,438	2,303,266	(104,172)	2,402,595
Expenditures:					
General government	105,220	92,096	90,932	1,164	113,114
Human services	28,784	29,468	29,466	2	29,734
Public safety	476,773	497,269	507,558	(10,289)	504,717
Public works	101,520	101,419	97,138	4,281	112,420
Property and development	27,651	29,485	29,485	0	31,178
Parks and recreation	16,414	16,945	16,916	29	17,490
Library	29,715	29,862	29,862	0	31,211
Schools	817,882	817,882	817,830	52	810,006
Boston Public Health Commission	70,000	70,000	70,000	0	69,446
Judgments and claims	3,500	3,500	15,970	(12,470)	4,806
Other employee benefits	205,189	205,322	205,242	80	195,612
Retirement costs	239,035	239,035	112,608	126,427	217,378
Debt requirements	131,148	124,848	124,848	0	119,294
State and district assessments	150,228	150,307	146,323	3,984	142,055
Total expenditures	2,403,059	2,407,438	2,294,178	113,260	2,398,461
Excess of revenues and other available funds over expenditures	\$ 0	0	9,088	9,088	4,134

See accompanying notes to basic financial statements.

Statement of Net Assets – Proprietary Funds

June 30, 2010

(In thousands)

	Enterprise funds			
	Convention center bonds	Hospital revenue bonds	Total	Internal service
Assets:				
Current assets:				
Cash and investments	\$ 11,326	0	11,326	56,708
Cash and investments held by trustees	59,810	23,269	83,079	0
Receivables, net	0	0	0	134
Total current assets	71,136	23,269	94,405	56,842
Noncurrent assets:				
Due from other funds	0	0	0	421
Due from component units	0	74,581	74,581	0
Other assets	1,058	994	2,052	1,042
Total noncurrent assets	1,058	75,575	76,633	1,463
Total assets	72,194	98,844	171,038	58,305
Liabilities:				
Current liabilities:				
Accrued liabilities	0	0	0	6,532
Due to other funds	30,000	0	30,000	0
Accrued interest payable	758	1,546	2,304	0
Current portion of long-term debt	3,725	7,525	11,250	0
Total current liabilities	34,483	9,071	43,554	6,532
Noncurrent liabilities:				
Special obligation bonds	89,780	0	89,780	0
Revenue bonds	0	74,872	74,872	0
Total noncurrent liabilities	89,780	74,872	164,652	0
Total liabilities	124,263	83,943	208,206	6,532
Net assets (deficits):				
Unrestricted	(52,069)	14,901	(37,168)	51,773
Total net assets (deficits)	\$ (52,069)	14,901	(37,168)	51,773

See accompanying notes to basic financial statements.

Statement of Revenues, Expenses, and Changes in Net Assets – Proprietary Funds**Year ended June 30, 2010**

(In thousands)

	Enterprise funds			
	Convention center bonds	Hospital revenue bonds	Total	Internal service
Operating revenues:				
Contributions	\$ 0	0	0	86,504
State aid – pledged for debt service	43,887	0	43,887	0
Total operating revenues	43,887	0	43,887	86,504
Operating expenses:				
Payments on behalf of the State	9,022	0	9,022	0
Health benefits	0	0	0	86,121
Total operating expenses	9,022	0	9,022	86,121
Operating income	34,865	0	34,865	383
Nonoperating revenue (expense):				
Intergovernmental – state grants	5,567	0	5,567	0
Investment earnings – pledged for debt service	0	3,567	3,567	0
Interest expense	(4,729)	(3,635)	(8,364)	0
Total nonoperating revenue (expense)	838	(68)	770	0
Income (loss) before transfers	35,703	(68)	35,635	383
Transfer to general fund	(30,000)	0	(30,000)	0
Change in net assets	5,703	(68)	5,635	383
Total net assets (deficit) – beginning of year	(57,772)	14,969	(42,803)	51,390
Total net assets (deficit) – end of year	\$ (52,069)	14,901	(37,168)	51,773

See accompanying notes to basic financial statements.

Statement of Cash Flows – Proprietary Fund Types
Year ended June 30, 2010

(In thousands)

	Enterprise funds			
	Convention center bonds	Hospital revenue bonds	Total	Internal service
Cash flows from operating activities:				
Cash received from other governments	\$ 43,887	0	43,887	0
Cash received from employees and employer	0	0	0	86,582
Cash paid to vendors	0	0	0	(85,635)
Cash payments on behalf of the state	(9,022)	0	(9,022)	0
Net cash provided by operations	<u>34,865</u>	<u>0</u>	<u>34,865</u>	<u>947</u>
Cash flows from noncapital financing activities:				
Grants received from state	5,567	0	5,567	0
Interest paid on debt	(4,691)	(3,856)	(8,547)	0
Transfers to other funds	(27,000)	0	(27,000)	0
Repayment of long-term debt	(3,580)	(7,235)	(10,815)	0
Net cash used in noncapital financing activities	<u>(29,704)</u>	<u>(11,091)</u>	<u>(40,795)</u>	<u>0</u>
Cash flows from investing activities:				
Investment income	0	536	536	0
Principal received on note	0	7,718	7,718	0
Interest received on note	0	3,032	3,032	0
Net cash provided by investing activities	<u>0</u>	<u>11,286</u>	<u>11,286</u>	<u>0</u>
Increase in cash and cash equivalents	5,161	195	5,356	947
Cash and cash equivalents, beginning of year	<u>65,975</u>	<u>23,074</u>	<u>89,049</u>	<u>55,761</u>
Cash and cash equivalents, end of year	\$ <u>71,136</u>	<u>23,269</u>	<u>94,405</u>	<u>56,708</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 34,865	0	34,865	383
Adjustments to reconcile operating income to net cash provided by operating activities:				
Changes in operating assets and liabilities:				
Accounts receivable	0	0	0	36
Other assets	0	0	0	461
Due from component units	0	0	0	42
Accounts payable and accrued liabilities	0	0	0	25
Net cash provided by operating activities	\$ <u>34,865</u>	<u>0</u>	<u>34,865</u>	<u>947</u>

See accompanying notes to basic financial statements.

Statement of Fiduciary Net Assets – Fiduciary Funds**June 30, 2010****(Except for Employee Retirement Plan, which is as of December 31, 2009)**

(In thousands)

	Employee retirement plan	OPEB trust fund	Private purpose trusts	Agency funds
Assets:				
Cash and cash equivalents	\$ 24,063	0	82,639	5,834
Receivables:				
Interest and dividends	21,347	5	0	0
Securities sold	8,253	0	0	0
Employer contributions	111,057	0	0	0
Other	15,576	2	1,891	0
Total receivables	156,233	7	1,891	0
Investments, at fair value:				
Short-term:				
Domestic	28,242	11,901	0	0
International	7,363	1,437	0	0
Equity:				
Domestic	1,584,752	1,057	0	0
International	744,093	864	0	0
Fixed-income:				
Domestic	571,266	4,701	0	0
International	232,311	0	0	0
Real estate	232,953	0	0	0
Venture capital funds	447,731	0	0	0
Total investments	3,848,711	19,960	0	0
Securities lending short-term collateral				
Investment pool	299,975	0	0	0
Other Assets	0	0	30	0
Total assets	4,328,982	19,967	84,560	5,834
Liabilities:				
Accounts payable, accrued expenses and other liabilities	20,355	7	1,135	5,834
Securities purchased	8,866	0	0	0
Collateral held on securities lending	299,975	0	0	0
Total liabilities	329,196	7	1,135	\$ 5,834
Net assets – held in trust for pension benefits and other purposes	\$ 3,999,786	19,960	83,425	

See accompanying notes to basic financial statements.

**Statement of Changes in Fiduciary Net Assets –
Fiduciary Funds**

Year ended June 30, 2010

(Except for Employee Retirement Plan, which is for the year ended December 31, 2009)

(In thousands)

	Employee retirement plan	OPEB trust fund	Private purpose trusts
Additions:			
Contributions:			
Employers	\$ 257,348	19,992	0
Employees	127,528	0	0
Donations and other	0	0	19,071
Total contributions	<u>384,876</u>	<u>19,992</u>	<u>19,071</u>
Investment (loss) earnings:			
Realized and unrealized losses on investments	550,551	(194)	3,116
Investment Income	0	190	1,327
Interest and dividends	85,921	2	193
Less investment expenses	<u>(10,972)</u>	<u>(30)</u>	<u>0</u>
Net investment (loss) earnings	<u>625,500</u>	<u>(32)</u>	<u>4,636</u>
Securities lending activities:			
Securities lending income	3,456	0	0
Less borrower rebates and fees	<u>(1,278)</u>	<u>0</u>	<u>0</u>
Net income from securities lending activities	<u>2,178</u>	<u>0</u>	<u>0</u>
Total net investment (loss) income	<u>627,678</u>	<u>(32)</u>	<u>4,636</u>
Intergovernmental	<u>14,914</u>	<u>0</u>	<u>0</u>
Total additions	<u>1,027,468</u>	<u>19,960</u>	<u>23,707</u>
Deductions:			
Benefits	415,756	0	0
Reimbursement to other systems	9,203	0	0
Refunds of contributions	14,098	0	0
Administrative expenses and other	<u>5,514</u>	<u>0</u>	<u>19,482</u>
Total deductions	<u>444,571</u>	<u>0</u>	<u>19,482</u>
Change in net assets	<u>582,897</u>	<u>19,960</u>	<u>4,225</u>
Net assets, beginning of year	<u>3,416,889</u>	<u>0</u>	<u>79,200</u>
Net assets, end of year	<u>\$ 3,999,786</u>	<u>19,960</u>	<u>83,425</u>

See accompanying notes to basic financial statements.

Notes to Basic Financial Statements**June 30, 2010****(1) The Financial Reporting Entity**

The accounting policies followed in preparing the accompanying basic financial statements are as follows:

(a) Primary Government

The City of Boston (the City), incorporated as a town in 1630 and as a city in 1822, now exists under Chapter 486 of the Act of 1909 and Chapter 452 of the Acts of 1948 of the Commonwealth of Massachusetts (the Commonwealth), which, as amended, constitute the City's Charter. The Mayor is elected to a four-year term and serves as chief executive officer of the City. The Mayor has general supervision of and control over the City's boards, commissions, officers, and departments. The legislative body of the City is the City Council, which consists of 13 elected members serving two-year terms.

The accompanying basic financial statements present the City and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

(b) Retirement System

The State-Boston Retirement System (SBRS) is a defined benefit contributory retirement system created under state statute. It is administered by a Retirement Board comprising five members: the City Auditor, who serves *ex officio*; two individuals elected by participants in the system; a fourth member appointed by the Mayor; and a fifth member chosen by the other members. The SBRS provides pension benefits to retired City, Boston Redevelopment Authority, Boston Housing Authority, Boston Water and Sewer Commission, Boston Public Health Commission, and the Suffolk County Sheriff Department employees. Although legally separate, the SBRS provides services entirely, or almost entirely, to the City and thus has been reported as if it were part of the primary government; a method of inclusion known as blending.

(c) Discretely Presented Component Units Disclosure

These component units are reported in a separate column to emphasize that they are legally separate from the City but are included because the City is financially accountable for and is able to impose its will on the organizations. Unless otherwise indicated, the Notes to the Financial Statements pertain only to the primary government because certain disclosures of the component units are not significant relative to the total component units and to the primary government. A description of the component units, criteria for inclusion, and their relationship with the City are as follows:

Boston Redevelopment Authority (BRA) – The BRA is a public body politic and corporate constituting the City's redevelopment authority and exercising the powers of a planning board for the City. The BRA is governed by a five-member board, four of whom are appointed by the Mayor. Its purpose is to provide planning support for major construction and redevelopment activity in the City.

Notes to Basic Financial Statements

June 30, 2010

Economic Development and Industrial Corporation of Boston (EDIC) – The EDIC is a body politic and corporate and an instrumentality of the Commonwealth. It is governed by the same persons appointed as members of the BRA board. The EDIC has various powers to assist industrial development projects in the City and, together with the BRA, assists the City with its economic development function.

Boston Public Health Commission (PHC) – The PHC is a body politic and corporate and public instrumentality of the Commonwealth, established by Chapter 147 of the Acts of 1995. PHC is governed by a seven-member board, six of whom are appointed by the Mayor and confirmed by the City Council, and one of whom is the chief executive officer of the Boston Medical Center (BMC). The PHC is responsible for the implementation of public health programs in the City.

Trustees of the Public Library of the City of Boston (TPL) – The TPL is a nonprofit organization qualified as a tax-exempt entity under Section 501(c)(3) of the Internal Revenue Code. Trustees of TPL are appointed by the Mayor. The TPL was established to benefit the public library system of the City.

The financial statements of the discretely presented component units are included for their respective fiscal year ends, which is June 30, 2010.

Complete financial statements of these discretely presented component units can be obtained through the City Auditor's office, Room M-4, City Hall Plaza, Boston, Massachusetts 02201. In addition, condensed financial statements for the discretely presented component units are included in note 17.

(d) Related Organizations

The Mayor is also responsible for appointing members of the governing bodies of the Boston Housing Authority, Boston Industrial Development Finance Authority, and Boston Water and Sewer Commission; however, the City's accountability for these organizations does not extend beyond making these appointments.

(2) Summary of Significant Accounting Policies

The accounting policies of the City conform to U.S. generally accepted accounting principles as applicable to governmental units as prescribed by the Governmental Accounting Standards Board (GASB). The following is a summary of the more significant policies followed by the City:

(a) Government-wide and Fund Financial Statements

The Government-wide Financial Statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on

Notes to Basic Financial Statements**June 30, 2010**

fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for Governmental Funds, Proprietary Funds, and Fiduciary Funds, even though the latter are excluded from the Government-wide Financial Statements. Major individual Governmental Funds and major individual Enterprise Funds are reported as separate columns in the Fund Financial Statements.

(b) *Measurement Focus, Basis of Accounting, and Financial Statement Presentation***Government-wide Financial Statements**

The Government-wide Financial Statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the Proprietary Fund and Fiduciary Fund Financial Statements. The Agency Fund within the Fiduciary Fund has no measurement to focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as *program revenues*. Likewise, general revenues include all taxes.

Governmental Fund Financial Statements

Governmental Fund Financial Statements are reported using the *current financial resources measurements focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are “susceptible to accrual” (i.e., both measurable and available). Revenues not considered to be available are recorded as deferred revenue.

The City applies the susceptible to accrual criteria to property taxes and intergovernmental revenues. In applying the susceptible to accrual concept to intergovernmental revenues, there are essentially two types of revenues. In one, resources must be expended on the specific purpose or project before any amounts will

Notes to Basic Financial Statements

June 30, 2010

be reimbursed to the City; therefore, revenues are recognized based upon the amount of expenditures incurred. In the other, resources are virtually unrestricted and are usually revocable by the grantor only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met. Property taxes are recognized as revenue in the year for which taxes have been levied, provided they are collected within 60 days after year-end.

Expenditures generally are recorded when a liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences and judgments and claims, are recorded only when payment is mature and due.

Proprietary Fund, Fiduciary Fund, and Component Unit Financial Statements

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the Government-wide and Proprietary Fund Financial Statements to the extent that those standards do not conflict with or contradict guidance of GASB. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from the collection of revenue pledged to repay debt. The principal operating revenues of the City's enterprise funds are lease receipts and excise taxes. The principal operating revenues of the City's internal service funds are receipts from employer and employee for health insurance premiums. Operating expenses for enterprise funds and internal service funds include the interest, administrative expenses, and vendor payments. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Governmental funds – The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Special Revenue Fund* accounts principally for the activities funded by federal and state grant revenue sources and certain other revenues that are legally restricted to expenditures for specified purposes.

The *Capital Projects Fund* accounts for bond proceeds and grant revenues used for the acquisition or construction of the City capital facilities.

Notes to Basic Financial Statements**June 30, 2010**

Proprietary Funds – The City reports the following major Proprietary Funds:

The *Convention Center Bond Fund* accounts for the City activities related to the financing for the construction of a new state-owned convention center. Revenue debt issued in connection with this fund is payable solely by specified local and state receipts.

The *Hospital Revenue Bond Fund* accounts for the activities related to the Boston City Hospital Revenue Bonds. These Bonds are payable solely from the mortgage note payments received from the PHC. These Bonds are repaid from a pledged revenue source from PHC.

Fiduciary Funds – Additionally, the City reports the following fiduciary fund types:

The *Private-Purpose Trust Fund* is used to account for resources legally held in trust for the benefit of individuals, private organizations, or other governments. The City operates four pools used for the improvement of the City's parks and cemeteries, educational scholarships and sporting equipment, creation of public utility and beauty, and co-mingled nontestamentary trusts.

The *Pension Trust Fund* accounts principally for the activities of the State-Boston Retirement System, a blended component unit, which accumulates resources for pension benefit payments to retired City employees.

The *OPEB Liability Trust Fund*, is an irrevocable trust fund established for other postemployment benefits. The assets are appropriated from the General Fund and accumulate to reduce the unfunded actuarial liability of health care and other postemployment benefits. This fund is currently not used for payments of benefits.

The *Agency Funds* are used to report funds held by the City in a purely custodial capacity. The City currently operates a drug evidence account for proceeds from property seized from illegal drug-related activities. These funds are then used to offset the costs of technical equipment or expertise and investigations.

The City also uses an internal service fund to account for its self-insured health costs. Although the fund is presented in a separate column in the accompanying basic financial statements, it is not considered a major fund.

As a general rule, the effect of interfund activity has been eliminated from the Government-wide Financial Statements. However, interfund services provided and used are not eliminated in the process of consolidation.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Notes to Basic Financial Statements

June 30, 2010

(c) Cash Equivalents

For purposes of the statement of cash flows, investments with original maturities of three months or less when purchased are considered to be cash equivalents.

(d) Basis of Investment Valuation

Investments are presented in the accompanying basic financial statements at fair value. Where applicable, fair values are based on quotations from national securities exchanges, except for certain investments of SBRS, which are described in notes 5 and 11. Further, income from investments is recognized in the same fund as the related investments.

The City invests in the Massachusetts Municipal Depository Trust (MMDT), which is an external investment pool and is not SEC-registered. The fund is state-regulated and is valued at current share price.

(e) Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the Government-wide Financial Statements as “internal balances.”

Advances between funds, as reported in the Fund Financial Statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

(f) Uncollectible Tax and Other Receivables

All receivables are shown net of an allowance for uncollectibles. Amounts considered to be uncollectible are based on the type and age of the related receivable.

(g) Capital Assets

Capital assets include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), and intangible assets such as easements, land use rights, computer software, trademarks and patents. Capital assets are reported in the applicable governmental or business-type activities columns in the Government-wide Financial Statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$25,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Any significant construction commitments are encumbered at year-end in the City’s Capital Project Fund.

Notes to Basic Financial Statements**June 30, 2010**

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' useful lives are not capitalized.

Capital assets of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	30
Building improvements	30
Infrastructure	30
Land improvements – major	30
Land improvements – playgrounds	15
Computer upgrades	10
Equipment and machinery	10
Intangible assets, computer software and licenses	5
Computers and related equipment	3
Furniture and fixtures	3
Motor vehicles	3

(h) Compensated Absences

Employees are granted sick and vacation leave in varying amounts. Upon retirement, termination, or death, certain employees are compensated for unused sick and vacation leave (subject to certain limitations) at their then current rates of pay. The portion of the liability related to unused sick and vacation time that has matured or is due as of June 30, 2010 is recorded in the Governmental Fund Financial Statements. The liability for vacation leave is based on the amount earned but not used; for sick leave, it is based on the amount accumulated at the balance sheet date (vesting method). The liability for both amounts is calculated based on the pay or salary rates in effect at the balance sheet date.

(i) Long-Term Obligations and Related Costs

Premiums, Discounts, and Issue Costs – In the Government-wide Financial Statements, and proprietary fund types in the Fund Financial Statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. The unamortized portion is presented in the Government-wide Statement of Net Assets. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the Fund Financial Statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are

Notes to Basic Financial Statements

June 30, 2010

reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

(j) Fund Equity

In the Fund Financial Statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

(k) Tax Abatement Refunds

Matured tax abatement refunds that are due and payable at June 30 have been recorded as a liability in the General Fund. Other refunds have been recorded in the Government-wide Statement of Net Assets.

(l) Landfill Closure and Postclosure Care Costs

State and federal regulations require the City to place a final cover on its Gardner Street landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. At June 30, 2010, 100% of the Gardner Street landfill site had been used and had not accepted solid waste for several years. While most of the landfill closure construction was completed in prior years, there still remains 12 acres of the landfill to be capped as of June 30, 2010.

The total current cost of landfill closure and postclosure care is an estimate, subject to changes resulting from inflation, deflation, technology, or other changes in applicable laws or regulations. Such costs are recognized as expenditures in the General Fund to the extent that they are due or matured and are expected to be paid with expendable available financial resources. The total liability is reported in the Government-wide Statement of Net Assets. Expenditures related to the Gardner Street landfill site postclosure care in fiscal year 2010 were \$124 thousand.

(m) Use of Estimates

The preparation of the accompanying basic financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(n) Adoption of New Accounting Pronouncements

During the fiscal year ended June 30, 2010, the City adopted GASB Statement No. 51 (GASB 51), *Accounting and Financial Reporting for Intangible Assets*, establishing accounting and financial reporting for intangible assets. Examples of intangible assets are easements, patents, computer software either purchased or internally generated. As with

Notes to Basic Financial Statements**June 30, 2010**

other capital assets, the useful life of an intangible asset must be greater than one year. Intangible assets are classified as capital assets and are included in note 8. The City has recognized intangible assets in the statement of net assets in accordance with GASB 51.

The City has also adopted GASB Statement No. 53 (GASB 53), *Accounting and Financial Reporting for Derivative Instruments*, as of June 30, 2010. SBRS adopted GASB 53 as of December 31, 2009. The adoption of this new standard did not have an effect on the City's or SBRS' beginning or ending net assets.

(3) Short-Term Debt

During fiscal year 2010, the City had no short-term debt issued or outstanding.

(4) Budgetary Data

The General Fund is the only fund for which a budget is legally adopted. The budgets for all departments included in the General Fund of the City, except the School Department, are prepared under the direction of the Mayor and City Council. The School Department budget is prepared under the direction of the School Committee.

Original and supplemental appropriations are submitted by the Mayor, approved by the City Council, and lapse at year-end unless encumbered. The legal level of control over appropriations is at the department level. Amendments to the original budget must be approved by the City Council, except for a reallocation of appropriations of up to \$3 million, which the Mayor may approve. Further, the City Auditor, with the approval of the Mayor, may make transfers from any appropriation to any other appropriation for purposes of eliminating deficits before closing the books for the fiscal year. After the close of the fiscal year, the City Auditor may, with the approval of the Mayor, apply any income, taxes, and funds not disposed of and make transfers from any appropriation to any other appropriation for the purpose of closing the accounts for the fiscal year. There was one supplemental appropriation in the amount of \$4.4 million required to fund firefighters retro-active pay, pursuant to an arbitration agreement between the City and the local firefighters union.

The City must establish its property tax rate each year so that the resulting property tax levy will comply with the limits required by Proposition 2-1/2 (note 6). The tax levy must equal the sum of (a) the aggregate of all annual appropriations for expenditures; plus (b) the reserve accounts described in the following paragraph; plus (c) provision for the prior fiscal years' deficits, if any; less (d) the aggregate of all nonproperty tax revenues projected to be received by the City, including available funds, in amounts certified or approved by the Commonwealth for tax rate purposes.

In accordance with the 1986 amendments to the Funding Loan Act of 1982, the City has established two reserve funds. The first is a budget reserve fund, which is required to be funded in stages to a final level of 2-1/2% of the prior year's overall departmental appropriations, except the School Department, by the beginning of fiscal year 1990. It is available to be applied to extraordinary and unforeseen expenditures. The second is a

Notes to Basic Financial Statements

June 30, 2010

separate reserve fund of 1% to 2-1/2% of the current year appropriation of the School Department to be applied to over expenditures in that department.

The City's General Fund budget is prepared on a basis other than accounting principles generally accepted in the United States of America (GAAP). The "actual" results column in the Statement of Revenues and Expenditures – Budgetary Basis – General Fund is presented on a "budgetary basis" to provide a meaningful comparison of actual results with the budget. The major differences between the budget and GAAP basis, where applicable, are that:

(a) Revenues are recorded when cash is received, except for real estate and personal property taxes, which are recorded as revenue when levied (budget), as opposed to when susceptible to accrual (GAAP).

(b) Encumbrances and continuing appropriations are recorded as the equivalent of expenditures (budget), as opposed to a reservation of fund balance (GAAP).

(c) Certain activities and transactions are presented in separate funds (GAAP), rather than as components of the General Fund (budget).

(d) Amounts raised for the prior years' deficits and available funds from prior years' surpluses are recorded as revenue items (budget), but have no effect on GAAP revenues.

In addition, there are certain differences in classifications between revenues, expenditures, and transfers. The following reconciliation summarizes the differences between budgetary and GAAP basis accounting principles for the year ended June 30, 2010 (in thousands):

	Revenue	Expenditures	Other financing sources, net	Excess (deficiency) of revenue and other financing sources
As reported on a budgetary basis	\$ 2,303,266	2,294,178	0	9,088
Adjustments:				
Revenues to modified accrual basis	(7,958)	0	0	(7,958)
Expenditures, encumbrances, and accruals, net	0	3,783	0	(3,783)
Reclassifications:				
State-funded teachers' retirement costs	0	118,841	0	(118,841)
Convention Center fund transfer	(30,000)	0	30,000	0
Other transfers	(23,058)	0	23,058	0
As reported on a GAAP basis	<u>\$ 2,242,250</u>	<u>2,416,802</u>	<u>53,058</u>	<u>(121,494)</u>

Notes to Basic Financial Statements**June 30, 2010****(5) Deposits and Investments**

State and local statutes place certain limitations on the nature of deposits and investments available to the City. Deposits, including demand deposits, money markets, and certificates of deposit in any one financial institution, may not exceed 60% of the capital and surplus of such institution unless collateralized by the financial institution involved. Investments may be made in unconditionally guaranteed U.S. government obligations having maturities of a year or less from the date of purchase, or through repurchase agreements with maturities of no greater than 90 days in which the underlying securities consist of such obligations. Other allowable investments include authorized bonds of all states, bankers' acceptances, commercial paper rated within the three highest classifications established by rating agencies, and units in the MMDT. The highest classifications for Moody's and Standard & Poor's (S&P) are as follows:

Commercial Paper Credit Ratings		
	Moody's	S&P
Superior	P1	A1+ or A1
Satisfactory	P2	A2
Adequate	P3	A3

The Treasurer of the Commonwealth of Massachusetts oversees the financial management of the MMDT, a local investment pool for cities, towns, and other state and local agencies within the Commonwealth. The City's fair value of its investment in the MMDT represents their value of the pool's shares.

The City and its blended component unit apply GASB No. 40, *Deposit and Investment Risk Disclosures*. The standard requires that entities disclose essential risk information about deposits and investments.

Primary Government (except the pension trust fund)**(a) Custodial Credit Risk**

Custodial credit risk is the risk that in the event of bank failure, the City's deposits may not be returned. The City carries deposits that are fully insured by FDIC insurance, collateralized and deposits that are not collateralized and are uninsured. As of June 30, 2010, the bank balances of uninsured and uncollateralized deposits totaled approximately \$386,000. All of the City's investments are held by third parties in the City's name.

(b) Investment Policy

The City's primary concern in connection with its investment activities is a concern shared by all municipal governments: the preservation of capital. The City's investment policy establishes a domain in which all of the City's investment activities may be safely conducted while it strives to use its capital resources as efficiently as possible. The frontiers of that

Notes to Basic Financial Statements

June 30, 2010

domain are fixed by Massachusetts General Laws (M.G.L.) c. 44, sec. 55, which prohibits Massachusetts communities from investing in certain categories of high-risk investments; limits the amount of the City's bank deposits in any one financial institution; and establishes qualifying criteria for banking institutions. Further, all investments held by third parties are to be held in the City's name.

(c) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The following is a listing of the City's fixed income investments (in thousands) and related maturity schedule (in years) as of June 30, 2010:

Investment type	Fair value	Less than 1	1 – 5
External investment pool	\$ 535,056	535,056	0
Mutual funds	152,004	141,937	10,067
U.S. Treasury notes and bonds	7,953	0	7,953
Domestic corporate	9,263	0	9,263
Repurchase Agreements	476,245	476,245	0
	<u>\$ 1,180,521</u>	<u>1,153,238</u>	<u>27,283</u>

(d) Credit Risk

The City's fixed income investments as of June 30, 2010 were rated by S & P and/or an equivalent national rating organization, and the ratings are presented below using the S & P rating scale (in thousands):

Investment type	Fair value	Rating
Mutual funds	\$ 152,004	Not Rated to AAAm
External investment pool	535,056	Not Rated
Domestic corporate	9,263	AAA to BBB+
	<u>\$ 696,323</u>	

(e) Concentration Risk

The City adheres to the provisions of M.G.L. c. 44, sec. 55 when managing concentration risk. M.G.L. c. 44, sec. 55 contains several restrictions limiting where and under what circumstances the City may deposit its funds.

Notes to Basic Financial Statements**June 30, 2010*****(f) Foreign Currency Risk***

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. As of June 30, 2010 the City held one international equity mutual fund valued at \$2.9 million.

State-Boston Retirement System (SBRS or the System)***(a) Custodial Credit Risk***

Custodial credit risk is the risk that in the event of bank failure, the System's deposits may not be returned. The System carries deposits that are fully insured by the Federal Deposit Insurance Corporation (FDIC) insurance or collateralized with securities held by the System or the System's agent in the System's name. The System also carries deposits that are not collateralized and are uninsured. As of December 31, 2009, all of the System's deposits were insured or collateralized.

(b) Investment Policy

The provisions of M.G.L. c. 32, sec 23(2) govern the System's investment practice. Diversification is attained through varied investment management styles that comply with Massachusetts state law. This is accomplished through the retention of investment managers that adhere to M.G.L. c. 32, sec. 23(3), the "Prudent Person" rule.

The System has retained an investment consultant to work with the Retirement Board in a fiduciary capacity to assure that strategic investment diversification is attained, to employ investment managers with expertise in their respective asset classes, and to closely monitor the implementation and performance of the respective investment strategies.

The System is currently invested in stocks (domestic and foreign), fixed income securities (domestic and foreign), real estate, private equity, and hedge funds.

Notes to Basic Financial Statements

June 30, 2010

(c) Interest Rate Risk

The following is a listing of the System's fixed income investments (in thousands) and related maturity schedule (in years) as of December 31, 2009:

Investment type	Fair value	Less than 1	1 – 5	6 – 10	More than 10
U.S. Treasury notes and bonds	\$ 32,483	0	4,615	11,595	16,273
U.S. agencies	30,269	0	2,327	12,548	15,394
Domestic corporate	401,593	1,660	211,699	149,889	38,345
International corporate	87,181	8,839	26,163	25,535	26,644
International government	145,130	808	71,996	50,495	21,831
Short-term investment funds	35,605	35,605	0	0	0
Asset-backed:					
CMOs	31,265	0	0	772	30,493
Mortgage-backed	58,227	0	16	8,140	50,071
Other	17,429	0	8,037	5,335	4,057
	<u>\$ 839,182</u>	<u>46,912</u>	<u>324,853</u>	<u>264,309</u>	<u>203,108</u>

The System's guidelines do not specifically address limits on maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The manager of each fixed income portfolio is responsible for determining the maturity and commensurate returns of their portfolio.

The collateralized mortgage obligations (CMOs) held by the System as of December 31, 2009 are highly sensitive to changes in interest rates.

(d) Credit Risk

The System allows investment managers to apply discretion under the "Prudent Person" rule. Investments are made, as a prudent person would be expected to act with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments.

Notes to Basic Financial Statements

June 30, 2010

The System's fixed income investments as of December 31, 2009 were rated by S & P and/or an equivalent national rating organization and the ratings are presented below (in thousands) using the S & P rating scale:

Investment type	Fair value	AAA	AA	A	BBB	BB	B	CCC	Not rated
U.S. agencies	\$ 30,269	20,942	2,034	2,118	365	0	0	0	4,810
Domestic corporate	401,593	7,300	34,476	129,725	35,028	40,769	63,324	4,846	86,125
International corp.	87,181	35,010	5,474	3,901	21,156	12,345	4,148	0	5,147
International gov't	145,130	95,329	31,342	5,547	3,483	1,321	0	0	8,108
Short-term investment funds	35,605	35,605	0	0	0	0	0	0	0
Asset-backed:									
CMOs	31,265	24,675	791	488	0	0	102	0	5,209
Mortgage-backed	58,227	58,227	0	0	0	0	0	0	0
Other	17,429	12,121	1,013	808	330	36	80	0	3,041
	<u>\$ 806,699</u>	<u>289,209</u>	<u>75,130</u>	<u>142,587</u>	<u>60,362</u>	<u>54,471</u>	<u>67,654</u>	<u>4,846</u>	<u>112,440</u>

In addition to the above schedule, the System has approximately \$32.5 million invested in U.S. government securities, which are not rated as they are explicitly guaranteed by the U.S. government.

(e) Concentration Risk

The System has no investments, at fair value, that exceed 5% of the System's net assets held in trust for pension benefits as of December 31, 2009.

The System adheres to the provisions of M.G.L. c. 32, sec. 23(2) when managing concentration risk.

(f) Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. Similar to the investments in domestic equities, the System employs or encourages its investment advisor to employ diversification, asset allocation, and quality strategies.

Risk of loss arises from changes in currency exchange rates. The System's exposure to foreign currency risk is presented on the following table (in thousands).

Notes to Basic Financial Statements

June 30, 2010

Currency	Cash and short-term investments	Fixed income	Equity	Alternative	Total
Australian dollar	\$ 409	808	32,647	0	33,864
Brazilian real	13	0	15,030	0	15,043
Canadian dollar	1,018	5,710	7,802	0	14,530
Chilean pesa	0	0	0	0	0
Danish krone	0	0	3,432	0	3,432
Egyptian pound	0	0	0	0	0
Euro currency	7,837	81,290	197,047	5,174	291,348
Hong Kong dollar	143	0	18,843	0	18,986
Indian rupee	5	0	11,320	0	11,325
Indonesian rupiah	10	1,417	3,984	0	5,411
Israeli Shekel	0	0	455	0	455
Japanese yen	1,463	54,888	119,921	0	176,272
Malaysian ringgit	132	0	4,373	0	4,505
Mexican peso	160	2,967	3,993	0	7,120
New Taiwan dollar	288	0	1,594	0	1,882
New Zealand dollar	28	0	2,861	0	2,889
Norwegian krone	651	8,505	4,329	0	13,485
Polish zloty	3	0	474	0	477
Pound sterling	913	15,128	110,496	0	126,537
Singapore dollar	412	7,100	14,347	0	21,859
South African rand	91	0	6,325	0	6,416
South Korean won	56	0	10,430	0	10,486
Swedish krona	529	3,392	13,656	0	17,577
Swiss franc	201	0	43,622	0	43,823
Thailand baht	0	0	2,084	0	2,084
Turkish Lira	0	0	2,836	0	2,836
International equity pooled funds (various currencies)	0	0	87,461	0	87,461
Total securities subject to foreign currency risk	\$ 14,362	181,205	719,362	5,174	920,103
U.S. dollars (securities held by international investment managers)*	7,389	51,106	24,731	0	83,226
Total international investment securities	\$ 21,751	232,311	744,093	5,174	1,003,329

* Short-term investments include cash of approximately \$26.

Notes to Basic Financial Statements

June 30, 2010

(g) Derivatives

The System trades financial instruments with off-balance-sheet risk in the normal course of its investing activities to assist in managing exposure to market risks. The financial instruments include foreign currency forward contracts and purchasing and selling of when issued securities. The fair value balances and notional amounts of derivative instruments outstanding at December 31, 2009, classified by type, and the changes in fair value of such derivatives for the year then ended as reported in the financial statements are as follows (in thousands; debit (credit)):

	Fair value		Notional	Fair value	
	Classification	Amount		Classification	Amount
Investment derivatives:					
Forward foreign currency contracts	Other Liabilities	\$ (375)	\$ 28,683	Realized/Unrealized Gains and Losses	\$ 553
When issued securities	Fixed income investments	(38)	12,473	Realized/Unrealized Gains and Losses	209

The fair value of the investment derivatives are based on market prices.

(6) Property Taxes

Real and personal property taxes are based on values assessed as of each January 1. By law, all taxable property must be assessed at 100% of fair cash value. Also by law, property taxes must be levied at least 30 days prior to their due date. Once levied, these taxes are recorded as receivables, net of estimated uncollectible balances. Property tax revenues have been recorded using the modified accrual basis of accounting, described in note 2.

The City bills and collects its property taxes on a quarterly basis following the January 1 assessment. The due dates for those quarterly tax billings are August 1, November 1, February 1, and May 1. Property taxes that remain unpaid after the respective due dates are subject to penalties and interest charges.

Based on the City's experience, most property taxes are collected during the year in which they are assessed. Liening of properties on which taxes remain unpaid occurs annually. On December 15, 2009, all properties with unpaid fiscal year 2009 property taxes were lienied. The City ultimately has the right to foreclose on all properties where the taxes remain unpaid.

Notes to Basic Financial Statements

June 30, 2010

A statewide property tax limitation known as “Proposition 2-1/2” limits the amount of increase in the property tax levy in any fiscal year. Generally, Proposition 2-1/2 limits the total levy to an amount not greater than 2-1/2% of the total assessed value of all taxable property within the City. Secondly, the tax levy cannot increase by more than 2-1/2% of the prior year’s levy plus the taxes on property newly added to the tax rolls. Certain provisions of Proposition 2-1/2 can be overridden by a Citywide referendum.

(7) Receivables

Receivables as of year-end for the government’s individual major funds, nonmajor funds, and internal service fund, including the applicable allowances for uncollectible accounts, are as follows (in thousands):

	General	Special revenue	Capital projects	Other nonmajor funds	Internal service	Total
Receivables:						
Property taxes	\$ 18,550	0	0	0	0	18,550
Other taxes	152,315	0	0	0	0	152,315
Intergovernmental	86,549	119,160	11,674	0	0	217,383
Other	34,039	65,831	0	153	134	100,157
Gross receivables	291,453	184,991	11,674	153	134	488,405
Less allowance for uncollectibles	(156,674)	0	0	0	0	(156,674)
Net total receivables	\$ 134,779	184,991	11,674	153	134	331,731

(a) Long-Term Receivable

The City participates in the Commonwealth’s school building assistance program, which is administered by the Massachusetts School Building Authority (MSBA). The MSBA provides financial assistance (up to 90% of total costs) to the City to build and/or renovate schools. As of June 30, 2010, under this program, the City was due funds totaling \$74.8 million.

In the General Fund, the receivable is offset by deferred revenue because the revenue is not considered available. The following is a schedule of the five-year paydown (in thousands) as of June 30, 2011 through 2015, and in five-year increments thereafter:

Notes to Basic Financial Statements

June 30, 2010

	<u>Anticipated revenue</u>
Fiscal year(s):	
2011	\$ 11,158
2012	9,848
2013	8,833
2014	8,475
2015	8,176
2016 – 2020	<u>28,353</u>
Total	<u>\$ 74,843</u>

(b) Notes Receivable

Section 108 is the loan guarantee provision of the Community Development Block Grant (CDBG) program. Section 108 provides communities with a source of financing for economic development, housing rehabilitation, public facilities, and large-scale physical development projects. Housing and Urban Development (HUD) provides grants to local governments, which in turn provides loans to developers. As of June 30, 2010, under this program, the City determined that \$65.7 million was collectible. This amount is recorded in the City's Special Revenue fund.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows (in thousands):

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Delinquent taxes receivable (General Fund)	\$ 19,695	0	19,695
Due from component units	0	4,837	4,837
Section 108 receivable	65,739	0	65,739
School building assistance receivable	74,843	1,775	76,618
Chapter 90	0	9,399	9,399
Other	<u>0</u>	<u>14,785</u>	<u>14,785</u>
Total unavailable/unearned revenue for governmental funds	<u>\$ 160,277</u>	<u>30,796</u>	<u>191,073</u>

Notes to Basic Financial Statements

June 30, 2010

(8) Capital Assets

Capital asset activity for the year ended June 30, 2010 was as follows (in thousands):

Primary Government

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 25,064	64	0	25,128
Construction in progress	35,563	76,741	(61,335)	50,969
Total capital assets not being depreciated	<u>60,627</u>	<u>76,805</u>	<u>(61,335)</u>	<u>76,097</u>
Capital assets being depreciated:				
Land improvements	151,266	7,750	0	159,016
Buildings and improvements	1,679,952	40,331	0	1,720,283
Furniture and equipment	236,152	32,522	(10,809)	257,865
Infrastructure	435,111	40,456	0	475,567
Total capital assets being depreciated	<u>2,502,481</u>	<u>121,059</u>	<u>(10,809)</u>	<u>2,612,731</u>
Less accumulated depreciation for:				
Land improvements	30,784	7,913	0	38,697
Buildings and improvements	911,271	30,624	0	941,895
Furniture and equipment	184,633	19,374	(9,865)	194,142
Infrastructure	151,150	14,745	0	165,895
Total accumulated depreciation	<u>1,277,838</u>	<u>72,656</u>	<u>(9,865)</u>	<u>1,340,629</u>
Total capital assets being depreciated, net	<u>1,224,643</u>	<u>48,403</u>	<u>(944)</u>	<u>1,272,102</u>
Governmental activities capital assets, net	<u>\$ 1,285,270</u>	<u>125,208</u>	<u>(62,279)</u>	<u>1,348,199</u>

Notes to Basic Financial Statements**June 30, 2010**

Depreciation expense was charged to functions of the primary government as follows (in thousands):

Governmental activities:		
General government	\$	1,943
Human services		1,734
Public safety		12,665
Public works, including depreciation of general infrastructure assets		15,847
Property and development		3,838
Parks and recreation		6,950
Library		3,436
Schools		25,766
Public health		239
County		238
Total depreciation expense – governmental activities	\$	<u>72,656</u>

(9) Interfund Receivable and Payable Balances

Individual fund and discrete component unit receivable and payable balances at June 30, 2010 are as follows (in thousands):

<u>Interfund balances</u>	<u>Receivable</u>	<u>Payable</u>
General	\$ 30,000	6,054
Special revenue	3,787	0
Capital projects	1,846	0
Convention Center	0	30,000
Internal service	421	0
Balances at June 30, 2010	\$ <u>36,054</u>	<u>36,054</u>

The purpose of the internal balances is to fund cash flows due to timing differences between receipts and disbursements (in thousands):

<u>Discrete component unit balances</u>	<u>Receivable</u>	<u>Payable</u>
Primary government:		
General	\$ 5,909	542
Hospital revenue bond	74,581	0
	<u>80,490</u>	<u>542</u>
Discretely presented component units:		
TPL	0	820
PHC	542	79,670
	<u>542</u>	<u>80,490</u>
Balances at June 30, 2010	\$ <u>81,032</u>	<u>81,032</u>

Notes to Basic Financial Statements

June 30, 2010

(10) Long-Term Obligations

Governmental activities

The following is a summary of the long-term obligations of the governmental activities of the City as of June 30, 2010 (in thousands):

	Interest rates	Outstanding, beginning of year	Additions	Reductions	Outstanding, end of year	Due within one year
Bonds Payable:						
General Obligation Bonds	2.0 - 5.75%	\$ 420,305	125,000	74,470	470,835	43,145
General Obligation Refunding Bonds	.125-5.0%	496,515	68,345	82,865	481,995	48,545
Total governmental general obligation bonds payable		\$ 916,820	193,345	157,335	952,830	91,690
Add (deduct):						
Unamortized bond premiums/discounts net					45,726	
Unamortized excess of reacquisition price over net carrying amount of defeased bonds					(14,308)	
Current portion of long-term debt					(91,690)	
					\$ 892,558	
Notes, Leases and Other long-term obligations:						
Notes payable	4.25-7.18%	\$ 32,611	11,360	3,686	40,285	3,683
Leases payable		39,545	8,132	12,173	35,504	12,020
Judgments and claims		2,925	28,444	12,904	18,465	17,420
Workers' compensation		76,143	53,153	32,023	97,273	39,133
Health and life claims		6,507	86,140	86,120	6,527	6,527
Compensated absences		172,804	69,119	65,443	176,480	47,462
Landfill closure and postclosure care costs		8,919	0	124	8,795	200
Pollution remediation		2,000	293	1,793	500	500
Other postemployment benefits		430,794	258,991	153,433	536,352	0
Total notes, leases, and other long-term obligations		\$ 772,248	515,632	367,699	920,181	126,945

The payment of liabilities for judgments and claims, compensated absences, landfill closure and postclosure costs, and other postemployment benefits is primarily the responsibility of the City's General Fund.

Notes to Basic Financial Statements

June 30, 2010

The annual debt service requirements of the City's general obligation bonds, notes and leases payable as of June 30, 2010 are as follows (in thousands):

General obligation bonds:	Principal	Interest	Subsidy	Total
Year(s) ending June 30:				
2011	\$ 91,690	41,092	(1,720)	131,062
2012	88,805	37,036	(1,720)	124,121
2013	83,525	33,211	(1,720)	115,016
2014	75,215	29,550	(1,720)	103,045
2015	69,390	26,163	(1,720)	93,833
2016-2020	278,800	88,068	(8,236)	358,632
2021-2025	194,935	36,865	(5,996)	225,804
2026-2030	70,470	7,726	(1,202)	76,994
	<u>\$ 952,830</u>	<u>299,711</u>	<u>(24,034)</u>	<u>1,228,507</u>
Notes Payable:				
Year(s) ending June 30:				
2011	\$ 3,683	1,610	0	5,293
2012	3,231	1,667	0	4,898
2013	3,745	1,477	0	5,222
2014	4,016	1,285	0	5,301
2015	2,110	1,117	0	3,227
2016-2020	11,301	3,856	0	15,157
2021-2025	4,705	2,134	0	6,839
2026-2030	7,494	1,194	0	8,688
	<u>\$ 40,285</u>	<u>14,340</u>	<u>0</u>	<u>54,625</u>
Leases Payable:				
Year(s) ending June 30:				
2011	\$ 12,020	984	0	13,004
2012	9,813	631	0	10,444
2013	5,569	375	0	5,944
2014	3,568	219	0	3,787
2015	2,177	117	0	2,294
2016-2017	2,357	75	0	2,432
	<u>\$ 35,504</u>	<u>2,401</u>	<u>0</u>	<u>37,905</u>

On October 28, 2009, the City issued \$20,000,000 of Qualified School Construction Bonds (QSCBs) offered under the American Recovery and Reinvestment Act (ARRA), which allows the City to issue the bonds at a tax credit against their federal income tax liability. The principal of the bonds are payable quarterly, until maturity in fiscal year 2024, and are net of a \$302,500 quarterly tax credit.

On March 18, 2010, the City of Boston sold its Series A through D, General Obligation Bonds and on March 25, 2010 sold its \$17,415,000 Series E QSCBs. Through the implementation of

Notes to Basic Financial Statements**June 30, 2010**

Federal programs made available by the American Recovery and Reinvestment Act of 2009, the City of Boston was able to issue the series C, D, and E taxable bond issues at attractive interest rates. In each of the programs, the City receives reimbursement from the federal government for some or all of the interest expense. The QSCB offered in October, 2009 and the Series C General Obligation bonds both require repayment through the establishment of sinking funds. The City will establish the sinking funds as required.

- \$39,995,000 General Obligation Bonds, 2010 Series A: The Series A Bonds were issued to finance various capital projects of the City. Interest payments between 2-5% on the bonds are payable semiannually each April 1 and October 1 until maturity in fiscal year 2030.
- \$68,345,000 General Obligation Bonds, 2010 Series B: The Series B Bonds were issued for the purpose of advance refunding certain outstanding general obligation bonds of the City totaling \$66,195,000. Interest payments between 2-4% on these bonds are payable semiannually on April 1 and October 1 until maturity in fiscal year 2023. The cash flow difference obtained was \$3.5 million and the economic gain (the difference between the present values of the debt service payments on old and new debt) was \$3.4 million.
- \$30,905,000 General Obligation Bonds, 2010 Series C (Build America Bonds - Federally Taxable - Direct Payment): Interest payments between 4.75-5.35% on the bonds are payable semiannually each April 1 and October 1 until maturity in fiscal year 2030. The City will receive a direct tax subsidy from the U.S. Treasury equaling 35% of the interest on the bonds, making the net interest rates .79-3.76%.
- \$16,685,000 General Obligation Bonds, 2010 Series D (Recovery Zone Economic Development Bonds - Federally Taxable - Direct Payment): Interest payments between 3.25-5.35% on the bonds are payable semiannually each April 1 and October 1 until maturity in fiscal year 2030. The City will receive a direct tax subsidy from the U.S. Treasury equaling 45% of the interest on the bonds, making the net interest rates .67-3.18%.
- On March 25, 2010, the City of Boston sold its \$17,415,000 General Obligation Bonds, 2010 Series E (Qualified School Construction Bonds - Federally Taxable - Direct Payment). The Series E Bonds are issued for the purpose of paying costs of capital projects for City schools. Interest payments between 4.8-5.3% on the bonds are payable semiannually each April 1 and October 1 until maturity in fiscal year 2026. The City will receive a direct tax subsidy from the U.S. Treasury equal to 100% of the interest on the bonds.

Notes to Basic Financial Statements

June 30, 2010

The City has entered into various capital lease agreements for equipment acquisition. Payments under these agreements are subject to annual appropriation and, by statute, are not included in the City's debt limit calculations. The remaining payments for these leases as of June 30, 2010 are \$35.5 million. The City's commitment under operating leases is not significant.

Business-type activities

The following is a summary of the long-term obligations of the business-type activities of the City as of June 30, 2010 (in thousands):

	<u>Interest rates</u>	<u>Outstanding, beginning of year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding, end of year</u>	<u>Due within one year</u>
Bonds payable:						
Convention Center Fund:						
Special Obligation Bonds dated 4/1/02	4.0% – 5.25%	\$ 97,085	0	3,580	93,505	3,725
Hospital Bond Fund:						
Special Obligation Refunding Bonds, Boston City Hospital, dated 8/1/02	2.0 – 5.0	87,840	0	7,235	80,605	7,525
Total business-type obligations		<u>\$ 184,925</u>	<u>0</u>	<u>10,815</u>	174,110	<u>11,250</u>
Add (deduct):						
Unamortized bond premiums					2,064	
Unamortized excess of reacquisition price over net carrying amount of defeased bonds					(272)	
Current portion of long-term debt					(11,250)	
					<u>\$ 164,652</u>	

The annual debt service requirements of the City's special obligation bonds and Boston City Hospital, Series B, revenue bonds outstanding as of June 30, 2010 are as follows (in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year(s) ending June 30:			
2011	\$ 11,250	8,108	19,358
2012	11,700	7,652	19,352
2013	12,170	7,173	19,343
2014	12,665	6,669	19,334
2015	13,190	6,096	19,286
2016-2020	65,285	20,009	85,294
2021-2025	32,475	8,874	41,349
2026-2030	15,375	1,163	16,538
	<u>\$ 174,110</u>	<u>65,744</u>	<u>239,854</u>

The revenue refunding bonds of the Boston City Hospital (BCH) do not constitute general obligations of the City and the annual debt service of these bonds has been assumed by PHC.

Notes to Basic Financial Statements

June 30, 2010

PHC expects to meet its obligation on the bonds through application of a portion of the rent payable to the PHC by the BMC for its lease of the former BCH. Under certain circumstances, including a default by BMC under the lease, City revenues may be required to satisfy the debt service requirements on the Series B bonds.

The City has pledged future mortgage note payments from the PHC, to repay \$127.8 million in special obligation refunding bonds issued in August 2002. Proceeds from the bonds originally provided financing for the construction of Boston City Hospital. The bonds are payable solely from mortgage note payments received from the PHC and are payable through 2019. Annual principal and interest payments on the bonds are expected to require 100 percent of the mortgage note repayments. The total principal and interest remaining to be paid on the bonds is \$99.3 million. Principal and interest paid for the current year and mortgage note repayments received were \$11.1 million and \$11.3, respectively.

The City has pledged future taxi medallion sales and state hotel/motel fees (pledged revenues) to repay \$116.9 million in special obligation bonds issued in April 2002. Proceeds from the bonds provided financing for the City's activities related to the financing for the construction of the state-owned convention center. The bonds are payable solely from the pledged revenues and are payable through 2027. Annual principal and interest payments on the bonds are expected to require 25 percent of the pledged revenues. The total principal and interest remaining to be paid on the bonds is \$140.6 million. Principal and interest paid for the current year and pledged revenue receipts received, net of the \$30.0 million transfer to the general fund, were \$8.3 million and \$13.9 million, respectively.

No Obligation Debt

The City has outstanding industrial, commercial, and housing development bonds payable solely from revenues of the respective enterprises that do not constitute an indebtedness of the City and are not charged against its general credit. This aggregate amount is immaterial to the financial statements.

Defeased Debt

The principal amount of debt refunded through in-substance defeasance transactions for both governmental and business-type activities and still outstanding at June 30, 2010 was approximately \$164.9 million.

Debt Capacity

The City is subject to a dual general debt limit: the normal debt limit and the double debt limit. Such limits are equal to 5% and 10%, respectively, of the valuation of taxable property in the City as last equalized by the State Department of Revenue. Debt may be authorized up to the normal debt limit without state approval. Authorizations under the double debt limit, however, require the approval of the Commonwealth's Secretary of Administration and Finance.

Notes to Basic Financial Statements**June 30, 2010**

Additionally, there are many categories of general obligation debt, which are exempt from the debt limit but are subject to other limitations.

As of June 30, 2010, the City may issue \$4.04 billion of additional general obligation debt under the debt limit. General obligation debt of \$467.7 million, subject to the debt limit, and \$80.5 million, exempt from the debt limit, are authorized but unissued as of June 30, 2010.

(11) Retirement Plans***(a) Plan Description***

The City contributes to the SBRS, a cost sharing multiple employer defined benefit pension plan. The System provides retirement, disability, and death benefits to plan members and beneficiaries of the following government units:

- (1) City of Boston
- (2) Boston Redevelopment Authority
- (3) Boston Housing Authority
- (4) Boston Water and Sewer Commission
- (5) Boston Public Health Commission
- (6) Suffolk County Sheriff Department

On January 1, 2010, in accordance with Chapter 61 of the Acts of 2009, the Suffolk County Sheriff's Department and their respective retirement annuity savings funds were transitioned to the Commonwealth. Furthermore, retirees who retired as employees of the Suffolk County Sheriff's Department prior to January 1, 2010, will remain members of the System and the respective pension liability will remain the obligation of the City. Due to a collective bargaining agreement, a limited number of employees retain the ability to retire as members of the System until November 1, 2010.

Chapter 32 of the M.G.L assigns authority to establish and amend benefit provisions of the plan to the state legislature.

The System is administered by a five person Board of Retirement consisting of the City Auditor, who serves as a member *ex officio*, two members who are elected by the participants, in or retired from the service of the System, a fourth member appointed by the Mayor, and a fifth member chosen by the other members. A complete set of financial statements for SBRS for the fiscal year ended December 31, 2009 can be obtained through the SBRS, Boston City Hall, Room 816, Boston, MA 02201.

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(b) Basis of Accounting

The System's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due.

Notes to Basic Financial Statements

June 30, 2010

Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Investments of the System are stated as follows:

- (1) Bonds are stated at quoted market value.
- (2) Equity securities are stated at quoted market value.
- (3) Real estate funds are stated at appraised value or partner's account value, whichever is more readily determinable.
- (4) Venture capital funds are stated at contributed cost or fair market value, whichever is more readily determinable.
- (5) International investments are stated at quoted market value and are included in equities and fixed income categories.
- (6) Cash is stated at carrying amount, which is reconciled book balance.

(c) Membership

Membership in the System consisted of the following at December 31, 2009, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	13,894
Terminated plan members entitled to but not receiving benefits	10,172
Active plan members	20,909
Total membership	44,975
Total number of participating employers	6

(d) Contributions

Plan members are required to contribute to the System. Depending on their employment date, active members must contribute a range of 5% – 9% of their regular gross compensation. Members hired after December 31, 1978 must contribute an additional 2% of regular compensation in excess of \$30,000. Participating employers are required to pay into the System their share of the remaining System-wide actuarially determined contribution, which is apportioned among the employers based on active covered payroll. The contributions of plan members and the participating employers are governed by Chapter 32 of the M.G.L. The City's required and actual contributions to the System for the year ended June 30, 2010 was \$116 million. For years ended June 30, 2009 and 2008 the City's required and actual contributions were \$213 million, \$203 million or \$108 million and \$105 million, net of teachers' retirement, respectively.

Notes to Basic Financial Statements

June 30, 2010

On May 22, 2010, the Commonwealth enacted Chapter 112 of the Acts of 2010 which resulted in significant changes in the funding of pension benefits and related assets held for the benefit of City of Boston Teachers (Boston Teachers) employee group and how that group is administered. The Legislation stipulated that the Commonwealth is now responsible for the Boston Teachers pension liability and the funding requirements thereto required. Further, the Legislation stipulated that the System was to continue administering the membership and retiree activities related to the Boston Teachers.

The Legislation also stipulated that the assets attributable to the Boston teachers would be invested in the Commonwealths Pension Reserves Investment Trust (PRIT) Fund. However, that investment would be considered an asset of the System. In order to fund this asset, the System was required to liquidate certain positions, rebalance the portfolio as necessary, and remit approximately \$1.04 billion to PRIT.

During the fall of 1997, the System's Retirement Board, the City Council, and the Mayor approved the option for local funding of cost-of-living adjustments. As a result, a locally funded cost-of-living adjustment of 3.0% on the first \$12,000 of a retiree's annual payment was awarded first in fiscal year 2001 and each year following. These cost-of-living adjustments will be awarded by the Retirement Board each year, except in years in which the Retirement Board determines that such an adjustment would substantially impair the funding schedule.

(e) Legally Required Reserve Accounts

The balance in the System's legally required reserves (on the statutory basis of accounting) at December 31, 2009 is as follows (in thousands):

Description	Amount	Purpose
Annuity savings fund	\$ 1,386,917	Active members' contribution balance
Annuity reserve fund	426,582	Retired members' contribution account
Military service credit	49	Members' contribution account while on military leave
Pension reserve fund	1,971,798	Amounts appropriated to fund future retirement benefits
Pension fund	214,440	Remaining net assets
	<u>\$ 3,999,786</u>	

All reserve accounts are funded at levels required by state statute.

(f) Securities Lending

The Public Employment Retirement Administration Commission of Massachusetts (PERAC) has issued supplemental regulations that permit the System to engage in securities lending transactions. These transactions are conducted by the System's custodian, which

Notes to Basic Financial Statements

June 30, 2010

lends certain securities owned by the System to other broker dealers and banks pursuant to a form of loan agreement. The System and the borrowers maintain the right to terminate all securities lending transactions on demand.

At the System's direction, the custodian lends the System's securities and receives cash (including both U.S. and foreign currency), U.S. government securities, sovereign debt of foreign countries, and irrevocable bank letters of credit as collateral. The custodian does not have the ability to pledge or sell collateral unless the borrower defaults. Borrowers are required to deliver cash collateral in amounts equal to not less than 100% of the market value of the loaned securities.

The System does not impose any restrictions on the amount of securities lent on its behalf by the custodian. There were no failures by any borrowers to return loaned securities or pay distributions thereon and there were no losses from a default of the borrowers or the custodian for the year ended December 31, 2009. The cash collateral received by the custodian on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool. The relationship between the average maturities of the investment pool and loans was affected by the maturities of the loans made by other plans that invested cash collateral in the collective investment pool, which the System could not determine. At December 31, 2009, the System had no credit risk exposure to borrowers because the amounts the System owed the borrowers exceeded the amounts owed to the System.

At December 31, 2009, the fair value of securities loaned by the System amounted to \$323.8 million, against which was held collateral of \$336.0 million as follows (in thousands):

Short-term collateral investment pool	\$	299,975
Noncash collateral		<u>36,092</u>
Total	\$	<u><u>336,067</u></u>

(g) Commitments

At December 31, 2009, the System had contractual commitments to provide approximately \$68 million of additional funding to venture capital funds.

(h) Funded Status and Funding Progress

The funded status of the System as of January 1, 2008, the most recent actuarial valuation date, with an updated liability projection as of January 1, 2010, is as follows (in thousands):

Notes to Basic Financial Statements**June 30, 2010**

Actuarially accrued liability (AAL)	\$	7,212,669
Actuarial value of plan assets		<u>4,292,504</u>
Unfunded AAL (UAAL)	\$	<u><u>2,920,165</u></u>
Funded ratio (actuarial value of plan assets/AAL)		59.5%
Covered payroll (active plan members)	\$	1,425,451
UAAL as a percentage of covered payroll		204.9%

In the January 1, 2008 actuarial valuation, the individual entry age normal actuarial cost method was used. The actuarial assumptions included an 8.0% investment rate of return, projected salary increases of 5.0%, and cost-of-living adjustments of 3.0% up to \$12,000 annually. The actuarial value of assets was determined using the fair value of investments. The System's unfunded actuarial accrued liability is being amortized as a level percentage of pay on an open basis. The remaining amortization period at January 1, 2010 was 14 years.

The schedule of funding progress, presented as Required Supplementary Information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

(12) Other Postemployment Benefits (OPEB)

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, requires governments to account for OPEB, primarily healthcare, on an accrual basis. The effect is the recognition of an actuarially required contribution as an expense on the Government-wide Statement of Activities when a future retiree earns their postemployment benefit. To the extent that an entity does not fund their actuarially required contribution, a postemployment benefit liability is recognized on the Government-wide Statement of Net Assets over time.

In addition to the pension benefits described in note 11, the City provides postemployment healthcare and life insurance benefits, in accordance with state statute and City ordinance, to participating retirees and their beneficiaries. Participating retirees are City retirees. As of June 30, 2009, the valuation date, approximately 14,000 retirees and 15,000 active members meet the eligibility requirements as put forth in Chapter 32B of M.G.L. The City sponsors and participates in an agent multi-employer defined benefit OPEB plan. The OPEB plan is administered by the City and does not issue a stand-alone financial report.

Medical and prescription drug benefits are provided to all eligible retirees not enrolled in Medicare through a variety of plans offered by Blue Cross Blue Shield of Massachusetts, Harvard Pilgrim HealthCare, and Neighborhood Health Plan. Medical and prescription drug benefits are provided to retirees enrolled in Medicare through supplemental and Medicare

Notes to Basic Financial Statements

June 30, 2010

Advantage plans offered by Blue Cross Blue Shield of Massachusetts, Harvard Pilgrim HealthCare, and Tufts Health Plan.

Groups 1 and 2 retirees, including teachers, with at least 10 years or 20 years of creditable service are eligible at age 55 or any age, respectively. Group 4 retirees with at least 10 years or 20 years of creditable service are eligible at age 45 or any age, respectively. Retirees on accidental disability retirement are eligible at any age, while ordinary disability requires 10 years of creditable service. The surviving spouse is eligible to receive pre and postretirement death benefits, as well as medical and prescription drug coverage.

(a) Funding Policy

Employer and employee contribution rates are governed by the respective collective bargaining agreements. The City currently funds the plan on a pay-as-you-go basis. The City and plan members share the cost of benefits. As of June 30, 2009, the valuation date, the plan members contribute 10% to 25% of the monthly premium cost, depending on the plan in which they are enrolled. The City contributes the balance of the premium cost.

(b) Annual OPEB Cost and Net OPEB Obligation

The City's annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liability over a period of 30 years. The following table shows the components of the City's annual OPEB cost for the year ended June 30, 2010, the amount actually contributed to the plan, and the change in the City's net OPEB obligation based on an actuarial valuation as of June 30, 2009 (in thousands):

ARC	\$	252,685
Interest on net OPEB obligation		22,616
Adjustment to ARC		(16,310)
Annual OPEB cost		258,991
Contributions made		(153,433)
Change in net OPEB obligation		105,558
Net OPEB obligation – beginning of year		430,794
Net OPEB obligation – end of year	\$	536,352

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows (in thousands):

Notes to Basic Financial Statements

June 30, 2010

Fiscal Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
2010	\$ 258,991	59%	\$ 536,352
2009	346,425	37%	430,794
2008	327,752	35%	212,823

(c) Funded Status and Funding Progress

The funded status of the plan as of June 30, 2010, based on an actuarial valuation as of June 30, 2009, was as follows (in thousands):

AAL	\$	4,553,816
Actuarial value of plan assets		<u>0</u>
UAAL	\$	<u><u>4,553,816</u></u>
Funded ratio (actuarial value of plan assets/AAL)		0%
Covered payroll (active plan members)	\$	\$1,008,004
UAAL as a percentage of covered payroll		452%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the City are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the Notes to Basic Financial Statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

In January 2009, the Commonwealth adopted Chapter 479, which amends Chapter 32B and allows local municipalities to establish an OPEB liability trust fund and a funding schedule for the trust fund. On October 1, 2009, the City Council approved the establishment of a irrevocable OPEB trust fund and \$20 million was transferred to the fund.

(d) Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the City and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the City and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Notes to Basic Financial Statements

June 30, 2010

The City also adopted M.G.L. Chapter 32B, Section 18A for future retirees effective July 1, 2010. This provision requires Medicare eligible retirees to enroll in a Medicare supplement plan upon reaching age 65. As a result, the actuarial assumptions for participation and coverage election changed, as presented in the following table, reducing the City's OPEB AAL by \$937 million from the June 30, 2007 valuation.

Participation and Coverage Election Assumptions					
	Medicare Plans			Non-Medicare Plans	
	BCBS Master Medical Carveout <u>Plan</u>	Medicare Supplement <u>Plan</u>	Medicare Advantage Plan	Non-Medicare <u>plan</u>	Non-Medicare Master <u>Medical</u>
<u>June 30, 2009 Valuation</u>					
future retirees hired prior to 1986 and current retirees under age 65	65.0%	7.5%	7.5%	15.0%	5.0%
future retirees hired after 1986	80.0%	10.0%	10.0%	0.0%	0.0%
<u>June 30, 2007 Valuation</u>					
all future retirees and current retirees under age 65	50.0%	5.0%	5.0%	30.0%	10.0%

The projected unit credit cost method was used. The actuarial assumptions included a 5.25% investment rate of return and an annual healthcare cost trend rate of 10.0% to 11.0% initially, reduced by decrements to an ultimate rate of 5.0% after 5 – 6 years. The healthcare cost trend rate differs between the master medical and other healthcare plans. The actuarial value of assets was determined using the market value of investments. The City's UAAL is being amortized as a level percentage of pay on an open basis. The remaining amortization period at July 1, 2009 was 30 years.

Notes to Basic Financial Statements

June 30, 2010

(13) Transfers

	Governmental funds				Proprietary fund
	General	Special revenue	Capital projects	Other governmental	Convention center
Primary government:					
Excess hotel/motel excise taxes	\$ 30,000	0	0	0	(30,000)
Cemetery fees/fund appropriation	2,079	0	0	(2,079)	0
Parking meter fees/fund appropriation payment	15,000	(15,000)	0	0	0
Sale of surplus property	5,979	0	(5,979)	0	0
Total	<u>\$ 53,058</u>	<u>(15,000)</u>	<u>(5,979)</u>	<u>(2,079)</u>	<u>(30,000)</u>

Transfers and their purposes during the year ended June 30, 2010 were as follows (in thousands):

(14) Excess of Expenditures over Budgets

The City had expenditures in excess of their budgeted amounts for the year ended June 30, 2010 in the following categories (in thousands):

Public safety:	
Police Department	\$ 11,538
Judgments and Claims:	
Execution of Courts	12,470
	<u>\$ 24,008</u>

The excess expenditures reported above are allowed under the budgetary laws governing the City.

(15) Public Health System

Effective July 1, 1996, the City's Department of Health and Hospitals and Trustees of Health and Hospitals were abolished. Substantially all their assets and liabilities, including title to the City's two hospitals, BCH and Boston Specialty and Rehabilitation Hospital (BSRH), were transferred to and assumed by PHC.

Also effective July 1, 1996, the operations of BCH and BSRH were consolidated with the operations of the Boston University Medical Center under the licensure and control of the BMC.

The PHC receives the majority of its funding from federal and state grants, lease agreements with BMC, and a City appropriation. During fiscal year 2010, the City appropriated \$70.0 million to the PHC. As described below, the PHC uses the appropriation to pay debt service on certain general obligation bonds and base assistance grant payments to BMC. The remainder of

Notes to Basic Financial Statements

June 30, 2010

the appropriation is used for administrative purposes and to support the various public health programs run by the PHC. The City has budgeted \$69.8 million for the PHC for fiscal year 2011.

Due from PHC/BMC

On July 1, 1996, in connection with the consolidation transaction described above, the PHC assumed a liability of \$149.8 million for a mortgage note due to the City. In August 2002, this note was refinanced such that the stream of payments made by the PHC on the new note will be used to pay the outstanding balance of \$122.9 million of the City's Special Obligation Refunding Bonds dated August 2002. The PHC receives funding for the note payments from the BMC under a lease agreement whereby the BMC leases portions of the former BCH for an initial period of 50 years. Rental payments received under this lease are equal to the debt service costs on the new note and on all City general obligation bonds allocable to BCH. In fiscal year 2010, the City received \$7.2 million in principal and \$3.9 million in interest for a total of \$11.1 million from PHC in payments for this note. These general obligation bonds were issued by the City between December 1967 and October 1995 and total \$7.5 million at June 30, 2010. These bonds pertain to the property and operations of the BCH Campus, South Block Campus, BSRH Campus, Emergency Medical Services Operations, and the Long Island Campus.

In addition, the PHC and BMC are also responsible for reimbursing the City for health insurance, equipment lease payments, workers' compensation, and other miscellaneous expenses paid for by the City.

Payments to BMC

PHC is obligated to make future base assistance grant payments to BMC of \$10.8 million each year through fiscal year 2019.

(16) Risk Management

The Risk Management Program focuses on a planned strategy of self-insurance, supported by strong prevention and cost reduction efforts, financial reserves and catastrophic insurance. The City is self-insured in most areas of risk including general liability, property and casualty, Workers' Compensation, certain employee health care costs and unemployment compensation.

The City's legal liabilities are capped per M.G.L. Chapter 258, and Corporation Counsel defends the City in any lawsuits that arise from the normal course of operations. For Workers' Compensation, the City is exempt from state insurance requirements per M.G.L. Chapter 152 Section 25B. The City's Workers' Compensation Division, as well as the Police and Fire Departments, manage employee injury claims internally. The City budgets for and funds legal claims and employee injury costs through the General Fund, charging specific departments for their share of costs in order to promote awareness and prevention efforts.

Notes to Basic Financial Statements

June 30, 2010

The City purchases health insurance coverage for employees and retirees through a variety of health maintenance organizations (HMO's), in addition to offering three self-insured indemnity plans, which are administered by Blue Cross and Blue Shield of Massachusetts (BC/BS). HMO costs are funded through the General Fund, and the self-insured plans are financially managed through a trust fund established in compliance with M.G.L Chapter 32B Section 3A.

For unexpected large losses, the City maintains a catastrophic risk reserve, which has an available balance of \$12.5 million at the end of fiscal 2009. To further protect the City's assets and finances from adverse loss, commercial insurance is purchased strategically for certain exposures. A catastrophic property insurance policy provides \$100.0 million all risk protection after a \$10.0 million deductible. Boiler and machinery losses are insured up to \$10 million per incident, after a \$50,000 deductible.

The City has established a liability based on historical trends of previous years and attorney's estimates of pending matters and lawsuits in which the City is involved. Changes in the self insurance liability for the fiscal years ended June 30, 2010 and 2009 are as follows (in thousands):

	Internal service fund	
	2010	2009
Health and life claims, beginning of year	\$ 6,507	7,436
Incurred claims	86,140	86,351
Payments of claims attributable to events of both the current and prior fiscal years:		
Health and life	(86,120)	(87,280)
Health and life claims, end of year	\$ 6,527	6,507
	Government-wide statements	
	2010	2009
Judgments and claims, beginning of year	\$ 79,068	79,856
Incurred claims	88,263	44,190
Payments of claims attributable to events of both the current and prior fiscal years:		
Workers' compensation	(32,023)	(34,277)
Unemployment compensation	(6,666)	(3,544)
Court judgments	(12,904)	(7,157)
Judgments and claims, end of year	\$ 115,738	79,068

The liabilities above have not been discounted to their present value. Incurred claims represent the total of a provision for events of the current fiscal year and any change in the provision for events of the prior fiscal years.

There are numerous pending matters and lawsuits in which the City is involved. The City attorneys estimate that the potential claims against the City not recorded in the accompanying

Notes to Basic Financial Statements

June 30, 2010

basic financial statements resulting from such litigation would not materially affect the basic financial statements.

(17) Discretely Presented Component Units

The following presents condensed financial statements for each of the discretely presented component units:

Condensed Statements of Net Assets					
June 30, 2010					
(In thousands)					
	PHC	BRA	TPL	EDIC	Total
Assets:					
Current assets:					
Cash and investments	\$ 31,649	47,395	8,473	9,394	96,911
Cash and investments held by trustee	0	0	44,224	2,168	46,392
Receivables, net:					
Other	12,743	4,736	1,473	6,870	25,822
Other assets	9,976	138	1,677	611	12,402
Due from primary government	542	0	0	0	542
Total current assets	54,910	52,269	55,847	19,043	182,069
Noncurrent assets:					
Notes receivable	5,467	84,769	24	0	90,260
Other assets	69,083	29,418	0	0	98,501
Capital assets:					
Nondepreciable	13,897	14,943	0	1,420	30,260
Depreciable	18,638	3,662	664	30,592	53,556
Total noncurrent assets	107,085	132,792	688	32,012	272,577
Total assets	\$ 161,995	185,061	56,535	51,055	454,646

Notes to Basic Financial Statements**June 30, 2010**

Condensed Statements of Net Assets

June 30, 2010

(In thousands)

	PHC	BRA	TPL	EDIC	Total
Liabilities:					
Current liabilities:					
Warrants and accounts payable	\$ 10,821	2,281	718	2,643	16,463
Accrued liabilities:					
Other	782	0	272	1,919	2,973
Current portion of long-term debt and leases	256	0	0	1,142	1,398
Due to BMC	1,378	0	0	0	1,378
Due to primary government	9,418	0	820	0	10,238
Deferred revenue	2,438	2,254	0	692	5,384
Total current liabilities	<u>25,093</u>	<u>4,535</u>	<u>1,810</u>	<u>6,396</u>	<u>37,834</u>
Noncurrent liabilities:					
Bonds notes and leases due in more than one year	938	1,475	0	18,632	21,045
Other noncurrent liabilities	13,984	143,076	0	647	157,707
OPEB	42,748	3,109	0	0	45,857
Deferred revenue	6,617	31,177	0	0	37,794
Due to primary government	70,252	0	0	0	70,252
Total noncurrent liabilities	<u>134,539</u>	<u>178,837</u>	<u>0</u>	<u>19,279</u>	<u>332,655</u>
Total liabilities	<u>159,632</u>	<u>183,372</u>	<u>1,810</u>	<u>25,675</u>	<u>370,489</u>
Net assets:					
Invested in capital assets, net of related debt	30,231	6,599	664	14,406	51,900
Restricted	0	0	51,895	0	51,895
Unrestricted	(27,868)	(4,910)	2,166	10,974	(19,638)
Total net assets	<u>\$ 2,363</u>	<u>1,689</u>	<u>54,725</u>	<u>25,380</u>	<u>84,157</u>

Notes to Basic Financial Statements

June 30, 2010

Condensed Statements of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2010

(In thousands)

	PHC	BRA	TPL	EDIC	Total
Expenses	\$ 138,163	28,713	12,289	35,122	214,287
Program revenues:					
Charges for services	8,598	7,897	1,497	15,369	33,361
Operating grants and contributions	44,637	13,863	7,798	16,583	82,881
Capital grants and contributions	753	0	0	0	753
Total program revenues	53,988	21,760	9,295	31,952	116,995
Net expenses	(84,175)	(6,953)	(2,994)	(3,170)	(97,292)
General revenues:					
Investment income	213	1,188	5,920	74	7,395
Sale of property	0	3,638	0	0	3,638
City appropriation	70,000	0	0	0	70,000
Miscellaneous income	3,288	1,992	0	827	6,107
Total general revenues	73,501	6,818	5,920	901	87,140
Change in net assets	(10,674)	(135)	2,926	(2,269)	(10,152)
Net assets – beginning of year	13,037	1,824	51,799	27,649	94,309
Net assets – end of year	\$ 2,363	1,689	54,725	25,380	84,157

Schedule 1**Required Supplementary Information
(Unaudited)****(Dollar amounts in thousands)****Schedules of Funding Progress**

Pension						
Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) (b)	Unfunded AAL (UAAL) (b – a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
01/01/10*	\$ 4,292,504	7,212,669	2,920,165	59.5%	\$ 1,425,451	204.9%
01/01/09*	4,089,989	6,900,229	2,810,240	59.3	1,364,068	206.0
01/01/08	4,458,002	6,596,148	2,138,146	67.6	1,299,112	164.6
01/01/07*	4,138,146	6,223,154	2,085,008	66.5	1,221,404	170.7
01/01/06	3,836,807	5,957,373	2,120,566	64.4	1,168,808	181.4
01/01/05*	3,587,118	5,664,288	2,077,170	63.3	1,115,529	186.2

*Liability and payroll estimated from prior year's valuations.

OPEB						
06/30/09	\$ —	4,553,816	4,553,816	—	\$ 1,008,004	451.8%
06/30/07	\$ —	5,490,836	5,490,836	—	\$ 919,662	597.0

Schedule of Employers' Contributions – Pension

	Annual required contribution	Percentage contributed
Year ended December 31:		
2009	\$ 253,996	100 %
2008	239,039	100
2007	221,865	100
2006	217,088	100
2005	191,132	100
2004	164,069	100

See accompanying independent auditor's report.

EXHIBIT II

Schedules of Comparative Financial Statements for Fiscal Years 2006 - 2010

The following schedules of Comparative Balance Sheets and Statements of Revenues, Expenditures, Transfers and Fund Equity for the fiscal years ended June 30, 2010, 2009, 2008, 2007 and 2006 have been prepared by the City of Boston Auditing Department based on information taken from the City's audited financial statements.

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City of Boston

General Fund

Balance Sheets

Fiscal Years Ended June 30, 2010, 2009, 2008, 2007 and 2006
(in thousands)

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
ASSETS:					
Cash and investments.....	\$ 880,912	\$ 863,606	\$ 756,652	\$ 738,650	\$ 663,547
Receivables :					
Property taxes.....	18,550	17,724	19,774	20,694	21,401
Motor vehicle excise.....	64,446	62,415	63,706	74,520	62,328
Intergovernmental.....	86,549	231,096	237,443	218,856	239,719
Departmental and other.....	34,039	15,256	66,398	42,999	33,146
Tax title and possession.....	87,869	85,052	81,437	78,105	76,178
Total receivables.....	<u>291,453</u>	<u>411,543</u>	<u>468,758</u>	<u>435,174</u>	<u>432,772</u>
Allowance:					
Abatement res/property tax allow.....	-	-	-	(823)	(3,891)
Tax title and possession.....	(87,869)	(85,034)	(81,437)	(78,105)	(76,178)
Motor vehicle excise.....	(57,647)	(57,617)	(58,690)	(58,280)	(56,876)
Other.....	(11,158)	(15,144)	(19,151)	(20,279)	(20,217)
Total allowances.....	<u>(156,674)</u>	<u>(157,795)</u>	<u>(159,278)</u>	<u>(157,487)</u>	<u>(157,162)</u>
Net receivable.....	134,779	253,748	309,480	277,687	275,610
Due from other funds.....	30,000	27,000	27,703	22,773	24,221
Due from component units.....	5,909	6,653	7,829	8,279	9,021
Total assets.....	<u>\$ 1,051,600</u>	<u>\$ 1,151,007</u>	<u>\$ 1,101,664</u>	<u>\$ 1,047,389</u>	<u>\$ 972,399</u>
LIABILITIES:					
Warrants and accounts payable.....	\$ 63,593	\$ 57,124	\$ 48,356	\$ 39,735	\$ 36,295
Accrued liabilities:					
Payroll and related costs.....	151,554	125,527	103,737	106,741	88,189
Other.....	22,468	23,655	15,073	8,278	9,653
Due to other funds.....	6,054	3,675	4,382	6,989	3,266
Due to component units.....	542	292	250	256	250
Deferred revenue.....	100,196	112,047	127,817	153,341	173,349
Total liabilities.....	<u>\$ 344,407</u>	<u>\$ 322,320</u>	<u>\$ 299,615</u>	<u>\$ 315,340</u>	<u>\$ 311,002</u>
FUND BALANCE:					
Reserved for:					
Encumbrances.....	36,808	37,534	32,519	38,617	44,573
Unreserved:					
Designated for subsequent year expenditures.....	123,103	240,824	216,429	198,098	178,157
Undesignated.....	547,282	550,329	553,101	495,334	438,667
Total fund balance.....	<u>707,193</u>	<u>828,687</u>	<u>802,049</u>	<u>732,049</u>	<u>661,397</u>
Total liabilities and fund balance.....	<u>\$ 1,051,600</u>	<u>\$ 1,151,007</u>	<u>\$ 1,101,664</u>	<u>\$ 1,047,389</u>	<u>\$ 972,399</u>

City of Boston

General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance
Fiscal Years Ending June 30, 2010, 2009, 2008, 2007 and 2006
(in thousands)

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
REVENUES:					
Local:					
Real and personal property taxes, net.....	\$ 1,467,605	\$ 1,393,371	\$ 1,316,734	\$ 1,258,878	\$ 1,190,347
Excises.....	121,120	115,454	115,809	99,816	107,361
Payments in lieu of taxes.....	67,265	56,686	56,667	56,146	60,584
Fines.....	70,627	69,711	67,940	67,546	67,876
Investment income.....	3,246	18,289	37,822	43,068	32,351
Licenses and permits.....	32,907	40,822	45,989	40,694	40,353
Departmental and other revenue.....	74,861	82,087	79,030	65,661	51,992
Total local revenues.....	<u>1,837,631</u>	<u>1,776,420</u>	<u>1,719,991</u>	<u>1,631,809</u>	<u>1,550,864</u>
Intergovernmental:					
Intergovernmental.....	<u>404,619</u>	<u>454,252</u>	<u>493,227</u>	<u>484,510</u>	<u>557,418</u>
Total intergovernmental revenues.....	<u>404,619</u>	<u>454,252</u>	<u>493,227</u>	<u>484,510</u>	<u>557,418</u>
Total revenues.....	<u>2,242,250</u>	<u>2,230,672</u>	<u>2,213,218</u>	<u>2,116,319</u>	<u>2,108,282</u>
EXPENDITURES:					
Current:					
General government.....	70,514	69,524	66,927	65,223	57,262
Human services.....	29,324	29,722	29,093	26,475	24,875
Public safety.....	511,365	521,898	509,293	477,403	446,784
Public works.....	96,641	112,168	108,831	97,897	101,441
Property and development.....	30,247	28,959	29,876	35,506	33,322
Parks and recreation.....	16,818	17,571	17,418	17,000	15,723
Library.....	29,853	31,268	27,089	31,225	28,365
Schools.....	815,694	818,338	782,500	743,848	719,715
Public Health Programs.....	70,000	69,985	67,694	64,559	61,282
Judgments and claims.....	10,181	9,946	1,967	2,257	11,590
Retirement costs.....	235,282	82,332	95,193	92,873	96,853
Other employee benefits.....	224,156	191,597	190,167	175,862	157,885
State and district assessments.....	146,323	142,055	132,792	124,243	118,817
Capital outlays.....	734	566	9,417	1,200	815
Debt Service.....	<u>129,670</u>	<u>119,294</u>	<u>115,771</u>	<u>113,212</u>	<u>112,600</u>
Total expenditures.....	<u>2,416,802</u>	<u>2,245,223</u>	<u>2,184,028</u>	<u>2,068,783</u>	<u>1,987,329</u>
Excess (deficiencies) of revenues over (under) expenditures.....	<u>(174,552)</u>	<u>(14,551)</u>	<u>29,190</u>	<u>47,536</u>	<u>120,953</u>
OTHER FINANCING SOURCES (USES):					
Payments to escrow agent to refund debt.....	-	-	-	(105)	-
Transfers in.....	<u>53,058</u>	<u>41,189</u>	<u>40,810</u>	<u>23,221</u>	<u>(72,580)</u>
Total other financing uses, net.....	<u>53,058</u>	<u>41,189</u>	<u>40,810</u>	<u>23,116</u>	<u>(72,580)</u>
Net change in fund balances.....	<u>(121,494)</u>	<u>26,638</u>	<u>70,000</u>	<u>70,652</u>	<u>48,373</u>
Fund balance, beginning of year.....	<u>828,687</u>	<u>802,049</u>	<u>732,049</u>	<u>661,397</u>	<u>613,024</u>
Fund balance, end of year.....	<u>\$ 707,193</u>	<u>\$ 828,687</u>	<u>\$ 802,049</u>	<u>\$ 732,049</u>	<u>\$ 661,397</u>

City of Boston

General Fund - Budgetary Basis

**Statement of Revenues, Transfers, Available Funds, Expenditures,
Encumbrances and Prior Years' Deficit Raised - Budget to Actual
Fiscal Years Ending June 30, 2010, 2009, 2008, 2007 and 2006**

(in thousands)

	2010			2009		
	Budget	Actual	Variance Fav. (Unfav.)	Budget	Actual	Variance Fav. (Unfav.)
Revenues, Transfers and Other Available Funds:						
Real and personal property taxes, net.....	\$1,429,325	\$1,440,193	\$ 10,868	\$1,364,580	\$1,365,272	\$ 692
Motor vehicle excise.....	36,025	40,134	4,109	39,545	44,676	5,131
Other excises.....	92,629	103,900	11,271	92,450	105,100	12,650
Commonwealth of Massachusetts.....	545,126	413,209	(131,917)	610,018	573,278	(36,740)
Departmental and other revenue.....	64,120	68,706	4,586	64,051	75,661	11,610
Fines.....	73,015	70,376	(2,639)	75,075	70,053	(5,022)
Payments in lieu of taxes.....	57,350	60,920	3,570	56,100	56,493	393
Investment income.....	6,500	3,182	(3,318)	18,500	17,835	(665)
Licenses and permits.....	31,260	30,558	(702)	40,585	41,008	423
Transfers from other available funds.....	72,088	72,088	-	59,219	53,219	(6,000)
Sale of property.....			-			-
Total revenues, transfers and other available funds.....	<u>2,407,438</u>	<u>2,303,266</u>	<u>(104,172)</u>	<u>2,420,123</u>	<u>2,402,595</u>	<u>(17,528)</u>
Expenditures and Encumbrances:						
General government.....	92,096	90,932	1,164	115,628	113,114	2,514
Human services.....	29,468	29,466	2	29,888	29,734	154
Public safety.....	497,269	507,558	(10,289)	500,058	504,717	(4,659)
Public works.....	101,419	97,138	4,281	105,027	112,420	(7,393)
Property and development.....	29,485	29,485	-	31,178	31,178	-
Parks and recreation.....	16,945	16,916	29	17,693	17,490	203
Library.....	29,862	29,862	-	31,230	31,211	19
Schools.....	817,882	817,830	52	833,299	810,006	23,293
Boston Public Health Commission.....	70,000	70,000	-	69,446	69,446	-
Judgments and claims.....	3,500	15,970	(12,470)	3,500	4,806	(1,306)
Other employee benefits.....	205,322	205,242	80	195,666	195,612	54
Retirement costs.....	239,035	112,608	126,427	217,430	217,378	52
State and district assessments.....	150,307	146,323	3,984	147,458	142,055	5,403
Debt requirements.....	124,848	124,848	-	122,622	119,294	3,328
Total expenditures.....	<u>2,407,438</u>	<u>2,294,178</u>	<u>113,260</u>	<u>2,420,123</u>	<u>2,398,461</u>	<u>21,662</u>
Excess of revenues available for appropriation over expenditures.....	<u>\$ -</u>	<u>\$ 9,088</u>	<u>\$ 9,088</u>	<u>\$ -</u>	<u>\$ 4,134</u>	<u>\$ 4,134</u>

2008			2007			2006		
Budget	Actual	Variance Fav. (Unfav.)	Budget	Actual	Variance Fav. (Unfav.)	Budget	Actual	Variance Fav. (Unfav.)
\$1,295,152	\$1,295,460	\$ 308	\$1,223,656	\$1,224,171	\$ 515	\$1,166,783	\$1,167,342	\$ 559
40,075	49,632	9,557	38,050	34,500	(3,550)	38,550	50,178	11,628
84,500	81,926	(2,574)	75,860	85,734	9,874	66,900	76,030	9,130
591,739	598,747	7,008	572,332	576,372	4,040	546,162	549,777	3,615
52,987	67,379	14,392	44,761	62,676	17,915	40,988	54,116	13,128
67,760	67,391	(369)	66,010	66,975	965	64,600	67,611	3,011
52,956	56,667	3,711	47,554	56,146	8,592	46,815	60,584	13,769
37,500	39,512	2,012	32,800	43,471	10,671	22,806	30,049	7,243
42,329	47,577	5,248	32,727	41,432	8,705	27,180	38,755	11,575
43,810	38,818	(4,992)	29,202	10,721	(18,481)	41,336	9,810	(31,526)
-	-	-	-	-	-	-	-	-
2,308,808	2,343,109	34,301	2,162,952	2,202,198	39,246	2,062,120	2,104,252	42,132
104,150	102,837	1,313	79,011	78,366	645	62,351	60,933	1,418
29,118	29,116	2	26,413	26,394	19	25,019	24,950	69
478,915	495,425	(16,510)	456,705	477,595	(20,890)	430,182	451,997	(21,815)
103,016	107,629	(4,613)	98,792	98,748	44	100,672	101,996	(1,324)
31,519	31,453	66	34,096	33,991	105	36,375	36,225	150
17,461	17,374	87	16,972	16,707	265	15,859	15,629	230
29,603	29,601	2	28,607	28,550	57	27,713	27,712	1
795,498	795,488	10	747,486	747,462	24	717,809	717,793	16
68,195	68,195	-	63,798	63,798	-	61,300	61,300	-
3,500	3,500	-	3,500	7,107	(3,607)	3,500	10,497	(6,997)
191,070	191,032	38	176,391	177,087	(696)	159,002	159,058	(56)
207,105	207,049	56	197,574	197,574	-	190,985	190,885	100
133,353	132,792	561	124,243	124,243	-	118,401	118,817	(416)
116,305	115,771	534	109,364	109,364	-	112,952	112,599	353
2,308,808	2,327,262	(18,454)	2,162,952	2,186,986	(24,034)	2,062,120	2,090,391	(28,271)
\$ -	\$ 15,847	\$ 15,847	\$ -	\$ 15,212	\$ 15,212	\$ -	\$ 13,861	\$ 13,861

City of Boston

Special Revenue Fund

Balance Sheets
June 30, 2010, 2009, 2008, 2007, and 2006
(in thousands)

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
ASSETS:					
Cash and investments.....	\$ 132,917	\$ 168,216	\$ 157,774	\$ 153,759	\$ 158,601
Receivables, net:					
Intergovernmental.....	119,160	67,976	95,246	102,359	103,307
Departmental and other.....	65,831	61,528	59,167	55,264	73,689
Total receivables.....	<u>184,991</u>	<u>129,504</u>	<u>154,413</u>	<u>157,623</u>	<u>176,996</u>
Due from other funds.....	<u>3,787</u>	<u>1,181</u>	<u>2,510</u>	<u>4,863</u>	<u>2,682</u>
Total assets.....	<u>\$ 321,695</u>	<u>\$ 298,901</u>	<u>\$ 314,697</u>	<u>\$ 316,245</u>	<u>\$ 338,279</u>
LIABILITIES:					
Warrants and accounts payable.....	\$ 32,203	\$ 24,679	\$ 22,802	\$ 14,549	\$ 11,452
Accrued liabilities:					
Payroll and related costs.....	1,941	4,160	7,586	1,345	1,366
Other.....	34,716	33,120	30,757	21,963	28,646
Deferred revenue.....	79,703	56,142	58,884	55,264	73,689
Due to other funds.....	<u>-</u>	<u>-</u>	<u>4,603</u>	<u>2,792</u>	<u>6,219</u>
Total liabilities.....	<u>148,563</u>	<u>118,101</u>	<u>124,632</u>	<u>95,913</u>	<u>121,372</u>
FUND BALANCES:					
Reserved for:					
Encumbrances and other.....	49,418	42,206	46,022	65,928	67,116
Unreserved:					
Undesignated.....	<u>123,714</u>	<u>138,594</u>	<u>144,043</u>	<u>154,404</u>	<u>149,791</u>
Total fund balance.....	<u>173,132</u>	<u>180,800</u>	<u>190,065</u>	<u>220,332</u>	<u>216,907</u>
Total liabilities and fund balance.....	<u>\$ 321,695</u>	<u>\$ 298,901</u>	<u>\$ 314,697</u>	<u>\$ 316,245</u>	<u>\$ 338,279</u>

City of Boston

Special Revenue Fund

**Statement of Revenues, Expenditures, and Changes in Fund Balance
Fiscal Years Ending June 30, 2010, 2009, 2008, 2007, and 2006
(in thousands)**

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
REVENUES:					
Local:					
Fines.....	\$ 22	\$ 12	\$ 150	\$ 11	\$ 18
Investment income.....	25	194	545	482	351
Licenses and permits.....	-	308	60	65	71
Departmental and other revenue.....	14,381	21,931	29,596	48,699	45,894
Total local revenues.....	<u>14,428</u>	<u>22,445</u>	<u>30,351</u>	<u>49,257</u>	<u>46,334</u>
Intergovernmental:					
Intergovernmental.....	327,213	365,102	342,464	348,816	377,471
Total intergovernmental revenues.....	<u>327,213</u>	<u>365,102</u>	<u>342,464</u>	<u>348,816</u>	<u>377,471</u>
Total revenues.....	<u>341,641</u>	<u>387,547</u>	<u>372,815</u>	<u>398,073</u>	<u>423,805</u>
EXPENDITURES:					
Current operations:					
General government.....	3,165	9,021	10,084	7,394	4,684
Human services.....	8,690	7,585	9,482	8,556	10,009
Public safety.....	12,150	7,527	21,086	28,578	30,004
Public works.....	8,482	9,254	13,207	9,042	8,961
Parks and recreation.....	716	624	510	354	384
Libraries.....	3,578	5,366	4,962	5,166	5,670
Schools.....	147,009	154,989	149,069	154,774	149,685
County.....	69,040	129,603	121,180	114,218	106,270
Public health.....	1,214	1,408	700	774	1,985
Property & development.....	87,147	64,449	72,806	66,893	71,749
Capital outlays.....	5,485	1,151	2,993	2,353	1,695
Debt service.....	3,414	-	-	-	-
Total expenditures.....	<u>350,090</u>	<u>390,977</u>	<u>406,079</u>	<u>398,102</u>	<u>391,096</u>
Excess (deficiency) of revenues over expenditures.....	<u>(8,449)</u>	<u>(3,430)</u>	<u>(33,264)</u>	<u>(29)</u>	<u>32,709</u>
OTHER FINANCING SOURCES (USES):					
Long-term debt and capital leases issued.....	11,360	-	5,050	76	-
Premiums on long-term debt issued.....	9,805	8,087	8,402	4,378	3,872
Payments to escrow agents.....	(5,384)	(1,922)	(455)	-	-
Transfers out, net.....	(15,000)	(12,000)	(10,000)	(1,000)	(1,000)
Total other financing sources (uses), net.....	<u>781</u>	<u>(5,835)</u>	<u>2,997</u>	<u>3,454</u>	<u>2,872</u>
Net change in fund balances.....	<u>(7,668)</u>	<u>(9,265)</u>	<u>(30,267)</u>	<u>3,425</u>	<u>35,581</u>
Fund balance, beginning of year.....	180,800	190,065	220,332	216,907	181,326
Fund balance, end of year.....	<u>\$ 173,132</u>	<u>\$ 180,800</u>	<u>\$ 190,065</u>	<u>\$ 220,332</u>	<u>\$ 216,907</u>

City of Boston

Capital Projects Fund

Balance Sheets

June 30, 2010, 2009, 2008, 2007, and 2006

(in thousands)

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
ASSETS:					
Cash and investments.....	\$ 62,006	\$ 38,017	\$ 20,979	\$ 25,926	\$ 24,221
Cash and investments held by trustees.....	2,341	4,914	2,346	2,828	4,209
Intergovernmental receivable.....	11,674	12,755	53,482	11,578	4,016
Due from other funds.....	1,846	2,031	1,379	1,591	-
Total assets.....	<u>\$ 77,867</u>	<u>\$ 57,717</u>	<u>\$ 78,186</u>	<u>\$ 41,923</u>	<u>\$ 32,446</u>
LIABILITIES:					
Warrants and accounts payable.....	\$ 18,948	\$ 13,206	\$ 30,001	\$ 11,677	\$ 5,786
Other accrued liabilities.....	2,427	1,693	192	6,352	8,510
Deferred revenue.....	11,174	12,754	48,974	11,578	3,306
Total liabilities.....	<u>32,549</u>	<u>27,653</u>	<u>79,167</u>	<u>29,607</u>	<u>17,602</u>
FUND BALANCES:					
Reserved for:					
Encumbrances and other.....	86,234	74,145	79,677	121,437	71,727
Future appropriations.....	24,108	30,087	30,087	35,756	43,756
Unreserved:					
Undesignated (deficit).....	(65,024)	(74,168)	(110,745)	(144,877)	(100,639)
Total fund balance.....	<u>45,318</u>	<u>30,064</u>	<u>(981)</u>	<u>12,316</u>	<u>14,844</u>
Total liabilities and fund balance.....	<u>\$ 77,867</u>	<u>\$ 57,717</u>	<u>\$ 78,186</u>	<u>\$ 41,923</u>	<u>\$ 32,446</u>

City of Boston

Capital Projects Fund

**Statement of Revenues, Expenditures, and Changes in Fund Balance
Fiscal Years Ending June 30, 2010, 2009, 2008, 2007, and 2006
(in thousands)**

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
REVENUES:					
Departmental and other revenue.....	\$ -	\$ -	\$ -	\$ -	\$ 3,864
Intergovernmental.....	10,632	56,558	14,701	10,177	9,538
Total revenues.....	<u>10,632</u>	<u>56,558</u>	<u>14,701</u>	<u>10,177</u>	<u>13,402</u>
EXPENDITURES:					
Capital outlays.....	120,449	139,592	170,834	127,860	103,305
Debt Service.....	-	-	-	-	97,446
Total expenditures.....	<u>120,449</u>	<u>139,592</u>	<u>170,834</u>	<u>127,860</u>	<u>200,751</u>
Excess (deficiency) of revenues over expenditures.....	<u>(109,817)</u>	<u>(83,034)</u>	<u>(156,133)</u>	<u>(117,683)</u>	<u>(187,349)</u>
OTHER FINANCING SOURCES (USES):					
Long-term debt and capital leases issued.....	133,132	113,962	148,460	114,975	89,871
Refunding bonds issued.....	68,345	40,425	28,155	85,425	-
Payments to escrow agent.....	(68,256)	(40,308)	(28,110)	(85,245)	-
Premiums on long-term debt issued.....	(2,171)	-	-	-	-
Transfers in (out).....	(5,979)	-	(5,669)	-	93,690
Total other financing sources, net.....	<u>125,071</u>	<u>114,079</u>	<u>142,836</u>	<u>115,155</u>	<u>183,561</u>
Net change in fund balances.....	15,254	31,045	(13,297)	(2,528)	(3,788)
Fund balance, beginning of year.....	30,064	(981)	12,316	14,844	18,632
Fund balance, end of year.....	<u>\$ 45,318</u>	<u>\$ 30,064</u>	<u>\$ (981)</u>	<u>\$ 12,316</u>	<u>\$ 14,844</u>

City of Boston

Internal Service Fund

Balance Sheets
June 30, 2010, 2009, 2008, 2007, and 2006
(in thousands)

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
ASSETS:					
Cash and cash equivalents.....	\$ 56,708	\$ 55,761	\$ 51,640	\$ 43,417	\$ 34,624
Receivables, net.....	134	170	317	283	107
Due from other funds and sources.....	421	463	493	554	582
Due from component units.....	-	-	-	115	54
Other assets.....	1,042	1,503	4,856	3,910	1,825
Total assets.....	<u>\$ 58,305</u>	<u>\$ 57,897</u>	<u>\$ 57,306</u>	<u>\$ 48,279</u>	<u>\$ 37,192</u>
LIABILITIES:					
Accrued Liabilities:					
Warrants and accounts payable.....	\$ -	\$ -	\$ 22	\$ 46	\$ 32
Accrued liabilities.....	6,532	6,507	7,436	6,827	6,593
Total liabilities.....	<u>6,532</u>	<u>6,507</u>	<u>7,458</u>	<u>6,873</u>	<u>6,625</u>
NET ASSETS:					
Unrestricted.....	<u>51,773</u>	<u>51,390</u>	<u>49,848</u>	<u>41,406</u>	<u>30,567</u>
Total fund equity.....	<u>51,773</u>	<u>51,390</u>	<u>49,848</u>	<u>41,406</u>	<u>30,567</u>
Total liabilities and fund equity.....	<u>\$ 58,305</u>	<u>\$ 57,897</u>	<u>\$ 57,306</u>	<u>\$ 48,279</u>	<u>\$ 37,192</u>

City of Boston

Internal Service Fund

Statement of Revenues, Expenses, and Changes in Fund Net Assets
Fiscal Years Ending June 30, 2010, 2009, 2008, 2007, and 2006
(in thousands)

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
REVENUES:					
Employer contributions.....	\$ 64,655	\$ 65,874	\$ 72,204	\$ 72,933	\$ 67,786
Employee contributions.....	21,849	22,948	25,021	26,962	22,379
Total operating revenues.....	<u>86,504</u>	<u>88,822</u>	<u>97,225</u>	<u>99,894</u>	<u>90,165</u>
EXPENSES:					
Health Benefits.....	86,121	87,280	88,783	89,055	86,258
Total operating expenditures.....	<u>86,121</u>	<u>87,280</u>	<u>88,783</u>	<u>89,055</u>	<u>86,258</u>
Changes in net assets.....	383	1,542	8,442	10,839	3,907
Net assets (deficit), beginning of year.....	51,390	49,848	41,406	30,567	26,660
Net assets, end of year.....	<u>\$ 51,773</u>	<u>\$ 51,390</u>	<u>\$ 49,848</u>	<u>\$ 41,406</u>	<u>\$ 30,567</u>

City of Boston

Enterprise Funds

Statements of Net Assets
Fiscal Years Ending June 30, 2010, 2009, 2008, 2007, and 2006
(in thousands)

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
ASSETS:					
Current assets:					
Cash and investments.....	\$ 11,326	\$ 180	\$ 80	\$ 272	\$ -
Cash and investments held by trustees.....	83,079	88,869	79,681	60,638	56,596
Receivables, net.....	-	-	210	-	-
Total current assets.....	94,405	89,049	79,971	60,910	56,596
Noncurrent assets:					
Due from component units.....	74,581	82,298	89,725	96,873	103,751
Due from other governments.....	-	-	-	-	2,141
Other assets.....	2,052	2,240	2,427	2,613	2,801
Total noncurrent assets.....	76,633	84,538	92,152	99,486	108,693
Total assets.....	171,038	173,587	172,123	160,396	165,289
LIABILITIES:					
Current liabilities:					
Warrants and accounts payable.....	-	-	-	-	5,240
Due to other funds.....	30,000	27,000	23,000	20,000	18,000
Other liabilities.....	2,304	2,449	2,595	2,734	2,842
Current portion of long-term debt.....	11,250	10,815	10,360	9,920	9,565
Total current liabilities.....	43,554	40,264	35,955	32,654	35,647
Noncurrent liabilities:					
Special obligation bonds.....	89,780	93,505	97,085	100,485	103,715
Revenue bonds.....	74,872	82,621	90,080	97,265	104,178
Total noncurrent liabilities.....	164,652	176,126	187,165	197,750	207,893
Total liabilities.....	208,206	216,390	223,120	230,404	243,540
NET ASSETS:					
Unrestricted.....	(37,168)	(42,803)	(50,997)	(70,008)	(78,251)
Total net assets.....	<u>\$ (37,168)</u>	<u>\$ (42,803)</u>	<u>\$ (50,997)</u>	<u>\$ (70,008)</u>	<u>\$ (78,251)</u>

City of Boston

Enterprise Funds

Statement of Revenues, Expenditures, and Changes in Net Assets
Fiscal Years Ending June 30, 2010, 2009, 2008, 2007, and 2006

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Operating revenues:					
State Aide - pledged for debt service.....	\$ 43,887	\$ 36,605	\$ 40,342	\$ 35,092	\$ 30,503
Departmental and other - pledged for debt service.....	-	-	-	-	2,141
Total operating revenues.....	<u>43,887</u>	<u>36,605</u>	<u>40,342</u>	<u>35,092</u>	<u>32,644</u>
Operating expenditures:					
Contributions to State.....	9,022	-	-	-	5,240
Total operating expenses.....	<u>9,022</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,240</u>
Operating (loss) income.....	<u>34,865</u>	<u>36,605</u>	<u>40,342</u>	<u>35,092</u>	<u>27,404</u>
Nonoperating revenue (expenditure):					
Intergovernmental - state grants.....	5,567	1,116	1,196	1,152	1,396
Investment earnings - pledged for debt service.....	3,567	5,910	8,506	730	5,145
Investment earnings - other.....	-	389	1,290	1,450	775
Interest expense.....	(8,364)	(8,826)	(9,323)	(10,181)	(10,489)
Total nonoperating revenue (expense).....	<u>770</u>	<u>(1,411)</u>	<u>1,669</u>	<u>(6,849)</u>	<u>(3,173)</u>
Income before transfers.....	35,635	35,194	42,011	28,243	24,231
Transfer to general fund.....	<u>(30,000)</u>	<u>(27,000)</u>	<u>(23,000)</u>	<u>(20,000)</u>	<u>(18,000)</u>
Change in net assets.....	5,635	8,194	19,011	8,243	6,231
Total net assets - beginning.....	<u>(42,803)</u>	<u>(50,997)</u>	<u>(70,008)</u>	<u>(78,251)</u>	<u>(84,482)</u>
Total net assets - ending.....	<u>\$ (37,168)</u>	<u>\$ (42,803)</u>	<u>\$ (50,997)</u>	<u>\$ (70,008)</u>	<u>\$ (78,251)</u>

SELECTED DEMOGRAPHIC AND ECONOMIC INFORMATION

The following report has been prepared by the Boston Redevelopment Authority (the “BRA”) for inclusion in the Official Statement. The report describes the principal components of the economy of the City and presents major economic, demographic and market indicators, and historical, statistical and other information.

This report contains forecasts, projections and estimates that are based on expectations and assumptions which existed at the time such forecasts, projections and estimates were prepared. In light of the important factors that may materially affect economic conditions of the City, the inclusion in this report of such forecasts, projections and estimates should not be regarded as a representation of the BRA or the City that such forecasts, projections and estimates will occur.

The information contained herein has been furnished by the BRA and certain information has been obtained from other sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation of the underwriters of the Bonds or, as to information from other sources, of the BRA or the City.

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THE BOSTON ECONOMY

The City is the twenty-first largest city in the United States and the economic hub of The Commonwealth of Massachusetts (the “Commonwealth”) and the New England region. It is a center for professional, business, financial, governmental, higher educational and medical services, as well as for transportation, communications, export, cultural and entertainment activities. As a government center, the City is the capital of the Commonwealth and is host to several federal regional offices. High technology, research and development, financial services, manufacturing, and wholesale distribution also contribute to the economy of the City and its suburbs.

In 2009 the City had a population of 645,169, as estimated by the U.S. Department of Commerce Bureau of the Census (the “Bureau of the Census”), and had 668,748 jobs, as stated in a series for Boston consistent with the U.S. Department of Commerce, Bureau of Economic Analysis (the “Bureau of Economic Analysis”) for Suffolk County pro-rated for Boston (employment in 2010 is estimated at 652,180). The ratio of jobs to population indicates that the City provides a direct source of employment and income for an area that extends well beyond its borders. Measured in terms of jobs, the City’s economy comprises approximately 16.2% of the Massachusetts economy and 7.4% of that of the six New England states.

Overview of Recent Economic Conditions

The City of Boston’s economy experienced moderate growth from 2004 through much of 2008. Employment in the city of Boston grew by 7.9% over those four years. In the spring of 2008, as the national economy began to experience rising unemployment and more rapidly deteriorating economic conditions, Boston still showed some signs of growth. However, in late 2008 Boston began to show signs of a weakening labor market and the same deteriorating conditions then prevalent in the rest of the country. Currently, the U.S. unemployment rate is higher than Boston’s, the nation’s level of job loss has been greater, and although Boston’s real estate markets have been experiencing rising vacancy rates and a correction in prices, it is still outperforming most other major real estate markets in the U.S.

Unemployment rates in Boston, which had been as low as 3.9% as recently as April of 2008, reached 9.3% in January 2010. The national unemployment rate, which was in the 4.3% to 5.0% range throughout 2007, reached 10.6% in January 2010. Massachusetts and New England also had higher unemployment rates than the City of Boston, 10.4% and 10.0% respectively, in January 2010. As of November 2010 Boston’s unemployment rate was 7.9%, compared to 8.1% for Massachusetts and 9.3% for the US. Boston’s commercial real estate market experienced a downward shift beginning in the last half of 2008 through the present. Similarly, hotels after several years of improving performance also showed weakening numbers in 2008 and 2009, but recovered strongly in 2010 as revenue per available room grew by 11.9% compared to the previous year. The housing market in Boston, hurt by rising foreclosures and the tight lending market, has experienced weakened sales volumes and small to moderate drops in prices. Boston, however, has not experienced the same level of price declines experienced in many other large markets across the U.S.

Statistical Data

Statistical data relating to population, employment and income are derived primarily from five separate sources: the U.S. Census Bureau, the Bureau of Economic Analysis, the U.S. Department of Labor, Bureau of Labor Statistics (the “Bureau of Labor Statistics”), and the City and the Boston Redevelopment Authority (the “BRA”), each of which is described below.

The U.S. Census Bureau publishes information about population, housing and the economy. The most recent decennial Census data remains the 2000 Census. In addition to that, some monthly, quarterly and annual data are available through December 2010 on certain topics for the region, the Commonwealth, and Metropolitan Boston. The Bureau of the Census now has the American Community Survey which provides city level data beyond 2000 and through 2009 for some variables on a citywide basis but not for neighborhoods or census tracts. The only 2010 Census data now available is for U.S. and state totals.

The Bureau of Economic Analysis publishes quarterly and annual statistics on income and employment. The most recent annual figures for the nation, New England, Massachusetts is for 2009; and for Metropolitan Boston and Suffolk County the latest data are for 2008. The most recent quarterly national statistics are for the fourth quarter of 2009. The City accounts for approximately 87% of Suffolk County’s population and approximately 96% of its employment.

The Bureau of Labor Statistics publishes data and reports about the workforce and related subjects including unemployment rates, area wages, and cost-of-living adjustments. Final annual data for 2010 exists for some but not all variables the most recent monthly data are for December 2010.

The City and the BRA prepare reports and compile data on the population and economy of the City and its neighborhoods. The BRA also provides data and trends obtained from various local, regional, state and national sources from both the public and private sectors on such topics as employment and occupations, large employers, City schools, universities and colleges, medical institutions, tourism and lodging, transportation, office and industrial markets, housing, building activity and urban redevelopment and infrastructure projects.

The statistical data contained in this report do not necessarily reflect current activity because of delays resulting from the time required to collect, tabulate and publish such data. While the City believes that it has used the most recent available data in this report, the data contained herein may not reflect current conditions or trends because of such delays. Moreover, statistical data are approximations and generalizations subject to various sources of error inherent in the statistical process, and may be revised on the basis of additional data. The statistical data contained herein describes past activity and are not presented in order to suggest the continuation of any trend, or to predict future economic activity either in particular categories or in general.

Population, Income and Employment

Boston's population for 2009 was estimated by the U. S. Census Bureau to be 645,169 which showed an increase of 9.5% from the count of 589,141 in 2000. The U.S. Census Bureau also estimates 2009 population data for states and metropolitan areas. The population of Metropolitan Boston for July 1, 2009 is estimated to have been 4,588,680, an increase of 197,366 residents from the 2000 census, a gain of 4.5%. The population of Massachusetts for the 2010 Census enumeration as of April 1, 2010 as reported in December 2010 was 6,547,829, a gain of 3.1% over that for April 2000.

Population of Massachusetts, Metropolitan Boston and the City of Boston 1990, 2000 and 2009

	<u>1990</u>	<u>2000</u>	<u>2009 ⁽²⁾</u>	<u>1990-2000</u>		<u>2000-09</u>	
				<u>Population</u> <u>Change</u>	<u>Percent</u> <u>Change</u>	<u>Population</u> <u>Change</u>	<u>Percent</u> <u>Change</u>
Massachusetts	6,016,425	6,349,097	6,466,399	332,672	5.5	117,308	1.8
Metropolitan Boston ⁽¹⁾	4,133,895	4,391,344	4,588,680	257,449	6.2	197,336	4.5
City of Boston	574,283	589,141	645,169	14,858	2.6	56,028	9.5

(1) Includes five counties in Massachusetts (Essex, Middlesex, Norfolk, Plymouth and Suffolk) and two counties in New Hampshire (Rockingham and Strafford), which together comprise the Boston-Cambridge-Quincy MA-NH Metropolitan Statistical Area; as defined by the Office of Management and Budget (OMB).

(2) The 2010 population for Massachusetts only was released in December 2010 showing 6,547,829, a 3.1% rise over the decade.

Source: U.S. Census Bureau, January 2011.

The 2000 Census showed that Boston's racial composition was: White, Non-Hispanic 49.5%; Black, Non-Hispanic 23.8%; Hispanic 14.4%; Asian/Pacific Islander 7.5%; Multi-racial 3.1%; other single race 1.4%; and Native American 0.3%. The American Community Survey for Boston for 2005-2009, from the U.S. Census Bureau, shows that the racial make-up of the City has not changed significantly from the 2000 Census, but does indicate that the proportions of Hispanic and Asian City residents are slightly higher while the proportion of Black, Non-Hispanic City residents is down slightly.

According to the 2009 American Community Survey from the U.S. Census Bureau, Boston continues to be a city of young adults due to the large number of students and young adults living and working in the City. One out of every three persons in Boston is between 20 and 34 years old. The population aged 35 to 54 years increased significantly, to 25%, as that cohort aged and continued to show a preference for city living. Boston's elderly population (aged 65 and over) grew slightly between 2000 and 2009 as that segment rose by 6% or 3,707 people to 10.1% of the population. Boston's children and teens (aged 0 to 19) has stayed almost constant, decreasing by -0.5% or 693 persons and at 21.6% of the population. The trend toward fewer families of related people living together and to more non-family households comprised of single persons and roommates, continued in Boston. There was also a trend toward more "non-traditional" families as the data showed more relatives and non-relatives other than the householder and spouse living in families. Overall, the total number of households edged marginally lower. Single-person households continued to increase from 37% to 41% of the total. Families with children under 18 decreased in number, for both married couples with young children and for single-parent families with children. Group quarters population continued to increase both for the institutionalized and non-institutionalized populations, the

majority of which is the nursing home and student dormitory population groups. Household size increased from 2.31 to 2.52 persons while average family showed a rise from 3.17 to 3.54 persons.

The following table shows the 2004-2008 population, income and employment trends for the U.S., New England, Massachusetts, and Metropolitan Boston. As of February 2011 no data for 2009 was yet available.

The six-state New England region had a combined population of 14.4 million people and 9.3 million jobs in 2008 according to Bureau of Economic Analysis annual data. Total personal income in New England grew at an annual average compound rate of 4.9% from 2004 through 2008, below the 5.3% national rate for the same period. Employment in New England grew by 486,000 jobs from 2004 through 2008, an annual average rate of 1.4%.

Massachusetts had a population of 6.5 million people and 4.3 million jobs in 2008, according to Bureau of Economic Analysis annual data. Total personal income in Massachusetts grew at a 5.3% annual average rate from 2004 through 2008, better than the 4.9% rate of increase for New England, and matching the national rate.. Massachusetts gained 235,401 jobs between 2004 and 2008, an annual average rate of 1.4%.

The Boston-Cambridge-Quincy MA-NH Metropolitan Statistical Area, defined by the Office of Management and Budget (OMB) to include Essex, Middlesex, Norfolk, Plymouth, and Suffolk counties in Massachusetts, and Rockingham and Strafford counties in New Hampshire ("Metropolitan Boston"), had 4.5 million people and 3.2 million jobs in 2008. Total personal income from 2004 through 2008 grew at an annual average rate of 5.4%, above the national mark.. The most recent employment data show a gain of 209,692 jobs for the 2004-2008 period, an annual rate of 1.7%.

**Population, Income and Employment
2004-2008**

(Income in current year dollars)

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
United States						
Total Personal Income (\$000)	\$9,369,072,000	\$9,928,790,000	\$10,476,669,000	\$10,256,516,000	\$11,879,836,000	\$12,225,589,000
Per Capita Income	\$33,881	35,424	37,698	39,392	40,166	35,424
Population	293,045,739	295,753,151	298,593,212	301,579,895	304,374,846	295,753,151
Employment	166,019,500	169,026,700	172,551,400	176,124,600	179,871,790	181,755,100
New England						
Total Personal Income (\$000)	\$ 550,071,297	\$ 580,052,062	\$ 602,312,832	\$ 649,754,409	\$ 684,836,400	\$ 702,966,446
Per Capita Income	\$40,801	\$42,335	\$45,569	\$47,897	\$48,944	\$42,335
Population	14,216,467	14,227,296	14,258,599	14,298,028	14,362,641	14,227,296
Employment	8,697,134	8,788,539	8,884,806	9,004,077	9,149,976	9,275,239
Massachusetts						
Total Personal Income (\$000)	\$ 258,695,757	\$ 271,160,236	\$ 282,446,783	\$ 304,970,367	\$ 322,652,087	\$ 333,046,494
Per Capita Income	\$42,032	43,770	\$47,162	\$49,644	\$50,897	\$43,770
Population	6,451,279	6,453,031	6,466,399	6,499,275	6,543,595	6,453,031
Employment	3,993,191	4,015,738	4,056,052	4,117,311	4,186,896	4,251,139
Metropolitan Boston ⁽¹⁾						
Total Personal Income (\$000)	\$ 203,464,696	\$212,287,325	\$230,353,230	\$243,739,931	\$ 250,810,542	\$212,287,325
Per Capita Income	\$45,656	47,610	51,493	54,117	55,187	47,610
Population	4,456,479	4,458,891	4,473,477	4,503,921	4,544,705	4,458,891
Employment	2,961,752	2,997,384	3,050,306	3,115,406	3,171,444	2,997,384

(1) The Boston-Cambridge-Quincy, MA, NH MSA (Metropolitan Statistical Area) includes five counties in Massachusetts (Essex, Middlesex, Norfolk, Plymouth and Suffolk) and two counties in New Hampshire (Rockingham and Strafford. Source: The U.S. Department of Commerce, Bureau of Economic Analysis and the Census Bureau..

Source: Bureau of Economic Analysis, February 2011; U.S. Census Bureau, population figures for Massachusetts and Metropolitan Boston.

Employment Structure, Employment Trends and Occupational Changes

The economy of Metropolitan Boston rests primarily on high technology, finance, professional and business services, defense, and educational and medical institutions. The City's economy is more specialized in the financial, governmental, business and professional services, and educational and medical sectors, than the suburban economy, which is more specialized in high technology and the defense industry.

The table below shows Boston's employment growth by industry category for 2008, 2009, and 2010. The industry categories are in the North American Industrial Classification System ("NAICS") format, which the Bureau of Economic Analysis began using in 2001. Employment data from the Bureau of Economic Analysis is through 2008. Suffolk County data is mathematically reduced to the Boston geography using unemployment insurance coverage data (Employment Security, ES-202, for cities and towns from the Massachusetts Department of Workforce Development, "DWD", and County Quarterly Employment and Wages "CQEW" from the U. S. Bureau of Labor Statistics for Counties and States).

Employment trends for 2008 through 2009 for Boston show that 21,306 jobs were lost, a 3.1% decline. Between 2009 and 2010 job loss totaled 6,566 based upon preliminary data, a decrease of 1.0%. Most losses over the past year were in administrative services (temporary employment), banking, securities and financial investments, construction, government, architectural – engineering – design services and wholesale trade. Largest gains were evident in health care; insurance; educational services; food service and drinking places; and management – scientific – technical services. Most of the other industries showed either marginal losses or marginal gains.

City of Boston Employment 2008 – 2010
NAICS (North American Industry Classification System)

Industry	2008	2009 ⁽²⁾	2010 ⁽³⁾	Absolute Change '09-'10	Percent Change '09-'10
Agriculture/Fishing/Mining.....	160	188	188	0	0.0
Utilities	2,214	2,296	2,372	76	3.3
Construction	17,149	14,649	13,119	-1,530	-10.4
Manufacturing	10,396	9,373	9,486	113	1.2
Wholesale Trade	10,649	9,558	9,066	-492	-5.2
Retail Trade (excludes food service)	32,213	30,475	30,681	206	0.7
Transportation and Warehousing	19,873	18,386	18,720	335	1.8
Information	17,132	16,233	15,871	-362	-2.2
Finance and Insurance	83,484	80,042	77,151	-2,890	-3.6
Banking.....	22,354	22,332	19,441	-2,891	-12.9
Securities & other Financial Investment Activities	41,255	37,392	35,796	-1,596	-4.3
Insurance Carriers and related Activities	19,875	20,318	21,914	1,596	7.9
Real Estate and Rental and Leasing	22,734	22,445	22,116	-329	-1.5
Professional, Scientific, and Technical Services	76,452	72,353	71,908	-445	-0.6
Legal Services	21,242	19,720	19,386	-335	-1.7
Accounting, Tax Preparation, Bookkeeping	9,551	9,245	8,915	-330	-3.6
Architectural, Engineering, Design and Related	9,809	8,494	7,919	-575	-6.8
Computer Systems Design and Related Services	7,303	7,060	7,411	350	5.0
Management, Scientific, and Technical Co	13,117	13,810	14,473	663	4.8
Scientific Research and Development Services	8,376	8,699	8,389	-310	-3.6
Other Professional, Scientific, and Technical Services	7,054	5,323	5,416	93	1.7
Management of Companies and Enterprises	6,953	6,434	6,184	-250	-3.9
Admin. & Support and Waste Mgmt. and Remediation Ser.	43,753	37,606	31,227	-6,379	-17.0
Educational Services	48,218	49,187	50,324	1,137	2.3
Colleges and Universities	41,651	42,622	44,140	1,517	3.6
Health Care and Social Assistance	116,962	119,566	123,209	3,643	3.0
Hospitals	80,837	82,686	86,002	3,316	4.0
Arts, Entertainment, and Recreation	14,424	14,431	14,530	99	0.7
Accommodation and Food Services	49,005	47,967	48,716	749	1.6
Accommodation	11,395	10,875	10,736	-139	-1.3
Food Service and Drinking Places	37,609	37,092	37,982	890	2.4
Other Services (except public administration) (1)	29,140	29,112	29,572	460	1.6
Government	79,141	78,445	77,737	-707	-0.9
Total	680,052	658,746	652,180	-6,566	-1.0

(1) Other services include repair and maintenance, personal and laundry services, and religious, grant making, civic, professional, and similar organizations.

(2) 2009 is a preliminary estimate based on annual 2009 data from DWD and 2008 BEA data

(3) 2010 is a preliminary estimate based on two quarters of data from DWD and 2008 BEA data.

Source: The employment figures are from the Bureau of Economic Analysis Series for Suffolk County, pro-rated to the City's geographical boundary using data from DWD. See the footnotes above. Due to use of pro-rating factors, minor discrepancies of 1 to 3 units between totals and employment categories may result.

A more recent picture of employment trends for the Commonwealth and Metropolitan Boston is available from the Bureau of Labor Statistics non-agricultural employment data. As of January 2011, data through the month of December 2010 were available, and are presented in the following tables. Data from

the following tables shows that employment grew every month relative to the same month from January 2008 through October 2008 after which employment began to decline relative to the previous year. From November 2008 through May 2010 employment fell each month,. Beginning in June 2010 employment has grown monthly from the previous year indicating that economic growth had returned. By December 2010 a loss of 56,700 jobs in Metropolitan Boston was evident from December 2008; a percentage change of -2.3% over the two year span.

Boston NECTA ⁽¹⁾
Total Non-Agricultural Employment
Monthly, 2008-2010
(Not seasonally adjusted, employment in 000's)

<u>Month</u>	2008		2009		2010	
	<u>Employment</u>	<u>Change from same month of Previous Year</u>	<u>Employment</u>	<u>Change from same month of Previous Year</u>	<u>Employment</u>	<u>Change from same month of Previous Year</u>
January.....	2,463.8	1.2%	2,413.0	-2.1%	2,348.9	-2.7%
February.....	2,467.0	1.3	2,407.0	-2.4	2,346.1	-2.5
March.....	2,476.0	1.2	2,402.2	-3.0	2,358.8	-1.8
April.....	2,499.6	1.0	2,418.2	-3.3	2,393.0	-1.0
May.....	2,513.0	0.8	2,422.3	-3.6	2,419.6	-0.1
June.....	2,523.7	0.5	2,422.2	-4.0	2,440.4	0.8
July.....	2,496.8	0.5	2,395.4	-4.1	2,417.7	0.9
August.....	2,487.5	0.4	2,382.5	-4.2	2,416.3	1.4
September.....	2,503.6	0.3	2,402.0	-4.1	2,425.5	1.0
October.....	2,516.1	0.2	2,414.2	-4.0	2,444.0	1.2
November.....	2,509.4	-0.6	2,415.0	-3.8	2,445.0	1.2
December.....	2,499.3	-1.0	2,411.0	-3.5	2,443.6	1.4
ANNUAL.....	2,496.3	0.5	2,408.8	-3.5	NA	NA

(1) The Boston-Cambridge-Quincy, MA-NH Metropolitan New England City and Town Area (NECTA), which includes portions of seven counties in Massachusetts (Bristol, Essex, Middlesex, Norfolk, Plymouth, Suffolk and Worcester) and portions of two counties in New Hampshire (Hillsborough and Rockingham); as defined by the Office of Management and Budget (OMB).

Source: Bureau of Labor Statistics (790 Series of Non-Agricultural Employment, February, 2011). Seasonally adjusted data is available for total employment but not by industry. Non-seasonally adjusted data is used here to be consistent with data in the next table.

The industry composition of employment comparing December 2009 to December 2010 figures shows that most job losses over the previous year occurred in construction; durable goods manufacturing; and transportation, warehousing, and utilities. Gains were evident in all of the other major industry sectors with the greater percentage gains in leisure and hospitality; retail trade; education and health services, and professional and business services.

Boston NECTA ⁽¹⁾
Non-Agricultural Wage and Salary Employment by Industry
December 2009 and December 2010
(Not seasonally adjusted, employment in 000's)

Industry	December 2009	December 2010	Change	Percent
Non-Agricultural Total	2,411.0	2,443.6	32.6	1.4%
Natural Resources and Mining.....	0.7	0.7	—	—
Construction	77.3	75.5	-1.8	-2.3
Manufacturing	194.6	195.1	0.5	0.3
Durable Goods	135.1	135.0	-0.1	-0.1
Non-Durable Goods	59.5	60.1	0.6	1.0
Trade, Transportation & Utilities.....	404.5	409.6	5.1	1.3
Wholesale Trade.....	92.1	92.5	0.4	0.4
Retail Trade.....	251.7	256.7	5.0	2.0
Transport, Warehousing & Utilities.....	60.7	60.4	-0.3	-0.5
Information Services	70.5	71.1	0.6	0.9
Financial Activities	174.7	176.2	1.5	0.9
Professional & Business Services	389.8	395.5	5.7	1.5
Education & Health Services	493.6	502.1	8.5	1.7
Leisure & Hospitality Services	207.2	217.8	10.6	5.1
Other Services	87.2	88.4	1.1	1.3
Government.....	310.8	311.6	0.8	0.3

(1) The Boston-Cambridge-Quincy, MA-NH Metropolitan New England City and Town Area (NECTA), which includes portions of seven counties in Massachusetts (Bristol, Essex, Middlesex, Norfolk, Plymouth, Suffolk and Worcester) and portions of two counties in New Hampshire (Hillsborough and Rockingham); as defined by the Office of Management and Budget (OMB).

Source: Bureau of Labor Statistics (790 Series of Non-Agricultural Employment, February 2011).

The following table indicates that, as of 2009, 68% of City residents were white-collar workers and 32% were blue-collar and service workers, as compared to 1970 when 55% were white-collar workers and 45% were blue-collar and service workers. The trend among City residents away from blue-collar and service occupations and toward white-collar occupations was evident between 1970 and 2009 (this trend actually began prior to 1970; in 1960 only 44% of City residents worked in white collar jobs). Between 2000 and 2009, the proportion of white collar workers in the City actually declined slightly while blue-collar jobs, particularly for services occupations increased, although production and transportation workers was slightly lower. Data are from the U.S. Census Bureau's American Community Survey 2009 one-year estimates.

Occupational Change in the City's Resident Labor Force

	1970		1980		1990		2000		2009*	
	Number	%	Number	%	Number	%	Number	%	Number	%
White-Collar	146,657	55	154,456	60	191,251	67	197,049	69	239,135	69
Manag'l., Profess'l & Related	59,929	23	77,217	30	107,206	38	123,850	43	159,124	46
Sales & Office	86,728	33	77,239	30	84,045	29	73,199	26	80,011	23
Blue-Collar & Service.....	119,848	45	101,561	40	97,453	33	88,810	31	108,554	31
Constr'n, Extract'n, Maint.	27,157	10	19,772	8	18,453	6	14,118	5	13,179	4
Product'n., Transp'n., & Related ..	36,695	14	24,825	10	19,971	7	23,630	8	20,185	6
Service and Farm & Fishing	55,996	21	56,964	22	59,029	20	51,062	18	75,190	22
Total.....	266,505	100	256,017	100	288,704	100	285,859	100	347,689	100

Source: 1990-2000 from the decennial census reports, U.S. Census Bureau. 2009 from U.S. Census Bureau, "American Community Survey, 2009" one-year estimates.

Unemployment

In 2009, Boston's unemployment rate was 8.1%, better than the 9.3% national rate. Metropolitan Boston, Massachusetts and New England had rates at 7.8%, 8.4%, and 8.3%, respectively. All of these rates were above the rates for 2008. The 2009 unemployment rate from the American Community Survey ("ACS") for Boston, which differs from the Bureau of Labor Statistics ("BLS") data due to sample size, accuracy in defining the persons in the labor force, and over-counting the officially unemployed, showed that when Boston's total unemployment rate from BLS equaled 8.1% the rate from the ACS for all adults was 11.2%, the rate for all whites equaled 6.7%, the rate for all minority groups equaled 17.3% and the unemployment rate for all youth, aged 16 to 24, was 21.0%.

Annual Unemployment Rates, 2004-2009
(not seasonally adjusted)

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
City of Boston	5.6%	5.2%	4.9%	4.4%	5.2%	8.1%
Metropolitan Boston ⁽¹⁾	5.0	4.5	4.4	4.1	4.8	7.8
Massachusetts	5.2	4.8	4.8	4.4	5.3	8.4
New England	4.9	4.7	4.5	4.4	5.4	8.3
United States	5.5	5.1	4.6	4.6	5.8	9.3

(1) Includes five counties in Massachusetts (Essex, Middlesex, Norfolk, Plymouth and Suffolk) and two counties in New Hampshire (Rockingham and Strafford), which together comprise the Boston-Cambridge-Quincy MA-NH Metropolitan Statistical Area.

Sources: Bureau of Labor Statistics for United States, New England and Massachusetts and DWD for the City and Metropolitan Boston, February 2011.

As the following table illustrates, monthly data for most areas in New England for early 2010 showed rising unemployment rates but by the last six months of 2010 unemployment rates were improving compared with those for the same months of the previous year. Increasing unemployment rates became evident in the U.S. economy beginning in December 2007 while rising unemployment rates in New England, Massachusetts, and Boston became evident starting in May 2008 and rising through early to mid-2010. By December 2010, Boston's unemployment rate of 7.5% was, however, significantly lower than the U.S. rate of 9.1%, while rates for Metropolitan Boston, Massachusetts, and New England were 7.1%, 8.0% and 8.0%, respectively.

**Monthly Unemployment Rates for City of Boston, Metropolitan Boston⁽¹⁾, Massachusetts,
New England and the United States for 2008, 2009 and 2010⁽²⁾**

	<u>City of Boston</u>			<u>Metropolitan Boston⁽¹⁾</u>			<u>Massachusetts</u>			<u>New England</u>			<u>United States</u>		
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Jan.	4.7	7.2	9.3	4.5	7.0	9.3	5.1	7.9	10.4	5.3	7.9	10.0	5.4	8.5	10.6
Feb.	4.3	7.2	8.7	4.3	7.2	8.9	4.9	8.1	10.0	5.1	8.1	9.8	5.2	8.9	10.4
Mar.	4.3	7.1	8.1	4.3	7.3	8.3	4.9	8.2	9.3	5.1	8.2	9.2	5.2	9.0	10.2
Apr.	3.9	6.8	8.4	3.9	6.9	8.3	4.3	7.5	9.1	4.5	7.7	8.8	4.8	8.6	9.5
May	4.9	7.7	8.6	4.5	7.5	8.2	4.8	8.1	9.1	4.9	8.0	8.6	5.2	9.1	9.3
Jun.	5.5	8.7	9.0	5.0	8.2	8.1	5.2	8.7	8.8	5.3	8.5	8.5	5.7	9.7	9.6
Jul.	5.7	8.9	9.3	5.0	8.3	8.4	5.4	8.8	9.1	5.5	8.5	8.8	6.0	9.7	9.7
Aug.	5.6	8.6	8.3	5.0	8.2	7.6	5.4	8.6	8.3	5.5	8.4	8.3	6.1	9.6	9.5
Sep.	5.8	9.0	8.0	5.3	8.5	7.3	5.6	9.0	8.0	5.5	8.5	7.9	6.0	9.5	9.2
Oct.	5.5	8.5	7.6	5.0	8.1	7.0	5.4	8.7	7.6	5.4	8.4	7.7	6.1	9.5	9.0
Nov.	5.7	8.4	7.9	5.3	8.0	7.4	5.8	8.7	8.1	5.8	8.4	8.0	6.5	9.4	9.3
Dec.	6.0	8.4	7.5(P)	5.8	8.3	7.1(P)	6.4	9.1	8.0(P)	6.4	8.7	8.0	7.1	9.7	9.1

(1) Includes five counties in Massachusetts (Essex, Middlesex, Norfolk, Plymouth and Suffolk) and two counties in New Hampshire (Rockingham and Strafford), which together comprise the Boston-Cambridge-Quincy MA-NH Metropolitan Statistical Area.

(2) Unemployment rates are not seasonally adjusted. Most recent data are preliminary and subject to revision.

(3) Preliminary, subject to change.

Sources: Bureau of Labor Statistics for United States, New England and Massachusetts; and Mass. Dept. of Workforce Development for the City of Boston and Metropolitan Boston, February, 2011.

Largest Private Employers in Boston

The table below lists the fifty five largest private employers in Boston as of the fall 2010, which in the aggregate represented over 161,000 employees or over 25% of all private sector employment in that year.

Largest Private Employers in Boston, Fall 2010

Over 10,000 Employees

Brigham & Women's Hospital
Massachusetts General Hospital

5,000 to 9,999 Employees

Beth Israel Deaconess Medical Center
Boston University
Children's Hospital
Fidelity Investments (FMR Corp.)
Harvard University (graduate schools)
Liberty Mutual Group
State Street Corporation
Tufts University (graduate schools)

2,000 to 4,999 employees

ARAMARK
Blue Cross Blue Shield of Massachusetts
Boston College
Boston Globe/New York Times
Boston Medical Center
Brown Brothers Harriman & Co.
Dana-Farber Cancer Institute
John Hancock/Manulife
New England Financial/Met Life
Northeastern University
Proctor & Gamble (Gillette Co.)
Tufts Medical Center
Wellington Management

1,000 to 1,999 employees

AIG
American Cleaning Co.
Ameriprise Financial
Art Institute of Boston at Lesley University

1,000 to 1,999 employees (continued)

Bain & Co. Inc.
Bank of New York Mellon
Berklee College of Music
Caritas St. Elizabeth Medical Center
CBS/Viacom
Christian Science Monitor/Publishing
CVS Pharmacies
Deloitte LLP

Dunkin' Donuts
Eaton Vance Corporation

Faulkner Hospital
Hebrew Rehabilitation Center
KPMG LLP
Mass. Eye and Ear Infirmary
MFS Investment Management
New England Baptist Hospital
NSTAR, Advanced Energy Systems, Inc.
Partners Health Care
Pearson
Pioneer Investments Management Inc.
Putnam Investments LLC
Shaw's
Simmons College
Stop & Shop
Suffolk University
Sunbeam Television Corp. (WHDH)
Thomson Reuters
Verizon New England, Inc.

Source: American Hospital Association, Dun and Bradstreet, Hoovers, InfoUSA, Manta, New England Board of Higher Education, and BRA Research Division web research and phone contacts, 2011.

In addition to private employers, the public sector has large numbers of employees in the City. According to a preliminary estimate by the BRA, using a series consistent with the Bureau of Economic Analysis, there were an estimated 77,737 federal, state and local government workers in the City in 2010 according to a preliminary estimate. Certain large state government offices, federal regional offices, U.S. Postal Service facilities, state-chartered authorities and commissions (such as the Massachusetts Port Authority and the Boston Water and Sewer Commission), and the City's local government agencies and departments, are located within the City.

Labor Force and Education

According to the Bureau of the Census, the City's resident labor force has been steadily increasing from 1980 through 2008. Since 1980, the increase in the number and age of the population have combined with the rising labor force participation of women, minorities, youth and the elderly to produce a larger labor force overall. Bureau of the Census data show that by 1990, the City's population had increased by 2% over 1980 levels, while the City's labor force increased by 12.8%. During the 1990's Boston's population continued to rise, posting a 2.6% increase while the age 16+ labor force grew by 3.2%. And, from 2000 through 2009 Boston's population rose by 9.5% and the labor force grew by 27.1%.

General improvement in educational attainment of residents aged 25 and over continued throughout the 1980-2009 period. The percentage of this population that had completed four or more years of college more than doubled during this period from 20.3% to 44.7%. This change, in part, reflected the trend for an increasing percentage of Boston public school system graduates to seek higher education. This percentage increased from 62% in 1993 to 73% in 2006 (source: “Getting to the Finish Line: College Enrollment and Graduation – A Seven Year Longitudinal Study of the Boston Public Schools Class of 2000,” by the Center for Labor Market Studies of Northeastern University, November 2008). Improving educational attainment levels and shifting occupational patterns suggest a concurrent transformation of the City’s work force as the City’s economy has moved to a service-dominated employment base.

The City supports entry-level and advanced job training programs, including the following: English-as-a-Second Language training, pre-vocational and vocational training, adult literacy training, and support counseling. In 2009, the Jobs and Community Services division (“JCS”) of the BRA, the City’s workforce development agency, provided job training to 503 adults and employed 6,883 youth in publicly-supported summer jobs. Linkage contributions paid into the Neighborhood Jobs Trust provide a supplemental source of funding for job training programs. For a full discussion of the City’s housing and jobs linkage program see “The Linkage Program,” below.

Years of School Completed for Boston Residents Age 25 and Over, 1980-2009

	1980		1990		2000		2009	
	<u>Persons</u>	<u>Percent</u>	<u>Persons</u>	<u>Percent</u>	<u>Persons</u>	<u>Percent</u>	<u>Persons</u>	<u>Percent</u>
Fewer than nine years.....	54,932	16.6%	37,824	10.3%	34,321	9.1%	31,991	7.2%
9 to 12 years, no diploma	49,407	14.9	51,051	14.0	45,308	12.0	32,327	7.3
High school grad. (or GED)	115,787	35.0	97,233	26.6	90,568	24.0	99,595	22.5
Some college or Associates	43,451	13.2	69,889	19.1	73,125	19.4	81,807	18.4
Bachelors, Masters, or Prof.	67,073	20.3	109,711	30.0	134,252	35.5	198,523	44.7
Total.....	330,650	100.0	365,708	100.0	377,574	100.0	444,243	100.0

Note: GED stands for General Equivalency Diploma, which is equivalent to regular high school diploma and is earned by someone for completing work for graduation after having left high school.

Source: 1980-2000 from the decennial census reports, U.S. Census Bureau. 2009 from U.S. Census Bureau, “American Community Survey, 2009” one-year estimates.

Income, Wages, and Cost of Living

Per capita personal income for Suffolk County was \$52,276 in 2008, 30% above the national per capita personal income of \$40,166, according to the Bureau of Economic Analysis. City residents constitute approximately 87% of the County’s population. An historical summary of per capita income shows that from 1980 to 1990 Suffolk County’s per capita income grew at a rate greater than that for the nation, in contrast to the 1970-1980 period when it rose at a slower rate. Suffolk County’s per capita income grew at a faster rate than the per capita income growth rates for the United States, New England, and Massachusetts and just barely below the rate of growth for Metropolitan Boston between 1990 and 2000. The City’s median household income (in current year dollars), based on Census data, rose from \$12,530 in 1980 to \$29,180 in 1990, \$39,629 in 2000, and \$55,979 in 2009. The figures in this paragraph and the chart directly below reflect earned income of persons residing in the named areas plus rents, interest and other unearned income and transfer payments from governmental entities. As such, these figures take into account certain income sources not included in the survey of average annual wages in the following paragraph, which reflects earned income of persons who work (but do not necessarily reside) in the named areas.

Per Capita Personal Income Comparison, 1980, 1990, 2000 and 2004-2008
(In current year dollars not adjusted for inflation)

	<u>United States</u>	<u>New England</u>	<u>Massachusetts</u>	<u>Metropolitan Boston</u> ⁽¹⁾	<u>Suffolk County</u> ⁽²⁾
1980.....	\$10,183	\$10,701	\$10,673	\$10,806	\$10,477
1990.....	19,447	22,712	23,043	24,702	24,641
2000.....	29,845	36,118	37,756	41,436	38,137
2003.....	32,284	38,788	40,161	42,794	40,044
2004.....	33,881	40,801	42,032	45,656	43,128
2005.....	35,424	42,335	43,770	47,610	45,370
2006.....	37,728	45,569	47,162	51,493	48,983
2007.....	39,392	47,897	49,644	54,117	51,734
2008.....	40,166	48,944	50,847	55,187	52,276

(1) Includes five counties in Massachusetts (Essex, Middlesex, Norfolk, Plymouth and Suffolk) and two counties in New Hampshire (Rockingham and Strafford), which together comprise the Boston-Cambridge-Quincy MA-NH Metropolitan Statistical Area.

(2) City residents constitute approximately 87% of Suffolk County's population.

Source: Bureau of Economic Analysis, February 2011.

Data from the Bureau of Economic Analysis indicate that the average annual wage and salary disbursement per job for 1980 through 2009 by place of work have been consistently higher over time in Suffolk County than in Metropolitan Boston and the Commonwealth. In 2009, Suffolk County's average wage per job (\$73,114) was 22% greater than that in the Boston metropolitan area (\$59,763) and 32% greater than the average state earnings level (\$55,282).

Average Wage per Job, 1980, 1990, 2000 and 2004-2009
(In current year dollars not adjusted for inflation)

	<u>United States</u>	<u>New England</u>	<u>Massachusetts</u>	<u>Metropolitan Boston</u> ⁽¹⁾	<u>Suffolk County</u> ⁽²⁾
1980.....	\$13,999	\$13,358	\$13,526	\$14,095	\$15,472
1990.....	23,326	26,834	26,291	27,693	31,274
2000.....	34,718	39,918	43,218	47,042	55,522
2003.....	39,389	42,259	45,233	48,870	58,343
2004.....	38,389	44,761	47,821	51,912	64,428
2005.....	40,807	46,150	49,090	53,289	65,576
2006.....	42,703	48,259	51,444	55,929	68,996
2007.....	44,692	50,747	54,234	58,961	73,461
2008.....	45,807	51,902	55,760	60,386	75,270
2009.....	45,831	51,600	55,282	59,763	73,114

(1) Includes five counties in Massachusetts (Essex, Middlesex, Norfolk, Plymouth and Suffolk) and two counties in New Hampshire (Rockingham and Strafford), which together comprise the Boston-Cambridge-Quincy MA-NH Metropolitan Statistical Area.

(2) City residents constitute approximately 87% of Suffolk County's population.

Source: Bureau of Economic Analysis, February 2011.

During the years 2000-2009, based on the Bureau of Labor Statistics Consumer Price Index, the cost of living index rose at an annual average rate of 2.7% in Metropolitan Boston, while the national index increased at a 2.5% annual rate. In 2010 the change in the cost of living was 1.5% for metropolitan Boston and 1.7% for the nation.

Consumer Price Index for All Urban Consumers
For 2000 through 2010
(CPI-U) ⁽¹⁾

	United States	Percent	Metropolitan	Percent
	Index	Change	Boston ⁽²⁾	Change
2000	172.2	3.4	183.6	4.3
2001	177.1	2.8	191.5	4.3
2002	179.9	1.6	196.5	2.6
2003	184.0	2.3	203.9	3.8
2004	188.9	2.7	209.5	2.7
2005	195.3	3.4	216.4	3.3
2006	201.6	3.2	223.1	3.1
2007	207.3	2.8	227.4	1.9
2008	215.3	3.9	235.4	3.5
2009	214.5	-0.4	233.8	-0.7
2010	218.1	1.7	237.3	1.5

(1) Index based upon 1982-1984=100.0. Monthly data not seasonally adjusted. Change for monthly data is based on the index from the same month as the previous year.

(2) Includes all or parts of sixteen counties: eight counties in Massachusetts (Bristol, Essex, Hampden, Middlesex, Norfolk, Plymouth, Suffolk and Worcester), four counties in New Hampshire (Hillsborough, Merrimack, Rockingham and Strafford), one county in Maine (York), and one county in Connecticut (Windham) which together comprise the Boston-Brockton-Nashua MA-NH-ME-CT CMSA (Combined Metropolitan Statistical Area).

Source: Bureau of Labor Statistics

Medical and Higher Educational Institutions

Boston's medical and educational institutions are an important component of its economy, providing employment opportunities for residents of the City and Metropolitan Boston. Expenditures by the institutions' patients, students and visitors stimulate the City's trade and service sectors.

Twenty two inpatient hospitals are located within the City. The largest of these are: Massachusetts General Hospital, Brigham and Women's Hospital, Beth Israel Deaconess Medical Center, Children's Hospital, Tufts New England Medical Center, and Boston Medical Center. All together the 22 hospitals had a combined total of 6,453 beds in 2009 according to the most recent data from the American Hospital Association. In 2009, the hospitals admitted 247,642 in-patients and had over 5.9 million outpatient visits, according to data from the American Hospital Association (with four hospitals not reporting data other than beds). The City is also the home of the medical and dental schools of Harvard, Tufts and Boston Universities, and of twenty-five public neighborhood health clinics, as well as private health maintenance organizations and membership clinics.

In 2010, there were 123,209 health services jobs in the City." Health services represent nineteen out of every one hundred jobs within the City. Growth in the health services sector remained strong even during slower economic conditions of 2008-2010. Data from this employment series showed that the number of hospital employees in Boston between 2008 and 2010 grew from 80,762 to 86,002.

From 2008 through early 2011, four hospital and one medical laboratory building projects were completed: the Brigham and Women's Hospital's 350,000 square-foot Shapiro Cardiology Center in 2008; the St. Elizabeth Hospital's 45,000 square foot Emergency Department/Urgent Care Facility in 2009; the Boston Medical Center BioSafety Level 4 (BSL4) laboratory (construction is completed but use is currently limited to office and training purposes pending further approvals) in 2010; the Boston Medical Center 245,000 square-foot Shapiro Ambulatory Care Building (NACB) in early 2011; and the Dana Farber Cancer Institute's 275,000 square-foot Yawkey Center for Cancer Care, also in 2011.

As of February 2011, four hospital projects and one medical-student housing development are under construction, including Massachusetts General Hospital's 530,000 square foot, 150-bed, Building for the Third Century; the Brigham and Women's Hospital MMHC (Massachusetts Mental Health Center) with 633,960 square feet of research, clinical (136 beds), office and residential uses; the new Spaulding Rehabilitation Hospital building with 221,000 square feet of space and 132 beds in the former Charlestown Navy Yard; Children's Hospital Main Inpatient Building expansion of 112,000 square feet with 30 beds;

and the Boston Medical Center's 442,800 square foot Albany Fellows building with 104 housing units for medical students.

For fourteen consecutive years between 1995 and 2008, Boston has been the highest-ranking city in the United States for the receipt of National Institutes of Health (NIH) grant awards, receiving more than \$1.62 billion in research grants during fiscal 2008 when Boston's share of the nation's competitively awarded NIH funding stood at 7.8%. Boston's hospitals continue to attract NIH awards; Boston has the top five independent hospitals in the nation as ranked by total awards, and a total of seven out of the top fourteen recipients.

The Boston metropolitan area remains the nation's foremost region for the life sciences industry according to a 2009 Milken Institute study. The life sciences industry includes biotechnology, pharmaceuticals, life sciences R&D, medical devices, health-care services, and supporting industries; it is a sector with very strong projected economic growth potential with high-paying jobs and other economic and fiscal benefits. Greater Boston is in first place in the 2009 Milken Institute Overall Composite Index Life Science Cluster with a score of 100. In the first part of the Index, the Current Impact Composite Index (measuring therapeutics and devices, health services, and supporting industries) Boston had a score of 91. In the Innovation Pipeline Index (research and development capacity, risk capital and entrepreneurial infrastructure, human capital, workforce and innovation output) Greater Boston is in first place with a score of 100. In the third sub-component, the Small Business Vitality Index, Boston placed third among the top cities with a score of 87.4. As measured by employment the Milken Report lists Boston metropolitan area employment with 377,112 total jobs in the Life Sciences Cluster for 2007 (244,603 in health care services; 45,089 in therapeutics and devices; 42,331 in the life sciences supporting industries; 23,251 in R&D research and development in the life sciences; 13,214 in medical devices; 5,249 in biotechnology; and 3,375 in pharmaceuticals).

Boston and Cambridge are the hubs for the life sciences industry in the Greater Boston Area as the two key centers of the cluster-- Longwood Medical Area in Boston and Kendall Square in Cambridge -- sit on each side of the Charles River. Both cities attract life sciences companies and research institutions. Due to this proximity, there is always a collaborative relationship between the companies or institutions, depending on their area of work and research, even when they are located in the adjacent city. Recently, the Mayor of Boston welcomed several new life science companies that moved to Boston: EvaluatePharma from UK, Kowa Company from Japan, Intelect Medical from Cleveland, and Novophage from Cambridge. All combined, these companies are bringing over 40 jobs with the potential to grow even more in the future. Also, there currently are a few larger life sciences companies looking into consolidating their operations in Boston.

From 2007 through 2010 eleven major higher education academic projects were completed in Boston, including projects for: Harvard University; Simmons College; Tufts University Dental School; the Massachusetts College of Pharmacy; Suffolk University; UMass-Boston; Emerson College; Emmanuel College; Berklee College of Music; the Harvard Arboretum; and the Boston Conservatory of Music. As of February 2011 two higher education academic building projects are in construction and four academic campus buildings are approved but not yet underway.

In addition, between 2000 and year-end 2010, 29 dormitories with 10,421 dormitory beds (9,671 undergraduate and 750 graduate) opened to house Boston's college students. As of February 2011, two more dormitories are under construction, two dormitory halls are approved and two are under review. While college enrollment grows, completion of new student residences is pulling students out of neighborhood housing, easing housing prices and ameliorating tight vacancies.

Tourism and Culture

According to the Greater Boston Convention and Visitors Bureau ("CVB") and the Massachusetts Office of Travel and Tourism, an estimated 19.3 million people visited the Boston metropolitan area in 2009, up by 5.5% from the previous year. These visitors included both domestic and international visitors. For the whole metropolitan region the total number of visitors was 23.6 million. International visitors alone to Boston-Cambridge in 2009 totaled 1.1 million persons or a gain of 2% over that of 2008. The estimated spending impact in Boston-Cambridge from the total visitors was \$7.18 billion. In 2009 there were 12.2 million visitors at 24 major museums, attractions, and related venues, an increase of 0.1% over the 2008 mark. The latest data for Suffolk County indicates that in the county alone the total domestic direct traveler impact in 2009 was \$5.78 billion, supporting 39,830 jobs and a payroll of \$1.21 billion, while generating \$152.7 million in state tax receipts and \$103.9 million of local tax receipts.

The City of Boston is home to three major professional sports teams: the Boston Red Sox baseball team, the Boston Bruins hockey team, and the Boston Celtics basketball team. The New England Patriots football team plays in Gillette Stadium in nearby Foxborough, Massachusetts. The City also provides venues for concerts, ice shows, circuses, theater, and other entertainment performances and amateur sports events. The TD Garden, opened in 1995 and home to the Celtics and Bruins, is a privately-financed, multi-purpose arena in Boston's North Station district constructed by the New Boston Garden Corporation, a subsidiary of Delaware North. The ownership of the Boston Red Sox baseball franchise have undertaken renovations of the existing Fenway Park, including the addition of new seating and modernizing facilities, and have also proposed additional changes to the existing structure and also in the surrounding neighborhood.

Boston ranks among the Top 10 destinations in North America for conventions, meetings, and trade shows, based on the number and quality of the shows booked. Boston currently has three main convention sites—the John B. Hynes Veterans Memorial Convention Center (“Hynes”), the Seaport World Trade Center, and the 2.1 million-square-foot Boston Convention & Exhibition Center (“BCEC”), the largest building in New England and capable of hosting large national and international events. In 2010 the Hynes and the BCEC hosted a combined total of 236 events with an aggregate of 756,087 attendees. This resulted in approximately 584,005 hotel room nights, approximately \$451.1 million in direct spending, approximately \$36.6 million in direct tax revenue, and generated an overall economic impact of approximately \$664.5 million, according to the Massachusetts Convention Center Authority.

Since 2000, several cultural facilities have opened: the New England Aquarium completed an expansion including opening the Simons IMAX Theater in 2001; the Boston Center for the Arts and the Huntington Theatre combined to complete the joint development of two new theaters next to the Boston Center for the Arts in the South End in 2004—the first new live stage theaters in Boston in 75 years; downtown, Clear Channel, Inc. completed its \$22.0 million renovation of The Boston Opera House on Washington Street in 2004; a newly constructed Institute of Contemporary Art museum opened on the South Boston waterfront in 2006; the Emerson College renovation of the Paramount Theater opened in 2009; and the Suffolk University renovation of The Modern Theater was finished in 2010. and The Museum of Fine Arts recently completed and opened its “Art of the Americas” wing, a 462,400 square-foot multi-phase expansion. Also, the Isabella Stewart Gardner museum has begun an expansion of its facilities.

In May, 2005 the Mayor launched CreateBoston, an economic development program at the BRA that is designed to help creative businesses and entrepreneurs to achieve their full potential for success. The program focuses on film, music, design, digital media, visual arts/crafts and performance, and provides resources in financial and site location assistance, workforce development and business advocacy; and is geared specifically toward business development and job creation. Currently, the program focuses on strengthening and growing digital media and specifically the Boston-area videogame industry. In 2008, the Mayor established the first Boston-area Game Industry Steering Committee that meets monthly to address the issues and challenges facing the industry and further the BRA's effort to raise Boston's profile as a global leader in the game industry.

On March 13, 2009 the Mayor launched the first Game Industry Website. Following the 2007 “PoweringUpBoston” conference on workforce development funded in-part by the Mass Cultural Council (MCC), area videogame companies annual revenues have increased to approximately \$2 billion and several colleges and universities have since launched master's degree programs in game design and interactive multimedia and game engineering. CreateBoston in partnership with MCC, the steering committee, academic institutions, game companies and game organizations hosted a second Powered Up Conference and Expo on business development on October 14 – 15, 2010 in the city's Innovation District.

Hotel Market

Between July 1997 and December 2009, Boston built 7,020 rooms in 33 new hotels and 5 hotel expansions. Boston's favorable hotel market and the decision to build the BCEC stimulated considerable new development over this period. Since 1992, Boston's annual occupancy rates have exceeded 72% in 16 out of the 19 years.

From 2004 through 2008, the following hotels were completed: an 81-room Courtyard by Marriott in the Back Bay; the Hotel Onyx, a 112-room Kimpton hotel near North Station; the Hampton Inn at Crosstown, in Roxbury; The Back Bay Hotel, a 220-room hotel in the Back Bay; the Bulfinch Clarion Hotel, an 80-room adaptive reuse development near North Station; a 164-room Courtyard by Marriott in the South Bay/Roxbury district; the 40 room Hotel 140 in the Back Bay; the 793-room Westin BCEC Headquarters Hotel, attached to the BCEC in South Boston; the 424-room Intercontinental Hotel on the

downtown waterfront; the 308-room Liberty Hotel, which includes the adaptive reuse of the historic Charles Street Jail; the 471-room Marriott Renaissance on the South Boston waterfront; the 150-room Battery Wharf Fairmount on the downtown waterfront; the 149-room Mandarin Oriental, in the Back Bay; and the 16-room Inn @ St. Botolph. Two hotels opened in 2009: the 114-room Ames Hotel, an adaptive reuse of an historic office building near Government Center, and the 235-room “W” Hotel in the Theater District. As of December 2010, there were a total of 18,447 hotel rooms in establishments of fifty or more rooms in Boston.

Between 1991 and 2000, average annual occupancy rates grew from 70.1% to 78.4% and average daily room rates rose steadily from \$118.17 to \$198.00 according to Pinnacle Advisory Group, an independent hospitality industry consultant. In 2001 the occupancy rate fell to 69.6% and the room rate to \$180.58. By 2003 hotel room demand was growing again, but room supply continued its steady growth too, resulting in a 71.1% occupancy rate and \$155.52 average daily rate in that year. Between 2003 and 2008 Boston room demand grew by 27.2% over these five years and 2008 occupancy reached 74.6% with average daily rates averaging \$213.94. Revenue per available room was \$159.54 in 2008, just below the high mark of \$159.95 reached in 2007. Room demand fell 3.7% in 2009, reducing annual average occupancy to 70.8% and the average room rate declined by 13.1% to \$186.01. Revenue per available room fell 17.4% to \$131.79. Boston hotel room demand revived in 2010, growing 4.7% and lifting occupancy to 75.5%, average room rates to \$195.31 and raising revenues per available room by 11.9% to \$147.53, according to the Pinnacle Advisory Group.

The tables below show the occupancy rate, average daily room rate, and revenue per available room for Boston hotels for 1990, 2000 and 2003 through 2010.

Boston Hotel Room Supply, Occupancy, Room Rate and Revenues per Available Room

<u>Year</u>	<u>Room Supply</u>	<u>Occupancy Rate %</u>	<u>Average Daily Rate</u>	<u>Percent Change</u>	<u>Revenue Per Available Room</u>	<u>Percent Change</u>
1990	12,070	74.3	\$118.72	—	\$88.21	—
2000	14,002	78.4	198.00	4.9	155.33	9.7
2003	14,950	71.1	155.52	-5.4	110.52	-6.9
2004	15,618	74.5	169.04	8.7	125.99	14.0
2005	15,782	75.4	176.73	4.5	133.24	5.8
2006	16,936	76.4	196.61	11.2	150.23	12.8
2007	17,244	76.1	210.28	7.0	159.95	6.5
2008	18,014	74.6	213.94	1.7	159.54	-0.3
2009	18,363	70.8	186.01	-13.1	131.79	-17.4
2010	18,363	75.5	195.31	5.0	147.53	11.9

Source: Occupancy, ADR and RevPAR reported by Pinnacle Advisory Group. BRA Research Division count of room supply at the end of each calendar year. Room Supply counts only rooms in hotels of 50 or more rooms.

Transportation

The City is a major national and international air terminus, a seaport, and the center of New England’s rail, truck and bus service. The City is served by three limited-access interstate highways which connect it to the national highway system: U.S. 90 (the “Massachusetts Turnpike”), which leads westward from downtown Boston 138 miles to the New York State border; U.S. 95, the East Coast’s principal north-south highway, which connects Boston to Portland, Maine to the north and New York City and Washington, D.C. to the south; and U.S. 93, another north-south interstate highway, that extends from just south of the City north to New Hampshire. The City is also served by two national railroads, Amtrak and Conrail, a regional rail carrier, Boston and Maine (a subsidiary of Guilford Transportation Industries), and Bay Colony, a local carrier.

Transportation planning includes both major highway and mass transit programs. The Massachusetts Bay Transportation Authority (“MBTA”) provides commuter rail, subway, local bus and express bus services to 175 cities and towns in eastern Massachusetts, offering public transit to a population of almost 4.7 million people in an area of 3,200 square miles. The MBTA, the fifth largest mass transit system in the nation as determined by ridership, currently serves about 1.2 million passengers per day.

The MBTA’s draft FY12-FY16 Capital Investment Program includes \$4.51 billion in capital spending to reinvest in its transportation infrastructure and to build expansion projects. The Capital Investment Program consists of five major programmatic areas: (i) reinvestment in the infrastructure (\$2.27 billion); (ii) accessibility improvements (\$270.6 million); (iii) enhancement of existing service (\$341.1

million); and (iv) system expansion efforts (\$25.7 million). The major infrastructure projects include: vehicles (\$989.4 million); station modernization (\$201.3 million); rail signaling systems (\$161.4 million); track/right-of-way (\$197.9 million); bridges (\$141.0 million); technology, other (\$64.8 million); power (\$292.7 million); maintenance facilities, including rail car houses and bus garages (\$62.6 million); fare equipment (\$20.2 million); administration facilities (\$133.3 million); and communications (\$8.6 million).

Boston's South Station, one of three major high speed rail terminals on Amtrak's Northeast Corridor (NEC), currently hosts high speed intercity passenger rail (HSIPR), including Amtrak Acela Express and Northeast Regional services. It is also the terminus for Amtrak's Lake Shore Limited service between Boston and Chicago. The MBTA also operates commuter rail, subway, and guideway bus services at the station. The station's Bus Terminal is the hub for private intercity and regional motor coach carriers in eastern Massachusetts.

The Massachusetts Department of Transportation (MassDOT) was awarded federal funding of \$32.5 million on October 28, 2010 for environmental clearance and preliminary design for an expansion of South Station. The South Station HSIPR Expansion Project will advance the design, and complete state and federal environmental permitting, to expand South Station from its current 13 current terminal platform track configuration to 20 total platform tracks. The HSIPR Expansion Project would enable faster and more efficient operations, as well as planned increases in both Amtrak and MBTA commuter rail services.

For a description of the Central Artery/Third Harbor Tunnel project see "Large Public Sector Projects," below.

Seaport and Airport

The Massachusetts Port Authority ("Massport") was created by the state legislature to develop and manage the City's major air and sea transportation centers. Massport is financially independent, and the City is not responsible for any debt or other obligations incurred by Massport. Heavy use of Boston Logan International Airport ("Logan Airport") and the Port of Boston have compelled significant expansion of both facilities. Massport's net investment in its facilities through June 2010 exceeded \$4.14 billion, consisting of \$3.70 billion invested in airports and \$438.3 million invested in maritime development and other capital projects.

In February 2011, Massport projected that it would spend about \$1.02 billion during fiscal years 2011-2015 for ongoing capital improvements and major maintenance at Logan Airport, Hanscom Field, Worcester Airport, and the port facilities.

The Port of Boston serves the six-state New England region as a natural deep-water port supporting import and export of containerized bulk and general cargo and providing ship repair supply services, customs and international freight forwarding services intermodal cargo warehouse facilities, and other maritime support services. Massport's Conley Container Terminal provides all-water access to world ports as well as a weekly barge service to the Port of New York/New Jersey. The Port of Boston is also a major cruise port. The total number of cruise passengers in fiscal 2010 (310,482) increased by 12.7% compared to fiscal 2009. The cruise port mainly operates in the months of May through November.

The Port of Boston ranked as the 12th largest container port on the U.S. Atlantic Coast by container volume. During fiscal 2010, the Port activity of 100,970 boxed containers decreased 12.0% over that of fiscal 2009, while the 38,208 automobiles handled in fiscal 2010 increased by 23.0% from fiscal 2009 and the 89,394 tons (in bulk tonnage) for fiscal 2010 decreased by 46.8% from fiscal 2009's bulk tonnage.

In calendar 2010, Logan Airport served a total of 27.4 million passengers, a 7.2% increase from the 25.5 million passengers served in 2009. A report on calendar year 2009 prepared by Airports Council International ("ACI") showed that Logan was the most active airport in New England, the 19th most active in the United States and the 43rd most active in the world. Logan Airport also plays an important role as a center for processing domestic and international air cargo. In fiscal 2010, total combined cargo and mail volume was 563.2 million pounds, a 1.4% decrease from the 571.2 million pounds handled in fiscal 2009.

Construction Activity

The following table sets forth construction activity in the City from fiscal years 2001-2011, estimated as indicated in the notes to the table. It should be noted that the issuance of a building permit and payment of a fee do not necessarily result in construction activity. The estimated revenue from building permit fees during fiscal 2011 (based on seven months of data) indicated that total construction activity is projected to total \$3.16 billion, after only a significant slowdown in fiscal 2010, because of the recession. In the past ten fiscal years beginning with 2002 revenue from building permit fees increased seven times and decreased three times. Preliminary annual fiscal 2011 building permit revenue returned to about the same level as registered in fiscal 2009 after the drop in fiscal 2010. .

Boston Building Permit Revenues and Estimated Construction Activity Ten Fiscal Years, 2001-2011

	Building Permit Revenues ⁽¹⁾	Estimated Potential Construction Activity ⁽²⁾	Estimated Potential Construction Activity Adjusted For Inflation ⁽³⁾
2001	\$27,191,839	\$3,199,039,882	\$4,134,706,776
2002	19,055,144	2,241,781,647	2,777,936,213
2003	20,145,888	2,370,104,471	2,862,217,765
2004	22,724,810	2,673,507,019	3,111,442,940
2005	23,213,600	2,731,011,765	3,093,408,553
2006	26,253,029	3,088,591,647	3,386,889,084
2007	27,861,224	3,277,791,059	3,486,417,832
2008	31,007,327	3,647,920,824	3,806,735,318
2009	26,966,242	3,172,499,105	3,198,105,512
2010	14,764,792	1,737,034,301	1,763,037,809
2011 ⁽⁴⁾	26,833,118	3,156,837,394	3,156,837,394
Annual Average 2001-2011	\$ 24,183,365	\$ 2,845,101,738	\$ 3,161,612,291

(1) Building permit revenues in current dollars. Columns may not add due to rounding.

(2) Potential construction activity estimated by dividing permit revenues by 0.85%, which is the midpoint between permit fees calculated at 0.7% of the first \$100,000 estimated value of development cost, and 1% for the remainder of development cost.

(3) Estimated construction activity adjusted to estimated annual 2010 constant dollars (CPI-U U.S.) based on the average of the six semi-monthly estimates for 2010.

(4) Annual Fiscal Year 2011 estimate based upon preliminary actual building permit revenues for the seven months of data.

Source: City of Boston, Auditing Department and City of Boston Annual Reports. Compiled by BRA's Research Division (February 2011).

Large Public Sector Projects

In addition to major construction projects of the MBTA and Massport, Boston has witnessed several other major public sector projects including the BCEC Project and the Central Artery/Tunnel ("CA/T"), the downtown highway tunnel through the City including the Ted Williams tunnel under Boston Harbor. The CA/T Project, which has improved traffic flow in Boston since its completion, is under the control of the Massachusetts Turnpike Authority.

The CA/T Project includes the Ted Williams Tunnel, connecting Logan Airport and the North Shore to Downtown Boston and the western suburbs, the Leverett Circle Connector Bridge, a four-lane bridge over the Charles River carrying traffic between Leverett Circle in downtown Boston and U.S. 93 in Charlestown, the extension of U.S. 90 under Fort Point Channel to South Boston connecting with the highway with the Ted Williams Tunnel and Logan Airport in East Boston, and the Central Artery and the Leonard P. Zakim Bunker Hill Bridge over the Charles River. The CA/T Project, with an estimated total cost of \$14.63 billion, was funded in part by the federal government while the remainder was the responsibility of the Commonwealth.

The BCEC Project was constructed on a 60-acre site in South Boston through the joint efforts of the City, the Commonwealth, the BRA, and the MCCA. The 2.1 million square-foot facility, was completed in 2004 and includes approximately 516,000 square feet of contiguous exhibition space on one level, approximately 160,000 square feet of meeting space and a 40,000 square-foot ballroom, as well as banquet and lecture halls. The BRA was authorized by the Convention Center Act to acquire and prepare the site for the BCEC Project and now the MCCA is the owner and operator of the BCEC. In 2010 the BCEC hosted conventions with 399,054 attendees and since opening in late 2004 has hosted over 2.5 million conventioners. In addition to the BCEC Project, a 793-room convention center hotel on the northeast corner of the BCEC Project site opened in June 2006.

The Massachusetts Water Resources Authority (“MWRA”), an independent state authority has also spent approximately \$1.50 billion on improvements to its wastewater system and approximately \$1.71 billion on its waterworks system through June 30, 2010. The largest expenditures have been for the MetroWest Water Supply Tunnel, the John J. Carroll Water Treatment Plant, improved water storage facilities and reduction of combined sewer overflows.

The MWRA-approved FY11 Capital Improvement Program anticipates the spending of approximately \$662.3 million on additional water and wastewater system improvements between Fiscal Year 2011 and Fiscal Year 2013, and \$1.50 billion in 2014 and beyond. The largest expenditures will be for the combined sewer overflow (CSO) control plan, interceptor and pumping improvements and water distribution system improvements. The largest component of the combined sewer overflow control plan is the North Dorchester Bay CSO Storage Tunnel and related facilities. Relatively small portions of the other improvements are located within the City, but they should nonetheless provide major improvements in the system infrastructure that serves the City.

The City prepares a 5-7 year Capital Plan. These capital investments represent improvements to schools, libraries, parks and recreation sites, roads and bridges, and other City properties. See “City Indebtedness—Capital Planning and Borrowing Program” in the City’s Information Statement dated as of March 1, 2011.

Office Market and New Development

The City and its inner neighborhoods currently have approximately 60.3 million square feet of office space. During the fourth quarter of 2010, Boston’s overall vacancy rate according to Jones Lang LaSalle was 11.6% (and 17.8% availability when including space to sublet). Another realty firm, Colliers Meredith & Grew, placed the City’s office availability rate at 16.6%. Boston’s vacant and available space has been increasing since mid-year 2008. Jones Lang LaSalle puts the annual 2010 office absorption at a positive 179,431 square feet of space while Colliers Meredith & Grew measured negative 748,792 square feet of annual absorption. The principal reason for the difference between these two assessments is differing conventions for the timing of major new leases. From the third quarter of 2008 to the fourth quarter of 2010 Boston’s office vacancy rate rose from 6.9% to 11.6% according to Jones Lang LaSalle.

Boston Office Market—Fourth Quarter, 2010

Market	Inventory Square Foot	Annual Absorption	Vacancy	Available	Average Asking Rent *
Back Bay	13,028,435	296,775	6.20%	10.60%	\$41.23
Charlestown	1,966,811	6,648	7.60	13.30	25.55
Financial District	34,238,959	-216,619	13.80	20.20	42.12
North Station	2,832,836	54,630	12.60	15.40	29.28
South Boston Waterfront	5,898,319	67,467	11.50	24.20	34.86
South Station	2,290,606	-29,470	11.50	13.40	30.62
Total	60,255,966	179,431	11.60	17.80	39.90

* Dollars per square foot

Source: Jones Lang LaSalle, Fourth Quarter 2010.

There is no accepted standard accounting for office vacancy rates so private realty firm surveys vary based upon the amount of office space covered, geographical coverage, and inclusion of new or old office space.

Despite the worsening picture of office market data, Boston still compares favorably to other downtown office markets around the nation. As of the fourth quarter of 2010, Cushman & Wakefield ranked Boston’s downtown office market as having the ninth best vacancy rate among the twenty largest downtown office markets in the U.S. with a rate of 12.0%.

Comparative Office Vacancy Rates
20 Largest Downtown Office Markets—Fourth Quarter, 2010

<u>City</u>	<u>Vacancy Rate</u>	<u>City</u>	<u>Vacancy Rate</u>
Manhattan (Midtown South)	8.6%	Chicago	16.4%
Portland	10.5	Los Angeles.....	17.6
Manhattan (Midtown)	10.6	Pittsburgh	17.8
Manhattan (Downtown)	11.5	Cleveland.....	18.5
Philadelphia.....	12.6	Minneapolis-St. Paul.....	18.7
Washington DC	12.6	Seattle	20.8
San Francisco	12.8	Phoenix.....	22.0
Houston	13.1	Orange County, CA.....	22.6
Boston.....	13.8	Detroit	23.6
Denver	14.6	Dallas-Ft. Worth.....	28.8
National Average ⁽¹⁾		15.4%	

(1) National Average is based on 61 downtowns.

Source: Cushman & Wakefield "Marketbeat: United States Office Report", Fourth Quarter 2010

From 2006 through 2009 downtown office projects included: Lincoln Plaza, a renovation of an existing building in the South Station sub-market to mixed uses with 119,000 square feet of office space; Atlantic Wharf, a 517,000 square foot building in the downtown waterfront; and Two Financial Center, a 214,000-foot building in the South Station district. In 2010 the 500,000 square foot One Marina Park Drive at Fan Pier in the South Boston Seaport District was completed. In February, 2011 Weston Associates also completed their renovation of the existing 38,852 gross square foot structure at 90 Smith Street in Mission Hill, which will provide office space for the Harvard School of Public Health.

As of February 2011, one office building is under construction and several office buildings had been approved by the BRA Board. The project now in construction is the 660,000 square foot Russia Wharf at 540 Atlantic Avenue on the downtown waterfront. In 2010, Commonwealth Ventures received approval to preserve and rehabilitate both the approximately 50,000 square foot, six-story building located in Boston's Seaport District for office uses, research and development uses, a business incubator space for "clean tech" businesses, and related uses (e.g., alternative energy testing), and an approximately 22,700 square foot, three-story building for office purposes.

Retail Market

For 2010, based on two quarters of data, it is estimated that there are about 68,663 employees in retail stores, and food service and eating and drinking establishments in the City, with 30,681 in retail, and 37,982 in food service and eating and drinking. In 2007, according to the Census of Retail Trade, about 2,157 retail establishments were located in the City with estimated total sales of \$6.81 billion. The food service and eating and drinking establishment industry in Boston (restaurants and bars) consists of an additional 1,986 establishments with \$2.35 billion in sales. The sector is rounded out by some 14,000 employees in the personal service businesses, which includes repair and maintenance, hair and nail care, and laundry and dry cleaning service. The 2007 Census of Retail Trade data was released in January of 2010 and is only done once every five years.

Massachusetts, Metropolitan Boston, and Boston Retail Sales, 1992-2007⁽¹⁾
(In thousands, not adjusted for inflation)

	<u>Massachusetts</u>	<u>Metropolitan Boston⁽²⁾</u>	<u>City of Boston</u>
1992.....	\$47,663,248	\$33,798,207	\$4,180,888
1997.....	65,859,804	48,348,686	5,608,411
2002.....	83,220,180	59,918,502	7,163,717
2007.....	99,812,744	71,721,631	9,161,215
Annual rate '92-'07	5.05%	5.14%	5.37%
Annual rate '02-'07	3.70%	3.66%	5.04%

(1) Total retail sales includes the census definition of retail sales (NAICS) from the series of Retail Trade plus the “food services and drinking places” category from the series of Accommodation and Food Services.

(2) Includes five counties in Massachusetts (Essex, Middlesex, Norfolk, Plymouth and Suffolk) and two counties in New Hampshire (Rockingham and Strafford), which together comprise the Boston-Cambridge-Quincy MA-NH Metropolitan Statistical Area.

Source: 1992 data from the 1992 Economic Census for Retail Trade. 1997 data from the 1997 Economic Census for Retail Trade (for retail) and for the 1997 Census for Accommodations and Foodservices (for foodservices and drinking places). 2002 data from the 2002 Economic Census for Retail Trade (for retail) and for the 2002 Census for Accommodations and Foodservices (for food services and drinking places). 2007 Census from the 2007 Economic Census, January 2010.

There are now 19 neighborhood business districts operating within the City’s Main Streets Program. This program is a public-private initiative of the City established in 1995 to revitalize neighborhood commercial districts through locally established organizations. The program, from its inception through the end of fiscal year 2010, generated 900 net new and expanded businesses, created 5,569 net new jobs, assisted in 753 storefront improvement projects, and given design assistance to 893 businesses. Through calendar year 2010, the Main Streets Program had dispensed almost \$2.2 million in total physical improvement grants which had leveraged more than \$11.2 million in private investment, a leverage ratio of 5.5 to 1.

Also of importance are the supermarket developments that have taken place throughout Boston’s neighborhoods. Twenty-three new or expanded supermarkets have opened in Boston’s neighborhoods since 1992.

Industrial Market and Recent Developments

Boston and Suffolk County have 27.2 million square feet of industrial space. (Source: “The Co-Star Industrial Report, Year-End 2010”). As of December 2010, there were 3.4 million square feet of industrial space vacant, a vacancy rate of 12.4%, with +25,000 square feet of net absorption over the year. The average rent for quality industrial space was \$9.27 per square foot (triple net), and \$8.38 per square foot for warehouse space, and \$12.36 for flex space.

The BRA’s Back Streets Program, established in 2001, continues to attract, retain, and grow Boston’s viable industrial and commercial businesses and their diverse job base through the strategic use of land, workforce and financial resources. In 2010, Back Streets successfully assisted over 50 companies, and created or retained 495 jobs. Back Streets helped companies such as F.W. Webb and Company, Roxbury Technologies, Intralinks, and Sky Zone find new space to expand in Boston. These companies alone account for over 800,000 square feet of new space in the City. By working with Back Streets, these programs had access to financing options, real estate expansion sites, workforce development and permitting assistance.

Housing Stock, Housing Values, and Development

The number of housing units in Boston as of 2009 from the American Community Survey had reached over 266,000. The percentage of owner and renter occupied units according to the 2009 American Community Survey was 37.2% and 62.8%. The number of vacant units was 26,722 while the vacancy rate for owner and renter housing were 2.3% and 6.0%, respectively. The Census data from the 2009 American Community Survey put the monthly cost for home owners with a mortgage at \$2,229 and the monthly rent for existing renters (as opposed to advertised rents) of \$1,196 per month.

A report on 20010 real estate trends done by the City’s Department of Neighborhood Development showed that the median rent for an apartment in Boston in 2010 as advertised in the newspapers was \$1,500 per month for all apartment types. Rents were down 14.3% citywide from those of 2009, when the average was \$1,750. Median rents for an apartment ranged from a high of \$2,500 in the Back Bay/Beacon Hill district to a low of \$1,063 in Hyde Park.

Existing home prices in Greater Boston peaked in 2005 and declined through 2009 but showed a gain in 2010. The National Association of Realtors reported that the median sales price of existing homes in

Metropolitan Boston (the MSA but excluding the New Hampshire segment) was \$357,300 for 2010, a 13.5% decrease over the high annual median sales price of \$413,200 recorded in 2005, but up by 7.4% over the 2009 median sales price.

Greater Boston Annual Median Sales Prices for Existing Homes, 2005-2010 ⁽¹⁾
(Current Year Dollars)

<u>Year</u>	<u>1st Quarter</u>	<u>2nd Quarter</u>	<u>3rd Quarter</u>	<u>4th Quarter</u>	<u>Annual Median</u>	<u>Annual Change</u>
2005	396,200	418,500	430,900	397,500	413,200	6.0%
2006	390,400	421,100	412,300	388,000	402,200	-2.7
2007	387,400	413,300	414,700	380,700	395,600	-1.6
2008	357,100	366,100	374,100	336,000	361,100	-8.7
2009	290,700	336,100	348,000	332,800	332,500	-7.8
2010	321,800	360,800	366,500	346,300	357,300	7.4

(1) Greater Boston as used here by the National Association of Realtors (NAR) is defined as the Boston Metropolitan Statistical Area (MSA) excluding the New Hampshire portion.

Source: National Association of Realtors (February 2011).

Within the City, the median sales price for a single-family home in Boston decreased by 5.4% from the third quarter 2005 price of \$390,000 to \$368,805 in the third quarter of 2010. Condominium prices showed a gain by 5.6% from the third quarter 2005 price of \$355,000 to the \$375,000 price reached in the third quarter of 2010.

Median Residential Sales Prices for Boston
First Quarter 2005 through Fourth Quarter 2010
(Current Year Dollars)

<u>Year</u>	<u>Quarter</u>	<u>Single-Family</u>	<u>Two-Family</u>	<u>Three-Family</u>	<u>Condominium</u>
2005	First	\$375,000	\$467,000	\$526,000	\$350,000
	Second	390,000	485,000	540,000	359,950
	Third	390,000	485,000	540,000	355,000
	Fourth	379,200	488,000	550,000	339,450
2006	First	\$365,000	\$480,000	\$530,000	\$351,500
	Second	388,250	490,000	530,000	359,000
	Third	370,000	475,000	525,000	340,000
	Fourth	354,000	465,000	510,000	339,000
2007	First	\$365,500	\$467,000	\$500,000	\$351,500
	Second	379,500	450,000	467,500	370,000
	Third	373,750	430,000	468,100	345,000
	Fourth	346,500	399,000	444,000	350,000
2008	First	\$325,000	\$378,500	\$341,000	\$352,000
	Second	354,500	318,250	340,000	385,000
	Third	348,950	305,750	290,500	377,750
	Fourth	295,000	270,000	250,000	325,000
2009	First	\$270,000	\$272,500	\$242,450	\$298,350
	Second	346,000	281,000	250,000	355,000
	Third	351,250	320,000	258,000	345,000
	Fourth	323,000	290,500	300,000	330,000
2010	First	\$320,000	\$265,000	\$270,000	\$332,000
	Second	372,750	299,500	290,000	355,000
	Third	368,805	327,000	290,000	375,000

Source: City of Boston, Department of Neighborhood Development using Banker & Tradesman data (February 2011).

During 2010, there were 1.3% fewer total residential sales in the City than there were in the full year 2009 (6,190 versus 6,270). Sales of single-family homes fell 0.1% and sales of condominiums fell by 0.3% while sales of multi-family non-condominiums properties dropped by 6.4% compared with 2009 sales.

Annual Residential and Condominium Sales in Boston ⁽¹⁾
2000-2010

<u>Year</u>	<u>Single-Family Sales</u>	<u>Percent Change</u>	<u>Multi-Family Residential Sales ⁽²⁾</u>	<u>Percent Change</u>	<u>Total Condominium Sales</u>	<u>Percent Change</u>	<u>Residential and Condo Sales ⁽³⁾</u>	<u>Percent Change</u>
2000.....	1,229	-18	2,552	-10	4,543	-6	8,324	-9
2001.....	1,193	-3	2,136	-16	4,045	-11	7,374	-11
2002.....	1,272	7	2,078	-3	4,804	19	8,154	11
2003.....	1,308	3	2,146	3	5,030	5	8,484	4
2004.....	1,644	26	2,688	25	7,100	41	11,432	35
2005.....	1,452	-12	2,536	-6	6,943	-2	10,931	-4
2006.....	1,236	-15	2,026	-20	6,411	-8	9,673	-12
2007.....	1,128	-9	1,535	-24	5,996	-6	8,659	-10
2008.....	957	-15	1,393	-9	4,823	-20	7,173	-17
2009.....	995	-4	1,047	-25	4,228	-12	6,270	-13
2010.....	994	0	980	-6	4,216	0	6,190	-1

(1) Data for previous years have been revised since the publication of last year's report.

(2) Does not include single-family homes or condominiums.

(3) Equals single-family, multiple-family residential sales plus total condominium sales.

Source: Banker and Tradesman (February 2011).

Prices and sales volumes are also shown by neighborhood detail for single-family homes and for condominiums for calendar years 2009 and 2010. Areas of the City with the largest numbers of single-family home sales included West Roxbury, Hyde Park, Dorchester, and Roslindale. Single family prices ranged from \$180,900 in Mattapan to \$2.3 million in the Back Bay, with the citywide median at \$350,000. The median sales price fell by 5% and the sales volume was down by 1% between 2009 and 2010.

Short Term Trends in Housing Prices
Median Sales Prices and Sales Volume of Single Family Homes
In Boston's Neighborhoods, Calendar Years 2009 and 2010
(Not inflation adjusted)

<u>Neighborhood</u>	<u>2009 Single-Family Price</u>	<u>2010 Single-Family Price</u>	<u>Percent Change</u>	<u>2009 Sales Volume</u>	<u>2010 Sales Volume</u>	<u>Percent Change</u>
Allston/Brighton.....	\$390,000	\$399,000	2	37	41	11
Back Bay/Beacon Hill.....	2,500,000	2,320,000	-7	19	31	63
Central.....	*	*	*	3	1	*
Charlestown.....	533,000	674,500	27	54	58	7
Dorchester.....	280,750	288,250	3	144	122	-15
East Boston.....	180,000	216,075	20	45	28	-38
Fenway/Kenmore.....	*	*	*	1	0	*
Hyde Park.....	250,000	270,500	8	135	134	-1
Jamaica Plain.....	575,000	575,000	0	59	55	-7
Mattapan.....	161,000	195,000	21	47	55	17
Roslindale.....	339,950	348,250	2	104	110	6
Roxbury.....	148,500	180,900	22	31	49	58
South Boston.....	369,500	440,000	19	50	53	6
South End.....	1,325,000	1,488,750	12	21	20	-5
West Roxbury.....	383,000	413,750	8	211	218	3
Citywide.....	333,000	350,000	5	961	975	1

* Medians or percentages with a sample size of less than ten are not reliable.

Note 1: The prices in the above table exempt all sales of properties of less than \$25,000 because the low price sales are not considered to be "arms-length" transactions and the high price sales can distort averages.

Note 2: Data in the above table does not include "paired-sales" so the size, quality and type of houses sold vary from year-to-year.

Note 3: Sales volume eliminates those sales mentioned in note 1 and also eliminate sales for properties that were not able to be accurately "geo-coded" for location so actual neighborhood and citywide totals are higher.

Source: City of Boston, Department of Neighborhood Development, February 2011, "Real Estate Trends, 2010."

Condominium sales volume and prices also showed variability across the neighborhoods of Boston in 2009 and 2010. The three most expensive neighborhoods for condominiums (median price greater than \$540,000) were the Central (comprising Downtown, the North End, the West End, and the Waterfront), the Back Bay/Beacon Hill and the South End neighborhoods, which all together form the core residential pockets closest to downtown. Four neighborhoods had moderately priced condominiums (median price between \$345,000 and \$420,500): Charlestown, South Boston, Jamaica Plain and Fenway/Kenmore. Eight neighborhoods still had lower condominium median prices (with medians of \$272,000 or below): Allston/Brighton, Dorchester, East Boston, Hyde Park, Mattapan, Roslindale, Roxbury, and West Roxbury. The median citywide condominium price as of calendar year 2010 was \$360,000, up by 6% in price from those of calendar year 2009. Sales volume declined by 1%.

Short Term Trends in Housing Prices
Median Sales Prices and Sales Volume of Condominiums
In Boston's Neighborhoods, Calendar Years 2009 and 2010
(Not inflation adjusted)

Neighborhood	2009 Single- Family Price	2010 Single- Family Price	Percent Change	2009 Sales Volume	2010 Sales Volume	Percent Change
Allston/Brighton	\$265,000	\$251,500	-5	387	402	4
Back Bay/Beacon Hill.....	600,000	647,000	8	560	620	11
Central	497,000	580,000	17	416	424	2
Charlestown	403,600	420,500	4	248	252	2
Dorchester.....	145,000	190,000	31	460	422	-8
East Boston	218,700	213,700	-2	120	78	-35
Fenway/Kenmore.....	330,000	345,000	5	149	159	7
Hyde Park	175,000	175,000	0	51	54	6
Jamaica Plain	319,000	330,000	3	340	334	-2
Mattapan	68,650	72,500	6	64	60	-6
Roslindale	268,500	272,000	1	172	137	-20
Roxbury	131,500	130,000	-1	156	153	-2
South Boston.....	345,000	365,000	6	570	619	9
South End	510,000	540,000	6	542	516	-5
West Roxbury	279,900	259,500	-7	121	84	-31
Citywide.....	338,750	360,000	6	4,356	4,314	-1

Note 1: The prices in the above table exempt all sales of properties of less than \$25,000 because the low price sales are not considered to be "arms-length" transactions and the high price sales can distort averages.

Note 2: Data in the above table does not include "paired-sales," so the size, quality and type of houses sold vary from year-to-year.

Note 3: Sales volume eliminates those sales mentioned in note 1 and also eliminate sales for properties that were not able to be accurately "geo-coded" for location so actual neighborhood and citywide totals are higher.

Source: City of Boston, Department of Neighborhood Development, February 2011, "Real Estate Trends, 2010."

During the last two years, as a result of the problems nationally in housing markets due to the prevalence of sub-prime loans and the subsequent slowdown in the economy, the issue of foreclosures has become noteworthy and relevant to the discussion of housing markets. Boston has experienced an increase in the amount of foreclosures. While deeds to foreclose (the first step in the foreclosure process) went up 6% from 776 to 821, the petitions to foreclose (the final step in the foreclosure process) went down by 30% from 2,200 to 1,541. Neighborhoods with the most foreclosure problems (more than 100 foreclosure petitions in 2010) were in order from most to least: Dorchester, Roxbury, Hyde Park Mattapan, East Boston and Roslindale. For the year 2010, foreclosure deeds are up from 2009 by 6.1%. However, foreclosure deeds in Boston in the 4th quarter of 2010 were at the lowest level in three years. By comparison, statewide foreclosure deeds as reported by the Warren Group were up 32% from 2009 to 2010.

Housing construction accelerated between 2000 and 2009 with the Leading the Way (LTW) I, II and III housing strategy plans – Boston's comprehensive strategy for intensive housing construction. The City counted 19,145 housing units completed from 2000 through 2008 including more than 5,270 new "affordable rate" units. When completed Boston's Leading the Way production will total 21,024 housing units added. A total of 9,172 net housing units were protected from "expiring use restrictions" through City efforts to prevent their subsidized apartments from becoming market-rate. In addition, Boston Housing Authority has preserved 5,006 formerly vacant housing units and the City has reclaimed another 2,921 vacant units to create new housing, particularly for the homeless.

The Boston Housing Authority ("BHA") is a public agency that provides subsidized housing to low-

and moderate-income individuals and families. The Authority administers two distinct housing programs. First, the Authority manages conventional public housing within the City of Boston. The Authority owns 60 developments, a few of which have both state and federal components and has also participated in the mixed-finance redevelopment of five of its developments. The BHA owns and manages some scattered site properties throughout the City of Boston as well. Of the 60 developments, 36 are designated as elderly/disabled developments and 24 are designated as family developments. Two of the 24 family developments have elderly/disabled housing on site and one of the elderly developments has designated units for families. The BHA currently owns and/or oversees approximately 14,000 units of housing in Boston and houses about 27,000 people under the public housing program. In addition, the Authority administers approximately 12,500 tenant-based rental assistance vouchers that allow families to rent in the private market and apply a subsidy to their rent. The BHA also subsidizes about 1,330 additional apartments through the Section 8 Project Based Voucher and Moderate Rehabilitation programs. Through this assistance, residents are able to pay approximately 30-40 percent of their income toward rent and the BHA pays the remainder. The BHA helps provide housing to approximately 25,000 people under this program.

The BHA between 1997 and 2008 completed major revitalization initiatives at four public housing developments: Mission Main, in the Mission Hill neighborhood of Boston; Orchard Gardens, in Roxbury; West Broadway in South Boston; and Maverick Gardens in East Boston. The BHA was able to initiate the revitalization of three of these developments when it was awarded HOPE VI grants from the U.S. Department of Housing and Urban Development (“HUD”). The grants, totaling \$115 million, were used to implement a new approach to public housing financing, incorporating innovative partnerships with public and private entities that leveraged additional development funds. The initiatives not only revitalized the BHA sites, but the surrounding neighborhoods as well. West Broadway, a state funded public housing development, was redeveloped through the use of a public/private partnership that included state and city funding. In addition, the BHA completed redevelopment of the Franklin Hill public housing development in 2009 through a fifth public private partnership and is redeveloping the Washington Beech housing development in Roslindale under a partnership that includes HOPE VI and federal stimulus funding. Additional federal stimulus funding recently awarded to the BHA will allow a phase one redevelopment effort at the Old Colony development in South Boston as well as some building renovations at both the Cathedral development in the South End and the Heath Street development in Jamaica Plain. BHA has recently begun an energy performance contract project that will bring about \$63 million in energy efficient/infrastructure improvements to 13 BHA developments throughout the city.

The BHA is on track to exceed its 5,000-unit construction starts target for the 4-year period (calendar year 2009 through calendar year 2012) by almost 1,800 units due in large part to the availability of Federal American Recovery and Reinvestment Act “ARRA” funds. In the first two years of that span through 2010, the BHA completed construction on 1,194 units, and over the next two years through year 2012 it will seek to complete construction on another 3,806 units, bringing its total construction completions to 5,000 units over four years. A supplementary goal for the BHA has been established for the completion of these projects. The largest BHA project to complete construction in 2010 was the first phase of the redevelopment of the Washington Beech development in Roslindale. This 100-unit \$42.7 million redevelopment is now being followed up by the 106-unit Phase II, which is currently under construction and planned for completion in mid 2012.

The Linkage Program

The City implemented its development linkage program in 1983 in order to direct some of the benefits of downtown investment to the building of affordable housing in its neighborhoods through the Neighborhood Housing Trust (NHT). The linkage program also funds job training for City residents through the Neighborhood Jobs Trust (NJT). Under the linkage program, which was amended in 1986 and again in 2001, real estate developers seeking approval of large scale commercial or institutional developments are required to enter into agreements obligating them to pay exactions in the amount of \$9.44 per square-foot of construction over 100,000 square feet, of which \$1.57 per square-foot goes to the job training fund and \$7.87 per square-foot goes for affordable housing purposes. The fee was last adjusted as of March 9, 2006.

Linkage payments to the NHT are amortized over a period of either seven or twelve years, depending on the date of the initial agreement. Under NHT policy, current agreements provide for a seven-year payment period. The seven-member NHT board holds public hearings and has the authority to approve linkage grants to selected projects, except for a separate “housing creation” option, which requires the

additional approval by the BRA. Since the inception of the linkage program through December 2010, the NHT has awarded \$128.3 million in grant funds to various affordable housing projects.

Based on data through 2010, NHT funding contributed to the complete or pending construction or renovation of 10,252 housing units in 177 projects in the City's neighborhoods. Affordable housing units for low and moderate-income residents comprise 83% (8,549 units) of this total. Of these 177 housing developments created, linkage funds, for the most part, account for fewer than 6% of the total development costs of the projects. NHT grant awards are allocated to fund low and moderate-income housing through the renovation of old buildings and schools, as well as to assist in the creation of new housing. Projects have included rental units; single room occupancy units, such as housing for pregnant, homeless women and alcohol recovery programs; condominiums; housing cooperatives; and home ownership.

Between fiscal years 1988 and 2010 over \$25 million of funds were committed to the job training component of the City's linkage program and over \$22 million of funds had been awarded to a broad range of community-based job training and adult education programs. Services funded under this program include: model program designs for entry-level job training, adult education, English for Speakers of Other Languages, and transitional employment-. The NJT is particularly interested in supporting innovative education and training activities which result in high-wage employment, new or non-traditional employment opportunities, and community-based projects that respond to specific neighborhoods' documented education and training needs. The NJT is committed to providing appropriate services to the residents of neighborhoods where, or adjacent to where, a given development project is located, while also ensuring that residents throughout the City have access to new jobs resulting from development.

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EDWARDS ANGELL PALMER & DODGE LLP

111 Huntington Avenue Boston, MA 02199 617.239.0100 fax 617.227.4420 eapdlaw.com

_____, 2011

Vivian Leo
Temporary Collector-Treasurer
City of Boston
Boston, Massachusetts

Re: City of Boston, Massachusetts
General Obligation Bonds, 2011 Series ____

We have acted as Bond Counsel to the City of Boston, Massachusetts (the “City”), in connection with the issuance by the City of \$_____ General Obligation Bonds, 2011 Series ____ (the “Bonds”), dated the date hereof. In such capacity, we have examined the law and such certified proceedings and other papers as we have deemed necessary to render this opinion.

As to questions of fact material to our opinion we have relied upon representations and covenants of the City contained in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

Based on this examination, we are of the opinion, under existing law, as follows:

(1) The Bonds are valid and binding general obligations of the City and, except to the extent they are paid from other sources, the principal of and interest on the Bonds are payable from taxes which may be levied without limitation as to rate or amount upon all taxable property in the City.

(2) Interest on the Bonds is excluded from the gross income of the owners of the Bonds for federal income tax purposes. In addition, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. However, such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. In rendering the opinions set forth in this paragraph, we have assumed compliance by the City with all requirements of the Internal Revenue Code of 1986 that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, and continue to be, excluded from gross income for federal income tax purposes. The City has covenanted to comply with all such requirements. Failure by the City to comply with certain of such requirements may cause the interest on the Bonds to become included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. We express no opinion regarding any other federal tax consequences arising with respect to the Bonds.

(3) The interest on the Bonds is exempt from Massachusetts personal income taxes and the Bonds are exempt from Massachusetts personal property taxes. We express no opinion regarding any other Massachusetts tax consequences arising with respect to the Bonds or any tax consequences arising with respect to the Bonds under the laws of any state other than Massachusetts.

This opinion is expressed as of the date hereof, and we neither assume nor undertake any obligation to update, revise, supplement or restate this opinion to reflect any action taken or omitted, or any facts or circumstances or changes in law or in the interpretation thereof, that may hereafter arise or occur, or for any other reason.

The rights of the holders of the Bonds and the enforceability of the Bonds may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

EDWARDS ANGELL PALMER & DODGE LLP

PROPOSED FORM OF LEGAL OPINION
2011 Series C

EDWARDS ANGELL PALMER & DODGE LLP

111 Huntington Avenue Boston, MA 02199 617.239.0100 fax 617.227.4420 eapdlaw.com

_____, 2011

Vivian Leo
Temporary Collector-Treasurer
City of Boston
Boston, Massachusetts

Re: City of Boston, Massachusetts
General Obligation Bonds, 2011 Series C
(Qualified School Construction Bonds – Federally Taxable – Direct Payment)

We have acted as Bond Counsel to the City of Boston, Massachusetts (the “City”), in connection with the issuance by the City of \$_____ General Obligation Bonds, 2011 Series C (Qualified School Construction Bonds – Federally Taxable – Direct Payment) (the “Bonds”) dated the date hereof. In such capacity, we have examined the law and such certified proceedings and other papers as we have deemed necessary to render this opinion.

The Bonds have been designated by the City as “Qualified School Construction Bonds” within the meaning of Section 54F of the Internal Revenue Code of 1986, as amended (the “Code”). In addition, the City has elected to designate the Bonds as “Specified Tax Credit Bonds” within the meaning of Section 6431(f) of the Code. As a result of such election, the Bonds will bear interest at the rates provided therein and will not provide a tax credit to the owners thereof.

As to questions of fact material to our opinion we have relied upon representations and covenants of the City contained in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

Based on our examination, we are of the opinion, under existing law, as follows:

(1) The Bonds are valid and binding general obligations of the City and, except to the extent they are paid from other sources, the principal of and interest on the Bonds are payable from taxes which may be levied without limitation as to rate or amount upon all taxable property in the City.

(2) Interest on the Bonds is included in the gross income of the owners of the Bonds for federal income tax purposes. We express no opinion regarding any other federal tax consequences arising with respect to the Bonds.

(3) The interest on the Bonds is exempt from Massachusetts personal income taxes and the Bonds are exempt from Massachusetts personal property taxes. We express no opinion regarding any other Massachusetts tax consequences arising with respect to the Bonds or any tax consequences arising with respect to the Bonds under the laws of any state other than Massachusetts.

This opinion is expressed as of the date hereof, and we neither assume nor undertake any obligation to update, revise, supplement or restate this opinion to reflect any action taken or omitted, or any facts or circumstances or changes in law or in the interpretation thereof, that may hereafter arise or occur, or for any other reason.

The rights of the holders of the Bonds and the enforceability of the Bonds may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

EDWARDS ANGELL PALMER & DODGE LLP

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PROPOSED FORM OF CONTINUING DISCLOSURE CERTIFICATES

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the City of Boston, Massachusetts (the “Issuer”) in connection with the issuance of its \$_____ General Obligation Bonds, 2011 Series __ (the “Bonds”), dated _____, 2011. The Issuer covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Issuer for the benefit of the Owners of the Bonds and in order to assist the Participating Underwriters in complying with the Rule.

SECTION 2. Definitions. For purposes of this Disclosure Certificate the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“Listed Events” shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

“MSRB” shall mean the Municipal Securities Rulemaking Board as established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, or any successor thereto or to the functions of the MSRB contemplated by this Disclosure Certificate. Filing information relating to the MSRB is set forth in Exhibit A attached hereto.

“Owners of the Bonds” shall mean the registered owners, including beneficial owners, of the Bonds.

“Participating Underwriter” shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Rule” shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

SECTION 3. Provision of Annual Reports.

(a) The Issuer shall, not later than 270 days after the end of each fiscal year, provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the Issuer may be submitted when available separately from the balance of the Annual Report.

(b) If the Issuer is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the Issuer shall send a notice to the MSRB, in substantially the form attached as Exhibit B.

SECTION 4. Content of Annual Reports. The Issuer's Annual Report shall contain or incorporate by reference the following:

(a) quantitative information for the preceding fiscal year of the type presented in the Issuer's Official Statement dated March __, 2011 relating to the Bonds regarding (i) the revenues and expenditures of the Issuer relating to its operating budget, (ii) capital expenditures, (iii) fund balances, (iv) property tax information, (v) outstanding indebtedness and overlapping debt of the Issuer, (vi) pension obligations of the Issuer, and (vii) other post-employment benefits liability of the Issuer, and

(b) the most recently available audited financial statements of the Issuer, prepared in accordance with generally accepted accounting principles, with certain exceptions permitted by the Massachusetts Uniform Municipal Accounting System promulgated by the Department of Revenue of the Commonwealth (except for the omission, if any, of a statement of fixed assets). If audited financial statements for the preceding fiscal year are not available when the Annual Report is submitted, the Annual Report will include unaudited financial statements for the preceding fiscal year and audited financial statements for such fiscal year shall be submitted when available.

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues of the Issuer or related public entities, which (i) are available to the public on the MSRB internet website or (ii) have been filed with the Securities and Exchange Commission. The Issuer shall clearly identify each such other document so incorporated by reference.

SECTION 5. Reporting of Significant Events.

(a) The Issuer shall give notice, in accordance with the provisions of this Section 5, of the occurrence of any of the following events with respect to the Bonds:

1. Principal and interest payment delinquencies.
2. Non-payment related defaults, if material.
3. Unscheduled draws on debt service reserves reflecting financial difficulties.
4. Unscheduled draws on credit enhancements reflecting financial difficulties.
5. Substitution of credit or liquidity providers, or their failure to perform.
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determination of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds.
7. Modifications to rights of the Owners of the Bonds, if material.
8. Bond calls, if material, and tender offers.

9. Defeasances.
10. Release, substitution or sale of property securing repayment of the Bonds, if material.
11. Rating changes.
12. Bankruptcy, insolvency, receivership or similar event of the Issuer.*
13. The consummation of a merger, consolidation, or acquisition involving the Issuer or the sale of all or substantially all of the assets of the Issuer, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.
14. Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) Whenever the Issuer obtains knowledge of the occurrence of a Listed Event described in Subsections (a)(2), (6), (7), (8) (with respect to bond calls), (10), (13) or (14), the Issuer shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) Upon the occurrence of a Listed Event described in subsections (a)(1), (3), (4), (5), (6), (8) (with respect to tender offers), (9), (11) or (12), and in the event the Issuer determines that the occurrence of a Listed Event described in subsections (a)(2), (6), (7), (8) (with respect to bond calls), (10), (13) or (14) is material under applicable federal securities laws, the Issuer shall, in a timely manner not in excess of ten (10) business days after the occurrence of the event, file a notice of such occurrence with the MSRB.

SECTION 6. Transmission of Information and Notices. Unless otherwise required by law, all notices, documents and information provided to the MSRB shall be provided in electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

SECTION 7. Termination of Reporting Obligation. The Issuer's obligations under this Disclosure Certificate shall terminate upon the legal defeasance in accordance with the terms of

* As noted in the Rule, this event is considered to occur when any of the following occur: (i) the appointment of a receiver, fiscal agent or similar officer for the Issuer in a proceeding under the U.S. Bankruptcy Code or in any proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Issuer, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or (ii) the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Issuer.

the Bonds, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Issuer shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Issuer may amend this Disclosure Certificate and any provision of this Disclosure Certificate may be waived if such amendment or waiver is permitted by the Rule, as evidenced by an opinion of counsel expert in federal securities law (which may include bond counsel to the Issuer), to the effect that such amendment or waiver would not cause the Disclosure Certificate to violate the Rule. The first Annual Report filed after enactment of any amendment to or waiver of this Disclosure Certificate shall explain, in narrative form, the reasons for the amendment or waiver and the impact of the change in the type of information being provided in the Annual Report.

If the amendment provides for a change in the accounting principles to be followed in preparing financial statements, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information in order to provide information to investors to enable them to evaluate the ability of the Issuer to meet its obligations. To the extent reasonably feasible, the comparison shall also be quantitative. A notice of the change in the accounting principles shall be sent to the MSRB.

SECTION 9. Default. In the event of a failure of the Issuer to comply with any provision of this Disclosure Certificate any Owner of the Bonds may seek a court order for specific performance by the Issuer of its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not constitute a default with respect to the Bonds, and the sole remedy under this Disclosure Certificate in the event of any failure of the Issuer to comply with this Disclosure Certificate shall be an action for specific performance of the Issuer's obligations hereunder and not for money damages in any amount.

SECTION 10. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Owners of the Bonds from time to time, and shall create no rights in any other person or entity.

Date: _____, 2011

CITY OF BOSTON, MASSACHUSETTS

By _____
Temporary Collector-Treasurer

Mayor

City Auditor

[EXHIBIT A: Filing Information for the MSRB]
[EXHIBIT B: Form of Notice of Failure to File Annual Report]

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